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Belgium / Real Estate

June 8, 2006

Befimmo

Not exciting but defensive

- Befimmo released half-year results in line with our expectations. The sale of the Borschette Centre (end of last year) and of the asset located in Charleroi (beginning of this year) resulted in a lower rental income.
- Fortunately, interest charges were lower than last year, which led to a EUR 24.1m direct result (2005: EUR 25.3m). Thanks to a still hot real estate market, indirect result came in at EUR 7.4m (2005: EUR 1.4m).
- The objective of the company in terms of cash flows for the full year (EUR 4.82 per share) seems to be achievable. The EUR 4.92 dividend has been confirmed.
- Nevertheless, it becomes urgent to find new acquisitions in order to compensate for the rent loss of EUR 4.1m linked to the Borschette-Charleroi sales. This issue is our main concern in the Befimmo's investment case, since last acquisition was completed in 2003 (the Poelaert building). Management is very (too?) cautious and has not closed any deal since.
- Abroad expansion is envisaged as the home market, Brussels, currently experiences a strong competition. In our view, this entry on a foreign market must be studied very carefully (local business and network, fiscal and organizational inefficiencies…). The State Sicafi is another file that Befimmo is looking at. Depending on the valuation that will apply, this project could be very interesting for Befimmo as it fits its requirements in terms of risk and secured cash flows.
- We still find the fair value of the Befimmo portfolio conservative. We therefore see further revaluation potential (EUR 21m).
- Befimmo is not the most exciting real estate stock but we see it as conservative in the current volatile stock market. Underperformance during the last months and an attractive dividend yield should protect it from price's crash.
- Our valuation of the stock gives a 12 months fair value of EUR 75. If gearing is increased, we even get higher values. Due to the weakness of the stock in the last few weeks, we upgrade our recommendation from Reduce to Hold.

Year end	Rental income (m)	Direct result (m)	Cash direct EPS	P/E (*)	Equity / Assets ratio	NAV per share	Dis-count (*)	Div.	Yield (*)
09/02	*76.3*	*52.2*	*4.93*	*12.7*	*56%*	*61.8*	*-1.0%*	*4.28*	*6.9%*
09/03	*78.3*	*52.6*	*5.37*	*13.0*	*55%*	*61.4*	*-13.7%*	*4.45*	*6.4%*
09/04	*78.5*	*50.7*	*5.17*	*14.8*	*52%*	*61.6*	*-24.1%*	*4.62*	*6.0%*
09/05	*78.8*	*50.0*	*5.05*	*17.3*	*59%*	*60.7*	*-44.2%*	*4.80*	*5.5%*
09/06e	76.3	47.7	4.87	15.6	57%	61.3	-24.1%	4.92	6.5%
09/07e	81.1	49.3	5.04	15.1	54%	61.9	-22.9%	5.04	6.6%
09/08e	83.5	50.0	5.11	14.9	54%	61.9	-22.9%	5.15	6.8%

(*) 2002-2005 figures of P/E, Discount and Yield are based on end F.Y. price

Hold (vs. Reduce)

Price:	EUR 76.05 (07/06/06)
Target price:	75.00
Risk:	Low
Reuters:	BEFIt.BR
Bloomberg:	BEFB BB
Shares number (m):	9.79
Market cap. (m):	745
NAV 08/06/2006 :	64.84
Discount :	-18%
H/L 1 year:	88.50 - 74.40
1 year price perf.:	-4.9%
Diff. with EPRA Europe :	-22.8%
Volume (sh./day):	10,515
Free Float	84%
Fortis Group	16%

Company description:

Befimmo is a property investment company with a primary focus on the Brussels office market. The company has a strong presence in the CBD of Brussels.

Befimmo relative to EPRA Europe (7/06/06)

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Half year results (H1 2005 - 2006) In Line …

Befimmo released its half-year results, in line with our expectations.

Events on the P&L side

Exhibit 1 Profit & Loss

	H1 2005A	H1 2006 E	H1 2006A	% change compared to 2005	% change compared to E
Net rental income	39,362	38,487	37,895	-3.73%	-1.54%
Operating expenses	-1,924	-3,096	-3036	57.80%	-1.94%
Overhead	-3,303	-2,810	-3714	12.44%	32.17%
Operating result	34,135	32,581	31,145	-8.76%	-4.41%
Financial result	-8,312	-7,066	-6472	-22.14%	-8.41%
Taxation	-518	-661	-515	-0.58%	-22.09%
Net direct result	25,305	24,854	24,158	-4.53%	-2.80%
Per share	2.58	2.54	2.47	-4.53%	-2.80%
Indirect result	1,383	7,534	7,446	438.39%	-1.17%

Source: Befimmo, Petercam estimates

Sale of the Borschette building (30/09/2005)

Befimmo sold the Borschette building to the European Commission in September 2005. This asset brought an annual EUR 3.6m rental income. This operation implied a EUR 1.8m rent decrease in the first half of 2005-2006, compared to H1 2004-2005.

Sale of the asset located in Charleroi (Q1 2005-2006)

During the first quarter of 2005-2006, Befimmo agreed to sell a commercial building located in Charleroi, which was not seen as strategic. The annual rent related to the building reached EUR 0.5m. H1 05/06 rental income declined by EUR 0.25m compared to H1 04-05, due to this divestment.

> → **Net rental income** came in at EUR 37.9m, compared to EUR 39.4m for the first half of 2005 (EUR 38.5m expected). Given the EUR 2.05m rent "loss" related to asset sales, we understand that the like-for-like growth amounted to approximately 1.5%.

