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Befimmo 1H10/11: taking the less exciting but best route in a difficult market

Befimmo reported no surprises, as usual

The company reported H1 10/11 results. EPRA earnings/share decreased to €2.27 vs. €2.35 last year which was exactly in line with consensus (€2.28/share). The decrease was due to lower top-line rental income as the occupancy rate decreased to 93.9% vs. 94.8% at 31/12/2010 and corporate overhead costs that increased by 10% due planned expansion of the team.

Brussels offices still not exciting

Negative property revaluation slowed down slightly to €-13m or -0.66% (-0.38% in Q1 and -0.29% in Q2) vs. €-20m last year. Consensus amounted to €-17m. EPRA NAV/share amounted to €60.11. The company said there is ongoing divide between increasing values for long term let CBD located assets and stronger value decreases in the periphery and decentralised locations. Increase in rental vacancies is slowing but there is no recovery yet as companies continue to cut costs. Total vacancy on the Brussels office market still amounts to 11.7% vs. 11.84% last year.

Still negative pressure on decentralised and peripheral Brussels offices

The company said lease renewals took place in line with last year's estimates. The company continues to look for divestment possibilities of decentralized and peripheral assets as they are no longer in line with the company's strategy. Furthermore, these markets seem likely to be under continued stress. Most of the company's developments are going ahead as planned. With regard to the €91.1m Liège finance tower the regional authority will come to a decision in 2011. We believe that it's likely to be successful as the tower is part of a larger area redevelopment/upgrade of the city of Liège which includes already completed high profile projects such as the €450m train station and the €250m Médiacité shopping centre as well as the adjacent national TV studios.

All in all Befimmo seems to be doing well in a continues difficult market and as a result looks to move towards even more defensive assets which will improve stability at the cost of the excitement of more upside. However, more and more a real upswing in the Brussels cycle doesn't seem likely so investing in higher risk assets would probably lead to stress rather than upside.