CREDI

CATELLA REAL ESTATE DEBT INDICATOR

CATELLA

December 2012

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: firstly a quarterly current and forward-looking survey of Swedish listed property companies and banks providing real estate financing on the Nordic market; and secondly 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.

Easing of credit terms ahead of 2013

The December issue of CREDI indicates increased credit availability and contracting loan margins on property financing during the past three months. This represents a marked improvement over the September sentiment, where respondents on average expected financing terms to worsen slightly in the coming three months.

Since September Catella has observed several signs of an improving credit market. The funding costs for the major Swedish property lenders have continued to contract, as indicated by falling CDS spreads. In recent transactions, and current negotiations, offered credit terms have improved slightly, and loan ticket sizes have increased in prime transactions. The observation of improved credit terms have also been echoed by the Swedish listed property sector in their third quarter results presentations.

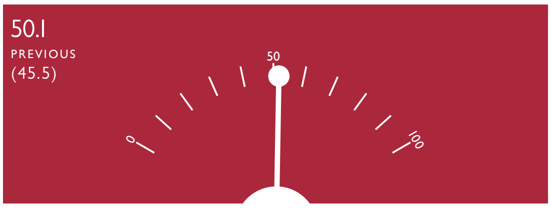
The CREDI Indices, tracking the Swedish listed property sector, show a continued increase in average fixed interest term in Q3 2012. The current reading is the highest since the start in Q1 2000. It is also the first time where the average fixed interest term exceeds the average fixed credit term. The average actual paid interest rate by the listed sector remained stable around 4 per cent in Q3 2012.

The emergence of debt funds targeting the Nordic markets follows the trend in UK and mainland Europe. DTZ estimates that 10 insurers and more than 30 debt funds will provide some EUR 60 billion of additional loan financing outside the banking system in 2012 and 2013 across Europe and UK.

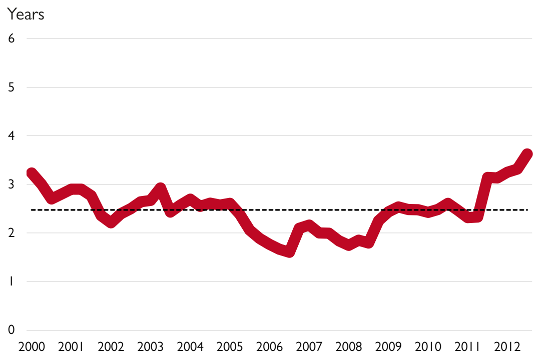
On the Swedish market alternative financing is still linked primarily to corporate bonds and preference shares. The current outstanding volume of bonds for the Swedish listed property sector has almost tripled year-on-year. The alternative financing trend is expected to continue in 2013.

In our view, the December CREDI results and current market sentiment indicate that the Swedish listed sector will see an improvement in credit terms and availability of loan financing in 2013, which implies more activity on the transaction market.

CREDI Survey – Main Index



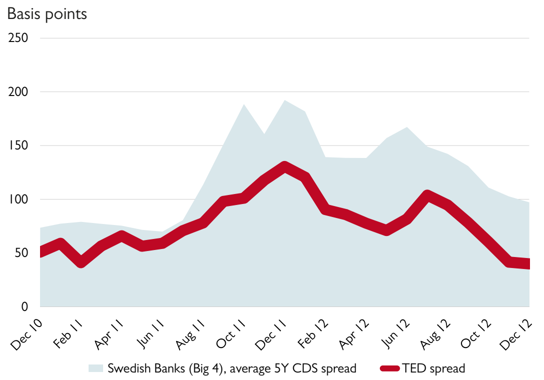
CREDI Indices – Fixed interest term[1]



1 Average maturity of outstanding debt portfolio including effects of derivatives, and excluding loan commitments if reported as such.

---- Average 2000–2012

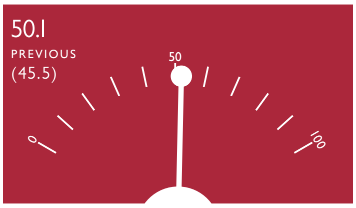
Implied funding costs for Swedish banks



CREDI Survey

The CREDI Main Index edges into positive territory with a 50.1 reading in December. Underlying, the Current Situation Index improves to 52.8 while the Expectations Index remains below neutral at 47.4.

