ING

EQUITY RESEARCH

Sector update
19 June 2012

Real Estate Digest

ING's real estate update

No 49

Coverage overview

ING coverage universe

	IFRS NAV 2012F (€)	Target prem/disc (%)	Target price (€)	Price (€)	Price upside (%)	DPS 2012F (€)	Div yield 2012F (%)	12m total return (%)	Rating	Market cap (€m)	P/IFRS NAV 2012F (x)
Aedifica	38.2	5	42.9	47.5	-9.7	1.87	3.9	-5.8	HOLD	337	1.24
alstria	11.4	0	11.4	7.9	44.7	0.45	5.7	50.4	BUY	620	0.69
Ascencio	46.9	0	46.9	47.8	-2.0	2.72	5.7	3.7	HOLD	199	1.02
Banimmo	12.5	-10	12.3	8.0	54.9	0.64	8.1	62.9	HOLD	82	0.64
Befimmo	54.1	-10	48.7	45.8	6.3	3.45	7.5	13.9	HOLD	833	0.85
Beni Stabili	1.01	-45	0.60	0.3	74.5	0.02	6.4	80.9	BUY	660	0.34
Cofinimmo	93.9	-5	89.4	85.2	4.8	6.50	7.6	12.5	HOLD	1,351	0.91
Corio	44.4	-10	40.0	32.7	22.3	2.81	8.6	30.9	BUY	3,017	0.74
Deutsche Euroshop	24.3	0	23.6	28.5	-17.4	1.42	5.0	-12.4	SELL	1,473	1.18
Eurocommercial Properties	31.6	-10	28.4	25.4	11.8	2.05	8.1	19.9	BUY	1,042	0.80
Foncière des Murs	24.6	-20	21.7	16.2	34.0	1.83	11.3	45.3	BUY	1,042	0.66
Foncière des Régions	77.1	-15	71.5	51.8	38.0	4.36	8.4	46.4	BUY	2,999	0.67
Foncière Europe Logistique	3.4	-30	2.9	3.2	-10.2	0.25	7.9	-2.2	HOLD	368	0.94
Gecina	104.0	-30	73.8	69.4	6.2	4.50	6.5	12.7	HOLD	4,353	0.67
Home Invest Belgium	58.6	5	64.6	70.8	-8.8	3.02	4.3	-4.5	HOLD	207	1.21
Icade	86.3	-15	73.4	60.7	21.0	3.70	6.1	27.1	BUY	3,154	0.70
Klepierre	30.8	-5	29.3	25.7	14.1	1.45	5.7	19.8	BUY	5,118	0.83
Leasinvest	66.9	-10	65.2	61.5	6.0	4.15	6.7	12.7	HOLD	247	0.92
Mercialys	17.4	-5	16.5	14.9	10.7	1.45	9.7	20.4	BUY	1,373	0.86
Montea	N/R	N/R	N/R	25.1	N/R	N/R	N/R	N/R	N/R	141	N/R
NSI	12.5	-20	10.0	6.7	49.4	1.15	17.2	66.5	BUY	436	0.54
Prologis European Properties	6.5	-5	6.1	6.5	-5.0	0.09	1.4	-3.6	HOLD	1,330	1.00
SILIC	106.8	-15	90.8	76.6	19.7	4.74	6.3	25.9	BUY	0	0.71
Unibail Rodamco	137.3	10	151.0	140.6	7.4	8.20	5.8	13.3	BUY	12,919	1.02
VastNed Retail	49.2	-25	36.9	29.0	27.3	3.10	10.7	38.0	BUY	552	0.59
WDP	32.6	10	35.8	37.4	-4.2	2.99	8.0	3.9	HOLD	533	1.15
Wereldhave	73.8	-15	62.7	48.9	28.1	4.70	9.6	37.7	BUY	1,061	0.66
Avg unw Belgium		**-2.1**			**7.0**		**6.6**	**13.6**		**466**	**0.94**
Avg Mkt Cap weighted Belgium		**-3.3**			**3.8**		**7.1**	**10.8**			**0.94**
Avg unw Netherlands		**-16.0**			**27.8**		**10.8**	**38.6**		**1,221**	**0.67**
Avg Mkt Cap weighted Netherlands		**-12.9**			**23.9**		**9.5**	**33.4**			**0.57**
Avg unw France		**-15.0**			**17.3**		**8.6**	**25.9**		**2,180**	**0.79**
Avg Mkt Cap weighted France		**-10.0**			**21.3**		**7.5**	**28.9**			**0.78**
Average unweighted total		**-10.0**			**16.8**		**7.6**	**24.4**		**1,131**	**0.84**
Average Mkt Cap weighted total		**-9.4**			**16.3**		**7.2**	**23.5**			**0.79**

Prices as at close 15 June 2012

Source: Datastream, ING estimates

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Friday, 8 June 2012

Interview with Befimmo's CEO and CFO in Belgian financial daily *De Tijd*

Five highlights: 1) The share price has been under pressure on the back of the weak Belgian office market, but De Blieck highlights that in the top quality area of Brussels CBD, there is less supply than is perceived. He expects the CBD will return to shortage for quality and size within a 'few' years. 2) Befimmo will stay a pure player in Belgian Offices. 3) The valuation of the portfolio is correct due to its government tenant base and the long duration of the lease contracts (average 9.8yrs). 4) Maximum leverage for Befimmo would be 50% LtV. With LtV currently at 45% that would imply a €100m war chest. De Blieck would raise equity in the event of 'a good project'. 5) Management would look at the Cofinimmo office portfolio if it were for sale and sees no distressed assets in the Brussels market.

