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Befimmo S.C.A.

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Table Of Contents

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Major Rating Factors

Corporate Credit Rating
BBB/Stable/A-2

- Good quality portfolio that generates stable cash flows.
- Occupancy rates well above market average, mainly with long-term leases mostly to public sector tenants with strong credit standing.
- Low exposure to development.
- Low financing costs and debt leverage relative to peers'.
- Improved cash flow adequacy.

Weaknesses:

- Large exposure to the cyclical and oversupplied Brussels office market, and to a lesser extent, even tougher Brussels suburbs.
- Declining asset valuations and occupancy levels.
- Low average debt maturities relative to peers'.

Rationale

The ratings on Belgium-based real estate company Befimmo reflect Standard & Poor's Ratings Services' view of the company's good-quality assets, which it leases on long-term contracts to creditworthy tenants; the overall low, albeit positive indexation in its lease portfolio; and its limited exposure to developments. These strengths are tempered by the cyclical nature of the office real estate market and Befimmo's exposure to the oversupplied Brussels office market, which continues to face high vacancy rates, falling rents, and low occupier demand.

Befimmo's €1.9 billion property portfolio as of Dec. 31, 2010, comprises office assets mainly in Brussels. Befimmo's portfolio is large and diversified, with an average lease maturity of 9.3 years and a tenant base with strong credit quality. About two-thirds of rental income comes from the public sector (mainly the Belgian state). Befimmo's high-quality, well-located, and cash-producing assets usually have a strong ability to retain value and attract new tenants.

Befimmo's strategy mainly focuses on the long-term holding and renting of real estate assets, which, from a credit standpoint, is associated with passive low-risk property ownership and rent collection. The geographic focus is Belgium, and in particular, the lower-risk central business district of Brussels. Befimmo's development strategy remains relatively cautious in our view. Future extensive renovation projects are usually backed by long-term lease commitments from strong tenants, which offset renovation and rental risks. Although Befimmo has extended its operations in Luxembourg, and remains attentive to potential opportunities in the Paris office market, we understand the company has no other ambitions for international growth, which we believe is positive for the ratings.

Lack of diversification outside the office segment, where Befimmo derives most of its rental income, remains a risk factor for Befimmo, in our view.

Furthermore, we understand that Brussels suburbs currently carry very high vacancy rates, at above 20%, creating pressure for rent renewals in the near term.

Befimmo's financial risk profile, which we assess as significant under our criteria, is accentuated by the company's somewhat high internal limit set at around 50%, for its loan-to-value (LTV) ratio, and its short-term debt maturities relative to the peers. Mitigating factors are the resilience and the stability of Befimmo's cash flows and its good access to capital markets, which remain key rating drivers given the sector's capital intensive characteristics. Befimmo's tax-exempt status as a SICAFI (a Belgian tax-transparent vehicle) currently imposes maximum gearing of 65%.

Key business and profitability developments

We view Befimmo's business risk profile as strong.

On a like-for-like basis, Befimmo's net rental income decreased 1.2% in 2010 (fiscal year ended Sept. 30, 2010), mainly due to higher rental charges. On a current portfolio basis, Befimmo reported 1.4% net rental income growth for the same period, supported by the acquisition of Axento's portfolio and despite a decreasing occupancy rate at 95.5%.

The value of Befimmo's portfolio contracted 1.8% in 2010, showing less volatility than the 3.7% drop in 2009. Although the volume of new leases taken up in Brussels increased considerably during the first nine months of 2010 while property values started to stabilize, especially in the central business district, we do not anticipate pronounced growth before 2013.

Key cash flow and capital-structure developments

We assess Befimmo's financial risk profile as significant under our criteria, reflecting the company's lower EBITDA expectations for 2011 and its short-term debt maturity schedule.

Still, the company's adjusted LTV ratio on Sept. 30, 2010, stood at 41%, stable versus the year earlier figure, which is comfortable for a 'BBB' rating, given Befimmo's business risk profile. Funds from operations (FFO) increased to €94 million during fiscal 2010, translating into improved cash flow generation from continued operations. Befimmo further strengthened its repayment capacity over the year, recording adjusted debt to EBITDA of 7x (against 7.4x in 2009) and a ratio of FFO to debt of 11.9% (versus 10.5%). The lower financing costs--down 60 basis points--and higher EBITDA considerably increased Befimmo's debt service, leading to comfortable EBITDA interest cover of 4.8x, in our view.

