

Sector update
11 August 2011

Total return overview (%)

	Total return 3 years	Total return YTD	12M exp total return
EPRA EU	-12.8	-10.9	n.a.
AEX	-25.2	-20.2	n.a.
Bel 20	-24.7	-18.1	n.a.
Eurostoxx 50	-27.0	-19.2	n.a.
Aedifica	23.1	-3.4	5.9
Banimmo	-36.8	-8.9	11.9
Befimmo	-14.4	-17.0	27.2
Beni Stabili	-24.1	-28.6	98.6
Cofinimmo	-19.6	-8.9	16.3
Corio	-13.2	-20.5	66.5
ECP	1.9	-19.8	34.7
FdM	-18.0	-9.3	33.7
FdR	-14.0	-21.6	40.0
FEL	-34.3	-0.3	19.9
Home Invest	41.5	-0.2	10.7
Klépierre	-18.9	-22.3	51.4
Leasinvest	-10.8	-10.7	24.6
Montea	-17.1	-0.2	N/R
NSI	-35.7	-28.5	28.9
PEPR	-35.1	21.1	28.9
Unibail Rodamco	23.4	-8.2	27.7
VNOI	-41.4	-30.1	60.3
VNR	-20.0	-26.3	57.7
WDP	-6.4	-9.3	15.9
Wereldhave	-13.8	-27.2	66.8
Unw average (individual stocks)	-14.9	-13.9	36.4

Source: ING, Datastream

Real Estate as a safe haven

Overpunished defensiveness

In the current economic uncertainty, we believe that the market has punished a number of stocks under our coverage too much. In this report, we state which companies we would like to hold in a double dip scenario. We narrow down our universe to eleven stocks that meet our criteria, and then rank them on three different valuation metrics: total share price return over the past month, P/NAV 2011F and current implied yield. We conclude that Beni Stabili, VastNed Retail, Wereldhave and Befimmo are currently the most attractively positioned. We upgrade Befimmo from Hold to BUY, upgrade Home Invest from Sell to HOLD and downgrade Banimmo from Buy to HOLD.

We believe that in a double dip scenario/a very diverging outlook for the future of the economy, companies that will outperform have one or more of the metrics discussed below. The list is not exhaustive, but we believe it includes the most important factors.

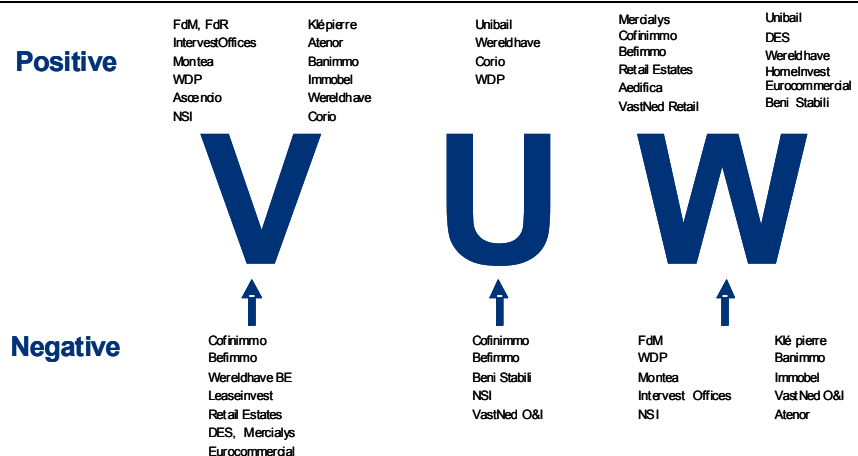
Low development exposure. Developments can become a liability in uncertain economic circumstances, as expected rental levels, expected occupancy levels, and related Yield on Cost are eventually adjusted downward. This can eat away at part of the NAV for companies that have a low level of pre-letting in the current development pipeline.

Low financial gearing. In difficult times, companies will find it difficult to refinance their properties. Investment demand and tenant demand will drop, resulting in increasing yield and decreasing rental levels. This yield and rental effect together will result in negative revaluations, and companies with weaker covenants will move closer to their financial covenants.

