

Initiating coverage

## Belgium

# Befimmo

## A defensive pure-play investor in Brussels

### Real estate

22/07/09

**€58.35**

**Befimmo has 66% exposure to the public sector and c.80% of its most important rents secured for the next three years. It offers a dividend yield of c.7.5% and we consider it is a defensive company in a turbulent market. HOLD.**

**Stable cash-flow-generating potential in a turbulent market.** Befimmo offers long-term and low risk earnings visibility with a rent duration of 9.6 years and c.80% of its current revenues secured for the next three years, thanks mainly to its large exposure to public tenants.

**Focus on Brussels CBD.** Befimmo has 58% of its €1.9bn portfolio invested in buildings spread around prime locations in the Brussels CBD. The occupancy rate of 93.8% is impacted by renovations of key assets, but is likely to be offset by new projects and completed renovations.

**Befimmo is looking for acquisition opportunities.** We believe the recent €166.6m capital increase will be used to (1) finance the FY08/09 €131m committed capex and investment programme, (2) deleverage the balance sheet (EOP FY08/09 loan to value (LTV) of 42% is expected; current market average stands at 47%), (3) be ready to strike when acquisition opportunities arise (current immediate firepower is c.€200m).

**Befimmo trades at a discount to NAV of 11%.** The company's premium valuation compared with peers (discount of 32%) is, in our view, justified given its pure-play status and low risk, highly visible earnings.

#### Forecasts and ratios (€m)

Yr to Sep	2007/08	2008/09F	2009/10F	2010/11F
Turnover	109.2	114.0	122.1	125.6
REBT	70.7	69.6	72.5	71.5
Net profit	72.6	9.7	67.3	70.8
Adj EPS (€)	4.26	4.69	4.08	4.02
Adj PER (x)	15.7	12.5	14.4	14.6
Dividend yield (%)	7.8	7.5	6.7	6.7
EV/REBITDA (x)	19.4	18.5	17.2	17.3
Price/NAV (x)	0.90	0.97	0.97	0.97
ROE (%)	5.8	6.1	6.3	6.2

Source: Company data, ING estimates

research.ing.com

BEL 20: 2107.98

SEE THE DISCLOSURES APPENDIX FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATION

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Initiating coverage

## Hold

24 July 2009

Target price (12 mth)

**€62.5**

Reuters

BEFB.BR

#### 12-month forecast returns (%)

Share price	6.6
Dividend	7.5
12m f'cst total return	14.0

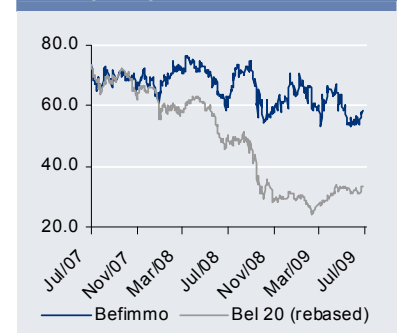
#### Key ratios (%)

	2007/08	2008/09F
Turnover growth	4.3	4.4
Operating margin	83.8	87.0
NFD/equity	89.8	75.0
Debt ratio	46.9	45.5

#### Share data

No. of shares (m)	16.8
Daily turnover (shares)	22,775
Free float (%)	81.2
Enterprise value (€m)	1,927
Market cap (€m)	980

#### Share price performance



Source: ING

# Contents

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<b>Investment case</b>	<b>3</b>
<b>Company profile</b>	<b>10</b>
<b>Financials</b>	<b>16</b>
<b>Summary of financials</b>	<b>20</b>
<b>Appendix 1: the Brussels office market</b>	<b>21</b>
<b>Appendix 2: Overview of selected REIT systems</b>	<b>28</b>
<b>Disclosures Appendix</b>	<b>29</b>

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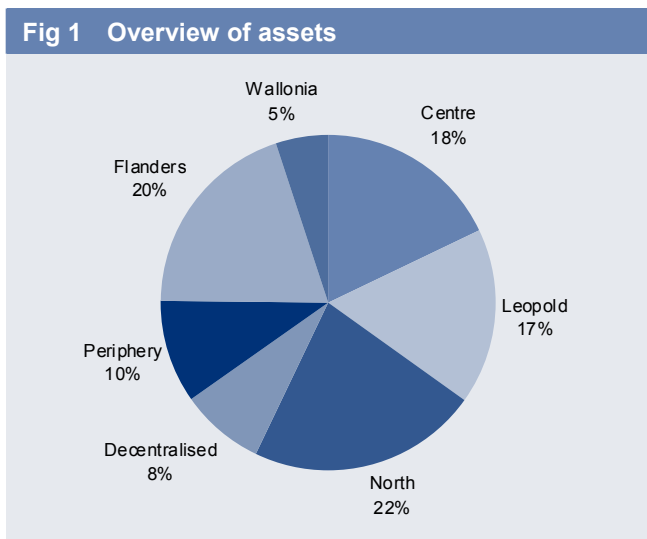
# Investment case

At c.0.9x NAV and an average premium of 21% versus its European office peers, we believe Befimmo's valuation adequately reflects the group's defensive and pure-play status in the long-term office-space rental market. The share's defensive qualities are supported by highly visible and stable cash flows and are underpinned by a slightly below sector average dividend yield of 7.5% (average of 8%), which is secure. The recent rights issue should decrease the loan to value (LTV) EOP FY08/09F towards 42%, which is well below the current European office average of 47%. The current occupancy rate of 93.8% – including renovations – is set to improve as new renovation projects come on stream from 2011 onwards. We view Befimmo as currently fairly valued.

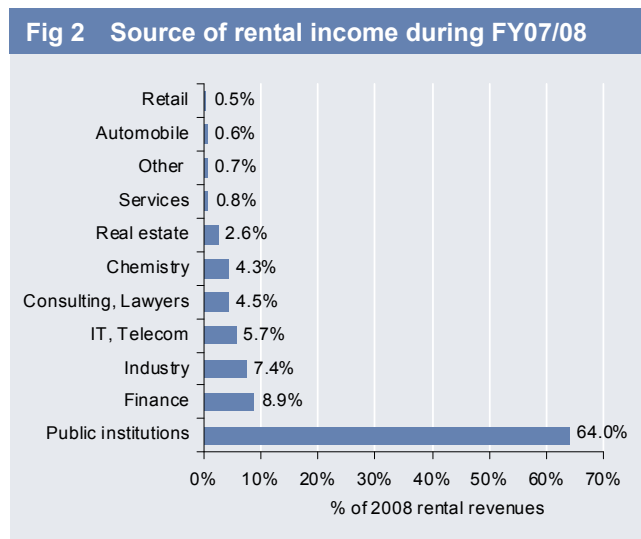
## Defensive player, quality assets, stable CF

**Portfolio consists of prime assets**

Approximately 58% of Befimmo's assets are situated in prime locations in the Brussels Central Business District (CBD), which comprises the Pentagon, South, North, Leopold and Louise districts (see *Appendix 1* for a market overview). Another 25% of its assets are spread across important cities in Flanders and Wallonia and are let to several government entities as a part of the Fedimmo portfolio. The riskiest part of the portfolio is limited to 18% and consists of assets in the decentralised area and suburbs of Brussels that are let on a 3/6/9-year basis. Over 80% of the portfolio thus consists of prime assets in prime locations.



Source: Company data



Note: the current rents derived from public institutions rose to 66%

Source: Company data

**Average duration of rents approaches ten years; 66% of rents come from the public sector**

Two-thirds of total current rental revenues are derived from public tenants and Fortis (this includes the regional headquarters in Leuven and Antwerp, which have remained unaffected by recent vents at Fortis) and are secured for the long-term (durations of 12 years and 17 years, respectively). As a consequence, management is able to focus its attention on retaining the remaining one-third of its revenues. Roughly half of this is derived from the Brussels CBD (average duration of four years) and the other half comes from the suburban and decentralised area (average duration of 1.5 years).

**80% of rents are recurring**

We calculate that c.80% of current rents have a duration of more than three years. Therefore, only 20% of rents are considered as risky in the current market environment. Given the low cyclical nature of the Brussels office market, the downward potential for this 'risky' proportion of rents remains limited when compared with office markets in other large cities, such as London and Paris.

**Well placed to weather the crisis thanks to pure-play strategy**

The company's strategy, as a pure-play investor, is to only invest in prime, long-term let office buildings in top locations. This makes Befimmo the most defensive player in the Belgian quoted office market in our view.

**2009 will be a transition period for a number of reasons**

Befimmo is currently in a transition period for a number of reasons: (1) In the aftermath of the Fedimmo acquisition, the financial structure is due to be further streamlined to enable the company to address future acquisition opportunities. We expect the successful €166.6m rights issue finished in mid-June 2009 to lead to a comfortable EOP FY08/09 LTV of 42% (current sector average at 47%) and a debt ratio of 46% (assuming committed capex and investments to be equally debt/equity financed and a FY08/09F portfolio downward fair value adjustment below 3%), leaving sufficient headroom to fund opportunistic acquisition opportunities (we estimate immediate firepower at €200m, which could be increased by another €100m additional credit lines before a 50% debt ratio is reached); (2) Some key renovations are due to take place during FY08/09 (committed capex and investment pipeline of c.€131m) which will temporarily increase the vacancy rate to c.6%. Also, a significant investment of c.€80m has been made during 3QFY08/09 for the Axento project in Luxembourg (this number is included in the €131m capex and investment budget for FY08/09), which started generating rental revenues in July 2009 (thanks to an 18-month rent guarantee granted by the seller. At the time of writing c.5% of the Axento project is pre-let); (3) Some non-core assets that do not fit in the pure-player strategy are due to be disposed of in the near future (eg, Kattendijkdok is set to be sold in early 2010).

## Valuation

**Rights issue priced at 25% discount was not cheap; dilution of c.20%**

The recent €166.6m (gross) rights issue at €44.65 per share was priced at a discount of 25% to the average volume weighted price on the day prior to the offering announcement (3 June 2009). As a consequence, 3,731,134 new shares have been issued. For existing shareholders exercising their rights, the FY08/09 dividend has been cut from €4.60 to €4.40 (implying a €3.36 interim dividend for old shares and a €1.04 dividend for all shares). Befimmo has stated it is targeting a DPS of €3.90, €3.94 and €3.98 for FY09/10, FY10/11 and FY11/12, respectively.

**DCF target price of €62.5...**

Our DCF model generates a 12-month target price of €62.5, representing a secured 7.5% dividend yield and a 6.6% upward price potential. This represents a 12-month total return of 14% from 22 July 2009's closing price of €58.4. The main assumptions underlying our valuation are:

- A WACC of 7.4%
- A levered cost of equity of 10.8%
- A company beta of 0.7
- An average after-tax cost of debt of 3.9%, reflecting the variable rate financing structure (c.55% of total debt is floating; Befimmo's strategy is to hedge 50-75% of its total financial debt on a three- to five-year basis)

- A terminal EBIT margin of 85.4%

**Fig 3 DCF valuation (€m)**

	2008/09F	2009/10F	2010/11F	2011/12F
EBIT	99.2	106.2	107.4	109.6
Tax	-0.7	-0.8	-0.8	-0.8
Operating profit after tax	98.4	105.5	106.7	108.8
+ Depreciation	0.2	0.2	0.2	0.2
- Investments in fixed assets	-130.7	-16.6	-30.3	-39.8
Total net investments in fixed assets	-130.5	-16.4	-30.2	-39.7
- Investments in working capital	12.0	4.7	2.3	2.0
<b>Operating cash flow</b>	<b>-20.1</b>	<b>93.7</b>	<b>78.7</b>	<b>71.0</b>
Terminal value				0.0
Enterprise value	1,796.2	1,723.7	1,775.8	1,841.9
NFD	810.4	804.1	826.9	856.1
<b>Equity value</b>	<b>985.7</b>			
WACC used (%)	7.4			
Number of shares	16,790,103			
Fair value per share (€)	59			
12-month price target (€)	62.5			

Source: ING estimates

**...and a secured  
confirmed dividend  
yield of 7.5%**

While the FY08/09 DPS of €4.4 will be only slightly below our forecast adjusted EPS of €4.7, we believe that the company has several safeguards to keep its promise by using capital gains that resulted from the sale of the semi-industrial portfolio, Woluwe Garden, and some of the Fedimmo buildings that were on a short-term let (Tabaksvest and Langerlei) during FY07/08 (for a total capital gain of €0.66 per share), in addition to the sale of the Albert Borschette Centre during FY04/05 (for a capital gain of €1.29 per share).

