Equity Research

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Real Estate

Cause for concern

- Market pricing in falling refinancing costs
- Poor risk/reward as relief seems distant
- We make 17 downgrades across ten stocks

2023-24 – Refinancing risks, divestments and equity injections

Swedish property companies have large volumes of debt and interest rate hedging maturing in 2023-24, which will lead to much higher costs even if we assume all debt maturities to be covered by bank loans, which in turn will put pressure on companies' net financials, debt ratios and property values. We fear that large-scale refinancing will trigger divestments, leading to falling property values and, in several cases, potentially the need for equity injections in order to preserve decent leverage, positive cash flow and credit ratings. In addition, the top-line inflation hedge does not fully compensate for the higher cost of funding and we doubt property companies' ability to pass the full CPI onto anxious tenants. As such, we believe that the next 12-24 months will offer poor sentiment, in general.

Stock market is not pricing in the current interest rate

A big question is how much of the debt maturing over the next 24 months can be converted into less pricy bank debt. The current cost of refinancing in the capital market exceeds most property yields, if we take the swap rate and spreads into account, and is not reflected in share prices. If we assume that A-rated companies use the relatively well-functioning capital markets, and that BBB/unrated companies borrow from the banks for refinancing at a rate of 150bp + swap, i.e. around 4.5%, the cost increase would be less, but still material, and some might not even get reasonable, external funding. In addition, we assume that the risk premium for banks heavily increasing their exposure to the real estate sector would result in higher margins, and the Swedish FSA might not view such increased exposure favourably. The refinancing uncertainty prompts us to take a more cautious view on risks and outcomes than the stock market is pricing in.

Multiple downgrades in the sector

We think the stock market valuation is tilted towards a scenario in which conditions are set to improve materially. We remain cautious and believe that the risk of forced equity injections in companies and/or the need for hefty divestments, which should trigger yields to climb significantly, should be priced in. With this in mind, we downgrade **Trianon, John Mattson, Heba**, **Balder, Castellum, Entra** and **NP3** to SELL (Hold) and UNDER PERFORM (Market Perform). For **Sagax**, we stick to HOLD short-term, but downgrade our long-term recommendation to MARKET PERFORM (Outperform). We downgrade **Pandox** to HOLD (Buy) short-term (three-year MARKET PERFORM intact), and take **Stendörren** down to HOLD (Buy) on a three-month horizon with our long-term OUT PERFORM intact.

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Handelsbanken Capital Markets

Investment case

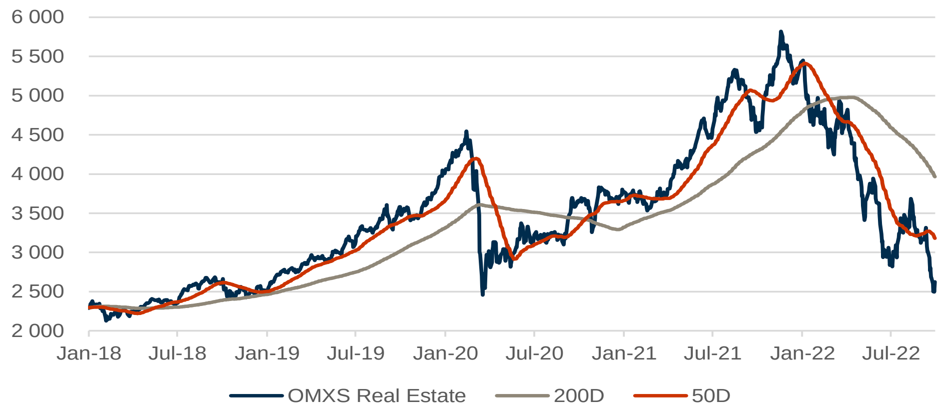
The risk within the Real Estate sector has risen over the past seven years. Loan-to-value (LTV) has remained relatively stable, while NIBD/EBITDA has increased by about 70%, from around 9x to almost 16x, with several companies well above 20x. Comparing fair value per square metre with rental value per square metre shows the same picture: cash flow to serve debt has decreased considerably and risk has increased significantly since 2015 as a result of a large amount of available funding at low cost and the hunt for earnings growth. This makes for high vulnerability to rate increases, which we are now seeing. As such, we do not view the revaluation in 2022 (which started in November 2021) as overshooting given that a large part of the plunge in share prices reflected the elimination of an unrealistic growth premium in late 2021. We still think that financial risk will determine what happens in 2023 and we downgrade several stocks on high financial risk.

Large revaluation YTD – July rally now fully reset

Median valuation discount to reported EPRA NRV now 40%

The sector is down around 55% from its peak and 52% YTD. This is largely due to previously elevated valuation levels, with the sector trading at a premium of roughly 50% to the peak in November 2021. Our real estate coverage universe is currently trading at a median discount to reported EPRA NRV of 40%. In this report, we aim to highlight what the current pricing indicates in terms of balance sheet risks in this turbulent economic environment.

Figure 1: OMXS Real Estate Index

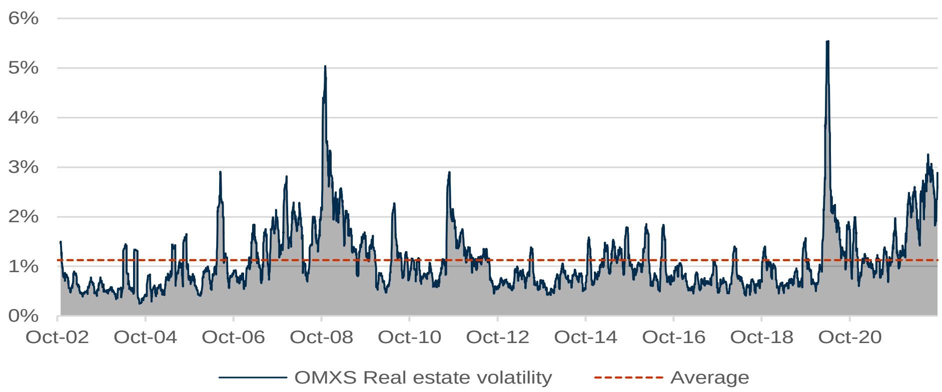


Source: Handelsbanken Capital Markets, FactSet

Elevated level of volatility

Since December 2021, the OMX Stockholm Real Estate Index has seen a consistently elevated level of volatility. Given the sector's sensitivity to interest rates and the economy, we expect the high volatility to persist in the near term. We also expect a predominantly negative news flow relating to wavering demand for premises, higher funding costs weighing on earnings and deteriorating property prices.

Figure 2: OMXS Real Estate Index volatility



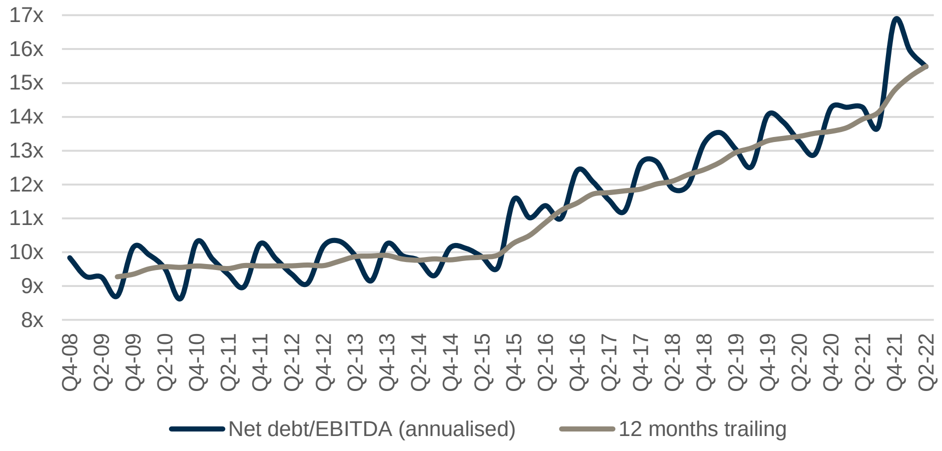
Source: Handelsbanken Capital Markets, FactSet

The devil is in the gearing – elevated leverage in recent years

Cash flow relative to debt has decreased significantly over the past seven years

Using loan-to-value as a measure of financial risk suggests that the risk has been fairly stable since 2015. If instead we compare the cash flow generated from the property values (represented by EBITDA) with the amount of interest-bearing debt in each company covered by the database Sedis, it becomes clear that the risk has increased.

Figure 3: Net debt/EBITDA



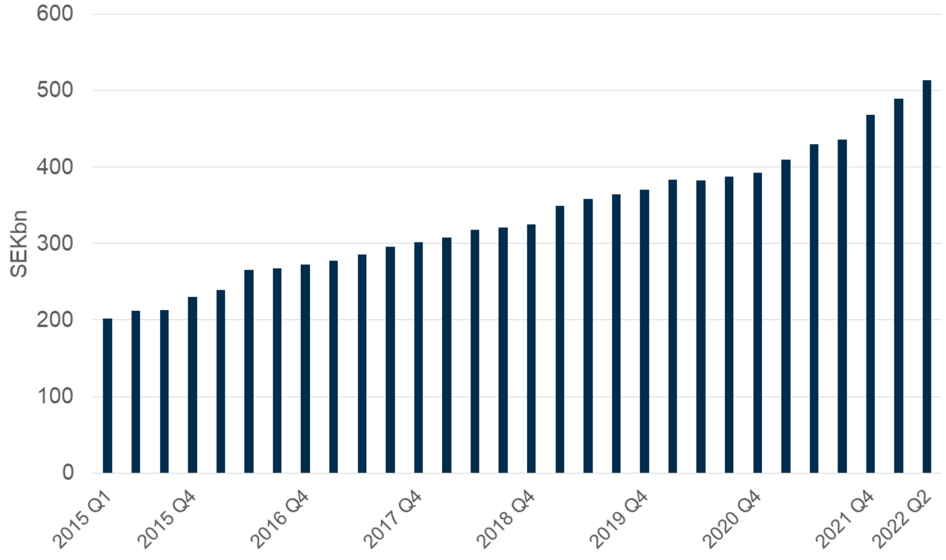
Source: Sedis, Handelsbanken Capital Markets

NIBD/EBITDA is up 70% since 2015

From a level of around 9x in for the period 2008-15, the ratio has steadily increased to almost 16x as of Q2 2022. This means that real estate companies have used the higher property valuations, driven primarily by lowered rates and compressed property yields, to fuel expansion by using more debt. In fact, the ratio has increased by 70% from 2015.

Interest-bearing debt has increased by 160% over the same period, from around SEK 200bn in 2015 to about SEK 520bn in Q2 2022.

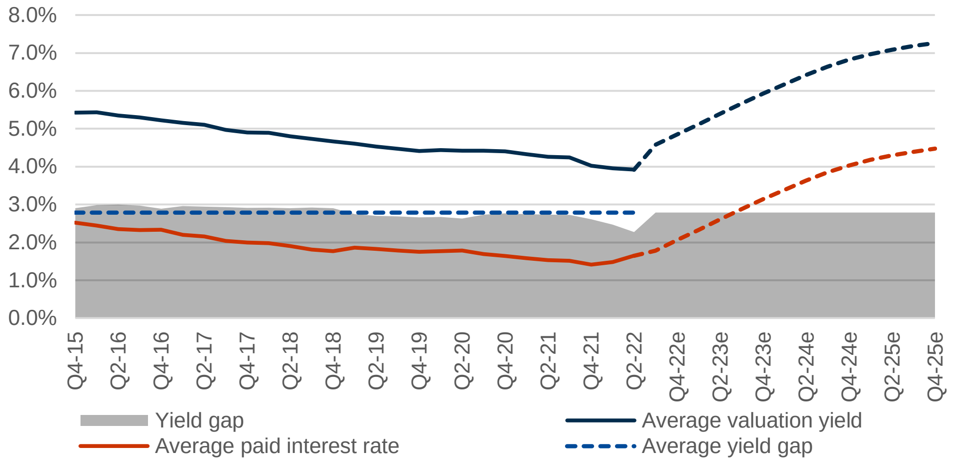
Table 1: Total interest-bearing debt, SEKbn



Source: Handelsbanken, company reports

This means that companies have, in general, actively availed of the low interest rate environment to increase risk, a successful means of enhancing cash flow by using the previously attractive yield gap. Much of the excess growth to earnings over the past five years has been generated through more debt and higher risk.

Figure 4: Implied development of interest rates and yield requirement

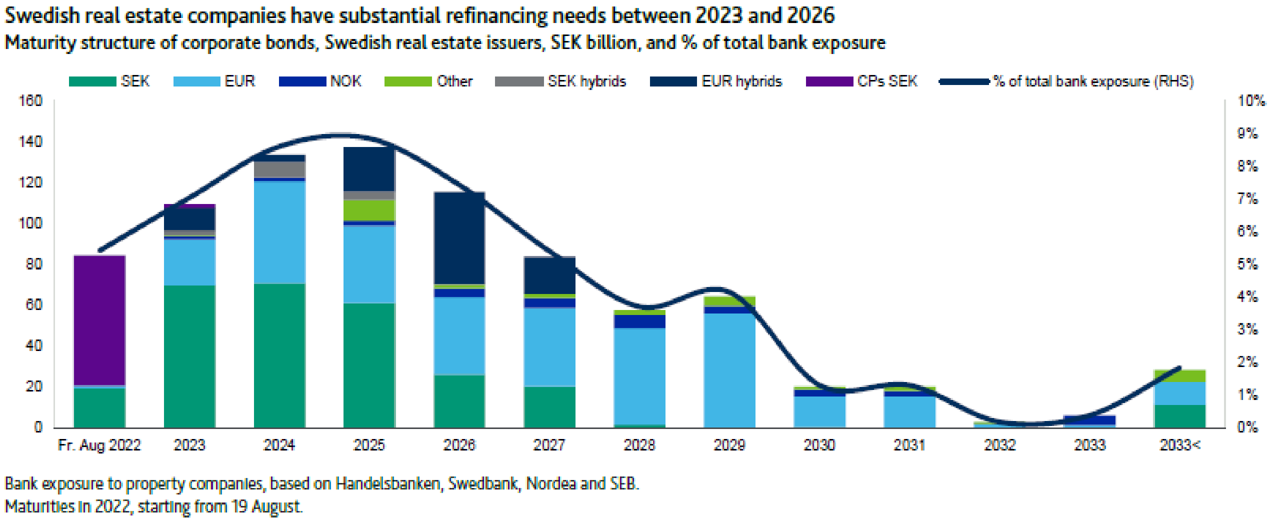


Source: Handelsbanken Capital Markets, Sedis

All funding is now more expensive – nowhere to hide

In 2015, the listed real estate companies paid an interest rate of less than 3% on average, a level that decreased towards 1% in late 2021. The yield compression (measured as average reported book yield on property assets) has followed the lower paid interest rate, with a constant yield spread of 3%. At the time, in 2015, the book yield was 5.5%, compared with the current level of around 4% (the numbers above are based on a large number of companies covered by the database provided by Sedis). The current market price for funding/refinancing is a wide range for different companies, but is generally well above current paid interest rates, the reported property yields, and also above the interest rate level in 2015. In fact, just the swap rate, at a flattish yield curve on different maturities, is around 3% for maturities of one to 30 years. Three-month STIBOR is almost 2% and we expect bank margins in the range of 100-200bp, while bond market spreads for BBB-rated companies are reaching from around 300bp to 600bp, depending on maturity and currency and we see no near-term relief on any of those components building up the cost of borrowing at this stage.

