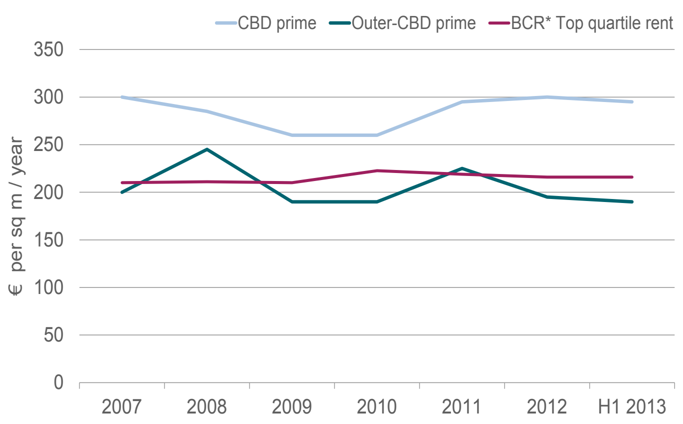
Market report
Brussels Offices and Belgium Investment

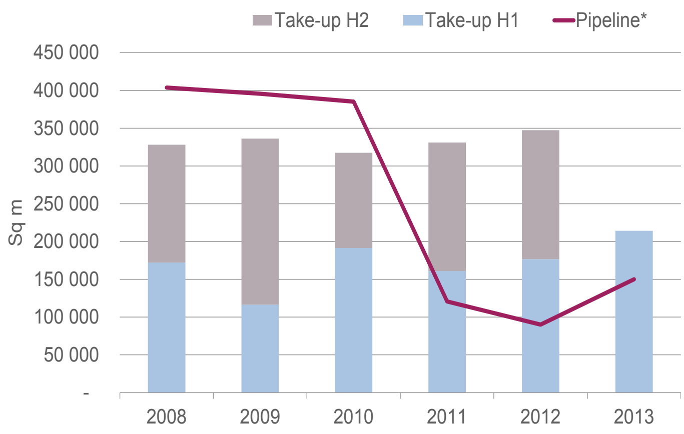
H1 2013

GRAPH 1
Brussels prime rents
Prime headline rents remain stable



Graph source: Savills / *Brussels Capital Region

GRAPH 2
Take-up and development pipeline
A slight increase in the development activity



Graph source: Savills / *Forecast for development pipeline

SUMMARY

Investor appetite moved back from retail properties to offices

- Brussels take-up reached 214,000 sq m in H1 2013, 21% above H1 2012.
- Pre-letting transactions boosted the market with 40,555 sq m pre-let by the European Parliament and 34,000 sq m pre-let by Deloitte.
- Corporates remained the major player accounting for 71% of the take-up followed by EU administrations (27%).
- Due to an increasing occupier demand and a low level of completions, vacancy rate decreased to 9.6% in Brussels.
- The prime headline rent remained stable and was recorded on the Schuman roundabout at €295 per sq m/year.
- An investment volume of €1,226 m was recorded in H1 2013, approaching pre-crisis levels.
- The investment market was boosted by several large transactions such as the Belair complex (Brussels city center) purchased for €300 million.
- Investors focused on offices which accounted for 67% of the total volume. The retail market activity slowed down with a market share of 18% compared to 40% in H1 2012.
- Prime buildings in Brussels with standard 6/9-year leases are now traded at 6%.

"Office take-up has increased by over 20% y-o-y and is in line with the past 10-year average"

Jeremy Lecomte, Head of Research, Savills Belgium

Economy

In a still uncertain economic environment, recovery seems to be slowly gathering pace. GDP growth projection for 2013 remains above the Eurozone average at 0.1% and the Belgian unemployment rate is one of the lowest in Europe (8.2% in H1 2013 while the Eurozone average is 12.2%).

In spite of recovering macro-economic factors, household consumption still suffers from the lack of consumer confidence now standing at -19 points (+6 points compared to 2012). This lack of confidence is mainly due to the persisting recession and austerity measures aiming to bring the deficit down. The deficit is projected to decrease to 2.9% of GDP in 2013, 1% below 2012.

Inflation is forecast to decline to 1.4%, considerably lower than the previous years and closer to the EU area average (1.6%).

Take-up

Take-up in Brussels experienced a dynamic start compared to the low levels recorded in 2011 and 2012. With 214,000 sq m transacted in H1 2013, this volume represents a 21% increase year on year and is in line with the past 10-year average. Taking into consideration own occupations and renegotiations, take-up stands at 324,000 sq m in H1 2013 (+38% y-o-y).
EU bodies were very active with two big transactions representing 27% of the take-up. The pre-letting of the European parliament in the whole Meeus 8 (Leopold district) was the largest transaction so far this year. The building of 40,555 sq m owned by KanAm Grund is currently under renovation and should be ready in March 2014. Pre-letting transactions boosted the market as the second largest one is a pre-let of 34,000 sq m to Deloitte in the Gateway (Periphery / airport).
The Leopold district remains the most active accounting for nearly half of the take-up (45%). The periphery and the decentralised districts follow with shares of 31% and 13% respectively. Demand was mostly driven by corporates who accounted for 71% of overall lettings.

