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Befimmo debt raising confirmation

Befimmo, the Brussels office specialist, has raised €150 million of new debt with a placement of registered notes in the US and UK debt markets. The company raised US$ 165 million and GBP22 million and has hedged all of the currency risk in with derivatives. The placement is divided in three series. Firstly the GBP 22m due in 7 years, secondly the USD 75 million also due in 7 years and the third series of USD 90 million is due in eight years. These notes were mentioned in the Q1 results of 14 May.

In our April note (see link below), we have reviewed our NAV estimates and believe that NAV will drop in the next few years, from €57.17 at last year-end to €52.25 in 2014. We have cut our NAV estimates by 14-20%. To reflect this worsening outlook we have adjusted our target discount from 5% to 10% and, as a result, we lower our target price from €59.99 to €48.70 and downgrade 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 then some 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 9-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 of yesterday 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. At 1 January 2012 Befimmo has €130m of its debt expiring in 2012 and €520 million in 2013 (see p9 Big Chill note). In the meantime Befimmo only needs to refinance €300 million of its 2013 needs and all of 2012 has been refinanced.