



## CATELLA REAL ESTATE DEBT INDICATOR

September/October 2013

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.

# Risk appetite rising

In the third quarter of 2013 the credit market sentiment has improved again over the previous quarter. The CREDI Main Index moves 4.4 points to a new all-time high of 69.3 and the positive trend is visible in both the Current Situation and Expectations indices.

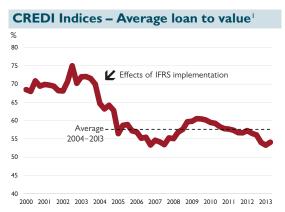
Following a summer of intense transaction activity on the Swedish real estate market a majority of both lenders and borrowers indicates that the current financing environment has continued to improve, and so has expectations for the coming quarter, according to the September/October CREDI survey.

Through the year an increasing availability of loan financing has supported liquidity in the real estate transaction market. Since early in the summer it was also evident that, domestic banks in particular, were more comfortable with larger ticket sizes for individual transactions and not dependent on syndication to finalize transactions. So far, the hike in long rates does not seem to have impacted transaction appetite negatively.

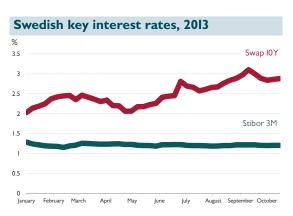
In the listed property sector average loan-to-value increased 0.8 percentage points to 54.1 per cent in Q2 2013, a slight reversal of the deleveraging trend observed since 2009 and indicative of the greater risk-seeking among investors as the economy recovers.

The alternative financing trend remains strong with several issues of both corporate and secured bonds. The share of secured bonds issued by the listed companies covered by CREDI has increased steadily over the past two years and now amounts to approximately 35 per cent of their outstanding bond volume.





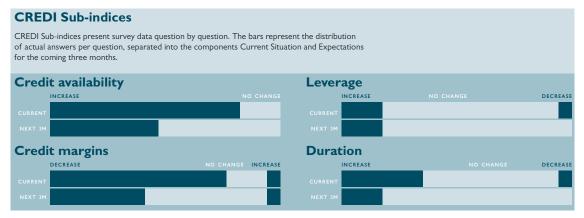
I Interest bearing debt on property, excluding cash, divided by property value.











## **CREDI Survey**

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#### Main index components

In the September/October edition of CREDI we find that the positive expections observed in the second quarter survey have indeed materialized and respondents, on average, estimate that the lending environment has eased in the third quarter.

In the September/October survey both lenders and borrowers expect that credit availability and credit terms on average will improve going forward. We also note that respondents among the listed companies are slightly less bullish about the next three months in the third quarter survey than they were in the second quarter survey. Whereas the average expectations of lenders' on the coming three months have improved by I5 per cent q/q.

#### **Sub-indices**

Lenders and borrowers both indicate an overall improvement of **credit availability** both in the past three months and also for the coming quarter. Changes since the July survey are minimal.

The biggest change to any sub-index is the change to the **credit margin** indicator where more than 70 per cent of respondents now estimate that margins have dropped in the past quarter. More than 90 per cent of respondents expect margins to drop or remain stable also in the coming three months.

Respondents on average expect that both loan **durations** and **leverage** ratios will increase in the coming three months. These two sub-indices have previously made the weakest contributions to the overall index.

#### 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.

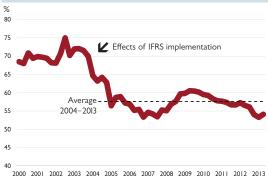
The CREDI Survey results are computed as separate diffusion indices per question, where answers are weighted according to their direction of change in the variable. The final index figure represents an average of all weighted answers. Weights are applied such that a "no change" answer equals 50. Consequently,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

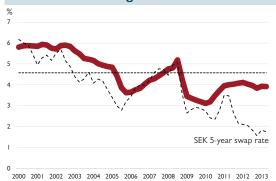
The CREDI Indices show an increase to 54.1 per cent in loan to value for the listed sector in Q2 2013, a slight reversal of the deleveraging trend observed since 2009. Average interest rate remained unchanged at 3.9 per cent, while credit term and fixed interest term decreased slightly.





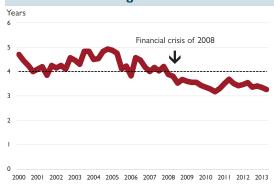
Average loan to value increased 0.8 percentage points to 54.1 per cent in Q2 2013 from a quarter earlier, a slight reversal of the deleveraging trend observed since 2009 and indicative of the greater risk-seeking among investors as the economy recovers.

#### Listed sector average interest rate<sup>2</sup>



In Q2 2013, the average interest rate remained unchanged at 3.9 per cent from a quarter earlier. The cost of debt has remained slightly below 4 per cent for the past year and consequently seems to have stabilised at this level.

#### Listed sector average fixed credit term<sup>3</sup>



In Q2 2013, the average fixed credit term amounted to 3.3 years, down 0.1 years from Q1 2013. Although a slight decrease in Q2 2013, the fixed credit term has stabilised at this level after the overall downward trend observed since the financial crisis of 2008.

#### Listed sector average fixed interest term<sup>4</sup>



By the end of Q2 2013, the average fixed interest term amounted to 3.6 years, down 0.1 years from Q1 2013. Consequently, the distinct trend with increasing fixed interest term observed over the past years is weakened. During Q2 2013 swap rates increased which could partly explain why the surveyed companies to a less extent utilised derivatives to increase their overall fixed interest term.

----- Average 2000–2013

#### 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 OI 2000.

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

#### Notes

- I 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 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 December 2013.

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

#### **Contact details**

#### Catella Corporate Finance

P.O. Box 5130, Birger Jarlsgatan 6 SE-102 43 Stockholm, Sweden Phone: +46 8 463 33 10 www.catella.se

#### **Daniel Anderbring**

Phone: +46 8 463 33 60 Mobile: +46 70 846 47 86 E-mail: daniel.anderbring@catella.se

#### Niclas Forsman

Phone: +46 8 463 34 08 Mobile: +46 70 392 34 08 E-mail: niclas.forsman@catella.se





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