CREDI

CATELLA REAL ESTATE
DEBT INDICATOR

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CATELLA CORPORATE FINANCE

May 2012

To highlight trends and changes in real estate financing, Catella is launching 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: firstly a 6-monthly 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.

Credit availability better, terms tougher

Catella's first edition of the CREDI survey, polling the listed Swedish property sector and the main providers of financing to the sector, shows a slightly negative sentiment both with regards to the current situation and expectations for the next three months in the Main Index.

The Main Index shows a reading of 45.8, slightly below the index cut-off of 50. This figure is made up of respondents on average believing that real estate financing has become more difficult in the current situation (Current situation index of 43.4) and that the developments over the next three months will see real estate financing take a turn for the worse. However, the Expectations index reading of 48.3 is too close to the neutral 50 to form any definite conclusions about direction.

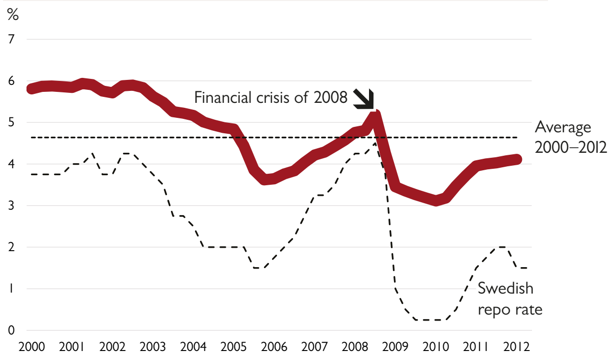
The CREDI Indices, tracking trends and changes in real estate financing by aggregating publicly available data, show an increase in average interest rate and fixed interest term in recent quarters, while the contraction in loan to value and fixed credit terms stabilised somewhat in QI 2012, but the levels remain historically low.

The total cost of lending is still below the historical average, despite higher credit margins for bank lending, due to the historically low underlying interest rates. In QI 2012, the average interest rate in the sector amounted to 4.1 per cent, up 0.2 per cent from a year earlier, but still below the average cost of 4.6 per cent in 2000–2012.

CREDI Survey – Main Index

Total	Current situation	Expectations
45.8	43.4	48.3

CREDI Indices – Average interest rate[1]



1 Average interest rate on outstanding debt portfolio, including derivatives if reported as such.

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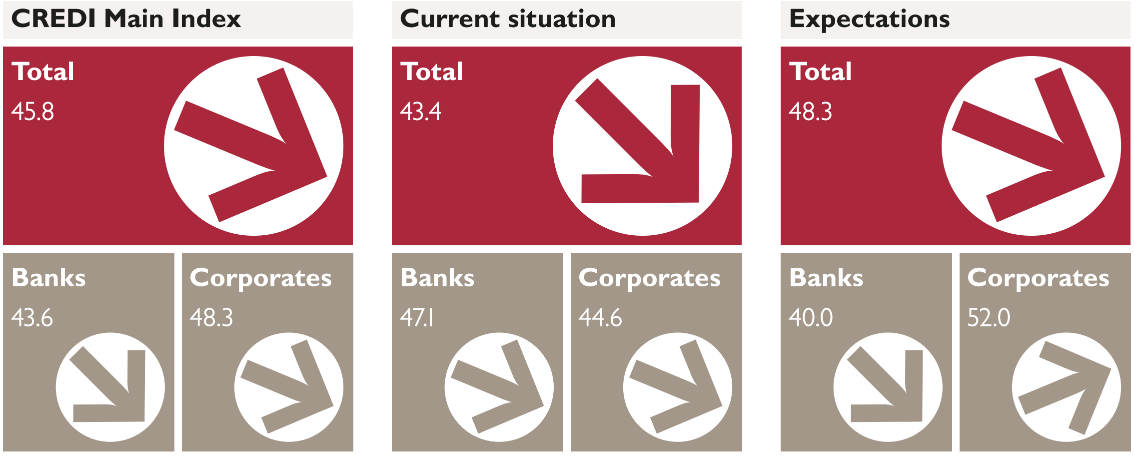
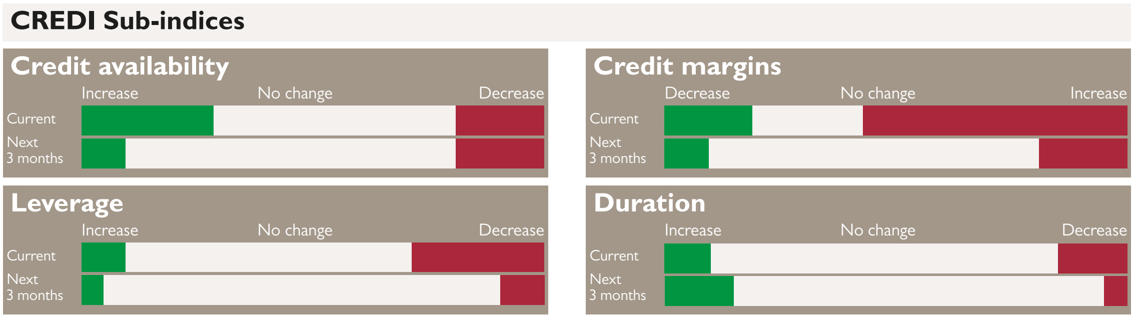
CREDI Survey