Better works' schedule

Work orders were better scheduled over the two semesters than previous year (concentration on the 2nd half of 2004-2005).

> → Operating expenses strongly increased compared to H1 04/05 (EUR 1.9m), but they were in line with our expectations, at EUR 3m.

Move of the headquarters

Befimmo moved its headquarters from the Chaussée de la Hulpe 166 (Glaverbel building) to the Parc Goemare (one of the Befimmo's properties, suffering from relatively high vacancy) during the first quarter of the year.

→ The overhead costs reached EUR 3.7m, higher than expected (EUR 2.8m expected, EUR 3.3m in H1 04/05); due to the offices transfer costs and fitting-outs of the new headquarters.

→ This led to an operating result lower than forecasted (EUR 31.1m vs. EUR 32.5m).

Lower debt level

Part of the cash release coming from the Borschette sale has been used to reimburse debts. Revaluation of financial instruments reinforced this element (EUR 0.9m in 2006 vs. EUR -0.4m in 2005), due to the interest rate increase.

→ Financial result decreased by 22% compared to 2005 (EUR -6.5m vs. EUR -7.1m expected).

Hot real estate direct market

Due to still impressive liquidity inflows on the Belgian real estate market and to scarce high-quality investment products, Belgian capitalization rates have continued to squeeze. Befimmo therefore registered a significant revaluation result on its portfolio. Positive portfolio revaluation was due to the assets located in the CBD (+1.21%) and in the Decentralized Area (+0.48%), while the buildings located in the Periphery were still under pressure (-0.75%).

→ **Net Direct Result** was 4.5% lower than for the same period 2005 (-2.8% vs. our forecasts).

→ **Net Indirect Result** reached EUR 7.5m (EUR 1.3m in 2005, EUR 7.5m expected). This result is composed of two elements: the capital gain generated by the sale of the asset in Charleroi (EUR 0.5m) and the portfolio revaluation (EUR 7m).

Events on the balance sheet side

The portfolio fair value slightly increased

At 31/03/2006, Befimmo's fair value reached EUR 1,067.1m, compared to EUR 1,064.6m at the end of September 2005. Despite the sale of the Charleroi asset and a still suffering Periphery's market, portfolio's fair value was up compared to the same period in 2004 – 2005. No new acquisition was completed since the purchase of the Poelaert building in the end of 2003.

Regarding the real estate certificates, Befimmo sold the "Kortrijk Ring Shopping Centre" ones in 2005. The remaining "brick-papers" are the "Chaussée de la Hulpe". It is our view that a substantial capital gain is possible, at least if the certificate manager (Fortis Real Estate) accepts to sell the building (which is not the case for the moment…).

The occupancy rate improved

The occupancy rate increased from 92.8% in the beginning of October 2005 to 93.2% at the end of March 2006. On the one hand, some letting transactions in the Central Gate, the Schuman 11, the Triomphe II, the Hulpe 177 and in the semi-industrial assets in Antwerp have contributed to occupancy improvement. On the other hand, the Periphery recorded a further deterioration (-1.2% occupancy rate related to the office buildings located in the Periphery).

Exhibit 2 Vacancy rate

	Befimmo vacancy rate	Brussels vacancy rate
CBD	3.5%	6%
Decentralized	2.3%	17.8%
Periphery	19.1%	20%
Average	6.8%	10.3%

Source: Befimmo, Jones Lang LaSalle

The average gross capitalization rate slightly down…

The average gross yield (if occupancy rate = 100%) reached 7.65% (-0.06% compared to the end of September 2005). The average net yield (at current occupancy level) amounted to 7.13%.

Exhibit 3 Average capitalization rate

Date	Average gross yield
31/03/2006	7.65%
30/09/2005	7.71%
30/09/2004	7.87%

Source: Befimmo

… And slight increase of the NAV

The Net Asset Value amounted to EUR 63.92 per share at 31/03/06, to be compared to EUR 62.17 at the end of December 2005.

At current stock price, the NAV implies a 16% premium. We know that this indicator is very important for some investors. Nevertheless, we remain somewhat sceptical regarding the NAV concept as sole investment decision instrument. The notion is important but, like we have mentioned in previous reports, the existence of a premium is not problematic. The NAV reflects the net value of the buildings but other elements must be integrated: scarcity of this type of company, diversification, management, liquidity, pipeline… This concept is developed in the section dedicated to the valuation.

Leverage still relatively low

Leverage reached 42.9% at the end of March 2006, compared to 40.9% at the end of September 2005. In March 2006, Befimmo signed for a new syndicated loan, in order to increase the average duration of its debts (from 3.6 years to 4.9 years).

Befimmo has a fire power of EUR 110m (EUR 140m in Belgian GAAP).

Outlook

Befimmo confirmed the outlook they mentioned when the WTC agreement occurred (February 2006). The company expects to produce a cash flow of 4.82 EUR/share in 2005-2006, maybe slightly lower if short-term interest rates continue to rise (higher forecasts at the annual results 04-05 but the WTC agreement implies EUR 20m works in 2007 – 2009 and a lower rental level). The EUR 4.92 dividend has been confirmed as well. If cash flows are insufficient to pay this dividend, Befimmo will use part of the capital gain realized on the Borschette's sale.

Mr De Blieck announced the arrival of Mr Laurent Carlier in July. Mr Carlier will be the new CFO of Befimmo. He comes from the financial department of Sodexho.

We think that the objective of Befimmo for 2006 is sustainable. In our model, we use an EPS 06 in the range of EUR 4.8 – 4.85.

