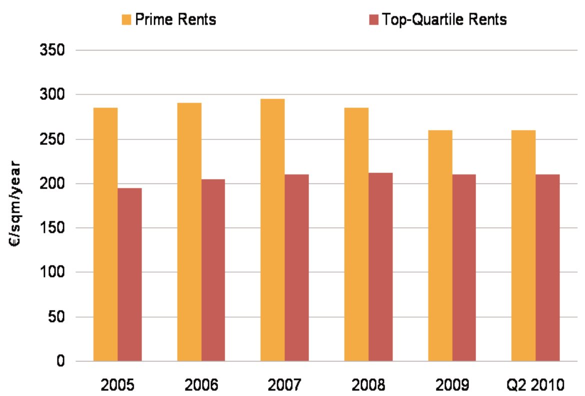
Brussels office market

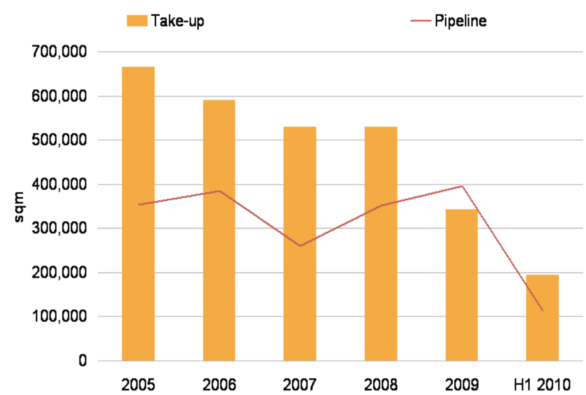
Q2 2010

Rental values



Source: Savills Research

Take-up / Development completion



Source: Savills Research

"Acquisitions from the local investment market, now peaking at 75%, have become the principal purchase group as global financing issues and eurozone fears hit cross-border investors. 2010 will be dictated by the activity of local domestic real estate funds which show no signs of reducing the exposure to Belgian real estate."

Sheelam Chadha (Head of Research / Investment advisor)

- Take-up, which started off to an exceptionally strong start, has not fed into the second quarter with take-up down 40% and reaching 72,500 sqm this quarter compared to Q1 2010.
- Since the end of 2009, total stock has grown 0.9% and now stands at 13.2 million sqm. Although 85% of the deliveries are still speculative, the future developments are clearly slowing down. The vacancy rate currently stands at close to 12%.
- The prime rent in Brussels is still achieved in the Leopold District at €260/sqm/year - unchanged from the last quarter whilst the top quartile rent increased slightly y-o-y at 1% and fell 1.3% q-o-q and now stands at €252/sqm/year.
- Overall investment activity in Belgium has improved in H1 2009 (+96%) whilst up on Q1 2010 (+46%) and totalled €617.5 million. In Brussels, total investment reached €366.2 million, down 60% y-o-y.
- Acquisitions from the local investment market now stands at 75% compared to an average of 45%. International investors are still taking a 'wait-and-see' attitude despite much demand.
- In the CBD, prime yields for 9 year + now stand at 5.25-5.50%, down 25bps whilst 3/6 year leases stand at 6.25-6.50.%

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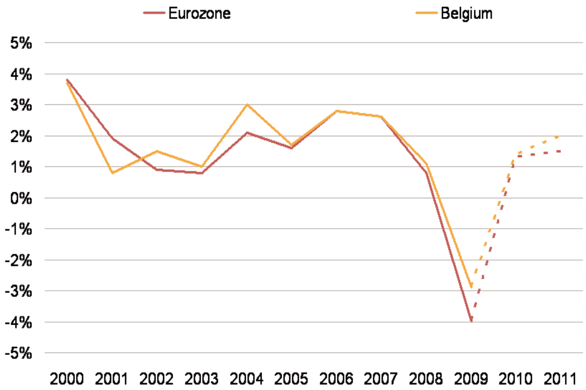
Economy and letting market

Economy

Despite the formation of a new coalition government, the economic recovery which had been hoped for has tailed off in recent months with GDP growth up only 0.1% compared to 0.3% in the previous quarter. This was mainly attributed to almost 1% contraction in inward investment. Consumer spending however remains healthy, up 0.6% compared to the previous quarter. GDP growth is forecast at 1.4% for the remainder of 2010 and 2% for 2011. The main threat to the Belgian recovery remains the current coalition government's ability to push through tough austerity measures will remain a key focal point for the year.

