CREDI September 2015

Summer turbulence weathered?

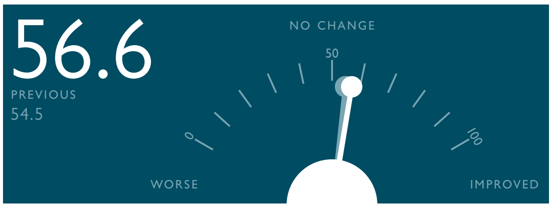
The CREDI Main index reversed direction and increased by 2.1 index points to 56.6 in this September survey. This improvement is represented by the respondents' belief that the financing conditions on the real estate market have improved during the past three months. At the same time, the survey shows that the polled lenders and borrowers expect access to financing to remain unchanged in the coming months. In the CREDI September survey, there is a significant increase in the spread observed between the Current Situation and Expectation indices.

By the end of the Q2 2015, the real estate market had experienced a transaction volume in line with the preceding year's volume. In general, there is a positive market sentiment and yields are decreasing in prime locations as well as in secondary locations, partly due to strong underlying growth and development. However, a significant part of the decreasing and compressed yields are derived from a current low supply accompanied by increased demand from new property companies and vehicles. This affects both the valuation and the transaction prices observed on the market.

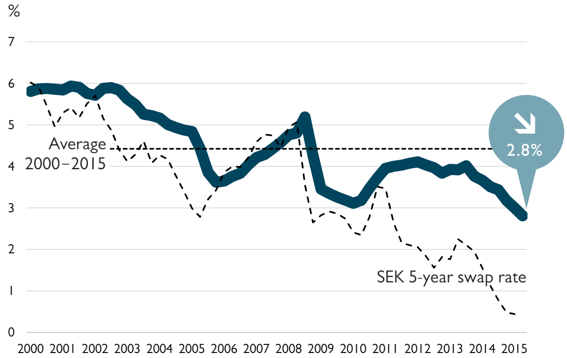
The CREDI Main index increased by 2.1 index points to 56.6 in the September 2015 CREDI survey, reversing the declining tendency observed in the June survey. The Current Situation index increased while the Expectation index declined slightly, bringing about an increased divergence between the two indices. The forward looking index has approached the turning point of 50.0, which likely reflects the concerns the European market experienced this past summer. Several European countries are characterized by a low interest rate environment, which affects the yield requirements for multiple segments including the real estate sector. For the property companies there has been good opportunity to take advantage of the current financing conditions. However, the polled banks indicate a more negative outlook implying that they expect more difficult financing conditions in the coming three months.

In line with the downward trend of the underlying interest rates, the average interest rate in Q2 2015 once again marked a historically low level of 2.8 per cent for the listed sector. The average loan-to-value for Q2 2015 amounted to 53.0 per cent, and is thus also closing in on the historically low level observed in Q1 2013. A decline in leverage can partly be attributed to the increasing property value of the listed sector. The increase in property values has exceeded the increase in interest-bearing debt during Q2 2015. Simultanously both the issuing of bonds and preference shares have increased, by 6 per cent and 18 per cent respectively compared to the previous quarter.

CREDI Main index

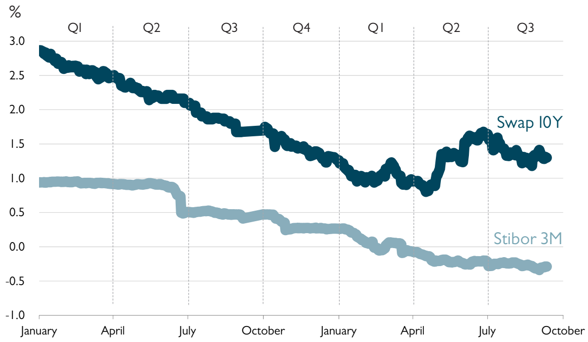


CREDI Indices – Q2 Average interest rate*



* Average interest rate on outstanding debt portfolio as reported by each company.

