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Catella: "Is winter coming?"

In December's Catella Real Estate Debt Indicator (CREDI), the Main index fell by 12.7 points to 43.9. Both the sub-index for the Current situation and the Expectation sub-index fell sharply, showing that the surveyed banks and property owners in Sweden have encountered tougher financing conditions, and anticipate tougher conditions in the property market also for the coming three-month period.

"Since the summer, the capital markets have been more troubled, and we have seen fewer issues of shares and bonds than in the first half of the year. Compared to the volatile capital markets, access to bank financing was stable in the third quarter, even though last quarter's CREDI showed signs of a slowdown. CREDI is now showing that access to bank financing has also weakened," says Martin Malhotra, Project Manager at Catella.

The fall in the Main index is being driven by a significant decrease in the sub-index for the Current situation, which fell by 20.9 index points to 42.3. A decline was also observed in the forward-looking sub-index, which similarly fell below the turning point of 50.0.

"We see two main factors driving the cooling of the financing climate. Firstly, reduced appetite from investors in the capital market and, secondly, seasonal effects with the banks having lent large amounts to the property sector during the year and the weighting of the sector therefore becoming high," continues Martin Malhotra.

CREDI's Main index showed a significant drop of 12.7 index points in the December edition of the debt indicator, to 43.9 from 56.6. This is the first time since CREDI was started in 2012 that both components of the Main index are below the turning point of 50.0. December's CREDI also marks a change from previous surveys in that the sub-index for the Current situation (42.3) is lower than the sub-index for the coming three months (45.5).

"Since the summer, investor risk willingness has also decreased. This is mainly due to concerns about a weakening global economy and expectations that the Fed will be raising interest rates. Looking at the fourth quarter and the trend in Sweden, this is in line with the changes that have taken place globally in the financial markets since the summer," says Arvid Lindqvist, Head of Research at Catella.

In line with underlying market rates, the average interest rate for the listed property companies fell again during the third quarter 2015, to 2.7 percent. There is a high correlation between the average interest rate for the companies listed on Nasdaq OMX Nordic Main Market and the implicit yield on the companies' properties. Since 2009, the implicit yield has fallen from approximately 6 percent to the current level of approximately 4.5 percent.

"Since August, there have been few issues of preference shares and market yields have been upwardly adjusted. Although there has been some correction in the common shares of the listed property companies during the autumn, the shares are still traded at a high level in relation to book value," says Martin Malhotra.

The thirteenth edition of the Catella Real Estate Debt Indicator (CREDI) is attached and can also be downloaded from catella.se/credi. CREDI consists of two parts: one is an index based on a survey of listed property companies and active banks in Sweden, and the other a set of indices based on publicly available data. Read more about the methodology here. This edition also includes an analysis of preferred shares and an overview of the property market.

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