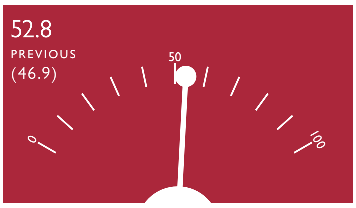
CREDI Main Index



Banks 46.4 (41.4)

Corporates 53.8 (49.5)

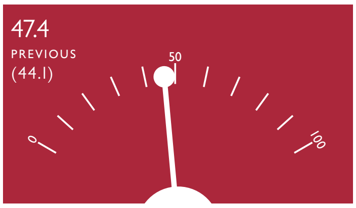
Current Situation



Banks 51.8 (45.7)

Corporates 53.8 (48.1)

Expectations

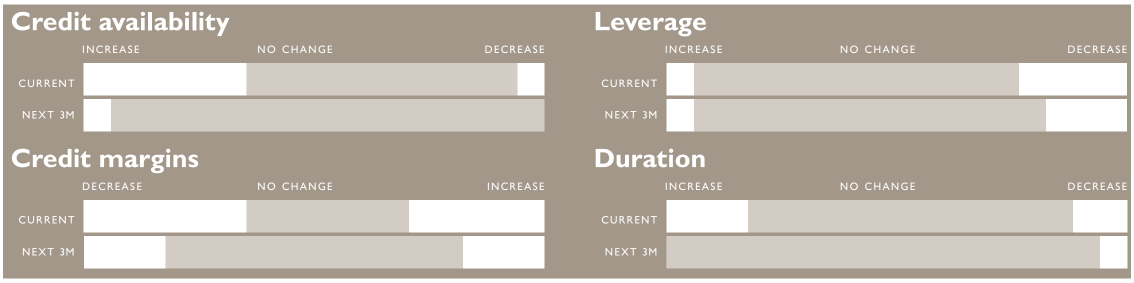


Banks 41.1 (37.1)

Corporates 53.8 (51.0)

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 Expectations for the coming three months.



Main Index components

The Current Situation component of the Main Index, detailing respondents' view on the development of property financing between September and November, moves out from negative 46.9 to positive 52.8 between the September and December issues of CREDI.

Looking ahead a few months into 2013 parties remain cautious but the Expectations index edges closer to positive rising from 44.1 in September to December's 47.4 score. Similar to previous iterations of the index Banks remain more cautious than Corporates, both towards the current situation as well as the coming months, but sentiment has improved across the board.

Improved credit availability

Overall credit availability jumps into positive territory with both Banks and Corporates seeing a marked improvement in availability in the past three months and a firmly positive index of 64.6. Also, looking ahead both lenders and borrowers expect credit availability to keep improving and the sub-index moves up from 46.4 to 52.5.

Credit margin contraction

Looking at the sub-indices the second biggest improvement is seen in the credit margin sub-index where the assessment of the current situation rises from 40.7 to 53.6 indicating that margins have dropped during the past three months. However, respondents differ significantly in their views as seen in the chart above. This is supported by observations of offered loan terms gathered by Catella in current and ongoing transactions as well as third quarter results presentations by the listed property companies. Looking ahead to 2013 the index remains on the cautious side but rises from 37.4 in September to 47.9 in December.

In our view, combining positive sentiment in both cost and availability of debt paves the way for higher transaction activity among strong borrowers in 2013.

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 five questions about recent changes in credit availability and credit conditions, and five questions about expectations regarding changes in credit availability and credit conditions in the next three months.

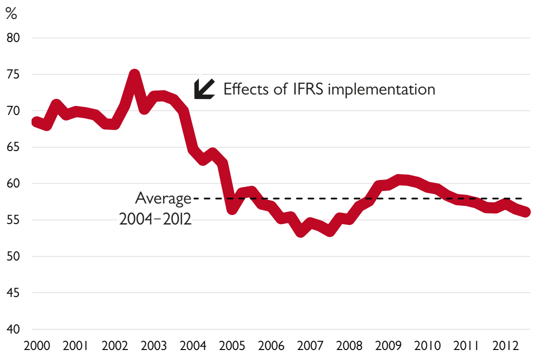
The CREDI survey results are computed as separate diffusion indices per question, where answers are weighted according to their direction of change in the variable. The final index figure represents an average of all weighted answers. Weights are applied such that a "no change"-answer equals 50. Consequently, 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.

Starting in CREDI September 2012 the 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. Because of this the index figures from CREDI May 2012 have been revised and the revised data is used exclusively in this edition.

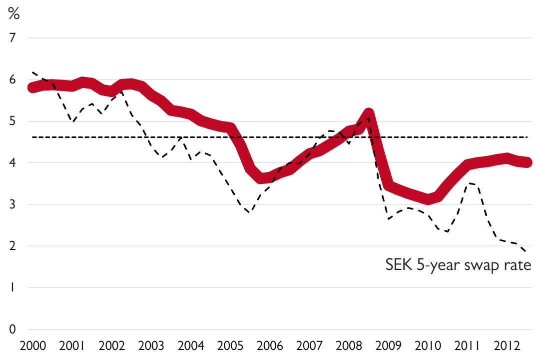
CREDI Indices

The CREDI Indices show a continued increase in average fixed interest term in Q3 2012. The decreasing trend in loan to values continues, while average interest rate remained stable around 4.0 per cent, thus further softening the upward trend seen since 2010.

