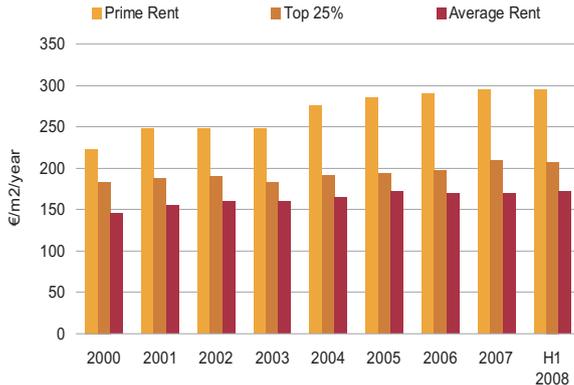


# Brussels Office Market

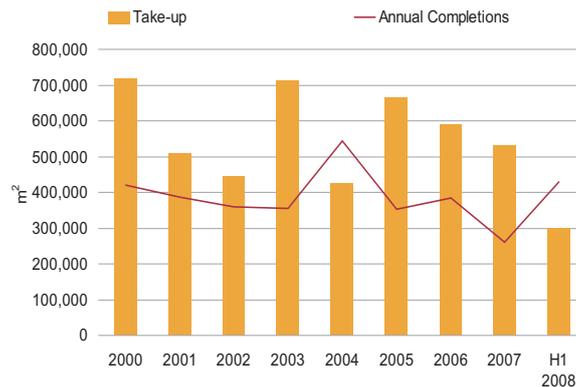
## H1 2008

### Rental values



Source: Savills Research

### Take-up / Annual completions



Source: Savills Research

**“Despite the challenging economy, the letting market performed well over H1 2008 with some key deals noted. It is the Capital Markets where activity has suffered with investment levels in Belgium down 46% compared to H107. Nonetheless, we have not seen an outward shift of the prime yield, which today remains unchanged at 5.6%. This is notable especially when compared to the shift elsewhere in Europe”**

Sheelam Chadha



- Total take-up reached 285,000m<sup>2</sup> in Brussels representing an increase of 6.4% when compared to the H1 average of the last five years.
- The Corporate Sector accounted for 77% of lettings driving demand once again. The Belgian Administrations were strong and accounted for 15% due to some major letting transactions. The International Administrations represented 4% whilst the EU also represented a modest 4%.
- The prime rent remains unchanged and currently stands at €295/m<sup>2</sup>/year. By district over H1, the prime rent increased in Midi and Louise Districts. The top-quartile rent increased in most districts due to some strong transactions.
- There were 14 noted transactions above 5,000m<sup>2</sup> compared to only 11 in 2007 and an average of 8 when compared to the last five years.
- Only 100,000m<sup>2</sup> of new completions have been delivered as at H1 2008. With low completions, the vacancy rate remains stable and stands at 9.3%, unchanged when compared to H1 2007.
- Total Investment levels in Belgium reached €1,410 billion representing a decrease of 46% compared to the H1 2007 level as well as down 2.7% compared to the H1 average of the last five years.
- Total Investment levels in Brussels reached €1,054 million, down 23% compared to H1 2007 yet up 11.7% compared to the H1 average of the last five years.

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# Economy and letting market

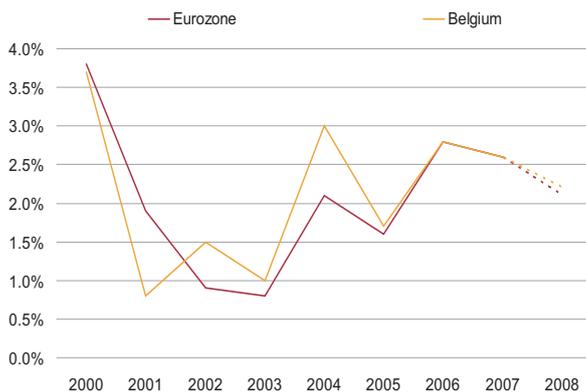
## Economy

GDP growth in Belgium is hovering at around 2.2% revealing a deceleration when compared to 2.6% during 2007.

Although there was a labour market improvement observed in recent years following strong expansion and giving a significant boost to domestic investment and consumption, a downturn is present. Rising inflation and increasing labour costs will pose imminent threats to economic growth.

The Belgian economy has benefited from robust foreign demand in recent years- mainly generated by the economies of Eastern Europe and the United States. However, with the soaring appreciation of the Euro and rising commodity prices, export opportunities will likely suffer.