Swedish key interest rates, 2014 and 2015



About CREDI: The Catella Real Estate Debt Indicator, CREDI, is a market sentiment indicator for the Swedish real estate debt financing market. CREDI consists of two parts; a quarterly current and forward-looking survey of Swedish listed property companies and banks providing real estate financing on the Nordic market; and a set of indices based on publicly available data illustrating the aggregate change in credit conditions such as leverage, duration and cost of debt for the Swedish listed property sector. Subscribe to CREDI at catella.se/CREDI

The CREDI Survey

The Main index showed a slight improvement and increased 2.1 index points between the June survey and this September survey. The increase is driven by the increasing Current Situation index, indicating that the polled lenders and borrowers believe that the access to financing has improved during the past three months. However, with a small decrease, the Expectation index has approached the turning point of 50.0 and the financing conditions are thus expected to remain unchanged.

Main index components

Behind the 2.1 index point upturn in the Main index, there is a 4.5-index point increase in the Current Situation index, to 63.1 (58.6), while the Expectation index dropped by 0.3 index points to 50.0 (50.3). The Main index of the September 2015 CREDI survey reverses direction and returns to the level observed in the October 2014 survey. The spread between the Expectation and Current Situation indices increased by nearly 60 per cent. This implies a further divergence between the polled banks and property owners' increasing uncertainty in future conditions.

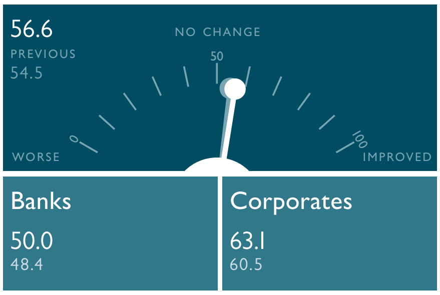
The CREDI survey still demonstrates a clear difference between the banks and property owners, where the property owners are more positive about the outlook concerning access to financing. The polled borrowers indicate that the financing climate has improved and will continue to improve in the coming three months. However, the banks are more cautious in their view and the corresponding Expectation index for the polled lenders is still declining at 45.0 (43.8), indicating slightly a more difficult financing climate ahead.

Sub-indices

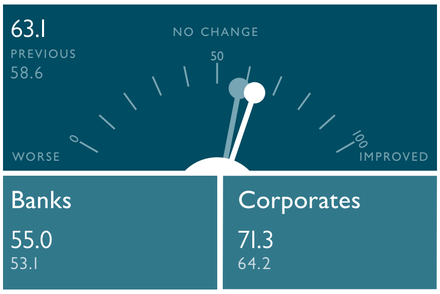
All of the CREDI Current Situation sub-indices increased in the September survey and consequently remained in the zone of credit expansion, above 50.0. This suggests that both polled lenders and borrowers have financing conditions that have improved in the surveyed segments during the past three months. The Current Credit Availability sub-index experienced the largest shift with an increase of 6.9 index points to 72.5.

The Expectation sub-indices for credit margins and leverage have also increased and approached the turning point of 50. This suggests that the banks and property owners do not believe in credit expansion or contraction in the next three months in relation to credit margins and loan to value. The duration Expectation sub-index displayed the largest drop among the sub-indices, a decline of 5.7 points to 55.0.

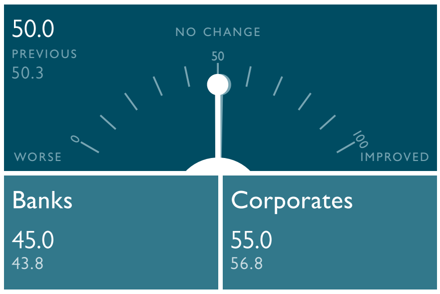
CREDI Main index



Current situation



Expectation



CREDI Sub-indices

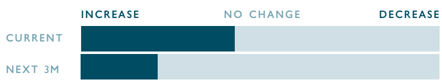
CREDI Sub-indices present survey data question by question. The bars represent the distribution of actual answers per question, separated into the components Current situation and Expectation for the coming three months.

CREDIT AVAILABILITY

CREDIT MARGINS

LEVERAGE

DURATION



ABOUT THE CREDI SURVEY

CREDI is a market sentiment indicator for the Swedish real estate debt financing market. The indicator is based in part on a quarterly current and forward-looking survey of Swedish listed property companies, and banks providing real estate financing on the Nordic market.

The CREDI survey contains four questions about recent changes in credit availability and credit conditions, and four questions about expectations regarding changes in credit availability and credit conditions in the next three months.

