STANDARD & POOR'S

Standard & Poor's Research

Befimmo S.A.

Primary Credit Analyst:
Franck Delage, Paris (33) 1-4420-6778; franck_delage@standardandpoors.com

Secondary Contact:
Maxime Puget, London (44) 20-7176-7239; Maxime_Puget@standardandpoors.com

Table Of Contents

Befimmo S.A.

Rationale

Corporate Credit Rating
BBB/Stable/A-2

The ratings on Belgium-based real estate company Befimmo S.A. reflect Standard & Poor's Ratings Services' view of the company's good-quality assets, long-term leases to creditworthy tenants, and limited exposure to development activities. These strengths are tempered by Befimmo's high exposure to the oversupplied Brussels office market, which continues to face high vacancy rates. In addition, the company is exposed to concentration risk owing to its focus on Belgian federal and regional entities and European institutions, whose leases represent 67% of Befimmo's gross revenues.

We view Befimmo's business risk profile as "strong" according to our criteria. Befimmo's strategy mainly focuses on the long-term holding and renting of real estate assets, which from a credit standpoint is associated with low-risk property ownership and rent collection. The company's portfolio is large, valued at €1,971 million on Dec. 31, 2012. It is composed of offices mainly situated in Brussels with a long average lease maturity of 9.32 years, and a tenant base with strong credit quality. Some 8.2% of rental income comes from peripheral districts of Brussels, where Befimmo's assets have a vacancy rate of 18.3%, higher than in the central business district at 2.2%. We view this and Befimmo's strong focus on the Brussels property market and public sector tenants, namely Belgian federal and regional states and European institutions representing 66.9% of the company's gross revenues, as risk factors. That said, concentration risk is partly offset by the long-term nature of the tenancies. Befimmo's development strategy is fairly cautious in our opinion. Large renovation projects are backed by long-term lease commitments from strong tenants, which offset redevelopment and renting risks.

Our assessment of Befimmo's financial risk profile as "significant" is based on the company's somewhat high loan-to-value (LTV) internal limit of around 50% and its fairly low cash flows metrics, although we understand they are standard for the real estate industry. Mitigating factors are the resilience and predictability of cash flows from Befimmo's mostly long-term tenancies and its good access to capital markets, which remain key rating drivers given the sector's capital intensive characteristics. The ratings also capture the company's low cost of debt--3.38% over the twelve months of 2012--and good ability to cover its interests with an EBITDA-interest-coverage ratio higher than 3x. Befimmo's tax-exempt status as a SICAFI--a Belgian tax-transparent vehicle--currently imposes a maximum debt-to-asset ratio of 65%.

S&P base-case operating scenario

Over the next two years we anticipate that Befimmo will record flat rental income growth on a like-for-like basis, as rental demand in Belgium remains subdued and indexation may remain positive but constrained by a lower Belgian Health Index. The Consumer Price Index (CPI) is closely correlated with the Health Index and we forecast it at 1.5% for 2013 and 1.8% for 2014, compared with 2.6% in 2012. We therefore believe some departures and rent incentives following lease renegotiations should offset the positive effect of indexation over the next 12 months. We also forecast slightly negative market valuations for Befimmo's properties owing to our view that Brussels property market yields may not compress until the end of 2013. This forecast is also sensitive to the potential supply of new projects in

Brussels in the coming years.

S&P base-case cash flow and capital-structure scenario

We anticipate that Befimmo will post a Standard & Poor's-adjusted ratio of EBITDA to interest above 3x over the next two years, while maintaining a low cost of debt. Still, funds from operations (FFO) to debt should remain in the 9%-11% range as cash flow generation remains solid and the company monitors its debt leverage prudently.

We forecast an adjusted LTV ratio increasing to about 50% over the next couple of years, which we believe remains adequate for the current ratings.

We believe the company will likely refinance its upcoming debt maturities to fund its renovation works. As a result, the LTV ratio may depend on the share of stock dividend in the overall dividend payment.

We have factored into our analysis slight depreciation and flat variation of the asset portfolio in 2013 and 2014 to reflect the negative effect of a slowdown of real estate activity on appraisal values in 2013, and a prolonged supply absorption which should neutralize capitalization rates no earlier than 2014.

Liquidity

The short-term rating is 'A-2'. We assess Befimmo's liquidity as "adequate" as our criteria define the term, because we anticipate that its liquidity sources will be sufficient to meet its funding needs over the next 12 months.

On Dec. 31, 2012, Befimmo's liquidity uses for the next 12 months included:

- Short-term debt maturities of €112 million, mainly the amount outstanding on the 2006 syndicated loan expiring on March 30, 2013, and €276 million outstanding under a €400 million commercial paper program;
- Committed investment costs of about €80 million; and
- Our forecast of about €70 million of dividends, part of which may be distributed in shares.