### GDP Growth



Source: The Economist / Belgian National Bank

## Letting Market

### Take-up and demand

Take-up has been strong and currently stands at 285,000m<sup>2</sup> representing a 6.4% increase compared to the H1 average of the last five years.

By district, the Periphery witnessed the highest take-up with transactions totalling 85,000m<sup>2</sup> (30%). Some key transactions are noted and included DHL which let 7,664m<sup>2</sup> in Pegasus Park and G4S which let 5,000m<sup>2</sup> in the Vilvoorde area.

The Decentralised District recorded the second highest take-up, with transactions totalling 67,000m<sup>2</sup> (23.5%). The largest transactions included IBM which let 5,966m<sup>2</sup> in the HP II building on Boulevard de la Woluwe and Baxter World Trade which let 4,819m<sup>2</sup> on La Plaine.

In the CBD, a wave of notable lettings have taken place. In the Léopold District, take-up reached 37,000m<sup>2</sup> representing an increase of 37% compared to H1 2007 (13%). Major transactions included the Polish Embassy which let 5,805m<sup>2</sup> on rue Stevin; Suez, which let 5,050m<sup>2</sup> in the Bastion Tower; and the Irish Representation & Mission which pre-let 3,000m<sup>2</sup> in the Bell'Art building which is due H2 2008.

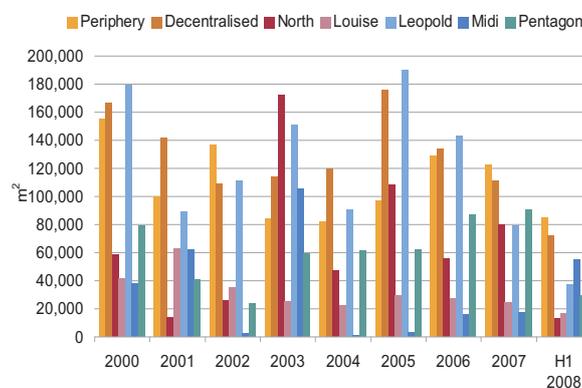
With the Midi area now uniquely its own district, take-up totalled 34,000m<sup>2</sup> (12%). Notable transactions included NMBS/SNCB which let 10,412m<sup>2</sup> in South Express A2 and another 13,595m<sup>2</sup> in Ring Station Campus. Infrabel also let 2,113m<sup>2</sup> in South Centre Steel.

In the Pentagon District, take-up totalled 29,500m<sup>2</sup> (10%). Major lettings included Starwood Hotels which let 7,038m<sup>2</sup> in Brederode II, the Polish Administrations which let 6,500m<sup>2</sup> in the De Post Building and Régie des Bâtiments which let 4,456m<sup>2</sup> on rue de Louvain.

In the Louise District, take-up reached 16,318m<sup>2</sup>, representing a 42% increase compared to the H1 average of the last five years. Of the 33 transactions, the most notable included Sodraep which let 1,700m<sup>2</sup> on rue Saint-Bernard; Uptown which let 1,617m<sup>2</sup> in the Wiltcher's building on Avenue Louise and Silberman which let 1,200m<sup>2</sup> on Place Stephanie.

The North District has underperformed with take-up reaching only 13,000m<sup>2</sup>, placing it bottom of all districts. Only five lettings are known to have taken place with the most notable including Arcelor Finance, which let 5,924m<sup>2</sup> in the Ellipse Building and the Flemish Agencies which let 5,000m<sup>2</sup> on rue du Progrès.

### Take-up by district



Source: Savills Research / Expertise

# Letting market

The corporate sector represented 77% of the total letting market. To break this down further, the majority of this take-up was grouped in the Financial/Banking sector (30%), Manufacturing (13.6%) and TMT (13%). The main transactions were by DHL, Starwood Hotels, IBM and Arcelor Finance.

The Belgian Administrations performed well and represented 15% of the total letting market. Their lettings are mainly noted in the Midi and Pentagon District.

The International Administrations concluded five transactions representing 4% of the market. This however is down 31% if compared to the H1 average of the last five years.