**Fig 4 Key financials (€)**

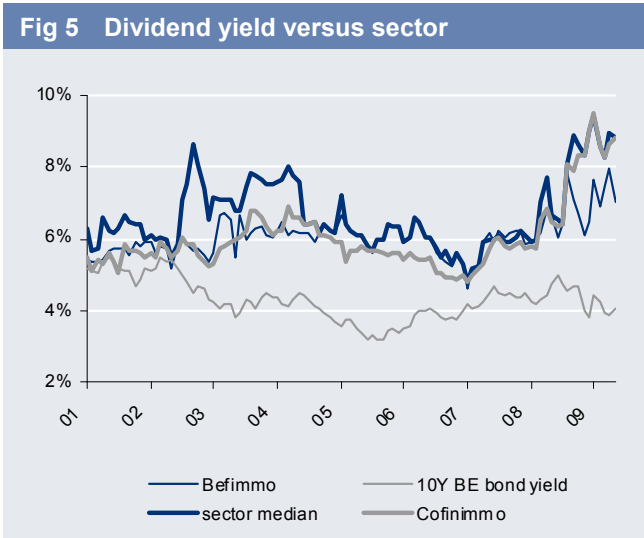
Yr to Sept	2007/08	2008/09F	2009/10F	2010/11F
Adj EPS	4.26	4.69	4.08	4.02
Adj CFPS	5.29	4.70	4.09	4.03
NAVPS	74.0	60.7	60.6	60.7
DPS	4.55	4.38	3.90	3.94
Adj net income (€m)	70.1	68.8	71.7	70.7
Adj PER (x)	15.7	12.5	14.4	14.6
Adj P/CF (x)	12.6	12.5	14.3	14.5
EV/REBITDA (x)	19.4	18.5	17.2	17.3
P/NAV (x)	0.90	0.97	0.97	0.97
Dividend yield (%)	7.8	7.5	6.7	6.7

<sup>1</sup> 2009F NAV calculated using year-end estimates (based on last reported NAV, P/NAV is 0.9x)

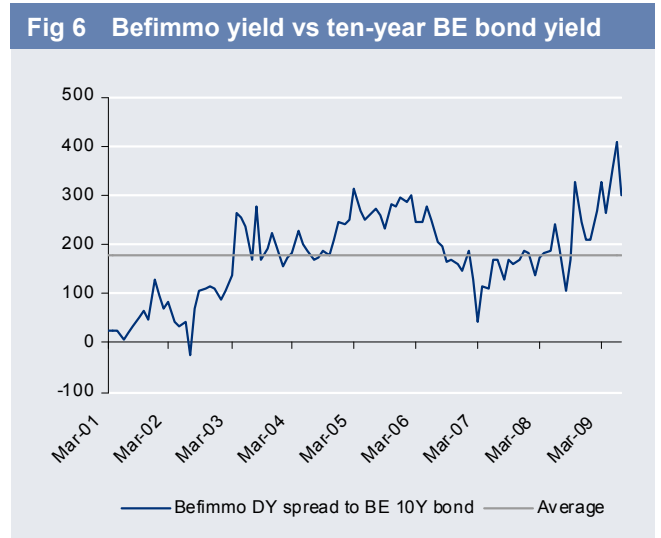
Source: Company data, ING estimates

**Government bond yield  
spread of almost 3%;  
perfect inflation hedge**

The historical dividend yield has remained well above the yield on ten-year Belgian government bonds. Currently, the yield spread stands at c.3%. While this is slightly below the sector median, it could be compensated by the defensive character of Befimmo's cash flow pattern. In addition, the cash flows are protected against inflation – unlike a government bond – as the rents are indexed to CPI annually.



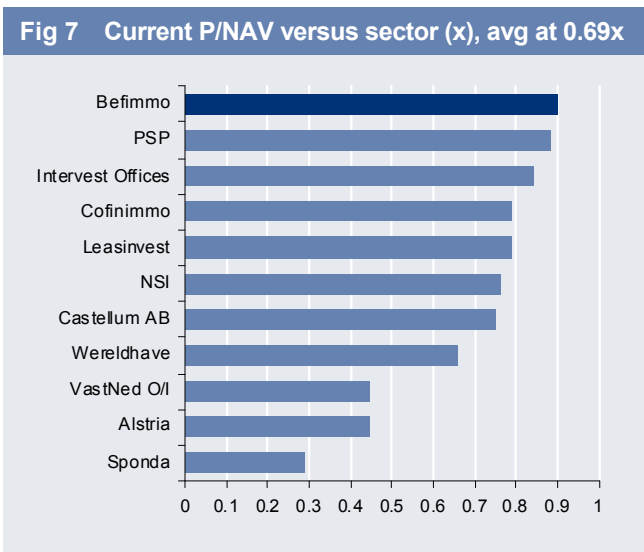
Source: Factset



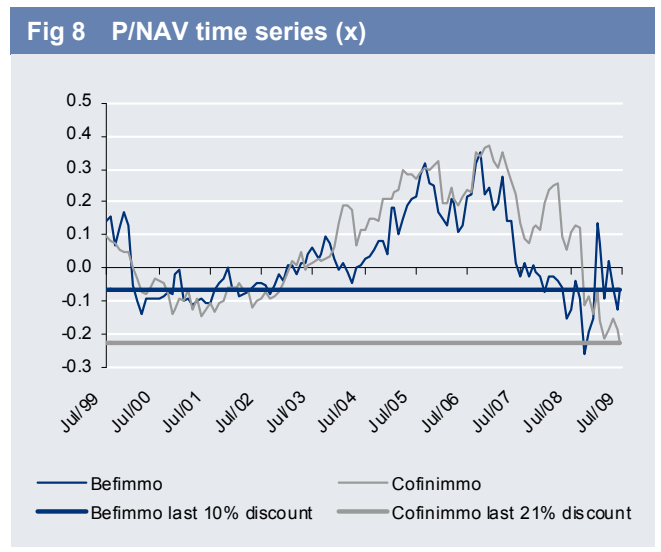
Source: Factset

**Premium valuation to peers**

Since the recent rights issue, Befimmo has been trading at a discount to NAV of c.10%. While this is still more expensive than the average European office discount of c.31% (see Figure 6), we believe this premium valuation is justified given its defensive portfolio and large proportion of already secured cash flows.



Source: ING estimates



Source: Factset, ING estimates

**Risk factors**

**Main risks to the investment case**

We believe several risks should be monitored with regard to Befimmo's investment case: (1) the evolution of current renovations and the likelihood of finding new tenants at fair rental prices when the renovated buildings re-enter the market; (2) any expansion into foreign office markets (primarily Paris), as management currently has limited experience in this field; (3) with the largest part of its asset base concentrated in the Brussels CBD, a sudden yield shift would make Befimmo's portfolio vulnerable to fair value adjustments, increasing its leverage and limiting the financing potential for making additional investments. However, the low speculative nature of the Brussels office market must be put in perspective to other, more volatile rental markets, such as Paris and London.

**Primary catalyst lies in the stabilisation of the transaction market**

The primary catalyst that could improve the share price potential is a stabilisation of the Brussels investment market. Thanks to the recent rights issue, Befimmo currently

has c.€200m of immediate firepower. Assuming a 50-50 debt/equity financing of new projects, we calculate Befimmo should be able to engage in transactions that enable value accretive returns to shareholders starting acquisition yields of c.5.7%. Given the current average prime yield of 6.5% in Brussels<sup>1</sup>, we believe Befimmo is well placed to increase returns to its shareholders once the transaction volume picks up.

**Secondary, longer term catalyst lies in the geographical expansion plans**

Another potential for share price upside is related to the international extension plan to the portfolio. Befimmo is currently studying investment opportunities in Paris, where there may well be some bargains in the coming years. Given the large proportion of secured long-term rents in the current portfolio, we believe management should have additional time to focus on an international expansion. However, given the limited experience of the management, the more speculative nature of foreign office markets and the potential dilution of the pure-play status that could be invoked by such an expansion, we do not expect this expansion to occur in the short run.

## **Comment on the 3QFY08/09 results**

On 23 July 2009, Befimmo published its 3QFY08/09 results.

Befimmo reported a 26.5% increase in recurring cash flow YoY (+€10.9m), primarily thanks to: (1) an increase in rental revenues related to the WTC II and Extension Justice buildings entering the portfolio (+€5.1m); (2) a decrease in interest expenses thanks to the large exposure to floating interest rates (+€3.2m) and (3) a decrease in the operating expenses (+€1.3m). We have adjusted our FY08/09 recurring CFPS accordingly to €4.7 per share. As a consequence, we see no problems for Befimmo being able to pay out a €3.36 interim dividend to the shares outstanding before the capital increase and a €1.04 dividend for all shares outstanding after the capital increase.

The occupancy rate showed a mild improvement from 93.8% at EOP 2HFY08/09 to 94.11% EOP 3QFY08/09. We expect this occupancy rate to remain stable into FY09/10. Any major improvement will depend on the extent to which the Impératrice and Central Gate buildings will be leased when they come out of renovation during FY09/10. This will in turn largely depend on a turnaround in the overall sector sentiment, which up to now has shown little signs of improvement (see *Appendix 1* for a market update).

Downward fair value adjustments on the portfolio have remained limited to 0.43% during the third quarter. The fact that the real estate experts have become less stringent in their portfolio adjustments might be an early indication of a potential sector pick-up (compared with a portfolio downward fair value adjustment of 2.41% and 0.25% during 1Q and 2QFY08/09, respectively). In our model, we assume total FY08/09 downward fair value adjustments to stabilise at c.3%.

