

Kempen & Co Property Daily



Wednesday, 24 August 2011

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Best performers: Sparkassen Immobilien 4.1%; Corio 3.5%; Atrium European Real Estate 3.4%; Klovern 3.1%; Kungsliden 3.1%

Worst performers: Babis Vovos -11.7%; IVG Immobilien -8.9%; CA Immobilien -4.6%; Unite Group -4.5%; Prime Office REIT -4.0%

Top-5 Relative 20D AVG Volume: Minerva 6.0x; Sponda 5.5x; Primary Health Properties 5.3x; Foncière Paris France 4.7x; Globe Trade Centre 2.6x

Indices, Value Traded and Interest Rates: GPR 250 Europe Index (EUR) +0.50%; GPR 250 Global Index (EUR) +1.73%; Value Europe Ex-UK Traded 0.95x 20D AVG; Value UK Traded 0.67x 20D AVG; Value Europe Ex-UK Traded 1.21x 6M AVG; Value UK Traded 0.74x 6M AVG; 10-YR Germany 2.13%; 10-YR UK 2.39%; 10-YR USA 2.15%

Yesterday's flow: Altarea, Atrium, Beni Stabili, Big Yellow, British Land, Capital & Counties, Castellum, Corio, Derwent London, Deutsche EuroShop, DIC Asset, Eurocommercial Properties, Foncière des régions, Gecina, Hammerson, Hufvudstaden, IVG, Klepierre, Mercialis, Mobimo, Norwegian property, Priome Office, PSP Swiss Property, SILIC, Sponda, Swiss Prime Site, Torunlar, Unibail-Rodamco, Unite Group, VastNed retail

BEFB BB | CLOSE: EUR 55.64 (-0.11%) | RATING: UNDERWEIGHT | PRICE TARGET: EUR 60.00

Kempen & Co news – Befimmo: modestly ahead with its 3Q10/11 CFPS

Befimmo's key figures for 3Q10/11 showed a decent CF of EUR 3.96/share (incl. a EUR 6.5m one-off restitution for its WTC leasehold), a 3Q write-down of EUR 9.4m (-/-0.48% on the portfolio) and a 3Q10/11 NNAV of EUR 60.4/share, whereby its CF/share was marginally better than expected. Additionally, Befimmo has signed leases for 52,600sqm in which the negative reversionary potential locked-in was roughly in line with its forecast (1H10/11 reversionary potential: -/-5.6%). Furthermore, the company is still looking at several acquisitions in Belgium, yet initial yields are currently too low (i.e. 5.0%). The company reiterates its 2010/11 DPS of 3.94 (or a dividend yield of 7.1%) and outlook on future CF. We reiterate our Underweight rating and our PT (EUR 60).

Decent CF: The net rental income over 3Q10/11 came out at EUR 92.4m (vs. EUR 92.3m) which is in line with our EUR 123.8m FY10/11 assumptions. Adjusted for one-off's, the CF improved to EUR 3.54/share and is slightly ahead of our FY10/11E CF.

Write-down on the portfolio for 3Q10/11: The overall gross yield on the portfolio was kept flat at 6.6% at the end of 3Q10/11 and the total write-down on the standing portfolio came out at EUR 9.4m in the third quarter;

management still expects the write-downs to decelerate over the next few quarters. We consider Befimmo is being fairly conservative in this case given that the latest transactions were executed at around 5.0% (i.e. The Pavilion at 5.1% / the office building in Bruges was sold at a yield below 5%). For the period 2011-2013, we expect a flat revaluation result (CAPEX and negative reversionary to offset 10bp yield compression) and thus an FY12/13 NNAV of EUR 64/share.

Outlook: Befimmo reiterated a gross dividend for FY10/11 of EUR 3.94/share. Befimmo can invest up to EUR 100m without jeopardizing its maximum LTV of 50% (currently 43.4%). We expect Befimmo to invest on average EUR 50m p.a. over the period 2011-2014. Furthermore, Befimmo announced its intention to invest about €10m in sustainability to make its buildings 'greener' (e.g. to reduce energy consumption). For the coming year the company reiterates its 2010/11 (5 quarters) CF of EUR 97m (CFPS: EUR 5.74; adjusted for Pavilion) which is in line with our adjusted forecast.

Befimmo indicated that prime yields are close to 5.0% (or even below): hence it will be challenging to source acquisitions that will be NNAV/CF accretive from the start. Nevertheless, the company reaffirmed its acquisition strategy of mainly searching for grade A offices in Brussels and can invest up to EUR 100m without jeopardizing its maximum LTV of 50% (current LTV 43.4%).