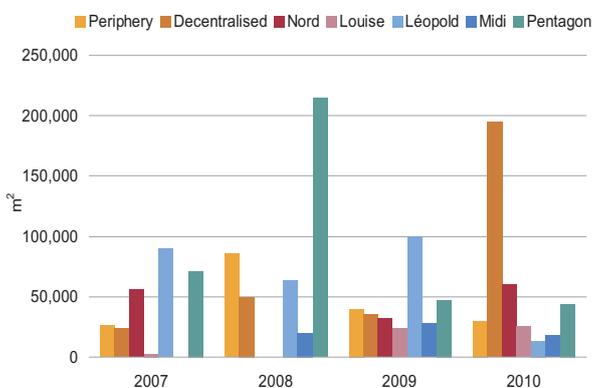
The European Institutions are still in delays with respect to their lettings requirements despite their continuous search upwards of 100,000m<sup>2</sup>. Due to this, their market share stands at a modest 4% after concluding only four deals.

There were 14 noted letting transactions above 5,000m<sup>2</sup> compared to only 11 in 2007 and an average of 8 when compared to the last five years. Despite these large surface transactions, the average letting was approximately 1,000m<sup>2</sup> which is in line with previous H1 averages.

## Vacancy rate and future completions

The overall vacancy rate in Brussels remains unchanged from a year prior and today stands at 9.3%. The lowest vacancy rates by district are located in the CBD. From low to high, the vacancy rate is as follows: Midi (2.5%), Pentagon (4%), Léopold (6%), North (7.5%), Louise (9.5%), Decentralised (13%) and Periphery (22%).

## Completions by district



Source: Savills Research / Expertise

This year, a total of 435,000m<sup>2</sup> should be delivered to the market in Brussels with 335,000m<sup>2</sup> due online H2 2008. Compared to the previous five years, this represents the second highest year in terms of new deliveries. Between 2008 and 2010, this year will represent the highest year in terms of new deliveries.

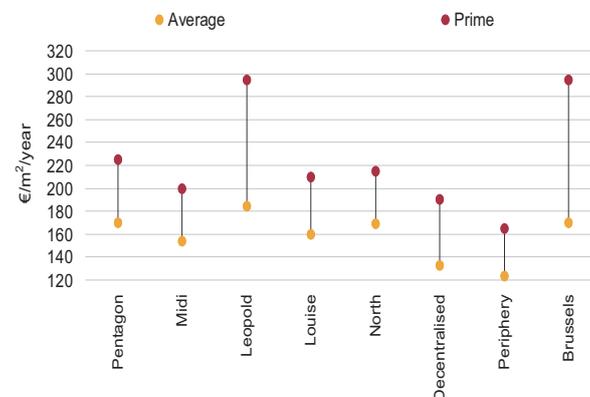
In terms of speculative/non-speculative, 56% will be speculative and will include Le Marquis (Pentagon: Q4:33,000 m<sup>2</sup>) by Ixis AEW, Omega Court (Decentralised: Q2/Q3:17,000m<sup>2</sup>) by Cofinimmo and green project Solaris (Decentralised: Q3/Q4:13,000m<sup>2</sup>) by Fidentia. Non-speculative deliveries will include the Finance Tower by Breevast (City Centre: Q4:120,000m<sup>2</sup>) for the Belgian Finance Ministry and Pegasus Park II by Segro (Periphery: Q4:17,000m<sup>2</sup>) for Ernst & Young.

## Rents

The prime rent, achieved today in the Léopold District, currently remains unchanged and stands at €295/m<sup>2</sup>/year representing no movement over the year. By districts however, there have been some notable upward revisions over H1 when compared to the end of 2007: The Midi District increased 2.5% to €200/m<sup>2</sup>/year and the Louise District increased 2.5% to €210/m<sup>2</sup>/year.

An upward pressure on top-quartile rents has been evident over the first half of 2008 when compared to the end of 2007. The Louise District moved up 6.8% to at €205/m<sup>2</sup>/year; the Decentralised District moved up 4.3% to €170/m<sup>2</sup>/year; the Pentagon District moved up 3.38% to €215/m<sup>2</sup>/year and the Periphery moved up 2.6% to €154/m<sup>2</sup>/year. In all other districts, the top-quartile rent remains unchanged.

