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BEFIMMO

The sound of silence

March 2005

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BEFIMMO

NEUTRAL

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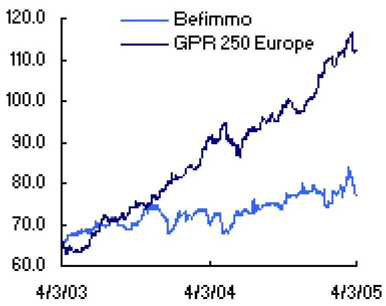
The sound of silence

Befimmo has a low risk/good quality office portfolio in Brussels CBD, with limited room for growth due to a selective approach regarding acquisitions. Anticipated 2-3% annual NNAV growth will only be fuelled by revaluation. Limited upside/downside in recurring results and fairly valued, we initiate coverage with a Neutral rating and € 80.0 price target.

Price target	**€ 80.0**
Potential (incl. dividend)	**+8%**
Date	**07 March 2005**
Last price	**€ 78.0**
Reason	**Initiating coverage**

Fiscal year:	**2004**	**2005e**	**2006e**	**2007e**
Net rental income (€ m)	66.5	67.4	70.6	72.2
EBITDA (€ m)	66.5	67.4	70.6	72.2
Net income (€ m)	50.7	50.4	53.6	55.3
EPS (recurring) (€)	5.17	5.15	5.48	5.64
CFPS (€)	5.17	5.15	5.48	5.64
NNAV (Kempen & Co) (€)	58.4	59.5	61.3	63.3
Dividend (€)	4.62	4.65	4.85	5.00
P/NNAV-1	26.7%	31.0%	27.3%	23.3%
EV/EBITDA	17.9	18.3	17.5	17.0
P/CF	14.3	15.1	14.2	13.8
Dividend yield	6.2%	6.0%	6.2%	6.4%



Performance vs GPR 250 EUROPE

-1m	-0.9%	-3m	-5.4%	-12m	-16.0%

- Befimmo is Belgium's second-largest listed property company with a market cap of € 764m. Its good quality property portfolio (50% of assets are A-grade) of € 1,129m is almost entirely focussed on the Brussels office market (95% of rental income) and more specifically the CBD zone (65%) with 44% public sector tenants. Befimmo is a limited partnership, whereby the shareholders are limited partners and Befimmo SA (100% owned by Fortis) is the general partner. Befimmo SA decides on all strategic decisions for Befimmo.

- We anticipate 3% CAGR 2005-2007E EPS growth driven by lower portfolio vacancy (2005E: -1.1%), partly offset by increasing direct property expenses (+25% y-o-y; to ensure re-letting). We expect revaluation to be positive (E: 1% of portfolio market value) but lower than indexation (E: 1.8%), resulting in gross yield expansion of 30bps until 2007E. Together with a gross dividend of € 4.65 in 2005E (6% yield), we expect 2-3% NNAV growth annually.

- Due to the limited growth perspectives and a fair valuation, we set our rating at **Neutral**. As we anticipate the interest rate to remain low, we expect the demanding valuation of Befimmo (2005E P/NNAV of 31%) in European perspective (average 2005E P/NNAV of 5%) to endure, fuelled by the attractiveness of its dividend yield (2005E: 6.0%). Befimmo should therefore trade at a 37% premium to 2006E NNAV, (2005E: 5.4% return on enterprise value) on which we based our € 80 PT. Within the Belgian property market we prefer Befimmo to Cofinimmo as Befimmo has a better-positioned portfolio, lower risk tenants and is more solidly financed.

Market cap	€ 764m
Number of shares	9.8m
Avg. daily volume	6,114
Reuters code	BEFIt.BR
Bloomberg code	BEFB BB
Next announcement	19 May 05 H1 2005 results

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Executive Summary

Befimmo currently ranks around number 37 on the Continental European ladder

Profile: Conservative play in a limited partnership structure

Befimmo is Belgium's second-largest listed property company with a market cap of € 764m. Befimmo manages a portfolio (market value € 1.129m) that is almost entirely focussed on the Brussels office market (95% of gross rental income). The company benefits from the tax transparent BEVAK status (Befimmo is exempt from corporation and capital gains tax). Befimmo is a limited partnership (in contrast to Cofinimmo), whereby the general partner (Befimmo SA) is responsible for all major strategic decisions. The other operations (Finance & Control, Investor Relations, Administration) are internally managed by Befimmo SCA. We believe the ties between Fortis and Befimmo SCA are less tight than one might expect as the majority of the Board of Directors are independent. Appointment of Befimmo SA board members is done by Bernheim (but needs approval of the Banking Commission), whereas recommendations for new board members are done by the Befimmo SA board itself. Befimmo SA (general partner) is 100% owned by Fortis. Fortis receives an annual fee of 2% of EBT for the unlimited responsibility as a general partner of Befimmo SCA. Fortis does not receive any additional fees as a general partner of Befimmo SCA. The property management is outsourced to Sogepro (subsidiary of the Bernheim Group (100% Fortis), which is the owner of Befimmo SA). The legal structure of Befimmo SCA makes a friendly take-over complex but not impossible.

Little positive (E: 1.7%) reversionary potential in a well-positioned portfolio

Portfolio: Strongly positioned, solid tenants

Befimmo's portfolio is made up of 42 large office premises (average size 13,000 sqm) in Brussels. Most of the properties are relatively new or have been recently renovated. Befimmo's exposure in the Brussels CBD zone is high (65%) and its tenant structure is dominated by solid public sector tenants (44% of rental income). We anticipate 1.7% positive reversionary potential. The impact on rental income will however be limited, as only 10% of Befimmo's lease contracts will have expired by 2007.

Investment opportunities in Brussels CBD are scarce

Strategy: Buy and Hold

Befimmo focuses on low-risk/low-yield office premises in Brussels CBD (65%) with minor exposure to the non-CBD markets (30%) not fully reflecting the initially formulated strategy that focussed on three asset classes (office, industrial and logistics). Management recently stated that it is still open to acquire asset classes other than offices, implying that the character of its portfolio might change in the coming years. In the last four years Befimmo has only acquired 3 properties and 1 large office portfolio (Cibix, December 2001).

We assume Befimmo can sell 65% of its assets in transfer tax-exempt deals

Determining Befimmo's NNAV (5% lower than Befimmo's NNAV)

We believe the NNAV of Belgian property companies should be based on an open market value (after adjustment of 12.5% transfer tax) in line with other European property companies. For Cofinimmo we made the assumption that transfer tax will be paid in 50% of the transactions, as 46% of Cofinimmo's assets are CBD assets which we believe could be sold to a public sector party or under long-term lease contracts (transfer tax-exempt deal). For Befimmo (65% CBD exposure) we consequently assume that transfer tax is paid in 35% of its transactions. In addition, we adjust Befimmo's FY 2004 NNAV for hidden reserves in Befimmo's A-grade assets (E: € 17.9m), which we believe, should be appraised on a 5.5% net yield. After these adjustments, we arrive at an FY 2004 NNAV for Befimmo of € 58.4 per share, which is 5% lower than the company's NNAV.

Befimmo has the second-highest interest cover in its European peer group

Balance sheet: Solidly financed, little variation anticipated

Befimmo currently has a debt-to-total assets ratio of 46% on its balance sheet. Under the VastgoedBevak restrictions, Befimmo is allowed to leverage up to a 50% debt-to-total assets ratio, implying Befimmo has around € 100m firepower. Solid financing is underpinned by an interest cover of 4.2x, a "positive outlook" awarded by Standard & Poor's (BBB/positive outlook/A-2 rating) and a 75%

hedge rate of its floating-rated debt. We anticipate that a 0.5% increase in the interest rate will result in 12% higher financing costs.

Valuation: High premium to NNAV in European perspective will endure

Low interest rate environment ensures strong demand for Belgian property stocks

Befimmo trades at a high premium to 2005E NNAV (31%) compared to its European peers (5% premium on average). The valuation gap in terms of P/NNAV between the Belgian property companies and their European peers decreased in the last 3 years but is still large. The reason for this gap still being large is twofold: i) the Belgian way of calculating the NNAV (including transfer tax), ii) the attractiveness of the dividend yield of the Belgian office players together with the current low interest rate environment. As a result of the latter, both private investors and institutional investors in Belgium ensure a high demand for Belgian property stocks. This is because Belgian investors are levied double taxation when investing in foreign property stocks. Consequently, the Belgian dividend yield (5-6%) is higher than tax-adjusted dividend yields in Europe (0-5%) for Belgian private investors and limited liability companies. As we anticipate that the Belgian interest rate will show a flat pattern in 2005, we believe the strong demand for Belgian property stocks, and consequently the valuation gap with European office players, in terms of P/NNAV, will endure. We therefore anticipate that Befimmo's premium to 2005E NNAV will increase to 37%. Befimmo's P/CF and EV/EBITDA multiples underpin the view that Befimmo is valued in line with its European peers.

Outlook: Only the portfolio provides upside

Befimmo announced its redecoration expenses will increase heavily in 2005 to enable re-letting of non-CBD premises

Although the Befimmo management believes 2005 will be a transition year, we are more positive. Befimmo anticipates a recurring EPS of € 4.90, which is 5.2% lower y-o-y (FY 2004: € 5.17). We expect the recurring EPS of Befimmo for FY 2005 to come out at last year's level of € 5.15, as we believe higher operational costs will be offset by a 1.1% lower vacancy rate. We anticipate positive revaluation in 2005 and 2006 of 0.7% and 1.0% of portfolio market value respectively. As we anticipate rent indexation at 1.8% for 2005 and 2006, we believe Befimmo's total portfolio will face yield expansion from a gross yield of 7.2% currently to 7.4% in 2006. The reason behind this yield expansion is the deteriorating market conditions in the Brussels non-CBD zones that are only partly offset by positive conditions in the CBD zones. We believe Befimmo's recurring EPS growth will enable the company to maintain its dividend growth the coming years as we also anticipate management to stick to a payout ratio of approx. 85%. Following that growth pattern, gross dividend per share can amount to € 5.00 in 2007E (FY 2004E: € 4.62) implying the Befimmo share will trade at 6% dividend yield, in turn implying 2-3% NNAV growth annually.

Initiate coverage with a Neutral rating and € 80 PT

Limited upside/ downside potential and fairly valued: Neutral

We believe Befimmo will realize only limited growth in the coming years. Due to limited reversionary potential (E: 1.7%), management's selective approach regarding acquisitions and an absence of development activities (although Befimmo is active in re-development of existing properties), we feel that there is limited room upward in Befimmo's rental income. Befimmo's portfolio is anticipated to face yield expansion (gross yield from 7.2% to 7.4% in FY 2006) as direct market conditions are not anticipated to pick up in the coming years. As we anticipate the interest rate remaining flat in FY 2005, we believe Befimmo will keep trading at a higher premium to NNAV than its European peers. Under current valuation multiples we believe Befimmo is fairly valued. Due to the limited growth perspectives and a fair valuation, we set our rating at **Neutral**. To reflect the constant valuation gap with its European peers, we believe Befimmo should trade at a 37% premium to 2005E NNAV on which we based our € 80 PT.

A better-positioned portfolio implies that Befimmo has the best cards in the Belgian market

In Belgium, we prefer the Befimmo share to Cofinimmo as Befimmo has a better-positioned portfolio (65% CBD exposure vs. Cofinimmo 46%), is more solidly financed (interest cover of 4.1x vs. Cofinimmo 2.9x) and finally has a more solid tenant structure (44% of rental income from public sector tenants vs. Cofinimmo 20%).

Profile: Conservative play in a limited partnership structure

Key points

- ***Cibix* acquisition, milestone in Befimmo's history**
- **Benefiting from tax-efficient "Bevak" status**
- **Modest liquidity, but improving**
- **No dominant shareholders**
- **Limited partnership structure**
- **Attractive play for investors that are looking for dividend yield**

Cibix acquisition, milestone in Befimmo's history

Befimmo is only rarely involved in acquisitions/disposals

Befimmo is Belgium's second-largest property company with a market cap of € 764m. On the Continental European ladder, Befimmo currently ranks around number 37. Befimmo is one of the European property companies that is least talked about since management sticks to a selective approach regarding acquisitions, and the company is rarely in the news headlines. Befimmo's core business concerns the management of a portfolio (market value € 1,129m) that is almost entirely focussed on the Brussels office market (95% of portfolio market value). Befimmo's portfolio is comparable to that of Cofinimmo although Befimmo owns more CBD assets (65% of portfolio vs. Cofinimmo 46% of portfolio). Befimmo was established in 1995 when the limited liability company "*Woluwe Garden D"* was initiated, with as its object management of office properties in Brussels. In summer 1995, the Bernheim-Comofi group transferred, through de-merger and asset contribution operations, part of its real estate portfolio to its subsidiary *Woluwe Garden D* that was transformed into the limited partnership Befimmo. Since 1995, Befimmo has been listed on the Belgian stock exchange. In 2001, Befimmo acquired Belgian peer Cibix, paying all Cibix shareholders in Befimmo shares. We regard this transaction as the most significant transaction in Befimmo's history as Befimmo is rarely involved in acquiring/disposing assets. As a consequence of the Cibix transaction, Befimmo's portfolio grew from € 687m to € 1.05bn. After this large acquisition in 2001, Befimmo's activity on the M&A market receded. Only one large acquisition was concluded in 2004 (*Poelaert*).

Table 1: Befimmo's most recent transactions

Time	Building	Area	sqm	Net yield	Lease
Dec-03	Poelaert 2-3-4	Brussels Central	12,600	5.5%	18
Dec-01	Cibix portfolio	Brussels CBD and non-CBD	190,000	n/a	3/6/9/12/15
Dec-00	Media	Brussels Periphery	18,651	n/a	9
Mar-00	Van Maerlant	Brussels Leopold	n/a	n/a	n/a

Source: Befimmo

Benefiting from tax-efficient "Bevak" status

The BEVAK status (or SICAFI) was first introduced in May 1995. Befimmo obtained a BEVAK status from the very beginning back in 1995. The withholding tax on dividends distributed by a BEVAK amounts to 15%. Dutch private investors can deduct this amount from the wealth tax they pay in the Netherlands.

Table 2: Requirements of the tax-efficient BEVAK

Obtaining status:	Registration procedure at CBF (stock exchange regulator)
	Exit tax of 20.085% on unrealised cap gains and untaxed reserves
	Listing compulsory within twelve months after receiving status
Purpose:	Investing in and management of portfolio of properties
Permitted activities:	Investment in property-related listed securities and property leasing
Not permitted:	Property development for third parties, lending or other
Requirements:	At least 80% of net profit/net cash flow paid out as dividend
	Realised capital gain to be distributed if not reinvested within 4 yrs
	Maximum of 50% debt-to-total assets
	Maximum of 20% of assets in one single building or entity
	Book value of assets at market value
	Quarterly appraisal of assets by independent appraiser
Tax liability:	Taxable income minimal; corporate tax only on some specific items
	Annual tax on NAV of company at rate of 0.06%
	Transfer tax 12.5%; annual RE tax usually passed on to tenants

Source: Kempen & Co

No tax is withheld on dividends paid to non-profit foreign investors (mainly pension funds), resulting in a highly efficient way of investing in Belgian property for these pension funds, in a way very similar to the Dutch REITS (or FBIs; Fiscale Beleggings Instelling). For other parties, the BEVAKs are fiscally even more efficient compared to FBIs since the dividend withholding tax on FBIs stands at a higher rate of 25% and foreign investors cannot always fully recoup this.