Long-term leases. Clearly, cash flow visibility is preferred in a crisis. Long-term rental contracts can also work as a hedge against falling markets rents.

Low risk tenants, high occupancy and no over-rentedness. Governments in trouble may be likely not to take on new leases or renew existing leases rather than defaulting on current leases. Over-rentedness can lead to negative cash flow growth when leases expire.

ING's view on company positioning relative to the recovery



Please note that we do not cover all of the stocks in the table above and that it reflects our view of how these shares could perform in specific recovery scenarios.

For current recommendation and target prices for the stocks under our coverage, please see the valuation table on page 5.

Source: ING

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What is too punished and cheap?

In a second step, we rank the eleven companies that meet our criteria under a double-dip scenario on three different metrics:

Beni's share price has fallen most

- Total share price return over the past month:

Fig 1 Total return of our shortlisted coverage

	-1M TR	Score (high = good)
Aedifica	-3.4	1
Home Invest Belgium	-6.1	2
Cofinimmo	-7.5	3
Unibail Rodamco	-9.9	4
Deutsche Euroshop	-10.6	5
Mercialys	-12.6	6
Befimmo	-13.0	7
Eurocommercial Properties	-18.7	8
Vastned Retail	-19.0	9
Wereldhave	-21.4	10
Beni Stabili	-30.5	11

Source: Datastream

Beni is cheapest on P/NAV

- P/NAV 2011F, forecast by our models:

Fig 2 P/IFRS NAV 2011F of our short-listed universe

	P/NAV 2011F	Score (high=good)
Home Invest Belgium	1.05	1
Aedifica	1.04	2
Unibail Rodamco	0.99	3
Deutsche Euroshop	0.97	4
Mercialys	0.89	5
Cofinimmo	0.88	6
Befimmo	0.88	7
Eurocommercial properties	0.85	8
Wereldhave	0.68	9
Vastned Retail	0.68	10
Beni Stabili	0.44	11

Source: Datastream, ING estimates

Beni is cheapest on implied yield

- Implied yield, taking the forward rolling rental income and enterprise value adjusted for developments:

Fig 3 Implied yield of our short listed universe (%)

	Implied yield	Score (high=good)
Deutsche Euroshop	5.6	1
Eurocommercial Properties	5.7	2
Aedifica	5.8	3
Home Invest Belgium	5.9	4
Unibail Rodamco	6.3	5
Mercialys	6.5	6
Wereldhave	7.6	7
Cofinimmo	7.6	8
Vastned Retail	7.8	9
Befimmo	7.9	10
Beni Stabili	8.4	11

Source: Datastream, ING estimates

The final ranking of the selection is shown in the table below. Beni Stabili, VastNed Retail, Wereldhave and Befimmo seem most attractive.

Fig 4 Final ranking on P/NAV, Implied Yield, and 1 month total return

	Total score
Beni Stabili	33
Vastned Retail	28
Wereldhave	26
Befimmo	24
Eurocommercial properties	18
Cofinimmo	17
Mercialys	17
Unibail Rodamco	12
Deutsche Euroshop	10
Home Invest Belgium	7
Aedifica	6

Source: ING

Changes in recommendations

Fig 5 Our recommendation changes

	NAV Premium (%)		Target price (€)		2012F div yield (%)	Total return (%)	Rec		Comments
	New	Old	New	Old			New	Old	
Befimmo	5	5	62	62	7.9	27.2	BUY	Hold	Overpunished; government exposure misunderstood
Home Invest Belgium	5	-5	64.6	49.5	4.7	10.7	HOLD	Sell	Increase target premium from -5 to +5. Brussels residential attractive. Lot for lot disposals will add value on ultra defensive portfolio
Banimmo	5	-5	14	15.9	4.3	11.9	HOLD	Buy	More upside for non-core Brussels offices yields. Limited investor interest for secondary property Redevelopment margins likely to disappoint in the short run.