Valuation: Befimmo has EUR 240m in refinancing coming through until YE12, which they can fully cover with their EUR 258m unused credit facilities. However, the company stated that it is working on the issue of new debt to refinance its EUR 520m in refinancing for 2013 (e.g. convertible bond, private placements or medium-term notes). We maintain our Underweight and PT of EUR 60 on Befimmo, as we are not keen on Befimmo's exposure to the challenging Brussels office market. Furthermore, the company's FY12E EBITDA/EV yield is 20bps lower than the continental average whilst the average discount to YE11NNAV is 18% vs. 8% for Befimmo. *For further information please contact Robert Woerdeman (+31 (0)20 348 8458; robert.woerdeman@kempen.nl)*



DLN LN | CLOSE: GBp 1555.00 (+0.77%) | RATING: NEUTRAL | PRICE TARGET: GBp 1930.00
Kempen & Co news – Derwent London: Adequately decent 1H11 results

NAV per share grew by 10.0% since FY10 to GBp 1,621. This was driven by 5.1% capital value growth of the portfolio, which would have been 5.9% if the disposed properties would have been retained at their sale prices. The revaluation included both yield compression and rental value growth. The true equivalent yield compressed by 10bp to 5.7%, while the net initial yield compressed by 40bp to 4.3%. At the same time, there was a 4.0% increase in ERV, a clear improvement on the 2.8% in 2H10 and 2.6% increase in 1H10. Derwent has also given guidance that this progression appears sustainable over the near term, which we view as a bullish outlook on West End office rents.

Lettings were quite strong for the half-year period, both in size as well as in performance. A total of 264,800 sq ft of floorspace was let in 51 transaction which is more than twice the floorspace let in 1H10 (125,700 sq ft). Market lettings (c.75% of all lettings by floorspace) were 9.6% ahead of FY10 ERV; if short term lettings are included this comes to 5.9% ahead of ERV. With GBP 8.5m of lettings. The market lettings also saw a 10% improvement to previous rents. Rent reviews and lease renewals contributed an additional GBP 0.6m of rent uplift (13.9%). The strong letting activity led to a drop in the vacancy rate for immediately available space to 4.0% from 5.9% by ERV. Momentum has continued since the end of June, with additional 107,400 sq ft of lettings, taking total open market lettings to 10.1% above FY10 ERVs.

Operational results were only slightly higher (+1.1% to GBP 26.6m) as a 5.3% increase in net property income was compensated by higher administrative expenses vs 1H10 (but in-line with 2H10), and higher net financing costs (+8.6% to GBP 21.5m). However, operational results were flattered by GBP 1.4m of rates credits, without

which EPRA profit before taxes would have been 4.2% lower. Like-for-like rental growth was a decent 2.4% vs 1H10, and +2.2% vs 2H10.

On the development front, results were a bit quiet, as the company continues to await a final verdict on 80 Charlotte Street from the Mayor of London which is expected in September. Also awaiting a final recommendation is the 132-142 Hampstead Road development, which could be potentially driven to a smaller development as a result of the HS2 rail link. We currently have the smaller scheme baked into our GBp 1,930 valuation. Additional planning consents will be submitted in 2H11, including Riverwalk House SW1 (residential) and 1 Oxford Street.

Although these results are by no means a knock-out, we still view them as solidly positive, with a bullish statement on ERV growth expectations. The key variable, in our opinion, in seeing stronger performance is macro economic clarity, in order to provide adequate certainty that occupier demand remains adequate to assure that future development / refurbishment projects remain viable.

There will be an analyst meeting / conference call at 9:30 BST / 10:30 CST. The dial-in number is +44-203-059-5845. The password for the call is "interims". In the meantime, we are retaining our GBP 1,930 price target and NEUTRAL.

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AOX GY | CLOSE: EUR 8.15 | RATING: OVERWEIGHT | PRICE TARGET: EUR 10.50

Kempen & Co news – Alstria: Increases FFO guidance to EUR 34m, in line with expectations

Alstria announced this morning that it increased its FY11 outlook for gross rental income to EUR 89m (was EUR 87m, K&Co FY11E EUR 90m) and FFO to EUR 34m (was EUR 32m, K&Co FY11E EUR 34m), in line with expectations. The guidance on FFO/share is EUR 0.47 (was EUR 0.45/share in 2010). The company indicated that the VasNed transaction would be closed on 24 August 2011 (we assumed that the portfolio would be added at 3Q11).