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<sup>1</sup> Source: DTZ 2Q09 office market review

## SWOT analysis

**Fig 9 SWOT analysis**

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>• Virtually no corporate taxation thanks to SICAFI status</li> <li>• Exposure to Brussels' CBD, a less volatile and speculative market than office markets in other countries</li> <li>• Long-term duration of rental contracts</li> <li>• Diversified and prime tenant base</li> <li>• Strong exposure to public tenants: ensures long-term and stable cash flow</li> <li>• Strong commitment to pay out a high and rising dividend each year</li> <li>• Inflation-protected investment</li> <li>• Low rental reversion limits the risk of rents dropping sharply in a falling property market</li> <li>• No speculative project development</li> </ul>	<ul style="list-style-type: none"> <li>• Limited experience and networking in foreign offices market</li> <li>• Little diversification of assets</li> <li>• A limited, but non-negligible exposure to the peripheral and decentralised Brussels market (18% of total assets)</li> <li>• Long-term contracts limit the downside, but also the upside potential in boom markets. However, this is not a big issue in current circumstances.</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>• Acquisitions in foreign markets at fire sale prices</li> <li>• Immediately available war chest is estimated at €200m</li> </ul>	<ul style="list-style-type: none"> <li>• Delivery of speculative projects in the Brussels market will increase the overall vacancy risk</li> <li>• Enough additional funding available to fund opportunities in the market?</li> </ul>

Source: ING



**Fig 10 International REIT overview**

Country	Company	Share price (€)	Market cap (€m)	Last reported	P/NAV	Disc to last	Latest net portfolio yield (%)	Implied portfolio yield	Calculated LTV (2)	Impl LTV	Prospect dividend (€)	Prospect dividend yield (%)
				NAV (€)		reported NAV (%)		yield (%) (1)		LTV (3)		
Belgium	Befimmo (HOLD)	58.4	980	65	0.89	(10.5)	6.5	7.0	40.4	43.1	4.39	7.5
	Cofinimmo (HOLD)	81.5	1,066	104	0.78	(22.0)	6.4	7.1	52.2	57.5	6.72	8.6
	Intervest Offices (NR)	19.5	271	23	0.84	(15.5)	7.7	8.5	41.9	45.9	2.10	10.8
	Leasinvest (NR)	53.5	215	68	0.79	(21.3)	7.5	8.3	45.9	51.1	4.56	8.5
	Retail Estates (NR)	36.5	149	44	0.84	(16.5)	6.6	7.3	47.2	51.9	2.65	7.3
	Intervest Retail (NR)	31.4	159	40	0.79	(21.3)	6.3	7.2	38.4	44.2	2.24	7.1
	Ascencio (NR)	42.5	127	48	0.89	(10.8)	6.8	7.2	34.1	36.3	2.94	6.9
	Wereldhave BE (NR)	50.9	272	73	0.70	(30.4)	6.1	8.8	4.1	6.0	3.58	7.0
	Warehouse Est BE (NR)	36.5	84	40	0.92	(8.1)	8.1	8.7	21.8	23.4	2.65	7.3
	Home Invest BE (NR)	49.0	107	51	0.97	(3.1)	5.6	5.7	30.5	31.0	2.43	5.0
	Aedifica (NR)	34.8	155	40	0.87	(12.9)	5.5	5.9	46.5	49.8	1.80	5.2
	Serviceflats Invest (NR)	9055.0	91	7,483	1.21	21.0	7.0	6.0	24.1	20.6	505.00	5.6
	<b>Average</b>				<b>0.89</b>	<b>(11.3)</b>	<b>6.9</b>	<b>7.4</b>	<b>37.2</b>	<b>39.8</b>		<b>7.5</b>
	<b>Median</b>				<b>0.88</b>	<b>(11.8)</b>	<b>6.7</b>	<b>7.3</b>	<b>43.1</b>	<b>45.1</b>		<b>7.3</b>
<b>Min</b>				<b>0.70</b>	<b>(30.4)</b>	<b>5.5</b>	<b>5.7</b>	<b>4.1</b>	<b>6.0</b>		<b>5.0</b>	
<b>Max</b>				<b>1.21</b>	<b>21.0</b>	<b>8.1</b>	<b>8.8</b>	<b>57.0</b>	<b>57.5</b>		<b>10.8</b>	
NDL	NSI (NR)	11.6	457	15	0.77	(23.3)	7.1	7.9	56.9	63.4	1.33	11.5
	VastNed O/I (NR)	10.4	219	23	0.45	(55.1)	7.8	10.1	48.8	63.4	1.37	13.2
	Wereldhave (NR)	56.1	1,193	84	0.66	(33.5)	6.2	8.0	26.1	33.5	4.71	8.4
	<b>Average</b>				<b>0.63</b>	<b>(37.3)</b>	<b>7.0</b>	<b>8.7</b>	<b>43.9</b>	<b>53.4</b>		<b>11.0</b>
	<b>Min</b>				<b>0.45</b>	<b>(55.1)</b>	<b>6.2</b>	<b>7.9</b>	<b>26.1</b>	<b>33.5</b>		<b>8.4</b>
<b>Max</b>				<b>0.77</b>	<b>(23.3)</b>	<b>7.8</b>	<b>10.1</b>	<b>56.9</b>	<b>63.4</b>		<b>13.2</b>	
Other	Sponda (NR)	2.0	550	7	0.28	(71.6)	5.7	10.7	61.6	116.7	0.03	1.3
	PSP (NR)	36.4	1,682	41	0.88	(12.2)	4.7	5.1	27.8	30.0	1.67	4.6
	Alstria (NR)	5.6	311	13	0.44	(55.7)	5.2	6.6	60.2	76.9	0.39	7.1
	Castellum AB (NR)	4.8	827	6	0.75	(25.7)	7.5	8.4	50.0	56.0	0.31	6.4
	<b>Average</b>				<b>0.59</b>	<b>(41.3)</b>	<b>5.8</b>	<b>7.7</b>	<b>49.9</b>	<b>69.9</b>		<b>4.8</b>
	<b>Min</b>				<b>0.28</b>	<b>(71.6)</b>	<b>4.7</b>	<b>5.1</b>	<b>27.8</b>	<b>30.0</b>		<b>1.3</b>
	<b>Max</b>				<b>0.88</b>	<b>(12.2)</b>	<b>7.5</b>	<b>10.7</b>	<b>61.6</b>	<b>116.7</b>		<b>7.1</b>
	<b>Average (total)</b>				<b>0.79</b>	<b>(20.7)</b>	<b>6.7</b>	<b>7.6</b>	<b>40.8</b>	<b>47.9</b>		<b>7.5</b>
	<b>Median (total)</b>				<b>0.84</b>	<b>(16.5)</b>	<b>6.6</b>	<b>7.6</b>	<b>43.9</b>	<b>47.9</b>		<b>7.3</b>
	<b>Min (total)</b>				<b>0.28</b>	<b>(71.6)</b>	<b>4.7</b>	<b>5.1</b>	<b>4.1</b>	<b>6.0</b>		<b>1.3</b>
	<b>Max (total)</b>				<b>1.21</b>	<b>21.0</b>	<b>8.1</b>	<b>10.7</b>	<b>61.6</b>	<b>116.7</b>		<b>13.2</b>
	<b>Average (offices)</b>				<b>0.69</b>	<b>(31.5)</b>	<b>6.6</b>	<b>8.0</b>	<b>46.5</b>	<b>58.0</b>		<b>8.0</b>
	<b>Median (offices)</b>				<b>0.77</b>	<b>(22.6)</b>	<b>6.8</b>	<b>8.0</b>	<b>48.8</b>	<b>56.0</b>		<b>8.5</b>
<b>Min (offices)</b>				<b>0.28</b>	<b>(71.6)</b>	<b>4.7</b>	<b>5.1</b>	<b>26.1</b>	<b>30.0</b>		<b>1.3</b>	
<b>Max (offices)</b>				<b>0.91</b>	<b>(8.7)</b>	<b>7.9</b>	<b>10.7</b>	<b>61.6</b>	<b>116.7</b>		<b>13.2</b>	
<b>Average (Belgian peers)</b>				<b>0.84</b>	<b>(15.6)</b>	<b>7.2</b>	<b>7.7</b>	<b>45.1</b>	<b>49.4</b>		<b>8.8</b>	
<b>Median (Belgian peers)</b>				<b>0.84</b>	<b>(15.6)</b>	<b>7.2</b>	<b>7.7</b>	<b>45.1</b>	<b>49.4</b>		<b>8.8</b>	
<b>Min (Belgian peers)</b>				<b>0.78</b>	<b>(12.8)</b>	<b>7.4</b>	<b>7.0</b>	<b>48.0</b>	<b>51.3</b>		<b>9.1</b>	
<b>Max (Belgian peers)</b>				<b>0.91</b>	<b>(14.3)</b>	<b>7.1</b>	<b>8.5</b>	<b>47.1</b>	<b>50.9</b>		<b>8.2</b>	

Notes: (1) Net rental yield divided by the real estate portfolio corrected for discount implied by stock exchange. (2) Total net interest bearing debt divided by total real estate assets. (3) Total net interest bearing debt divided by real estate portfolio value corrected for discount implied by stock exchange. (4) Calculation LTV is based on last quarterly results. (5) Pricing date: 22 July 2009. (6) All companies are not rated (NR) by ING, except for Cofinimmo (HOLD, 14 July 2009, TP €83) and Befimmo (HOLD, 23 July 2009, TP €62.5).

Source: Company data, Factset, ING estimates

# Company profile

## ***Pure-play investor***

Befimmo is the second-largest SICAFI in Belgium, with 850,000m<sup>2</sup> of assets worth €1.89bn at the end of FY07/08 (+7.6% YoY) and a market capitalisation of €984m in mid-July 2009. Berheim-Comofi (later acquired by Fortis Real Estate Asset Management) founded the company in 1995, and is still the largest shareholder, owning almost 19% of the shares. The remainder of the shares are free float. Even though it was initially founded as a mixed asset investor, it currently distinguishes itself from the other Belgian SICAFIs as a pure-play investor:

- its investment strategy is to focus solely on office buildings
- assets must be in prime and central locations
- a low-risk tenant base with long-term contracts

## ***Focus on low-risk offices***

Consistent with this pure-play strategy, Befimmo is set to further streamline its operations by divesting non-core assets that do not comply with these criteria. With this in mind, the semi-industrial portfolio, the Woluwe Garden buildings (which were not in a top location), and some other short-term let buildings were recently divested with good capital gains (€0.66 capital gains per share during FY07/08).

## ***Strong exposure to public tenants thanks to the Fedimmo acquisition***

Befimmo won the tender for the Fedimmo portfolio in 2006 with an initial investment value of €725m and an initial yield of 5.5%. This portfolio consists of government buildings located across Belgium with an initial duration of 17 years (currently c.14 years remaining), and has significantly enhanced Befimmo's defensive profile. Befimmo currently holds 90% of the portfolio, leaving the remainder held by the Belgian government.

## ***First steps towards internationalisation***

As a result of rising competition for quality assets in Brussels, Befimmo has started to diversify its asset base into other countries in the Eurozone that have a similar transparent legal and fiscal system to Belgium. In line with this strategy, Befimmo has made its first investment abroad with the Axento project in Luxembourg in July 2009 (12,100m<sup>2</sup>, at an investment consideration of €96m), a market characterised by a large demand potential. A second step was taken in 2008 with the listing on Euronext Paris, now having all requirements necessary to acquire the SIIC status, the French equivalent of SICAFI status. This gives the company the opportunity to invest in the French market.

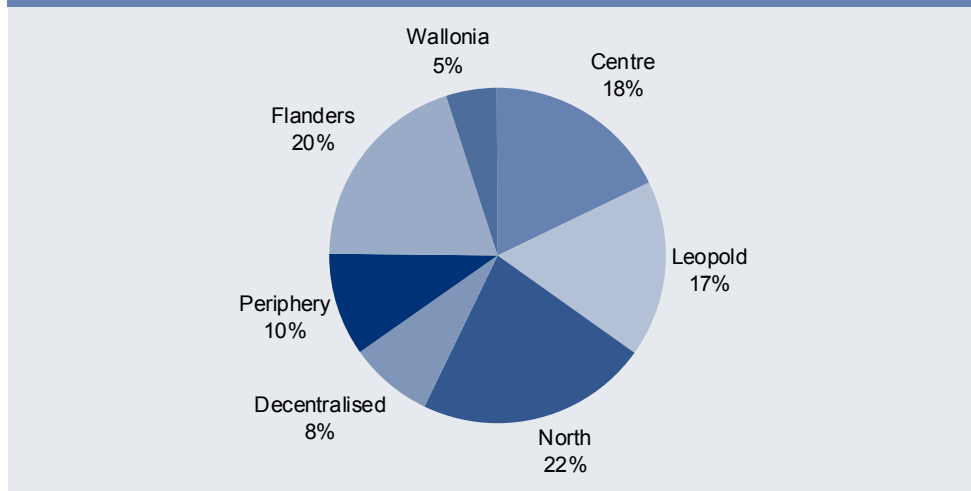
Management of the property portfolio is carried out internally, while property management is entirely outsourced.

