Risk Factors

About this chapter

This chapter covers risks identified as potentially affecting the Company. The risks and impacts, which are described, already take into account the measures the Company has taken to anticipate them and mitigate their potential impact. Doing business involves taking risks: it is not possible to eliminate the potential impact of all risks identified, nor of any residual risk that may be borne by the Company. The global economic and financial climate and current geopolitical context may accentuate certain risks related to Befimmo's business. This list of risks is based on information known at the time of writing this Annual Financial Report, and reflects only the specific and most material risk factors faced by the Company.

Risk Factors

We first present the risks related to the strategy, thereafter the risks related to the business, the financial risks, the ESG risks and finally the risks related to regulation. In each category, the risks are ranked in order of importance of the residual risk, according to the probability of their materialisation and the estimated extent of their negative impact on the Company.

The list is not exhaustive: there may be other risks which are unknown, improbable, non-specific, or unlikely to have an adverse effect on the Company, its business, or its financial situation.

STRATEGIC (S)	PROPERTY PORTFOLIO (P)	FINANCIAL (F)	ESG (E)	REGULATIONS (R)
Evolving ways of working (S1)	Fair value of properties (P1)	Financial liquidity (F1)	Climate change (E1)	Non-compliance of the buildings with the applicable regulations (R1)
Rental vacancy (S2)	Inadequate insurance cover (P2)	Changing credit margins (F2)	Environmental risk (E2)	FIIS status (R2)
(Re)development activities (S3)	Deterioration and obsolescence of buildings (P3)	Changing interest rates (F3)	Social risk (E3)	
Segmental concentration (S4)	Inflation and deflation (P4)	Obligations contained in financing agreements (F4)		
Geographical concentration (S5)				
Default of tenants (S6)				

Main risks related to strategy

Description of risk	Potential impact
S1. RISK RELATED TO EVOLVING WAYS OF WORKING	
Office space is being used in increasingly flexible and mobile ways. New technology and digitalisation are facilitating the transformation from a static and "sequential" mode of operation to more dynamic business environments. Businesses are looking for pleasant and flexible working environments to help attract talent and develop collective intelligence. This risk was accentuated by the pandemic, that accelerated the shift in working patterns (increased homeworking). The coworking business model is still developing. As of 31 December 2022, the portfolio of Befimmo consists of nearly 100% of office buildings and coworking spaces. The revenues as real-estate operator represent 88% of the rental income and the coworking spaces 12%.	Tenants renting fewer square meters per employee) may lead to a decline in buildings' occupancy rates. See S2 for the impact of an increase in rental vacancy. Conventional office environments no longer meet expectations, which may result in greater investments to make the buildings attractive to the new requirements of the occupants (see S3 and P3). Increased investments to prevent cybersecurity attack.
S2. RISK RELATED TO RENTAL VACANCY	
Overall, the office property market is currently characterised by higher supply than demand, and by changing types of demand. The Company is exposed to the risks of its tenants leaving or renegotiating their leases: - Risk of loss of and/or reduced income; - Risk of negative reversion of rents; - Risk of pressure on renewal conditions, and to grant rent-free periods; - Risk of loss of fair value of properties. At 31 December 2022, the weighted average duration of Befimmo's current leases and future signed leases until the next expiry of investment properties was 9.5 years. The occupancy rate of the properties available for lease at 31 December 2022 was 95.3%, compared with 95.5% at 31 December 2021. PROPERTY REPORT, P.25	Decline in occupancy rates and a reduction in the operating results of the portfolio. On an annual basis as of 31 December 2022, a 1% fluctuation in the occupancy rate of the Company's portfolio would have an impact of some €1.7 million on its property operating results, -€0.06 on the net asset value per share, and +0.06% on the debt ratio. Direct costs related to rental vacancies, namely charges and taxes on unlet properties, are estimated on an annual basis at €1.9 million, equivalent to around 1.4% of total rental income. Higher marketing expenses for properties available for lease. Fall in the fair value of buildings (see P1).