Table 2: Swedish real estate companies have substantial refinancing needs 2023-26



Source: Dealogic and the Riksbank

If funding costs remain high, our guess is that the maturity of large volumes of market debt will trigger larger volumes of transactions in the direct property market as a way of reducing debt volume, leverage and financial costs. Such a scenario would, most likely, trigger a decline in prices and values, since it risks flooding the direct market with supply. We suspect there are buyers ready to take up property assets, at the right price. The fact that the volume in the direct transaction market has dried up significantly in 2022 indicates that the capital willing to take exposure is waiting for prices to reflect the new and higher interest rates, i.e. to come down.

Screening for interest rate sensitivity offers some guidance

An attempt at ranking based on sensitivity to rates

In the tables and charts below, we have ranked the real estate companies under our coverage on a number of factors in order to highlight interest rate sensitivity. Note that our ranking system disregards potential effects from individual financial targets and ratings.

- We have looked at **net debt/EBITDA** to highlight earnings sensitivity to the current interest rate environment.
- We have ranked our coverage on **loan-to-value** to highlight balance sheet risk in a scenario of deteriorating property values, which could lead to credit downgrade and bond/debt covenant breaching.
- We have incorporated the average interest rate and debt maturity for the individual companies, which highlights how soon higher interest rates will impact earnings.
- We have included the current yield gap between the average yield requirement and the average paid interest rate, which also highlights the earnings sensitivity.
- In the second table and chart below, we have also added the source of funding to the test, since we think that large bond debt volumes pose a certain risk.

Table 3: Screening on interest rate sensitivity

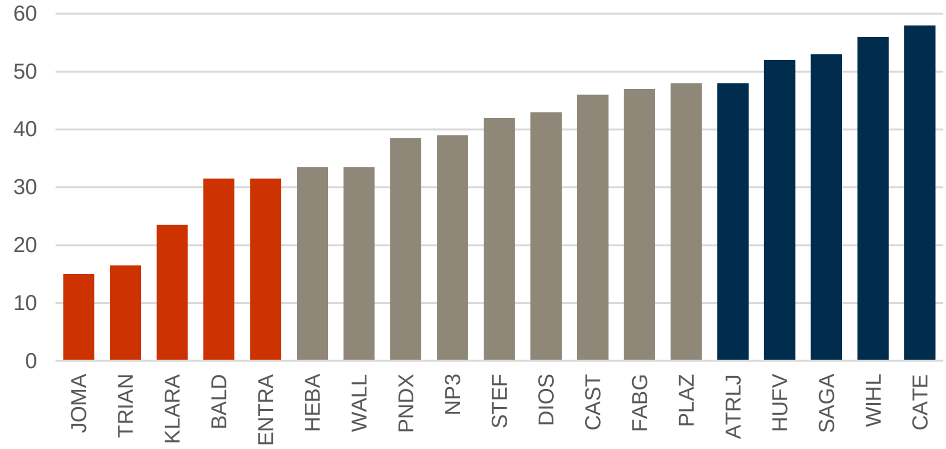
	ND/EBITDA	LTV	Yield gap (LTV adj.)	Interest rate maturity	Debt maturity
ATRLJ	17.5x	43%	3.2%	4.1	4.6
BALD	20.0x	63%	3.3%	3.6	5.9
CAST	15.0x	48%	3.8%	2.9	3.6
CATE	9.0x	42%	3.8%	3.1	3.5
DIOS	12.2x	51%	4.5%	1.0	2.1
ENTRA	16.5x	48%	2.7%	2.6	4.2
FABG	15.6x	37%	3.1%	3.1	4.4
HEBA	22.7x	44%	2.1%	3.6	4.5
HUFV	7.2x	20%	3.2%	2.1	2.5
JOMA	32.7x	55%	1.7%	2.9	2.9
KLARA	17.8x	51%	2.8%	2.5	2.9
NP3	12.2x	62%	4.6%	1.7	2.6
PNDX	15.6x	54%	4.1%	3.2	2.0
PLAZ	12.6x	42%	3.5%	3.2	2.1
TRIAN	20.9x	56%	2.9%	1.4	2.3
WALL	17.7x	45%	2.9%	3.9	1.0
SAGA	11.9x	60%	5.3%	3.7	4.1
STEF	13.7x	52%	3.9%	2.9	3.2
WIHL	11.2x	48%	4.4%	2.5	6.2

Source: Sedis, Handelsbanken Capital Markets

Residential companies score poorly

Among the bottom five, we find **Trianon** and **John Mattson**, both companies in the residential segment, and both with high gearing in terms of net debt/EBITDA (>20x) and LTV (>55%), coupled with tight yield gaps, given the low yield requirement, and below sector average maturities for interest rates and debt. In addition, Balder, Heba and Wallenstam with their high exposure to residential properties, score poorly in this test. Low operational risk (i.e. basically no risk for vacancies/lower rents) is a mitigating factor. On the other hand, in the near term, for companies like these with a major bias towards residential assets, the low likelihood of being fully compensated for high inflation may be a cause for concern.

Figure 5: Ranking on interest rate sensitivity



Source: Handelsbanken Capital Markets

KlaraBo scores below the sector average on all parameters; however, the vast majority of its funding is bank debt, which we view as positive in the current environment. In addition, the book value yield is higher compared with Heba and John Mattson. **Entra** and **Wallenstam** stand out less in this group. **Entra** is primarily weighed down by a tight yield gap. **Wallenstam** has fairly high leverage on net debt/ EBITDA, a tight yield gap and a short debt maturity. However, the company is primarily sourcing funding from banks, and has strong and solid relationships with them, which we argue is advantageous in the current environment.

Catena comes out top in this ranking, with one of the lowest net debt/EBITDA ratios in our real estate universe, scoring above the sector average on all parameters. In addition, we think Catena is one of few companies under our coverage that has the potential to increase earnings from high-quality property developments. **Wihlborgs** also benefits from favourably low net debt/EBITDA multiples and a solid yield gap, while **Fabege** and **Atrium Ljungberg** benefit from below sector average LTV and solid interest rate and debt maturity profiles. **Sagax** has an unrivalled yield gap and a low net debt/EBITDA multiple combined with well-managed interest rate and debt maturity profiles; however, the source of funding is heavily dependent on the bond market. The companies under our coverage that rely most heavily on the bond market are **Atrium Ljungberg**, **Balder**, **Castellum**, **Heba** and **Sagax**. Of those, Balder stands out as the most sensitive stock in this screening.

Source of funding may be an important factor

Slightly different outcome if we add source of funding to the screening

When we add the source of funding to the equation, the outcome is somewhat different. Our theory is that the risk increases as a company's reliance on market debt increases. This is on top of the general sector risk that derives from the potential dependence on capital market funding sources. Our thinking is that large, market-dependent companies might face difficulties in replacing all maturing market debt with bank debt, primarily due to the large volume and the resulting increased share of secured funding (rating negative).

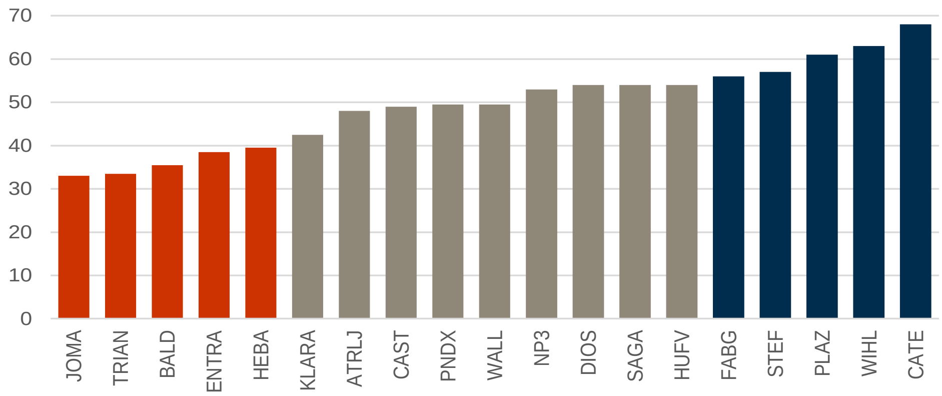
Table 4: Screening for interest rate sensitivity, including funding source

	ND/EBITDA	LTV	Yield gap (LTV adj.)	Interest rate maturity	Debt maturity	Source bank funding
ATRLJ	17.5x	43%	3.2%	4.1	4.6	42%
BALD	20.0x	63%	3.3%	3.6	5.9	37%
CAST	15.0x	48%	3.8%	2.9	3.6	33%
CATE	9.0x	42%	3.8%	3.1	3.5	57%
DIOS	12.2x	51%	4.5%	1.0	2.1	65%
ENTRA	16.5x	48%	2.7%	2.6	4.2	51%
FABG	15.6x	37%	3.1%	3.1	4.4	53%
HEBA	22.7x	44%	2.1%	3.6	4.5	46%
HUFV	7.2x	20%	3.2%	2.1	2.5	11%
JOMA	32.7x	55%	1.7%	2.9	2.9	93%
KLARA	17.8x	51%	2.8%	2.5	2.9	100%
NP3	12.2x	62%	4.6%	1.7	2.6	70%
PNDX	15.6x	54%	4.1%	3.2	2.0	65%
PLAZ	12.6x	42%	3.5%	3.2	2.1	69%
TRIAN	20.9x	56%	2.9%	1.4	2.3	90%
WALL	17.7x	45%	2.9%	3.9	1.0	89%
SAGA	11.9x	60%	5.3%	3.7	4.1	3%
STEF	13.7x	52%	3.9%	2.9	3.2	71%
WIHL	11.2x	48%	4.4%	2.5	6.2	51%

Source: Sedis, Handelsbanken Capital Markets

In this screening, large market-debt-consuming companies, such as Balder, Entra and Castellum, slide down the rankings, i.e. get less attractive ratings.

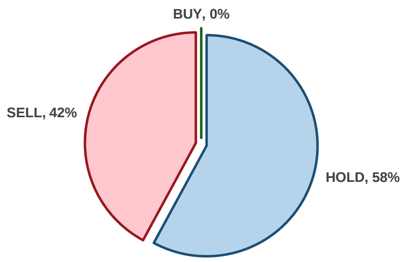
Figure 6: Ranking on interest rate sensitivity, including source of funding



Source: Handelsbanken Capital Markets

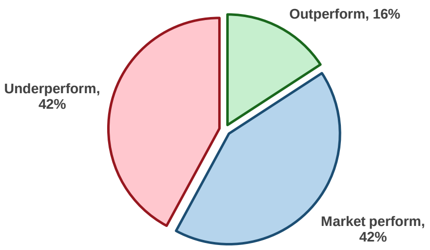
Recommendation changes

Figure 7: Short-term recommendations



Source: Handelsbanken Capital Markets

Figure 8: Long-term recommendations



Source: Handelsbanken Capital Markets

Table 5: Recommendation changes

	Short-term		Long-term		Target price (3 years)		
	New	Old	New	Old	New	Old	Potential
Atrium Ljungberg	Hold	Hold	MP	MP	165	185	22%
Balder	Sell	Hold	UP	MP	40	70	-10%
Castellum	Sell	Hold	UP	MP	120	175	-5%
Catena	Hold	Hold	OP	OP	470	570	41%
Diös	Sell	Sell	UP	UP	80	80	13%
Entra	Sell	Hold	UP	MP	100	170	-7%
Fabege	Hold	Hold	MP	MP	95	127	24%
Heba	Sell	Hold	UP	MP	30	55	-7%
Hufvudstaden	Hold	Hold	MP	MP	150	167	21%
John Mattson	Sell	Hold	UP	MP	75	135	-9%
KlaraBo	Hold	Hold	OP	OP	20	30	43%
NP3	Sell	Hold	UP	MP	180	280	9%
Pandox	Hold	Buy	MP	MP	145	170	22%
Platzer	Hold	Hold	MP	MP	80	100	23%
Trianon	Sell	Hold	UP	MP	25	39	9%
Wallenstam	Hold	Hold	MP	MP	50	58	27%
Sagax	Hold	Hold	MP	OP	230	300	25%
Stendörren	Hold	Buy	OP	OP	240	280	41%
Wihlborgs	Hold	Hold	MP	MP	85	100	26%

Source: Handelsbanken Capital Markets

Balder – Down to SELL (Hold), UNDERPERFORM (Market Perform)

- The share is trading at the same level as in early 2019, when interest rates were far lower.
- High LTV leaves Balder sensitive to the higher rates and the risk of a share issue in 2023 is material.
- NIBD/EBITDA is well above the sector average and the majority of the large outstanding debt is sourced through the poorly functioning capital markets.
- We deem that the large share of EUR funding increases the currency risk, and hybrid bonds bring additional risk to funding.
- Shareholdings in associated companies, such as Collector and other listed shares, increase earnings volatility and decrease the visibility into the overall risk situation.