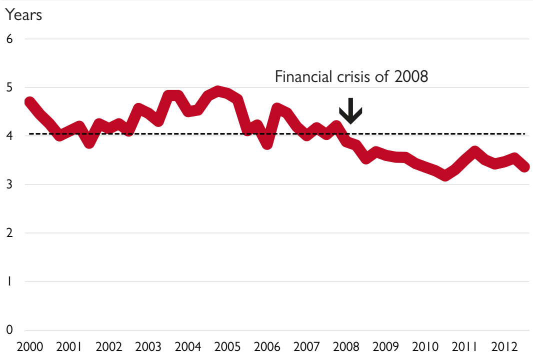
Listed sector average loan to value[1]



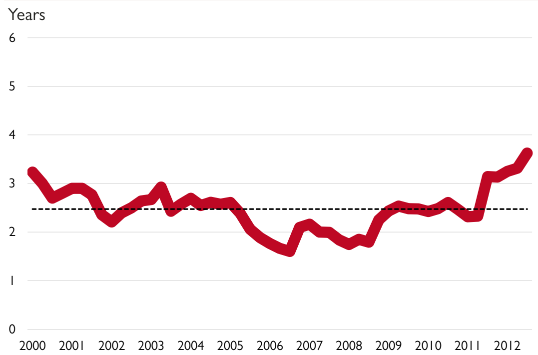
Listed sector average interest rate[2]



Listed sector average fixed credit term[3]



Listed sector average fixed interest term[4]



-------- Average 2000–2012

Listed sector average loan to value[1]

By the end of Q3 2012, the average loan to value amounted to 56.1 per cent, compared to 56.5 per cent a quarter earlier. The decreasing trend in loan to values seen since the end of 2009 is thus still intact. Part of the decline in Q3 2012 might be explained by more conservative bank lending as well as reported appreciation in property values.

Listed sector average fixed credit term[3]

In Q3 2012, the average fixed credit term amounted to 3.4 years, down 0.1 percentage points from Q2 2012. The fixed credit term has stabilised somewhat after the overall downward trend seen after the financial crisis of 2008. The cost of borrowing remained higher on longer maturities due to lenders' funding costs, thus making longer maturities less attractive. The average fixed credit term remains below the average term of 4.1 years in 2000–2012.

Listed sector average interest rate[2]

In Q3 2012, the average interest rate amounted to 4.0 per cent, unchanged from Q2 2012. The trend of increasing interest rates seen in since 2010 is thus further weakened. Part of the development in Q3 2012 could be explained by declining underlying interest rates, as well as lower funding costs for lenders. The total cost of lending for the surveyed companies remains below the average cost of 4.6 per cent in 2000–2012.

Listed sector average fixed interest term[4]

By the end of Q3 2012, the average fixed interest term amounted to 3.6 years, an all time high since the start date. During Q3 2012, swap rates continued to decline slightly and many listed property companies continued to utilise the low swap rates to increase their overall fixed interest term. Thus, the distinct trend seen over the past two years with increasing fixed interest term remains intact. Worth to notice is that the average fixed interest term in Q3 exceeds the fixed credit term. This is the first time this has happened since the start date.

About the CREDI indices

CREDI is a market sentiment indicator for the Swedish real estate debt financing market. The indicator 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.

Notes

1. Interest bearing debt on property, excluding cash, divided by property value.
2. Average interest rate on outstanding debt portfolio, including funding costs and effects of derivatives if reported as such.
3. Average maturity of outstanding debt portfolio excluding effects of derivatives, and excluding loan commitments if reported as such.
4. Average maturity of outstanding debt portfolio including effects of derivatives, and excluding loan commitments if reported as such.

Catella Real Estate Debt Indicator

Catella Corporate Finance is a leader on the Swedish market for advisory services in connection with property transactions and property-related services within debt and equity capital markets. Catella Corporate Finance has some 50 employees and offices in Stockholm, Gothenburg and Malmö. The company is a part of the Catella Group.

CREDI is a market sentiment indicator for the Swedish real estate debt financing market. The next edition of CREDI will be published in March 2013.

If you wish to subscribe to future editions of CREDI, please e-mail CREDI@catella.se. Published editions are available online at www.catellaproperty.se.

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