The EUR 12m capital gain realized with the sale of the Borschette Centre corresponds to EUR 1.23 per share. In France, it is required to payback half of the realized capital gains within the two years following the sale. Therefore we understand that a (small) part of the capital gain can be used to pay-out dividend to shareholders.

Nevertheless, we have a concern with Befimmo: the inactivity on the acquisition field, implying that future dividends are not secured, whereas Befimmo plans a constant growing dividend…

… But where are the new acquisitions?

Due to the sale of two assets during the last nine months, rental income logically decreases. This is not a problem if new acquisitions integrate quickly the portfolio to compensate it. But, in the case of Befimmo, there is not so much activity on the purchase side. Or there is some activity but none leads to any deal closings.

Given the difficult home market, the Sicafi changed its statutes five months ago, in order to enable investments abroad. Nevertheless, this entry should remain relatively insignificant (EUR 100 – 150m). According to management, the abroad expansion could be operated by purchasing asset(s) in Paris, Luxembourg (potentially a new development with a rental guarantee, what the Sicafi will not do in Brussels) or in some specific German cities.

This new expansion way seems us somewhat riskier than the classical approach of the Brussels market. Real estate indeed remains a local business, in which network and specific market knowledge are essential. Real estate investment becomes obviously more international but the international players use a local subsidiary or partner. For an investment volume of EUR 100 – 150m, we do not see this abroad development as the most efficient way to expand, except if real opportunistic behaviour.

We doubt that development for own account (in Belgium and abroad) will be a way of expansion, as the Sicafi estimates that the risk is too high compared to the profile of the company. Nevertheless, in some specific files, we think that it could be positive for Befimmo to enter the deals. Thanks to its privileged relationship with Fortis Real Estate, Befimmo could achieve some developments (implying more attractive yields) with a relatively controlled level of risk.

We agree that a development like the Covent Garden (project in the North District, 72,000m² fully empty for the moment, developed by Buelens RE) does not fit the Befimmo’s strategy. Nevertheless, projects like the Ellipse building, developed by a partnership Fortis RE-Immobel, could be an attractive acquisition for Befimmo (60% let to the Flemish Community for 18 years, the Flemish Community having an option on the remaining 40%). Nevertheless, it should overweigh the North District compared to the other areas (WTC, the biggest asset, is located in front of the Ellipse building). Moreover, 40% of vacant space in this oversupplied area (± 200,000m² speculative to come in 2006 and 2007 in the North District) represents an important risk, although the Flemish Community has an option to occupy the remaining part. Finally, competition could be very tough for this prime asset, in an investment market being short of class-A products.

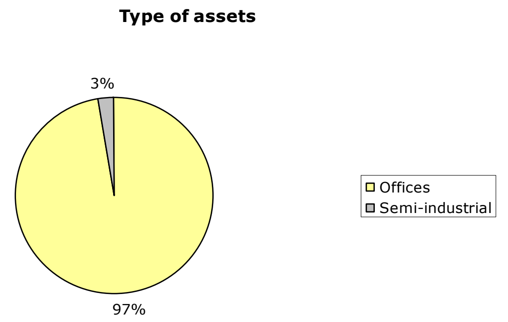
Like 3 other real estate companies, Befimmo is working on the Belgimmo file (potential name of the State Sicafi). Management seems to be highly motivated by this project and should be disposed to bring some trophy buildings to the new entity (like the Poelaert property). At this stage, we do not quantify the financial impact of this stake, as there remain too many unknown elements, the main one being the valuation of the assets.

In our view, the winner of the tender will add secured rental income to its P&L, valued at relatively low yield, due to the expected low risk level.

The Befimmo's portfolio

The Befimmo's portfolio contains 39 assets (523,037m²), mostly located in Brussels (97.5%). Office is the dominant segment (97.5%), while 5 properties are dedicated to semi-industrial (2.5% of the portfolio).

Exhibit 4 Asset type



Source: Befimmo

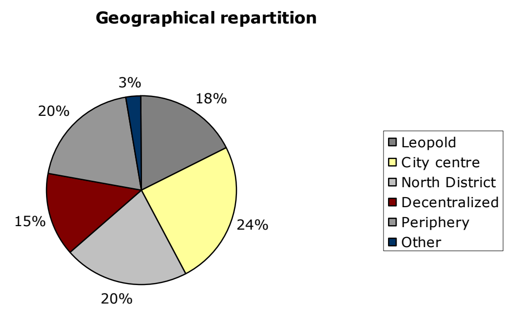
The Befimmo's portfolio is mainly located in the CBD of Brussels. The Centre District and the North District are particularly well-represented (respectively 24.5% and 21.2%).

Exhibit 5 Market geographical repartition

	Befimmo portfolio	Brussels
CBD	64.9%	64.3%
Decentralized	14.9%	22%
Periphery	20.2%	13.7%

Source: Befimmo, Jones Lang LaSalle

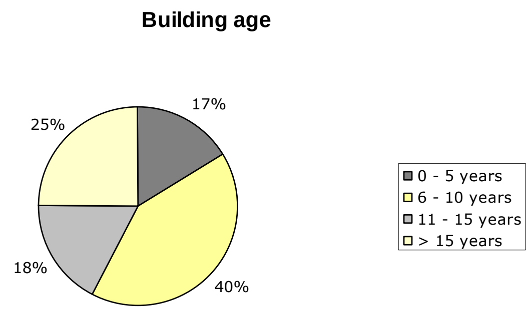
Exhibit 6 Geographical spread



Source: Befimmo

The buildings are mostly relatively recent; more than 50% of the assets are maximum 10 years old. Active renovation programs enable Befimmo to keep the assets in good shape. One important element is the architecture of the building, which must be "eternal". The best example is the Poelaert building.