Castellum – Down to SELL (Hold), UNDERPERFORM (Market Perform)

- Castellum has a large volume of market funding (we understand in the region of 67%).
- The recent downgrade by Moody's (in July 2022) will likely make refinancing more costly.
- Buybacks in 2022 make us question the risk assessments made by management and the board.
- The large shareholding in Norwegian peer Entra (holds 33.33% of the capital) represents an unquantifiable risk, we deem, since we see a meaningful risk that Entra will need to recapitalise its balance sheet in 2023.

Entra – Down to SELL (Hold), UNDERPERFORM (Market Perform)

- Low-yielding and macro-sensitive property exposure makes for a low yield gap with the risk of both value decline and lower rents/higher vacancies, leading to a higher risk.
- Debt gearing is almost 50%, following a large acquisition that was consolidated in early 2022, which was rather unfortunate timing given how the markets have developed since.
- The major shareholders are Balder and Castellum, together controlling ~70% of the capital - both shareholders may be forced to focus on their own balance sheets for a period of time.

Trianon – Down to SELL (Hold), UNDERPERFORM (Market Perform)

- The combination of a high LTV and high NIBD/EBITDA puts Trianon in a difficult situation when rates are spiking.
- Short maturities on both interest rates (1.4 years) and debt (2.3 years) mean that the higher interest rates will affect cash flow at a fast pace.
- Residential assets and social infrastructure properties result in relatively low property book yields, which makes the gap to interest rates rather small.
- We do not expect that Trianon, or its residential peers, will be fully compensated by the high inflation for 2023 and 2024.

John Mattson – Down to SELL (Hold), UNDERPERFORM (Market Perform)

- Following large acquisitions in 2021, without appropriate funding, debt leverage (LTV: 55%) has increased above the company's target (50%) and is now among the highest in the sector.
- NIBD/EBITDA is almost at 33x and the yield gap is tight.
- Interest rate and debt maturities at an average of around three years mean a certain delay on the effect from the higher interest rates, but the ratios will deteriorate as maturities approach.
- We see an imminent risk that John Mattson will be forced to divest assets in order to reduce borrowings and gearing, in competition with others in 2023.
- On top of likely divestments, we do not rule out the need for an equity injection to strengthen the balance sheet and improve cash flow.
- We do not expect that John Mattson, or its residential peers, will be fully compensated by the high inflation in 2023 and 2024.

NP3 – Down to SELL (Hold), UNDERPERFORM (Market Perform)

- Although the cash earnings valuation is moderate, we see large risks in the coming years
- The previous "compounder" business model, based on acquisitions and borrowed capital, is not likely to be fruitful nor possible under the current circumstances, we deem. Growth is no longer a reason to hold the share.
- A portfolio premium, still seen in the share valuation, may still be plausible, but not a reason to be positive.
- High LTV (62%), is among the highest in our covered universe, coupled with short maturities on interest rates (1.7 years) and debt (2.1 years), which means that higher interest rates will quickly filter into the cash flow.
- NP3 has about 70% if its funding sourced from banks, which lowers the risk somewhat.
- However, the high LTV and the elevated operation risk of the individual properties, makes the portfolio optimal for bond financing (unsecured), i.e. we see a risk that banks will demand a higher-than-sector-average margin for secured lending to NP3.
- A recent three-year green bond issue of SEK 400 was done at STIBOR 3m + 650bp, indicating an all-in cost of 850-950bp, which is far more than the average yield on the property portfolio.

Sagax – HOLD, Down to MARKET PERFORM (Outperform)

- We continue to argue that Sagax is financially well prepared for tougher times and higher interest rates, with average interest and debt duration of 3.7 years and 4.1 years, respectively.

- The NIBD/EBITA ratio is one on the strongest in the sector, and stood at 11.9x as of Q2 2022.
- The yield gap is the largest within our covered universe and effectively lowers the financial risk, we deem.
- However, we downgrade the share to MARKET PERFORM on the back of the relative valuation and increasing macro related risks, in general.
- With the current rates on new funding, and Sagax's absolute tilt towards market funding, we see a reduced likelihood of Sagax being able to continue its previously successful strategy for earnings expansion through acquisitions.
- As such, the valuation should now be built on the current earnings profile and the reported EPRA NRV, which is too demanding for a positive stance.

HEBA – Down to SELL (Hold) and UNDER PERFORM (Market Perform)

- Heba is highly sensitive to higher rates with its low yielding assets (2.2% actual yield on book values, as of Q2 2022), leading to a worryingly small yield gap.
- With NIBD/EBITDA almost at 23x, Heba is one of the companies within our covered universe with the highest gearing.
- This being the case, we cannot rule out the need for an equity injection in order to maintain a positive cash flow in the future, as the current debt and interest rates maturities will put severe pressure on cash flows.
- Despite a large NRV discount, the valuation on cash flow is not tempting at this point, given the high interest rates and the imminent risk of falling property values and a need to raise equity.

Stendörren – Down to HOLD (Buy), OUTPERFORM intact

- We downgrade Stendörren short term, since we think the stock will suffer from worsening sentiment for real estate companies in general.
- Relatively high debt leverage and short debt and interest rate maturities mean that Stendörren will suffer from the higher rates.
- In the longer term, we stick with our positive stance and believe that Stendörren is one of very few real estate stocks with the potential to outperform the market.
- Large and valuable building rights for industrial and residential new construction make a solid case for cash earnings growth over time.
- Due to poor sentiment, The recent EPRA index inclusion has not paid off but is a positive for the longer-term share performance

Pandox – Down to HOLD (Buy), MARKET PERFORM intact

- The macroeconomic situation does not look promising for the hotel business and travelling in general.
- Up until recently, we relied on solid support from the demand for leisure travel, which was partly offsetting the decline in demand for business travel.
- With weak consumer confidence and the turbulent macroeconomic outlook, the support from the leisure segment is set to decline.
- Despite the low valuation and a healthy yield spread, we cannot, at this point, see any meaningful triggers for a revaluation of the share.
- Debt leverage, measured as LTV, is above the sector average, which means a higher risk of falling NRV should property values decline.

Estimate changes

We update our estimates for all of the real estate companies under our coverage. The largest impact comes from updated assumptions on CPI and the average interest rate for all companies. As in previous reports, we use the current situation and pricing on borrowed capital for estimated net financials, assuming all refinancing will be bank debt in 2023-25, along with the profiles for debt and interest rate maturities. We assume an increase in rental income from 2023 onwards, owing to our expectation of higher CPI in October 2022. However, we do not expect that companies will be fully able to compensate for the high inflation and will need to make selective decisions on lower, or no, rent increases for some tenants, which will return a rent increase below CPI. For rental residential assets, we assume a 5% rent increase at this point.

General input to estimate revisions

Meaningful revisions to estimates due to higher cost of funding

The higher cost of funding is the chief reason for our negative estimate revisions. On average, we lower adjusted EPS by 4% for 2023, 16% for 2024 and by 25% for 2025. We now expect adjusted EPS for all of the real estate companies in our universe to decline each year from 2023-25.

A potential upcoming decline in property values is not reflected in estimates, nor are any potential equity injections. The slight uplift to our NRV estimates is due to a cut in dividends in our updated estimates.

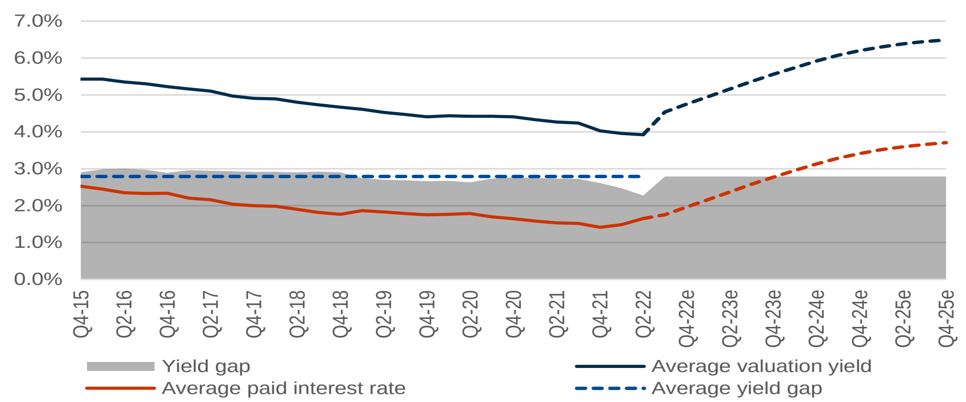
Table 6: Estimate revisions

	EPRA NRV (revision)				EPRA NRV growth				EPS adj. (revision)				EPS adj. growth			
	2022e	2023e	2024e	2025e	2022e	2023e	2024e	2025e	2022e	2023e	2024e	2025e	2022e	2023e	2024e	2025e
ATRLJ	0.1%	2.0%	3.8%	5.4%	13.8%	3.3%	3.0%	2.7%	2.7%	-0.1%	-6.0%	-12.0%	-11.4%	5.4%	-6.6%	-6.5%
BALD	0.0%	0.0%	-0.3%	-1.0%	11.6%	4.5%	3.7%	2.9%	0.5%	0.0%	-7.9%	-19.9%	-5.5%	-1.9%	-12.9%	-19.3%
CAST	0.1%	3.0%	5.1%	6.8%	6.1%	3.7%	3.5%	2.4%	3.1%	7.6%	-1.9%	-14.5%	4.9%	-7.4%	-15.0%	-17.4%
CATE	-0.9%	-0.4%	-3.4%	-3.2%	17.1%	5.5%	6.5%	5.8%	1.0%	-4.6%	-10.6%	-14.5%	0.9%	4.5%	-1.8%	2.4%
DIOS	-0.1%	2.1%	4.6%	6.9%	9.7%	5.2%	4.6%	4.6%	-1.9%	-13.2%	-8.3%	-3.3%	0.5%	-21.9%	-5.3%	4.2%
ENTRA	0.1%	2.3%	4.2%	5.6%	5.9%	3.6%	3.0%	2.4%	3.0%	1.3%	-9.2%	-20.4%	25.6%	-2.9%	-14.2%	-15.9%
FABG	0.1%	2.2%	4.2%	5.3%	7.7%	2.2%	1.8%	1.3%	2.7%	-2.2%	-10.8%	-26.7%	-2.1%	-12.0%	-18.0%	-26.0%
HEBA	-0.6%	-3.6%	-6.5%	-7.3%	2.9%	5.2%	3.3%	0.1%	1.4%	-7.4%	-21.6%	-91.3%	4.7%	17.7%	-8.4%	-95.3%
HUFV	0.0%	0.0%	-0.3%	-0.5%	2.6%	1.2%	1.0%	1.0%	0.5%	-2.4%	-9.2%	-10.4%	2.2%	-1.4%	-6.6%	-1.0%
JOMA	0.1%	0.1%	-0.5%	-1.3%	7.8%	3.1%	2.2%	1.8%	4.6%	-2.0%	-49.5%	-84.0%	51.0%	-36.2%	-58.7%	-70.5%
KLARA	0.0%	-0.2%	-0.6%	-0.5%	12.6%	11.9%	13.1%	11.7%	0.1%	-7.0%	-19.8%	-0.4%	78.1%	23.8%	-5.5%	49.9%
NP3	-3.4%	-6.8%	-10.0%	-12.2%	12.9%	10.2%	8.4%	8.2%	3.8%	0.5%	-8.8%	-4.7%	16.8%	-6.6%	-4.9%	6.0%
PNDX	0.0%	-0.1%	0.6%	1.0%	11.2%	4.6%	4.0%	3.5%	0.4%	-3.2%	-13.0%	-19.8%	168.0%	2.0%	-6.7%	-7.0%
PLAZ	0.0%	1.6%	2.7%	3.7%	25.1%	5.0%	4.4%	3.2%	-0.8%	-3.6%	-13.5%	-17.3%	6.5%	6.9%	-9.7%	-10.5%
TRIAN	0.0%	0.9%	1.0%	1.2%	5.1%	3.2%	2.1%	2.3%	-0.1%	-20.8%	-55.0%	-52.1%	324.8%	-24.5%	-39.5%	20.1%
WALL	0.1%	1.3%	2.0%	2.2%	7.6%	4.0%	3.6%	3.7%	3.8%	-3.3%	-35.0%	-59.9%	-3.6%	-22.1%	-32.7%	-38.6%
SAGA	-1.4%	-3.7%	-5.7%	-7.9%	9.6%	7.8%	7.3%	6.6%	-2.3%	-6.8%	-12.7%	-19.0%	19.4%	9.3%	0.6%	-0.8%
STEF	1.3%	0.7%	-0.2%	-0.6%	15.8%	9.1%	11.2%	8.6%	2.1%	-4.0%	-11.7%	5.4%	22.7%	9.6%	-4.5%	7.0%
WIHL	0.1%	3.1%	6.1%	8.7%	2.8%	6.8%	5.9%	5.3%	0.9%	-1.4%	-2.1%	-5.3%	41.0%	-25.3%	-6.6%	-5.4%
Average	**-0.2%**	**0.2%**	**0.4%**	**0.6%**	**9.9%**	**5.3%**	**4.9%**	**4.1%**	**1.3%**	**-3.8%**	**-16.1%**	**-24.7%**	**39.2%**	**-4.4%**	**-13.5%**	**-11.8%**
Median	**0.0%**	**0.7%**	**0.6%**	**1.0%**	**9.6%**	**4.6%**	**3.7%**	**3.2%**	**1.0%**	**-3.2%**	**-10.8%**	**-17.3%**	**6.5%**	**-1.9%**	**-6.7%**	**-6.5%**

Source: Handelsbanken Capital Markets

For estimate purposes, we now assume 100% bank debt refinancing within our investment horizon, which implies new funding of around 4.5% (150bp margin and 3% swap rate). The impact on average paid interest rate, with the impact from the current rate and debt maturities, is shown on an aggregated level in the chart below.

