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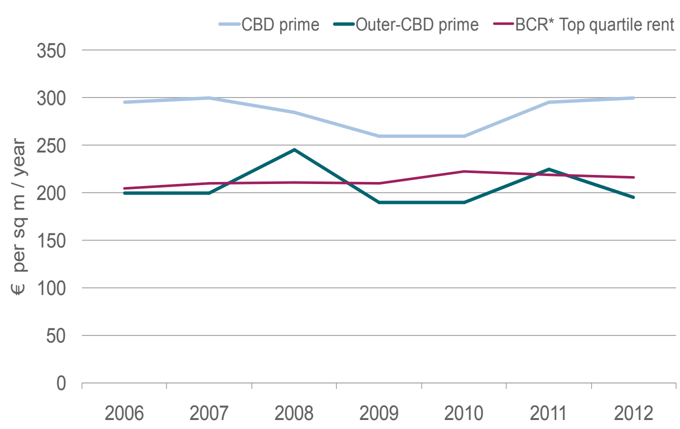
Savills World Research
Belgium Commercial

Market report
Brussels Offices and Belgium Investment

February 2013

GRAPH 1

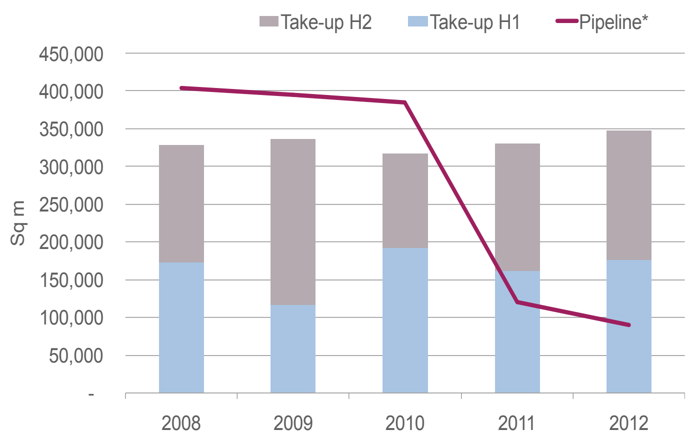
Prime rents



Graph source: Savills / *Brussels Capital Region

GRAPH 2

Take-up and development pipeline
Development activity remains subdued



Graph source: Savills / *Forecast for development pipeline

SUMMARY

Belgian investment turnover reached its highest level since 2008

■ The investment market recorded a 35.8% increase compared to 2011 with a volume €2bn.

■ Government debt stands around 100% of GDP and deficit decreased in 2012.

■ The Brussels take-up reached 348,000 sq m in 2012, below the 10-year average but higher than 2011 result.

■ Corporates remained the major player with 74% of the take-up followed by EU administrations (20%).

■ Thanks to a low level of completions scheduled in 2012, a stable occupier demand, and office reconversions, global vacancy rate is slowly decreasing.

■ Top rents in the prime CBD increased slightly to €300 per sq m/ year.

■ Volume invested in the retail and residential market more than doubled.

■ Retail and office transactions represented 70% of the 2012 investment turnover.

■ The largest deal of the year was the purchase by Abu Dhabi Investment Authority of the Zuiderpoort in Ghent for €110m.

Economy

The Eurozone debt crisis has had a negative impact on the whole European economy. In this context, with a deficit of only 2.8% and the sixth lowest unemployment level in Europe, Belgium has suffered but not as significantly as some other European countries. Nevertheless, due to a combination of the Eurozone crisis, the lack of consumer confidence, the fiscal tightening and rising inflation, household consumption did not grow during 2012 for the first time in 20 years as households preferred to save rather than spend. This had a downward impact on GDP growth, which was negative (-0.2%) in 2012 but a return to growth is expected this year.
A wide range of new tax reforms have been adopted with a view to reduce the deficit from 2.8% to 2.3%, below the 3% limit imposed by the EU. Consequently, government debt increased to 100% of GDP at the end of 2012. This debt ratio is however expected to stabilise in the coming years and its growth (+15% in five years) is significantly below the one in the UK (+57%), Germany (+23%) and the Eurozone average (+27%), .

Take-up

With 348,000 sq m in 2012, take-up in the Brussels market was 5% above the 2011 level but still below the 10-year average (550,000 sq m). Taking into consideration owner occupations and renegotiations, take-up stood at 485,000 sq m in 2012. European agencies were the main driver of the market last year; the European Parliament acquired 32,000 sq m in the Trebel building (Leopold district), 19,200 sq m in Covent Garden (North District) and pre-let 24,463 sq m in the New Orban (24,463 sq m) (Leopold district).
One third of transactions were carried out in the periphery. The Leopold district was the second most active area with 26% of the recorded transactions, followed by the decentralised district (12%), Louise (10%), North (10%) and Pentagon (9%).