## ***Priority is to seize opportunities***

Befimmo's current strategy is to further streamline its operations towards high quality office assets with long-term rental leases. It is looking to divest buildings that are not in prime locations or that have short-term leases. As it reaches the end of the financial restructuring related to the acquisition of Fedimmo, Befimmo is preparing to seize opportunities provided by the current market environment.

## Portfolio profile

Fig 11 Geographic breakdown of the portfolio



Source: Company data

**58% of the assets in Brussels CBD, smaller exposure to decentralised and periphery**

Seventy-five percent of Befimmo's total assets are located in Brussels. Fifty-eight percent of total assets are located in the CBD (with an average duration of four years, excluding public organisations), while 18% of total assets are located in the decentralised and periphery areas. This last group of assets is the riskiest, but Befimmo manages to keep the vacancy rate of its portfolio in these areas (2.9% in the decentralised area and 12.4% in the periphery) lower than the average market vacancy rate (12.7% in the decentralised and 18.3% in the periphery). Also, this area has the lowest average duration of 1.5 years. Since the assets in this area (FY07/08 rents of €22m) are not considered strategic, they may come up for sale when market conditions are favourable.

The remaining 25% of total assets is spread across Flanders and Wallonia. This mainly comprises parts of the Befimmo portfolio that are on a long-term lease to public organisations and thus have a very low risk profile.

Fig 12 Overview of the most important assets (rental value > 2.5% of total FY07/08 rents)

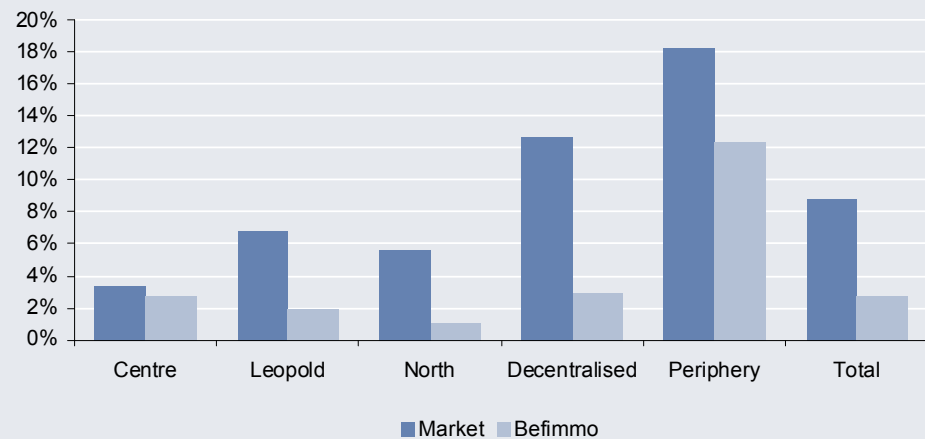
Building	Location	FY07/08 rents (€000)	Share of portfolio rents		FY07/08 occ rate (%)	
			(%)	(m <sup>2</sup> ) (rent/m <sup>2</sup> )		
Brederode 1	Centre	3,360	3.1	25,213	133	100
Central Gate	Centre	3,744	3.5	30,675	141	87
Impératrice	Centre	2,676	2.5	17,070	157	100
Poelaert	Centre	3,079	2.9	14,146	218	100
Arts	Leopold	3,079	3.4	16,793	218	100
Joseph 2	Leopold	3,763	3.5	12,831	293	100
Wiertz	Leopold	2,859	2.7	10,857	264	100
North	North	7,933	7.4	42,726	185	100
WTC 2	North	9,929	9.2	66,326	164	97
WTC 3	North	8,966	8.3	75,800	119	100
La Plaine	Decentralised	3,473	3.2	15,933	219	100
Ikaros Business Park	Suburbs	4,603	4.3	46,053	122	82

Source: Company data

**Vacancy rate more than doubled from 2.8% at the end of FY07/08**

The overall vacancy rate for the portfolio currently stands at 5.9%, which is still substantially lower than the Brussels market average of 11.01%. Note that vacancies related to renovations of the portfolio are included in Befimmo's vacancy rate.

**Fig 13 Vacancy rate overview**



Source: Company data

**Important new leases**

During FY07/08, a number of new leases were signed, and c.20% of the current portfolio was re-rented for an extensive period. Notable transactions were the lease of the recent fully renovated Brederode Corner 2 to the Starwood group (Centre, 7,300m<sup>2</sup>, €205/m<sup>2</sup>), the lease of part of the Media building to Oracle and Denso (5,800m<sup>2</sup>), and the lease of part of the View building among others to Guide Laurette and CREG (Leopold, 4,300m<sup>2</sup>).

**Significant capex and investment programme planned during FY08/09 totalling c.€131m**

Befimmo has planned an estimated investment of €131m in renovations this year. Projects that are currently either in progress or are planned are:

- **Extension Justice** (Centre, 19,035m<sup>2</sup>): began a thorough renovation in early 2008 which was finished in the first quarter of FY08/09. The budget for the renovation works is €22.2m. Fully leased on a long-term contract (20 years) to the Belgian state at a rate of more than €200/m<sup>2</sup>.
- **Central Gate** (Centre, 30,675m<sup>2</sup>): recently began a partial renovation of €3m. This multi-tenant building is expected to be partly vacant in the near future. Tenants will be attracted using rent discounts.
- **Imperatrice** (Centre, 17,070m<sup>2</sup>): recently began a thorough renovation programme of €26.3m, spread over 2009 and 2010. Will be largely vacant during the renovation. Rents are currently €165/m<sup>2</sup>.
- **Froissart** (Leopold, 2,581m<sup>2</sup>): will begin a partial renovation programme of €5.7m in late summer 2009, to be spread over 12-15 months. Let to the government as part of the Fedimmo portfolio. Upon completion of renovation, rents should be around €200/m<sup>2</sup>.
- **WTC tower 3** (North, 75,800m<sup>2</sup>): this building makes up part of the Fedimmo portfolio. A large renovation programme of €22.2m will be spread over 2009 and 2010. There will be no loss of rental income during renovation and there will be a rental appreciation after renovation. Initial rent post completion is estimated at €125/m<sup>2</sup>.

- A general renovation programme in the **Fedimmo** portfolio of c.€9.5m is scheduled for 2009. This does not imply any loss of rental income and should even allow for a rental appreciation (worth 6.5% yield on cost of the renovation project) after the renovation works are completed.

***Axento is the first investment abroad***

Aside from the renovations, Befimmo still has an additional upcoming investment of €80m during FY08/09 related to the development of the Axento project. This project concerns the development of a building on a piece of land bought in December 2006, in which Befimmo does not hold any development risk and which has an initial rental guarantee of 18 months. The project reflects a total investment of c.€96m (c.5% of the current portfolio), with c.€80 still to be spent mid-2009.

***Development of the finance building in Liège strengthens long-term rental revenues***

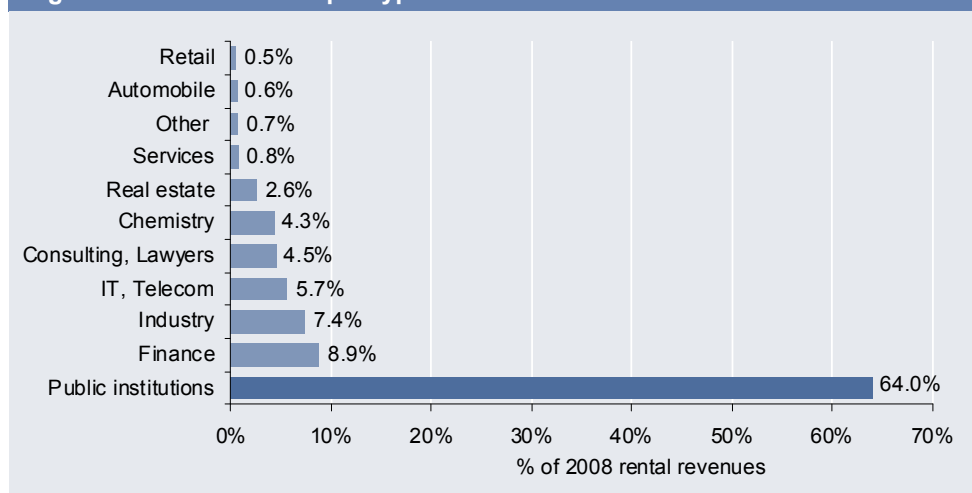
In March 2009, Fedimmo won a tender for a building occupied by the Ministry of Finance in Liège. The contract consists of the development of an entire new building, scheduled to start in 2011. The building will be on a 25-year lease, indexed annually and starting at €5.4m pa (c.5% of FY08 rental revenues).

***Diversified corporate tenant base and a large weight to the stable public sector***

## Quality of tenants

Approximately 64% of FY07/08 total rental revenues were derived from buildings that are on a long-term lease to the government (with an average duration of 12 years). The next most important class of tenants are the financial institutions. The risk to these rental revenues is also limited, as c.5% of FY07/08 total revenues are derived from the recently acquired regional headquarters of Fortis in Antwerp and Leuven (which have a duration of 17 years). Another 17% of FY07/08 rental revenues was derived from quality buildings spread across Brussels CBD and let to private companies from various economic sectors (average duration of four years), while the remaining 18% of FY07/08 total rents were derived from decentralised and peripheral buildings (average duration of 1.5 years).

**Fig 14 Rental revenues per type of tenant at the end of FY07/08**

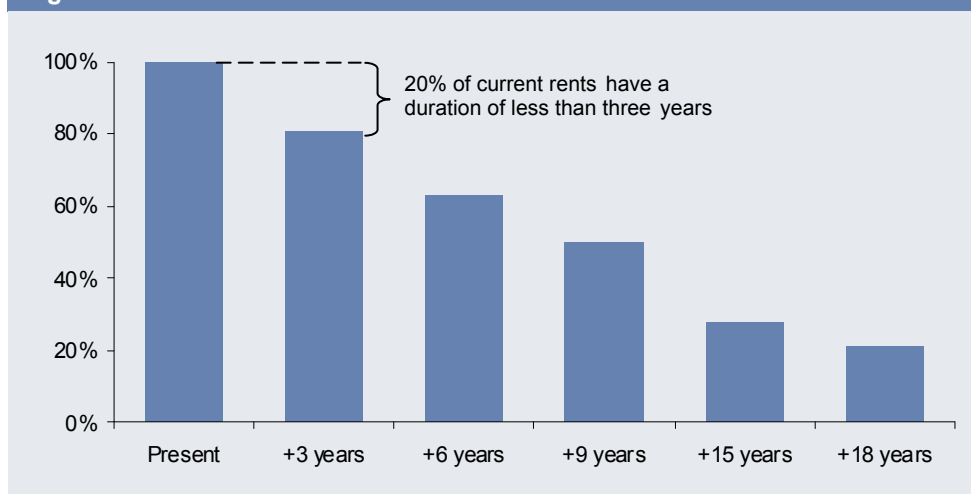


Note: current share of rents from public institutions has risen to 66%

Source: Company data

## Cash flow generation and stability

Fig 15 Duration of current rental contracts



Source: Company data

**80% of current rents are secured for at least three years**

As indicated in Figure 15, c.80% of the total rents received at the end of FY07/08 have a duration of more than three years. Therefore, 20% of current rents need to be renegotiated in the next three years. These mainly relate to buildings in the Brussels suburbs.