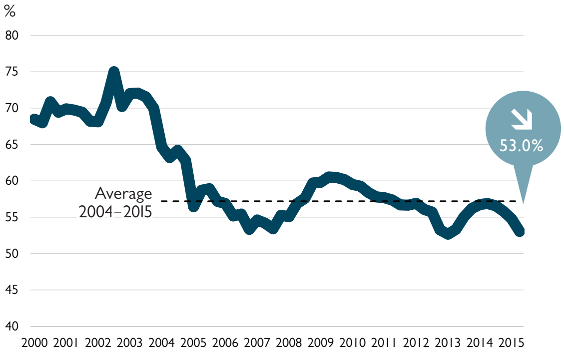
The CREDI survey results are computed as separate diffusion indices per question, where answers are weighted according to their direction of change in the variable. The final index figure represents an average of all weighted answers. Weights are applied such that a "no change"-answer equals 50. Consequently, the turning point in sentiment is 50 and any reading below indicates more difficult financing conditions while any reading above indicates less difficult financing conditions.

Separate indices are aggregated per respondent category. The Main index and its components are then computed as an unweighted average of these two categories – ensuring that the answers of borrowers and lenders are equally weighted in the Main index.

The CREDI Indices

Once again, the CREDI Indices in Q2 2015 show that the average interest rate for the listed property sector has reached a historically low level of 2.8 per cent. During the same period, the average listed fixed-interest term dropped to 3.1 years, although this remains firmly above the historical average.

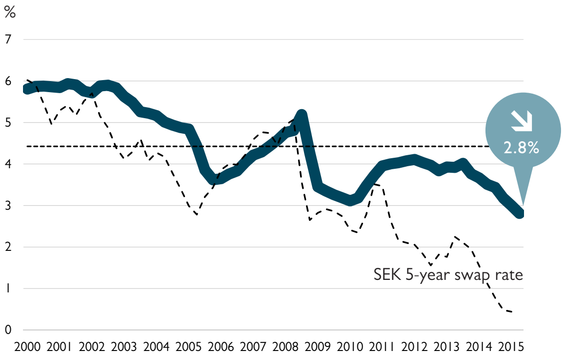
Listed sector Q2 average loan to value[1]



In Q2 2015, the average loan-to-value continued the trend of decreasing leverage, amounting to 53.0 per cent. The reduction in leverage is approaching a historical low level of average loan-to-value of 52.7 per cent. A significant contributor is the appreciation of property values. The value of the listed sector has experienced a strong growth in contrast to the slower increase in the amount of interest-bearing debt.

1 Interest bearing debt on property, excluding cash, divided by property value.

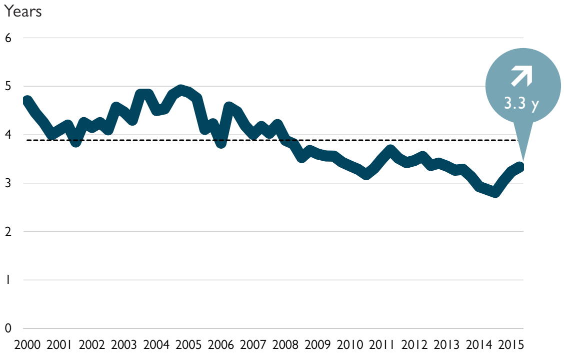
Listed sector Q2 average interest rate[2]



The listed average interest rate amounted to nearly 2.8 per cent in the second quarter of 2015, a drop of approximately 50 base points from the previous quarter. The reduction once again marks a new historical low level in the listed property sector. The average interest rate of the listed sector has experienced a steady downward trend since Q3 2014, which corresponds to the declining underlying and market interest rates.

2 Average interest rate on outstanding debt portfolio as reported by each company.

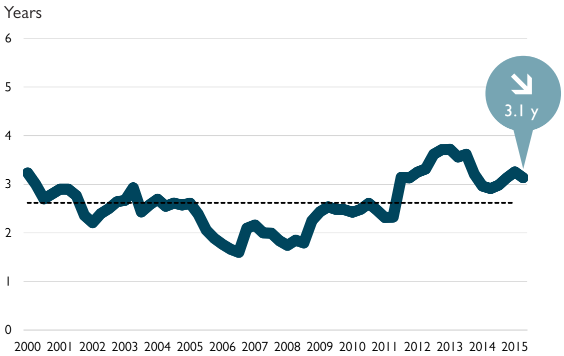
Listed sector Q2 average fixed credit term[3]



The average fixed credit term experienced a slight increase in Q2 2015 by 0.1 years, amounting to 3.3 years. The increase in the average fixed credit term has been observed since Q4 2014. However, the level is still far from levels observed before the financial crisis. The increase implies that borrowers expect the refinancing risk related to their loan portfolios to continue to increase slightly.

