

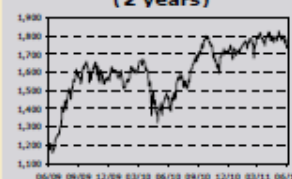
Are bricks still stacked well?

- Although e-retail is more and more on the front page of newspapers, we believe that physical shops will remain of utmost importance, especially for specific purchases (upper-end). Hence the consumer needs to live a new "shopping experience", something more than the usual "shop and run". As a result, we expect the retail segment to experience an upgrade in the near future. For offices, heavy trends are crystallizing more and more; structurally less office space needed, the green wave, the likely decreasing lease terms and incentives... As a result, we become more cautious if it comes to office names, even in Paris, which was our favorite niche 6 months ago.
- The Belgian listed property market is becoming expensive, at the exception of Cofinimmo and WDP. All the smaller names have performed strongly, mainly thanks to their positioning in all the sectors but offices. We remain negative on Befimmo since its valuation doesn't reflect the weak office market circumstances which should continue to apply in the coming years.
- Our strong ideas for this new quarter are Vastned Retail, Corio, and Vastned Offices (short-term play). On the other hand, we are getting more cautious on all the smaller (Belgian) names, as mentioned above.
- PEPR is now a stock very difficult to trade, which lowers the exposure to the logistics market to only WDP, Montea, Arqan and Foncière Europe Logistique.
- The French office names performed strongly (especially Gecina, Eurosic, with the exception of Foncière des Régions) while the momentum is fading (cfr our comment above, confirmed by Gecina during its Investor Day).
- We keep our Hold rating on Unibail-Rodamco which has performed well since the beginning of the year (+5.5%) and less as a proxy for the equity market (CAC 40 at -3%). It was clearly the best performer in the retail arena and should remain so but the valuation sounds fair today.
- Besides an extensive elaboration of the key real estate markets on which we focus, including an update on markets which need some extra nursing or attention (e.g. Spain, CEE), we tackle some issues which we regard as key today and could change the overall business model as such;
 1. IAS 17; which will require occupiers to recognize the lease as an asset and liability on the balance sheet – regardless the length of the lease. Property funds will see an impact on valuations due to the demand for shorter lease periods by lessees. The race for LT properties will increase, hence the gap between the value of LT leases and other shorter types will only further increase as tenants will try to limit negative impact on future lending.
 2. Interest risk; now the interest rate yield curve is on the move whereby short term Euribor rates have moved up quite a bit, though the curve starts to flatten out, the key question is whether CFO's and their treasurers have adapted their interest hedge strategy since we addressed the upcoming threat 1.5 year ago. Back then some REITs were pretty opportunistic in order to gain some extra direct earnings...

EPRA Eurozone

Price (30/06/2011):	1,796
Bloomberg:	EPEU
H/L 1 year:	1,826 - 1,386
1 year perf.:	25.2%
Diff. with DJ E. Stoxx:	11.7%

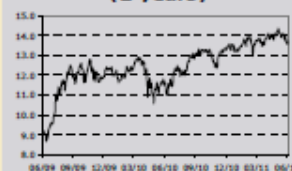
EPRA Eurozone (2 years)



GPR 250 Europe EUR

Price (30/06/2011):	14.0043
Bloomberg:	G250PEUE
H/L 1 year:	14.3519 - 10.9945
1 year perf.:	23.3%
Diff. with DJ E. Stoxx:	9.9%

GPR 250 Europe EUR (2 years)



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Office market players are making life hard

Facts – Attractive buildings will have to cope with 'difficult' market

- Reporting its H1 results, top-line decreased to EUR 60.99m compared to EUR 62.02m one year ago (-1.66%). Top line decreased mainly due to sales of Empress court and Kattendijkdok. Furthermore the income guarantee for the Axento building (Luxembourg Kirchberg) expired on 31 December. Befimmo acquired the Pavilion in mid-February 2011, which contributed for approx. EUR 500k in Q2 2011.
- Even after its past acquisition in February '11 in the EU quarter (Pavillion), we remind that the company still has EUR 179.7m fire power or EUR 100m when limiting the debt ratio to 50%. Debt ratio currently stands at 46.1%.
- As expected, the Axento building (Luxembourg Kirchberg) increased its occupancy to 85% vs. 65% at year-end. No signings so far on the Froissart and Science Montoyer building. Although discussions are going on right now, management has stated that neither building will be let immediately, as they believe the current market is "difficult". Froissart building obtained a BREEAM Excellent score, which is rather hard to get for renovated buildings. We expect that this should enhance the competitiveness of the building on the market.
- Befimmo reiterated its guidance of a EUR 3.94/share dividend (which currently offers a 6.34% yield). Additionally the company reiterated guidance for 2012 and a dividend of EUR 3.98/share.
- Finance: the company has to refinance EUR 400m in 2011/12 and EUR 520m in 2012/13. First stage was the bond issue of EUR 162m. Average cost of financing stands at 3.03%, while 55.5% is mainly floating rate financed. As a result, in the Belgian universe, they will be the most impacted by floating interest rates.