Against these short-term cash calls, we estimated:

- €393 million of available committed credit facilities maturing beyond the same period, excluding the €400 million of commercial paper backup lines;
- €2 million of unrestricted cash as of December 31, 2012; and
- Our anticipation of about €77 million of FFO.

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 backup liquidity resources is therefore important.

Supporting liquidity are the company's good access to capital markets as evidenced by the successful closing of its €110 million bond in December 2011 and about €150 million of U.S. dollar and British pound sterling private placements in May 2012, the stable average debt maturity of 4.45 years (from 4.5 years as of Dec. 31, 2011), and the headroom under the covenants, which we estimated was adequate on Dec. 31, 2012.

Befimmo has what we view as a satisfactory hedging strategy, consisting of a combination of caps and swaps. Overall, Befimmo's interest rate policy is to hedge a decreasing portion of borrowings, over a period of five to 10 years. That said, 58% of the company's total debt was at fixed rates on Dec 31, 2012.

Outlook

The stable outlook reflects our view of Befimmo's good-quality office property portfolio and long-term leases, which will likely enable it to continue generating stable and predictable income.

We anticipate that Befimmo will maintain an EBITDA interest-coverage ratio of more than 2.5x and a LTV ratio which we expect will grow and remain at or below 50%. In addition, we believe that Befimmo will likely maintain adequate hedging and backup credit lines to limit any interest rate-related risks in the medium to long term. We forecast that Befimmo should retain a high degree of rent predictability, which should help mitigate risks stemming from rent concentration in a single regional market and the concentration of its tenants in the Belgian public sector and EU Commission.

Ratings upside depends, in our view, on the company's step change in its earning base which would allow it to generate FFO of more than €200 million while keeping the same leverage metrics.

We might 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 so that LTV moves persistently above 50% and EBITDA interest-coverage ratio drops below 2.5 times.

Business Description

Befimmo is Belgium's second-largest property investment company after Cofinimmo S.A./N.V., with about €1.9 billion of property assets, principally comprising offices in the Brussels area. Befimmo is listed on the Brussels stock exchange. Its main shareholder is AG Insurance and associated companies, which holds 16.8% 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:

- Stable and predictable cash flows stemming from its long average lease duration of 9.32 years as of Dec. 31, 2012, that is significantly more than peers'. The high proportion of public sector tenants, which generally have longer leases than corporations, underpins the long duration.
- Low exposure to development, representing less than 5% of the portfolio's total fair value, generally backed by long-term lease commitments from tenants that offset redevelopment and renting risks.
- High and resilient occupancy rate, despite the strong oversupply in the market, which is supported by long-term leases and the high quality of its assets. Befimmo's occupancy 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 is facing a challenging economic environment, notably in the oversupplied Brussels market, which accounted for 72% of revenues as of Dec 31, 2012.
- Change in asset's fair value (negative 1.75% over the last 12 months) and rental yield (6.77%), which are still in the stabilizing phase as of Dec 31, 2012.
- Significant tenant concentration--mainly EU institutions and Belgian state administrative offices accounting for 67% of rental income--although they occupy most of Brussels' stock office space and benefit from strong credit quality and long-term, secured leases.

Financial Risk Profile: Low Operating Cash Flows And Increasing Debt

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

- Befimmo's low revenues relative to peers', with an EBITDA of about €100 million. That said, the company's income is sufficient to absorb about €5.5 million of rental income subject to a break option over the coming year.
- The company's fairly highly leveraged capital structure, with a financial policy centered on a maximum Standard & Poor's-adjusted LTV ratio of around 50%. Although actual LTV stood at 45.8% as of June 30, 2012, we forecast a rise in the debt-to-equity ratio because Befimmo's increasing investments are generally debt funded.
- Constrained cash flow metrics compared with peers', with an increased cash outflow from renovations expected in 2013--€80 million compared with €36 million in 2012--mostly dedicated to the 40,000 square meter building New Finance Center "Paradis," and the rising cost of debt, which rose to 3.46% on June 30, 2012, from 3% on March 31, 2011.

These weaknesses are mitigated by:

- High visibility on and stability of cash flows from Befimmo's property portfolio.
- High debt service with an EBITDA-interest-coverage ratio of more than 3x thanks to the low, albeit increasing, cost of debt at 3.46% at end of the third quarter of 2012.
- Good access to diversified sources of financings, with no refinancing maturities in 2013 that are not backed by available sources of funding and high amount of unencumbered assets.

Financial Statistics/Adjustments

Befimmo prepares its financial statements under International Financial Reporting Standards (IFRS).

We adjust Befimmo's reported EBITDA and EBIT by excluding revaluation gains, which are noncash in nature.