Description of risk	Potential impact
S3. RISK RELATED TO (RE)DEVELOPMENT ACTIVITIES	
Risk associated with the renovation or (re)construction of buildings. In preparation for a new life cycle, the buildings in the portfolio must undergo a major renovation or be rebuilt. In this context Befimmo is exposed to risks related to: - Changes in ways of working and tenants' requirements between obtaining permits and the commercialisation of the building; - The choice of service providers (architects, contractors, specialist lawyers, etc.); - Possible delays in permit obtention; - Construction (costs, delays, environmental damage and organisational problems, compliance, etc.). (RE)DEVELOPMENT PROJECTS, P.39 As of 31 December 2022, the fair value of the buildings concerned by the mentioned projects represents 16% of the total fair value of the portfolio.	Construction and/or operating costs overrunning the budget. Absence of rental income on completion of the works and costs related to the vacancy. Pressure on marketing conditions and for granting rent-free periods. Negative impact on the occupancy rate of the portfolio.
S4. RISK OF SEGMENTAL CONCENTRATION	
The portfolio is almost entirely composed of office buildings and coworking spaces (with the exception of a few shops on the ground floor of some buildings).	Sensitivity in terms of occupancy (S2) and valuation of the portfolio (P1) to the evolution of the office and coworking property market.
S5. RISK OF GEOGRAPHICAL CONCENTRATION	
The portfolio is not very diversified in terms of geography. It consists of office buildings and coworking spaces, mainly located in Brussels and its economic hinterland (73.4%[1] of the portfolio as at 31 December 2022).	Sensitivity to developments in the Brussels office and coworking property market in terms of valuation (P1) and occupancy (S2) of the portfolio, which is characterised by a significant presence of European institutions and related activities.
S6. RISK RELATED TO THE DEFAULT OF TENANTS	
Risks related to insolvency of tenants, as well as non-payment of the rent and rental charges. In 2022, 99.6% of rents due for 2022 were collected. TENANTS, P.35 FINANCIAL STATEMENTS - NOTE 33A CREDIT RISK, P.188	Loss of rental income and increase in property charges due to non-recovery of rental charges and unexpected vacancy.

1. Calculated on the basis of the fair value of investment properties at 31 December 2022.

Main risks related to the property portfolio

Description of risk	Potential impact
P1. RISK RELATED TO THE FAIR VALUE OF PROPERTIES	
Risk of a negative change in the fair value of the portfolio. Risk of real-estate experts overvaluing or undervaluing properties in relation to their actual market value. This risk is accentuated in market segments where a limited number of transactions provide few points of comparison: this holds true to some extent in the Decentralised areas and Periphery of Brussels (5.4%[1] of the portfolio), and more generally in the Belgian provincial towns. Risk accrued in case of an increase in rental vacancy (S2). CONCLUSIONS OF THE REAL-ESTATE EXPERT COORDINATOR, P.52	Impact on the Company's net results, equity, debt[2] and LTV[3] ratios. Impact on the Company's ability to distribute a dividend if the cumulative negative changes in fair value were to exceed the total value of distributable and non-distributable reserves and the distributable portion of share premiums. APPROPRIATION OF RESULTS (STATUTORY ACCOUNTS), P.110 FINANCIAL STATEMENTS - SHAREHOLDERS' EQUITY THAT CANNOT BE DISTRIBUTED ACCORDING TO ARTICLE 7:212 OF THE COMPANY CODE, P.211 On the basis of the data as at 31 December 2022, a 1% decline in the value of the property assets would have an impact of around -€27.5 million on net results, entailing a change of around -€1.02 in the net asset value per share, around +0.44% in the debt ratio, and around +0.44% in the LTV ratio.
P2. RISK RELATED TO INADEQUATE INSURANCE COVER	
Risk of a major loss affecting Befimmo's buildings with inadequate cover, especially in view of emerging unforeseen events related to climate change (e.g. floods, wildfires, etc.) (E1). ACQUISITION PRICE AND INSURED VALUE ON PROPERTIES OF BEFIMMO'S CONSOLIDATED PORTFOLIO, P.37	Costs of refurbishing the affected building. Fall in operating results of the portfolio and in the fair value of the building (P1) following the termination of the lease on unused premises, and therefore an unexpected rental vacancy (S2).
P3. RISK OF DETERIORATION AND OBSOLESCENCE OF BUILDINGS	
Risk of wear and tear and obsolescence relating to increasingly stringent (legislative, societal or environmental) requirements. Befimmo's asset rotation strategy aims to crystallize the value of a property at an optimum point in the asset's life cycle. BUILDINGS OF BEFIMMO'S CONSOLIDATED PORTFOLIO, P.49 At 31 December 2022, 88% of Befimmo's consolidated portfolio was covered by "total guarantee" maintenance or omnium agreements[4].	Rental vacancies (S2). Investments needed for buildings to meet regulatory requirements (R1) and tenants' expectations (S1).