Exhibit 7 Building age



Source: Befimmo

The investment value (including registration duties) of the Befimmo portfolio at the end of March 06 amounted to EUR 1,092.3m, corresponding to a price per square meter of EUR 2,088 (Cofinimmo portfolio was priced, on average, 2,101 EUR/m² on the 31/03/06).

Nevertheless, we estimate that there is still room for revaluation. Based on a valuation of each asset (estimation of the capitalization rate and of the market rent if vacant space), we reach a potential portfolio investment value of EUR 1,113.2m, or EUR 2,128/m². In capitalization rate terms, our valuation corresponds to a gross average yield of 7.23%.

Exhibit 8 Befimmo portfolio

	Adress	Superstructure area (m²)	Occupancy rate	Current rent (on the 31/03/06)	Rent * EUR/ m²	Estimated capitalization rate	Estimated investment value	Value per square meter
	BRUSSELS - CENTRE							
1	Central Gate	30,675	73.4%	3,158,000 €	120 €	7.60%	54,436,132 €	1,775 €
2	Brederode 1	25,213	100%	3,219,000 €	128 €	7.00%	45,985,714 €	1,824 €
3	Extension Justice	18,795	100%	3,114,000 €	166 €	9.00%	34,600,000 €	1,841 €
4	Impératrice	17,070	100%	2,582,000 €	151 €	6.75%	38,251,852 €	2,241 €
5	Poelaert	14,146	100%	2,970,000 €	210 €	5.40%	55,000,000 €	3,888 €
6	Brederode 2	7,592	98.8%	2,002,000 €	264 €	7.50%	26,693,333 €	3,516 €
7	Empereur	5,953	100%	910,000 €	153 €	6.90%	13,188,406 €	2,215 €
	BRUSSELS - LEOPOLD							
8	Joseph II	12,831	100%	3,619,000 €	282 €	6.35%	56,992,126 €	4,442 €
9	View Building	11,106	100%	1,963,000 €	177 €	6.50%	30,200,000 €	2,719 €
10	Wiertz	10,857	99.6%	2,743,000 €	253 €	6.25%	43,888,000 €	4,042 €
11	Schuman 3	5,487	100%	1,442,000 €	263 €	6.10%	23,639,344 €	4,308 €
12	Guimard	5,357	100%	1,120,000 €	209 €	6.50%	17,230,769 €	3,216 €
13	Schuman 11	5,176	60.7%	800,000 €	255 €	6.35%	20,755,231 €	4,010 €
	BRUSSELS - NORTH							
14	World Trade Centre	66,326	99.4%	12,197,000 €	160 €	8.00%	132,652,000 €	2,000 €
15	Noord Building	42,726	100%	7,329,000 €	172 €	6.80%	107,779,412 €	2,523 €
	BRUSSELS - DECENTRALIZED							
16	La Plaine	15,933	100%	3,343,000 €	210 €	6.85%	48,802,920 €	3,063 €
17	Triomphe I	11,498	100%	2,589,000 €	225 €	7.25%	35,710,345 €	3,106 €
18	Triomphe II	9,257	99.9%	1,289,000 €	139 €	6.90%	18,681,159 €	2,018 €
19	Jean Dubrucq	7,744	100%	797,000 €	103 €	7.75%	10,283,871 €	1,328 €
20	Triomphe III	6,974	92.8%	915,000 €	150 €	7.10%	13,948,158 €	2,000 €
21	Goemaere	6,966	88.2%	817,000 €	165 €	7.00%	13,608,972 €	1,954 €
22	Eudore Devroye	1,576	100%	286,000 €	181 €	7.25%	3,944,828 €	2,503 €
23	Hulpe 177	1,462	71.9%	173,000 €	120 €	8.50%	2,615,278 €	1,789 €
	PERIPHERY							
24	Ikaros Business Park - Phase I	9,626	79.3%	4,385,000 €	100 €	8.25%	63,485,206 €	1,541 €
25	Ikaros Business Park - Phase II	4,739						
26	Ikaros Business Park - Phase III	9,670						
27	Ikaros Business Park - Phase IV	17,150						
28	Media	18,651	100%	2,951,000 €	158 €	6.90%	42,768,116 €	2,293 €
29	Fountain Plaza	16,690	62.1%	1,536,000 €	110 €	8.00%	27,897,576 €	1,672 €
30	Planet II	10,277	60.4%	680,000 €	100 €	8.25%	13,175,384 €	1,282 €
31	Eagle Building	8,712	80.8%	951,000 €	100 €	8.15%	13,721,109 €	1,575 €
32	Woluwe Garden B	7,673	97.3%	1,497,000 €	195 €	7.65%	19,568,627 €	2,550 €
33	Woluwe Garden D	7,673	94.2%	1,288,000 €	168 €	7.50%	17,173,333 €	2,238 €
34	Ocean House	4,693	100%	701,000 €	149 €	7.75%	9,045,161 €	1,927 €
35	Waterloo Office Park	2,005	68.7%	221,000 €	110 €	8.00%	3,625,402 €	1,808 €
36	Mons I (Joncquois)	7,851	100%	1,048,000 €	133 €	7.75%	13,522,581 €	1,722 €
37	Mons II (Peupliers)	7,268	100%	1,040,000 €	143 €	8.25%	12,606,061 €	1,734 €
	SEMI INDUSTRIAL							
38	Anderlecht II	8,100	100%	579,000 €	71 €	8.75%	6,617,143 €	817 €
39	Anderlecht I	7,797	96.6%	334,000 €	43 €	8.65%	3,861,272 €	495 €
40	Green Hill	7,218	23.2%	120,000 €	30 €	9.50%	3,013,713 €	418 €
41	Kontich I	18,452	71.4%	568,000 €	45 €	8.50%	9,476,203 €	514 €
42	Kontich II	8,072	90.6%	373,000 €	45 €	8.50%	4,789,936 €	593 €
		523,037 m²	**93.48%**	**77,649,000 €**	**154 €**	**7.23%**	**1,113,234,672 €**	**2,128 €**

