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Befimmo S.C.A.

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Major Rating Factors

Corporate Credit Rating
BBB/Stable/A-2

Strengths:
- Low industry risk, stemming from quality assets that generate stable cash flows.
- Two-thirds of rental revenues are generated by public sector tenants with high credit quality.
- Long-term lease maturity profile and relatively low historical vacancy rates.
- Low exposure to speculative developments.

Weaknesses:
- Concentration of assets in Belgium's office segment, which currently faces high vacancy rates and decreasing rents levels.
- Some customer concentration, albeit on tenants with very high credit quality.
- Significant financial risk profile, coupled with a relatively highly leveraged capital structure.

Rationale

The ratings on Belgian property investment company Befimmo S.C.A. reflect Standard & Poor's Ratings Services' view of the strong quality of the company's portfolio of offices, which produces resilient cash flow streams. This is the result of the good quality of the company's assets, which are leased on long contracts to strong tenants; overall positive indexation in the lease portfolio; and very limited exposure to speculative developments over the cycle. These strengths are tempered by the cyclical nature of the office real estate market, which now faces structural challenges with high vacancy rates, decreasing rent levels, and low occupier demand. Additional weaknesses are the low-yield nature of real estate assets and the company's relatively aggressive capital structure.

Befimmo's €1.9 billion property portfolio as of Sept. 30, 2009 comprises office assets mainly focused on the Brussels market. Befimmo has a large, diversified property portfolio with average lease maturity of 9.4 years and a tenant base with strong credit quality. About two-thirds of rental income comes from the public sector (mainly the Belgian state). These high-quality, well-located, and cash-producing assets usually have a strong ability to retain value and attract new tenants.

Befimmo's strategy is mainly focused on the long-term holding and renting of real estate assets, which, from a credit standpoint, is associated with passive low-risk property ownership and rent collection. The geographic focus is Belgium, and in particular the lower-risk central business district of Brussels. Befimmo's development strategy remains relatively cautious in our view. Future extensive renovation projects are usually backed by long-term lease commitments from strong tenants, which offset renovation and letting risks. Although Befimmo has extended its operations in Luxemburg, we understand the group has now restricted its ambitions for international growth, which we believe is positive for the ratings.

Lack of diversification remains a risk factor for Befimmo, in our view, because the bulk of rental income comes from the cyclical office segment. Although the large share of demand stemming from EU institutions and public entities creates a relatively stable situation in Brussels' central business district, demand from the private sector is decreasing amid a depressed economic environment. In addition, numerous construction projects--of which we understand about 75% are speculative--are likely to pressure rent levels and increase vacancies in the future. Furthermore, we understand that Brussels' periphery and noncentral areas currently carry very high vacancy rates, at above 20%, creating pressure for rent renewals in the near term.

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

Key business and profitability developments

Despite a more challenging environment, as of Sept. 30, 2009, Befimmo recorded a positive like-for-like rental performance--an increase of about 3% increase--notably backed by still positive indexation and the mounting contribution from the Fedimmo portfolio. The company reported valuations down by 3.7% on the same date--a small change compared with other European capital cities, reflecting the higher resilience of the Brussels market so far. Profitability increased in our view due to lower administrative costs; the reported EBITDA margin stood at 89% at end –September 2009.

Key cash flow and capital-structure developments

Following a capital increase completed in June 2009, Befimmo reduced its debt leverage. The company had an adjusted LTV ratio of 41% as of Sept. 30, 2009, a level which is comfortable for a 'BBB' rating, given the business risk profile, which we consider to be strong. For the fiscal year ended Sept. 30, 2009, debt to EBITDA improved to 7.4x (from 9.4x a year earlier) and EBITDA interest cover increased to 3.5x from 2.3x, benefiting from the currently low interest rate environment.

Short-term credit factors

The short-term rating is 'A-2'. Befimmo's liquidity is in our view adequate for the ratings. The company's average debt maturity is now 3.2 years, and there are no large debt maturities before 2011, which supports the ratings.

Financial debt includes bilateral credit lines and a €400 million commercial paper program, out of which €215 million was drawn as of Sept. 30, 2009. To cover these drawings, Befimmo had undrawn committed credit lines for a total of €285 million.

Since Befimmo distributes free cash flows to its shareholders, we think existing and future debt is likely to be refinanced rather than repaid. The maintenance of adequate back-up liquidity resources is therefore important.

Befimmo has a satisfactory hedging strategy, consisting of a combination of caps and swaps. Overall, Befimmo's interest rate hedging policy is to have 50%-75% of total debt fixed or hedged over three to five years; that said 100% of total debt was hedged as of Sept. 30, 2009.

Outlook

The stable outlook reflects our perception of the stability provided by Befimmo's good-quality and relatively large real estate portfolio. We expect that Befimmo will maintain an EBITDA interest-coverage ratio of more than 2x and a ratio of debt to EBITDA of a maximum of 10x in the medium term. We understand the company's LTV is likely to remain below 50% and we expect Befimmo to maintain adequate hedging and back-up credit lines to limit any interest-rate-related risks in the medium to long term.

We could take a negative rating action in the event of an unexpected significant downward revaluation of the real estate portfolio, combined with the absence of deleveraging actions, because this would have an adverse impact on the LTV ratio. Large debt-financed acquisitions could also trigger a negative rating action. Lastly, rising interest rates, increasing vacancies, or a decrease in rents could weigh on the ratings.

Ratings upside is in our view limited owing to the company's financial leverage targets.