GDP Growth



Source: BNB / Consensus Forecasts

Letting Market

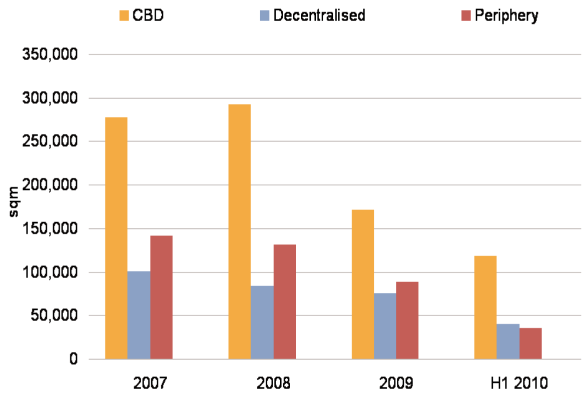
Take-up and demand

Take-up (not including renegotiations and own-occupation deals), which started off to an exceptionally strong start, has not fed into the second quarter with take-up down 40% and reaching 72,500 sqm this quarter compared to Q1 2010. Compared to the five-year Q2 average, this represents a 43% drop. However, compared to H1 2009- one of the worst periods in the Brussels take-up market- H1 2010 showed a 65% increase of activity on that period and now totals 193,600 sqm.

Average deal size fell from 1,680 sq m to 780 sqm this quarter- mostly attributed to the fact that Q4 2009/Q1 2010 saw exceptionally large transactions close and more in line with the trends of the 06-08 period. Some large transactions are still expected to close in the next two quarters whilst at the same time, deals for owner-occupiers have become more apparent as occupiers take advantage of adverse market conditions and favourable landlord terms. Including owner-occupation and renegotiation deals, gross H1 take-up reached 292.700 sq m (+ 74% y-o-y).

The Periphery District was the district which has suffered the most since H1 2009 and Q1 2010- down 1% and 36% respectively. The drop in activity, which is linked purely to corporate activity, is evident. In the Decentralised District, take-up was stronger, up 9% y-o-y and 25% q-o-q, reaching 35.200 sq m. In the CBD, activity was up 169% compared to the same period a year ago. In particular, the Pentagon and Leopold districts have seen take-up levels increase 229% and 27% respectively compared to H1 2009 whilst up 17% and 248% respectively compared to Q1 2010.

Take-up by district



Source: Savills Research / Expertise

Top letting transactions - Q2 2010

District	Building	Area in sqm	Tenant
Leopold	The Capital	8,334	EPSO (EU)
Pentagon	Pacheco 34	4,128	IP Globalnet
Periphery	Telecomlaan 8	3,662	Seris
Pentagon	Renaissance	3,045	IAB-IBR
Decentralised	WEB	2,800	Kone

Source: Savills Research

Stock and completions

Since the end of 2009, total stock has grown 0.9% and now stands at 13.2 million sqm. The largest increases H1 2010 were in the Louise District (+3.3%; Platinum), the Leopold District (+1.4%; Neo, Meeus 23) and the Decentralised District (+1.2%; Atlantis, Delta). Although 85% of the deliveries are still speculative, the future developments are clearly slowing down following a three-year boom. 2011 and 2012 are forecast to reach around 180,000 sqm each, down 50% from the 08-10 average. Based on a three-year cycle- typical in real estate, the next period where construction will likely begin to show signs of increase will be from 2013 onwards. The vacancy rate currently stands at close to 12%, a slight increase on Q1 2010.