Liquidity is lagging in a European perspective, but strongly improving

Modest liquidity, but strongly improving

Befimmo's liquidity is lagging when compared to other European office players. In the Belgian context, Befimmo only lags behind Cofinimmo that saw its liquidity rapidly increase in the last three months.

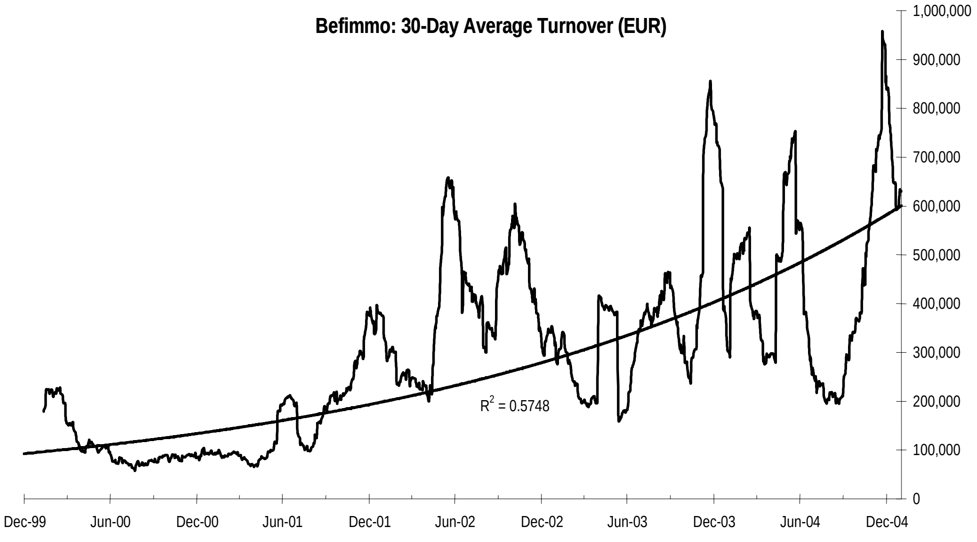
Table 3: Daily liquidity of European office players (€ m)

Company	3-M average daily volume	Company	3-M average daily volume
British Land	538.2	CA Immobilien	0.7
Unibail	12.6	Nieuwe Steen Investments	0.7
Bail Investissement	3.5	**Befimmo**	**0.7**
Inmobiliaria Colonial	3.3	Swiss Prime Site	0.6
IVG Immobilien	2.8	Intervest Offices	0.4
Beni Stabili	2.4	Leasinvest Real Estate	0.2
Cofinimmo	2.2	SFL	0.2
PSP Swiss Property	2.1	Sponda	0.1
VastNed O/I	0.8	Wereldhave Belgium	0.1
SILIC	0.8		

Source: Bloomberg

Befimmo is included in the GPR 250 Europe, EPRA Europe, but not in the MSCI Small Cap index. Although Befimmo's liquidity was very modest some 2 to 3 years ago, we conclude from the graph below that liquidity has strongly improved in 2004. If the trend continues, we believe that Befimmo's liquidity might reach levels comparable to its Belgian peer Cofinimmo (€ 2,220,900 average daily volume).

Graph 1: Befimmo's stock market liquidity



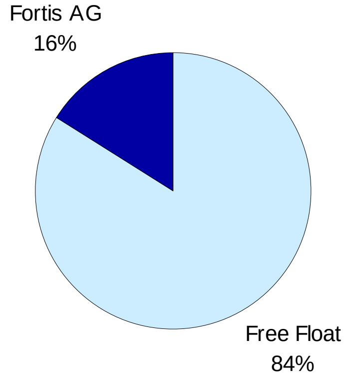
Source: Global Property Research, 2005

Fortis doubled its stake from 8% to 16% in 2004/2005

Fortis AG is the only major shareholder

Alain and Patrick de Pauw held 7.36% and 7.27% of the shares but reported in 2004 that their respective stakes dropped below the 5% limit. Both "de Pauw's" acquired the shares in Befimmo as a consequence of property sales in exchange for Befimmo shares (property transactions in Belgium are often structured this way, as the deal is transfer tax-exempt). The only major shareholder is Fortis. Fortis has owned 8.09% of the shares since 2001, but increased this stake to 12.06% in October 2004 and to 16.24% in February 2005.

Graph 2: Shareholder structure Befimmo



Source: Befimmo

Only 2 out of 11 seats on the Board of Directors are taken-up by Fortis

Limited partnership structure

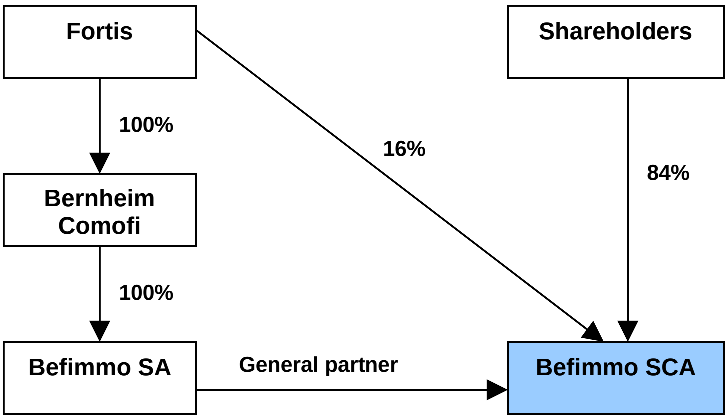
The listed VastgoedBevak/Sicafi Befimmo SCA is structured as a limited partnership, with Befimmo SA as the general partner and the shareholders as the limited partner. Befimmo SCA deals with the internal and day-to-day management of the property portfolio with 18 employees (4 administration, 3 investment-divestment, 6 finance and 5 portfolio management). It is statutorily controlled by its general partner Befimmo SA. Befimmo SA's only asset is the board of directors (11 seats), whereby the majority of seats (6) are independent. Mr Benoit de Blieck is the CEO of Befimmo SA (appointed in September 1999). As Befimmo SA is 100% liable for Befimmo SCA, Befimmo SA (100% Fortis) earns a yearly fee of 2% of earnings before taxes (ordinary shareholders are only liable for their stake as they do not bear joint and several liability "hoofdelijke aansprakelijkheid" for Befimmo SCA).

Table 4: Responsibilities and activities of Befimmo SA

- Managing the limited partnership Befimmo SCA and thereby composing management of Befimmo SCA
- Final decision-making in the case of share issues, mergers/acquisitions and acquisitions/disposals of properties

Source: Befimmo annual report FY 2004

Graph 3: Management and ownership structure of Befimmo



Source: Kempen & Co

Fortis is the 100% owner of the "general partner" of Befimmo

Befimmo SA is 100% owned by the Bernheim Comofi group. Therefore, Bernheim's liabilities are equal to those of Befimmo SA. The Bernheim Comofi group (Bernheim) is the "promoter" and co-founder of Befimmo. The company is a secession of the Belgian participation company *Groupe Bruxelles Lambert (GBL)* and active in property development, property management and issuing real estate certificates. Bernheim was acquired by Fortis in 2002.

Table 5: Responsibilities and activities of the Bernheim Group

- **Property management** Bernheim takes care of the property management for Befimmo SCA, by its Belgian subsidiary *Sogepro*. The contract concerns almost all assets in the portfolio and includes management as well as maintenance of the assets. For the fiscal year FY 2004, Befimmo paid a fee of € 317,081 to Sogepro for the aforementioned services.

Source: Befimmo annual report FY 2004

Befimmo is legally not controlled by Fortis (only 2 seats on the Board of Directors of Befimmo SA are taken up by Fortis and 6 of 11 members of the Board are independent). We believe the ties between Fortis and Befimmo SCA are less tight than one might expect as the majority of the Board of Directors is indeed independent. The legal structure of Befimmo SCA makes a friendly take-over complex but not impossible.

Attractive play for investors that are looking for dividend yield

We believe the Befimmo share could particularly be an attractive play for investors that are looking for a low risk/low return defensive play, with an attractive dividend yield and low variation in earnings and share price. Dividend payments show a stable growth pattern as Befimmo's cash flow grows around 3-4% annually. Particularly insurance companies or private investors might be looking for these characteristics. Furthermore, we believe that investors that want to lock-in their performance with a risk-averse play could be attracted by the Befimmo share.

Portfolio: Strongly positioned, solid tenants

Key points

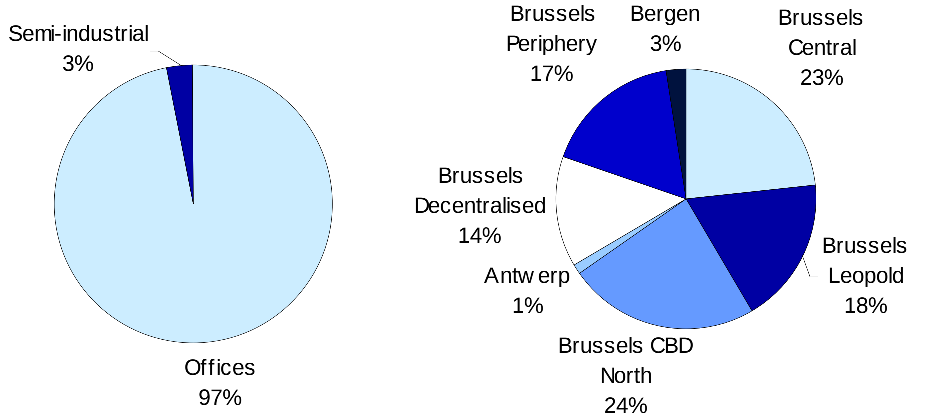
– **High-quality premises, little diversification**
– **Low-risk tenant structure, dominated by public sector tenants**
– **Conservatively valued Brussels CBD portfolio**
– **Marginally positive reversionary potential, limited impact on short-term rental income**

Portfolio is made up of relatively few and large assets

High-quality premises, little diversification

Befimmo's portfolio (market value € 1,129m) is almost entirely focused on the Brussels office market (95% of portfolio market value). Within the sub markets of Brussels, 65% of the assets are located in the CBD zone. Befimmo owns 42 large premises with an average size per property of 13,000 sqm. Due to the focus on only one asset class, in one geographical market, spread over relatively few premises, we believe Befimmo's portfolio is only modestly diversified. Although in theory this would imply a substantial risk, in Befimmo's case we believe this risk is limited. This is because almost 50% of Befimmo's assets are of high quality (A-grade: long-term lease contracts, public sector tenants), and located in the less volatile zone of Brussels CBD. Moreover, except for a few premises, most properties (32) are relatively new (constructed or refurbished in the nineties or later) or have recently been renovated. In terms of portfolio vacancy, Befimmo's portfolio performs in line with the Belgian office market with a vacancy rate of 8.6% in FY 2004 (Brussels office market average: 10.7%). Particularly in Brussels CBD, Befimmo has a low vacancy rate of 2.0% in FY 2004 (Brussels office CBD market average: 7.0%).

Graph 4: Portfolio breakdown



Source: Befimmo

Almost 44% of rental income from public sector tenants

Low-risk tenant structure, dominated by public sector tenants

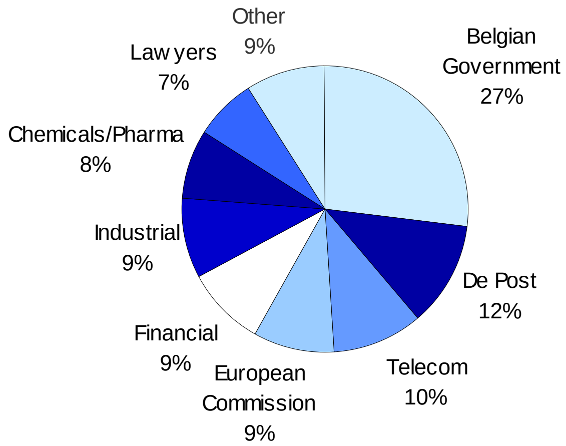
Befimmo's tenant structure is dominated by public sector tenants. The Belgian Government, the Flemish Community, the European Commission and *La Poste* together make up 44% of Befimmo's gross rental income. The largest tenants particularly occupy those premises that are located in Brussels CBD. The Decentralized and Periphery zones are more cyclical and typically occupied by tenants from the IT, Chemicals/Pharma and Telecom sectors. Most of the premises in the Brussels CBD zone are let to the Belgian Government, European Commission or large multinationals like *General Electric*, *Royal Dutch/Shell*, *Belgacom* and *La Poste*. We regard the high exposure of Befimmo to public sector tenants as positive, as we regard public sector tenants as more solid than private sector tenants. Moreover, we believe that Befimmo's lease expiry scheme does not reveal a major risk. Most lease contracts that expire in 2005 concern Brussels CBD leases that particularly have positive reversionary potential, whereas less than 10% of the contracts face a first expiration in the next two years. Negative consequences for Befimmo might arise if the market

Befimmo has hardly any lease expiry in Brussels Decentralized in 2005

Unlike Cofinimmo, Befimmo does not disclose the market value separately per property

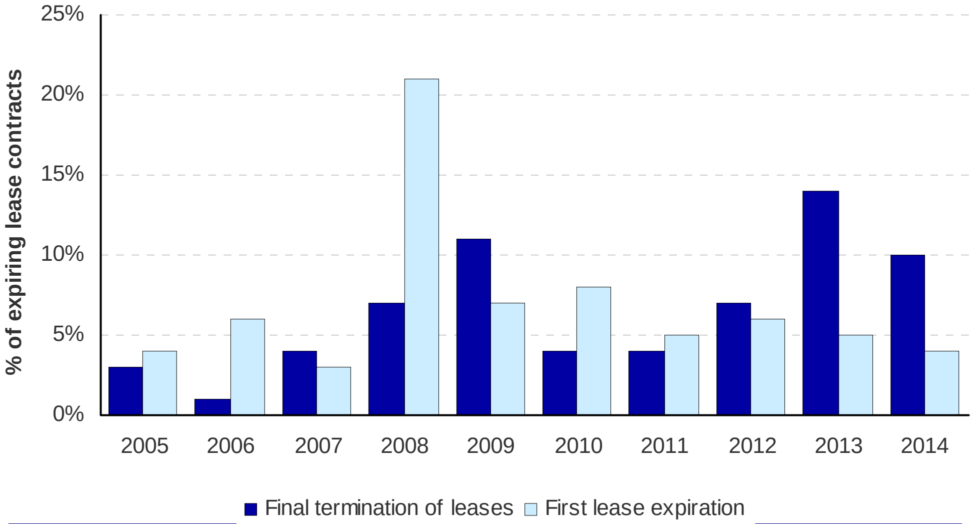
conditions in the Brussels Decentralized and Periphery zones remain weak in the next 3-5 years. In that case, Befimmo's rental income could be harmed. In 2004, Befimmo successfully extended some lease contracts in the Brussels Decentralized zone, implying that reversionary potential for FY 2005 is positive.