Short-term credit factors

The short-term rating is 'A-2'. We classify Befimmo's liquidity as adequate, because we anticipate that its liquidity sources will be sufficient to meet its funding needs in the next 12 months. Supporting the ratings are the company's average debt maturity of 2.9 years, and the absence of large debt maturities before 2013.

On Dec. 31, 2010, short-term debt maturities amounted to €383 million, including €186 million issued under a €400 million commercial paper program. To cover these short-term cash calls, Befimmo reported €7 million of cash and €389 million of committed credit facilities on the same date. Since Sept. 30, 2010, Befimmo has renewed €150 million of bilateral lines that were due in early 2011. The company also has about €48 million in committed investment costs for 2011, which we anticipate will be fully covered by the remaining available debt and the proceeds of the Empress Court and Kattendijkdok sales agreements.

Because Befimmo distributes free cash flows to its shareholders under its SICAFI status, we think the company is likely to refinance rather than repay existing and future debt. The company's maintenance of adequate back-up liquidity resources is therefore important.

Befimmo has what we view as 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. That said, the company has indicated that almost 100% of total debt was hedged as of Sept. 30, 2010.

Outlook

The stable outlook reflects our view of Befimmo's good-quality office property portfolio, which will likely enable it to continue generating stable income. We understand that the company will sustain its efforts to reduce exposure to Brussels' suburbs and to increase the share of private sector companies among its tenants to optimize occupancy and rental performance. We expect the company to manage its debt leverage adequately, keeping the LTV ratio below 50%.

We also anticipate that Befimmo will maintain an EBITDA interest-coverage ratio of more than 2.5x and a ratio of debt to EBITDA of a maximum of 8x in the medium term. In addition, we expect that Befimmo will maintain adequate hedging and back-up credit lines to limit any interest rate-related risks in the medium to long term.

We could take a negative rating action in the event of an unexpected and significant downward revaluation of the company's real estate portfolio, combined with an absence of deleveraging actions to maintain adequate headroom under debt covenants, or if Befimmo made large debt-financed acquisitions. A rise in interest rates, an increase in vacancies, or a fall in rents could weigh on the ratings.

Rating upside is limited, in our view, owing to the likely deterioration in Befimmo's operating performance in 2011 and the still-depressed Belgian market.

Business Description

Befimmo is Belgium's second-largest property investment company after Cofinimmo S.A./N.V. (BBB/Stable/A-2), with about €1.9 billion of property assets, principally comprising offices in the Brussels area. Befimmo is listed on the Brussels and Paris stock exchanges. Its main shareholder is AG Insurance and associated companies, which holds 18.8% of Befimmo's shares, according to Befimmo.

Business Risk Profile: Low Exposure To Development, Solid Occupancy Rate, And High Average Lease Duration

The major supports for Befimmo's business risk profile, which we consider "strong," are its:

- High average lease duration of 9.3 years, as of Dec. 31, 2010, that is significantly above levels for peers. The high proportion of public sector tenants, which generally have longer leases than corporations, underpins the long duration.
- Low exposure to development, representing just 3% of the portfolio's total fair value. The negative impact of surface under renovation on cash flow has therefore been minimal, because the financial occupancy ratio including these properties is still a high 94%.

- Occupancy rate, which is quite resilient despite the strong oversupply in the market and is underpinned by long-term leases. It also remains substantially higher than the market rate in most geographic areas, which enables it to provide better visibility on revenues and stable cash flows.

These supports are partially offset by Befimmo's:

- Concentration of assets in the cyclical office segment, which faces a challenging economic environment, notably in the oversupplied Brussels market.
- Strategy to sustain its occupancy by securing more corporate tenants. This could weaken its tenant profile, however, because corporations tend to have shorter term leases and lower creditworthiness.
- Increasing yields and decreasing asset values, mirroring trends in the yet-to-recover Brussels market.