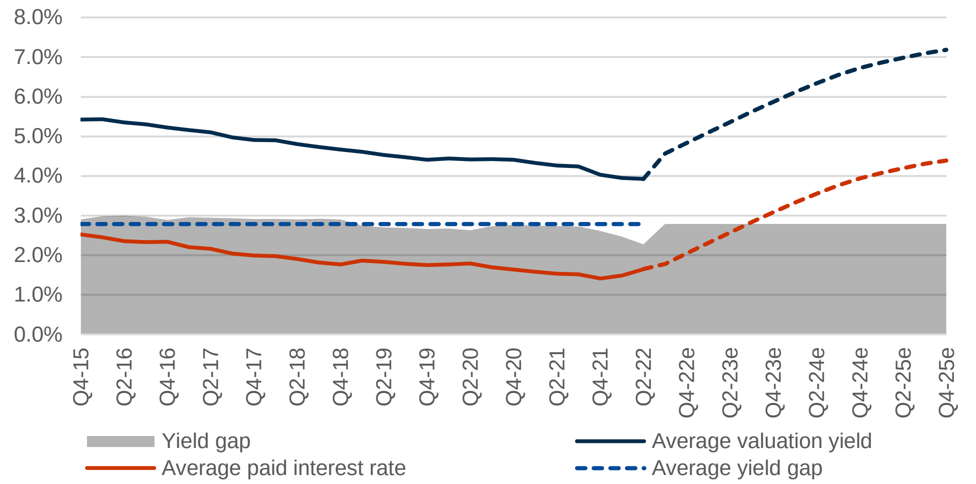
Table 7: Implied development of interest rates and yield requirement



Source: Handelsbanken Capital Markets

For information purposes, we also present the implicit interest rate development if we assume that market debt will be refinanced with new market debt, (all else equal with the above), which takes actual maturities and the current different funding sources into account, i.e. we keep the capital structure intact in terms of debt. That means around a 4.5% cost for new bank debt (replacing current bank debt) and a variable cost for new market funding (that replaces current market funding) in a wide range from 5% to 9%.

Table 8: Rates and yield requirement with the source of funding intact



Source: Handelsbanken Capital Markets

Should we really expect a dividend for 2022?

A material risk that dividends will be cut significantly in several cases

We see material risks that dividends will be cut significantly, or even cancelled, which would make sense. We strongly suspect that ratings agencies would prefer to see no dividends at this stage, and absolutely no buybacks. It also makes good sense for companies not to pay dividends when borrowed capital costs more than the yield of the properties and a stop to dividends would be far less value destroying than issuing new equity. In fact, paying dividends and raising equity soon after is not something we would like to see. So far, we have not received any indications or communication from companies on this topic. In fact, Cibus (not covered) recently issued SEK 700m in a new, green bond financing in the market, at STIBOR +595bp (maturing in 2025), indicating an all-in cost of 9% if we assume an interest rate hedge, while the company continues to pay monthly dividends, which to us is a bad combination. The cash conserved by cancelling the dividend for 16 months (based on EUR 0.99 annual dividend and the current EUR/SEK rate) would match the issued amount, and would be a better call financially. This way of treating the balance sheet and risk is, in itself a risk, in our view, and it also shows that companies are pushing the risk forward in the hope that sentiment will improve – a very dangerous game, we think.

Back to a pandemic strategy?

One possible outcome is that companies handle the situation as they did with the 2020 pandemic outbreak, when they postponed the decision in order to see how the markets and the demand would develop. This time, it would at least make sense to postpone any decisions on dividends for 2022 until we see how property values and the interest rate situation develop over the spring and summer.

We lower our expectations on dividends in several cases. In general, we expect the companies to cut the dividend for 2022 onwards. We also think it depends on the sentiment, the interest rate and the property value development in H2 2022 and in the very beginning of 2023 up until the board meeting ahead of the Q1 reports.

Double gearing and a conflict of interest

Double gearing implies an extra risk

In a few cases, we think dividends are very important for the large shareholders. M2 Asset Management, controlled by Rutger Arnhult (CEO in Castellum), is the main shareholder in Castellum and Corem (not covered), in which it controls 17.1% and 34% of the capital. According to Holdings.se, those two positions are worth SEK 10.8bn, approximately 57.5% of the total value of M2's shareholdings at SEK 15.6bn. Note that 9.6% of the shares in Sagax adds another SEK 1.8bn. 92% of the stock portfolio is via real estate exposure, which does not take M2's direct property exposure into account. As of Q2 2022, this had a book value of SEK 7.4bn. As per 30 June 2022, M2 had SEK 17.8bn in interest bearing debt, of which SEK 5.1bn was bond debt. We think dividends from shareholdings are an important source of income to serve debt in M2 and increasingly important should other sources of M2's income decline for any reason. Hence, there could be strong reasons for the largest shareholder of Corem and Castellum to vote for dividends, even though it is in the company's best interests to cancel them. In our view, this indicates a risk, and a conflict of interest.

The same situation is also probably true for SBB (not covered) and the main shareholder Ilija Batlian Invest AB, a major shareholder in SBB, and for FastPartner (with the main shareholder CEO Sven-Olof Johansson, through Compactor AB).

Interest rate and balance sheets still in focus

The volume of debt issued in the capital markets by Swedish Real Estate companies has accelerated in recent years and much of the consolidation and growth-oriented transactions in 2021 were executed on the back of available and cheap funding from bonds, hybrids and d-shares. This has resulted in large volumes of market debt maturities over the coming years, starting already in 2023. We see this as a risk, given the current conditions and sentiment in the capital markets, with elevated spreads coming on top of heavily increased swap rates. SEK-denominated real estate spreads have widened again recently and the real estate premium to industrial issuers has increased from an already high level.

Both the companies and the market are relying on things getting better

Cash flow relative to debt has decreased significantly over the past seven years

Our take, is that both real estate companies and the stock market are expecting, or are relying on, funding conditions to improve significantly in the near term. In the current environment, with swap rates around 3% and elevated spreads in the capital market, we see further downside to real estate stocks, despite the plunge since the peak in November 2021. This is based on the yield expansion that we expect following the higher rates, which should be the result of assumed larger transaction volumes in 2023. Such a yield expansion will not only push down NAV significantly, with the help of debt leverage, it will also trigger significantly higher LTV, which might call for equity injections, at what we suspect will be bad timing, in order to reduce risk and preserve credit ratings.

Refinancing - the mother of triggering events?

Swedish real estate companies have issued significant volumes of market debt in recent years at an accelerating rate, with 2021 as the all-time-high record. A recent report from Moody’s, dated September 26, concludes that Swedish banks may take on part of the maturing market debt, but the cost could be higher than before due to the increased exposure.

The crunch is likely to come in spring 2023

Real estate companies’ refinancing issues are likely to become more pressing towards the spring of 2023. At this point, the positive impact of rising inflation-linked rental income will no longer mitigate the effect of rising interest rates and slowing economic growth. Higher rates will begin to weaken real estate companies' EBITDA interest coverage, and their leverage may increase as widening yields and a weaker economy weigh on asset values. This would further limit their access to debt markets, ahead of total refinancing of SEK109bn in 2023 and SEK134bn in 2024.

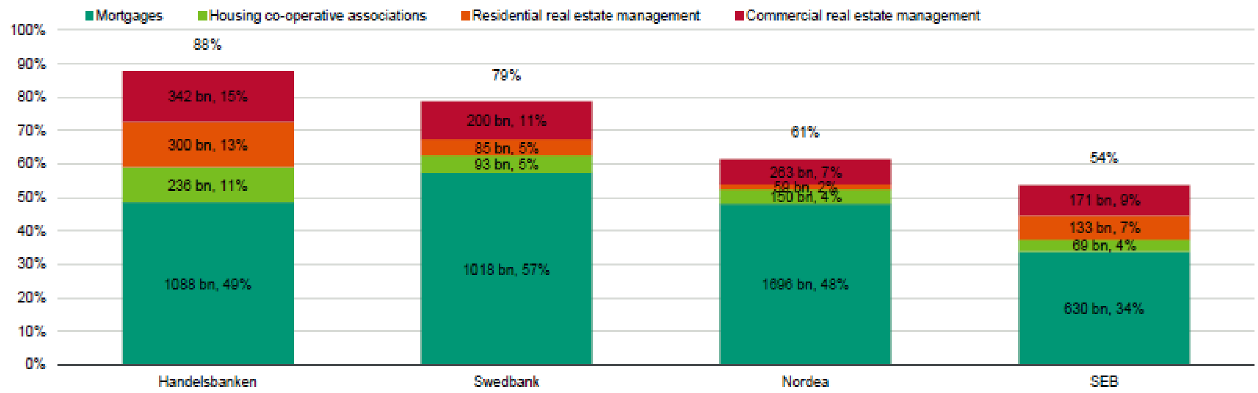
Moody’s draws the same conclusion as we do, saying:

“Some companies could be forced to raise funds through dividend cuts, asset sales, capital expenditure reductions or equity injections. In a stressed scenario, forced sales could trigger a slump in real estate values, and some real estate companies could default on their market debt.”

Table 9: Large banks operating in Sweden are heavily exposed to the property market

Large banks operating in Sweden are heavily exposed to the property market

Nominal (SEK billion) and share of real estate lending of total group lending for the four large banks



Data on group level, which means that it also includes exposure in countries outside Sweden. Net lending and excluding discontinued operations (Denmark and Finland) for Handelsbanken, gross lending to the public excluding Swedish National Debt Office and repos for Swedbank, gross lending excluding repos and including fair value loans for Nordea, excluding banks from total gross lending for SEB.

Source: Moody's, company data

Swedish banks are heavily exposed to real estate

Swedish banks are already heavily exposed to real estate, as illustrated in the chart from Moody's above. For Handelsbanken, 88% of group lending is to the real estate sector. The four banks' significant exposure to the broader property market could also deter them from significant new real estate lending. Loans to real estate firms account for about 16% of the total loan book on average. However, total exposure rises to around 69% when all property-linked liabilities, including residential mortgages and loans to housing co-operative associations, are included.

Moody's points once again to the risks associated with the cross-ownership situation in Swedish real estate, stating:

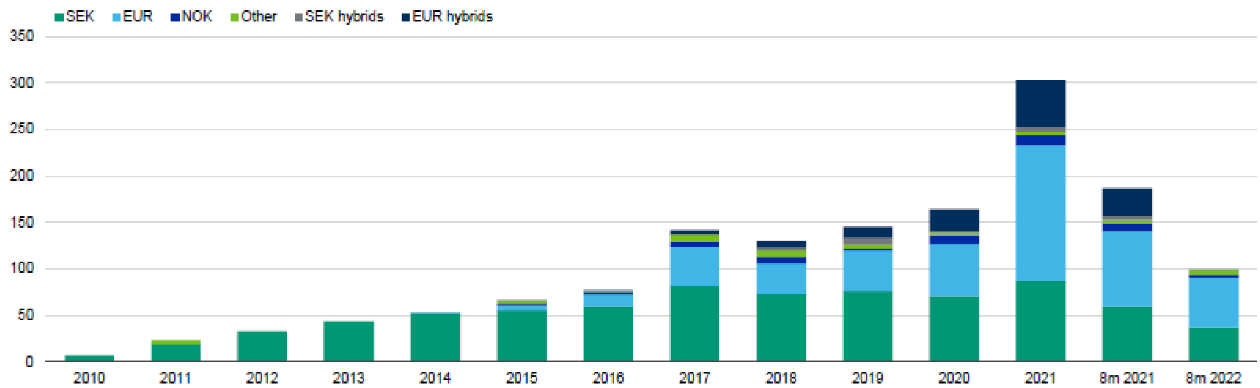
Cross-ownership further limits their access to capital

"The significant degree of cross-ownership between Swedish real estate companies further limits their access to capital. This is because companies typically focus on protecting their own liquidity in a downturn. As a result, they may not participate in equity injections into companies they have invested in, or may increase their debt, weakening their credit quality".

Table 10: Swedish real estate firms' bond and hybrid issuance peaked in 2021

Swedish real estate firms' bond and hybrid issuance peaked in 2021

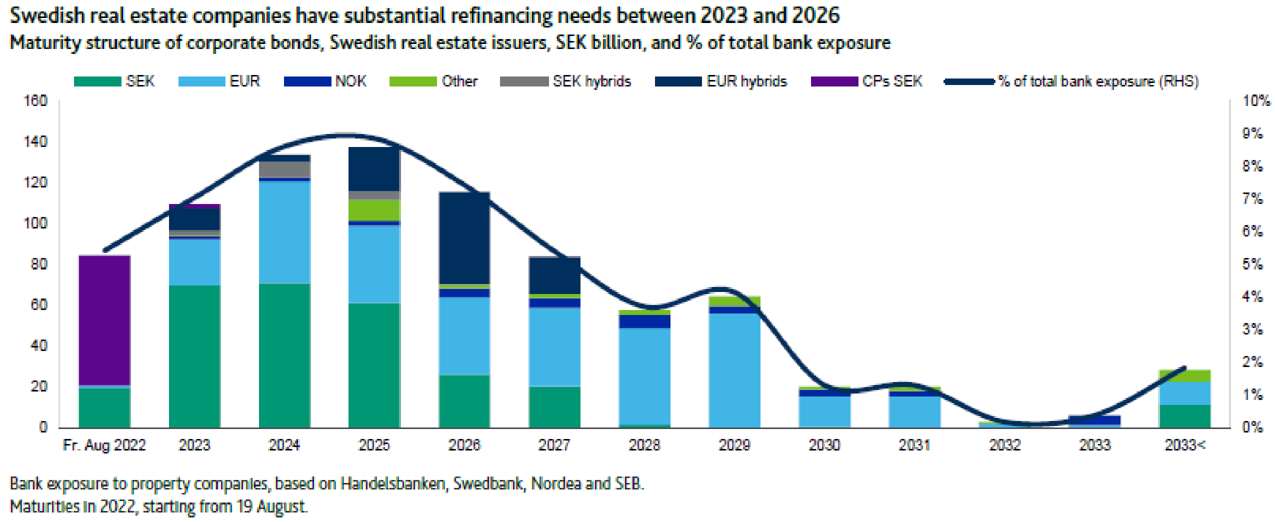
Bond and hybrid issuance, Swedish real estate companies, SEK billions