Catella's first edition of the CREDI survey, polling the listed Swedish property sector and the main providers of financing to the sector, shows a slightly negative sentiment both with regards to the current situation and expectations for the next three months in the Main Index.





Main Index

The Main Index shows a reading of 45.8, slightly below the index cut-off of 50. This figure is made up of respondents on average believing that real estate financing has become more difficult in the current situation (Current situation index of 43.4) and that the developments over the next three months will see real estate financing take a turn for the worse. However, the Expectations index reading of 48.3 is too close to the neutral 50 to form any definite conclusions about direction.

Sub-indices

A closer examination of the individual Sub-indices (see bar charts) shows that while respondents recognise that credit conditions (Credit margins, Leverage and Duration) have hardened in the past three months actual Credit availability has increased in the same time. However, when asked about how overall Credit availability will change in the coming three months, sentiment turns negative.

Examining expectations provides a positive note for borrowers. While present conditions have hardened the negative change in Credit margins and Leverage is slowing in the coming months while Duration of credit is actually expected to increase.

The overall impression from the sub-indices analysis is that a majority of respondents expect future credit conditions to remain unchanged compared to the present conditions.

Positive outlook among borrowers

Separating respondents by borrowers and lenders, the debt providers are markedly more negative with regards to the development of credit availability and conditions across the board than borrowers. Property companies expect overall conditions in the coming three months to improve slightly from the current situation. The differing expectations are perhaps explained by listed companies tapping alternative sources of financing, e.g. bonds and preference shares, in the past twelve months. Another explanation is that the respondents on average are likely to have a stronger relationship with their lenders, on the back of credit history and financial strength, than the average, or marginal, user of debt financing.

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 6-monthly 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.

CREDI Indices

The CREDI Indices, tracking trends and changes in real estate financing by aggregating publicly available data. The indices show an increase in average interest rate and fixed interest term in recent quarters, while the contraction in loan to value and fixed credit terms stabilised somewhat in QI 2012, but the levels remain historically low.

Loan to value[1]

Since the beginning of 2010, loan to value has decreased in part due to more conservative bank lending. In QI 2012, loan to value amounted to 57.3 per cent, compared to 57.7 per cent a year earlier and below the average figure of 62.0 per cent in 2000–2012. The drop in loan to value seen in 2004 is primarily due to the switch in reported property values following the IFRS regulation, and to a lesser extent on decreased indebtedness.