Graph 5: Rental income breakdown by tenant



Source: Befimmo

Graph 6: Lease expiry scheme for Befimmo[1]



Source: Befimmo

[1] Note that the typical lease length in Belgium is 3/6/9 years

Conservatively valued portfolio

Befimmo does not disclose the appraised market value separately per property (Cofinimmo does disclose this breakdown). Only the appraisal per sub market is disclosed. Looking at the gross yields that Befimmo reports in its different sub markets, we feel that particularly the CBD premises are conservatively valued.

Table 6: Gross yields for Befimmo's portfolio

Sub market	Gross yield	Theoretical gross yield	Gross yield market (prime)	Spread
Brussels CBD	7.3%	7.5%	6.2%	1.3%
Brussels Decentralized	6.4%	7.5%	7.5%	0.0%
Brussels Periphery	6.4%	7.7%	8.0%	-0.3%

Source: Befimmo, Catella Codemer (Office Market Trends Belgium, December 2004)

Where prime gross yields declined from 7.7% in 1994 to 6.2% currently in the Brussels CBD sub market, Befimmo's CBD premises are still valued at a 7.3% gross yield. Adjusted for the vacancy at *Schuman 11*, we even arrive at a 7.5%

gross yield. Although not all of Befimmo's assets are prime, we believe the gap with prime gross yields is currently high.

We estimate Befimmo's reversionary potential positive at 1.7%

Marginally positive reversionary potential, limited impact on rental income
When comparing Befimmo's reported rents for the different sub markets (see table 7) it is active; with estimated market rents (see table 7) we see that particularly the Brussels Central zone has positive reversionary potential. Befimmo still has many lease contracts in this sub market at a rent level close to € 150/sqm with lease contracts that are mainly long-term based (not the typical 3/6/9-y contracts). In their latest office market update for the Brussels market, *Catella Codemer* reports a prime rental level of € 205/sqm for office premises that are located in Brussels Central. Although we realize that not all of Befimmo's premises are high-rent properties in the Central zone, we do believe that there is clearly upside. On the other hand, the Decentralized and Periphery zones reveal negative reversionary potential.

Table 7: Reversionary potential in Befimmo's portfolio

Sub market	Contractual rent (€ m)	Estimated market rent (€ m)[1]	Reversionary potential
Brussels Central	17.9	21.6	20.6%
Brussels Leopold	13.9	14.4	3.4%
Brussels CBD North	18.1	19.6	8.6%
Brussels Decentralized	10.6	8.2	-22.4%
Brussels Periphery	13.1	11.1	-15.3%
Bergen	2.2	2.2	0.0%
Antwerp	0.9	0.9	2.4%
Other	1.7	1.7	-1.3%
Total	**78.3**	**79.6**	**1.7%**

Source: Befimmo, Catella Codemer (Office Market Trends Belgium, December 2004)
[1] Estimated market rents are based on average sub market rents

Lease incentives of 20-30% rent reduction are no exception in non-CBD sub markets

Although prime rents are still at € 160-180/sqm, many new lease contracts are concluded at levels around € 125-140/sqm in the Decentralized zone and € 110/sqm in the Periphery zone. The -22.4% anticipated negative reversionary potential in Brussels Decentralized is underpinned by the renewed lease contract of the *La Plaine* (16,000 sqm, 5% of portfolio market value) property, leased out to *Citibank Belgium*. The previous lease contract with *Citibank Belgium* was set at a € 240/sqm rate. The lease contract (expiry in 2007) was recently extended (expiry now in 2013) at an undisclosed rate. Currently, most lease contracts in Brussels Decentralized are concluded at rates around € 190/€ 200 per sqm implying negative reversionary potential of around 20%. An indication of negative reversionary potential in Brussels Periphery concerned a new lease contract for Befimmo's *Fountain Plaza* (17,000 sqm, 4% of portfolio market value). *Fountain Plaza* is currently being let for 62% and recently Befimmo let an additional 300 sqm at a rate of € 125/sqm. The part that was already let is included in Befimmo's portfolio at a rate of near € 140/sqm, implying at least 12% negative reversionary potential. Lease incentives like rental-free periods and free inventories should be included in Befimmo's reversionary potential as well. For Befimmo's total portfolio we arrive at a positive reversionary potential of +1.7%. Management indicated earlier that it expects a slightly positive reversionary potential in the coming years. With less than 10% of the lease contracts expiring by 2007, the impact of reversionary potential will be very limited in the coming years.

Strategy: Buy and hold

Key points

- **Low-risk office assets in Brussels, with room for diversification**
- **Management did not track the initially formulated strategy**
- **Selective and conservative approach to acquisitions/disposals**

Although investment opportunities are scarce in Brussels, Befimmo has currently no intentions to invest abroad

Focus on low-risk assets in Brussels…

The strategy of Befimmo is highly focussed on office premises in the Brussels market (95% of portfolio market value). Befimmo targets low-risk/low-yield premises in the CBD sub market (65%) together with minor exposure (30%) in the more cyclical high-yielding sub markets of Brussels Decentralized and Periphery. Geographical diversification to other countries is currently not in the picture, according to Befimmo's management. Although currently almost all of Befimmo's assets are located in Brussels, we believe other larger Belgian cities (like Antwerp) might be targeted as well to gain exposure. Befimmo is not involved in property development, only occasional refurbishments or redevelopments of existing properties are made.

…but there is room for diversification

Management recently stated that it is open to acquire asset types other than offices. The high focus on office premises might therefore shift in the coming years. We have mixed feelings regarding possible diversification to other asset classes. On the one hand, Befimmo has build up a strong track record in the Brussels office market, which justifies its clear focus. On the other hand, diversification might increase the stability of earnings. We would be encouraged if Befimmo decides to reduce its exposure to the Brussels Decentralized and Periphery sub markets (we see no pick-up in market conditions before 2007) and to invest the proceeds in retail properties (shopping centres in particular). The outlook for the shopping centre market is positive in Belgium. According to recent real estate broker reports, the shopping centre market has the highest yield compression in the retail asset class in Belgium.

Management did not follow the initially formulated strategy

When Befimmo was founded in 1995, a strategy was formulated that focussed on three types of assets: i) office premises in Brussels, ii) semi-industrial premises between Brussels and Antwerp and iii) logistic premises in Belgium. Almost 10 years later, Befimmo's portfolio is almost entirely (95%) focussed on the Brussels office market. Befimmo did not find any suitable acquisition candidates in the other two asset classes. We believe that the fact that Befimmo did not completely follow its initial formulated strategy should not be seen in a negative light as Befimmo has built up a good quality office portfolio with only minor exposure to non-CBD zones.

Befimmo made due diligence on 7 possible acquisitions in 2004, in the end, only 1 property was acquired

Selective and conservative approach to acquisitions/disposals

Befimmo's management has a selective stance when it comes to acquisitions. After the acquisition of Cibix in 2001, Befimmo has not been very active in the acquisition market. Only the *Poelaert* property in Brussels Central has been acquired.

Table 8: Befimmo's most recent transactions

Time	Building	Area	Value	Net yield	Lease
Dec-03	Poelaert 2-3-4	Brussels Central	€ 52m	5.5%	18
Dec-01	Cibix portfolio	Brussels CBD and non-CBD	€ 363m	n/a	3/6/9/12/15
Dec-00	Media	Brussels Periphery	E: € 35m	n/a	9

Source: Befimmo

Management names the increased degree of competition as the main reason for the low number of acquisitions. In 2004, Befimmo was involved in a due diligence process for a possible acquisition 7 times, ultimately only 1 property (*Poelaert*) was acquired. The highly competitive investment climate (predominantly investors from Belgium, Ireland, Germany and the Middle East) drives yields down, particularly in the CBD, to low levels around 6.2% gross. The question remains as to how Befimmo can grow its portfolio in the coming years. Since Befimmo does not have any exposure to development, we anticipate two possibilities: a) a take-over of one of the smaller Belgian listed property companies, b) invest more in other asset classes like retail or semi-industrial. We regard the probability of taking over one of the smaller listed Belgian property companies as low. The legal structure of most Belgian property companies (limited partnership) is a barrier for friendly take-overs. By means of this limited partnership structure, all companies are externally managed by a company that can maintain control over the BEVAK by holding at least one share. Moreover, most Belgian property companies currently trade at a premium to NNAV (21% on average to spot NNAV), thereby decreasing the probability of a take-over. Investing more in asset classes other than office is more likely. Besides the fact that management does not exclude this option, the retail or industrial segments are less competitive in Belgium.

Determining Befimmo's NNAV

Key points
- **Portfolio valuation is not based on an open market value**
- **We adjust for transfer tax (35% of transactions)**
- **We adjust for revaluation of A-grade assets**
- **Our 2004 NNAV estimate is 5% lower than Befimmo's NNAV**

Portfolio valuation is not based on an open market value

Befimmo's portfolio is externally appraised on a quarterly basis and included in the books at market value (based on the investment value of the properties). The company publishes an updated market value NNAV each quarter. In order to compare Befimmo's NNAV with that of other European property companies, we need to estimate how much transfer tax is paid in the case of the sale of Befimmo's assets and deduct this from the reported investment value. As we already know from Cofinimmo, in Belgium, acquisitions are structured in all kinds of ways to avoid the high amount of transfer tax (12.5%) that has to be paid in Brussels.

Table 9: How to lower tax on property transactions in Belgium

Type of transaction	Rate of transfer tax
Sale of shares in property company	0%
Sale of a 27-year lease	0.2%
Sale under VAT regime: recovery possible	0%
Sale to EU, federal or regional governments	0%
Sale within 2 years of purchase (2/5 * 12.5%)	5%
Property sale in Flanders	10%

Source: Kempen & Co

In Belgian terms we generally speak of "subscription rights". For investor's convenience, we speak of transfer tax instead of these subscription rights.

We adjust for transfer tax (35% of transactions)

We anticipate that CBD assets (65% of portfolio) can be sold to public parties…

The Belgian transfer tax rate is relatively high in a European perspective (range of 2-9%). We know from Cofinimmo's transactions that around two-thirds of the company's acquisitions are exclusive transfer tax. Last year, neither Cofinimmo nor Befimmo paid any transfer tax in their transactions on the Brussels office market. Management of both Cofinimmo and Befimmo therefore believe that an NNAV should be applied that is not adjusted for transfer tax. We question the application of this approach. We believe the NNAV of Belgian (but also other European) property companies should be based on an open market value of the portfolio or liquidation value. For Belgian property companies one should ask whether they are able to sell their assets in transfer tax-exempt deals. Like Cofinimmo and Befimmo, we believe that in some cases the companies will be able to sell their assets to the federal or regional government or to the European Union. We doubt however, whether Cofinimmo or Befimmo will be willing or able to sell their assets under a 27-y lease agreement. For Cofinimmo we therefore made the assumption that transfer tax will be paid in 50% of the transactions since 46% of Cofinimmo's assets are CBD assets which we believe could be sold to a public party. For Befimmo (65% CBD exposure) we consequently assume that transfer tax would be paid in 35% (100%-65%) of its transactions.

…we therefore assume transfer tax is paid in 35% of Befimmo's transactions

We adjust for the revaluation of A-grade assets

Befimmo has A-grade assets (long-term leases, CBD located, solid tenants)…

We believe Befimmo's A-grade assets, which are located in Brussels CBD, should be appraised at a different net yield. These specific A-grade assets concern properties, which are let to the Belgian government or European Commission, are let on 9-y, 12-y, 15-y, 18-y or 27-y lease agreements (not typical Belgian lease contracts) and are located in Brussels' most prestigious zones, say Leopold or Central. We estimate that most of these assets are included in Befimmo's books at a 6.2% to 6.5% net yield. We believe however that these assets should be appraised at a 5.5% net yield. The reason for our positive stance is based on the following. Belgian property brokers report that prime net yields in Brussels CBD are currently near 6.0% (for 3/6/9 lease contracts), implying the net yield for A-grade premises at long-term lease contracts is lower. Even more convincing is the recent transaction between the Belgian government and the Belgian insurer AXA where a 5.5% net yield was paid. We believe that this transaction underpins our view that net yields on specific assets in Brussels CBD should be 5.5%.

Table 10: Details of the AXA deal

	Gross yield	Market value	Net yield	Surface sqm	Lease contract	Tenant	Area	Prime net yield
Koolstraat	5.95%	16.0	5.7%	5,114	18 yr	Government	Central	6.0%
VLM Building	6.25%	19.5	6.1%	6,036	18 yr	Government	Central	6.0%
Kind & Gezin	6.25%	23.6	6.0%	8,235	18 yr	Government	Central	6.0%
VHM-Building[1]	5.90%	20.8	5.7%	5,985	18 yr	Government	Central	6.0%
Conscience	5.50%	164.7	5.4%	40,147	18 yr	Government	Central	6.0%
	5.70%	**244.6**	**5.5%**					

Source: CB Richard Ellis, Kempen & Co estimates
[1] VHM building was finally not included in the AXA deal

…which we believe should be appraised at a net yield of 5.5%

For Befimmo's assets that fit the profile of the A-grade assets mentioned in the Axa deal, we apply a 5.5% net yield in the Leopold and Central zones, implying that these assets should be revalued positively.

Table 11: Befimmo's A-grade assets (€ m)

Building	Gross yield[1]	Market value[1]	Net yield[1]	Location	Surface sqm	Lease contract	Applied net yield	Hidden value[1]
Uitbreiding Justitie	6.5%	46.6	6.2%	Central	18795	9	5.5%	5.9
Keizerin[2]	6.5%	38.8	6.2%	Central	17072	9/12/15/18	5.5%	4.9
Poelaert	5.7%	52.0	5.5%	Central	14000	18	5.5%	0.0
Borschette	6.4%	55.5	6.1%	Central	17657	12/24	5.5%	6.0
Josef II-straat 27	6.2%	55.5	5.6%	Leopold	12831	27	5.5%	1.0
Total (€ m)								**17.9**

Source: Befimmo and Kempen & Co estimates
[1] Kempen & Co estimates based on Befimmo's reported rental income and sub zones market values
[2] Keizerin is fully let to Belgacom (so it is not a public sector tenant)

The Poelaert building was acquired at a 5.5% net yield, as it is a landmark, a unique monumental property and located in front of "Palais Justice"

We believe these A-grade assets should be appraised at least € 17.9m higher in Befimmo's books. We consequently adjust Befimmo's FY 2004 NNAV for the revaluation of the A-grade assets.