**Favourable rental reversion of 3.03% limits the downside risk to cash flows**

At the end of 1H FY08/09, total rental reversion was 3.03%, indicating that Befimmo is only slightly over-rented. The main reason for the rents being in line with the market is the recent renewal of several long-term leases.

## Management

Befimmo has an in-house team of 32 professionals operating in a flat structure. The team deploys full value-chain integration, including project management, investment & divestment strategy and execution, as well as real estate asset management.

The company is managed by CEO Benoît De Blieck, COO Martine Rorif and CFO Laurent Carlier, whose profiles are summarised below.

### CEO Benoît De Blieck

- CEO of Befimmo since 1999
- 25+ year' experience in various businesses across the real estate value chain (Building, development, asset ownership and management), with experience at Bernheim-Comofi, Galliford, Codic and CFE
- Director of UPSI (Union Professionnelle du Secteur Immobilier)

### COO Martine Rorif

- COO of Befimmo since 1997
- Formerly member of the operations staff of Devimmo
- Formerly member of the real estate development team at Entreprises Jacques Delens

**CFO Laurent Carlier**

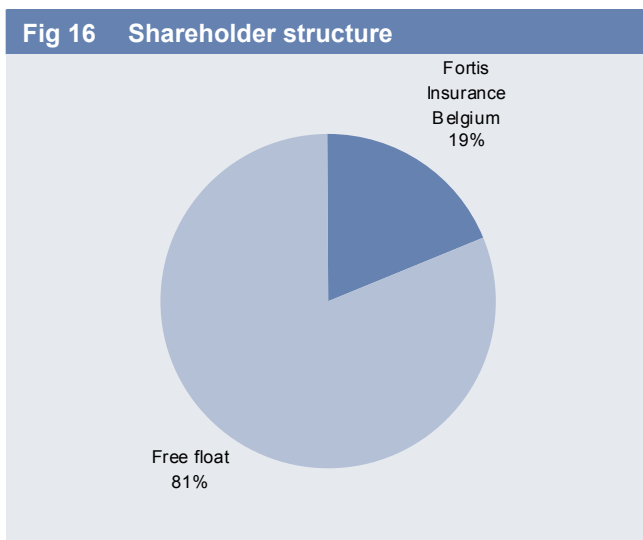
- CFO of Befimmo since 2006
- Ten years' experience as Finance Director, with experience at Sodexho and Sanofi
- Board member of FEIB (Financial Executive Institute of Belgium)

**Shareholders and stock liquidity**

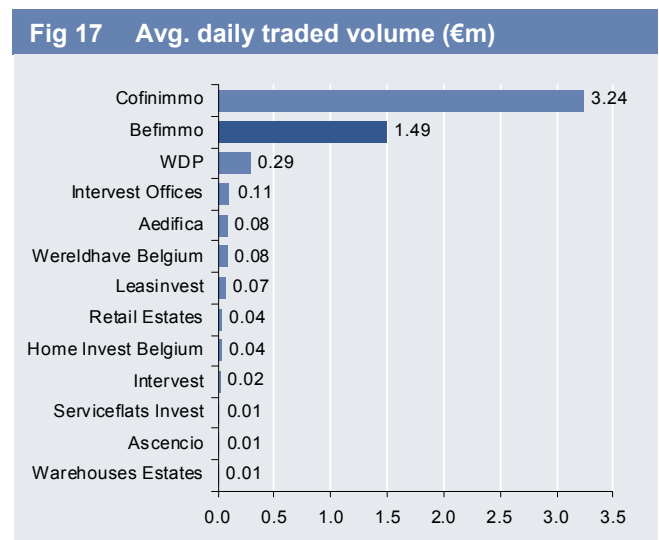
Befimmo was launched in 1995 by Berheim-Comofi (later acquired by Fortis Insurance Belgium), which explains the longstanding shareholder relationship with Fortis Insurance Belgium (FIB). FIB currently holds 18.8% of Befimmo shares and has participated in the recent rights issue.

**Decent liquidity with 81% free float and €1.5m average daily trade**

Befimmo's liquidity is fairly decent in a sector and SMC context. The free float adds up to 81%, which is above average in Belgium (country average of 47% based on ING's country coverage of 44 stocks). Befimmo's average liquidity of €1.5m worth of shares traded daily over the last six months is well above the sector average as illustrated in Figure 17 below, but slightly below the country's median (based on ING's country coverage), which stands at €1.7m daily average.



Source: Company Data



Source: Factset

# Financials

## Balance sheet

*Financial restructuring following the Fedimmo acquisition is largely finished*

During FY07/08, the final steps were taken to optimise Befimmo's financial structure following the acquisition of Fedimmo at the end of 2006 (for a consideration of €576m). The bridge loan that was initially used to finance the transaction was refinanced with the 2007 capital increase of €260m and three new credit lines obtained during FY07/08 totalling €300m. Approximately 55% of these loans were drawn at the end of FY07/08.

*c.€280m of unused debt facilities available at YE 2008 for future renovation and development commitments*

Apart from the refinancing, additional steps have been taken to strengthen the balance sheet, and finance the investment programme during FY08/09 and FY09/10:

- A €166.6 rights issue.
- Sale of rent receivables related to four buildings from the Fedimmo portfolio, generating a cash inflow of €60m.
- An additional syndicated loan facility of €300m (set up in June 2008), which has not been drawn during FY07/08. This comes on top of the syndicated loan of €350m that was set up in February 2006 (fully drawn).
- Commercial paper programme of €400m (of which €206.3m was in use at YE 2008)

**Fig 18 Nature of borrowings at the end of FY07/08 (€m)**

		Committed	Drawn
<b>Short term</b>	Bilateral credit lines	50	0
<b>Long term</b>	Bilateral credit lines-fixed	93.4	93.4
	Syndicated loan (Feb 2006)	350	350
	Bilateral credit lines-floating	300	165.5
	Syndicated loan (Jun 2008)	300	0
	Commercial paper programme		206.3
<b>Total</b>		<b>1,093.4</b>	<b>815.2</b>
<b>Available at YE08</b>			<b>278.2</b>

Source: Company data

*Immediate firepower of c.€200m*

We calculate that at year-end FY07/08, Befimmo had c.€280m of unused debt facilities (of which €50m is short term), which is enough to cover the capital expenditures related to renovations and developments in 2009 and 2010 (our net investments estimate €131m and €17m, respectively). Taking into a €60m dividend payment, the debt repayment obligations provided below and the proceeds from the capital increase, we estimate that Befimmo currently has c.€200m of immediate firepower to finance market opportunities. We estimate this could be increased by c.€100m of additional loan facilities before a EOP FY08/09 debt ratio of 50% would be reached.



**Fig 19 Maturities of borrowings (€m)**

	Committed amount	Maturities
Bilateral credit lines	50	1H09
Bilateral credit lines – fixed	5	Jan 09
Bilateral credit lines – floating	200	Mar 11
Syndicated loan (Feb 2006)	130	Mar 12
Bilateral credit lines - floating	100	Dec 12
Syndicated loan (Feb 2006)	220	Mar 13
Syndicated loan (Jun 2008)	300	Jun 13
Bilateral credit lines – fixed	28	Oct 27
Bilateral credit lines – fixed	60	Oct 27
Total	1,093	

Source: Company data

The average duration of the financial structure was 3.6 years at the end of 1H FY08/09.

**Debt ratio expected to evolve to 46% EOP FY08/09 due to the capex programme**

We conclude that Befimmo currently has ample financing facilities at hand to finance the planned renovations and developments. Assuming a 50-50 debt/equity financing of the planned capital expenditure programme, we estimate that Befimmo will make use of c.€65m of additional debt facilities, raising its EOP FY 08/09 debt ratio from 44% post rights issue to 46% (legal covenant at 65%). This corresponds with an anticipated LTV ratio of c.42%, which is well below the current market average of 47%. Befimmo should have no problem maintaining its credit rating of BBB by keeping its LTV ratio at around 42% and its interest coverage ratio above 2.5x.

**Fig 20 Balance sheet data, leverage and interest coverage (€m)**

	2006/07	2007/08	2008/09F	2009/10F	2010/11F
Total assets	1,897	1,972	2,137	2,157	2,145
Investment properties	1,813	1,878	1,949	1,953	1,984
Fair value adjustments	38.7	-6.3	-59.3	-12.3	0.0
Net portfolio investments	695.8	71.1	130.7	16.6	30.3
Total equity	997	1,029	1,145	1,151	1,157
Net financial debt	806	868	810	804	827
<b>Leverage</b>					
LTV (%)	44.5	46.2	41.4	41.0	41.5
Debt ratio (%)	46.8	46.9	45.5	45.7	45.1
<b>Interest coverage</b>					
REBIT (€m)	88.1	91.4	99.2	106.2	107.4
Net interest	35.7	31.3	29.6	33.7	35.9
REBIT/Net interest (x)	2.5	2.9	3.4	3.1	3.0
Net interest as % of NFD	4.3	4.6	3.3	3.9	4.2
NFD/REBIT (%)	9.1	9.5	8.2	7.6	7.7

Source: Company data, ING estimates

**Financial strategy is to hedge 50-75% of total debt on a three- to five-year basis**

Around 55% of total financial debt that was outstanding at the end of 1H09 was floating rate debt. All this debt is linked to short-term Euribor. Befimmo's strategy is to hedge between 50% and 75% of its total debt on a three- to five-year basis. The current hedging strategy consists of a combination of interest rate swaps and caps, with underlying amounts shown in Figure 21.

**Fig 21 Overview of hedging policy (€m)**

	2008/09F	2009/10F	2010/11F
<b>Average financial debt</b>	<b>930</b>	<b>987</b>	<b>990</b>
Assumed 3M Euribor (%)	1.5	2.0	2.5
Margin (%)	1.3	1.5	1.4
IRS 3.73% callable March 2009	200	200	200
IRS 3.90% callable Jan. 2011	100	100	100
Twin caps 3.5% - 5.0%	400	400	400
Unhedged debt	330	387	390
% of total debt hedged	65	61	61
<b>Interest expenses</b>	<b>(31)</b>	<b>(38)</b>	<b>(41)</b>
<b>As a % of average debt</b>	<b>3.3</b>	<b>3.9</b>	<b>4.2</b>

Source: ING estimates

## P&L

### Direct result

**Fig 22 P&L overview (€m)**

	2007/08	2008/09F	2009/10F	2010/11F	CAGR 2008/09F- 2010/11F (%)
Net rental income	109.2	114.0	122.1	125.6	5.0
%ch YoY		4.4	7.1	2.9	
Operating expenses	-17.7	-14.8	-15.9	-18.2	10.9
%ch YoY		-16.4	7.1	14.8	
REBIT	91.4	99.2	106.2	107.4	4.1
%ch YoY		8.5	7.1	1.1	
Net financial result	-31.3	-29.6	-33.7	-35.9	10.2
%ch YoY		-5.6	14.0	6.5	
REBT	70.7	69.6	72.5	71.5	1.4
%ch YoY		-1.6	4.2	-1.4	
Taxes	-0.6	-0.7	-0.8	-0.8	1.4
%ch YoY		15.8	4.2	-1.4	
Recurring net profit	70.1	68.8	71.7	70.7	1.4
%ch YoY		-1.8	4.2	-1.4	

Source: Company data, ING estimates

In FY08/09 we expect rental income to increase by 4.4% on the back of several factors:

- There is an estimated loss of rental income of c.€3.6m due to the renovation of the Central Gate, Froissart and Imperatrice buildings.
- On top of that, c.€3m of recurring rents will be lost due to the disposal of the Woluwe Garden in FY07/08 and the balance related to the disposal of the industrial portfolio, Tabaksvest and Langerlei buildings in FY07/08.
- These losses in rental income should be more than offset by the re-renting of Extension Justice and Brederode 2, along with the new leases related to Axento and the newly acquired Fortis headquarters in Antwerp and Leuven. The total increase in rental revenues related to these projects is estimated at €10.3m.
- On top of this, we estimate a rent indexation of c.1%.