8m 2022 and 2021 include issuance until 19 August

Source: Dealogic

Table 11: Swedish real estate companies have substantial refinancing needs 2023-26



Source: Dealogic and the Riksbank

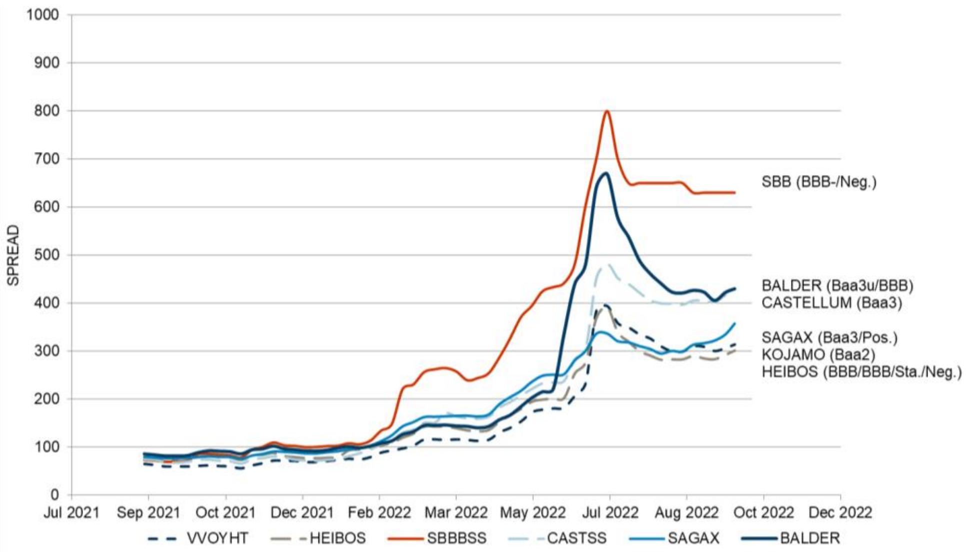
Moody's expects new bank lending to fill some of the gap created by bond market investors' retreat from the sector. Swedish real estate companies rolled over the bulk of SEK 53 billion in market debt that matured during the first eight months of 2022.

Real estate exposure is already sizable for the banks

However, while Swedish banks have the capacity to lend more to the real estate sector, they would not cover its refinancing needs in full, as their sectoral exposure is already sizable. Real estate companies may, in any case, be subject to bond covenants that limit their ability to take on additional secured debt.

A lot of the debt issued in recent years has been in euro, a market in which bond spreads are now at extremely high levels, and have recently been increasing for issuers such as Balder and Sagax. For Balder and Castellum, the screen price for an interpolated five years EUR bond spread is around 400bp, which implies a 600-700bp all-in price for new/refinanced market debt.

Figure 9: Interpolated five-year EUR bond spreads (bid)

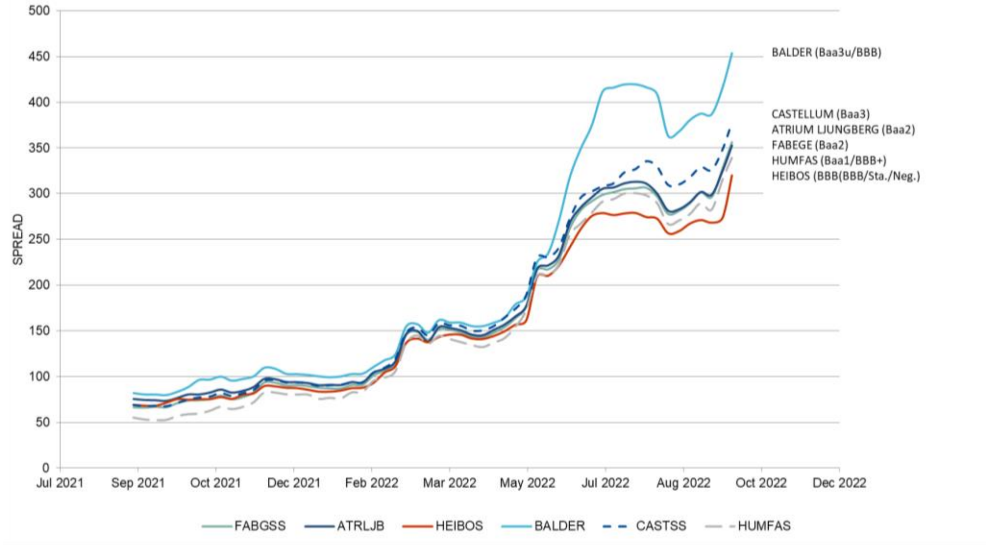


Source: Handelsbanken Capital Markets, Bloomberg, company data

Recent rally in SEK spreads

SEK spreads have widened a lot since the end of the summer. Following a slight tightening in July, spreads are up around 50-100bp over the past two months, probably due to deteriorating macro forecasts, increasing market rents and the rent hikes from the FED, the ECB and the Swedish Riksbank.

Figure 10: Interpolated three-year SEK bond spreads (bid)

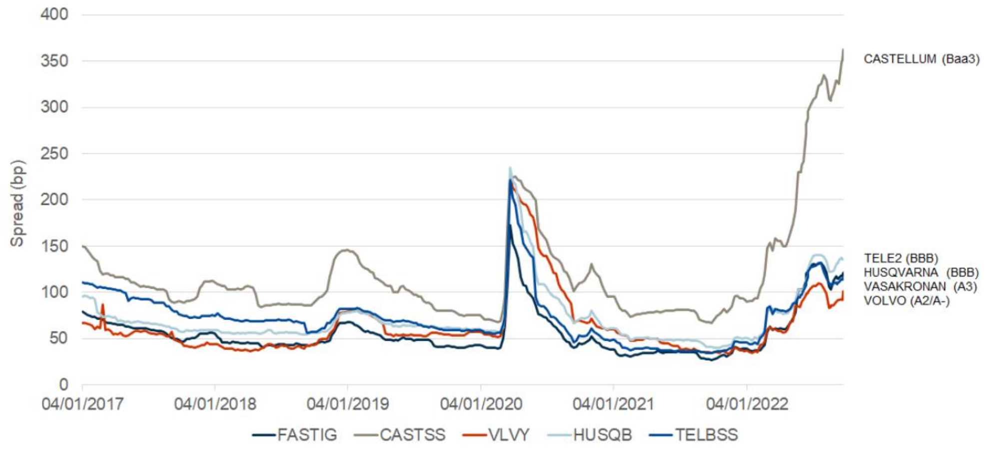


Source: Handelsbanken Capital Markets, Bloomberg, company data

The real estate premium is larger than ever

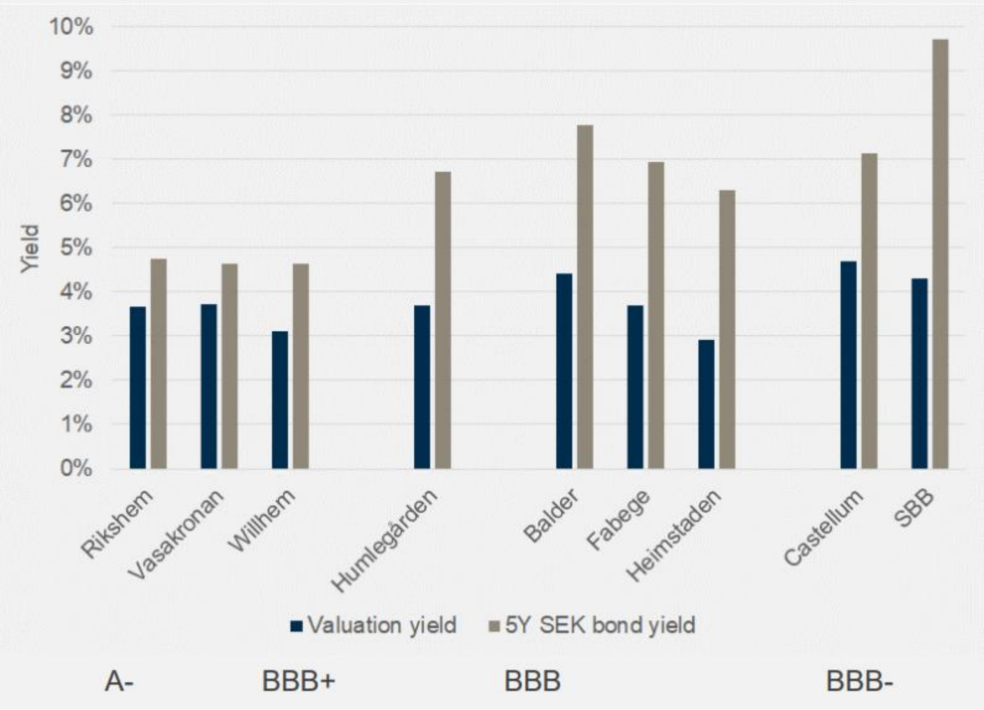
Investors' aversion to real estate risk and the massive risk premium, are clearly visible if we compare Castellum with rating peers in other sectors, shown in the chart below. This is a normal pattern, with an increasing real estate premium in turbulent times, but the extra cost for real estate companies is probably at an all-time high.

Figure 11: SEK bond spreads, Castellum versus industrial companies



Source: Handelsbanken Capital Markets, Bloomberg, company data

Figure 12: Five-year SEK bond yields and property valuation yields



Source: Handelsbanken Capital Markets, Bloomberg, company data

Bond spreads are larger than the property yield, for all rating classes

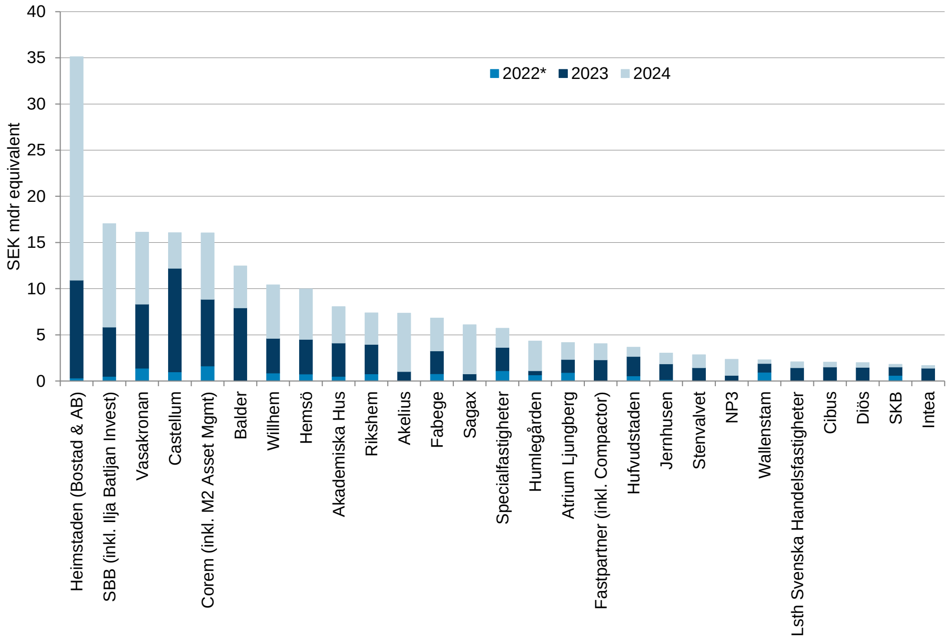
As it looks right now, just the bond spreads (not taking STIBOR or longer hedging into account) are higher than the actual property yield. This is true for all rating levels, as illustrated in the chart above, but is even more obvious in the lower rating categories, such as BBB and BBB-. This is, of course, not a sustainable situation over time, and the most probable development is a normalisation of yields (yield expansion) and, at some point in time, a compression of bond spreads. The current liquidity situation, with no obvious solution or rescue in sight, as well as the gloomy outlook for the economy, are both factors that do not speak for imminent relief for the spread situation.