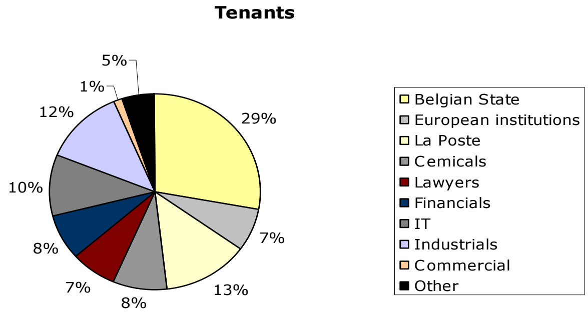
Source: Befimmo , Petercam estimates
* If → Petercam estimates
If → Passing rent

The sole area where vacancy increased was the Periphery. The tenants stay indeed in the premises but decrease the occupied surfaces. This occupancy deterioration can explain the lower values registered in the Periphery compared to the previous period.

CEO De Blieck mentioned that the Sicafi could diminish its exposure to the Periphery and is studying the possibility to sell some asset(s) in this location, as there is no scarcity phenomenon, implying no value creation.

One important element of the Befimmo portfolio is that 48% of the tenants are considered as public sector (Belgian Government, Flemish Community and European Commission), meaning a stable and reliable occupant, often signing for long-term periods (average duration = 10 years for 41% of the portfolio). In addition, 72% of the total rents have an average duration of 7.6 years. It protects Befimmo against further rent fall (although specialists agree that rents are at their lowest level).

Exhibit 9 Tenants



Source: Befimmo

The Befimmo's weighted average rent reached 155 EUR/m² on the 31/03/06. Nevertheless, according to the valuator (Winssinger & Associés), the average of the rents is somewhat overvalued (+ 10%), mainly due to the high rents paid in the North District. But these rents are secured till 2015 at least, meaning that there is no reversion risk at the moment.

The Brussels office market[1]

Economic fundamentals improved during the last quarters, positively impacting the office market. The BNB (Banque Nationale de Belgique) expects a 2.2% GDP growth in 2006 (1.5% in 2005), as well as a decreasing inflation (2.3% vs. 2.5% in 2005).

The letting market

According to Jones Lang LaSalle, the Brussels office market is in "a bottoming out phase".

The overall vacancy rate remained stable, at 10.3% in Brussels (10.4% in Q1 05). CBD experienced the lowest vacancy (6%), while conditions in the Decentralized and in the Periphery are less favorable but improving (17.8% in the Decentralized and 20% in the Periphery). Some speculative projects in the Decentralized (like the Beaulieu building) weighted on the vacancy rate of this area but should resolve in the near future.

Nevertheless, thanks to improving economic factors, private demand increased, which mainly impacted the take-up in the Decentralized and in the Periphery (traditional implantations of the private sector). Take-up reached 150,000m² (+23% compared to Q1 05). Moreover, the number of transactions was up 20% (126 transactions). The split between Public / Private sector was 50% / 50% (compared to an average of 40% / 60%). The public sector was mostly active in the CBD (90%), and involved in the large transactions (28,000m² in the Ellipse building, 19,000m² in the Royal Atrium). The corporate sector was more active in the Decentralized and the Periphery (60%).

The prime facial rent slightly increased to 290 EUR/m² (+1.75%), while the top quartile rent and the weighted average rent reached respectively EUR 197 and EUR 170.

Nonetheless, our main concern regarding the coming letting market is the numerous developments which will be delivered in 2006 and 2007. It will obviously push up the vacancy rate. These projects are mostly located in the CBD, and more especially in the Leopold district (Lex 2000, D4 - D5) and in the North district (Covent Garden, Ellipse building). This last location will experience, in our view, the most difficult situation. Fortunately, the two buildings that Befimmo owns in that area are let for a long-term period. According to CB Richard Ellis, 658.800m² will be delivered in Brussels in 2006, of which 46% are uncommitted. More than 550,000m² are located in the CBD. In 2007, 212,176m² should be completed, of which only 22% are committed.

Exhibit 10 The 5 main letting transactions in Q1 2006

Address	District	Letting - Sale	Area (m²)	Tenant
Ellipse building – Blvd du Roi Albert II 65	North	Letting	28,000	Flemish Community
Royal Atrium – Rue Royale 74	Centre	Sale	19,000	STIB (Brussels public transport)
Loi 56	Leopold	Letting	8,200	European Commission
Rue Général de Gaule 62	Periphery	Letting	7,280	Kodak GCG – Creo
Site Honeywell, Avenue du Bourget 1-3	Decentralized	Letting	6,000	OIB (European Commission)

Source: Jones Lang LaSalle

[1] Source : Catella Codemer, CB Richard Ellis and Jones Lang LaSalle

The investment market

Despite a relative lack of quality products, the investment market was active during the first quarter of 2006. EUR 580m were invested, compared to EUR 2.1bn for the whole year 2005. Belgian investors completed 34% of the total investments, followed by the Irish (17%), the French (18%) and the Spanish (11%), new comers in the Brussels market.