Corporates remained the major player accounting for 74% of take-up in 2012. It is worthwile mentioning that the European administration represented 20% of take-up.

> “Growth will certainly remain weak but positive in 2013” Jérémy Lecomte, Head of Research, Savills Belgium

Development activity

The economic and financial crisis witnessed in Europe in the last years, has put many projects on hold. The absence of new supply is continuing to have a positive impact on the market, as the vacancy rate has fallen for the second year in a row. Office completions are not expected to increase significantly in 2013 and 2014 as the development trend is rather focused on the reconversion of office buildings into residential but also into elderly homes or hotels.
Major developments in 2012 included several full refurbishments such as the 18,000 sq m in Arts-Lux and the 24,000 sq m in New Orban in the Leopold District. In 2013, 170,000 sqm are scheduled and the redevelopment of the Belair building reflects a large proportion of it (about 54,000 sqm have already been pre-let to the Federal Police).

Rents

The average rent and the top quartile rent remained relatively stable at €155 per sq m/year (a change of +1% yoy) and €216 per sq m/year (a change of -1% yoy) respectively. The top rent was recorded close to the Square de Meeûs in the Leopold district at €300 per sq m/year, a 2% increase compared to 2011. The prime rent in the Louise district reached a new high level at €240 per sq m/year in one of the few high-rise buildings. The gap between prime and secondary locations kept widening with prime rents recorded at €195 per sq m/year in the Decentralised district (-13%) and €165 per sq m/ year in the Periphery (-8%).

Investment market

The first half of 2012 saw investment levels increase by 38% year-on-year

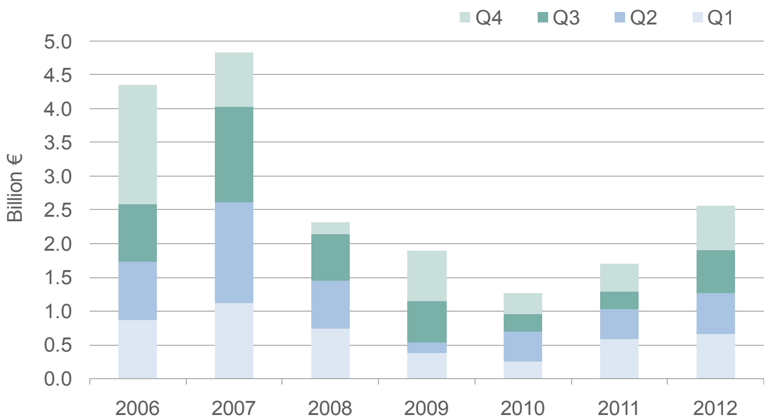
GRAPH 3

Yields vs 10-year OLO

Graph source: Savills

GRAPH 4

Investment volume The investment market improved significantly in 2012



Graph source: Savills

with €1.2bn invested whilst during the second half €855m was invested. For the first time since 2008, the total annual investment volume reached more than €2bn, bringing sign of optimism for the coming years.
The largest deal of the year was the purchase of the Zuiderpoort in Ghent by the Abu Dhabi Investment Authority, which purchased a 63,000 sq m office building for €110m. The other main investments were the acquisition of the Westland shopping centre in the decentralised district by AG Real Estate for €80m, and the shopping centre in Genk by Wereldhave for €69m. Principally due to such big deals in the North of Belgium, the Brussels area (36%) was not the most active region giving the gold medal to Flanders (37%).

The Belgian investment market remains highly dominated by domestic players (71%). German and UK investors accounted for 10% of the total investment turnover in 2012 and were the most active foreign investors.

In 2012, investors increased their exposure to retail, which totalled 34% of the transacted volume as well as the residential sector (8% vs. 17% in 2011) where volumes more than doubled. Consequently the share of office investments decreased from 64% in 2011 to 36% last year. The office investment volume indeed decreased to €718m (-24%) in 2012 while the retail and residential market outperformed with respectively €686m (+128%) and €335m (+179%).
Demand from local and international investors for well let prime assets remains strong. Due to the current scarcity of these assets, and the decrease in long-term interest rates, that stood at 4.3% in December 2011 and 2.1% at the end of 2012, we expect investors to become more aggressive. Prime yields stand at 5.75% for shopping centres and at around 5.25% for long-term let office buildings. ■

"We expect investors to increase their exposure in Belgium as yields are still attractive when compared with those observed in other markets" Gregory Martin, Managing Director, Savills Belgium

OUTLOOK

2013 back to optimisum

■ As macroeconomic indicators are improving, uncertainty is expected to fade throughout the year and investors should be willing to take more risk.

■ Fear of high inflation is expected to increase demand for real estate.

■ Financing will remain scarce and the market will thus be favorable to equity buyers such as pension and insurance funds.

■ A few open-ended funds need to dispose of some of their assets which will feed the market with new investment opportunities.

■ The prime office yield for long term assets (9 years or above) currently stands at 5.25% and is expected to move in further in 2013.

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