Business Description

Befimmo is Belgium's second-largest property investment company after Cofinimmo S.A./N.V. (BBB/Negative/A-3), with about €1.9 billion of property assets, principally offices in Brussels. Befimmo is listed on the Brussels and Paris stock exchanges. Its main shareholder is AG Insurance (not rated) and associated companies, which held 18.8% of Befimmo's share capital at Sept. 30, 2009.

Rating Methodology

Our ratings on Befimmo are based on our criteria for corporate and real estate companies (see Related Research below).

Business Risk Profile: High Portfolio Quality And High Cash Flow Visibility

The major supports for Befimmo's business risk profile, which we assess as strong according to our criteria, are:

- The company's strategy, focused on the long-term holding and long-term renting of real estate assets, which, from a credit standpoint, is associated with passive low-risk property ownership and rent collection.
- The company's high-quality office assets in prime or good locations (mainly the Brussels central business district), supporting high occupancy over the cycle.
- A long lease structure, with positive indexation, which provides high visibility on revenues and stable cash flows.

These supports are partially offset by:

- Concentration of assets in the cyclical office segment, which faces challenging conditions amid a depressed economic environment, notably in the Brussels area.
- Some customer concentration, albeit on tenants with very high credit quality, mainly the EU and Belgian state administrative offices).

Financial Risk Profile: Somewhat High Leverage Targets

The main weaknesses of Befimmo's financial risk profile, which we view as significant, are:

- The company's relatively highly leveraged capital structure; the maximum LTV ratio target stands at around

50%.
- Minimal discretionary cash flow due to the SICAFI distribution requirements, meaning there is normally very little cash flow available for new investments or debt reduction.

These weaknesses are partially mitigated by:

- High visibility and stability of cash flows from Befimmo's property portfolio.
- The company's good access to capital, with frequent and successful access to both equity and credit markets.
- An adequate interest rate hedging package, consisting of a combination of caps and swaps. Befimmo's interest rate hedging policy is to have 50%-75% of total debt fixed or hedged over three to five years.

Financial Statistics/Adjustments

Befimmo reports under international financial reporting standards (IFRS). The group's real estate portfolio is accounted for at fair market value.

Table 1

Befimmo S.C.A. 2009 Peer Comparison			
Company	**Befimmo S.C.A.**	**Cofinimmo S.A./N.V.**	**Derwent London PLC**
Country	Belgium	Belgium	U.K.
Corporate credit rating as of Feb. 15, 2010	BBB/Stable/A-2	BBB/Negative/A-3	BBB/Stable/A-2
	--12 months ended Sept. 30, 2009--		
Financial statistics (mil. €)			
Net rental income	119	208	125
EBITDA	106	172	98
Gross interest charges	30	88	45
Asset revaluation	(75)	(106)	(697)
Gains on disposals	0	1	(4)
Net income	(35)	(65)	(666)
Funds from operations (FFO)	83	94	49
Dividends	61	102	25
Total debt	792	1,695	858
Market value of portfolio	1,923	3,068	1,856
Financial ratios			
Net rental income/interest (x)	4.0	2.4	2.8
EBITDA/interest (x)	3.5	2.0	2.2
EBITDA/(interest plus dividends) (x)	1.2	0.9	1.4
Debt/EBITDA (x)	7.4	9.9	8.8
FFO/debt (%)	10.5	5.6	5.7
Loan-to-value ratio (%)	41.2	55.2	46.2

Table 2

Befimmo S.C.A. Financial Statistics				
	--12 months ended Sept. 30--			
	2009	**2008**	**2007**	**2006**
Financial statistics (mil. €)				
Net rental income	119.1	109.2	104.6	76.0
EBITDA	106.4	91.4	88.1	62.5
Gross interest charges	30.0	40.2	34.8	15.8
Asset revaluation	(75.0)	(6.3)	38.7	18.0
Gains on disposals	0.2	8.8	1.3	0.5
Net income	(34.5)	58.2	89.1	66.0
Funds from operations (FFO)	83.0	66.2	56.8	46.4
Investments	31.7	75.0	33.4	0.3
Dividends	60.6	49.8	48.2	47.0
Total debt	792.4	872.0	845.0	408.8
Market value of portfolio	1,922.9	1,886.5	1,812.9	1,078.0
Financial ratios				
EBITDA margin (%)	89.3	83.8	84.2	82.2
Net rental income/interest (x)	4.0	2.7	3.0	4.8
EBITDA/interest (x)	3.5	2.3	2.5	4.0
EBITDA/(interest+dividends) (x)	1.2	1.0	1.1	1.0
Debt/EBITDA (x)	7.4	9.5	9.6	6.5
FFO/debt (x)	10	8	7	11
Loan-to-value ratio (%)	41	46	47	38

Related Research

- Corporate Ratings Criteria 2008, April 15, 2008
- Key Rating Factors for European Real Estate Companies, Nov. 24, 2004

Ratings Detail (As Of February 15, 2010)*	
Befimmo S.C.A.	
Corporate Credit Rating	BBB/Stable/A-2
Senior Unsecured (3 Issues)	BBB
Short-Term Debt (1 Issue)	A-2
Corporate Credit Ratings History	
18-Jun-2007	BBB/Stable/A-2
27-Dec-2006	BBB/Watch Neg/A-2
25-Feb-2004	BBB/Positive/A-2
Business Risk Profile	Strong
Financial Risk Profile	Significant

Ratings Detail (As Of February 15, 2010)***(cont.)**
Debt Maturities
As of Sept. 30, 2009: 2010: €57 million 2011-2014: €681 million Thereafter: €64 million

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

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