The main Q1 06 transactions were related to the IBM tower (acquired by the Spanish Banco Santander) and to the 75% stake in Banimmo (by the French Affine).

Regarding the prime yield, a distinction is observed between regular 3/6/9 lease contracts and long-term agreements. Competition is indeed even tougher on properties let on a long-term basis.

Exhibit 11 Prime yields

	3/6/9 lease contracts	Long-term lease contracts
CBD	6%	5.75%
Decentralized	6.5%	6.15%
Periphery	7.1%	6.25%

Source: Jones Lang LaSalle

Real estate brokers expect further yield decrease, as demand remains very strong.

Increasing interest rates are not considered as a threat, since it could help to regulate the disequilibrium in the investment market (abundant liquidities and few products).

Exhibit 12 The 5 main investment transactions in Q1 2006

Asset	District	Area (m^2)	Seller	Buyer
Banimmo portfolio	Various	250,000	Lend Lease Global Properties	Affine & Banimmo management
Swiss Life Europe	Various	32,856	Swiss Life	Fordgate Group
Ex IBM Tower	Centre	24,000	Certificate Finest (Fortis)	Banco Santander
Portfolio	Various	23,100	Fortis Real Estate	Mees Pierson Private Banking
Science 14	Leopold	11,000	JM Construct	Private investor

Source: Jones Lang LaSalle

Valuation – Slightly too expensive… But attractive dividend yield

Going concern scenario

Our valuation methodology for valuing real estate companies, compares a company's total (future) return on capital (ROIC or ROCE) with its weighted average cost of capital (WACC). A positive difference should imply that a company generates a return on capital exceeding its WACC. In that case, the shares should trade at a premium to the NNNAV. Conversely, if the company produces a ROIC below its WACC, the shares should trade at a discount to the NNNAV. The main issue always remains: what period should one take to capture future added value of the portfolio above NNNAV today, including the pipeline.

Most experts say that the analysis of the fair value should be run over the longest possible time period, thus capturing the full worth of the portfolio's cash flows, as well as the gains from any development projects that may be long term in execution. In reality, however, the ability to forecast credibly over a long period of time, especially given the cyclical nature of the property market, is limited.

Regarding Befimmo, we used a period of 7 years. This is due to the long-term profile of the majority of the lease contracts. 72% of the total rents have indeed a maturity of 7.6 years.

Our calculations assume that:

- No divestment but new acquisitions in 2006 and 2007, for an annual amount of EUR 50m, invested at a gross yield of 6%, assuming a 6% vacancy rate. All the acquisitions are debt-financed.
- The rental income related to the current portfolio is calculated on an asset by asset basis, taking into account the breaks. If some premises are vacant, part of it is assumed to be let after a vacancy period, at estimated market rent (see p.9). Indexation applied to the rents is 2%.
- The operating margin is in the range of 82% - 83%.
- The indirect result is composed by several elements: the revaluations are added to the realized capital gains, of which are deducted the capital expenditures. As we do not assume any divestment, there is no capital gain, except the one related to Charleroi. Concerning the revaluations, we split our revaluation potential calculated p.9 (EUR 21 m) over two years (2006 and 2007). The annual capex are estimated at 0.1% of the total fair value of the portfolio. In 2007 and 2008, there are additional capex linked to the WTC premises (Befimmo agreed to achieve some fitting-outs and painting works when La Poste will leave the building).
- We estimate the WACC at 5.6%, resulting of the combination of a 6.75% cost of equity and 4.4% cost of debt.

On a period of 7 years, we reach a 12 months fair value of EUR 75.83.

Gearing scenario

As we mentioned in previous publications, we expect a change in the Royal Decree setting up the Sicafi's regime. Therefore we have calculated the potential impact on the fair value, the EPS 2006 and the earning yield 2006 if the gearing is increased to 65% (currently 50%). The main unknown data is obviously the gross capitalization rate that would have to be paid. Hence we made this factor vary between 5.75% and 6.5%.

Exhibit 13 Impact of 65% gearing

Gearing = 65%		Fair value 7Y	EPS 06	Earning yield 06
Property yield	5.75%	76.31	4.96	6.52%
	6%	76.98	4.98	6.55%
	6.25%	77.64	5.01	6.58%
	6.50%	78.30	5.03	6.61%

Source: Petercam estimates

In this scenario, the fair value fluctuates between EUR 76.3 and EUR 78.3. This is based on very "conservative" yields, the ones that we currently meet on the direct real estate market for prime assets. It is clear that the potential is even more important if the acquisitions are achieved at higher yields. Nevertheless, we are very cautious with these simulations, since our main concern is not the probability of this leverage increase but the availability of products. We are indeed unconvinced that Befimmo could find products fitting its investment strategy. For the moment, the Sicafi has more than EUR 100m firepower, but it does not imply that the company is investing.

For some investors, the dividend yield constitutes an important indicator. Amongst the Belgian real estate companies, Befimmo offers one of the most attractive yields (6.4% expected in 2006, 6.6% in 2007).

Given the more volatile market that we have experienced lately and market corrections, here is an updated picture of our universe in terms of dividend yield and premium.