During FY09/10, we expect rental income to increase by 7.1%:

- We estimate a €1.5m loss in recurring rental income, mainly on the back of renovations in the Central Gate and Science building on the one hand and the sale of Kattendijkdok on the other hand.
- This is expected to be more than offset by new rents related to the Imperatrice building and the full-year rental effect of Extension Justice, Axento and part of the Central Gate building, which started generating rents in 2009. Recurring revenues are expected to rise by €7.9m in total.
- The rent indexation is estimated at 1.5%.

Finally, during 2011, we expect rents to increase by 2.9%, mainly on the back of a rent indexation of 1.5% and the full-year effect of Imperatrice being re-rented in 2010.

## Indirect result

**Yield shift is stabilising;  
downward FV  
adjustments are kept  
around 3% in our model**

During 1HFY08/09, total downward portfolio valuations totalled 2.6%. This mainly occurred during the first quarter (2.4% fair value adjustments). Another 0.4% was added during the third quarter. We assume that the yield shift that is affecting Befimmo's office portfolio is stabilising, and will eventually be slightly above 3% during FY08/09. This corresponds with a NAVPS of €61 EOP FY08/09.

**Covenants not at risk**

In Figure 23, we perform a sensitivity analysis of IAS 40 adjustments on NAVPS, the debt ratio and LTV ratio. Even given a drastic 5% YoY fair value adjustment, we find that the risk of breaching any covenants remains minimal.

**Fig 23 Sensitivity analysis on portfolio valuation (€)**

		NAVPS		
		2008/09	2009/10	2010/11
<b>No decrease/increase in FV</b>		64.2	64.9	64.9
	Debt ratio (%)	44.3	44.2	43.7
	LTV (%)	40.2	39.5	40.0
<b>Fair value decrease of 2.5% each year</b>		61.4	59.2	56.4
	Debt ratio (%)	45.3	46.2	46.7
	LTV (%)	41.1	41.5	43.0
<b>Fair value decrease of 5% each year</b>		58.6	53.6	48.2
	Debt ratio (%)	46.3	48.4	50.0
	LTV (%)	42.1	43.6	46.4

Source: ING estimates

# Summary of financials

**Fig 24 Financials (€m)**

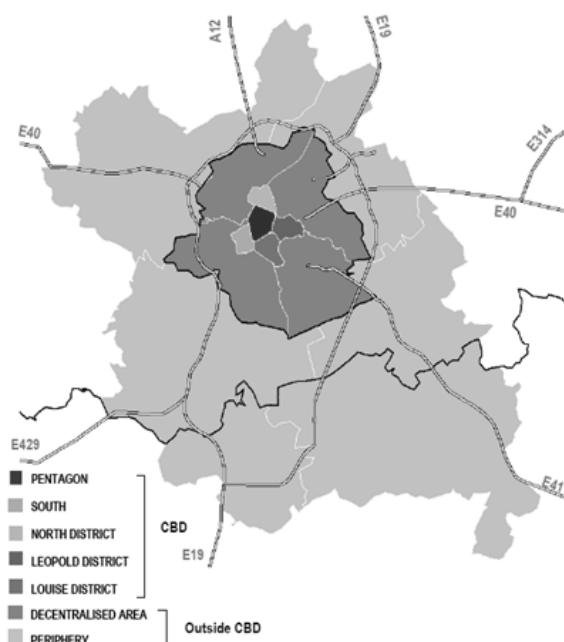
Yr to Sep	2007/08	2008/09F	2009/10F	2010/11F
<b>Income statement</b>				
Net rental revenues	109.2	114.0	122.1	125.6
Total operating expenses	-17.7	-14.8	-15.9	-18.2
Adj operating profit	91.4	99.2	106.2	107.4
Net financial charges	-31.3	-29.6	-33.7	-35.9
Adj pretax net profit	70.7	69.6	72.5	71.5
Taxes	-0.6	-0.7	-0.8	-0.8
Adj net profit	70.1	68.8	71.7	70.7
Net extraordinary items	2.5	-59.2	-4.4	0.0
Reported net profit	72.6	9.7	67.3	70.8
<b>Balance sheet</b>				
Investment properties	1,877.6	1,949.0	1,953.3	1,983.7
Fair value on investments	38.7	-6.3	-59.3	-12.3
Net investments	695.8	71.1	130.7	16.6
Cash and equivalents	4.6	106.9	121.6	79.4
Shareholders equity	966.8	1,080.4	1,083.1	1,085.1
Net financial debt	867.8	810.4	804.1	826.9
Long term financial debt	857.0	917.4	925.7	906.3
Short term financial debt	15.4	0.0	0.0	0.0
Capital employed	1,896.3	1,955.7	1,955.3	1,983.4
<b>Cash flow</b>				
Reported net profit		9.7	67.3	70.8
Non cash charges		59.3	12.3	0.0
Change in working capital		12.0	4.7	2.3
Net investments		-130.7	-16.6	-30.3
Dividend paid		-59.5	-61.3	-65.5
Net financial cash flow		45.0	8.3	-19.3
Net flow of funds		102.4	14.6	-42.1
<b>Ratios (%)</b>				
REBITDA margin (%)	86.2	35.2	83.5	85.6
Operating margin (%)	83.8	87.0	87.0	85.5
Net financial debt/Equity (%)	89.8	75.0	74.2	76.2
ROE (%)	5.8	6.1	6.3	6.2
<b>Valuation</b>				
EV/rental income (x)	16.2	16.0	15.0	14.7
EV/REBITDA (x)	19.4	18.5	17.2	17.3
Adj P/CF (x)	12.6	12.5	14.3	14.5
Adj EPS (€)	4.3	4.7	4.1	4.0
Adj PER (x)	12.6	12.5	14.3	14.5
Price/NAV (x)	0.90	0.97	0.97	0.97
Dividend (€)	4.6	4.4	3.9	3.9
Dividend yield (gross) (%)	7.8	7.5	6.7	6.7

Source: Company data, ING estimates

# Appendix 1: the Brussels office market

**Overview** The Brussels office market totalled c.12.7m m<sup>2</sup> at the end of 1H09. It is primarily subdivided into the Central Business District (Pentagon, North, Leopold and Louise, 8.3m m<sup>2</sup>), the Decentralised area (2.6m m<sup>2</sup>) and the Periphery (1.8m m<sup>2</sup>).

**Fig 25 Map of Brussels**



Source: Jones Lang Lasalle

The Pentagon and South districts are also sometimes referred to as ‘Centre’ and ‘Midi’ and mainly house Belgian corporations and administrations. The North district mainly accommodates Belgian administrations, while Leopold is primarily taken by EU institutions. The latter is considered the most lucrative and largest part of the Brussels CBD (prime rents of €260/m<sup>2</sup> per year). A large number of the multinational companies active in Brussels are located in the Decentralised and Periphery areas.

**Fig 26 Key Figures**

	Central Business District						Decentralised	Periphery
	Brussels	Centre	Midi	North	Leopold	Louise		
Stock (m <sup>2</sup> )	12,726,948	2,349,357	530,700	1,457,948	3,156,004	795,729	2,612,550	1,824,660
Vacancy (m <sup>2</sup> )	1,401,183	167,341	24,298	119,149	295,246	88,678	390,689	315,782
Vacancy rate (%)	11.01	7.12	4.58	8.17	9.36	11.14	14.95	17.31
New supply (m <sup>2</sup> )	145,823	41,372	0	0	58,636	0	15,479	30,336
Take-up (m <sup>2</sup> )	62,667	4,702	0	3,900	18,439	8,604	13,700	13,322
Market penetration rate (%)*	0.49	0.20	0.00	0.27	0.58	1.08	0.52	0.73
Prime rents (€/m <sup>2</sup> /year)	260	200	175	190	260	205	185	165
Prime yields (%)	6.50	6.90	7.05	6.75	6.50	7.05	7.80	8.10

\*Market penetration rate measures a relative take-up by taking into account the size of the relevant district. It is calculated by dividing the take-up by the stock.

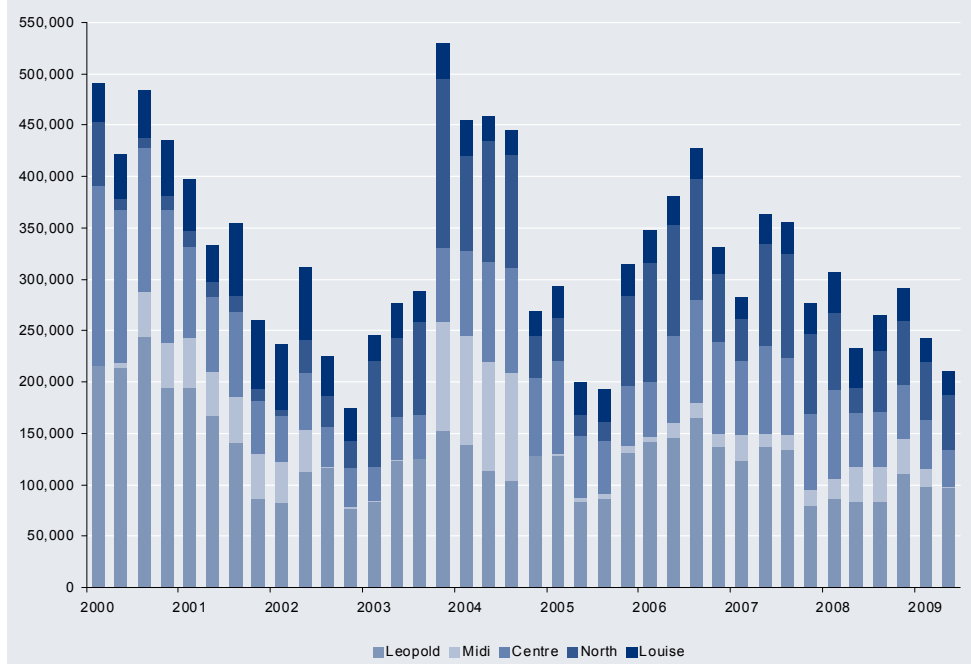
Source: DTZ Research

## Central Districts

**Historical low in the quarterly take-up figures...**

2Q09 saw one of the worst take-up figures ever, with only 35,645m<sup>2</sup> of space let (quarterly average stands at 78,000m<sup>2</sup>). The majority of letting transactions took place in the Leopold district, mainly by public organisations and government bodies.