Table 1

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

	--Rolling twelve month ended Jun. 30, 2012--									
Befimmo S.C.A. reported amounts.										
	Debt	**Shareholders' equity**	**Revenues**	**EBITDA**	**Operating Income (aft. D&A)**	**Interest expense**	**Cash flow from operations**	**Cash flow from operations**	**Dividends paid**	**Capital expenditures**
Reported	906.97	1003.152	127.515	104.498	85.054	20.319	61.529	61.529	52.269	40.068

Table 1

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

	Debt	Equity	Revenues	EBITDA	EBIT	Interest expense	Cash flow from operations	Funds from operations	Dividends paid	Capital expenditures
Standard & Poor's adjustments										
Postretirement benefit obligations/deferred compensation	--	0.070785	--	0.2425	0.2425	--	0.19214	0.19214	--	--
Non-operating income (expense)	--	--	--	--	0.104	--	--	--	--	--
Reverse changes in working-capital	--	--	--	--	--	--	--	43.162	--	--
Non-controlling Interest/Minority interest	--	68.022	--	--	--	--	--	--	--	--
EBITDA - Gain/(Loss) on disposals of PP&E	--	--	--	0.122	0.122	--	--	--	--	--
D&A - Asset Valuation gains/(losses)	--	--	--	--	19.444	--	--	--	--	--
Total adjustments	0	68.092785	0	0.3645	19.9125	0	0.19214	43.35414	0	0
Standard & Poor's adjusted amounts										
Adjusted	906.97	1071.244785	127.515	104.863	104.9665	20.319	61.72114	104.88314	52.269	40.068

Table 2

Befimmo S.C.A. -- Peer Comparison

Industry Sector: Real Estate Investments

	Befimmo S.C.A.	Cofinimmo S.A./N.V.	Derwent London PLC	Societe Fonciere Lyonnaise S.A.
	--Average of past three fiscal years--			
(Mil. €)				
Revenues	122.6	197.0	145.0	170.2
EBITDA	107.2	173.3	112.3	144.7
Interest Expense	24.6	74.7	49.2	55.4
Net income from cont. oper.	24.7	76.8	214.7	31.1
Funds from operations (FFO)	93.5	118.7	50.1	78.2
Working capital	(12.6)	(2.3)	11.1	3.9
Cash flow from operations	81.0	116.3	61.2	82.1
Capital expenditures	30.3	36.0	70.9	74.0
Free operating cash flow	50.6	80.3	(9.7)	8.1
Dividends paid	74.8	81.5	30.3	108.9
Discretionary cash flow	(24.1)	(1.2)	(39.9)	(100.8)
Cash and short-term investments	4.6	5.3	11.3	14.9
Debt	820.6	1,703.5	985.4	1,269.0
Equity	1,067.6	1,382.1	1,702.4	1,957.6

Table 2

Befimmo S.C.A. -- Peer Comparison (cont.)				
Debt and equity	1,888.2	3,085.6	2,687.8	3,226.7
Valuation of Investment Property	1,938.9	3,090.7	2,719.6	3,055.3
Adjusted ratios				
Compound annual revenue growth (%)	4.5	(0.7)	7.1	(5.8)
EBITDA margin (%)	87.4	88.0	77.4	85.0
EBITDA interest coverage (x)	4.4	2.3	2.3	2.6
EBIT interest coverage (x)	4.4	2.4	2.3	2.8
Return on capital (%)	5.8	5.7	4.4	4.7
FFO/debt (%)	11.4	7.0	5.1	6.2
Free operating cash flow/debt (%)	6.2	4.7	(1.0)	0.6
Debt/EBITDA (x)	7.7	9.8	8.8	8.8
Total debt/debt plus equity (%)	43.5	55.2	36.7	39.3
Debt Service coverage (x)	4.3	2.3	2.3	2.6
Loan to Value (%)	42.3	55.1	36.2	41.5