1. Calculated on the basis of the fair value of investment properties at 31 December 2022.
2. The debt ratio is calculated in accordance with the Royal Decree of 13 July 2014.
3. Loan-to-value (LTV) = (nominal financial debts - cash)/fair value of the portfolio.
4. These agreements cover repairs and replacement to the same or identical function of a number of technical equipment (HVAC, electricity, lifts, etc.) to maintain the installation in good working order and to ensure that performance is maintained.

Description of risk	Potential impact
P4. RISK OF INFLATION AND DEFLATION	
Risk of deflation on income, as Befimmo leases contain clauses indexing rents to changes in the Belgian health index. In line with general practice, 97.2%[1] of the leases in Befimmo's consolidated portfolio contain provisions with a view to mitigating the effects of any negative indexing: - 30.0% provide for a floor on the basic rent; - 67.2% contain a clause that sets the minimum at the level of the last rent paid. The remaining 2.8% of the leases do not provide for any minimum rent. Risk of the costs the Company has to bear being indexed on a basis that changes faster than the health index.	The impact of the adjustment of rents can be estimated at €1.3 million on an annual basis per percentage point change in the health index.

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1. Based on the gross current rent as at 31 December 2022.

Main financial risks

Description of risk	Potential impact
F1. FINANCIAL LIQUIDITY RISK	
Befimmo is exposed to a liquidity risk related to the renewal of its financing as it reaches maturity, or for any additional funding needed to meet its commitments. The Company could also be exposed to this risk if its financing agreements were terminated. As of 31 December 2022, the debt ratio provided by financing from banking institutions amounted to 98% spread over nine banks (Belfius, BNP Paribas Fortis, ING, KBC, BECM (CM-CIC group), Société Générale, Deutsche Bank AG, BNP Paribas S.A. and J.P. Morgan SE), representing €2,092.7 million of available credit lines. The remainder is provided by a number of private placements in Europe. As of 31 December 2022, the Company had confirmed unused credit lines of €816 million, including cash. The Company aims to continually anticipate its financing needs (notably for its investments) and keep a defined amount in confirmed unused lines at all times, so as to hedge this risk over a time frame of at least 12 months. The debt ratio (as per the Royal Decree of 13 July 2014) amounted to 46.9% at 31 December 2022 (the statutory limit being 65%) compared to 43.1% as at 31 December 2021. All other things being equal, the Company has covered its financing needs for the next 12 months. FINANCIAL STRUCTURE, P.108	New financing arranged at a higher cost. Sale of assets under unfavourable conditions.
F2. RISK RELATED TO CHANGING CREDIT MARGINS	
The Company's financing cost also depends on the credit margins charged by banks and financial markets. These financing margins change in line with risk appetite in financial markets and with regulations, particularly in the banking sector (the "Basel IV" requirements) and the insurance sector (known as "CRD IV"). They also reflect the perception of the Company's credit risk profile.	An increase in financial charges and hence an adverse effect on EPRA earnings and the net result. In 2023, an amount of €1.5 billion will have to be refinanced. An increase in margins by 10 bps will have an impact of €1.5 million.

Description of risk	Potential impact
F3. RISK ASSOCIATED WITH CHANGING INTEREST RATES	
Financial charges, the Company's main expense item, are largely influenced by the interest rates prevailing in the financial markets. Total borrowings as at 31 December 2022: - Borrowings of €529.7 million (41.5% of total debt) are financed at fixed rates (fixed rates specified in agreements or rates fixed by IRS); - The remainder of the debt, €746.6 million, is financed at floating rates, €100 million of which is hedged against rising interest rates by means of optional instruments (CAP). The remaining 50.7% of total borrowings is therefore unhedged. The counterparty banks for the hedging instruments are BECM (CM-CIC group), Belfius, BNP Paribas Fortis, ING, and KBC. As at 31 December 2022, the Company's debt ratio is 46.9% and its LTV ratio is 43.1%. A change in interest rates alters the value of the financial assets and liabilities carried at fair value. At 31 December 2022, the net fair value of all the hedging instruments was €110.2 million. Part of Befimmo's borrowings at 31 December 2022 are arranged at floating rates (96%), which therefore means that the debt does not change in value in line with changes in interest rates.	Increase in financial charges and drop in EPRA earnings and the net result. Without hedging, the impact of a rise in market rates of 0.25% would entail an increase in financial charges estimated at €3.2 million (annual amount calculated based on the debt structure as 31 December 2022). With the hedging arranged at 31 December 2022, the impact of a rise in market rates of 0.25% would entail an increase in financial charges estimated at €1.6 million (annual amount calculated based on the debt structure as at 31 December 2022). A change in interest rates could also have an impact, with a delayed effect, on valuations of the properties in the portfolio. Had the Euro interest rate curve been 0.5% lower than the reference rate curves at 31 December 2022, the change in fair value of the financial assets and liabilities would have been -€21.8 million. In the opposite case, the change in fair value would have been €20.6 million.
F4. RISK RELATED TO OBLIGATIONS CONTAINED IN FINANCING AGREEMENTS	
Risk of financing agreements being cancelled, renegotiated, or terminated early should the Company fail to abide by the covenants (or other obligations) it made when signing those agreements, notably regarding financial ratios. This could also include cross default. Risk of a penalty if agreements are terminated prematurely. When the Company carries out a financing transaction on a foreign market, it is subject to laws and counterparties with which it is less familiar.	A challenge to a financing agreement would expose the Company to having to arrange additional financing at a potentially higher cost, or sell assets under unfavourable conditions.

