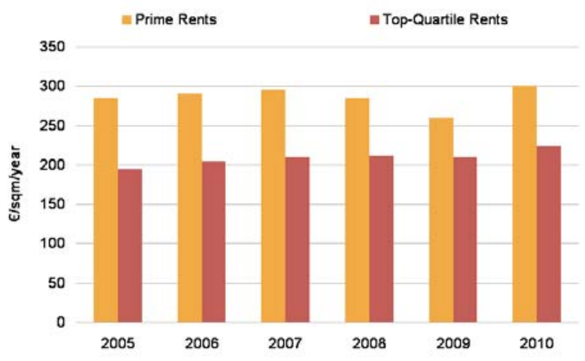
Brussels Office Market

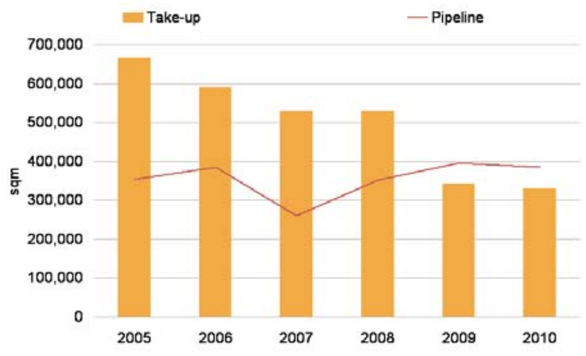
Q4 2010

Rental values



Source: Savills Research

Take-up / Development pipeline



Source: Savills Research

"Rental growth is forecast from 2013 onwards once the burgeoning pipeline is absorbed and a real lack of grade-A space becomes an issue. Investors should consider buying 3-5-year year leases today whilst capital values are low and offer good value. Renegotiating these breaks around 2013 will offer great upside once rental growth kicks in. "

Sheelam Chadha (Head of Research / Investment advisor)

- Annual take-up reached 330.000 sqm representing a drop of 68% on the five year average and 30% on 2009
- The activity between the CBD and Outer-CBD was in line with trends, split 54%/46%. Average deal size in 2010 amounted to 999 sqm compared to 907 sqm in 2009 and 1.026 sqm in 2008.
- The vacancy rate has hit the 12% level and poses a major issue in Brussels and the Periphery. Stock growth should begin to slow down in 2011 when around 170.000 sqm is delivered, less than half of the average of 2009-2011.
- Some outstanding transactions during 2010 in the Leopold District witnessed an increase of the prime rent back to the €300/sqm/year level.
- 2010 was another slow year for the investment market with €1.3 billion total investment of which only €1 billion of this was classed as real investment (excl. own-occupation, financial and development) deals.
- 64% of buyers in 2010 were Belgian whilst the Germans represented 12.6% and the French 9%.
- Yields shot down to almost 5.0% for 12 year + and as low at 5.4% for 9 years, down 20-40 basis points in one year with each asset competing with as many as 10 buyers.

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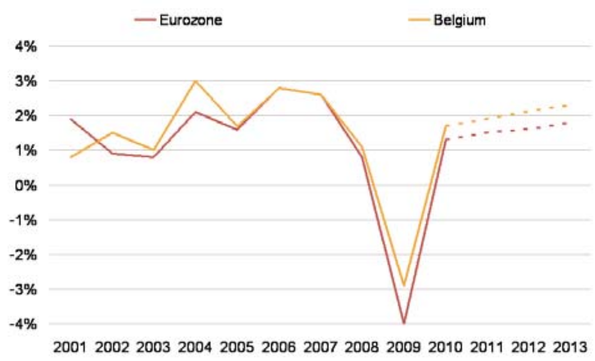
Economy and letting market

Economy

Q3 saw a slowdown in activity, as seen in many other European countries due to cooling foreign demand and challenging periods of austerity. The Belgian government situation still remains a concern whilst ongoing discussions between parties have still not been solved. 2011 will be key in determining the outcome of the political scene. The effect of this has seen 10 year bond rates increase sharply towards 4% towards the end of 2010 as a result of the continued discussions between parties. GDP growth is forecast to reach 2.1% in 2011 whilst increase slightly further in 2012. Inflation is expected to reach 2% in 2011 and increase slightly in 2012.

GDP Growth



Source: BNB

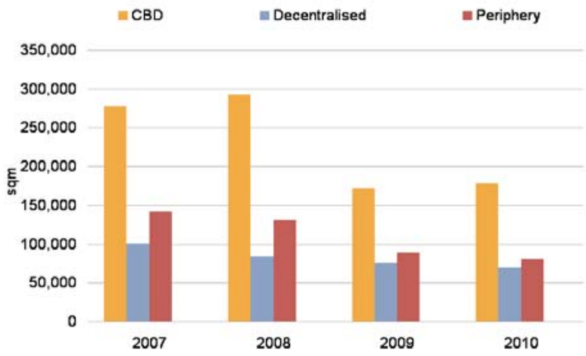
Letting Market

Take-up and demand

Annual take-up reached 330.000 sqm representing a drop of 68% on the five year average and 30% on 2009. Including own-occupation and renegotiations, total take-up increased to 540.000 sqm. Nonetheless, the year could be categorised as weak with some notable transactions but very few actual deals- only 327 lettings thus one of the lowest years in the last decade. The activity between the CBD and Outer-CBD was in line with trends, split 54%/46%. Average deal size in 2010 amounted to 999 sqm compared to 907 sqm in 2009 and 1.026 sqm in 2008.