Financial Risk Profile: Short-Term Debt Maturities, Debt That Will Likely Not Decline, And Potentially Decreasing Revenues

Befimmo's financial risk profile is in our view "significant," owing to the main weaknesses below:

- Largely short-term debt maturities to benefit from advantageous interest rates, but which will likely lead to a refinancing risk in 2013.
- The company's relatively highly leveraged capital structure, with a maximum LTV ratio target at around 50%. We do not foresee debt declining because we understand Befimmo will mainly fund investments with debt.
- The prospect of decreasing revenue in 2011, owing to the effects of lower indexation and increasing vacancies.

These weaknesses are mitigated by:

- Very low cost of debt, at 2.97% as of end-September 2010, with no refinancing maturities in 2011 that are not backed and that could lead to the negotiation of less favorable conditions.
- High visibility on and stability of cash flows from Befimmo's property portfolio. We foresee improved cash flow adequacy and debt service, even under a stress scenario. We expect that the company will maintain FFO to debt above 10% in 2011.

Financial Statistics/Adjustments

Befimmo reports under International Financial Reporting Standards (IFRS). The group's real estate portfolio is accounted for at fair market value.

Related Criteria And Research

All articles listed below are available on RatingsDirect on the Global Credit Portal, unless otherwise stated.

- Methodology And Assumptions: Standard & Poor's Standardizes Liquidity Descriptors For Global Corporate Issuers, July 2, 2010
- Corporate Ratings Criteria 2008, April 15, 2008
- Key Rating Factors For European Real Estate Companies, Nov. 24, 2004

Table 1

Reconciliation Of Befimmo S.C.A. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. €)*

	--Fiscal year ended Sept. 30, 2010--							
Befimmo S.C.A. reported amounts								
	Debt	**Shareholders' equity**	**Operating income (before D&A)**	**Operating income (before D&A)**	**Operating income (after D&A)**	**Interest expense**	**Cash flow from operations**	**Cash flow from operations**
Reported	790.8	1,017.4	112.4	112.4	77.8	20.7	87.7	87.7
Standard & Poor's adjustments								
Postretirement benefit obligations	--	0.2	0.3	0.3	0.3	--	0.2	0.2
Reclassification of nonoperating income (expenses)	--	--	--	--	0.4	--	--	--
Reclassification of working-capital cash flow changes	--	--	--	--	--	--	--	6.1
Minority interests	--	64.4	--	--	--	--	--	--
Accrued interests	1.4	--	--	--	--	--	--	--
Gains/losses on disposals	--	--	(0.2)	(0.2)	--	--	--	--
Decrease in fair value	--	--	--	--	34.3	--	--	--
Bank charges & other commissions	--	--	--	--	--	2.5	--	--
Other	1.4	--	(0.2)	(0.2)	34.3	2.5	--	--
Total adjustments	1.4	64.6	0.1	0.1	35.0	2.5	0.2	6.3
Standard & Poor's adjusted amounts								
	Debt	**Equity**	**Operating income (before D&A)**	**EBITDA**	**EBIT**	**Interest expense**	**Cash flow from operations**	**Funds from operations**
Adjusted	792.1	1,082.1	112.5	112.5	112.8	23.2	87.9	94.0

*Please note that two reported amounts (operating income before D&A and cash flow from operations) are used to derive more than one Standard & Poor's-adjusted amount (operating income before D&A and EBITDA, and cash flow from operations and funds from operations, respectively). Consequently, the first section in some tables may feature duplicate descriptions and amounts. D&A--Depreciation and amortization.

Table 2

Befimmo S.C.A. Peer Comparison*

Industry Sector: Real Estate Investments			
	Befimmo S.C.A.	**Cofinimmo S.A./N.V.**	**Gecina**
Rating on March 29, 2011	BBB/Stable/A-2	BBB/Stable/A-2	BBB-/Stable/A-3
	Fiscal year ended Sept 30, 2010	12 months ended June 30, 2010	12 months ended June 30, 2010
(Mil. €)			
Net rental income	124.0	202.8	574.0
EBITDA	112.5	188.1	488.5
Gross interest charge	23.2	78.7	164.5
Asset revaluation	(34.6)	(40.0)	(22.9)
Gains on disposals	0.2	5.0	8.6
Net income from continuing operations	46.7	51.0	(62.9)