Our View – Lack of momentum to buy core, or to sell non-core

- Several buildings are up for sale in the Brussels office market. Especially in the EU quarter the figures are impressive, since at least 30 buildings (!) are for sale (or 5% of the EU quarter stock). While 'difficult' office buildings are coming to the market, core buildings are becoming scarce and expensive (yield around 5% or lower).
- In light of the new Royal Decree, Befimmo is evaluating whether to offer a stock dividend, while currently it is not required in order to grow. Hopefully the company receives some good opportunities in order to pay for the return on additional equity (former cap increase has been expensive due to the same reason). We don't expect many large tenders on the Brussels office market during the coming months.

Conclusion – Negative momentum remains

- We are convinced that on the Brussels office market, prime rent is stable but that economical rent is decreasing (negative rental momentum). Reported H1 results confirmed our expectations on the company and therefore we remain cautious on the stock. Additionally we don't expect Befimmo to profit from current increase of inflation as it is mainly financed at floating rates which will increase as well. Finding good opportunities will remain challenging for quite some time.
- Although the stock price increased in the past months thanks to safe haven status of real estate, we remain cautious on the stock, as a consequence of its pure Brussels/office player positioning. Therefore we reiterate our reduce rating and EUR 56.3 TP.

Reduce

Price: EUR 61.31
(30/06/11)

Target price: 56.30

Risk: Low

Reuters: BEFB.BR

Bloomberg: BEFB BB

Shares number (m): 16.79

Market cap. (m): 1,029

NAV 31/03/2011 : 60.07

Premium : 2%

H/L 1 year: 69.05 - 55.10

1 year price perf.: 9.3%

Diff. with EPRA Eurozon -15.9%

Volume (sh./day): 21,303

Free Float 81%

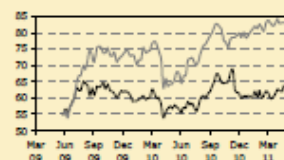
Fortis Group 19%

	10	11e	12e
P/E	11.1	14.1	13.6
Div. yield	6%	6%	6%
Premium	2%	0%	0%

Company Calendar

23/08/11: Q3 2011 results
17/11/12: Q4 2011 results
16/02/12: FY 2011 (Q4 + 1Q)
22/12/12: pay-out interim div
25/4/12: OGM
4/5/12: pay-out dividend

Befimmo + relative to EPRA Eurozone (grey)

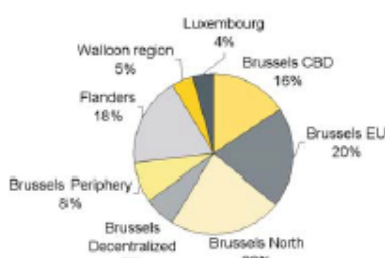


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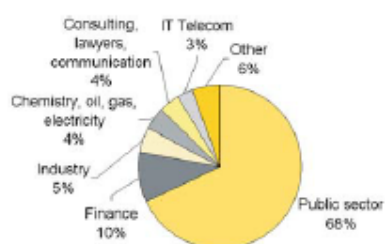
Befimmo

Exhibit 1 Portfolio (Brussels totals 73% of total)