Table 12: Three-month STIBOR and swap rate profile, 1-30 years

Maturity	Price	Maturity	Price
STIBOR 3m	1.73	EIROBOR 3m	1.17
1 Yr	2.93	1 Yr	2.49
2 Yr	3.27	2 Yr	2.83
3 Yr	3.33	3 Yr	2.90
4 Yr	3.34	4 Yr	2.94
5 Yr	3.31	5 Yr	2.97
6 Yr	3.27	6 Yr	3.00
7 Yr	3.24	7 Yr	3.02
8 Yr	3.21	8 Yr	3.04
9 Yr	3.18	9 Yr	3.06
10 Yr	3.16	10 Yr	3.08
12 Yr	3.10	12 Yr	3.11
15 Yr	3.05	15 Yr	3.07
20 Yr	2.97	20 Yr	2.85
30 Yr	3.74	30 Yr	2.41

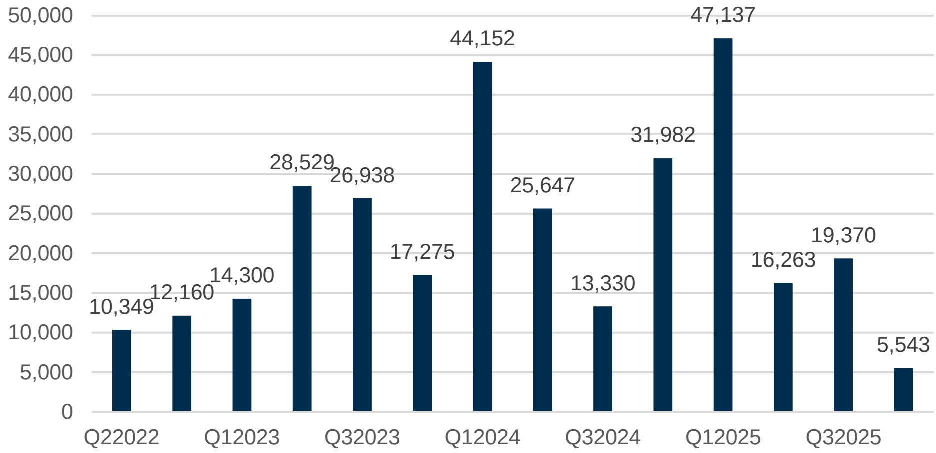
Source: SEB

Table 13: Swedish real estate companies, bond maturities



Source: Bloomberg, Handelsbanken Capital Markets (as of September 9, 2022)

Table 14: Band maturing volumes, by quarter



Source: Bloomberg, Handelsbanken Capital Markets

Table 15: Band maturing volumes, by quarter

Year/Quarter	EUR (SEK eqv.)	SEK	Grand Total
2022		**22,509**	**22,509**
3		*10,349*	*10,349*
4		*12,160*	*12,160*
2023	**17,167**	**69,875**	**87,043**
1		*14,300*	*14,300*
2	*5,392*	*23,138*	*28,529*
3	*6,291*	*20,648*	*26,938*
4	*5,485*	*11,790*	*17,275*
2024	**42,100**	**73,012**	**115,112**
1	*25,611*	*18,542*	*44,152*
2	*1,817*	*23,830*	*25,647*
3	*480*	*12,850*	*13,330*
4	*14,192*	*17,790*	*31,982*
2025	**35,009**	**53,305**	**88,314**
1	*27,012*	*20,125*	*47,137*
2	*313*	*15,950*	*16,263*
3	*7,470*	*11,900*	*19,370*
4	*213*	*5,330*	*5,543*
Grand Total	**94,276**	**218,701**	**312,978**

Source: Bloomberg, Handelsbanken Capital Markets

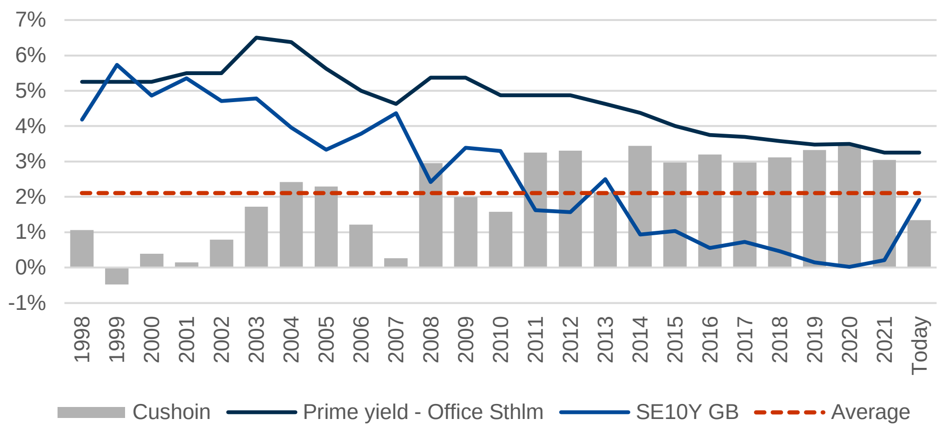
No signs of relief

Share prices rallied in July and were up some 30% on aggregate, driven primarily by lower market rates but also by slightly lower indicative spreads in the bond capital market. Since the beginning of August, shares have plunged again, as market rates have continued to climb and spreads have widened. Volatility is high for stocks and traded bonds, and we expect it will remain so. The important thing is that we cannot find any support for significantly improved liquidity in the capital markets and a lower risk premium that should result in lower bond spreads. As for market and swap rates, we expect the currently high rate environment to persist for "long-enough" to have an impact on real estate pricing. The actual outcome regarding the cost of refinancing is still to be seen, and depends, to some extent, on how much of the maturing debt is absorbed by the banking system, and the impact on banks' margins on real estate funding as a consequence of the increased risk. In the following section, we elaborate on sensitivity and the potential impact of the higher rates.

The theoretical yield spread still yields positive returns…

A key argument for yield contraction in the real estate transaction market has been that the 'yield cushion', i.e. the gap between the Swedish 10-year government bond and the valuation yield in Swedish real estate, was at historically high levels. However, in the wake of the surge in interest rates, the gap has reduced significantly. On average, between 1998 and 2021, the yield cushion was 2.1%, while between 2014 and 2021 it averaged 3.2%. The latest reading sets the gap at 1.8%, giving a yield for 2021 of 3.25% (range of 3.0-3.5%). In our view, this indicates flat yields in a positive scenario, but the increasing probability of yield expansion implies that value deterioration is imminent.

Figure 13: Swedish 10y government bond vs prime yield office Stockholm

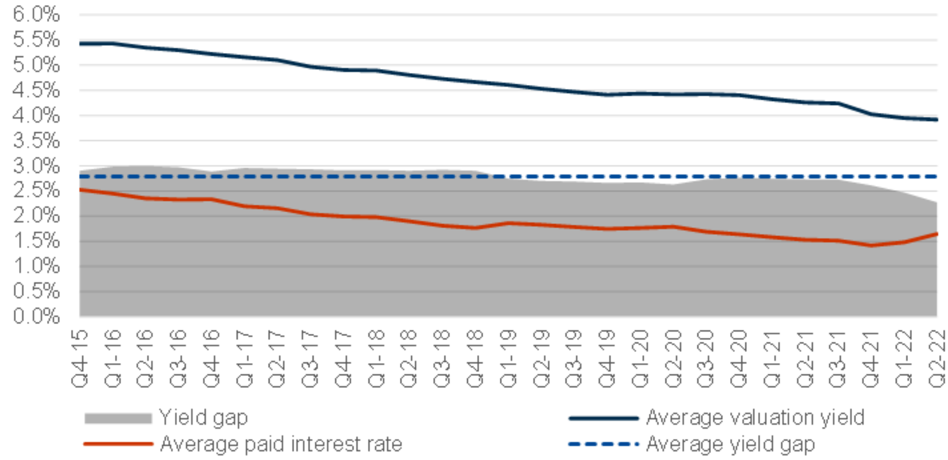


Source: Handelsbanken Capital Markets

Please mind "the real yield gap"

A more hands-on and less theoretical approach to the 'yield cushion' is to look at the gap between the average paid interest rate and the average reported valuation yields. In this approach, we have looked at aggregated data for listed Swedish real estate companies. We find that the relationship between the weighted average reported yield requirements and the weighted average reported paid interest rate has been remarkably stable in the period for which we have data (Q4 2015 to Q4 2021). The 'yield cushion' has varied between 2.8% and 3.0%, with an average of 2.8%. In the current funding market, where we have seen drastically increasing funding costs since the beginning of 2022, we find that this is also indicative of yield expansion in the Swedish real estate market when higher rates find their way onto the companies' balance sheets. Reports from real estate advisors such as JLL are now indicating yield expansion in the primary transaction market.

Table 16: Sector 'real yield gap



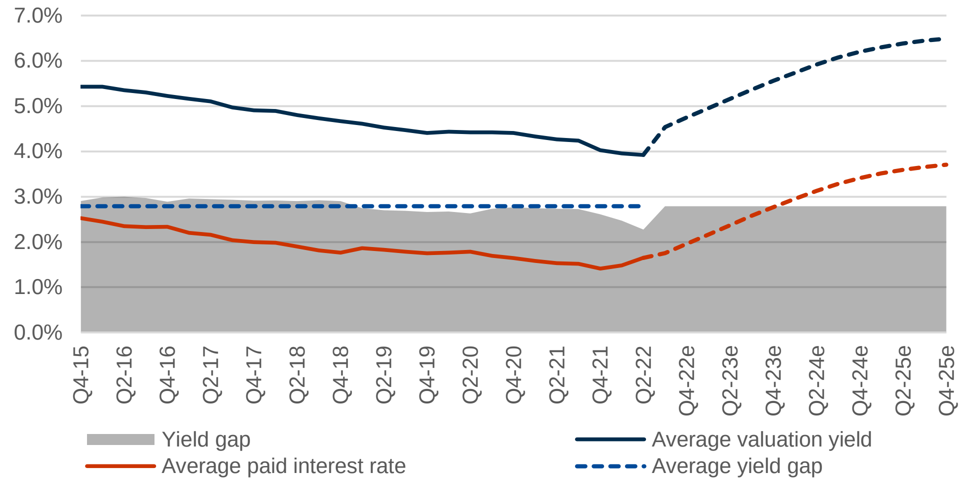
Source: Handelsbanken Capital Markets

…but not in practice

We look at the average interest rate and reported book yield

The yield-gap graph above is based on the paid financial net for the listed companies (i.e. not the market interest rate or any swap rate), and thus includes the effect of interest rate and capital hedging. In addition, we use the reported required yield (average of listed companies in the sector), i.e. not necessarily the required property yield we see in the transactions, as it reasonably includes the lag effect we assume exists between reality and book values.

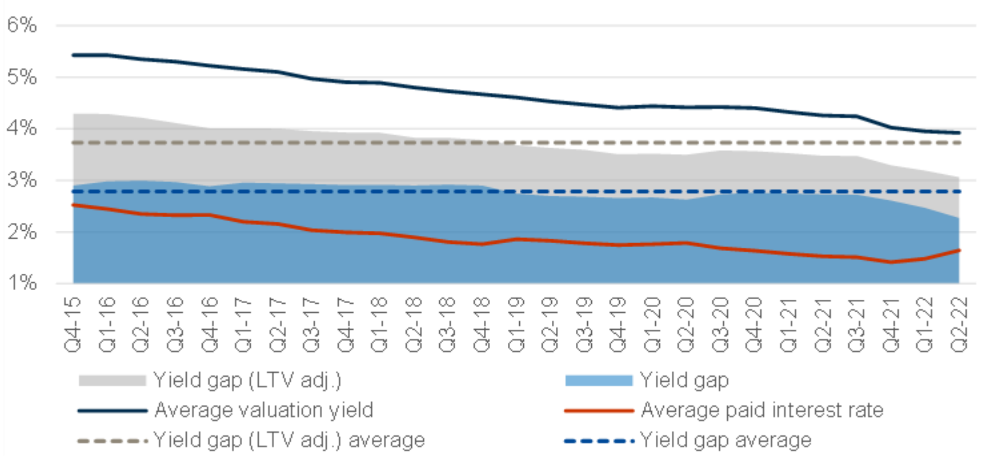
Table 17: Implied development of interest rates and yield requirement



Source: Handelsbanken Capital Markets

In a forward-looking exercise, in which we incorporate our estimates for paid interest rates, based on the current pricing in the market for bonds, swap rates and STIBOR/EURIBOR, a continued relationship between paid interest rates and yield requirement (book property values) indicates declining property values. The chart above takes no other potential effects into account, other than the rate effect on the property yield.

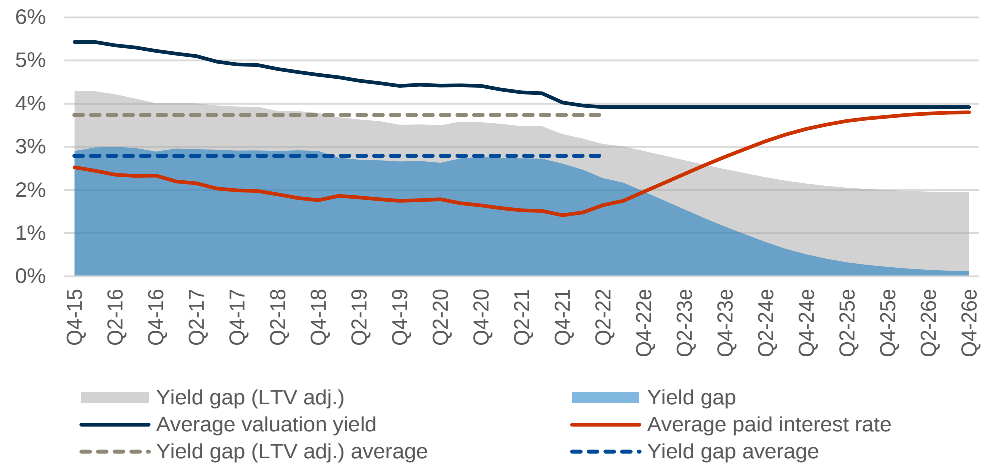
Table 18: Sector 'real yield gap' adjusted for loan-to-value (LTV)



Source: Handelsbanken Capital Markets

In an effort to look into the cash flow implications of gearing, the graph above shows the yield gap adjusted for the sector aggregate loan-to-value (LTV), which has remained fairly stable at around 50%.

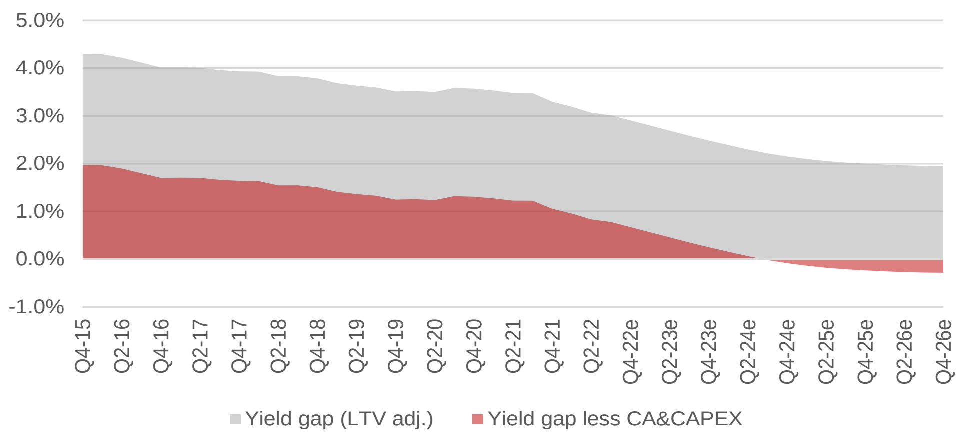
Table 19: Cash flow approach to 'real yield gap'



Source: Handelsbanken Capital Markets

The graph above shows the implications for cash flow from higher funding costs in contrast to the actual yield gap between the estimated average paid interest rate and the average yield requirement.

