

“There is no doubt that we will see NAVs of certain companies drop in the near future”

INTERVIEW WITH REMCO SIMON,
ANALYST, KEMPEN & CO NV



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Remco Simon, Analyst at Kempen & Co NV, won the 2007 Eurohypo Real Estate Analyst Award for the best share recommendations in the real estate industry. A slowdown in the global economy could result in lower economic growth in Germany as well. In his opinion there is no doubt that we will see NAVs of certain companies drop in Germany in the near future.

REAL ESTATE MAGAZIN: Which changes do you see medium term at the listed German real estate sector?

SIMON: We believe that it will become more and more important for German listed property companies to focus on operational performance and the quality of earnings. Therefore, we believe there will be a distinction between companies that can create value on a real estate level and generate solid operational cash earnings, from those that have been mainly reliant on revaluation gains in the past years.

REAL ESTATE MAGAZIN: Purportedly the capital markets takes movements ahead. Are the discounts on NAV forerunners to drop NAVs?

SIMON: Yes, capital markets are indeed rightfully forecasting a fall in NAVs. In our opinion there is no doubt that we will see NAVs of certain companies drop in Germany in the near future. This has already happened in the UK and in our view it is inevitable that this will happen on the European continent as well.

REAL ESTATE MAGAZIN: What are the macroeconomic risks for NAVs?

SIMON: The restrained condition of the global credit markets has led to a shortage of debt financing. As such, prices of real estate have come under pressure in the whole of Europe, which will also lead to a decline in NAVs; something which is already seen in the UK right now. Secondly, a slowdown in the global economy could result in lower economic growth in Germany as well. Even though this is so far not the case, this could eventually lead to less demand for office space and, as such, lower rental growth or higher vacancy, which could then ultimately have a second-round effect on property values.

REAL ESTATE MAGAZIN: Do you prefer investment or trading oriented companies in the current market?

SIMON: Currently, the global financial and economic markets are fairly volatile and uncertain. Therefore, we prefer property holding companies that provide steady, stable and secure profits over companies that are largely dependent on trading gains, as these trading gains tend to be far more unpredictable and volatile.

REAL ESTATE MAGAZIN: Which are your favorites?

SIMON: Our favorites are companies that represent quality on different levels; quality of financing, quality of management, quality of earnings and quality of assets. We believe that companies that meet these criteria will be the ones that will deliver long-term out-performance.

The interview was conducted by Christian Schiffmacher.

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