Conclusion: Interesting that De Blieck mentions the Cofinimmo office portfolio. However, we would be cautious regarding assuming a deal. The Cofinimmo portfolio seems too large for Befimmo and Cofinimmo is unlikely to sell only the prime buildings. De Blieck has previously told us that he definitely would not want to buy the secondary portfolio of Cofinimmo. Interesting detail here is that the former CEO of Cofinimmo, Serge Fautre, is now CEO at AG Real Estate, the manager of the Befimmo portfolio. We think that Befimmo's shares seem fairly priced at €46.79 (our TP is €48, hence our Hold). The weak market in Brussels is not going to be much of a stimulus, even though the company is trading at a c.20% discount to NAV.

Friday, 1 June 2012

Befimmo announces progress on its share repurchase programme

Befimmo bought back €185,000 worth of shares at a price range between €43.4-44.1, as part of its maximum €4.5m buyback programme launched on 21 May, and ending on 20 August 2012.

Thursday, 31 May 2012

Befimmo debt raising confirmation

Befimmo, the Brussels office specialist, has raised €150m of new debt with a placement of registered notes in the US and UK debt markets. The company raised US$165m and £22m and has hedged all of the currency risk in with derivatives. The placement is divided in three series. First, the £22m due in seven years, second, the US$75m also due in seven years, and the third series of US$90m is due in eight years. These notes were mentioned in the 1Q results of 14 May.

In our 27 April note, *Befimmo, Safe, solid and slightly expensive*, we reviewed our NAV estimates and believe that NAV will drop over the next few years, from €57.17 at last year-end to €52.25 in 2014F. We cut our NAV estimates by 14-20%. To reflect this worsening outlook we adjusted our target discount from 5% to 10% and, as a result, we lowered our target price from €59.99 to €48.70 and downgraded our recommendation from Buy to HOLD. We believe that the Brussels office markets are not the weakest in Europe, with many Dutch markets being significantly weaker. Speculative additional office development in Brussels has come to a near standstill.

The Brussels markets, however, have a number of structural weaknesses. These include an apparent lack of supply constraints at the more peripheral office locations. As a result, whenever the market seems to have found a plateau, a developer steps in and starts construction. This is good news for the housing costs of EU institutions but bad news for investors in Brussels office space. Befimmo has anticipated this oversupply through a very strong focus on the outperforming Brussels CBD submarket, where it has 58% of its portfolio. The vacancy rate of this €1.1bn sub-portfolio is lower than that in other parts of the portfolio.
The nine-year average duration of Befimmo leases is among the longest in Europe and provides a solid cushion for when times get tough. Investors should be aware that Befimmo's overall reversions (market rent minus contract rents) are negative 7.5%, according to Jones Lang Lasalle, the company's valuers. Disclosure has improved significantly and is among the best in Belgium. Befimmo punches above its weight on sustainability and is committed to labelling all its existing assets.

The press release does not mention the cost of debt and we believe that it will cost just below 4%, including currency hedges. The notes have a change of control and a rating downgrade clause for early redemption. As at 1 January 2012, Befimmo had €130m of its debt expiring in 2012 and €520m in 2013 (see p9 *Big Chill* note). In the meantime, Befimmo only needs to refinance €300m of its 2013 needs and all of 2012 has been refinanced.

Wednesday, 23 May 2012

Befimmo: "sustainability investments will prevent vacancy, but not necessarily grow rental revenues"

Befimmo received us in its prime redeveloped building "Science Montoyer", in Brussels Leopold district. It makes part of the Fedimmo portfolio, which is in the process of being recognized as a Institutional REIT, and in which the Federal government has a 10% stake. The building exited a redevelopment end last year, and Befimmo told us that it was in the final phase of achieving a single tenant lease at "the prime end of current Brussels market rents". The building is exceptional, as it the first building in Continental Europe to receive a "Breaam excellent post construction" certificate. It already corresponded to the sustainability demands for redevelopment that will become European requirements within 2-3 years.

Tuesday, 15 May 2012

Befimmo 1Q12: things are not getting worse at this stage

Befimmo's 1Q results are out, valuation is down 0.76%, partly through the effect of a rotation of the valuers. Decentralised (-12% in 3 months!) and Periphery (-9.1% in 3 months) were particularly weak. There is a read across to Cofinimmo that has significantly higher weightings in these areas, although they have been watered down by the additions of nursing homes and pubs sale and lease backs. EPRA EPS came in at €0.99 and IFRS NAV per share of €57.21. EPRA NAV at €57.44.

The outlook statement was unchanged. Befimmo is required to publish a vey detailed forecast statement of earnings. The DPS outlook of €3.45 was confirmed. Management has seen no further deterioration of Brussels rental markets in past 12 months. Incentives remain high but also stable. Rental markets similar in all submarkets according to management. Cost of debt stands at 3.9%. Management sticks to 1.44% negative valuations for the FY despite a minus 0.76% in 1Q12, implying it sees slightly brighter skies ahead. The share price is likely to remain more or less where it is.