



Positive momentum despite increasing credit margins

The December issue of the Swedish Catella Real Estate Debt Indicator shows an improvement in the CREDI Main Index from 42.5 to 44.4, which indicates positive momentum in credit sentiment in Sweden. However, the market is still in contraction as the surveyed banks and property companies agree that credit margins are increasing.

“Over the past three months, we have observed a small but noticeable improvement in the CREDI Main Index from 42.5 to 44.4, which is the best result since September 2015. However, banks and property companies agree that credit margins have increased and will continue to increase. This has kept the Main Index below the 50.0 turning point,” says Martin Malhotra, Project Manager at Catella.

“The market sentiment has worsened since September 2015, despite a relatively high risk tolerance among investors. This is probably a sign of risk averseness among banks, which are unwilling to increase their exposure towards the property sector. Weaker access to debt financing and increasing credit margins will create investment opportunities for those that have access to funding and are able to invest in secondary locations in particular, as there will be fewer bidders,” says Arvid Lindqvist, Head of Research at Catella.

The property companies’ interim reports for the third quarter of 2016 show that the trend of falling average interest rates, fixed credit terms and fixed interest terms has continued, albeit at a slightly slower rate. Average loan-to-value has decreased, following a rather large increase during the second quarter of 2016. However, the most noteworthy development is not found in the quarterly reports, but on the stock market.

“The stock market has been highly volatile since the September issue of CREDI. Having increased their market capitalisation considerably in the third quarter, which increased market premiums by nearly 50 per cent, the property companies have seen their entire gains evaporated in recent months. Nearly all of the property companies are currently trading at a lower price than at the end of the second quarter,” Martin Malhotra concludes.

The seventeenth edition of the Catella Real Estate Debt Indicator (CREDI) is attached and can also be downloaded from catella.com/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 at catella.com/credi. This edition also includes an analysis of preference shares and an overview of the property market.

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