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WDP BB | CLOSE: EUR 35.0 (+1.60%) | RATING: UNDERWEIGHT | PRICE TARGET: EUR 37.00

Kempen & Co news – WDP: healthy set of results, yet still trading at a 7% premium to NAV

The key takeaways from WDP's 1H11 results: (i.) CF came in at EUR 1.63/share implying decent 7.2% y-o-y growth, and thus on track to achieve our FY11 CF of EUR 3.30/share (ii) WDP increases its outlook on the FY11E CF to at least EUR 3.26/share (up EUR 0.5m) and reiterated its FY11 dividend EUR 2.94/share, hence we are in line with the management's outlook, and (iii) a better than expected occupancy rate of 96.5% (up 1.4% Q-o-Q); we expect a YE11 occupancy rate of 95.5%. Lastly, the company reported a 1H11 NNAV of EUR 32.6/share implying that the stock is trading at a decent premium of 7%. Although we like WDP's 1H11 results and the FY11E CF yield of 9.4% (dividend yield 8.4%), the latter is merely the company benefiting from higher yielding properties (i.e. logistic premises) and its 57% leverage. We have fine-tuned our PT to EUR 37 (was: EUR 36) yet Underweight rating unchanged.

Occupancy rate better than expected: The occupancy rate increased 1.4% Q-o-Q to 96.5%, which could potentially decline to 95.0% for YE11, as a result of several "flexible" leases that could be terminated (0.9%) and Londerzeel being vacated (0.7%). However, we expect the occupancy rate to continue to be at levels between 95% and 96% going forward. The LFL growth increased due to a better occupancy ratio and CPI adjustments, however partly offset by WDP locking in c.0.75% negative reversionary (i.e. 50% of its CPI).

CF/share growth supported by new investments and occupancy growth: The 1H11 CF was EUR 21.5m (CFPS:

EUR 1.63) vs. our FY11 expectations of EUR 43.5m; hence we believe that management is well on track to meet our forecast. 1H11 rental income did not yet fully reflect income from the six newly acquired logistic premises (EUR 42.5m at an initial 9.6% net yield) which will contribute EUR 2.2m annually to WDP's CF as of May 2011. As such we are still comfortable that the company will achieve an FY11E CF of EUR 43.5m. Furthermore, the company announced its intention to invest up to EUR 30m at a yield of about 8.5%, to support further CF/share growth for 2012. We have adjusted our future CF modestly due to its investment plans, hence increase the expected FY12 CF to EUR 44.1m from EUR 43.4m.

Portfolio valuation – still no write-ups: WDP's portfolio was valued at EUR 937m at 1H11, showing a marginal y-t-d write-down of EUR -0.7m. The portfolio was valued at a th. gross yield of 8.4% (th. net: c8.1%) and thus remained flat. The 1H11 NAV per share came out at EUR 32.6 translating into a firm 7% premium to NAV.

Future portfolio valuation supported by development projects: WDP has a EUR 17.5m development pipeline in execution of which completion is in 2H11 and another EUR 22m in projects on hold (to be executed if a tenant is found), which at completion in FY11/12 will increase the rental income by EUR 3.2m. Additionally, in the future the company can start another 147,000sqm in developments with a total investment value of EUR 38m.

Valuation: We like the company's 9.4% CF yield, yet we regard the EBITDA/EV yield of just above 6% and a 7% premium vs. spot NNAV as demanding for a logistic company. Hence, we reiterate our Underweight rating and slightly increase our PT to EUR 37. *For further information please contact Robert Woerdeman (+31 (0)20 348 8458; robert.woerdeman@kempen.nl)*



DEQ GY | CLOSE: EUR 26.67 (-0.30%) | RATING: UNDERWEIGHT | PRICE TARGET: EUR 25.30
Kempen & Co news – Deutsche Euroshop: lowers FY11 FFO guidance to EUR 1.40-1.44 due to tax provision

Deutsche Euroshop announced that it had lowered its FY11 FFO guidance to EUR 1.40-1.44/share (was EUR 1.48-1.52/share) as the company will have to make a provision for trade tax of EUR 6.1m (EUR 0.12/share) for 2011 and the preceding years. The company is however maintaining its FY12 FFO guidance of EUR 1.60-1.64/share for now as it will be investigating alternative domestic and foreign locations in the coming week. The lower FFO guidance and provision for trade tax are the result of a ruling by the German Federal Fiscal Court which leads to a risk that an asset management holding company may no longer avail itself of 'extended trade tax deduction'.