Table 2

Befimmo S.C.A. Peer Comparison* (cont.)			
Funds from operations (FFO)	94.0	63.8	291.6
Investments	23.7	68.5	416.9
Disposals	0.0	211.1	1,038.1
Dividends	65.6	189.4	607.2
Debt	792.1	1,719.9	4,900.0
Market value of portfolio assets	1,922.6	3,078.5	10,513.7
Adjusted ratios			
Net rental income/interest (x)	5.3	2.6	3.5
EBITDA interest coverage (x)	4.8	2.4	3.0
EBITDA (interest plus dividend; x)	1.3	0.7	1.1
FFO/debt (%)	11.9	3.7	6.0
Debt/EBITDA (x)	7.0	9.1	10.0
Loan-to-value ratio (%)	41.0	55.9	46.6
Portfolio composition (%)*			
Retail	0.0	0.0	0.0
Office	100.0	58.0	54.0
Residential	0.0	0.0	32.0
Logistics	0.0	0.0	5.0
Other	0.0	42.0	9.0
Weighted average cost of debt service (%)	3.0	4.3	3.3
Proportion of debt fixed or capped (%)	99.0	100.0	86.0
Length of fixed/capped period (years)	3-5	5.0	N/A
Weighted average debt maturity (years)	2.9	4.1	4.1
Weighted average lease maturity (years)	9.1	10.8	5.0
Vacancy rate for investment properties (%)	4.5	4.4	4.1

*Fully adjusted. ¶Fully adjusted (including postretirement obligations). §Postretirement obligations using actual returns. N/A--Not applicable. D&A--Depreciation and amortization.

Table 3

Befimmo S.C.A. Financial Summary*					
Industry Sector: Real Estate Investments					
(Mil. €)	**2010**	**2009**	**2008**	**2007**	**2006**
Rating history	BBB/Stable/A-2	BBB/Stable/A-2	BBB/Stable/A-2	BBB/Stable/A-2	BBB/Positive/A-2
Net rental income	124.0	119.1	109.5	104.9	76.3
EBITDA	112.5	106.4	91.4	88.1	62.5
Gross interest charge	23.2	30.0	40.2	34.8	15.8
Asset revaluation	(34.6)	(75.0)	(6.3)	38.7	18.0
Gains on disposals	0.2	0.2	8.8	1.3	0.5
Net income from continuing operations	46.7	(34.5)	58.2	89.1	66.0
Funds from operations (FFO)	94.0	83.0	66.2	56.8	46.4
Investments	23.7	29.8	48.3	0.0	0.0

Table 3

Befimmo S.C.A. Financial Summary* (cont.)					
Dividends	65.6	60.6	49.8	48.2	47.0
Debt	792.1	792.4	872.4	845.1	408.8
Market value of the portfolio assets	1,922.6	1,922.9	1,886.5	1,812.9	1,078.0
Net rental income/interest (x)	5.3	4.0	2.7	3.0	4.8
EBIT interest plus dividends (x)	1.3	1.3	1.2	1.3	1.2
EBITDA interest coverage (x)	4.8	3.5	2.3	2.5	4.0
FFO/debt (%)	11.9	10.5	7.6	6.7	11.3
Debt/EBITDA (x)	7.0	7.4	9.5	9.6	6.5
Loan-to-value ratio (%)	41	41	46	47	38

*Fully adjusted (including postretirement obligations). ¶Postretirement obligations using actual returns. D&A--Depreciation and amortization.

Ratings Detail (As Of March 29, 2011)*	
Befimmo S.C.A.	
Corporate Credit Rating	BBB/Stable/A-2
Senior Unsecured (3 Issues)	BBB
Short-Term Debt (1 Issue)	A-2
Corporate Credit Ratings History	
18-Jun-2007	BBB/Stable/A-2
27-Dec-2006	BBB/Watch Neg/A-2
25-Feb-2004	BBB/Positive/A-2
Business Risk Profile	Strong
Financial Risk Profile	Significant
Debt Maturities	
As of Sept. 30, 2010: 2011: €200 million 2012: €230 million 2013: €520 million 2014 and beyond: €280 million	

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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