Main environmental, social and governance risks

Description of risk	Potential impact
E1. RISK RELATED TO CLIMATE CHANGE	
Physical risk: - Extreme weather events (e.g., storms, floods, etc.); - Changes in precipitation patterns and extreme variability in weather patterns (e.g. increased average temperatures, etc.). ***Transition risk:*** - Increased cost of resources (water, energy) and building materials and techniques (e.g. recourse to geothermal energy, etc.); - Increasing regulatory requirements and stakeholder expectations regarding sustainability (energy efficiency, cost of carbon, circularity, etc.). CONTRIBUTE TO CLIMATE CHANGE MITIGATION, P.69 CONTRIBUTE TO CLIMATE CHANGE ADAPTATION, P.75	Deterioration of buildings (P3) and potential decrease in the value of buildings (P1). Interruption or slowing down of construction sites (S3). Obsolescence of buildings (P3) and potential decrease in the value of buildings (P1). Additional investments which entail higher costs for the Company in ongoing projects. Additional requirements to access financing (F1).
E1. RISK RELATED TO CLIMATE CHANGE	
During construction sites, there is a risk of water and soil pollution linked to the presence of hydrocarbons, chemicals, etc. There is also a risk of air pollution due to dust emissions, fine particles, etc. (Re)development projects may impact biodiversity due to the loss of vegetation as a result of soil sealing. CONTRIBUTE TO CLIMATE CONTRIBUTE TO POLLUTION PREVENTION AND CONTROL, P.78 CONTRIBUTE TO THE PROTECTION & RESTORATION OF BIODIVERSITY, P.79	Negative impact on the Company's reputation and risk of litigation. Loss of recognitions (certifications, etc.).
E3. SOCIAL RISK	
Despite the policies and procedures (e.g. charter, code of ethics, code of conduct for suppliers, etc.) it has put in place, Befimmo cannot totally exclude the risk that its counterparties may not fully comply with Befimmo's ethical standards. Risk linked to the health, safety and well-being of the team. TAKING CARE OF THE TEAM AND THE COMMUNITY, P.87 CORPORATE GOVERNANCE STATEMENT, P.112	Negative impact on the Company's reputation.

Main risks related to regulations

Description of risk	Potential impact
R1. RISK RELATED TO NON-COMPLIANCE OF THE BUILDINGS WITH THE APPLICABLE REGULATIONS	
The Company runs the risk that one or more of its properties does not immediately meet all the applicable new standards and regulations.	Additional investments which entail higher costs for the Company and/or delays in ongoing projects renovations, etc.). Fall in the fair value of a building (P1). The Company could be liable for non-compliance (e.g. in case of fire for failing to comply with safety standards). An adverse impact on the Company's reputation, business and results.
R2. RISK RELATED TO THE FIIS STATUS	
Risk of non-compliance with the regime of specialised real-estate investment fund (FIIS)[1]. Risk of future adverse changes to that regime, making it less attractive.	Loss of registration on the list of FIIS held by the FPS Finance, and no longer qualifying for the transparent tax regime applicable to FIIS. Adverse tax consequences of the exit of the FIIS status.

1. Please note that this does not apply to Befimmo's subsidiaries that do not have the FIIS status.