3 Average maturity referring to interest bearing debt.

Listed sector Q2 average fixed interest term[3]



-------- Average 2000–2015

By mid-year 2015, the average fixed interest term was down almost 4.0 percentage points from Q1 2015, amounting to 3.1 years. However, the average fixed interest term is above the historical mean between 2004 and 2015. The increase in average fixed credit term implies that borrowers expect interest rates to remain low or drop even further.

3 Average maturity referring to interest bearing debt.

ABOUT THE CREDI INDICES

CREDI is based in part on a set of indices illustrating the aggregate change in leverage, duration and cost of debt for the Swedish listed property sector.

The CREDI Indices are based on publicly available data collected from the financial reports published by the Swedish listed property companies.

Each data point in the CREDI Indices represents the aggregate figure for the Swedish listed property companies. Each company is weighted equally in order to fully reflect the company's individual financing strategy and financing situation. Start date is set as Q1 2000.

The intention with the CREDI Indices is to track trends and changes in real estate financing by aggregating publicly available data.

CREDI – Preference shares

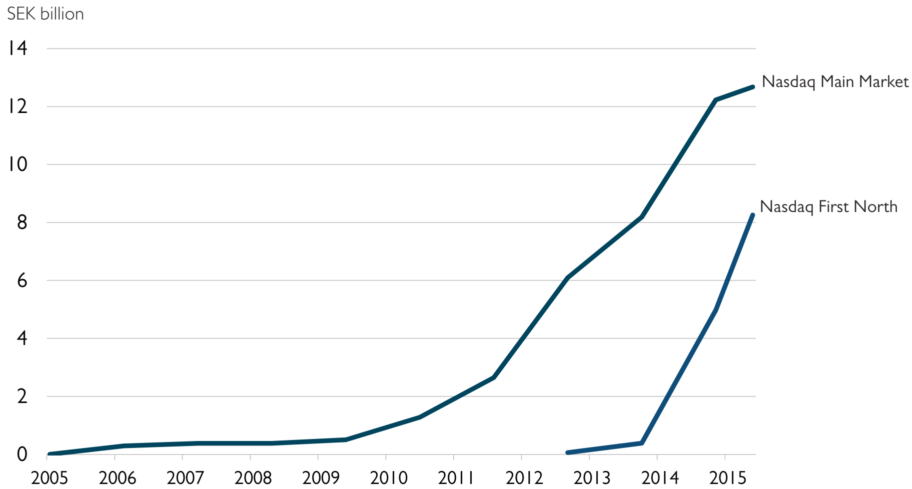
It has been increasingly popular to issue preference shares among the property companies. Since 2006, the listed property companies on Nasdaq OMX Nordic Main Market have issued preference shares for a total volume of almost SEK 13 billion, with annual dividends of approximately SEK 0.9 billion. Property companies on Nasdaq First North have issued preference shares for a total volume of more than SEK 8 billion, with annual dividends of approximately SEK 0.5 billion.

There has been a growing interest in issuing preference shares over the last years. Most notably in 2015 many smaller companies with a focus on development have used this option of raising equity. Out of SEK 3.8 billion issued this year, SEK 3.4 billion was issued on First North. Although most companies succeeded and more than SEK 3.6 billion was raised in Q2 and Q3, there were a few that either had to withdraw or reduce their initial amount. The reason may have been due to timing, there was a tight window before the summer holidays when six companies tried to issue over SEK 2 billion in two months. The problem for some companies might also have been to convince the market of their product.

Out of the SEK 8 billion issued on First North the past two years, Akelius issued SEK 6 billion. This should not overshadow the fact that many smaller companies have started to issue preference shares. Eight companies listed their first preference shares on First North in the same period and almost half of them focus on development.