Source: ING estimates

Befimmo upgrade from Hold to BUY

Looking at Figure 1, we see that Befimmo has fallen 13% in the past month. It is the fifth heaviest punished stock in our 23 stock coverage universe, after Beni Stabili, Wereldhave, VastNed Retail and ECP. We believe this is not a fair reflection of a number of defensive qualities that Befimmo has, in contrast with the other mentioned stocks:

- A domestic player, a very straightforward business model and no exposure to “exotic” markets. Brussels CBD focused pure player.
- Long-term leases (nine years), of which 68% with the Belgian or European government.

Valuation unchanged; the market has wrongfully taken bets on business models relying in government expenditure

We keep our valuation premium of +5 to 2012F IFRS NAV and corresponding target price unchanged, but we upgrade Befimmo to BUY. We have not changed our view that Befimmo is operating in a difficult market (pressure on market rental levels, rising vacancy), but believe that a 7.9% dividend yield is too high in comparison with its defensive business model and the historical dividend yield. We believe the market has been preferring equities that have a strong reliance on government expenditure. We do not believe in a scenario in which the Belgian or European government would default on its leases. No major expiries related to these tenants are expected in the near to mid term.

Our valuation for HIB has increased on a premium level and NAV level

Home Invest Belgium upgrade from Sell to HOLD

We increase our target premium for Home Invest from -5 to +5 to 2012F IFRS NAV. We have also increased this 2012F IFRS NAV estimate from €58.5 to €61.5 on the back of an increased outlook for Brussels residential, large potential from lot-for-lot disposals, and attractive ultra-defensive positioning. We upgrade Home Invest **from Sell to HOLD**.

Our valuation for Banimmo has decreased on a premium level and a redevelopment volume and margin level

Banimmo downgrade from Buy to HOLD

We cut our target premium for Banimmo from +10 to +5 versus 2011F IFRS NAV, and halve our annual budgeted disposal volume (excluding margin) from €35m to €17.5m. Our redevelopment margin has been trimmed from 25% to 20% (not annualised). Investor interest in Brussels offices will decrease, in our view, in favour of French offices, and profitability on redevelopments is likely to fall as market yields move up. We favour less exposure to developers in a double dip scenario, and **cut Banimmo from BUY to Hold**. We still believe that part of Banimmo’s portfolio is held at cost and potentially undervalued, but we believe it will take longer than expected to see some of this value materialise in profitable disposals. We decrease our target price to €14.0 from €15.9.

Risks

Interest rate risk. A rise in interest rate risk would negatively impact a real estate company's share price. This is primarily related to the negative effect on the property valuations and a higher cost of debt, the extent of which depends on the hedging structure. The opposite would be true if there were to be a fall in interest rate risk.

Accounting for leases. Accounting initiatives could lead to an obligation for tenants to account long leases as a liability in their balance sheets. In the future, this could put pressure on the average lease lengths of real estate companies.

Additional downside risk for Befimmo

Firesales as a result of unsuccessful refinancing of Brussels offices could push up market yields and depress the valuation of these properties in general and Befimmo's properties in particular, which could result in negative NAV growth. We believe that any recovery in central Brussels office prices will be very slow.

Additional upside risk for Home Invest Belgium

Persistently disappointing stock exchange performance could push Belgian investors to participate in the direct real estate market by buying apartments in Brussels. This could push up residential prices in Brussels more than expected, which would positively influence the valuation of Home Invest Belgium's portfolio.

Additional upside risk for Banimmo

A faster-than-expected macro economic recovery could re-establish investor appetite for secondary assets. This could positively influence financing and disposal conditions for redeveloped decentralised office buildings, which is one of Banimmo's concentrations. We do not expect this to happen.

