VAN LANSCHOT KEMPEN

Equity Research
Real Estate

Real Time 196

The sequel

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As banking stress returns, European REITs absorb another downside leg to higher rates. The FFO multiple now under 15x, the sector has some way to go to being dirt cheap. Our NY Seminar highlights corporates like to stay long term focused, while investors cannot ignore the short term dilution risk in a downside scenario. Rating changes on **NSI**, **MERY** and **WHA**.

European REITs do not get a breather

This year is shaping up to be a lousy sequel to 2022: war, high rates & banking stress making an appearance. Tighter lending conditions will hurt REITs with shorter maturities or lower hedging ratios more, while the majority of European REITs still face limited stress in 2023. The more aggressively funded Nordic companies have most urgent credit issues: the third capital increase announcement just came in from Sweden. With macro in the driving seat, we see volatility persisting as leverage remains too high overall. To get debt levels down, disposals are needed, especially in the continental office and German resi segment. However, the transaction drought reaffirms sellers aren't distressed (yet), while buyers see no reason to buy. History is quite clear on the expected outcome: values will fall further while 'crunch time' for the REITs might only come in 2024; the stock market is taking a head start.

Sector valuation: macro driven, but not dirt cheap yet

We see our coverage trading at just below 15x FFO again vs a 10x trough in 2009. The spread of net implied yield vs 10-year rates is now 300bps vs the 350bps average since 2007. This implies valuations could still get materially worse. Focus on long term upside and strong business models, as emphasized by management, seems incrementally difficult as stress increases and the weaker balance sheets are questioned more.

New York Seminar: steady at the helm, but critical wave height

Despite the market turmoil, management teams seemed relaxed when it came to their balance sheets, helped by (optically) low LTV's, high hedging ratios and long debt maturities. Investors do remain worried on leverage, and were therefore still more drawn to the alternatives, like self-storage and student resi. These segments

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Rating & Price Target changes

Company	Change	Old	New
Mercialys	Rating	BUY	NEUTRAL
NSI	Rating	NEUTRAL	BUY
Vastned	Rating	SELL	NEUTRAL
Wereldhave	Rating	NEUTRAL	BUY
Argan	Price Target	€80.00	€70.00
CTP NV	Price Target	€14.50	€15.00
Hammerson	Price Target	33.00p	26.00p
Mercialys	Price Target	€11.00	€9.00
Merlin Properties	Price Target	€9.50	€8.50
NSI	Price Target	€24.00	€26.00
Tritax Big Box	Price Target	145.00p	135.00p
VGP	Price Target	€100.00	€95.00
Vastned	Price Target	€16.50	€20.00
Wereldhave	Price Target	€13.50	€14.50

Source: Van Lanschot Kempen estimates