Table 20: Cash flow approach adjusted for capex and central costs

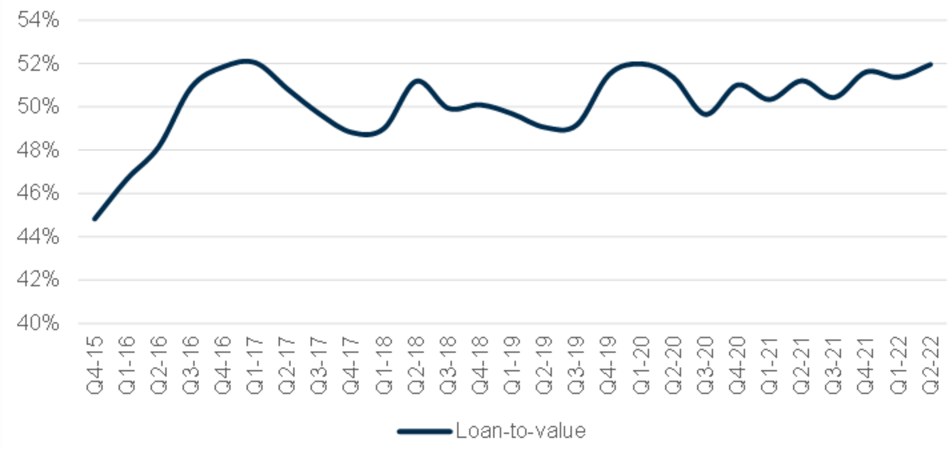


Source: Handelsbanken Capital Markets

A 10-15pp lower LTV is required for positive cash flow

As a further step, we adjust the implications for cash flows from higher funding costs by assuming 2% annual maintenance capex and roughly 5% of net operating income for central administration costs. These assumptions imply net negative cash flow on aggregate from Q4 2023 given the current capital structure and the current interest rate environment. Assuming the current interest rate environment, our projections imply that the sector needs to decrease loan-to-value of roughly 50% by 10-15pp in order to achieve a net neutral cash flow.

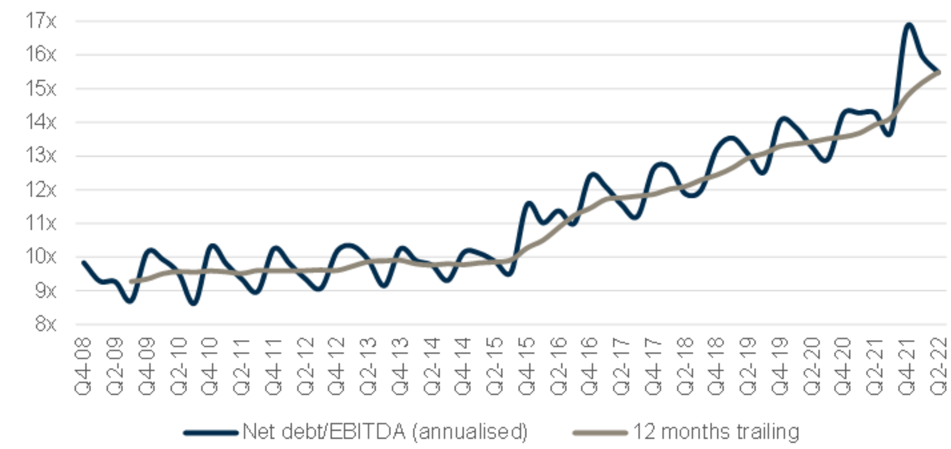
Table 21: Sector aggregate loan-to-value (LTV)



Source: Sedis, Handelsbanken Capital Markets

Loan-to-value (LTV) in the sector has been fairly stable in recent years at around 50%; however, this has been due to significant yield compression and growth in property values.

Table 22: Net debt to EBITDA

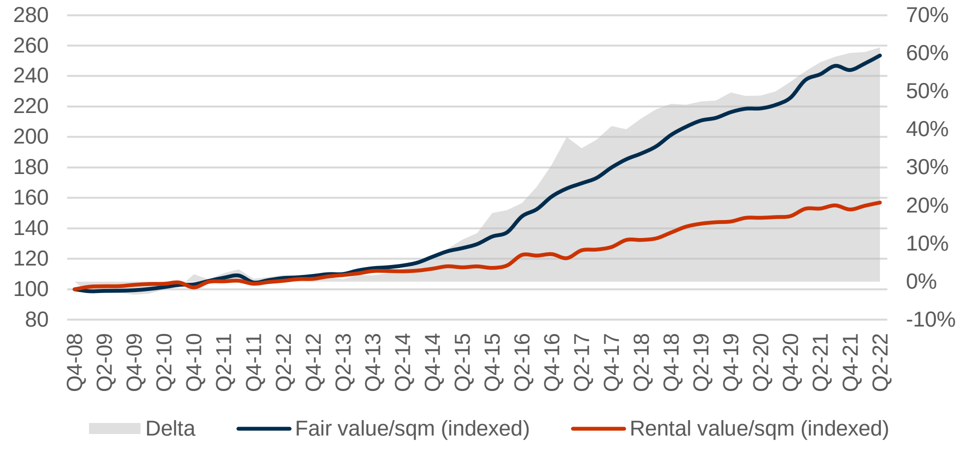


Source: Handelsbanken Capital Markets

NIBD/EBITD has increased from 9x to 16x since 2015

Another relevant debt measure is net debt to EBITDA, which has increased quite dramatically from roughly 9x in 2015 to 16x as of Q2 2022. As the LTV ratio, in contrast, has remained fairly stable, this tells us that value growth has been primarily driven by yield compression rather than income growth. This has resulted in the sector being more sensitive to changes in the interest rate environment in terms of cash flow and interest coverage ratios (ICR).

Figure 14: Indexed fair value of properties and rental value per square metre



Source: Handelsbanken Capital Markets, Castellum, Diös, Fabege, Wihlborgs

It is obvious that yield compression has been the driver for value growth

Looking at a sample of companies with a focus on the office segment, we see that property values have considerably outgrown rental value, indicating that external factors have been driving value growth, where the gross yield has gone from an average of 9% between Q4 2008 and Q4 2014 to roughly 6% as of Q2 2022. Since Q4 2008, property values have increased by roughly 150% whereas the rental value per square metre has grown by less than 60%, thus, on a relative basis, property values have outgrown rental values by more than 60%.

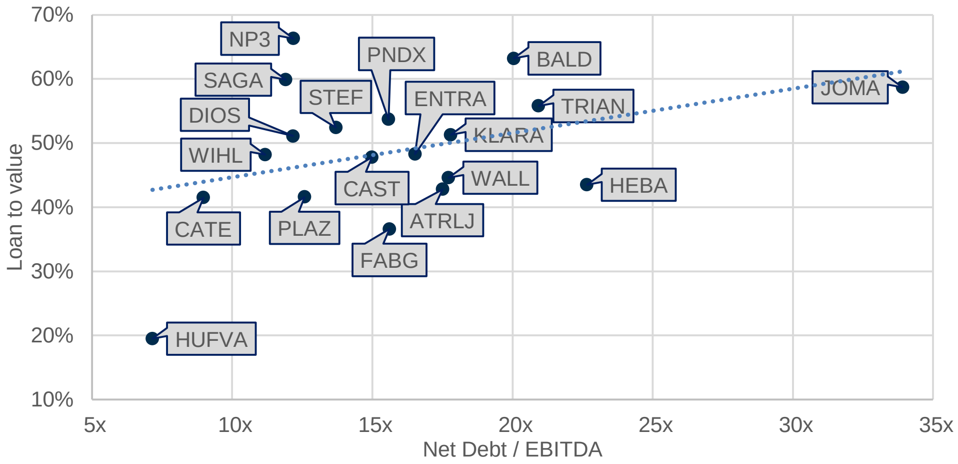
Table 23: Example of EPRA NRV sensitivity to property values

	Current	End scenario	Delta
Property value	100	95	**-5%**
Interest bearing debt	52	52	
Equity	48	43	**-10%**
LTV	52%	55%	
Equity ratio	48%	45%	
P/EPRA NRV	55%	90%	
Market value	26	39	**48%**
	Current	**End scenario**	**Delta**
Property value	100	90	**-10%**
Interest bearing debt	52	52	
Equity	48	38	**-21%**
LTV	52%	58%	
Equity ratio	48%	42%	
P/EPRA NRV	55%	90%	
Market value	26	34	**31%**
	Current	**End scenario**	**Delta**
Property value	100	85	**-15%**
Interest bearing debt	52	52	
Equity	48	33	**-31%**
LTV	52%	61%	
Equity ratio	48%	39%	
P/EPRA NRV	55%	90%	
Market value	26	30	**13%**
	Current	**End scenario**	**Delta**
Property value	100	80	**-20%**
Interest bearing debt	52	52	
Equity	48	28	**-42%**
LTV	52%	65%	
Equity ratio	48%	35%	
P/EPRA NRV	55%	90%	
Market value	26	25	**-4%**
	Current	**End scenario**	**Delta**
Property value	100	75	**-25%**
Interest bearing debt	52	52	
Equity	48	23	**-52%**
LTV	52%	69%	
Equity ratio	48%	31%	
P/EPRA NRV	55%	90%	
Market value	26	21	**-21%**

Source: Handelsbanken Capital Markets

In the table above, we make some example calculations on the EPRA NRV sensitivity as well as the balance sheet implications of falling property values, taking the sector average level as a starting point. As a reference point, our EV/GAV calculations for the sector imply a fall of roughly 20% in property values. Which corresponds well with the current median discount to EPRA NRV in the sector of around 40%. As seen in the graph below, we find that the sector has an EPRA NRV sensitivity to property values of 2.1x given the average loan to value of 52%. We believe that a 20% drop in property values is reasonable in a scenario where the current interest rate environment persists. On aggregate for the sector, we calculate that this would take the current LTV ratio from 52% to 65%. In our view, this implies that companies need to take action regarding their capital structure, either through divestments of properties or equity injections. The latter would warrant a valuation discount to EPRA NRV rather than assuming a par valuation for the sector.

Figure 15: LTV and ND/EBITDA



Source: Handelsbanken Capital Markets

Table 24: Scenario with share issuance and implied valuation

	Current	End scenario	Cash injection	Delta
Property value	100	95	95	**-5%**
Cash injection	-	-	3	
Interest bearing debt	52	52	52	
Equity	48	43	46	**-10%**
LTV	52%	55%	52%	
Equity ratio	48%	45%	48%	
P/EPRA NRV	55%	94%	100%	
Market value	26	40	46	**54%**

	Current	End scenario	Cash injection	Delta
Property value	100	90	90	**-10%**
Cash injection	-	-	5	
Interest bearing debt	52	52	52	
Equity	48	38	43	**-21%**
LTV	52%	58%	52%	
Equity ratio	48%	42%	48%	
P/EPRA NRV	55%	86%	100%	
Market value	26	33	43	**25%**

	Current	End scenario	Cash injection	Delta
Property value	100	85	85	**-15%**
Cash injection	-	-	8	
Interest bearing debt	52	52	52	
Equity	48	33	41	**-31%**
LTV	52%	61%	52%	
Equity ratio	48%	39%	48%	
P/EPRA NRV	55%	76%	100%	
Market value	26	25	41	**-4%**

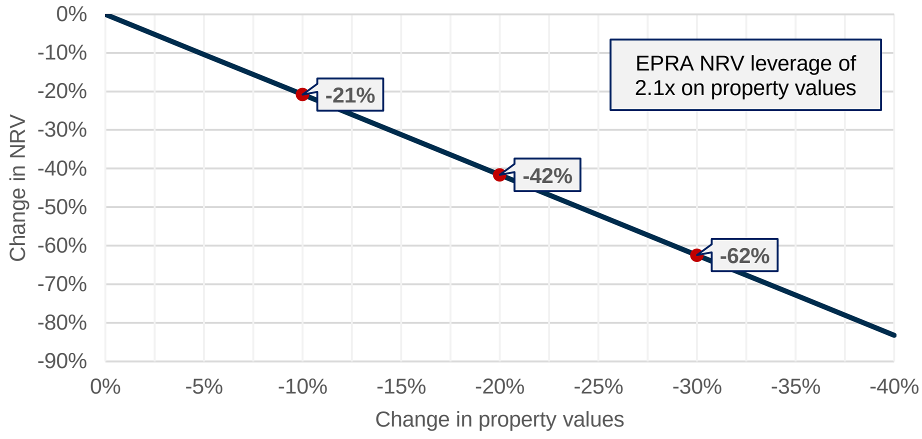
	Current	End scenario	Cash injection	Delta
Property value	100	80	80	**-20%**
Cash injection	-	-	10	
Interest bearing debt	52	52	52	
Equity	48	28	38	**-42%**
LTV	52%	65%	52%	
Equity ratio	48%	35%	48%	
P/EPRA NRV	55%	63%	100%	
Market value	26	18	38	**-33%**

	Current	End scenario	Cash injection	Delta
Property value	100	75	75	**-25%**
Cash injection	-	-	13	
Interest bearing debt	52	52	52	
Equity	48	23	36	**-52%**
LTV	52%	69%	52%	
Equity ratio	48%	31%	48%	
P/EPRA NRV	55%	44%	100%	
Market value	26	10	36	**-62%**

Source: Handelsbanken Capital Markets

The scenarios above looked at the consequences of varying levels of deterioration in property values and the implied effect on balance sheets. In a further scenario, we have assumed that the sector should trade on par with reported EPRA NRV. To put the current valuation in perspective, we assume that companies in the sector will have to issue shares, and raise equity, to maintain the current reported capital structure, i.e. an LTV of 52%. The end scenario P/EPRA NRV multiple is derived from the implied dilution to EPRA NRV of the implied share issues, in an effort to put recent share performance in perspective. The valuation is currently implying roughly a 15% decline in property values according to this approach.