Coverage universe overview

Fig 6 ING Coverage overview

Name	IFRS NAV 2012F	Target premium (+) Discount (-)	Price Target	Price upside (%)	PriceDPS 2012F (%)	Dividend yield 2012F (%)	Total return 12MF (%)	Rating	Market cap	P/2012F IFRS NAV	
Aedifica	40.8	5	40.3	39.8	1.2	1.87	4.7	5.9	HOLD	282	0.97
Ascencio	46.9	5	48.9	46.0	6.4	2.76	6.0	12.4	HOLD	199	0.98
Banimmo	12.5	5	14.0	13.0	7.7	0.55	4.3	11.9	HOLD	134	1.04
Befimmo	59.7	5	62.0	52.0	19.3	4.08	7.9	27.2	BUY	906	0.87
Beni Stabili	1.01	-10	0.89	0.5	93.5	0.02	5.1	98.6	BUY	877	0.45
Cofinimmo	101.4	5	95.7	88.0	8.7	6.70	7.6	16.3	HOLD	1,232	0.87
Corio	50.5	20	57.4	36.2	58.8	2.81	7.8	66.5	BUY	3,337	0.72
Deutsche Euroshop	25.2	5	26.2	24.2	8.6	1.20	5.0	13.5	HOLD	1,247	0.96
Eurocommercial properties	35.9	10	35.6	28.0	27.3	2.08	7.4	34.7	HOLD	1,144	0.78
Foncière des Murs	27.2	5	22.1	17.9	23.8	1.77	9.9	33.7	BUY	1,007	0.66
Foncière des Régions	82.7	5	74.5	57.2	30.4	5.48	9.6	40.0	HOLD	3,141	0.69
Foncière Europe	4.1	-10	3.2	2.9	9.8	0.29	10.1	19.9	HOLD	334	0.71
Logistique											
Gecina	N/R	N/R	N/R	77.0	N/R	N/R	N/R	N/R	N/R	4,821	N/R
Home Invest Belgium	61.5	5	64.6	60.9	6.0	2.86	4.7	10.7	HOLD	172	0.99
Icade	N/R	N/R	N/R	64.7	N/R	N/R	N/R	N/R	N/R	3,351	N/R
Klepierre	31.8	10	31.1	21.5	44.8	1.39	6.6	51.4	BUY	4,071	0.67
Leasinvest	71.0	0	69.3	58.9	17.6	4.12	7.0	24.6	HOLD	236	0.83
Mercialys	29.9	5	29.7	25.1	18.0	1.39	5.5	23.6	HOLD	2,312	0.84
Montea	N/R	N/R	N/R	23.5	N/R	N/R	N/R	N/R	N/R	132	N/R
NSI	14.3	-5	12.7	10.9	17.1	1.28	11.8	28.9	HOLD	470	0.76
Prologis European Properties	6.6	-5	5.6	5.8	-3.2	0.09	1.5	-1.7	HOLD	1,103	0.88
SILIC	N/R	N/R	N/R	73.0	N/R	N/R	N/R	N/R	N/R	1,273	N/R
Unibail Rodamco	166.8	20	168.0	138.0	21.7	8.20	5.9	27.7	BUY	12,686	0.83
VastNed Office&Industrial	17.7	-25	13.0	9.0	43.8	1.48	16.4	60.3	BUY	171	0.51
VastNed Retail	58.3	5	56.7	38.5	47.2	4.05	10.5	57.7	BUY	713	0.66
WDP	33.3	15	36.4	34.0	7.1	2.99	8.8	15.9	HOLD	448	1.02
Wereldhave	84.2	5	84.7	53.6	57.8	4.82	9.0	66.8	BUY	1,163	0.64
Average unweighted Belgium		5.7			9.7		6.4	16.1		443	0.94
Avg M Cap weighted Belgium		5.6			11.0		7.3	18.6			0.27
Average unweighted NL		1.7			42.0		10.5	52.5		1,166	0.68
Avg M Cap weighted NL		11.6			49.1		8.7	57.8			0.60
Avg unweighted France		3.0			25.4		8.4	33.7		2,173	0.71
Avg M Cap weighted France		6.4			31.9		7.7	39.6			0.71
Average unweighted total		2.7			25.1		7.6	32.7		1,123	0.80
Avg M Cap weighted total		6.6			33.1		7.3	40.4			0.74

Source: ING estimates, Datastream

Pricing as of close, 9 August

Disclosures Appendix

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	100%	

* Percentage of companies in each rating category that are Investment Banking clients of ING Financial Markets LLC or an affiliate.

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Hold: Forecast 12-mth absolute total return of +15% to -5%

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