Table 12: Kempen & Co estimate of Befimmo's NNAV (€ m)

Portfolio value at year-end 2004 (Kempen & Co estimate)	1,125.4
Adjustment for A-grade assets	17.9
Adjustment for transfer tax at 12.5% for 35% of the total portfolio (4.375% rate)	-50.0
Book value of equity at year-end 2004	603.8
Kempen & Co estimate of equity at year-end 2004	571.7
Number of shares outstanding	9.79
Kempen & Co estimate of Befimmo FY 2004 NNAV (€)	**58.4**

Source: Kempen & Co

After the adjustment for transfer tax, we arrive at a FY 2004 NNAV of € 58.4 per share. This NNAV estimate implies that the Befimmo share is currently trading at a 34% premium to 2004 NNAV and is 5% lower than the company's NNAV.

Balance sheet: Little variation anticipated

Key points
- **€ 100m firepower under VastgoedBevak restrictions**
- **Positive credit rating (BBB)**
- **High interest cover in European peer group**
- **Interest rate risk largely hedged by caps**
- **IFRS will probably positively impact EPS and equity**

The acquisition of Cibix in 2001, lifted Befimmo's gearing from 34% to 64%

€ 100m firepower under VastgoedBevak restrictions
Befimmo currently has a debt-to-total assets ratio of 46% on its balance sheet, which leaves some room for increasing its gearing. Under the VastgoedBevak restrictions, Befimmo is allowed to leverage up to a 50% debt-to-total assets ratio. This implies that Befimmo can leverage an additional € 100m to reach the 50% limit.

Befimmo was awarded a "positive outlook" by S&P

Positive credit rating (BBB)
Befimmo's credit rating has been stable over the past few years. The company has a BBB rating by S&P, which is in line with other Belgian and European property companies. In August 2004, Befimmo arranged a new € 350m syndicated loan facility, which was concluded at a BBB rating.

Table 13: Credit ratings of European property companies

Company	Credit rating
Rodamco Europe	A/Stable/A-1
Unibail	A-/Watch negative/A-2
Gecina	BBB+/Positive/A-2
Klépièrre	BBB+/Stable/A-2
Befimmo	**BBB/Positive/A-2**
Cofinimmo	BBB/Stable/A-2
SFL	BBB-/Negative/A-3

Source: Standards & Poor's

Of its European peers, only PSP Swiss Property has higher interest coverage

High interest cover in European peer group
Looking at the current interest cover of the company we learn that particularly in a Belgian and European perspective (2-3x), Befimmo's interest cover is relatively high (4.2x). Our estimate of the interest cover of Belgian peer Cofinimmo amounts to 2.9x for FY 2005E. It should be noted that Cofinimmo's net financial should be adjusted for the financial income from its *Belliard I/II* property (income booked as net financial instead of gross rental income as Cofinimmo concluded a financial lease on this property)

Table 14: FY 2005E of interest coverage for European office players

Company	FY 2005E interest cover
PSP Swiss Property	4.3
Befimmo	**4.2**
CA Immobilien	3.3
VastNed O/I	3.3
Cofinimmo[1]	2.9
Nieuwe Steen Investments	2.6
Unibail	2.5
Swiss Prime Site[2]	2.1
Sponda	2.0
SFL	1.8
Beni Stabili	1.7
British Land	1.6

Source: Kempen & Co estimates
[1] Adjusted for financial income from *Belliard I/II* property (financial lease)
[2] After acquisition of MAAG Holding (February 2005)

Although 75% of interest bearing debt is floating, risks are limited due to long positions in caps partly financed by the sale of floors

Interest rate risk largely hedged by caps

Although Befimmo has a high amount of floating rated debt on its balance sheet (79%), the company hedged around 75% of this floating rated debt by buying caps. The company currently has three long positions in caps of 3% (€ 135m) 4% (€ 118m) and 5.5% (€ 105m) partly financed by a short position in a floor that was sold at 3.5% (€ 105m). The floor has been sold until Q3 2006, the caps run until year-end 2008. As the current Belgian 10-y bond rate is 3.7%, only the 3% cap currently provides benefits for the company. We calculated the impact of a rise in the Belgian interest rate of 25 bps, 50 bps and 100 bps. Net financial (FY 2004: € 15.2m) would increase by € 0.84m (+5.5%), € 2.01m (+13.2%) and € 3.77m (+24.8%) respectively.

Table 15: Exposure and cost of loan portfolio at year-end 2004

Item	Size	%	Costs	+25 bps[1]	+50 bps[1]	+100 bps[1]
Fixed-rated	€ 94m	20%	4.5%	€ 0.00m	€ 0.00m	€ 0.00m
Floating-rated with caps	€ 353m	75%	3-5.5%	€ 0.54m	€ 1.43m	€ 2.60m
Total fixed-rated	€ 447m	95%	3-5.5%	€ 0.78m	€ 1.90m	€ 3.54m
Floating-rated	€ 24m	5%	n/a	€ 0.06m	€ 0.12m	€ 0.24m
Total debt	€ 470m	100%	3.2%	€ 0.84m	€ 2.01m	€ 3.77m
Debt-to-total assets		41%				
Belgian 10-y government bond			*3.50%*	*3.75%*	*4.00%*	*4.50%*

Source: Befimmo
[1] Kempen & Co estimates

Recently (August 2004) Befimmo concluded a new € 350m credit facility for the coming 5 years, thereby increasing the duration of the total loan portfolio to 4.6 years. By concluding this new credit facility, Befimmo now pays a 3.2% rate on its total debt, whereas it paid a 3.9% rate in FY 2003. Management is currently evaluating the possibilities of hedging even more of its interest costs by taking a swap position. We assume that Befimmo's net financial will slightly increase in FY 2005 to € -16.0m (FY 2004: € -15.3m) as we anticipate that the financing of the acquired *Poelaert* building will partly be offset by redeemable short-term debt and small benefits from the low interest rate environment (we assume a flat interest rate in Belgium for FY 2005).

Belgian property companies will not base the market value of their portfolio on the liquidation value under IAS 40

IFRS will probably positively impact EPS and equity (see Appendix III)

Unlike many other European property companies, Befimmo has until now not provided any possible implications in its reporting and accounting of the implementation of IFRS as per January 2005. Just like Cofinimmo, Befimmo reports the investment value of its property portfolio on its balance sheet. In line with IAS 40, companies should include the open market value/liquidation value of the property portfolio or conclude it at historic cost in their books. Befimmo states that reporting the investment value of the portfolio is in compliance with the IAS 40 accountancy rule. Leaving aside any arguments for not deducting transfer taxes in the reported fair value, we believe Befimmo's and Cofinimmo's method of accounting does not contribute to better comparability of NNAVs across Europe. We point out that the introduction of IFRS does not materially changes the financials of the company. We listed some items on Befimmo's P&L and balance sheet that might change due to the introduction of IFRS.

Valuation: High premium to NNAV in European perspective likely to endure

Key points

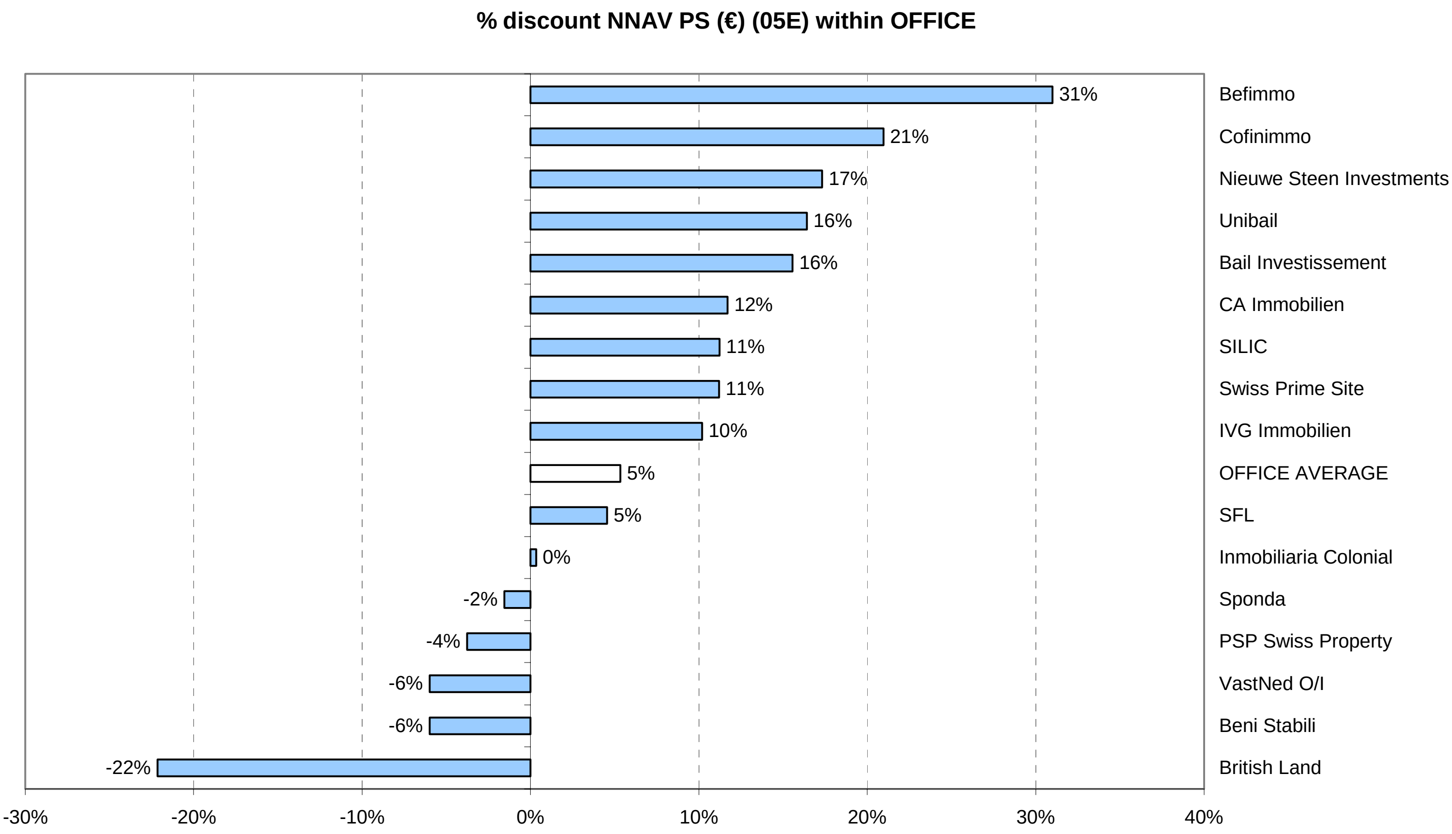
- **P/NNAV gap with European peers, anticipated to endure**
- **For some Belgian investors, Belgian property stocks offer the highest yields**
- **Gap between dividend yield and interest rate is increasing**
- **Total return of 8.5% expected for FY 2005**
- **Valued in line with European peers in terms of EV/EBITDA and P/CF**

The Belgian approach to market value NNAVs has resulted in demanding valuation of the property stocks

P/NNAV gap with European peers anticipated to endure

We already know from Cofinimmo that most Belgian property companies are unattractively valued when looking at premiums/discounts to NNAV. The average premium to 2005E NNAV for office players in Europe (5% on average) has increased heavily in 2004, Cofinimmo's and Befimmo's premium to 2005E NNAV increased as well, though at a lower pace.

Graph 7: P/NNAV 2005E for European office players



Source: Kempen & Co

Belgian private investors favour the high dividend yield of the Belgian property companies

At the time we initiated coverage at Cofinimmo in 2003, we believed the gap between the premium to NNAV of Belgian office players and other European office players would decline. The gap indeed declined but is still quite large (Belgian office players average 25% premium to spot NNAV vs. European office players average 13%). The reason for this gap still being large is twofold: i) the Belgian way of calculating the NNAV (including transfer tax), ii) the relatively high and sustainable dividend yield of the Belgian office players together with the current low interest rate environment (10-y Belgian bond yield 3.7%).

Belgian private investors are levied double taxation when investing in, other than Belgian, European property stocks!

Belgian limited liability companies pay both withholding dividend tax and corporate taxes when investing in foreign property stocks

For some Belgian investors, Belgian property stocks offer the highest yields

We believe that both Belgian private investors and Belgian institutional investors determine most of the increased demand for Belgian property shares. Belgian private and institutional investors prefer Belgian property stocks as the dividend yield is high in the European perspective (on average 6%) compared to the interest rate (10-y Belgian government bond yield 3.7%). Only Finland and the Netherlands offer higher spreads between dividend yield and interest rate. We conclude that Belgian private investors and limited liability structures (like most insurance funds) offer the highest tax-adjusted dividend yield for Belgian property stocks, when compared to European property stocks. For tax-efficient structures like the Bevak/Bevek or Belgian pension funds, investing in the Netherlands or Finland offers higher tax-adjusted dividend yields.

Belgian private investors are levied double taxation when investing in, European property stocks other than Belgian ones. For example, when Belgian investors buys a Dutch property stock, the dividend withholding tax in the Netherlands is lowered from 25% to 15% under the "double tax treatment" that the Netherlands and Belgium have agreed. Furthermore, the investor is levied 25% dividend taxation in Belgium. The adjusted dividend yield for Dutch property stocks bought by Belgian private investors is therefore 4.3%. When this investor buys Belgian property shares, he is only levied 15% dividend taxation in Belgium. Adjusted for this tax rate, investing in Belgium (5.1% adjusted dividend yield) offers a higher adjusted dividend yield than for example investing in the Netherlands (4.3% dividend yield, adjusted for tax).

Table 16: Tax-adjusted dividend yields for Belgian private investors

Country	Local dividend tax	Deduction local rate[1]	Belgian rate	Dividend yield	Adjusted yield[2]	*10-y bond*
Belgium	**n/m**	**n/m**	**15%**	**6.0%**	**5.1%**	***3.5%***
Netherlands	25%	-10%	25%	6.7%	4.3%	*3.5%*
Finland	25%	-10%	25%	6.2%	4.0%	*3.5%*
France	25%	-10%	25%	4.5%	2.9%	*3.5%*
Germany	25%	-10%	25%	4.3%	2.7%	*3.5%*
Switzerland	35%	-10%	25%	4.2%	2.4%	*2.1%*
Spain	25%	-10%	25%	3.7%	2.4%	*3.5%*
Italy	12.5%	-10%	25%	2.7%	2.0%	*3.6%*
UK[3]	0%	0%	25%	2.6%	2.0%	*4.5%*
Austria	25%	-10%	25%	0.0%	0.0%	*3.5%*

Source: Kempen & Co, Belastingdienst (Dutch tax authority), Federale overheidsdienst Financien (Belgian tax authority),

1 Under the "double tax treatment" that Belgium agreed with all countries in table 16 the dividend withholding tax in the country of origin is lowered by 10%.