> “Vacancy rate continues to decrease in the main CBD districts ” Jérémy Lecomte, Head of Research, Savills Belgium

Development activity

No new development has been delivered in Brussels during H1 2013. This has had a positive impact on the market as the overall vacancy rate has fallen for the second year in a row, now standing at 9.6% (vs. 10.5% in 2012). Before the end of the year, 170,000 sq m are expected to enter the market, from which the Belair building (64,000 sq m) pre-let to the Federal Police.

The only speculative projects expected to be completed in 2013 are to be found in the Leopold district with the Belview (6,000 sq m) and the Livingstone (18,000 sq m).
Other addition of space comes from the Up-site project (30,000 sq m) in the North district for which 20,000 sq m are already pre-let; in the Louise district with the E-Lite (7,000 sq m) for which 2,500 sq m are pre-let and in the centre with the Regent 4 (7,700 sq m) for which 1,300 sq m are already pre-let.

Rents

The top-quartile rent and average rent remained relatively stable at €216 and €150 per sq m/ year respectively. The prime headline rent was recorded on the Schuman roundabout in the Leopold district at €295 per sq m/year.

Investment market

First semester of 2013 saw an above average investment volume of €1,226 m transacted, approaching the pre-crisis levels. The volume invested is marginally up by 6% from 2012 and is 51% above the 5-year average.
This year volume’s was boosted by some major transactions including the Belair building accounting for 24% of the total volume and the Blue Tower. The Belair transaction volume exceeds the €300 m and represents one of the largest single tenant transactions of the last decade in Brussels.

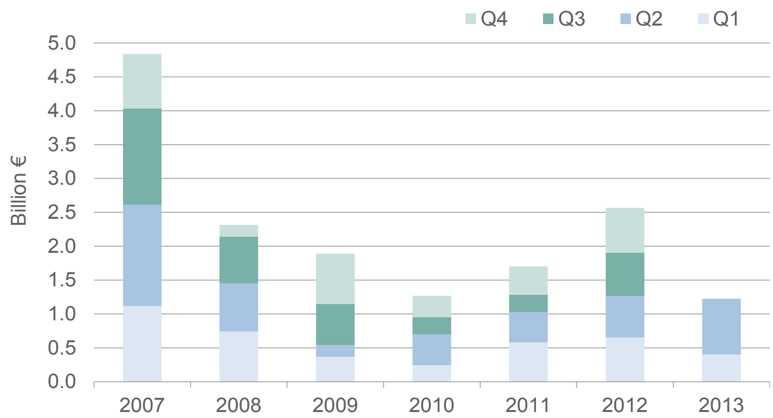
GRAPH 3

Yields vs 10-year OLO*

Graph source: Savills / *Obligation Linéaire/Lineaire Obligatie

GRAPH 4

Investment volume The investment market improved significantly in 2012



Graph source: Savills

Other notable transactions were the Blue Tower (€78.5 million), which is the largest multi-let transaction performed in Brussels since mid 2008 and the AMCA in Antwerp (€110 million).
In 2013, investors focused on offices which accounted for 67% of the investments (excl. own occupation and development) and which has in six months already overpassed last year's total level.
On the other hand, the retail market that outperformed last year, is now slowing down with €221 m invested (18% of market share compared to 40% in H1 2012) due to a lack of good quality products. Largest deal in retail was the Louise Village purchased by a private investor for €55 m.
The industrial sector remained stable with a volume of €115 m, representing 9% of the total volume.

The Brussels Capital Region (BCR) and Flanders remain the most attractive areas accounting for 61% and 31% of the total volume respectively. Remaining shares took place in Wallonia which still lacks of opportunities that fit investors' requirements.

During the first six months of 2013, German funds have been particularly active on the market with €418 m invested - 34% of the total volume. Hannover Leasing (€300 m), IVG (€40 m), GLL Real Estate (€40 m), iii (€25 m) and AIK (€13 m) boosted the market by investing in assets located in Brussels. The Belgian investment market remains however dominated by domestic players (63%).

Demand for well let prime assets remains strong. Due to the current scarcity of these assets and the low long-term interest rates, prime office yields moved in since the begining of the year. Prime buildings in Brussels with standard 6/9-year leases are now traded at 6% (compared to 6.25% in Q4 2012) and could even go below the 6% mark in the coming months.

"As the office market starts showing signs of recovery and amounts of bids received for core assets has increased considerably, we expect investors to start purchasing more and more on assets which can be *"managed to core"* "
Gregory Martin, Managing Director, Savills Belgium

OUTLOOK

Back to optimism in 2013

- Although the Belgian economy will remain weak throughout this year, vacancy should keep falling in the CBD due to a low completion level, increasing take-up and reconversion into residential.

- Demand is expected to remain strong for good quality assets in core areas driven by on-going European institutions requirements and corporate demand for high quality offices.

- Prime rents are projected to be stable in the coming months but the amount of rent free and incentive packages is expected to reduce in CBD locations due to the lack of suitable available supply.

- Total investment turnover is expected to reach €2 bn by the end of the year supported by continuous interest from institutional and local private investors.

- The prime office yield, which currently stands at 6% (vs. 6.25% in 2012) could contract further in the coming months due to demand outstripping supply, low long-term interest rates and the current scarcity of prime assets.

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