Investment and outlook

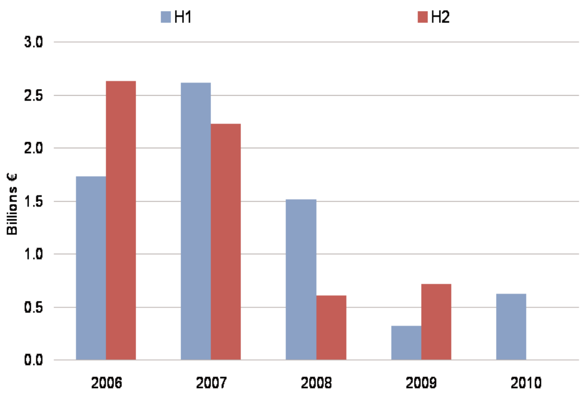
Rents

Prime rents in the Periphery District dropped by 10.0% to €150/sqm/year y-o-y. High speculative pipeline in the medium term will affect prime rents which could fall further. In the Decentralised District with fewer headline transactions taking place, prime rents have dropped 18.7% q-o-q and only reached €160/sqm/year. The prime rent in Brussels is still achieved in the Leopold District at €260/sqm/year- unchanged from the last quarter whilst the TQR increased slightly y-o-y at 1% and fell 1.3% q-o-q and now stands at €252/sqm/year. In the Pentagon District, the prime rent jumped to €230/sqm/year following a record letting in the green building ‘Renaissance’, up 13%.

Investment

The investment market has shown some signs of improvement this year compared to the sporadic activity in 2009. Demand mainly exists for Grade-A, long-leases, AA-AAA covenants and could be thus labeled as significantly narrower than anticipated. Nonetheless, the market has traditionally been fairly diverse with a healthy mix of international investors as well as local investors. As of today, domestic purchasers have peaked at 75% of the market and show no signs of reducing the exposure to Belgian real estate. International financial issues and eurozone fears could be less impacting compared to the cross-border buyers which rely on foreign debt financing. To paraphrase 2010, Brussels has become truly local market for the first time in the last decade.

Belgium investment volume

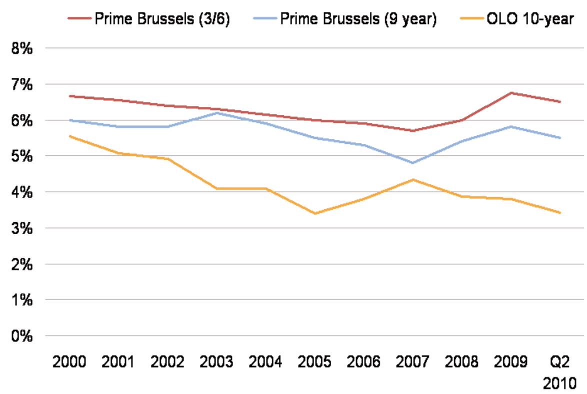


Source: Savills Research / Capital Analytics

On average since 2000, Belgian investors have represented between 45-50% of the buy-side market; as of today, domestic buyers represent 74%. Nonetheless, foreign appetite exists and remains equally important. UK-based investors were in fact the main international purchasers in Brussels so far this year -13% compared to the 7% on average. Interestingly, it is the UK-based funds which are still willing to take more risk when compared to the typical investment demand. For example, Invista has returned to the market and purchased a short-term leased building whilst Europa Capital purchased Realex, a prime speculative development site on Rue de la Loi with a potential to develop 40,000 sqm. Private Dutch investors accounted for 10% of the total investment by purchasing the Group GL retail portfolio for approx. €60 million. Whilst the Germans have on average represented 20% of the market, they represented only 3% of the total so far with few deals foreseen in the pipeline despite much demand particularly stemming from the closed-ended funds.

Overall investment activity in Belgium has improved compared to H1 2009 (+96%) whilst up on Q1 2010 (+46%) and totalled €617.5 million. In Brussels, total investment reached €366.2 million, down 60% y-o-y. Some signs of increasing activity however do not reflect an improved mood; many deals ongoing have run into unforeseen delays akin to the 2008 period when the credit crunch unravelled. In the CBD, prime yields for 9 year + now stand at 5.25-5.50%, down 25bps whilst 3/6 year leases stand at 6.25-6.50%. In the outer-CBD, prime yields for 9 year + now stand at 6.25%, down 25bps.