2 The gross dividend yield is adjusted for: 1 dividend withholding tax in the country of origin and 2 dividend taxation in Belgium

3 The UK levies only dividend withholding tax to residents of the UK

Belgian limited liability companies (NV or "Naamloze Vennootschap"; in Belgium there is no legal structure like the Dutch BV "Besloten Vennootschap") that invest in European property stocks are levied withholding tax in the country of investment, which can be recouped partly under the "double tax treatment". However, they can fully recoup the 15% dividend withholding tax they pay when investing in Belgian property stocks. Finally, the limited liability companies pay corporate taxes in Belgium at the 34% rate.

Table 17: Tax-adjusted dividend yields, Belgian limited liability companies

Country	Local dividend tax	Deduction local rate[1]	Corporate tax rate	Dividend yield	Adjusted yield[2]	*10-y bond*
Belgium	**n/m**	**-15%**	**34%**	**6.0%**	**4.0%**	**3.5%**
Netherlands	25%	-10%	34%	6.7%	3.8%	3.5%
Finland	25%	-10%	34%	6.2%	3.5%	3.5%
France	25%	-10%	34%	4.5%	2.5%	3.5%
Germany	25%	-10%	34%	4.3%	2.4%	3.5%
Switzerland	35%	-10%	34%	4.2%	2.1%	2.1%
Spain	25%	-10%	34%	3.7%	2.1%	3.5%
Italy	12.5%	-10%	34%	2.7%	1.7%	3.6%
UK	0%	-10%	34%	2.6%	1.5%	4.5%
Austria	25%	-10%	34%	0.0%	0.0%	3.5%

Source: Kempen & Co, Belastingdienst (Dutch tax authority), Federale overheidsdienst Financien (Belgian tax authority),

[1] Under the “double tax treatment” that Belgium agreed with all countries in table 17 the dividend withholding tax in the country of origin is lowered by 10%.

Most of the Belgian insurance companies are structured as a limited liability company

Adjusted for all taxes, investing in Belgian property stocks offers the highest adjusted dividend yield for limited liability companies. Most Belgian insurance companies are structured as a limited liability company for which the adjusted yields of table 17 consequently hold. Note that some insurance funds are structured as a tax efficient Bevak or Bevek. These specific funds are not allowed to invest directly in property but are allowed to invest in property stocks like Befimmo. For these funds, the data of table 18 hold. Comparing the adjusted dividend yields of Belgium with other European countries reveals that investing in Belgian property stocks results in a 4.0% adjusted dividend yield on average for Belgian limited liability companies, whereas adjusted dividend yields for other countries are at 3.8% (the Netherlands) or even lower.

Table 18: Tax-adjusted dividend yields for Belgian SICAV (variable capital)

Country	Local dividend tax	Deduction local rate[1]	Dividend yield	Adjusted yield	*10-y bond*
Netherlands	25%	-10%	6.7%	5.7%	3.5%
Finland	25%	-10%	6.2%	5.3%	3.5%
Belgium	**15%**	**0%**	**6.0%**	**5.1%**	**3.5%**
France	25%	-10%	4.5%	3.8%	3.5%
Germany	25%	-10%	4.3%	3.7%	3.5%
Switzerland	35%	-10%	4.2%	3.2%	2.1%
Spain	25%	-10%	3.7%	3.1%	3.5%
Italy	12.5%	-10%	2.7%	2.6%	3.6%
UK	25%	-10%	2.6%	2.2%	4.5%
Austria	25%	-10%	0.0%	0.0%	3.5%

Source: Kempen & Co, Belastingdienst (Dutch tax authority), Federale overheidsdienst Financien (Belgian tax authority),

[1] Under the “double tax treatment” that Belgium agreed with all countries in table 18 the dividend withholding tax in the country of origin is lowered by 10%.

Belgian tax-efficient (SICAV/Bevek) companies can not recoup dividend tax when investing in Belgian property stocks

Belgian companies that are structured as a SICAV/Bevek (variable capital) are not levied any corporate taxes but cannot recoup the Belgian dividend withholding tax. When investing in foreign property stocks, dividend withholding tax can only partly be recouped under the “double tax treatment”. Investing in Belgian property stocks offer therefore not the highest tax-adjusted dividend yield for these investors (5.1%). Investing in Dutch property stocks for example, offers a higher tax-adjusted dividend yield (5.7%; see table 18). Most Belgian mutual funds are structured as a SICAV. These conclusions also hold for companies with a fixed capital structure (SICAFI or Bevak).

Belgian non-profit organisations, like pension funds, can earn higher tax-adjusted dividend yields when investing in foreign property stocks

Table 19: Tax-adjusted dividend yields for Belgian pension funds[2]

Country	Local dividend tax	Deduction local rate[1]	Dividend yield	Adjusted yield	*10-y bond*
Netherlands	25%	-10%	6.7%	5.7%	3.5%
Finland	25%	-10%	6.2%	5.3%	3.5%
Belgium	**15%**	**0%**	**6.0%**	**5.1%**	**3.5%**
France	25%	-10%	4.5%	3.8%	3.5%
Germany	25%	-10%	4.3%	3.7%	3.5%
Switzerland	35%	-10%	4.2%	3.2%	2.1%
Spain	25%	-10%	3.7%	3.1%	3.5%
Italy	12.5%	-10%	2.7%	2.6%	3.6%
UK	25%	-10%	2.6%	2.2%	4.5%
Austria	25%	-10%	0.0%	0.0%	3.5%

Source: Kempen & Co, Belastingdienst (Dutch tax authority), Federale overheidsdienst Financien (Belgian tax authority),

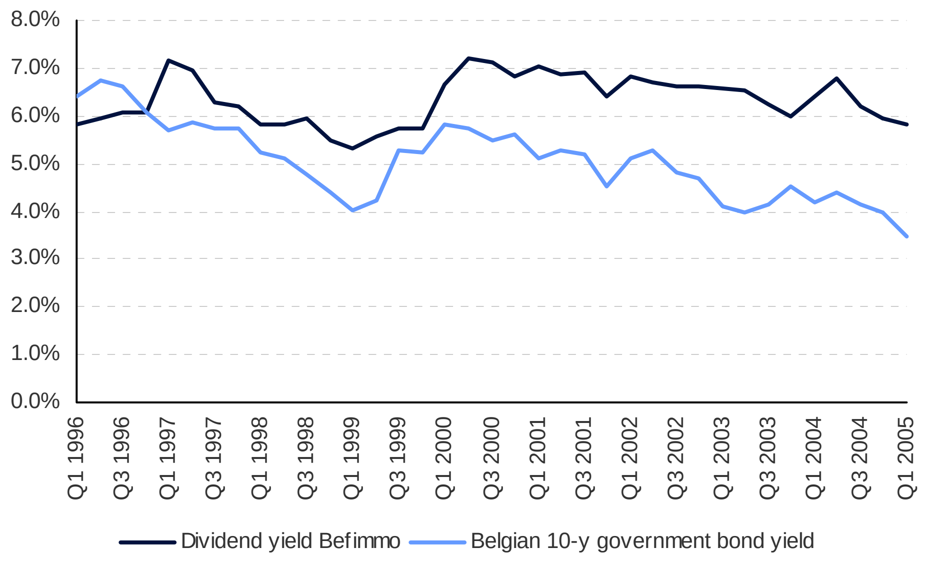
[1] Under the "double tax treatment" that Belgium agreed with all countries in table 19 the dividend withholding tax in the country of origin is lowered by 10%.

[2] Pension funds that are not levied corporate tax (non-profit funds)

Belgian pension funds are not levied any corporate taxes as long as they are non-profit organisations. However, contrary to private investors or limited liability companies, pension funds cannot recoup the Belgian dividend withholding tax of 15%. Foreign dividend withholding taxes can be recouped partly under the "double tax treatment". For most countries (see table 19) the net withholding tax rate amounts to 15% as well, which eliminates the fiscal advantage of investing in Belgian property stocks for Belgian pension funds. Investing in Dutch or Finnish property stocks offers a higher adjusted dividend yield for Belgian pension funds of 60 bps and 20 bps respectively.

From a historical point of view; the gap between Befimmo's gross dividend yield and the 10-y Belgian government bond yield is at a historical high.

Graph 8: Gross dividend yield Befimmo vs. Belgian 10-y government bond yield



Source: Datastream, Kempen & Co

Belgian insurers Fortis and AXA recently increased their stake in Belgian property stocks

Demand for Belgian property shares is also attributable to Belgian institutional investors (particularly insurers) that offer life insurance funds that yield 3.75-4.25% annually. These specific insurance funds (so not all of their funds) are not allowed to invest directly in Belgian property, but are allowed to invest in Belgian property stocks. The reason for insurance companies to launch such funds is the tax efficient status that is applicable (mostly structured as a tax efficient Bevak or Bevek). In the current low interest rate environment, Belgian property stocks offer these funds the opportunity to invest in real estate with an attractive dividend yield. For these institutional investors the Belgian adjusted dividend yield is the most attractive investment as mentioned before. The increased stake of Fortis (Bernheim) in Befimmo (from 8% to 16% in 2004/2005) and AXA and Fortis in Leasinvest Real Estate (both companies increased their stake) underpin this view. We anticipate that the long-term Belgian interest rate will show a flat pattern in 2005. We therefore expect that the strong demand for Belgian property stocks will endure. Except for the transfer tax argument, this implies that we believe that the valuation gap in terms of P/NNAV between Belgian property stocks and their European peers, will endure as well. Moreover, we do not anticipate that the Belgian property companies will adjust their NNAV valuation (including transfer tax) in line with the valuation of their European peers (excluding transfer tax).

We anticipate that the European office players sector will trade at a 16% premium to 2005E NNAV on average

Total return of 8.5% expected for Befimmo in 2005

For the European listed property sector, we anticipate an average 15% total return in FY 2005. The expected implied total return (NNAV growth + dividend yield) amounts to 8.3% for European office players in 2005. We consequently anticipate that European office players will trade at a 16% premium to FY 2005E NNAV on average. As we anticipate the valuation gap in terms of P/NNAV between Belgian property stocks and their European peers to be flat, we anticipate that Befimmo will trade at around 37% premium to FY 2005E NNAV.

Table 20: Historical performances and forecasts European office players

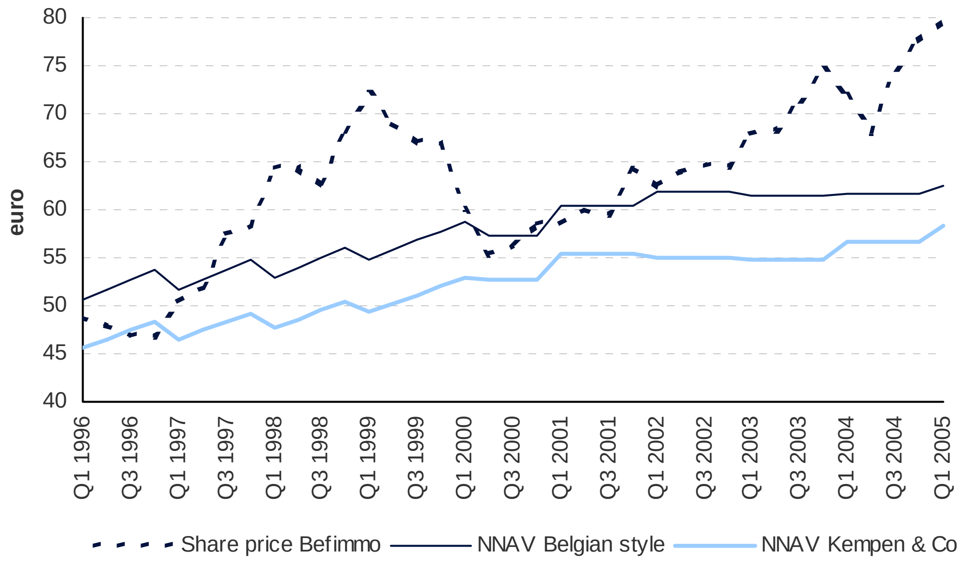
Year	Item	Belgium	Europe	Befimmo
2001	NNAV growth	3.5%	4.0%	5.6%
	Dividend yield	6.7%	5.0%	6.9%
	Total return implied	10.2%	9.0%	12.5%
	Total return realised (price+dividend)	*15.4%*	*-0.7%*	*12.7%*
	P/NNAV -1	-4.0%	-21.4%	6.8%
2002	NNAV growth	1.8%	-1.6%	2.3%
	Dividend yield	7.3%	6.4%	6.7%
	Total return implied	9.1%	4.8%	9.0%
	Total return realised (price+dividend)	*11.0%*	*3.2%*	*8.8%*
	P/NNAV -1	-1.9%	-19.9%	11.8%
2003	NNAV growth	-0.2%	3.3%	-0.7%
	Dividend yield	6.9%	5.7%	6.4%
	Total return implied	6.7%	9.0%	5.7%
	Total return realised (price+dividend)	*15.4%*	*21.1%*	*9.1%*
	P/NNAV -1	7.6%	-20.5%	22.3%
2004	NNAV growth	0.4%	4.0%	0.4%
	Dividend yield	6.4%	4.6%	6.2%
	Total return implied	6.8%	8.6%	6.6%
	Total return realised (price+dividend)	*16.7%*	*40.8%*	*12.6%*
	P/NNAV -1	16.2%	9.0%	30.6%
Year	**Item**	**Belgium**	**Europe**	**Befimmo**
2005E	NNAV growth	1.1%	2.1%	2.0%
	Dividend yield	5.9%	6.2%	6.0%
	Total return implied	7.0%	**8.3%**	**8.0%**
	Total return realised (price+dividend)	*n/a*	***15.0%***	***8.5%***
	P/NNAV -1	25.9%	**15.9%**	**37%**

Source: Datastream, Kempen & Co estimates, company reports

We anticipate a 8.5% total return for Befimmo in 2005.

Calculating with our FY 2005E of Befimmo's NNAV (€ 59.5 per share) we anticipate a share price of € 82.0 for Befimmo at year-end 2005. Assuming a 6.0% dividend yield for Befimmo in 2005 we anticipate a total return for Befimmo of 8.5% in FY 2005.

Graph 9: Historical premium/discount to NNAV Befimmo



Source: Befimmo, Kempen & Co estimates, Datastream

EV/EBITDA multiple, in line with European peer group

Valued in line with European peers in terms of EV/EBITDA and P/CF

Comparing Befimmo's 2005E EV/EBITDA multiple with its peer European office players reveals that from this point of view, Befimmo is more or less valued in line with its peers. Befimmo's 2005E EV/EBITDA multiple of 18.3 is only slightly higher than the European average of 17.3 and slightly lower than Cofinimmo's multiple of 19.9 times 2005E EV/EBITDA. We therefore regard Befimmo's valuation as in line with its European peers in terms of EV/EBITDA.