The political and financial crisis is still taking its toll on the letting market with corporate and administrations, principally the Belgian Administrations, unable to do much. Although the Belgian Administrations have re-grouped most of their services, much of their activity was dominated by SNCB- the national railways. The direct government itself let only 8.100 sqm in Brussels (Renaissance, Le Marquis, Ravenstein) in total for the whole year marking a stagnant year of activity. The EU, again expected to let some very large spaces in 2011, increased its share by 90% in 2010 due to some large lettings including the Capital (8.334 sqm: Leopold) Covent Garden (6.500 sqm: North) and White Atrium (4.800 sqm: Louise). Corporate share was mixed with another large transaction of 35.000 sqm signed in the North District by Fortis BNP in B'Oreal with the Periphery and Decentralised taking note of some large lettings above 5.000 sqm, including L'Oreal which took 6.150 sqm, Atlantis, Decentralised and KPN Globalnet which took 4.128 sqm in the Pegasus Park, Airport.

Take-up by district



Source: Savills Research / Expertise

Vacancy rate and future completions

Total stock now stands at 13.47 million sqm, up almost 2.9% on 2009. Growth for the next three years will begin to slow down as new completions slow down following a record three years of new deliveries; much of which still remains to be let. The vacancy rate has hit the 12% level and poses a major issue in Brussels and the Periphery. It is rather essential that these buildings are let before new development begins in order for rental growth- not estimated to begin until at least 2013, returns. Stock growth should begin to slow down in 2011 when around 170.000 sqm is delivered, less than half of the average of 2009-2011.

Rents

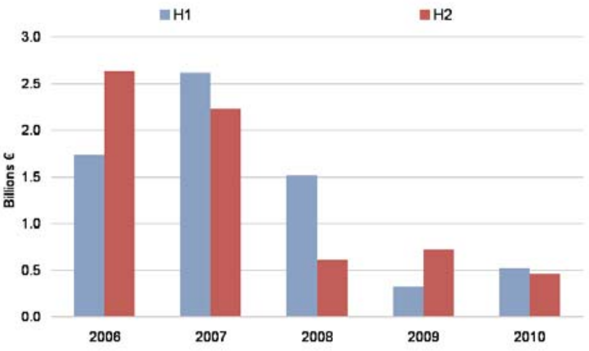
Some outstanding transactions during 2010 in the Leopold District witnessed an increase of the prime rent back to the €300/sqm/year level. The transactions, to well-known international lawyers for over 3,000 sqm in total, achieved remarkably high rents despite a weak take-up market. Nonetheless, the increase in prime does not reflect an improved tone in the letting market. Although the average of the top achieved rents increased, the majority of power remains with tenants as a glut of vacant buildings in Brussels – now at its highest level of 12%- remains to be filled and including Grade-A areas. Filling a building supersedes achieving the desired ERV and therefore, tenants are able to still negotiate pretty favourable terms.

Investment and outlook

Investment

2010 was another slow year for the investment market with €1.3 billion total investment of which only €1 billion of this was classed as real investment (excluding. own-occupation, financial and development) deals. Unlike 2009 where the second half of the year saw a rush of deals in closing, the opposite could be said of 2010 where few deals closed whilst investors seemed in no rush to get things signed. The growing confidence following an improved H2 2009 tailed off towards mid 2010 followed by the Eurozone gloom which worsened poise into Q4 2010. Sale structure issues, not helped by the frozen tax ruling commission as well as the political instability of the country also heightened concern and added together simply did not inspire confidence. 64% of buyers in 2010 were Belgian whilst the Germans represented 12.6% and the French 9%. The market could not be categorised as diversified with few deals of the same calibre (long lease, prime location only) and asset class (office and retail) repeated time and time again.

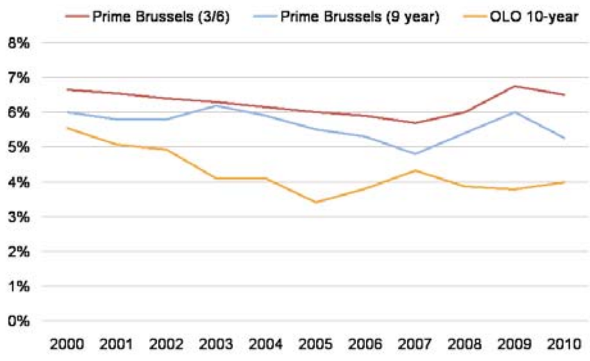
Belgium investment volume



Source: Savills Research

With this, yields shot down to almost 5.0% for 12 year + and as low at 5.4% for 9 years, down 20-40 basis points in one year with each asset competing with as many as 10 buyers. Product for the 5 year or less lease term sees looser competition with yields unchanged at 6.25-6.5%. The spread between short-term and long-term yields today have widened so significantly, unlike 2006-2007, that Savills strongly believes now is the time to buy less then 5 year leases. If breaks or renegotiations take place in 2013 when rental growth is forecast, than we strongly believe it makes sense to take advantage of lower capital values today.