In addition, the company indicated that the FY11 measurement gains would also be negatively affected by the trade tax obligation and it would need to increase the deferred tax provisions significantly. Deutsche EuroShop indicated that if the company management would remain in Hamburg, this would in a worst-case scenario result in an additional one-off provision of EUR 85-90m (charged to the measurement gains/losses). This could be reduced however to EUR 50m by moving the company's headquarters to another location in Germany.

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PEPR NA | CLOSE: EUR 5.81 (unch)
Market news – ProLogis European Properties will offer up to EUR 97.5m of new Ordinary Units

ProLogis European Properties announced today that it will offer up to EUR 97.5m of new Ordinary Units. The offering comprises the issue of up to 15,725,000 new Ordinary Units on a pro rata basis to existing holders of Ordinary Units that are known to the Management Company and hold a stake in excess of 1% of the Ordinary Units. The Ordinary Units will be offered at EUR 6.20 per unit, equal to the recent tender offer price and a 10.1%

premium to PEPR's IFRS net asset value per ordinary unit as at 30 June 2011. The offer is expected to commence on 29 August 2011 and end on 2 September 2011. Prologis has provided an irrevocable undertaking to subscribe to the offer in relation to its 92.6% holding in PEPR and to increase its subscription to up to 100% of the offer depending upon the take-up of new Ordinary Units by other Unitholders. Net proceeds of the offering will be used to accelerate deleveraging of the business, resulting in a significant improvement in PEPR's financial metrics. PEPR's pro-forma loan-to-value ratio will decrease to 47.8% from 51.1% as at 30 June 2011. Following completion of the offer, PEPR intends to continue to retain distributable cash flow for the foreseeable future to further delever the business to a more conservative level. Peter Cassells, chief executive officer of PEPR commented "Over the last three years, we have taken numerous steps to delever the business, including selling assets, issuing preferred equity and retaining distributable cash flow. This offering will enable us to further strengthen our balance sheet, in line with our stated objective to return to an investment grade credit rating. Against this backdrop, the Management Company and the PEPR Board have concluded that the issue of new Ordinary Units is in the best interests of PEPR and all its Unitholders."



UTG LN | CLOSE: GBp 152.9 (-4.50%)

Market news – The Unite Group 1H11 results: 3-4% rental growth increases portfolio valuation

The Unite Group, today announced its half-year results for the period ending 30 June 2011. The portfolio experienced positive uplifts during the six-month period. The assets in the province saw a particularly positive revaluation to GBP 400m (+4.4%). The total uplift on the wholly owned portfolio was GBP 15m (2.1%) in the first half year, excluding developments that were valued GBP 6m higher I-f-I. The revaluation is mainly attributable to rental growth in the portfolio of 3-4%. On the occupancy side for the academic year 2011/2012, Unite already had 89% of its beds reserved on 23 August, compared to 87% last year.

Development pipeline: Planning and funding has been secured for a further 563 beds in London, taking the total number of beds secured with planning and funding in London to 1,904 with a further 902 secured subject to planning. The group is also in exclusive negotiations to acquire sites that could deliver a further 1,200 London beds in the future, which will see the completion of the group's 4,000 bed target for London projects. Outside London, a 477 bed project has been secured in Glasgow in line with target returns. Through to 2014, a total of 2,995 new beds are to be developed in London and another 1,695 beds in the provinces. The total cost of developments is GBP 357m, with GBP 196 remaining at a yield on cost of 8.9%. Furthermore, according to the company, the fully built-out pipeline would increase NAV by GBp 39 to GBp 349 (+12%).

Financing: Unite paid down GBP 37m of debt using cash, bringing down total cash to GBP 64m and the group net debt decreased to GBP 391m (from GBP 109m). The weighted average cost of debt came out lower during the period as a result of new swaps agreements to 6.0% from 6.2% at FY10.

Management stated it was satisfied with its new focus on London and sees future demand as being solid, making them confident about the future.



Market news – UK leases become more flexible in difficult market: IPD

Lease structures in the commercial property sector have reached an unprecedented level of flexibility, according to the BPF/IPD Annual Lease Review, as landlords continue to adapt to find new tenants, and maintain existing tenancies. 'With the importance of income stream paramount in the current commercial property market, indeed the latest monthly figures showed capital growth to have slowed to 0.1%, it is not surprising to see that landlords have been flexible in their leases over the last year. The importance of incentives in the various suffering markets cannot be overlooked nor can the need for active management,' said Greg Mansell, Research Manager at the

Investment Property Databank (IPD). The review suggests there is a three-tier market emerging in the UK: prime London, secondary London, and the rest of the UK. 'On the one hand, prime properties in London have seen lease lengths increase, though thanks to increased rent-free periods - from 9 to 12 months - as landlords act to protect values and rents as much as possible,' continued Mansell. 'Secondary offices in London have seen quite a reduction in lease lengths and increased incentives, as landlords try to find tenants in a weak but improving occupier market and successfully maintain Estimated Rental Values.'