Table 3

Befimmo S.C.A. -- Financial Summary						
Industry Sector: Real Estate Investments						
	--Rolling twelve months Jun. 30--	**--Fiscal year ended Dec. 31--**				
	2012	**2011**	**2010**	**2009**	**2008**	**2007**
Rating history	BBB/Stable/A-2	BBB/Stable/A-2	BBB/Stable/A-2	BBB/Stable/A-2	BBB/Stable/A-2	BBB/Stable/A-2
(Mil. €)						
Revenues	127.5	124.8	124.0	119.1	109.5	104.9
EBITDA	104.7	102.8	112.5	106.4	91.4	88.1
Interest Expense	20.3	18.7	23.2	31.9	37.2	32.6
Net income from continuing operations	24.1	62.0	46.7	(34.5)	58.2	89.1
Funds from operations (FFO)	104.8	103.7	94.0	83.0	66.2	56.8
Working capital	(43.2)	(36.5)	(6.1)	4.8	2.7	0.6
Cash flow from operations	61.6	67.2	87.9	87.8	68.9	57.4
Capital expenditures	40.1	37.5	23.7	29.8	48.3	0.0
Free operating cash flow	21.6	29.8	64.2	57.9	20.6	57.4
Dividends paid	52.3	101.0	62.7	60.6	49.8	48.2
Cash and short-term investments	3.4	4.2	3.5	6.1	4.6	6.0
Debt	907.0	877.2	792.1	792.4	872.4	845.1
Equity	1,071.2	1,070.5	1,082.1	1,050.2	1,028.5	996.8
Debt and equity	1,978.2	1,947.8	1,874.2	1,842.7	1,900.9	1,841.9
Valuation of Investment Property	1,980.7	1,971.3	1,922.6	1,922.9	1,886.5	1,812.9

Table 3

Befimmo S.C.A. -- Financial Summary (cont.)

Adjusted ratios						
Annual revenue growth (%)	3.8	0.7	4.1	8.7	4.4	37.6
EBITDA margin (%)	82.2	82.4	90.7	89.3	83.5	84.0
EBITDA interest coverage (x)	5.2	5.5	4.9	3.3	2.5	2.7
Return on capital (%)	5.4	5.4	6.1	5.8	5.4	6.0
FFO/debt (%)	11.6	11.8	11.9	10.5	7.6	6.7
Debt/EBITDA (x)	8.6	8.5	7.0	7.4	9.5	9.6
Debt/debt and equity (%)	45.8	45.0	42.3	43.0	45.9	45.9
Rental Income total coverage (x)	6.3	6.7	5.4	3.7	2.9	3.2
Loan to Value (%)	45.8	44.5	41.2	41.2	46.2	46.6

Table 4

Befimmo S.C.A.--Half Year Data

Industry Sector: Real Estate Investments

	June 2012	December 2011	March 2011	September 2010	March 2010
(Mil. €)					
Revenues	63.8	63.7	61.1	61.8	62.2
EBITDA	54.0	50.7	52.0	59.1	53.4
Interest Expense	13.1	7.2	11.5	11.5	11.7
Net income from continuing operations	18.8	5.3	56.7	28.4	18.3
Funds from operations (FFO)	43.2	61.5	42.1	50.4	43.4
Working capital	(21.4)	(21.8)	(14.7)	7.7	(13.7)
Cash flow from operations	21.9	39.7	27.4	58.1	29.7
Capital expenditures	13.2	26.8	10.6	14.2	9.6
Free operating cash flow	8.7	12.9	16.8	43.9	20.1
Dividends paid	18.7	33.6	67.4	0.0	62.7
Cash and short-term investments	3.4	4.2	4.7	0.0	22.4
Debt	907.0	877.2	849.6	792.1	853.0
Equity	1,071.2	1,070.5	1,073.5	1,081.9	1,051.2
Debt and equity	1,978.2	1,947.7	1,923.0	1,874.0	1,904.2
Valuation of investment property	1,980.7	1,971.3	1,957.2	1,922.6	1,920.6
Adjusted ratios					
Twelve month revenue growth (%)	3.8	0.7	(0.6)	4.1	10.0
EBITDA margin (%)	82.2	82.2	90.5	90.6	87.9
EBITDA interest coverage (x)	5.2	5.5	4.8	4.9	4.8
Return on capital (%)	5.4	5.4	5.8	6.1	5.8
FFO/debt (%)	11.6	11.8	10.9	11.8	10.4
Debt/EBITDA (x)	8.6	8.6	7.6	7.0	7.8
Debt/debt and equity (%)	45.8	45.0	44.2	42.3	44.8

Table 4

Befimmo S.C.A.--Half Year Data (cont.)					
Rental Income total coverage (x)	6.3	6.7	5.3	5.4	5.4
Debt Fixed Charge coverage (x)	5.2	5.5	4.8	4.9	4.8
Loan to Value (%)	45.8	44.5	43.4	41.2	44.4

Related Criteria And Research

- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Sept. 28, 2011
- Key Credit Factors: Global Criteria For Rating Real Estate Companies, June 21, 2011
- 2008 Corporate Criteria: Analytical Methodology, April 15, 2008

Ratings Detail (As Of February 25, 2013)	
Befimmo S.A.	
Corporate Credit Rating	BBB/Stable/A-2
Senior Unsecured	BBB
Short-Term Debt	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	
2013: €112 mil 2014: €7 mil. 2015: €130 mil. 2016: €0 mil. 2017 and thereafter: €650 mil. Major Rating Factors	

*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.

Additional Contact:
Industrial Ratings Europe; CorporateFinanceEurope@standardandpoors.com