**Fig 27 Quarterly take-up overview for the central districts (m<sup>2</sup>)**



Source: DTZ Research

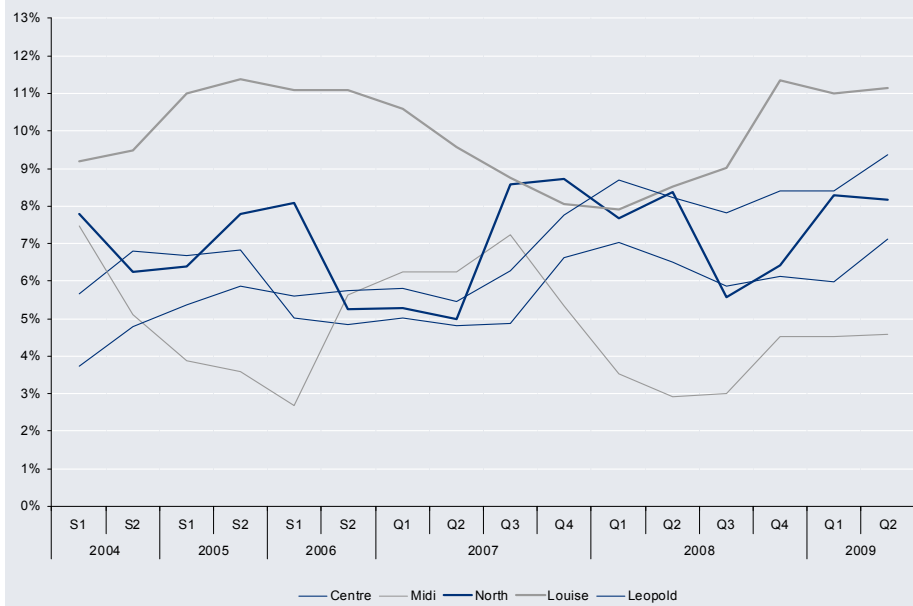
**...and a persistent speculative development...**

Three new developments brought a sizeable share of vacant space to the market during 2Q09: the delivery of the Marquis building by AEW Europe brought more than 33,000m<sup>2</sup> to the market and the delivery of the Capital building by Axa brought nearly 60,000m<sup>2</sup> to the market. There is more to come, with c.120,000m<sup>2</sup> of speculative development still scheduled to come on stream in the Central districts in 2009.

**...contributed to a high and rising vacancy rate, especially in the Leopold area**

The average vacancy ratio in the Central districts reached 8.35%, which is the highest so far this decade. The Louise district was the only one to remain stable. At 9.36%, the vacancy rate in the Leopold district has reached its highest since records began and reflects c.300,000m<sup>2</sup> of vacancy, close to 20% of which is attributed to the Capital building, owned by Axa.

**Fig 28 Quarterly vacancy rate overview for the central districts (%)**

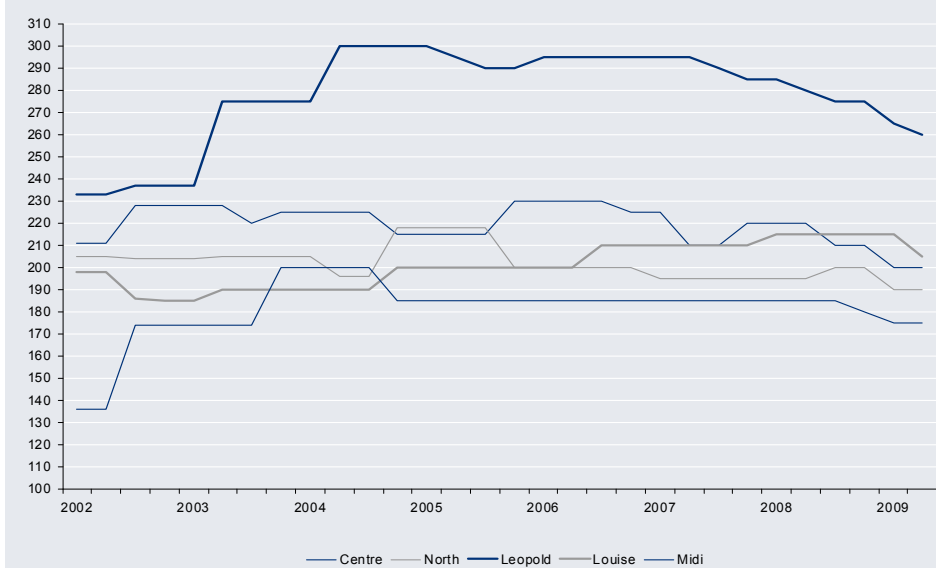


Source: DTZ Research

**Decreased average prime rents to €173/m<sup>2</sup>/pa, prime yields between 6.50% and 7.05%**

We believe the combination of weak take-up and increasing vacancies will start to affect prime rents. This has been the case with the Louise and Leopold districts, with prime rents at €205/m<sup>2</sup>/pa and €260/m<sup>2</sup>/pa, respectively. The weighted average rent in the Central districts at the end of 1H09 was down 7% to €173/m<sup>2</sup>/pa from €186/m<sup>2</sup>/pa at the end of 2008. We assume prime yields to range between 6.50% and 7.05%.

**Fig 29 Quarterly prime rent overview for the central districts (€/m<sup>2</sup>/pa)**



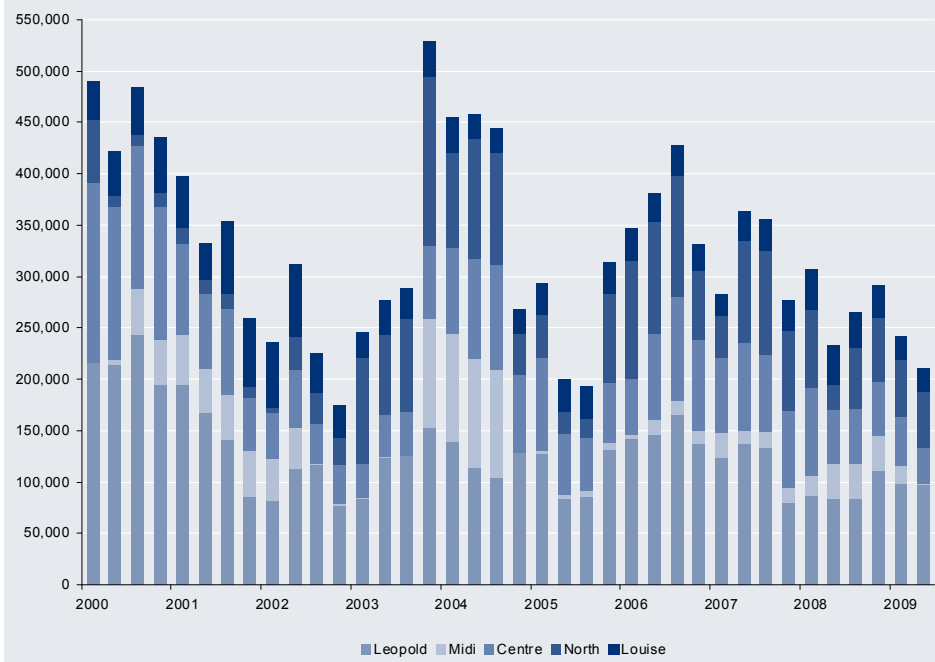
Source: DTZ Research

### Decentralised districts

**Slowdown in take-up was least pronounced in the decentralised districts...**

With only 13,700m<sup>2</sup> of take-up during 2Q09, decentralised take-up of floor space was less than half of the quarterly average (32,000m<sup>2</sup>). Nevertheless, this 25% YoY slowdown has been less pronounced compared with a decline of 48% and 62% in the Central and Peripheral districts, respectively.

**Fig 30 Quarterly take-up overview for the decentralised districts (m<sup>2</sup>)**



Source: DTZ Research

**...addition of floor space also remained limited...**

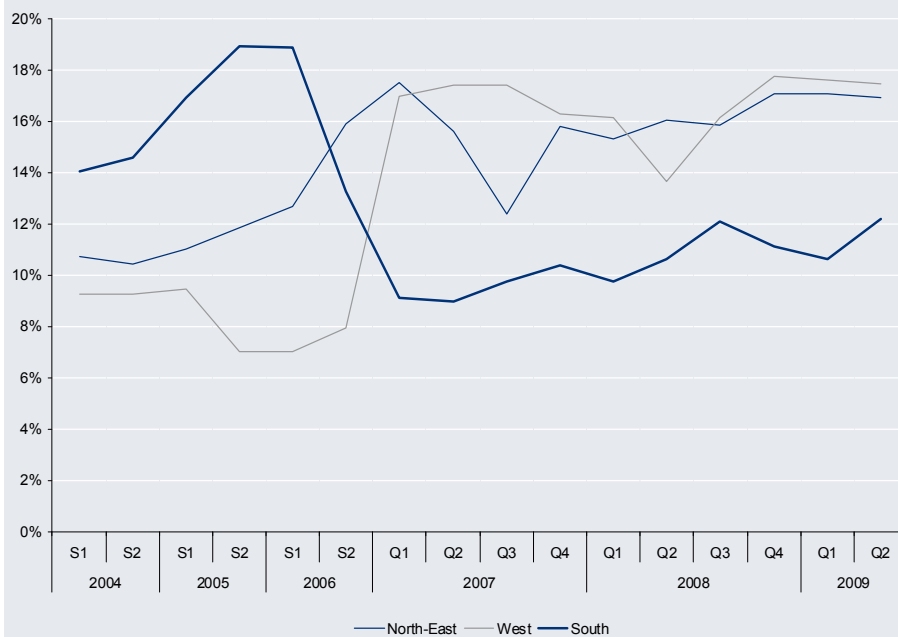
The Solaris building is the first green building that was delivered 2009 by Fidentia Real Estate (13,000m<sup>2</sup>). With an average rent ranging between €185/m<sup>2</sup>/pa and €250/m<sup>2</sup>/pa, the Solaris building now is the main prime building in the Southern Decentralised district.

**...leading to a stable vacancy rate at 14.95%**

The vacancy rate in the decentralised districts increased only slightly over the quarter, from 14.37% to 14.95%, thanks to fewer speculative developments.



**Fig 31** Quarterly vacancy rate overview for the Decentralised districts (%)

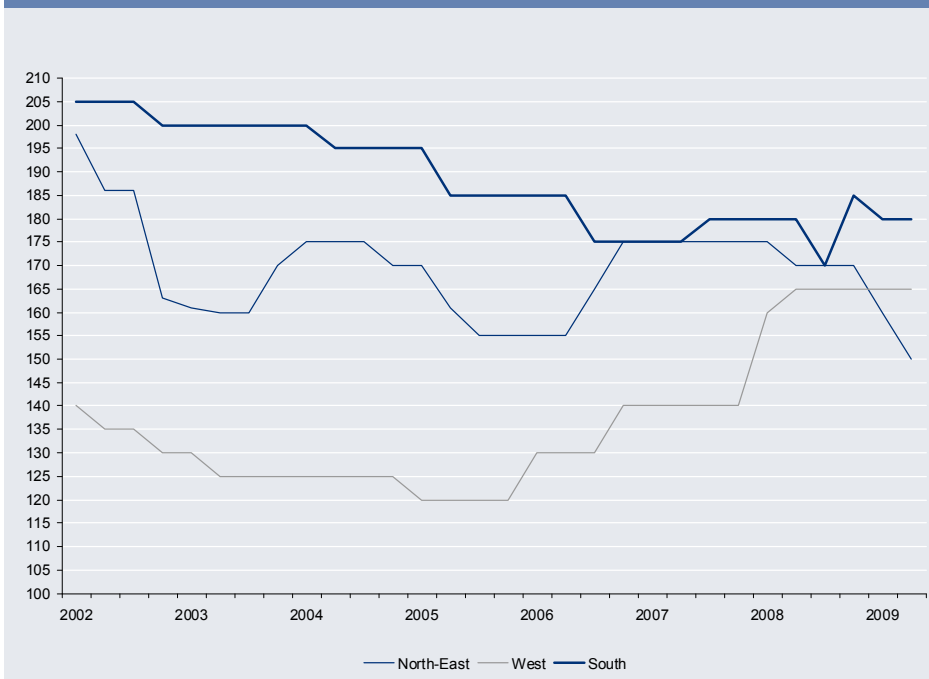


Source: DTZ Research

**Decreasing average rents, especially in the North-Eastern decentralised districts**

Although prime rents in the South and West districts remained stable in 2Q09, the North-East district saw a strong correction, with prime rents falling to €150/m<sup>2</sup>/pa, due to the lack of transactions recorded above this level in the past six months. Tenants are less and less attracted to this area and rents will have to adjust accordingly. The weighted average rent for office space in the decentraliaed districts fell by 6% in the first half of the year to reach €130/m<sup>2</sup>/pa at the end of June. A prime yield of 7.80% is estimated.

