

December 8, 2008

**Research Update:**

# Befimmo 'BBB/A-2' Ratings Affirmed; Outlook Stable On Good-Quality Real Estate Portfolio

**Primary Credit Analyst:**

Pierre Georges, Paris (33) 1-4420-6778; pierre\_georges@standardandpoors.com

**Secondary Credit Analyst:**

Andreas Kindahl, Stockholm (46) 8-440-5907; andreas\_kindahl@standardandpoors.com

## Table Of Contents

---

Rationale

Outlook

Ratings List

## Research Update:

# Befimmo 'BBB/A-2' Ratings Affirmed; Outlook Stable On Good-Quality Real Estate Portfolio

## Rationale

On Dec. 8, 2008, Standard & Poor's Ratings Services affirmed its 'BBB/A-2' long- and short-term ratings on Belgium-based property investment company Befimmo S.C.A. The outlook is stable.

The ratings reflect the strong quality of the company's portfolio of commercial real estate, which produces resilient cash flow streams. This is the result of the good quality of the company's assets, which are leased on long contracts to strong tenants; overall positive indexation in the lease portfolio; and very limited exposure to speculative developments over the cycle. These strengths are tempered by the cyclical nature of the office real estate market, which is now entering a downturn, the low-yield nature of real estate assets, and the company's aggressive capital structure.

Befimmo's €1.9 billion property portfolio comprises office assets mainly focused on the Brussels market. Befimmo has a large, diversified property portfolio with average lease maturity of 9.4 years and a tenant base with strong credit quality--about two-thirds of rental income coming from the public sector (mainly the Belgian state). These high-quality, cash producing assets have a stronger ability to retain value and attract new tenants. Despite a more challenging environment, at Sept. 30, 2008, Befimmo's portfolio valuation remained stable and Befimmo improved its occupancy rate to 97.3%, from 95.1% in September 2007.

The company's loan-to-value (LTV) ratio was 46% on Sept. 30, 2008, a level that is commensurate with a 'BBB' rating given the group's business risk profile. In addition, although many rated peers have a more comprehensive hedging package relying heavily on pure interest rate swaps with longer average durations, Befimmo still has a satisfactory hedging strategy, consisting of a combination of caps and swaps. Overall, Befimmo's interest rate hedging policy is to have 50%-75% of total debt fixed or hedged over three to five years; 93% of total debt is currently hedged, however.

Befimmo's tax-exempt status as a SICAFI (a Belgian tax-transparent vehicle) currently imposes maximum gearing of 65%. Befimmo is nevertheless aiming to operate at about 50% over the cycle, although leverage could temporarily increase slightly following large acquisitions.

## Liquidity

Befimmo's liquidity is adequate and has improved following the refinancing of its bridge facility. The group now has no large debt maturities before 2011, which supports the ratings.

Financial debt also includes bilateral credit lines and a €400 million short-term debt program, fully backed by undrawn committed facilities. In addition to these backup credit lines, Befimmo had €275 million of other

undrawn committed credit lines, of which €125 million has a maturity beyond 2010.

Although the group has some exposure to financing provided by Fortis and Dexia, we do not expect any refinancing, early repayment, or renegotiation of these credit lines.

Since Befimmo's free cash flows are distributed to shareholders, existing and future debt is likely to be refinanced rather than repaid. Maintenance of adequate backup liquidity resources is therefore important.

## Outlook

The stable outlook reflects the stability provided by Befimmo's good-quality and relatively large real estate portfolio. We expect that Befimmo will maintain an EBITDA interest-coverage ratio of more than 2x and a ratio of debt to EBITDA of a maximum of 10x. The company's LTV is likely to remain at about 50% and we expect Befimmo to maintain adequate hedging and backup credit lines to limit any interest-rate-related risks in the medium to long term.

Any significant downward revaluation of the real estate portfolio could put pressure on the ratings, as it would have an adverse impact on the LTV ratio. Large debt-financed acquisitions, especially as part of the international expansion plans, could also trigger a negative action on the ratings. Finally, rising interest rates, increasing vacancies or deteriorating rents could also negatively weigh on the ratings. On the other hand, rating upside is limited by the company's financial leverage targets.

## Ratings List

Ratings Affirmed

Befimmo S.C.A.

Corporate Credit Rating	BBB/Stable/A-2
Senior Unsecured	BBB

N.B. This list does not include all ratings affected.

### **Additional Contact:**

Industrial Ratings Europe;CorporateFinanceEurope@standardandpoors.com

Ratings information is available to subscribers of RatingsDirect, the real-time Web-based source for Standard & Poor's credit ratings, research, and risk analysis, at [www.ratingsdirect.com](http://www.ratingsdirect.com). It can also be found on Standard & Poor's public Web site at [www.standardandpoors.com](http://www.standardandpoors.com); select your preferred country or region, then Ratings in the left navigation bar, followed by Credit Ratings Search. Alternatively, call one of the following Standard & Poor's numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow (7) 495-783-4017.



Copyright © 2008 Standard & Poor's, a division of The McGraw-Hill Companies, Inc. (S&P). S&P and/or its third party licensors have exclusive proprietary rights in the data or information provided herein. This data/information may only be used internally for business purposes and shall not be used for any unlawful or unauthorized purposes. Dissemination, distribution or reproduction of this data/information in any form is strictly prohibited except with the prior written permission of S&P. Because of the possibility of human or mechanical error by S&P, its affiliates or its third party licensors, S&P, its affiliates and its third party licensors do not guarantee the accuracy, adequacy, completeness or availability of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. S&P GIVES NO EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. In no event shall S&P, its affiliates and its third party licensors be liable for any direct, indirect, special or consequential damages in connection with subscriber's or others use of the data/information contained herein. Access to the data or information contained herein is subject to termination in the event any agreement with a third-party of information or software is terminated.

Analytic services provided by Standard & Poor's Ratings Services (Ratings Services) are the result of separate activities designed to preserve the independence and objectivity of ratings opinions. The credit ratings and observations contained herein are solely statements of opinion and not statements of fact or recommendations to purchase, hold, or sell any securities or make any other investment decisions. Accordingly, any user of the information contained herein should not rely on any credit rating or other opinion contained herein in making any investment decision. Ratings are based on information received by Ratings Services. Other divisions of Standard & Poor's may have information that is not available to Ratings Services. Standard & Poor's has established policies and procedures to maintain the confidentiality of non-public information received during the ratings process.

Ratings Services receives compensation for its ratings. Such compensation is normally paid either by the issuers of such securities or third parties participating in marketing the securities. While Standard & Poor's reserves the right to disseminate the rating, it receives no payment for doing so, except for subscriptions to its publications. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).

Any Passwords/user IDs issued by S&P to users are single user-dedicated and may ONLY be used by the individual to whom they have been assigned. No sharing of passwords/user IDs and no simultaneous access via the same password/user ID is permitted. To reprint, translate, or use the data or information other than as provided herein, contact Client Services, 55 Water Street, New York, NY 10041; (1)212.438.9823 or by e-mail to: [research\\_request@standardandpoors.com](mailto:research_request@standardandpoors.com).