There is a great interest for preference shares from both issuers and investors. In particular companies with a low risk profile are seen as a good alternative to the low interest rates. On the Nasdaq Main Market preference shares are traded around 6.4 per cent having been issued above 7 per cent. On First North, the preference shares are traded in a greater span from 6.5 per cent up to 11 per cent and contrary to the Main Market, just above the price they were issued at. The large variation may partly be explained by the term sheet of the specific preference share and the risk involved in investing in companies focusing on development.

Property companies' total issued volume of preference shares on Nasdaq OMX Nordic Main Market and First North



Property companies with preference shares

Figures in SEK billion unless otherwise stated

Nasdaq OMX Nordic Main Market	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Companies with preference shares/total	0/15	1/15	1/16	1/16	1/16	2/16	3/16	3/16	6/19	7/23	8/23
New issue	-	0.3	0.4	0.4	0.5	0.9	1.9	4.7	6.8	10.9	11.3
Stock dividend (*Sw. fondemission*)	-	-	-	-	-	0.4	0.8	1.4	1.4	1.4	1.4
Total issued volume		0.3	0.4	0.4	0.5	1.3	2.6	6.1	8.2	12.2	12.7
Annual dividend	-	0.0	0.0	0.0	0.0	0.1	0.2	0.5	0.6	0.9	0.9
Annual dividend, % of total issued volume		7.9%	7.9%	7.9%	8.2%	8.3%	8.2%	7.7%	7.4%	7.1%	7.1%
Market value outstanding preference shares	-	0.3	0.4	0.3	0.6	1.4	2.8	6.7	9.6	14.7	13.9
Annual dividend, % of market value		7.2%	7.3%	8.7%	7.3%	7.6%	7.7%	7.0%	6.3%	5.9%	6.4%

Nasdaq First North	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Companies with preference shares/total	0/0	0/0	0/0	0/0	0/0	0/0	0/0	1/1	2/4	6/10	9/20
New issue	-	-	-	-	-	-	-	-	0.3	4.9	8.2
Stock dividend (*Sw. fondemission*)	-	-	-	-	-	-	-	0.06	0.1	0.1	0.1
Total issued volume								0.1	0.4	5.0	8.3
Annual dividend	-	-	-	-	-	-	-	0.0	0.0	0.3	0.5
Annual dividend, % of total issued volume								8.3%	9.4%	6.8%	6.6%
Market value outstanding preference shares	-	-	-	-	-	-	-	0.1	0.4	5.2	7.8
Annual dividend, % of market value								7.0%	8.2%	6.5%	7.0%

Note: The Nasdaq OMX Nordic Main Market includes Large Cap, Mid Cap and Small Cap and does not include property companies listed on Baltic. Dagon was delisted 2012 and is not included. Share price year 2015 as per September 14, 2015.

Source: Catella, annual reports, Nasdaq.

CREDI – Catella's view through the looking glass

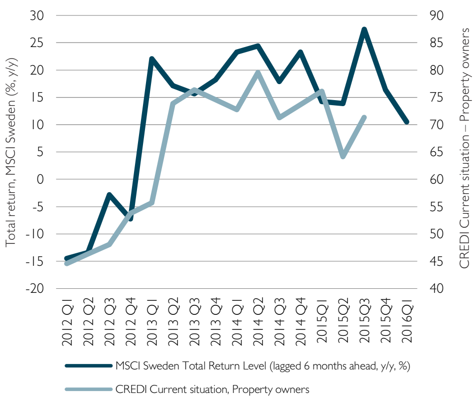
Continuously strong GDP growth will keep up debt market sentiments during coming quarters despite stock market volatility.

The total return on the Swedish stock market works as a leading indicator for the CREDI Current Situation index for property owners, with a six-month time lag. During the third quarter, the CREDI index recovered a large part of the second quarter fall back and is now indicating strong and expanding credit sentiments among property owners. The current index level of 71 is well above the 50 mark, which separates an expansion from a contraction. The recent months' turbulence on the stock markets has, however, generated a significant fall back in total return on MSCI Sweden – if the stock market total return keeps on declining that would indicate a softening in the CREDI index too.