Prime yield - OLO bond



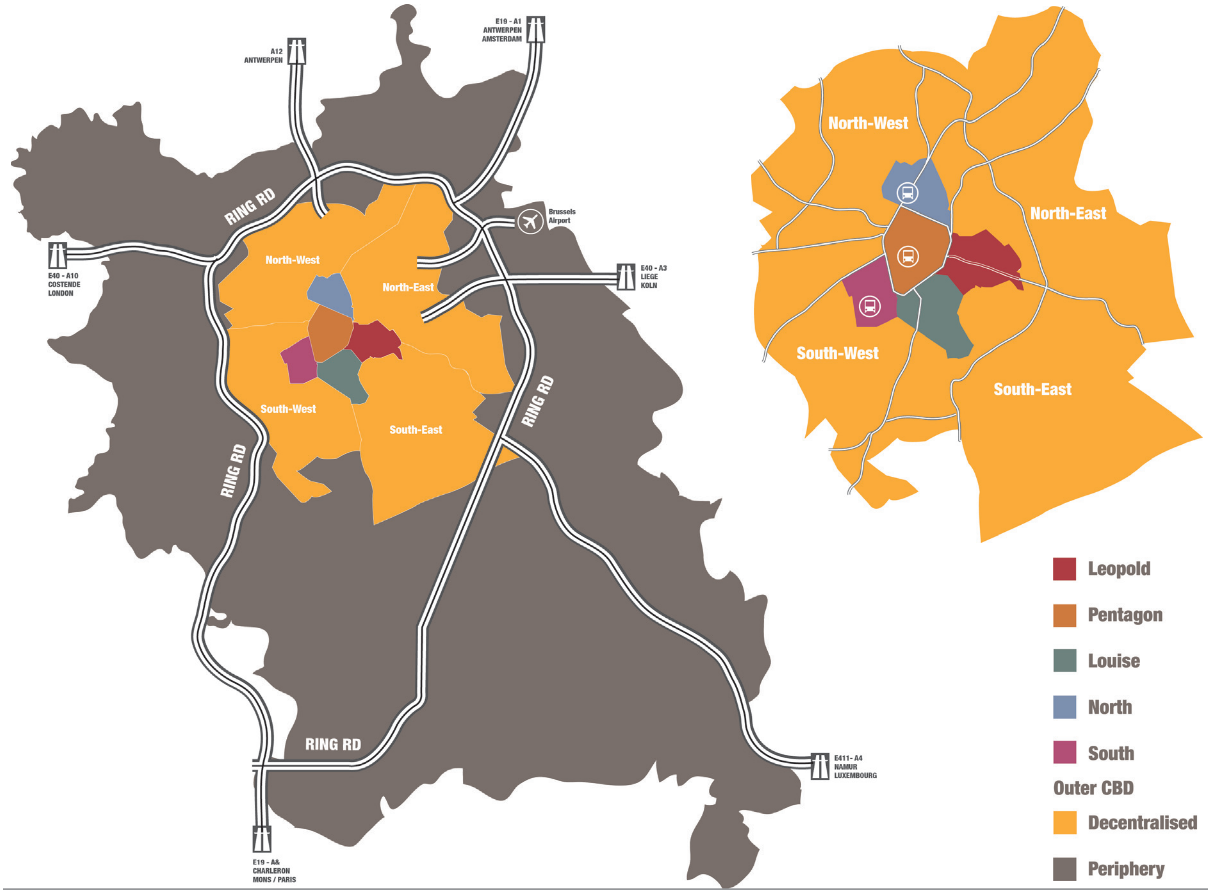
Source: Savills Research

Outlook

The owner-occupation market is gaining momentum as landlords, unable to shift some properties to the open-letting market, have opted for more viable solutions. This in turn has created some interesting sale-and-leaseback opportunities which future occupiers, having analysed the aggressiveness of some investment funds, will take advantage of. This will clearly play an important role in the Brussels take-up market for 2010-2011. Investment market activity is not forecast to progress at any swift pace this year. Although purchasers are present whilst Q1 was brimming with confidence, Q2 has not followed through. Signs of less aggressive property financing terms and a narrowing of the investment market are creating hesitancy amongst landlords to officially market assets. With few official deals foreseen in the pipeline, our forecast points towards a reluctant and difficult H2 2010.

Brussels office market

Survey map



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