Table 21: EV/EBITDA + P/CF 2005E multiples for European office players

Company	EV/EBITDA 2005E	P/CF 2005E
IVG Immobilien	12.4	9.3
VastNed O/I	13.3	11.5
Nieuwe Steen Investments	15.0	10.5
Inmobiliaria Colonial	15.3	9.1
Sponda	15.4	10.8
Bail Investissement	15.9	10.4
Unibail	16.0	16.2
SILIC	16.3	13.2
Beni Stabili	16.4	16.4
British Land	16.7	26.8
SFL	17.2	18.6
Unweighted average	**17.3**	**15.5**
Befimmo	**18.3**	**15.1**
PSP Swiss Property	19.3	17.7
Cofinimmo	19.9	15.4
Swiss Prime Site	22.7	18.4
CA Immobilien	26.8	28.0

Source: Kempen & Co

In terms of P/CF, we believe Befimmo is valued in line with its European peers as well. Befimmo trades at a FY 2005E P/CF of 15.1 versus the 15.5 average for its European peers.

Brussels CBD anticipated to outperform non-CBD zones

Key points

- **Better CBD market conditions, won't prevent yield expansion**
- **New stock coming to the market will hurt the North and Leopold markets**
- **Higher office demand in Decentralized and Periphery anticipated**
- **Developers are ready to increase the stock in non-CBD zones**
- **Stable rents in CBD, pressure outside the CBD**
- **Lower yields anticipated for A-grade premises**

As investment opportunities are scarce, we feel that Befimmo has a better-positioned portfolio than Cofinimmo

Better CBD market conditions, won't prevent yield expansion

Although the supply rate of premises in the CBD is anticipated to go up and for non-CBD assets to go down, rents are anticipated to remain stable in CBD but will probably be lower in non-CBD zones in 2005. Befimmo has hardly any lease expiry next year in the Decentralized zone and is anticipated to show positive reversionary potential in 2005. Moreover, A-grade assets are anticipated to be appraised at even lower yields next year as the Belgian interest rate is anticipated to show a flat pattern. Although this will result in positive revaluation in 2005 and 2006 of 0.7% and 1.0% of portfolio market value respectively, we believe Befimmo's total portfolio will face yield expansion (E: rent indexation 1.8%) from a gross yield of 7.2% currently to 7.4% in 2006. The reason behind this yield expansion is the deteriorating market conditions in the Brussels non-CBD zones, which are only partly offset by positive conditions in the CBD zones.

If supply decreases in non-CBD sub markets, development activity is anticipated to pick-up again

New stock coming to the market will hurt the North and Leopold markets

The direct property market in Brussels is still a mixed bag. The CBD is still characterized by low vacancy (7%), low yields and stable rents whereas the Decentralized and Periphery zones have already been troubled for some years by high vacancy (15-20%) and falling rents. The vacancy rate for the total Brussels office market is currently 10.7% and we anticipate this rate to remain stable in 2005 and to increase in 2006.

Table 22: Forecasts supply rates per Brussels sub market

Sub market Brussels	Supply 2004	As a % of stock	Completions 2005E[2]	Take-up 2005E	Supply 2005E	Completions 2006E	Take-up[1] 2006E	Supply 2006E	Befimmo Exposure	Cofinimmo Exposure
Central	137,000	6.1%	46,000 *(75%)*	62,160	5.4%	58,000 *(100%)*	72,000	4.8%	23%	22%
North	93,500	8.7%	148,000[3] *(8%)*	62,160	16.7%	136,500 *(8%)*	72,000	22.6%	24%	0%
South	26,000	8.3%	0	0	8.3%	18,000 *(100%)*	0	14.0%	0%	0%
Leopold	175,000	5.4%	146,000 *(70%)*	108,780	6.6%	271,000 *(30%)*	126,000	11.0%	18%	23%
Louisa	103,500	13.7%	5,000 *(100%)*	20,720	11.6%	0	24,000	8.4%	0%	1%
CBD (totals)	*535,000*	*7.0%*	417,500	253,820	9.2%	483,500	294,000	11.7%	*65%*	*46%*
Decentralized	384,500	14.5%	93,500 *(100%)*	150,220	12.4%	115,000 *(100%)*	174,000	10.1%	14%	33%
Periphery	353,000	21.5%	14,500 *(100%)*	113,960	15.5%	75,000 *(100%)*	132,000	12.0%	17%	12%
Total	**1,272,500**	**10.7%**	**525,300**	**518,000**	**10.7%**	**673,500**	**600,000**	**11.4%**	**96%**	**91%**

Source: CB Richard Ellis, Catella Codemer, Befimmo, Cofinimmo, Kempen & Co estimates

[1] Take-up forecasts for 2006 are Kempen & Co estimates based on the assumption that the breakdown of take-up per sub market is equal to 2005E

[2] The amount of speculative development is given between brackets (no pre-letting)

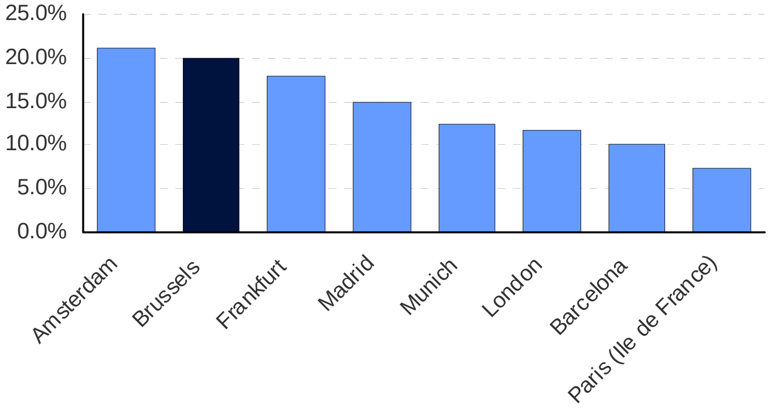
[3] 108,000 sqm concerns the pre-let North Galaxy building (Belgian Government)

Recently, the vacancy rate in Brussels increased as *Madou Plaza* (38,000 sqm project of IVG Immobilien) and *The Pavillion* (18,500 sqm project of Robelco and SEB ImmoInvest) were brought onto the market. the most important driving force behind the increasing rate in 2006 is the ongoing upward trend in office supply coming to the market, particularly in the CBD sub markets. Within the CBD sub markets it is striking to see that particularly the North and Leopold sub

Befimmo's exposure to the North sub market concerns only two properties, leased-out on long-term agreements

markets will be troubled by a high amount of completed projects in 2005 and 2006. We anticipate the vacancy rate in the North sub market to increase from its current 8.7% to 16.7% in 2006. The vacancy rate in the Leopold sub market is anticipated to increase from 5.4% to 6.6% in 2005. Although the picture seems to be even worse for 2006 in the Leopold zone, only 30% of the planned completions is speculative, which means that the vacancy rate will probably only increase slightly. Pre-lettings in 2006 in the Leopold zone are mostly lettings to the European Commission. For the total CBD area this means that vacancy will go up from 7% to 11.4% in 2006.

Chart 10: Office supply pipeline as a % of total stock (2005-2007)



Source: CB Richard Ellis (H2 2004)

Although Befimmo has more exposure (65%) in the CBD area than Cofinimmo (46%), we believe the impact on Befimmo will be limited. The 24% exposure of Befimmo in Brussels North concerns only two large buildings (*WTC* and *North Building*), which are let at 24-y and 27-y lease agreements to *La Poste* and the Belgian government respectively.

Table 23: Brussels office market development pipeline survey

Building	Area	Planned year of completion	sqm
North Galaxy[1]	North	2005	108,576
Madou Plaza[2]	Leopold	2005	42,083
Crown Avenue	Decentralized	2005	31,549
Central Plaza	Central	2005	19,800
The Pavillion	Leopold	2005	18,506
Olympiades	Decentralized	2005	14,822
Lavallée	Decentralized	2005	14,553
Laurentide	North	2005	13,999
Meeûs 38	Leopold	2005	10,230
Royal Rogier	Central	2006	72,000
Lex 2000	Leopold	2006	58,000
Palladium	North	2006	27,660
Omega Court	Decentralized	2006	27,390
Fonsny A1-A2	Central	2006	20,199
Tour Rogier	Central	2007	72,000
Axisparc	Periphery	2007	60,000
Brunoord	North	2007	48,329
Hulpe 120	Decentralized	2007	13,940
Vill-H	Periphery	2007	10,372
Tour de Finances[3]	North	2008	100,000

Source: Expertise
[1] Pre-let to Belgian Government (owner: Cofinimmo)
[2] Letting anticipated to European Commission (owner: IVG Immobilien)
[3] Pre-let to the European Commission

In Brussels Leopold, Befimmo will face risks on its *Wiertz*, *View* and *Guimard* building, which are let at 3/6/9 default lease contracts. We believe that Befimmo will be able to let its *Schuman 11* property (at the Schuman square, highest rents in Brussels) although probably not at the level of € 300/sqm that management is aiming for. The fact that Cofinimmo recently let part of its *Auderghem 22-28* property (near the Schuman square) at a rate close to € 200/sqm makes clear that rents at the Schuman square should be somewhat lower.

Public sector demand (50% of the total demand in 2004) is anticipated to weaken in 2005.

Higher office demand in Decentralized and Periphery anticipated…

We anticipate gross take-up for office premises to be higher in 2005 (518,000 sqm) compared to 2004 (424,000 sqm) for the total Brussels office market. The increase in take-up will probably be higher in the Decentralized and Periphery zones, than in the CBD zone. The reason behind this is twofold: i) we anticipate demand will be particularly driven by GDP growth in Belgium, which we believe will be higher (2.4%) than the average for the European continent (1.9%). As the Decentralized and Periphery zones are more cyclical than the CBD, these sub markets will probably benefit more from the high GDP growth. ii) In 2004, 54% of the total take-up concerned take-up driven by the public sector (mainly European Union and Belgian and Flemish Governments). The take-up from the public sector is anticipated to weaken in 2005 and 2006 as the European Commission is almost completely settled in Brussels. The net take-up of the EC will therefore be lower in 2005 and 2006. The main driver behind the increased demand for office space in 2005 and 2006 will consequently be the private sector. The private sector historically favours the Decentralized and Periphery zones to the CBD zones as rents are much lower and infrastructure is good outside Brussels CBD.

Belgium	2003	2004E	2005E	2006E
Unemployment %	8.0	7.9	7.6	7.4
Inflation %	1.6	2.0	1.8	1.8
Cons. spend. %	2.2	2.5	3.0	2.9

Source: Consensus Economics, Cushman & Wakefield/Healey & Baker

…but developers are ready to increase the stock

Although the higher anticipated demand for Brussels Periphery and Decentralized looks promising (vacancy rates can go down to 12-15%), we point out that there is a major risk for these sub markets that supply will increase due to speculative development. In current projections, future completions are low outside Brussels CBD, but many Belgian developers are ready to start construction again as soon as the Decentralized and Periphery situations improve. The reason for this is that there are still plenty of areas where development could take place and construction costs for offices in Belgium compared to other European countries are relatively low.

GDP % y-o-y	2003	2004E	2005E	2006E
Belgium	1.3	2.6	2.4	2.5
Euro zone	0.5	1.8	1.9	1.9
US	3.0	4.3	3.5	3.6
World	2.6	4.0	3.1	3.2

Source: Consensus Economics

Table 24: Construction costs in Europe in 2004 (€/sqm)

Country	Office (€/sqm)	2004 growth
UK	1697	+3%
France	1580	0%
Germany	1200	+5%
Netherlands	1156	+1%
Italy	1114	+4%
Spain	1003	+6%
Belgium	**895**	**-5%**
Portugal	798	0%
Poland	712	0%
Czech Republic	674	0%

Source: Oncor International/ Hugo Ceusters for Belgian estimates

CBD rents showed a stable performance in 2004

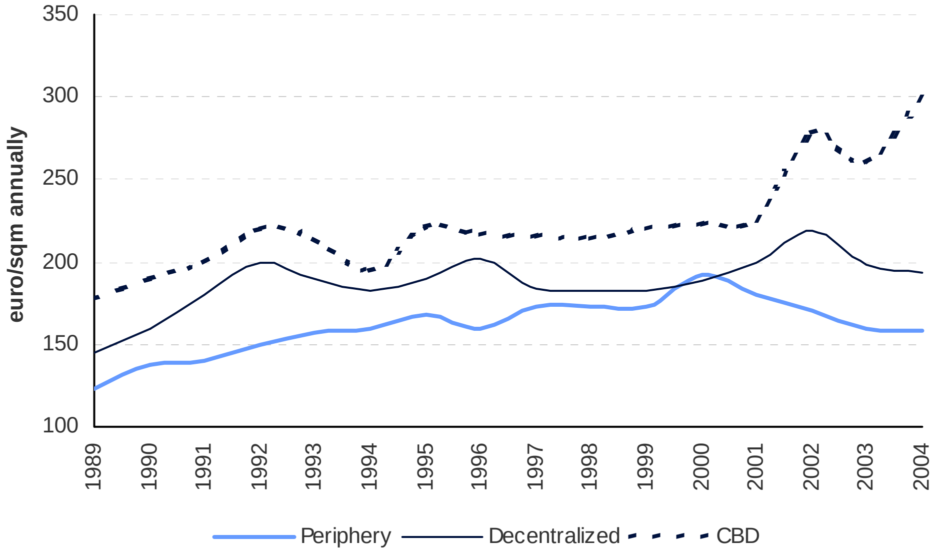
Stable rents in CBD, pressure outside the CBD

In the past two years, rents have fallen in the Decentralized and Periphery zones by around 20% due to weak demand for office premises in these sub markets and a heavy supply rate. The CBD zones saw rents increase by 15-20% as supply was limited and public demand increased heavily partly as a consequence of the expansion of the European Union. In the last two quarters of 2004, average rents in the CBD sub markets remained stable, except for the

A-grade premises that saw rents increase towards prime levels of € 300/sqm at the *Schuman* square in Brussels Leopold. For the CBD we anticipate stable rents in the 2005, 2006 time frame for A-grade premises (€ 250-300/sqm) and stable to slightly lower rents from 2006 onwards for B- and C-grade premises. As Befimmo's properties are mainly A-grade, we do not foresee many negative consequences for Befimmo. The ceiling for CBD rents has probably been reached as public parties are close to their maximum affordable rents, we believe. We anticipate positive reversionary potential for Befimmo in 2005 as most lease contracts due to expire were concluded at times when market rents were significantly below current levels.