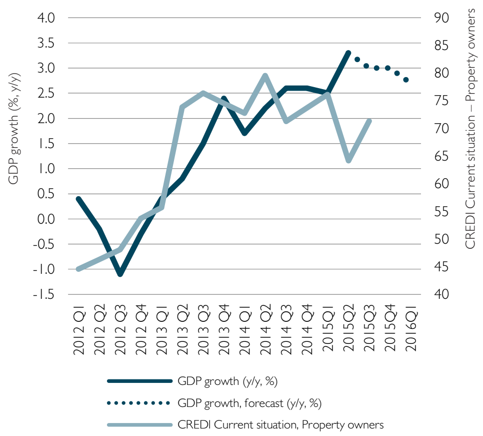
Sweden's internationally strong GDP growth does, however, work as a counter-weight to this and indicates a continuously strong CREDI index. Debt market sentiments are correlated to GDP growth and there is currently a strong macroeconomic mix for properties in Sweden – GDP growth is expected to end up at around 3 per cent per year in 2015–2016 and interest rates are at historically low levels. Based on Catella's macroeconomic view with a stable economic growth until late 2016, the CREDI index for property owners is expected to remain in expansion territory for the coming quarters.

The CREDI index for property owners is correlated to the development of both average yields and yield spreads on the property market. Internationally strong GDP growth, low interest rates and good access to financing have pushed down property yields to historically low levels during recent years. The broad transaction activity and high investor risk willingness have also resulted in a continuously falling yield spread between prime and secondary segments during recent years. A lack of assets in prime locations has, however, pushed the transaction activity outside the inner city locations in the major cities, towards prime suburb and secondary locations as well as smaller cities – a process that has resulted in higher average yields in finalised office transactions in 2015 than during the second half of 2014. Good access to financing, attractive bank margins and high investor risk willingness generates a continuously high activity on the market as we are gradually entering the top of the investment cycle.

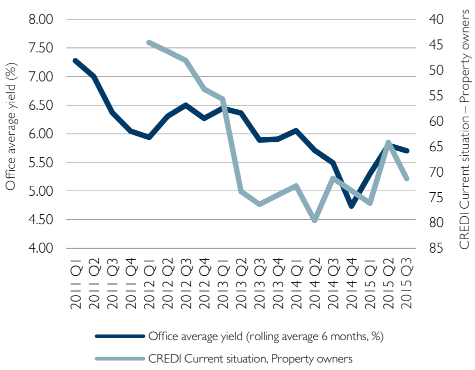
Total return MSCI Sweden and CREDI Current situation for property owners



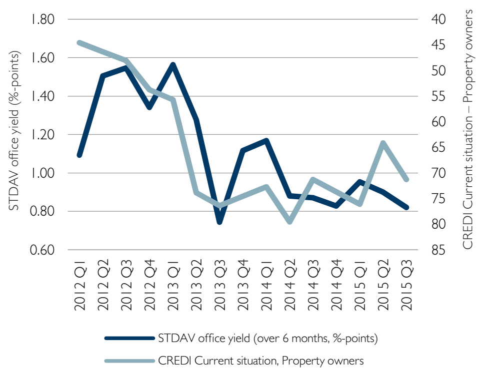
GDP growth and CREDI Current situation for property owners



Office average yield and CREDI Current situation for property owners



Standard deviation in office yields and CREDI Current situation for property owners



Source: Catella, Konjunkturinstitutet and Factset

Subscribe to CREDI!
Scan the QR code and fill in your email.

Contacts

Martin Malhotra
Director
Direct: +46 8 463 34 05
SMS: +46 70 311 34 05
martin.malhotra@catella.se

Arvid Lindqvist
Head of Research
Direct: +46 8 463 33 04
SMS: +46 72 537 17 45
arvid.lindqvist@catella.se

Hanna Keberku
Analyst
Direct: +46 8 463 33 41
SMS: +46 72 250 65 73
hanna.keberku@catella.se

Subscribe to CREDI and be the first to get the most recent edition!
Go to catella.se/CREDI or send an email to CREDI@catella.se

CATELLA

Catella is a European financial advisor and asset manager. In Sweden, Catella is a leader on market for advisory services in connection with property transactions and property-related services within debt and equity capital markets. We have offices in Stockholm, Gothenburg and Malmö.

HQ: Birger Jarlsgatan 6, Stockholm
info@catella.se
catella.se/corporatefinance