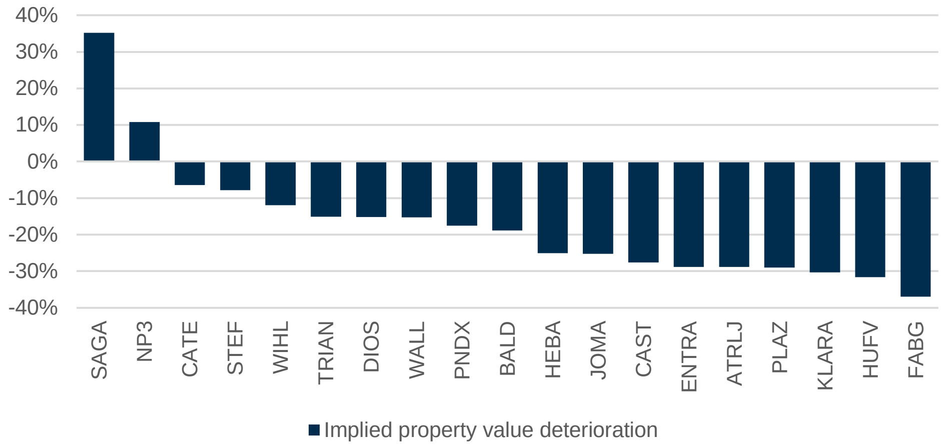
Figure 16: EPRA NRV



Source: Handelsbanken Capital Markets

The graph above shows the sector's EPRA NRV leverage on property values given the average capital structure. On average, we find that the sector has ratio of 2.1x leverage, i.e. a 10% decline in property values would result in a 21% decline in reported EPRA NRV.

Figure 17: Implied deterioration of property values derived from spot P/NRV valuation and reported LTV



Source: Handelsbanken Capital Markets

Table 25: Valuation table real estate coverage

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Peer table: Real Estate (30 Sep 2022 17:30)

		Rec.				P/EPRA NRV				Adj. P/E			Dividend yield			Implied TR	Share performance			
Company	Segment	ST	LT	Target Price	Potential	Spot	2022e	2023e	2024e	2022e	2023e	2024e	2022e	2023e	2024e	CAGR 2021-24e	1M	3M	6M	1Y
Atrium Ljungberg	Office	Hold	MP	165	20.0%	50%	49%	47%	46%	15.7x	14.9x	16.0x	-	-	-	11.3%	-9.0%	2.6%	-27.7%	-23.1%
Balder	Residential	Sell	UP	40	-10.6%	49%	48%	46%	44%	10.5x	10.7x	12.3x	-	-	-	11.7%	-23.8%	-8.7%	-56.3%	-49.1%
Castellum	Office	Sell	UP	120	-4.1%	47%	47%	45%	44%	10.3x	11.1x	13.0x	-	-	-	8.5%	-15.2%	-3.3%	-43.8%	-39.4%
Catena	Industrial	Hold	OP	470	42.0%	89%	87%	83%	78%	16.8x	16.1x	16.4x	-	-	-	9.4%	-22.8%	-10.8%	-40.3%	-29.1%
Diös	Office	Sell	UP	80	13.6%	69%	66%	62%	60%	10.0x	12.8x	13.5x	-	-	-	8.8%	-9.9%	0.3%	-29.3%	-14.4%
Entra	Office	Sell	UP	100	-1.5%	44%	44%	42%	41%	11.9x	12.3x	14.3x	-	-	-	8.5%	-21.0%	-17.8%	-42.4%	-44.2%
Fabege	Office	Hold	MP	95	25.2%	42%	41%	41%	40%	16.3x	18.5x	22.5x	-	-	-	8.3%	-17.8%	-20.4%	-43.3%	-40.9%
Heba	Residential	Sell	UP	30	-4.8%	56%	55%	52%	51%	20.7x	17.6x	19.2x	-	-	-	6.6%	-27.8%	-24.6%	-57.9%	-50.0%
Hufvudstaden	Office/Retail	Hold	MP	150	22.6%	61%	60%	59%	59%	24.0x	24.4x	26.1x	2.1%	2.1%	2.1%	4.6%	-1.7%	8.2%	-7.1%	-4.8%
John Mattson	Residential	Sell	UP	75	-8.6%	44%	43%	42%	41%	19.1x	30.0x	72.7x	-	-	-	8.9%	-18.6%	-7.0%	-48.2%	-52.3%
Klarabo	Residential	Hold	OP	20	48.1%	38%	35%	32%	28%	18.1x	14.6x	15.4x	-	-	-	27.4%	-28.9%	-31.8%	-62.4%	
NP3	Industrial	Sell	UP	180	9.1%	128%	123%	112%	103%	11.8x	12.7x	13.3x	-	-	-	7.7%	-28.1%	-18.3%	-46.1%	-26.6%
Pandox	Hotel	Hold	MP	145	22.5%	62%	61%	59%	56%	11.7x	11.5x	12.3x	-	-	-	9.3%	-8.5%	3.2%	-17.9%	-14.7%
Platzer	Office	Hold	MP	80	19.4%	50%	49%	46%	45%	12.3x	11.5x	12.7x	-	-	-	17.1%	-18.7%	2.8%	-41.8%	-47.5%
Trianon	Residential	Sell	UP	25	7.8%	62%	61%	59%	58%	17.9x	23.8x	39.3x	-	-	-	5.3%	-18.5%	1.6%	-55.4%	-55.2%
Wallenstam	Residential	Hold	MP	50	23.2%	68%	67%	64%	62%	21.7x	27.9x	41.4x	-	-	-	6.9%	-13.2%	-9.3%	-39.2%	-36.9%
Sagax	Industrial	Hold	MP	230	24.9%	180%	171%	159%	148%	20.4x	18.6x	18.5x	1.1%	1.1%	1.2%	5.6%	-18.7%	-2.4%	-33.9%	-32.1%
Stendörren	Industrial	Hold	OP	240	38.7%	86%	80%	73%	66%	18.8x	17.2x	18.0x	-	-	-	12.9%	-12.4%	11.5%	-34.0%	-25.1%
Wihlborgs	Office	Hold	MP	85	26.2%	77%	76%	71%	67%	8.4x	11.2x	12.0x	-	-	-	6.5%	-11.4%	-5.9%	-28.5%	-20.0%
Mean					**16.5%**	**68%**	**67%**	**63%**	**60%**	**15.6x**	**16.7x**	**21.5x**	**1.6%**	**1.6%**	**1.6%**	**9.7%**	**-17.2%**	**-6.8%**	**-39.8%**	**-33.6%**
Median					**20.0%**	**61%**	**60%**	**59%**	**56%**	**16.3x**	**14.9x**	**16.0x**	**1.6%**	**1.6%**	**1.6%**	**8.5%**	**-18.5%**	**-5.9%**	**-41.8%**	**-34.5%**
Min					**-10.6%**	**38%**	**35%**	**32%**	**28%**	**8.4x**	**10.7x**	**12.0x**	**1.1%**	**1.1%**	**1.2%**	**4.6%**	**-28.9%**	**-31.8%**	**-62.4%**	**-55.2%**
Max					**48.1%**	**180%**	**171%**	**159%**	**148%**	**24.0x**	**30.0x**	**72.7x**	**2.1%**	**2.1%**	**2.1%**	**27.4%**	**-1.7%**	**11.5%**	**-7.1%**	**-4.8%**

Source: Handelsbanken Capital Markets

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Hold	between 0% and 5%	58%	19%
Sell	below 0%	6%	10%

[1] Return expected to be is defined as the expected share price appreciation or depreciation including dividends over the next three months
[2] Percentage of companies under coverage within each recommendation
[3] Percentage of companies within each recommendation for which investment banking services have been provided in the past 12 months

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Market Perform	between 20% and 40%	46%	21%
Underperform	below 20%	6%	20%

[4] R_{TP} is defined as the expected share price appreciation or depreciation including dividends over the next three years
[5] Percentage of companies under coverage within each recommendation
[6] Percentage of companies within each recommendation for which investment banking services have been provided in the past 12 months

Source: Handelsbanken Capital Markets, as per 3/10 2022

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Atrium Ljungberg

The short-term recommendation Hold was set on 2022-03-11 as the first short-term recommendation for the company at the share price of SEK 190.
The long-term recommendation Market Perform was set on 2022-03-11 as the first long-term recommendation for the company at the share price of SEK 190.

Balder

On 2022-10-03 the short-term recommendation Hold, which was set on 2022-05-13 at the share price of SEK 439, was changed to the current short-term recommendation Sell at a share price of SEK 44.
On 2022-10-03 the long-term recommendation Market Perform, which was set on 2022-06-22 at a share price of SEK 56.66 was changed to the current long-term recommendation Underperform at a share price of SEK 44.

Castellum

On 2022-10-03 the short-term recommendation Buy, which was set on 2022-03-11 at the share price of SEK 215, was changed to the current short-term recommendation Sell at a share price of SEK 126.
On 2022-10-03, the long-term recommendation Market Perform, which was set on 2022-03-11 at the share price of SEK 215, was changed to the current long-term recommendation Underperform at a share price of SEK 126

Catena

On 2022-1-19 the short-term recommendation Buy, which was set on 2022-03-11 at the share price of SEK 491, was changed to the current short-term recommendation Hold at a share price of SEK 542.
On 2022-06-22 the long-term recommendation Market Perform, which was set on 2022-04-19 at the share price of SEK 542, was changed to the current long-term recommendation Outperform at a share price of SEK 380.

Diös

The short-term recommendation Sell was set on 2022-03-11 as the first short-term recommendation for the company at the share price of SEK 97.65.
The long-term recommendation Underperform was set on 2022-03-11 as the first long-term recommendation for the company at the share price of SEK 97.65.

Entra
On 2022-10-03, the short-term recommendation Hold that was set on 2022-03-11 as the first short-term recommendation for the company at the share price of NOK 182, was changed to Sell at a share price of NOK 107
On 2022-10-03, the long-term recommendation Market Perform, which was set on 2022-03-11 at the share price of NOK 182, was changed to the current long-term recommendation of Underperform.

Fabege
The short-term recommendation Hold was set on 2022-03-11 as the first short-term recommendation for the company at the share price of SEK 140.
On 2022-06-22 the long-term recommendation Outperform, which was set on 2022-03-11 at the share price of SEK 140, was changed to the current long-term recommendation Market Perform at a share price of SEK 103.

Heba
On 2022-10-03, the short-term recommendation Hold that was set on 2022-07-18 at a share price of SEK 43.65 was changed to the current short-term recommendation of Sell at a share price of SEK 32
On 2022-10-03, the long-term Market Perform recommendation that was set on 2022-06-22 at a share price of SEK 45.68, was changed to the current long-term recommendation Underperform at a share price of SEK 32

Hufvudstaden
The short-term recommendation Hold was set on 2022-03-11 as the first short-term recommendation for the company at the share price of SEK 125.
The long-term recommendation Market Perform was set on 2022-03-11 as the first long-term recommendation for the company at the share price of SEK 125.

John Mattson Fastighets AB
On 2022-10-03, the short-term recommendation Hold that was set on 2022-08-19 at a share price of SEK 105 was changed to the current short-term recommendation Sell at a share price of SEK 82.
On 2022-10-03, the long term recommendation Market Perform that was set on 2022-08-19 at a share price of SEK 105, was changed to the current recommendation Underperform at a share price of SEK 82.

KlaraBo
The short-term recommendation Hold was set on 2022-03-11 as the first short-term recommendation for the company at the share price of SEK 35.60.
On 2022-05-04 the long-term recommendation Market Perform, which was set on 2022-03-11 at the share price of SEK 35.60, was changed to the current long-term recommendation Outperform at a share price of SEK 29.10.

NP3
On 2022-10-03, the short-term recommendation Hold that was set on 2022-05-05 at a share price of SEK 265, was changed to the current short-term recommendation Sell at a share price of SEK 164.
On 2022-01-03, the long-term recommendation Market Perform, which was set on 2022-03-11 at the share price of SEK 304, was changed to the current long-term recommendation Underperform at a share price of SEK 164.

Pandox
On 2022-10-03, the short-term recommendation Buy that was set on 2022-07-18 at a share price of SEK 132, was changed to the current short-term recommendation Hold at a share price of SEK 119.
The long-term recommendation Market Perform was set on 2022-03-11 as the first long-term recommendation for the company at the share price of SEK 127.

Platzer
On 2022-07-07 the short-term recommendation Sell, which was set on 2022-04-19 at the share price of SEK 106, was changed to the current short-term recommendation Hold at a share price of SEK 67.40.
On 2022-04-19 the long-term recommendation Outperform, which was set on 2022-03-11 at the share price of SEK 100, was changed to the current long-term recommendation Market Perform at a share price of SEK 106.

Sagax
The short-term recommendation Hold was set on 2022-03-11 as the first short-term recommendation for the company at the share price of SEK 260.
On 2022-10-03, the long-term recommendation Outperform that was set on 2022-05-12 at a share price of SEK 206, was changed to Market Perform at a share price of SEK 185.

Stendörren Fastigheter
On 2022-10-03, the short-term Buy recommendation that was set on 2022-07-21 at a share price of SEK 163, was changed to the current short-term recommendation Hold at a share price of SEK 171
On 2022-05-10 the long-term recommendation Market Perform, which was set on 2022-04-19 at the share price of SEK 267, was changed to the current long-term recommendation Outperform at a share price of SEK 215.

Trianon
On 2022-10-03, the short-term Hold recommendation that was set on 2022-05-06 at a share price of SEK 154, was changed to the current short-term recommendation Sell at a share price of SEK 23.
On 2022-10-03, the long-term recommendation Market Perform that was set on 2022-03-11 at the share price of SEK 193, was changed to the current long-term recommendation Underperform at a share price of SEK 23

Wallenstam
The short-term recommendation Hold was set on 2022-03-11 as the first short-term recommendation for the company at the share price of SEK 134.
The long-term recommendation Market Perform was set on 2022-03-11 as the first long-term recommendation for the company at the share price of SEK 134.

Wihlborgs
On 2022-07-12 the short-term recommendation Sell, which was set on 2022-04-19 at the share price of SEK 189, was changed to the current short-term recommendation Hold at a share price of SEK 73.90.
On 2022-04-27 the long-term recommendation Underperform, which was set on 2022-03-11 at the share price of SEK 187, was changed to the current long-term recommendation Market Perform at a share price of SEK 173.

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