We believe CBD prime rents have reached their ceiling as public parties have probably reached their rent limit

Chart 11: Prime rents in Brussels sub markets



Source: Catella Codemer

Rents will start bottoming out slowly in the Decentralized and Periphery sub markets as from 2006

Outside the CBD, in the Decentralized and Periphery sub markets, we anticipate that rents might fall slightly further but will bottom out as from 2006. As mentioned previously, supply will decrease in non-CBD zones and we anticipate this trend to positively impact rent levels. For 2005 we believe rents will be under pressure as recently negotiated lease contracts still include high levels of incentives. For Befimmo, we anticipate negative reversionary potential in the non-CBD markets, though this will be limited since management stated that after extension of some lease contracts in Brussels Decentralized in 2004, Befimmo faces hardly any lease expiry in FY 2005 in the Decentralized sub market.

Table 25: Reversionary potential in Befimmo's portfolio

Sub market	Contractual rent (€ m)	Estimated market Rent (€ m)	Reversionary potential
Brussels Central	17.9	21.6	20.6%
Brussels Leopold	13.9	14.4	3.4%
Brussels CBD North	18.1	19.6	8.6%
Brussels Decentralized	10.6	8.2	-22.4%
Brussels Periphery	13.1	11.1	-15.3%
Bergen	2.2	2.2	0.0%
Antwerp	0.9	0.9	2.4%
Other	1.7	1.7	-1.3%
Total	**78.3**	**79.6**	**1.7%**

Source: Befimmo, Catella Codemer (Office Market Trends Belgium, December 2004)

German open-end funds continue high activity in the direct Belgian office market

Lower yields anticipated for A-grade premises

International investors make up 53% of the total investments in the Brussels direct property market. In 2004, an investment volume of € 1.5bn was reached, which is slightly lower than in FY 2003 when € 1.6bn was recorded. The main contributors were the *Egmont I&II* projects (€ 215m) of Cofinimmo, and the sale of the portfolio of the Flemish government (€ 234m) partly to AXA. International investors still make up 53% of the total investments and this picture is not anticipated to change in 2005. German open-end funds remain the largest group within the international investors, followed by investors from Ireland and the Middle East. Also some UK investors entered the Belgian market in 2004 like Kenmore Capital, Celogix and Pillar Property. On the other hand, two large US investors (Fortress and Blackstone) have withdrawn from the Belgian property market. The largest investors in the Belgian property market in 2004 were Cofinimmo (€ 2bn), followed by Fortis Real Estate (€ 1.9bn), Axa Belgium (€ 1.7bn), Redevco (€ 1.6bn), KBC (€ 1.5bn) and Befimmo as the sixth largest investor. The office segment is dominated by German investors and insurance companies.

Table 26: Transactions in the Brussels office market (2004)

Building	Gross yield	Market value	Lease contract	Major tenant	Sub market
North Galaxy	6.2%	216.0	18 yr	Government	Central
Egmont I & II	6.2%	173.7	18 yr	Government	Leopold
Belliard I/II	6.2%	144.0	27 yr	European Commission	Leopold
ITT Tower	6.3%	72.0	n/a	n/a	Louisa
Poelaert 2-3-4	5.7%	52.0	18 yr	Government	Central
Lavallee	5.9%	47.0	n/a	n/a	Decentralized
Schuman 6	6.3%	41.0	n/a	n/a	Leopold
Guimardstraat	6.4%	35.0	9 yr	European Commission	Leopold
Alma Square	7.4%	31.0	n/a	n/a	Periphery
Terminal II	5.8%	n/a	18 yr	Government	Central

Source: Catella Codemer, CB Richard Ellis

We expect 20 bps yield expansion for Befimmo until 2007 due to ongoing weak market conditions in non-CBD zones

We anticipate that the demand for particularly A-grade premises will be characterized in 2005 by lower yields. The recent transaction between the Flemish government and AXA (5.5% net yield) underpins the trend of decreasing yields for A-grade premises. Upside in the valuation of CBD assets is reflected in the assumptions we made for both Befimmo and Cofinimmo's revaluation for the coming years. With Brussels CBD still holding the better cards, at least until 2007, we believe that the market value of Befimmo's assets (65% CBD exposure) will increase at a faster pace than Cofinimmo's assets (46% CBD exposure).

Table 27: Revaluation of office premises in Brussels sub markets

Sub market	2002	2003	2004	2005E	2006E	2007E
Brussels CBD	1.5%	0.8%	1.7%	2.0%	2.0%	2.0%
Brussels Decentralized	-0.8%	-3.5%	-3.6%	-1.0%	0.0%	0.5%
Brussels Periphery	-3.3%	-6.0%	-3.4%	-3.0%	-2.0%	-1.0%

Source: Befimmo and Kempen & Co estimates

For Befimmo, we anticipate positive revaluation in 2005 and 2006 of 0.7% and 1.0% of portfolio market value respectively. As we anticipate rent indexation at 1.8% for 2005 and 2006, we believe Befimmo's total portfolio will face yield expansion from a current gross yield of 7.2% to 7.4% in 2006. The reason behind this yield expansion is the deteriorating market conditions in the Brussels non-CBD zones, which are only partly offset by positive conditions in the CBD zones.

Outlook: Only the portfolio provides upside

Key points

- **Lower vacancy rate in 2005 due to additional letting**
- **Investment opportunities in the office segment are scarce**
- **CAGR 2005-2007E EPS growth of 3% anticipated**
- **EPS growth will result in dividend growth**
- **2-3% annual NNAV growth anticipated**
- **Initiate coverage with a Neutral rating**
- **Historically very sensitive for interest rate shifts**

Occupancy of the Shell building, Schuman 11 and Ikaros Business Park, can reduce the vacancy rate to 7.5% in 2005 (2004: 8.6%)

Lower vacancy rate in 2005 due to additional letting

From talking with Befimmo management we learned that the 8.6% vacancy rate of Befimmo in FY 2004 will probably be lower in FY 2005 as the *Shell building* (31,000 sqm office property in Brussels Central and renovated in 2000) will be fully occupied (multi-tenant structure). The previous tenant, Royal Dutch/Shell (who else?), left the building in 2004 to occupy another Befimmo building, namely *Triomf II* (9,000 sqm office property in Brussels Decentralized). We anticipate the vacancy rate for FY 2005 to come out at 7.5% as we believe the recently renovated *Schuman 11* (5,000 sqm office property in Brussels Leopold) property will be let (vacancy rate –60 bps) as well as part of the fourth phase of the *Ikaros Business Park* (41,000 sqm business park in Brussels Periphery; vacancy rate –40 bps). We do not foresee any letting problems regarding the *WTC* property (66,000 sqm office property in Brussels North), which is fully occupied by La Poste. Although La Poste announced its intentions to leave the building, the lease contract matures in 2016, which limits the risk for Befimmo. Recently, positive news came into the market as Befimmo is in talks again with the only tenant (European Union) for the *Borschette* property (18,000 sqm conference hall in Brussels Leopold). Befimmo previously investigated opportunities to convert the property into office space.

We believe the Belgian government might sell more properties in sale-and-lease- back transactions in 2005

Investment opportunities in the office segment are scarce

In the highly competitive Belgian property market, attractive investment opportunities are scarce. Befimmo mainly focuses on office premises in Brussels CBD, as the outlook for the Decentralized and Periphery sub markets is still weak. The number of available premises on the market in Brussels CBD is however low. In 2004, the Belgian government sold some of its assets in sale-and-lease-back transactions on the free market. We believe the sale of assets by the Belgian government has not yet come to an end. The Belgian government still owns a substantial amount of assets in the sub market of Brussels CBD, which might for sale as well, according to rumours in the market. We anticipate that Befimmo will participate in the bidding for these properties.

CAGR 2005-2007E EPS growth for Befimmo is 3%

CAGR 2005-2007E EPS growth of 3% anticipated

Although the management of Befimmo believes 2005 will be a transition year, we are more positive. Befimmo anticipates a recurring EPS of € 4.90, which is 5.2% lower y-o-y (FY 2004: € 5.17). This is mainly caused by anticipated higher direct property expenses (almost twice as high as in FY 2004) as some of its properties require refurbishment in FY 2005. According to Befimmo, particularly unlet properties need this refurbishment in order to be re-let in 2005. We expect the recurring EPS of Befimmo for FY 2005 to come out at last year's level at € 5.15, as we believe these higher operational costs will be offset by a 1.1% lower vacancy rate. For 2006, we foresee 5% recurring EPS growth to € 5.48 driven by 4% lower direct property expenses, 0.2% lower portfolio vacancy, and indexation (E: 1.8%). We anticipate positive revaluation in 2005 and 2006 of 0.7% and 1.0% of portfolio market value respectively. As we anticipate rent indexation at 1.8% for 2005 and 2006, we believe that Befimmo's total portfolio will face yield expansion from a current gross yield of 7.2% to 7.4% in 2006. The reason behind this yield expansion is the deteriorating market conditions in the Brussels non-CBD zones, which are only partly offset by positive conditions in the CBD zones.

Fairly valued and limited variation in recurring results anticipated, we initiate coverage with a Neutral rating

EPS growth will result in dividend growth and NNAV growth

We believe that Befimmo's recurring EPS growth will enable the company to maintain its dividend growth in the coming years as we also anticipate management to stick to a payout ratio of approx. 85%. Following that growth pattern, gross dividend per share can amount to € 5.00 in 2007E (FY 2004E: € 4.62) implying that the Befimmo share will trade at 6% dividend yield. We consequently arrive at an annual NNAV growth rate for Befimmo of 2-3%.

Initiate coverage with a Neutral rating

Befimmo has a well-positioned portfolio, conservatively appraised and solid tenants. Befimmo is solidly financed (interest cover of 4.2X in 2004) and has enough firepower to finance future acquisitions. We believe the company's A-grade assets should be appraised at a net yield of 5.5%, implying upside in Befimmo's NNAV. Although we expect yield expansion for its portfolio in the coming years, we believe there is very limited downside risk in Befimmo's portfolio. The Befimmo share currently trades a high premium to 2005E NNAV (31%), but we believe this valuation gap with its European peers will remain as we anticipate a flat interest rate in 2005. Together with anticipated 2.0% NNAV growth and a 6% dividend yield, we anticipate an 8.5% total return in FY 2005. To reflect the constant valuation gap with its European peers, we set our price target at € 80 (37% premium to 2005E NNAV) and rate the stock **Neutral**.

Table 28: Kempen & Co assumptions for Befimmo (2005-2007E)

Item	2005E	2006E	2007E
Recurring EPS growth	-0.5%	6.3%	3.0%
Dividend Growth	0.6%	4.3%	3.1%
Revaluation (as a % of portfolio)	0.7%	1.0%	1.2%
NNAV growth	2.0%	2.9%	3.3%
Real estate acquisitions	0.0	0.0	0.0
Real estate disposals	0.0	0.0	0.0

Source: Kempen & Co

Historically, share very sensitive for interest rate shifts

Although we expect the Belgian LT interest rate to show a flat pattern in 2005, we want to point out that from a historical perspective, the Befimmo share has been very sensitive to movements in the Belgian LT interest rate. We analyzed the correlation between the share prices and local 10-y government bond yields for all the companies in our covered universe. We learned that Befimmo has the highest negative correlation with the local LT interest rate, implying that if the LT local interest rate goes down, from a historical perspective, the Befimmo share will show a relatively high decrease. Note that if for example the Belgian LT increases from 3.7% to 4.07% it translates into a 10% increase. With a negative correlation of –0.9 this would imply that the share price Befimmo would go down by 9%, based on historical data.

Table 29: Correlation (share price - 10-y government bond yield)

Stock	Correlation	Stock	Correlation
Befimmo	**-0.90**	PSP Swiss Property	-0.59
Eurocommercial properties	-0.84	Hammerson	-0.51
Cofinimmo	-0.83	Hamborner	-0.51
Gecina	-0.82	Land Securities	-0.48
Urbis	-0.80	Beni Stabili	-0.47
Klépièrre	-0.77	Citycon	-0.39
Corio	-0.77	Swiss Prime Site	-0.37
SILIC	-0.76	IVG Immobilien	-0.31
SFL	-0.75	British Land	-0.24
Metrovacesa	-0.72	VastNed Retail	-0.22
Unibail	-0.71	Bail Investissement	-0.17
Inmobiliaria Colonial	-0.71	Nieuwe Steen Investments	-0.17
Sponda	-0.70	Deutsche Wohnen	-0.01
Wereldhave	-0.68	Deutsche EuroShop	0.05
Rodamco Europe	-0.68	AM	0.18
Liberty International	-0.61	VastNed O/I	0.18
Kaufman & Broad	-0.60		

Source: Datastream, Kempen & Co

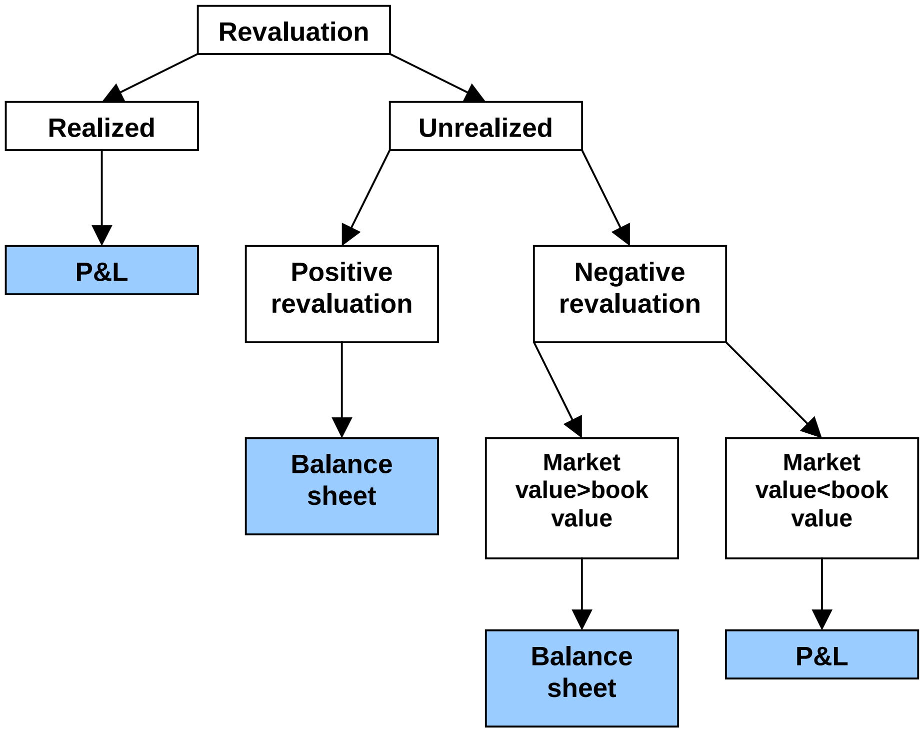
Appendix I: Accounting issues

Key points
- **Divergent reporting, revaluation both in P&L and balance sheet**
- **Broken book-year, quarterly reporting**

Divergent reporting, revaluation both in P&L and balance sheet

Most of the Belgian listed property companies report their results in a breakdown between recurring and non-recurring results whereby revaluation and capital gains/losses run through the P&L. We anticipate that under IFRS accounting, Befimmo will no longer be allowed to book part of its revaluation only on its balance sheet. Consequently, the transparency of Befimmo's revaluation results will improve as of 2005.

