

**ULI Academic Lunch | Abstract**  
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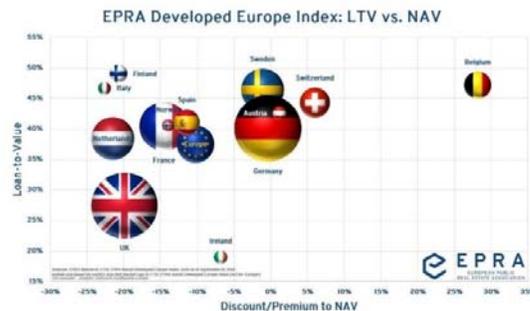
**Title: The premiums of BE-REITs are they justified?**



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Born in 1995, well after their old US aunts, our Belgian-style REITs (GVV/SIR) are appreciated by investors for their outstanding performance and represent the brick and mortar in the investment portfolio of many Belgians.

Although this performance is measured more through their returns which for some of our BE-REITs exceeded 10% for more than a decade, beating at the same time many stock markets, this work focused on their premium to NAV which stands at an exceptional level, oscillating between 20% and 30% since 2016, much higher than their foreign peers.



It is important to mention that the notion of premium is more a prospective appreciation of investor confidence in contrast to the historical return.

Although there are significant differences among the 17 BE-REITs, not all of them enjoy a premium and this factual situation has opened the reflection throughout the present work of which here are the main observations.

Among the factors that can be objectified, sectoral exposure plays a predominant role; logistic in the lead, followed by residential (mainly healthcare) while office and retail in a scattered order seem to have marked the pace. On this particular point, our BE-REITs are specially well represented with nearly 50%

of the approximately 18.5 billion of assets under management invested in the logistic (23%) and residential sectors (25%).

The growth of our BE-REITS has become impressive in the recent years and has undoubtedly helped support this high level of premium. It is obvious that to be appealing to the market (capital or debt) is much more comfortable when you trade at a premium than a discount.

Our BE-REITs hold 70% of their assets in Belgium and this figure has melted like snow in the sun for some years now since their appetite for foreign countries, especially Holland (15%), represents the heart of their growth. More than 50% of our BE-REITs hold more than 20% of their assets abroad.

Even if we consider the fact that the average size of our BE-REITs is rather in the low range in Europe, many of them have in the recent years reached strategic thresholds in terms of market capitalization (500 million EUR, 1 billion EUR), allowing them to exist at the European investment level or even at a global scale that help them to be so spotted by international investors.

In addition, the level of historical debt of our BE-REITs is significantly higher than their European' peers, fed largely by banks. Our BE-REITs are not shy on this point and do not hesitate to exceed 50% of LTV. In historically low interest rates environment, this additional leverage has certainly worked in their favor.

Among other factors that are less objectifiable but just as challenging is the creation of internal value (know-how) of certain BE-REITs that have developed upstream (development gain) and downstream skills (asset management gain) in their real estate business, therefore generating additional value for their shareholders.

Imperfect but still satisfactory, our REIT regime in Belgium benefits from certain competitive advantages and in particular in regard with its tax structure (exit tax, no corporate tax,) which is highly appreciated by investors. Moreover, we haven't experienced any crash in more than 24 years of existence which reinforces investor's confidence in the sector.

Investors seem to appreciate the family DNA of many BE-REITs (10 out of 17) and are probably comforted by the entrepreneurial involvement and the long-term vision that these families instill into their REIT.

Another key factor is shareholding stability and the historical importance of retail investors. The categorization of investor "Belgian dentist" seems particularly suited to Belgian real estate and the profile of our BE-REITs in particular.

For their part, Belgian real estate experts are known to be cautious and therefore relatively conservative in their asset valuations, thus culturally reflecting the great stability of the Belgian market.

Last but not least, the financial and economic conditions we have experienced in this last decade are extraordinary in more than one respect and historically low interest rates have a clear impact on BE-REITs.

In conclusion, our dividend aristocrats have demonstrated in recent years an insolent stability, a well-developed sense of adaptation, an assumed opportunism, a sharp financial management as well as entrepreneurial capabilities. The fundamentals are solids and the profile of the BE-REITs is highly appreciated by their shareholders who would almost confuse them with bonds in terms of risk while they are expecting a stock's return.

Therefore, as long as our BE-REITs continue to create value in the long run and control their spread, which will be significantly higher than a risk-free investment, the exceptional premium level we are experiencing could remain high, but probably at a lower than the last few months.

Last but not least, don't forget to pay attention to the irrational excess of confidence because history has taught us that trees do not grow to the sky.