

# Real Estate Daily

## ING comments on European Real Estate

### Befimmo FY12: Results in line but diverging performance within portfolio

Befimmo CEO De Blicq showed some signs of enthusiasm at the presentation of the FY12 results as he sees investment opportunities arising in the Belgian prime office market for the first time in a long period and said Brussels office valuations are likely "close to the bottom" after revaluing the portfolio down by 1.75% in 2012 and forecasting another -1.3% for 2013. Assets in the weaker areas in Brussels showed significant valuation declines while the prime areas were stable. EPS came in line with our expectation at €4.24 (INGe: €4.26).

#### Key financials - 2012

	2012	2011	Variance	Consensus	Variance
Gross rental income (€m)	129.3	124.8	3.6%	129.3	0.0%
Net current result (€m)	75.1	87.7	-14.4%	66.4	13.1%
Net current result per share (€)	4.25	5.03	-15.5%	4.08	4.2%
EPRA earnings per share (EPS) (€)	4.24	4.18	14%	-	-
NAV (€)	54.1	57.2	-	-	-
EPRA NAV (€)	54.2	57.4	-	-	-
Like for like rental income growth	3%	1.8%	-	-	-
Occupancy rate	95.9%	94.3%	-	-	-

Source: Company data, Bloomberg

**Negative revaluations were -1.75%** for the total portfolio of which **-0.7% in 4Q12** and concentrated in the Periphery (-19%) and Decentralised (-10%) districts of Brussels, the 2 segments represent 12.6% of Befimmo's assets. The Brussels CBD located assets (58% of total assets) were valued flat compared to last year. The diverging performance shows that the main risks are concentrated in a small part of the portfolio, although large single tenant buildings in the CBD area also will show further weakness if market rents continue to fall. The NAV per share stands at €54.1 vs €57.2 end 2011. The LTV at 48% is at an appropriate level in our view.

**Rents:** positive like for like rental growth amounted to 3% (gross) due to the decreased vacancy and indexation. However, negative reversion to market rates of -12% (coming from -7.5% at the end of 2011) is expected to continue to weigh negatively on rents (at a 9.3 years average lease length the impact is between -1 to -2% per year assuming market rents are not increasing with inflation in the coming years). The negative reversion on assets in the Periphery and Decentralised districts may lead to a loss of rents of €3.4m in the next 3 years. Including new vacancy we see slightly negative rent growth for 2013 (-1%).

**Vacancy** in the portfolio will increase in 2013 from the 4.1% reported end December due to the impending departure of Levi's from their office (Triumph) at the end of April 2013. The impact is around 2% of the rent roll. Apart from this departure Befimmo believes vacancy will remain stable in 2013.

**Acquisitions & Disposals:** Befimmo is investigating acquisitions (reportedly looking at the "Blue Tower" owned by MSREF) and is planning to dispose 2 buildings worth €36m in the next 2 years from the Befimmo portfolio with lease expiring in 1-2 years.

**Outlook:** the company forecasts EPS gradually decreasing to €3.75 in 2015, and forecasts EPS of €4.04 for 2013 although guidance from Befimmo has historically been cautious and there should be room for better performance. The decrease for 2013 is mainly due to an expected increase in the property charges and the forecasts also takes into account continuing stock dividend at a 30% take up rate. The dividend of 3.45 remains well covered in the coming 3 years so we believe this to be safe for the coming 2 years.

Price €50.7; Last published target price: €50.9; recommendation: Hold