Graph 12: Befimmo's revaluation method



Source: Kempen & Co

Befimmo applies a different method of reporting as only part of its revaluation results (unrealised negative revaluations) run through Befimmo's P&L. Befimmo states that its way of reporting is in line with the reporting of limited partnerships. Positively, Befimmo includes an adjusted P&L as well, which is compliant with the reporting of the other VastgoedBevaks. Results are therefore comparable, and our model is based on this adjusted P&L to improve comparability with other European property companies. Although the adjusted P&L looks very similar to that of other European property companies, Befimmo has a unique way of reporting revaluation results. Another quite confusing aspect is the reporting of depreciation. In Befimmo's P&L the depreciation on fixed assets is in the same line as the unrealized revaluation result. This might suggest that Befimmo books a high amount of depreciation on its assets. After talking to management we learned that depreciation concerns only a minor amount of these costs.

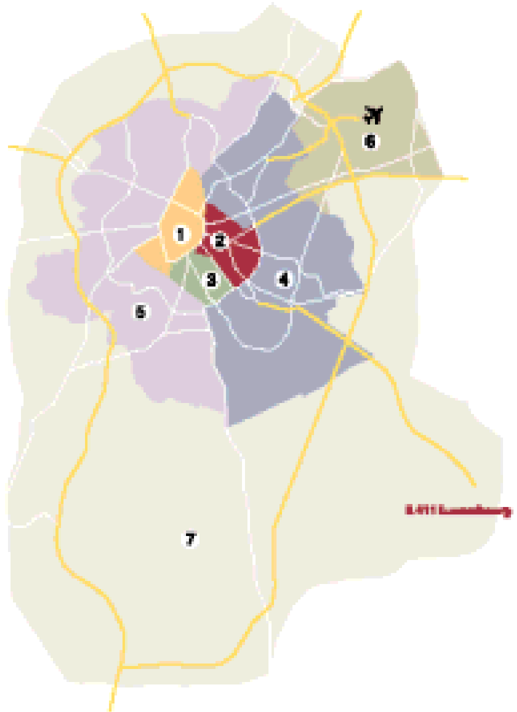
Broken book-year

Unlike most other European property companies, Befimmo applies a broken book-year method. The fiscal year starts on 1 October each year, ending on 30 September subsequently. Befimmo publishes its FY results around mid-

November. Compliant with the restriction of the VastgoedBevak, Befimmo reports an updated market value NNAV quarterly. At Q1 (February) and Q3 (August) results, Befimmo reports this updated NNAV together with a breakdown of the market value of its portfolio per sub market (CBD, Decentralized, Periphery and other). Recent transactions on the property market are updated in these quarterly reports as well. Semi-annual (fiscal year up to 31 March) results are published around May. These semi-annual results contain more details than the quarterly results, as an update on the balance sheet and a condensed P&L is provided. The P&L is broken down into recurring and non-recurring results.

Appendix II: Breakdown of the Brussels market

Map 1: Breakdown of the Brussels property market



Source: Catella Codemer

[1] Central (CBD), [2] Leopold (CBD), [3] Louisa (CBD), [4] Decentralised East, [5] Decentralised West, [6] Zaventem (Periphery), [7] Brussels Ring (Periphery)

Map 2: Breakdown of Brussels CBD office market

Source: CB Richard Ellis

Appendix III: Implications of IFRS

Table 30: Impact of IFRS on Befimmo's accounting

- **Revaluation should run through Befimmo's P&L** Part of Befimmo's revaluation runs through the balance sheet of the company (unrealised positive and negative revaluations). Under IFRS, all revaluation results should run through Befimmo's P&L. For FY 2004, this would imply that attributable profit of Befimmo would be 8.8% higher under IFRS accounting rules. As we anticipate positive revaluation in the coming years for Befimmo (+1.2% of portfolio market value), we believe that the implementation of IFRS will positively impact Befimmo's earnings in the coming years with regard to revaluation issues.
- **Lease incentives (IAS 17) will increase earnings** Under IFRS, lease incentives should be straight-lined over the lease term. This straight lining will smooth out rental income, while earnings will show a more volatile picture. We expect that measurement of lease incentives under IFRS will increase earnings at first adoption by 1%, while in the subsequent two years net income will be 0.5% lower. As Befimmo has most of its exposure in Brussels CBD (65%) we believe that the impact on Befimmo will be limited as the company will not be forced to make many incentives (most lease incentives are made in Brussels Decentralized and Brussels Periphery).
- **Costs of raising capital** If Befimmo decides to raise equity by issuing new shares, the subsequent costs (fiscal, lawyers, controlling) will be deducted from the amount of capital raised and no longer run through the company's P&L. This might positively impact Befimmo earnings.
- **Provisions for due diligence costs** Under IFRS it is not allowed to create a provision for the due diligence costs regarding possible acquisitions. The management of Befimmo indicated that these costs were high for Befimmo in FY 2004 since it examined 7 possible acquisitions, but finally only acquired 1 property (*Poelaert* building).
- **Dividend payments under equity instead of other debt** Under Belgian GAAP, dividend payments were booked on the balance sheet under "other liabilities" until the payout date of the dividend. Under IFRS these dividends remain under "shareholders' equity" until the payment date. This will significantly increase Befimmo's equity position by around 7%. Consequently, at the payment date of the dividend there will be a 7% decrease of Befimmo's equity position.
- **Financial instruments (IAS 39)** Under IFRS, financial instruments (options, swaps, futures and other derivatives) should be booked at their fair value (currently booked at historical cost: € 3.1m at FY 2004). For Befimmo this means that derivatives it uses to hedge the interest rate risk (swaps) should be booked at their fair value, thereby increasing the volatility of earnings of the company.
- **Financial leases (IAS 17)** Leases that qualify as a financial lease should be treated differently from operational leases. Under financial leases, the leased out asset is measured as a financial receivable in the balance sheet of the lessor, and will not qualify as an investment property. This will have a negative impact on net rental income and net profit for companies that concluded financial leases. Up till now, Befimmo has only had operational leases so there is currently no impact, but a financial lease is not uncommon in the Belgian property market. Cofinimmo has a financial lease contract on its *Belliard I/II* property, with the Belgian Government as only tenant.

Source: Kempen & Co

Consolidated P&L A/c

(in € m)	2001	2002	2003	2004	2005E	2006E	2007E
Gross property income	48.0	76.3	77.6	78.3	82.1	85.3	87.0
Property related expenses	-6.3	-8.2	-9.8	-12.0	-15.2	-15.2	-15.3
Net property income	42.2	68.7	68.5	66.5	67.4	70.6	72.2
Property expenses/gross property income %	*13.2%*	*10.8%*	*12.7%*	*15.3%*	*18.5%*	*17.8%*	*17.6%*
Depreciation & amortisation	-0.8	0.0	0.0	0.0	0.0	0.0	0.0
Other operating costs	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Participations & Dividend income	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	42.2	68.7	68.5	66.5	67.4	70.6	72.2
Net financial	-6.9	-16.6	-15.8	-15.2	-16.5	-16.5	-16.5
EBT	35.2	52.1	52.7	51.3	50.9	54.1	55.8
Taxes	0.0	0.1	-0.1	-0.7	-0.5	-0.5	-0.5
Tax rate %	*0.0%*	*-0.1%*	*0.2%*	*1.3%*	*1.0%*	*0.9%*	*0.9%*
Minorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net income	78.5	50.8	39.3	47.8	58.0	64.9	69.5
Extraordinaries	-1.3	-2.0	0.0	-1.0	0.0	0.0	0.0
Net income including extras	78.5	50.8	39.3	47.8	58.0	64.9	69.5

Indirect Investment Result

(€ m)	2001	2002	2003	2004	2005E	2006E	2007E
Revaluations (P&L)	0.0	-1.9	-7.7	-8.4	7.6	11.2	14.2
As a Percentage of portfolio %	*4.2%*	*0.1%*	*-1.3%*	*-1.0%*	*0.7%*	*1.0%*	*1.2%*
Other Indirect Results	-1.3	-2.0	0.3	-1.0	0.0	0.0	0.0
Book profits on property sales	20.2	0.0	0.0	2.6	0.0	0.0	0.0
Total Indirect Result	18.8	-3.9	-7.5	-6.8	7.6	11.2	14.2
Total result	54.1	48.3	45.1	43.9	58.0	64.9	69.5
Revaluations (Balance sheet)	*24.4*	*2.5*	*-5.9*	*-2.6*	*0.0*	*0.0*	*0.0*

Consolidated Balance Sheet

(€ m)	2001	2002	2003	2004	2005E	2006E	2007E
Property Investments	631.5	1,074.4	1,064.8	1,129.1	1,154.8	1,166.1	1,180.3
Property	623.8	1,065.0	1,054.7	1,125.4	1,151.1	1,162.4	1,176.6
Property Shares	7.6	9.4	10.1	3.7	3.7	3.7	3.7
Development projects	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Participations	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current assets	68.6	10.0	37.4	23.1	20.2	22.0	23.4
Debtors	9.0	7.3	6.4	8.2	7.9	8.2	8.3
Other current assets	59.0	1.3	17.1	12.2	12.2	12.2	12.2
Cash and near cash	0.6	1.4	13.9	2.7	0.1	1.6	2.9
Current liabilities (net of debt)	39.0	83.4	68.1	66.9	74.3	73.0	71.1
Trade creditors	4.2	39.7	22.5	19.6	27.0	25.7	23.8
Other liabilities	34.8	43.8	45.6	47.3	47.3	47.3	47.3
CAPITAL INVESTED	661.1	1,001.0	1,034.1	1,085.3	1,100.7	1,115.0	1,132.6
Financed by:	661.1	1,001.0	1,034.1	1,085.3	1,100.7	1,115.0	1,132.6
Equity	477.9	605.6	601.3	603.8	616.3	633.6	654.2
Minorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Provisions	2.8	2.6	4.8	5.8	5.8	5.8	5.8
Other liabilities	18.7	7.0	5.4	5.6	8.6	5.6	5.6
L/T debt	53.0	161.2	117.7	186.8	186.8	186.8	183.8
S/T debt	108.8	224.6	304.9	283.2	283.2	283.2	283.2

Per Share Data

(€)	2001	2002	2003	2004	2005E	2006E	2007E
Average share price	60.8	63.8	69.3	73.9	78.0	78.0	78.0
NNAV (corrected for transfer tax)	57.0	57.1	56.7	58.4	59.5	61.3	63.3
Premium/Discount %	6.8%	11.8%	22.3%	26.7%	31.0%	27.3%	23.3%
Average number of shares	7.12	7.13	9.79	9.79	9.79	9.79	9.79
Total number of shares	7.91	9.79	9.79	9.79	9.79	9.79	9.79
EPS	4.95	7.32	5.37	5.17	5.15	5.48	5.64
EPS including extraordinaries	4.95	7.32	5.37	5.17	5.15	5.48	5.64
P/E multiple	12.29	8.72	12.91	14.29	15.15	14.25	13.83
CFPS	4.4	7.4	5.6	5.2	5.1	5.5	5.6
P/CF multiple	12.29	8.72	12.91	14.29	15.15	14.25	13.83
Total indirect result	2.6	-0.5	-0.8	-0.7	0.8	1.1	1.5
Total result	7.60	6.77	4.61	4.48	5.92	6.62	7.10
Dividend	4.12	4.28	4.45	4.62	4.65	4.85	5.00
Yield %	6.8%	6.7%	6.4%	6.2%	6.0%	6.2%	6.4%
Pay-out %	83.2%	58.5%	82.9%	89.3%	90.3%	88.6%	88.6%

Ratios

	2001	2002	2003	2004	2005E	2006E	2007E
Equity to assets %	68.3%	55.8%	54.6%	52.4%	52.4%	53.3%	54.3%
Net gearing %	33.8%	63.7%	70.3%	77.8%	76.3%	74.2%	71.4%
Interest cover	6.1	4.1	4.3	4.4	4.1	4.3	4.4
Dividend cover	1.20	1.71	1.21	1.12	1.11	1.13	1.13
Return on invested capital %	6.4%	6.9%	6.6%	6.1%	6.1%	6.3%	6.4%
Return on equity %	7.4%	8.6%	8.7%	8.4%	8.2%	8.5%	8.4%

Cash Flow

(€ m)	2001	2002	2003	2004	2005E	2006E	2007E
Net income	54.1	48.3	45.1	43.9	58.0	64.9	69.5
Unrealised capital gains	-23.6	5.0	7.5	5.8	-7.6	-11.2	-14.2
Change in provisions	0.6	-0.3	2.3	1.0	0.0	0.0	0.0
Operational cash flow	31.1	53.1	54.9	50.6	50.4	53.6	55.3
Debtor (+ other current assets) increase	-49.3	59.4	-14.9	3.1	0.4	-0.3	-0.2
Decrease in current liabilities (ex. Debt)	-1.2	32.8	-17.0	-0.9	10.3	-4.3	-1.9
Investment in working capital	-50.5	92.2	-31.9	2.2	10.7	-4.6	-2.0
Acquisitions/Disposals	-57.2	-459.7	-4.3	-72.7	-18.1	0.0	0.0
Change in RE stakes	-0.8	-1.7	0.6	6.4	0.0	0.0	0.0
Cash Flow from investments	-58.0	-461.4	-3.7	-66.3	-18.1	0.0	0.0
Free cash flow	-77.3	-316.2	19.3	-13.5	43.0	49.0	53.2
Dividend paid (year n-1)	-29.3	-30.5	-43.6	-45.2	-45.5	-47.5	-49.0
Change in Equity	24.9	123.5	0.0	0.0	0.0	0.0	0.0
Change in L/T Debt	-8.4	108.2	-43.5	69.2	0.0	0.0	-3.0
Change in S/T Debt	90.3	115.8	80.3	-21.7	0.0	0.0	0.0
Change in cash	0.2	0.8	12.5	-11.2	-2.5	1.5	1.2

Valuation

(€ m)	2001	2002	2003	2004	2005E	2006E	2007E
Market capitalisation	481.0	624.9	679.0	724.1	763.9	763.9	763.9
Net debt	161.1	384.4	408.7	467.4	469.9	468.4	464.1
Enterprise Value (EV)	642.1	1,009.3	1,087.7	1,191.5	1,233.9	1,232.3	1,228.1
EV/EBITDA	14.9	14.7	15.9	17.9	18.3	17.5	17.0

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