**Fig 32** Quarterly prime rent overview for the decentralised districts (€/m<sup>2</sup>/pa)



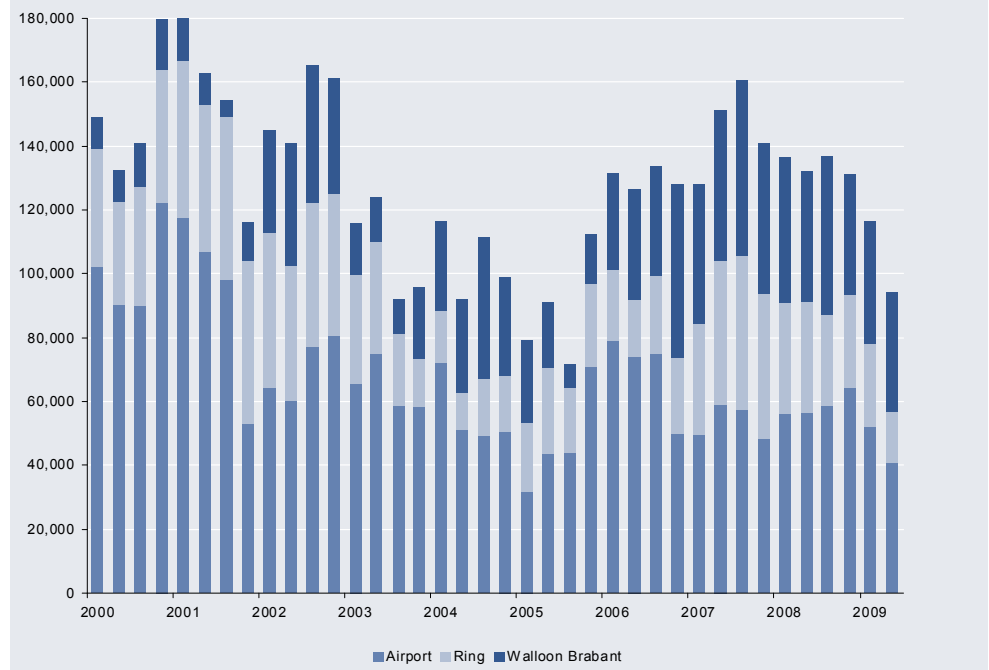
Source: DTZ Research

## Peripheral districts

**Very weak take-up during 2Q09...**

At only 13,322m<sup>2</sup>, take-up was down 62% on an annual basis and represented only 42% of the quarterly average.

**Fig 33** Quarterly take-up overview for the peripheral districts (m<sup>2</sup>)

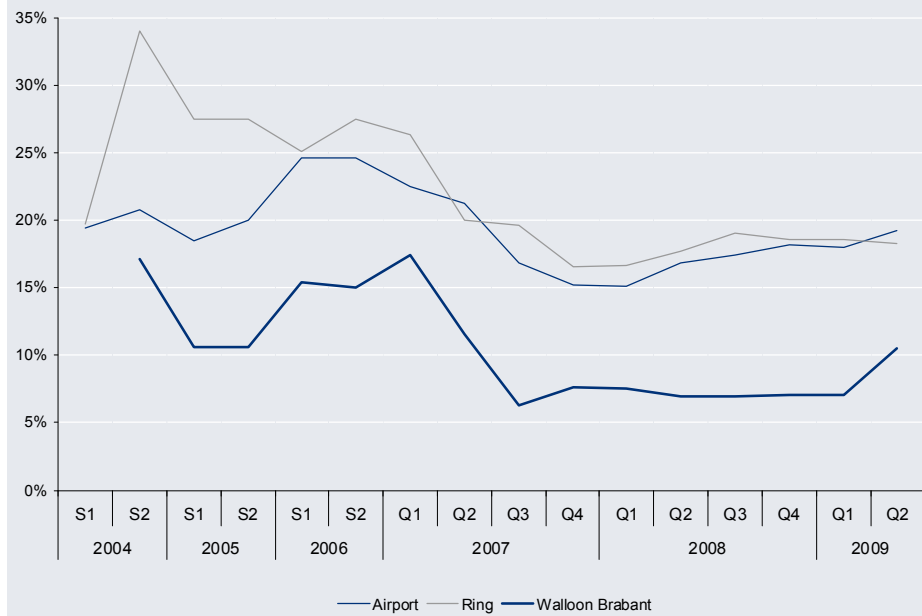


Source: DTZ Research

**...and a vacancy rate on the rise...**

The vacancy rate was boosted by the delivery of the Colline de Wavre project by Codic (c.10,000m<sup>2</sup>) and the Aramis building (c.18,500m<sup>2</sup>), the last building of the Village Business Park of CBRE Investors. Other developments that will increase the vacancy rate are the West End project by Cofinimmo (40% speculative) and phase A of the Airport Plaza by CBRE Investors (c.9,500m<sup>2</sup>).

**Fig 34 Quarterly vacancy rate overview for the peripheral districts (%)**

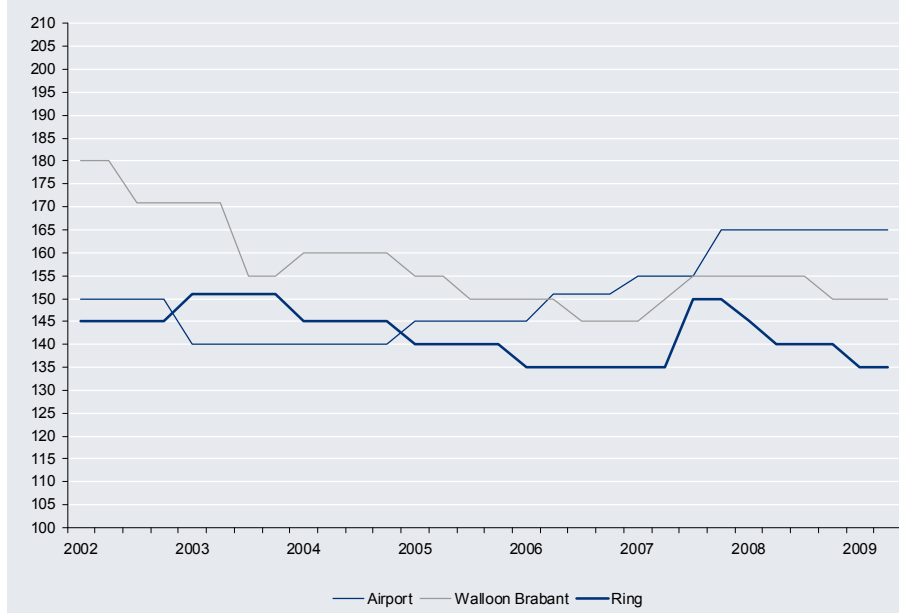


Source: DTZ Research

**...may start to impact prime rents, which are at €126/m<sup>2</sup>/pa**

Rising vacancy in Walloon Brabant is yet to impact prime rents, which remained stable in 2Q09 at €150/m<sup>2</sup>/pa. Prime rents in the Airport district, and more specifically in the Corporate Village, have remained stable since the end of 2007, at €165/m<sup>2</sup>/pa. The prime rent in the Ring district has decreased continually since the pre-lettings in the West End at the end of 2007. The upcoming delivery of the West End project may boost prime rent again. At the end of 1H09, the weighted average rent in the Periphery was €126/m<sup>2</sup>/pa compared with €132/m<sup>2</sup>/pa at the end of 2008 (-4.5%). Prime yields are estimated at 8%.

**Fig 35 Quarterly prime rent overview for the peripheral districts (%)**



Source: DTZ Research

## Appendix 2: Overview of selected REIT systems

**Fig 36 International REIT overview**

Country	Investment restrictions	Leverage	Distribution rules	
Belgium (SICAFI)	<ul style="list-style-type: none"> <li>Principal activity is passive investments in real estate</li> <li>Maximum 20% of total assets can be invested in one real estate project</li> <li>Developments are allowed, but cannot be sold within five years of completion</li> <li>SICAFI is allowed to hold shares in subsidiaries investing in real estate</li> </ul>	<ul style="list-style-type: none"> <li>Loans are limited to 65% of total assets</li> <li>Interest expenses are limited to 80% of total income</li> </ul>	<ul style="list-style-type: none"> <li>Operating income</li> <li>Minimum of 80%</li> </ul>	<ul style="list-style-type: none"> <li>Capital gains</li> <li>Not included in distribution obligation given reinvestment within four years</li> </ul>
France (SIIC)	<ul style="list-style-type: none"> <li>Principal activity is restricted to rent out the property</li> <li>No required asset level</li> <li>Real estate development may not exceed 20% of the gross book value</li> </ul>	<ul style="list-style-type: none"> <li>Thin capitalisation rules apply</li> </ul>	<ul style="list-style-type: none"> <li>85% of tax exempt profits</li> </ul>	<ul style="list-style-type: none"> <li>50% of capital gains</li> </ul>
Germany (G-REIT)	<ul style="list-style-type: none"> <li>75% immovable property requirement</li> </ul>	<ul style="list-style-type: none"> <li>Equity must at least equal 45% of the total asset value of the property portfolio value</li> </ul>	<ul style="list-style-type: none"> <li>90% of net income per year</li> </ul>	<ul style="list-style-type: none"> <li>Deferral of 50% of the capital gains from real estate assets allowed</li> </ul>
Luxembourg	<ul style="list-style-type: none"> <li>Principle of risk spreading</li> </ul>	<ul style="list-style-type: none"> <li>No quantitative restrictions</li> </ul>	<ul style="list-style-type: none"> <li>No obligation</li> </ul>	<ul style="list-style-type: none"> <li>No obligation</li> </ul>
Netherlands (FBI)	<ul style="list-style-type: none"> <li>Investment scope restricted to making passive investments</li> <li>Allowed to invest abroad</li> </ul>	<ul style="list-style-type: none"> <li>60% of fiscal book value of real property</li> <li>20% of fiscal book value of all other investments</li> </ul>	<ul style="list-style-type: none"> <li>100% taxable profit</li> </ul>	<ul style="list-style-type: none"> <li>Capital gains/losses can be allocated to a tax free reserve</li> </ul>
UK (UK-REIT)	<ul style="list-style-type: none"> <li>More than 75% of the net income profit must be derived from the property rental business</li> <li>More than 75% of the assets must be used in the property rental business</li> <li>Must hold at least three separate assets</li> <li>No asset may exceed 40% of the total assets</li> <li>May invest abroad</li> </ul>	<ul style="list-style-type: none"> <li>Interest coverage test</li> </ul>	<ul style="list-style-type: none"> <li>90% of tax exempt profits</li> </ul>	<ul style="list-style-type: none"> <li>Not included in the distribution obligation</li> </ul>

Source: EPRA

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