Exhibit 14 Dividend yields

data as of June 6, 2006	Yield 06e	Yield 07e	Pre- mium
Dutch companies			
Corio	5.4%	5.7%	10%
ECP	5.5%	5.7%	-5%
NSI	8.2%	8.8%	8%
Rodamco Europe	5.0%	5.1%	17%
Vastned Offices	7.6%	7.7%	-5%
Vastned Retail	6.4%	6.2%	13%
Wereldhave	6.3%	6.4%	0%
Belgian companies			
Befimmo	6.3%	6.5%	20%
Cofinimmo	5.7%	5.8%	16%
WDP	6.6%	6.7%	27%
French companies			
Klepierre	3.9%	4.2%	26%
Tour Eiffel	5.5%	6.6%	38%
Unibail	3.2%	3.5%	32%
German companies			
Deutsche EuroShop	3.8%	4.1%	4%
VIB Vermögen	1.5%	2.1%	-3%
Vivacon	3.5%	3.5%	155%

Source: Petercam estimates

Befimmo can be considered as a defensive stock

As a summary, we would say that Befimmo is a defensive stock. The company owns indeed a property portfolio mainly located in the CBD of Brussels, a less cyclical area. Moreover, 41% of the rents are secured for 10 years and come from the public sector. Finally, management is very (too?) cautious concerning new acquisitions. We can therefore assume that they will not enter in a dilutive deal. For all these reasons, Befimmo offers a relatively low-risk profile to investors, and even more for investors looking for high direct return (dividend).

The main concern we have at the moment is that the company must quickly reinvest its cash, in order to generate new rental income, which will compensate the sale of the Borschette.

It is our view that the real estate stocks will experience a slowdown in the price rally that we observe since several months. When this slowdown will exactly occur and in which proportion, we can not guess for sure. However, the Befimmo stock has continuously underperformed the European real estate index (EPRA Eurozone YTD: +10.7% vs. Befimmo YTD: 0%). We therefore expect that the share will suffer to a smaller extent of a potential market reversion. Moreover, the high dividend is considered like a protection as well. We suspect that some investors could switch from more volatile stocks (like Vivacon) to more defensive ones like Befimmo when the market becomes more sluggish.

We set our new 12 months target price to EUR 75 and upgrade our recommendation to Hold, given the weakness of the stock in the last few weeks.

Profit & Loss (EUR m)	09/02	09/03	09/04	09/05	09/06e	09/07e	09/08e
Rental income	76.3	78.3	78.5	78.8	76.3	81.1	83.5
Operating costs	-3.1	-4.3	-5.7	-6.8	-7.1	-7.2	-7.2
Net rental income	**73.2**	**74.0**	**72.8**	**72.0**	**69.2**	**73.9**	**76.2**
Sales result	0.0	0.0	-	-	-	-	-
Other revenues	0.7	0.0	0.0	0.0	0.0	0.0	0.0
Overhead costs	-5.2	-5.5	-6.2	-5.4	-5.9	-6.2	-6.5
Other costs	-	-	-	-	-	-	-
Depreciation	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	**68.7**	**68.5**	**66.5**	**66.6**	**63.3**	**67.7**	**69.8**
Interest charges	-	-15.8	-15.2	-17.5	-16.4	-19.2	-20.5
Interest income	-	0.0	0.0	2.0	1.8	1.8	1.8
Financial Result	**-16.6**	**-15.8**	**-15.2**	**-15.5**	**-14.6**	**-17.3**	**-18.7**
Exceptionals	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Minorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pre-tax result	**52.1**	**52.7**	**51.3**	**51.1**	**48.7**	**50.4**	**51.1**
Taxes	0.1	-0.1	-0.7	-1.1	-1.1	-1.1	-1.1
Direct result	**52.2**	**52.6**	**50.7**	**50.0**	**47.7**	**49.3**	**50.0**

Balance Sheet (EUR m)	09/02	09/03	09/04	09/05	09/06e	09/07e	09/08e
Property investments	1,064.8	1,054.5	1,125.3	1,063.2	1,074.9	1,135.6	1,185.0
Property not in operation	0.0	0.0	0.0	0.0	43.0	43.0	0.0
Other Investments	9.4	10.3	3.8	2.2	2.2	2.2	2.2
Financial assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total investments	**1,074.2**	**1,064.8**	**1,129.2**	**1,065.4**	**1,120.1**	**1,180.9**	**1,187.2**
Cash position	0.0	27.9	12.8	12.8	12.3	12.3	13.0
Tradable receivables	10.2	6.8	8.6	12.8	12.8	12.8	12.8
Other current assets	0.0	2.7	1.7	1.8	1.8	1.8	1.8
Total Assets	**1,084.4**	**1,102.2**	**1,152.3**	**1,092.8**	**1,147.1**	**1,207.7**	**1,214.8**
Total Equity	605.6	601.3	603.8	641.3	648.5	655.5	656.6
Equity	605.6	601.3	603.8	641.3	648.5	655.5	656.6
Minorities & preferred	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Provisions & deferred taxes	2.4	2.4	2.4	0.0	0.0	0.0	0.0
LT bearing interest debt	161.2	117.7	186.8	117.0	118.1	120.4	125.1
ST bearing interest debt	231.6	304.9	283.3	297.5	343.6	394.9	396.2
Total debt	**392.8**	**422.6**	**470.1**	**414.5**	**461.7**	**515.3**	**521.3**
Tradable payables	83.6	76.0	76.0	37.0	37.0	37.0	37.0
Total Liabilities	**1,084.4**	**1,102.2**	**1,152.3**	**1,092.8**	**1,147.1**	**1,207.7**	**1,214.8**

