

[Real Estate Daily]

ING comments on European Real Estate

BEFIMMO: acquires Blue Tower in Brussels, raises €31m fresh equity

Befimmo acquired the Blue Tower in Brussels for an amount of €78.5m and is funding the acquisition with €31m in fresh equity and €47.5m in debt. With an impact of €0.06 in 2014 we see upside of 2% to our 2014 EPS estimate and see the deal as a small positive for Befimmo.

In general, we see equity raising by Real Estate companies directly linked to the value of real estate acquired as a key reason for the existence of REITs as it provides investors with a transparent opportunity to participate in the growth of companies. Befimmo sold 3.3% of total shares held as treasury shares at €49, a 4.7% discount to the share price before the placement was announced.

The deal was not a real surprise given the newsflow in local newspapers earlier in the year. Befimmo has acquired the 25-floor tower from Morgan Stanley's P2 fund. The building comprises 28,450 sqm of which 24,535 sqm of office space on a prime location in Brussels. The building is currently 91% let. The gross running yield on the acquisition is 6.9% but with 2,000 sqm vacant the potential yield could be 7.5% if let (at a rent of roughly €225-250/sqm). It is a multi-tenant building with around 40 tenants, with the biggest tenant an international consulting firm.

Morgan Stanley reported sales proceeds of more than €80m where Befimmo stated to have acquired it for €78.5m. We suspect the difference may lay in tax treatment of the deal. Morgan Stanley P2 (a German open-ended fund) was a forced seller as the fund is due to be fully liquidated by September 30 2013. The Morgan Stanley fund bought the building in 2007 for €105m.

The impact on the P&L will be €0.03 to EPRA EPS in 2013 and €0.06 in 2014, leading to a ~2% increase in EPS. The 2013F LTV will slightly increase with 0.4% to (INGe) 47.5%.

This is a share deal and Befimmo structured the deal such that subsidiary Fedimmo will acquire 75% of the shares in Blue Tower. Eventually Fedimmo and Befimmo will swap these shares against new Befimmo shares, as the Blue Tower holding company gets absorbed by Befimmo. This means that likely 610,000 new Befimmo shares will be paid to Fedimmo creating new treasury shares, enabling another treasury share sale in the future (lock up for 180 days).

Price €51.4; Last published target price: €50.9; recommendation: Hold

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