Prime yield - OLO



Source: Savills Research

Tope 3 investment deals

Building	Buyer	Seller	Price in m €
South City 2	Allianz	South City SA	66
South City 1	Integrale	South City SA	49
Regence 55	Jaspers	Cofinimmo	31

Source: Savills Research

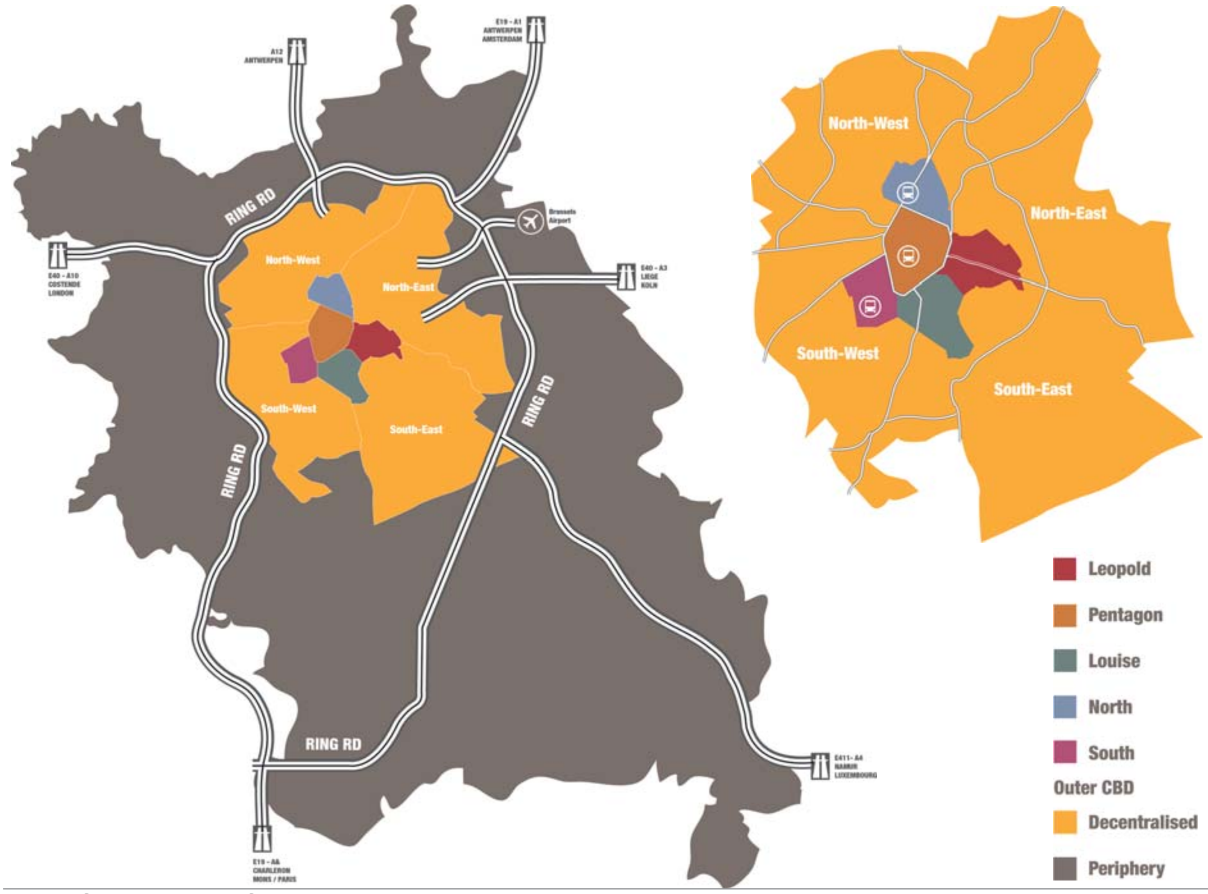
Outlook

2011 will most likely see a fall in vacancy rates as the burgeoning pipeline slows down whilst the vacancy rate should ease off its current peak of 12%. Rents are not expected to increase however some large lettings are clearly earmarked by the EU and will certainly inspire confidence in the overall market.

The investment market will remain two-tier but perhaps even further divided between local and international investors. Questions about the right risk premium over the increasing Belgian 10 year bond may be questioned by foreign investors. Open ended funds are expected to sell more in 2011 but only into the second half of the year following the new German investment laws expected H1 2011.

Brussels Office Market

Survey map



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