Average interest rate[2]

The total cost of lending is still below the historical average, despite higher credit margins for bank lending, due to the historically low underlying interest rates. In QI 2012, the average interest rate in the sector amounted to 4.1 per cent, up 0.2 percentage point from a year earlier, but still below the average cost of 4.6 per cent in 2000–2012.

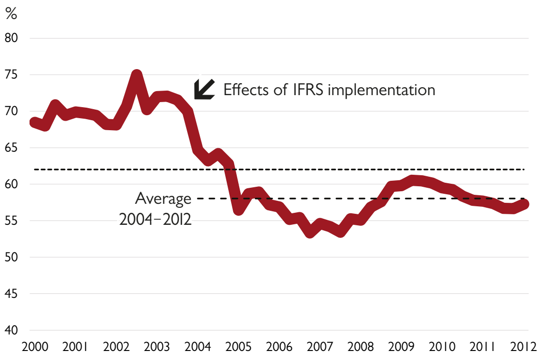
Fixed credit term[3]

The fixed credit term has been on a downward trend since the financial crisis of 2008, mainly due to lenders' higher funding costs on longer maturities. In QI 2012, the fixed credit term amounted to 3.5 years, unchanged from a year earlier and still below the average term of 4.1 years in 2000–2012.

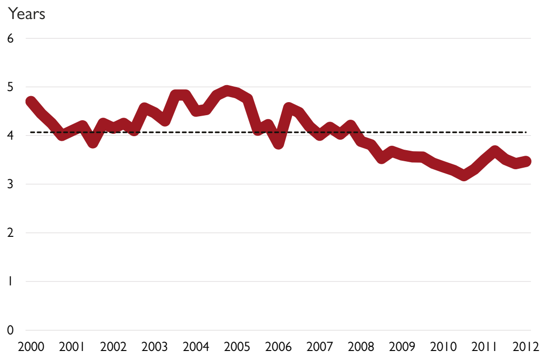
Fixed interest term[4]

Given historically low swap rates on longer maturities, many listed property companies have used the low interest environment as an opportunity to increase the fixed interest term in their debt portfolios. The fixed interest term increased in each subsequent quarter in 2011 and reached 3.1 years by year-end. The increase flattened out in QI 2012, however, the level remains above the average term of 2.4 years in 2000–2012.

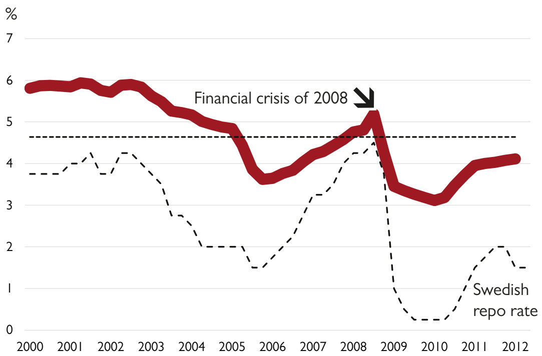
Loan to value[1]



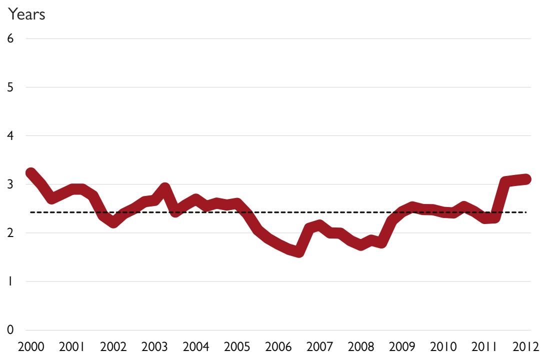
Fixed credit term[3]



Average interest rate[2]



Fixed interest term[4]



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 QI 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 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.

-------- Average 2000–2012

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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.

Catella Real Estate Debt Indicator

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CATELLA REAL ESTATE DEBT INDICATOR

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

The next edition of CREDI will be published in September 2012.

Published editions are available online at www.catellaproperty.se.

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