Notes -

Per Common Share (EUR)	**09/02**	**09/03**	**09/04**	**09/05**	**09/06e**	**09/07e**	**09/08e**
Cash direct result	**4.93**	**5.37**	**5.17**	**5.05**	**4.87**	**5.04**	**5.11**
Y/Y	*-28%*	*9%*	*-4%*	*-2%*	*-4%*	*3%*	*1%*
Indirect result	-0.40	-1.36	-0.30	1.43	1.01	0.88	0.17
Dividend	4.28	4.45	4.62	4.80	4.92	5.04	5.15
Y/Y	*4%*	*4%*	*4%*	*4%*	*3%*	*2%*	*2%*
Book Value	61.83	61.39	61.65	60.68	61.29	61.89	61.89
Y/Y	*2%*	*-1%*	*0%*	*-2%*	*1%*	*1%*	*0%*
Shares (m)							
End of F.Y.	9.794	9.794	9.794	9.794	9.794	9.794	9.794
Average number	9.794	9.794	9.794	9.794	9.794	9.794	9.794
Average number - fully diluted	-	-	-	-	-	-	-

EV and CE details (EUR m)	**09/02**	**09/03**	**09/04**	**09/05**	**09/06e**	**09/07e**	**09/08e**
Market cap.	**611.6**	**683.6**	**749.3**	**857.0**	**744.9**	**744.9**	**744.9**
+ Net financial debt	392.8	394.7	457.3	401.7	449.3	503.0	508.2
(of which LT debt)	161.2	117.7	186.8	117.0	118.1	120.4	125.1
(of which ST debt)	231.6	304.9	283.3	297.5	343.6	394.9	396.2
(of which Cash position)	0.0	27.9	12.8	12.8	12.3	12.3	13.0
+ Provisions (pension)	-	-	-	-	-	-	-
+ Minorities (MV)	-	-	-	-	-	-	-
- Peripheral assets (MV)	-	-	-	-	-	-	-
+ Others	-	-	-	-	-	-	-
Enterprise Value	**1,217.2**	**1,284.9**	**1,353.1**	**1,498.3**	**1,393.3**	**1,400.4**	**1,401.4**
Equity (group share)	**605.6**	**601.3**	**603.8**	**641.3**	**648.5**	**655.5**	**656.6**
+ Net financial debt	392.8	394.7	457.3	401.7	449.3	503.0	508.2
+ Provisions (pension)	-	-	-	-	-	-	-
+ Minorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0
- Peripheral assets	-	-	-	-	-	-	-
+ Others	-	-	-	-	-	-	-
Capital employed (for ROCE)	**998.4**	**996.0**	**1,061.1**	**1,043.1**	**1,097.8**	**1,158.5**	**1,164.8**

Ratios	**09/02**	**09/03**	**09/04**	**09/05**	**09/06e**	**09/07e**	**09/08e**
Valuation analysis							
P/E	12.7	13.0	14.8	17.3	15.6	15.1	14.9
P/BV	1.0	1.1	1.2	1.4	1.2	1.2	1.2
EV/Rental Income	16.0	16.4	17.2	19.0	18.3	17.3	16.8
EV/EBITDA	17.7	18.8	20.3	22.5	22.0	20.7	20.1
EV/EBIT	17.7	18.8	20.3	22.5	22.0	20.7	20.1
EV/CE	1.2	1.3	1.3	1.4	1.3	1.2	1.2
Discount on NAV	-1.0%	-13.7%	-24.1%	-44.2%	-24.1%	-22.9%	-22.9%
Div. Yield	6.9%	6.4%	6.0%	5.5%	6.5%	6.6%	6.8%
Payout	-	82.9%	89.3%	94.0%	100.2%	100.0%	102.4%
Financial ratios							
Net Debt/Equity	64.9%	65.6%	75.7%	62.6%	69.3%	76.7%	77.4%
Equity/Total Assets	55.8%	54.6%	52.4%	58.7%	56.5%	54.3%	54.0%
ROCE	6.9%	6.9%	6.3%	6.4%	5.8%	5.8%	6.0%
ROCE post-tax	6.9%	6.9%	6.3%	6.4%	5.8%	5.8%	6.0%
ROE	8.6%	8.7%	8.4%	7.8%	7.4%	7.5%	7.6%
Margin analysis							
EBITDA / Rental income	90.1%	87.4%	84.7%	84.5%	83.0%	83.5%	83.6%
EBIT / Rental income	90.1%	87.4%	84.7%	84.5%	83.0%	83.5%	83.6%
Direct result / Rental income	68.4%	67.2%	64.5%	63.5%	62.5%	60.8%	59.9%
Growth analysis							
Rental Income	58.9%	2.7%	0.3%	0.4%	-3.2%	6.4%	2.9%
EBITDA	59.7%	-0.4%	-2.8%	0.0%	-4.9%	7.0%	3.0%
EBIT	62.9%	-0.4%	-2.8%	0.0%	-4.9%	7.0%	3.0%
Direct result	48.0%	0.8%	-3.6%	-1.3%	-4.7%	3.5%	1.4%

Notes -

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	SELL	REDUCE	HOLD	ADD	BUY
High Beta > 1.3	RP<-20%	-20%≤RP<-8%	-8%≤RP<+8%	+8%≤RP<+20%	RP≥20%
Medium 0.9 < Beta < 1.3	RP<-15%	-15%≤RP<-5%	-5%≤RP<+5%	+5%≤RP<+15%	RP≥15%
Low Beta < 0.90	RP<-9%	-9%≤RP<-3%	-3%≤RP<+3%	+3%≤RP<+9%	RP≥9%

RP : Relative Performance against DJ EURO STOXX.

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