Market news – ECE and Metro form retail park joint venture

ECE has formed a joint venture with Metro to take over Metro's retail park operations. ECE and Metro Properties, the real estate arm of Metro, will each hold 50% in the joint venture named Metro-ECE Centermanagement (MEC). From 1 October, MEC is to take over the management including operation, leasing and marketing of 38 retail parks in Germany. Metro Properties is contributing 36 retail centres across Germany and the majority of a 100-strong centre management team to the joint venture. In addition to two of its own centres, ECE will bring its management, marketing and leasing expertise. Metro Group has 688 commercial locations in 30 countries, which it describes as the largest international portfolio of wholesale and retail properties.



Market news – Chateau Promotion acquired 8,000sqm of office space in Passage Saint-Honoré in Brussels

Chateau Promotion has acquired 8,000 m2 of office space on the upper levels of the Passage Saint-Honoré property in the centre of Brussels. The property was formerly occupied by the Ministry of Finance. Chateau Promotion has a building permit to redevelop the space into residential units. A group of private investors acquired the asset's 2,000 m2 retail gallery and underground car park. The financial details of the two transactions were not disclosed.



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August 24	Kempen & Co road show Immofinanz in London
August 24	Hufvudstaden: 1H 11 results
August 24	Derwent London: 1H 11 results
August 24	Conwert: 1H 11 results
August 24	JM: 1H 11 results
August 24	WDP: 1H 11 results
August 24	Leasinvest Real Estate: 1H 11 results
August 24	Catena: 1H 11 results
August 25	Kempen & Co road show conwert in London
August 25	Kempen & Co road show Immofinanz in Amsterdam
August 25	Nieuwe Steen Investments: Ex-dividend date EUR 0.30
August 25	VastNed Offices/Industrial: Extraordinary General Meeting
August 25	CA Immobilien: 1H 11 results

August 25	Immobiliare Grande Distribuzione SIIQ: 1H 11 results
August 25	Mobimo Holding: 1H 11 results
August 25	Hansteen Holding: 1H 11 results
August 25	Nordicom: 1H 11 results
August 25	Allreal Holding: 1H 11 results
August 25	Northern Logistic Property: 2Q 11 results
August 25	Jeudan: 1H 11 results
August 25	Lamda Development: 1H 11 results
August 25	Nieuwe Steen Investments: Ex-dividend EUR 0.30
August 25	Montea: 1H 11 results (after trading)
August 26	Kempen & Co road show conwert in Amsterdam
August 26	Nieuwe Steen Investments: Extraordinary General Meeting
August 26	Eurocommercial Properties: FY 10/11 results
August 26	Fastighets AB Balder: 1H 11 results
August 30	Sjælsø Gruppen: 1H 11 results
August 30	Sparkassen Immobilien: 1H 11 results
August 30	Affine: 1H 11 results (after trading)
August 31	Kempen & Co road show TAG in London
August 31	Orco Property Group: 1H 11 results
August 31	Banimmo: 1H 11 results
August 31	Kardan: 1H 11 results
August 31	Terreïs: 1H 11 results
August 31	Home Invest Belgium: 1H 11 results
September 01	EPRA Annual Conference, London
September 01	ANF Immobilier: 1H 11 results
September 02	EPRA Annual Conference, London
September 05	Aedifica: FY 10/11 results
September 06	Kempen & Co road show DIC Asset in Chicago
September 09	Kempen & Co road show Prime Office in London
September 09	Town Centre Securities: FY 10/11 results
September 13	Kempen & Co road show WDP in Amsterdam
September 14	Kempen & Co road show IGD in Amsterdam
September 14	Maisons France Confort: 1H 11 results
September 19	Kempen & Co road show IGD in USA
September 20	Kempen & Co road show IGD in USA
September 26	Kempen & Co road show Corio in USA
September 26	Immofinanz: 1Q 11/12 results
September 27	Kempen & Co road show Corio in USA
September 27	Kempen & Co road show Klepierre in Amsterdam
September 28	Kempen & Co road show Corio in USA
September 29	TK Development: 1H 11/12 results

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