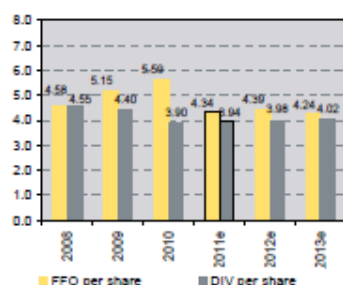
Source: Befimmo

Exhibit 2 Tenants



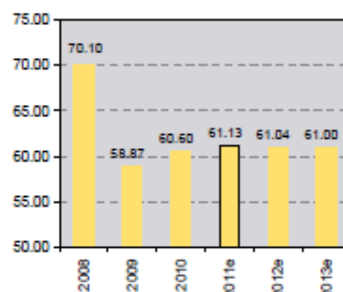
Source: Befimmo

Exhibit 3 FFO & dividend per share



Source: Befimmo & Petercam estimates

Exhibit 4 NAV per share



Source: Befimmo & Petercam estimates

Updated Estimates: YES

Profit & Losses (EUR m)	09/09	09/10	09/11e	09/12e	09/13e
Rental income	118.8	123.5	124.0	127.6	131.8
Operating costs	-4.5	-7.8	-7.8	-8.0	-8.6
Net rental income	114.1	115.7	116.2	119.6	123.2
EBIT	106.1	112.2	102.7	107.0	110.2
Interest charges	-30.0	-20.7	-28.0	-29.5	-30.6
Interest income	-	-	-	-	-
Financial Result	-29.3	-17.7	-25.0	-26.4	-32.0
Minorities	1.1	3.9	3.9	3.9	3.9
Pre-tax result	76.9	94.5	77.7	80.5	78.2
Taxes	-0.5	-0.7	-0.8	-0.8	-0.8
Direct result	76.4	93.9	76.9	79.7	77.4

Balance Sheet (EUR m)	09/09	09/10	09/11e	09/12e	09/13e
Property investments	1,822.8	1,885.0	1,866.8	1,973.6	2,073.7
Property not in operation	-	-	-	-	-
Other investments	20.7	20.1	26.4	26.4	26.4
Financial assets	0.6	0.7	0.6	0.6	0.6
Total investments	1,944.0	1,905.7	1,983.6	2,000.5	2,100.7
Cash position	-	-	-	-	-
Tradable receivables	-	-	-	-	-
Other current assets	49.7	79.4	40.4	50.9	56.4
Total assets	1,989.4	1,985.1	2,024.0	2,096.8	2,196.0
Total Equity	1,050.0	1,081.9	1,078.4	1,081.4	1,087.9
Provisions & deferred taxes	-	-	-	-	-
LT bearing interest debt	784.3	604.9	721.8	721.8	721.8
ST bearing interest debt	175.1	298.3	223.8	293.6	386.3
Tradable payables	-	-	-	-	-

Shares - per share data (EUR)	09/09	09/10	09/11e	09/12e	09/13e
Direct result	5.15	5.59	4.34	4.51	4.38
Recurring cash earnings	5.14	5.62	4.60	4.77	4.63
Indirect result	-7.36	-2.27	-0.66	-0.65	-0.18
Dividend	4.40	3.90	3.94	3.98	4.02
Book Value	58.87	60.60	61.13	61.28	61.73
No shares - average (m)	14.92	16.79	16.79	16.79	16.79

Ratios	09/09	09/10	09/11e	09/12e	09/13e
Valuation analysis					
PE	12.0	11.1	14.1	13.6	14.0
Price/Recurring cash earnings	12.1	11.0	13.3	12.8	13.2
PBV	1.1	1.0	1.0	1.0	1.0
EV/EBITDA	19.2	17.9	19.9	19.7	20.0
Premium on NAV	5.3%	2.3%	0.3%	0.0%	-0.7%
Div. Yield	7.1%	6.3%	6.4%	6.5%	6.6%
Financial ratios					
Net Debt/Equity	89.5%	83.5%	87.7%	93.9%	101.9%
Equity/Total Assets	52.8%	54.5%	53.3%	51.6%	49.5%
ROCE post-tax	-0.2%	3.8%	5.6%	4.9%	4.8%
ROE	-3.4%	5.6%	8.4%	7.2%	7.0%
EBITDA / Rental income	89.5%	90.9%	82.8%	83.8%	83.6%

Business description

Befimmo is the second largest property investment company in Belgium. The primary focus is on the Brussels office market. The company enjoys the tax-efficient Sicafi/Bevak status. The portfolio represents a fair value of EUR 1.95bn (occupancy rate = 93.9% vs. 95.5% 6 months ago). The assets are located in Belgium (approximately 73% in Brussels) and in Luxembourg (The Axento project: EUR 100m, gross yield of 5.65%, was completed during H2 09). Befimmo applies a focus strategy on fully let and well-located 'green' buildings, mainly in Brussels CBD. To provide a stable starting point the company's tenant base has large exposure to public bodies (68%) such as the Belgian and European governments. The average gross portfolio yield stands stable around 6.5%.

Competitive position

Befimmo's main competitor is Cofinimmo, the largest Belgian Sicafi. The other players in the office market are some smaller Sicafis, institutional investors (insurance companies and pension funds), as well as specialized real estate investors (German open-ended fund). Due to its focus on the Brussels office market it can offer tenants looking for office space in Brussels a wide variety of options. The last 2 years, the company has been focusing on developments, refurbishments due to lease cancellations and to upgrade the overall portfolio quality. As a result of this and a deteriorating market the occupancy rate has decreased during 2009. Befimmo reviewed the strategy to enter the Paris office market, as its CBD lacked suitable investment opportunities.