## Rents by district



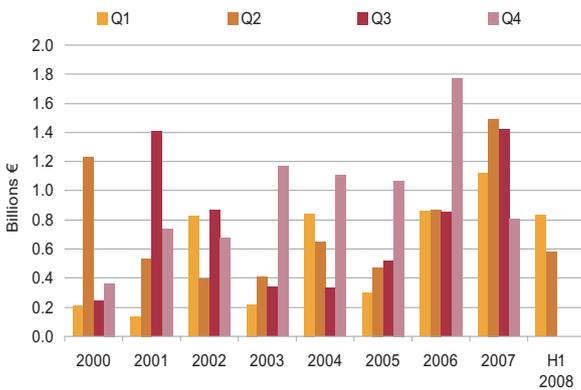
Source: Savills Research / Expertise

# Investment market

## Investment

So far, total Investment levels in Belgium have reached €1,410 billion representing a 46% decrease when compared to H1 2007. Compared to the H1 average of the last five years, this represents a decrease of 2.7%. In Brussels, investment levels reached €1,054 billion, down 23% compared to H1 2007 yet up 11.7% compared to the average of the last five years.

## Investment volume



Source: Savills Research / Expertise

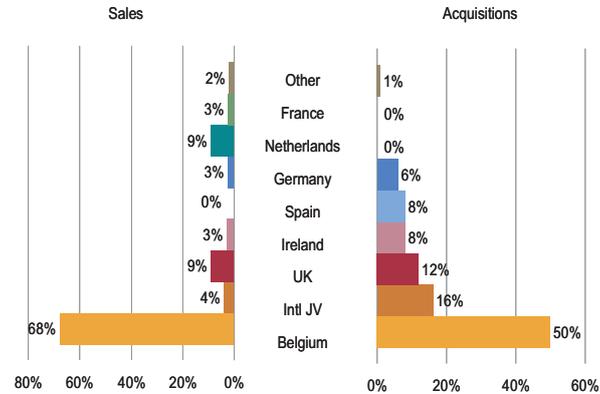
In terms of asset diversification, the office market accounts for 65% of the investment market so far, up 12% compared to H1 2007. The warehousing investment market now accounts for 17% compared to 14% H1 2007. The retail investment market now accounts for 16%, unchanged as at H1 2007. Remaining investments were small and mostly hotel and land. The types of investor has reduced this year as the market has evolved, with a clear return of institutional money. This year, 37% of all-known transactions were by Third Party Fund Managers, followed mainly by Institutional Investors (31%), Sicafi's (11%), Pension Funds (7%), Open-Ended Funds (7%) and Others (7%). During H1 of 05-07, Third Party Fund Managers represented 19% followed mainly by Property Companies (16%), Sicafi's (13%), Private Investors (11.3%), Institutional Investors (11%), Developers (7%), Open-Ended Funds (5%), Closed-Ended Funds (4.2%), Pension Funds (2.5%) and Others (11%).

## Top three office deals

Buyer	Building	Seller	Price € millions
AXA Belgium	Bloc II	Eurostation SA	256.0
Luresa Fund	Astro Tower	Hugenholtz & Bouwfonds	95.0
UBS	Hulpe 166	Fortis RE	92.5

Source: Savills Research

## Buy & Sell side by nationality



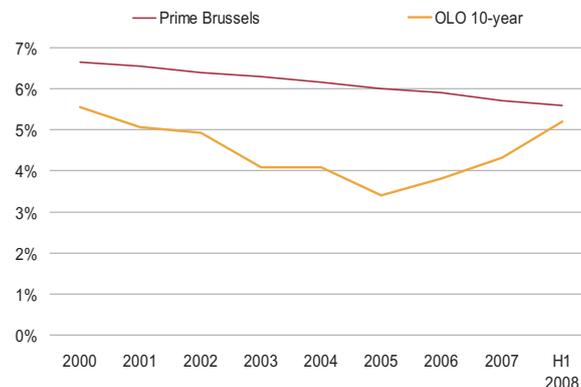
Source: Savills Research / Expertise

In terms of capital sources, Intl-JV investors purchased heavily, accounting for 16% of all-known acquisitions. The UK represented a further 12% of purchases; Ireland surpassed expectations accounting for 8%; Spain 8% and Germany 6%. Domestic investors represented the majority of purchases, accounting for 50%. Compared to H1 2007; Belgian domestic investors accounted for 42%, Ireland 14%, UK 13%, Germany 11%, Intl-JV 7% and the remainder as small, global investors.

## Yields

Although it is clear that a decline in investment levels is occurring due to a reduced buyer's base, a slowdown in lending and increasing financing costs, the prime yield, in our opinion, has not shifted outward and still stands at around 5.6% for a standard 3/6/9 lease. On the other hand, secondary assets in B-locations will indeed be harder to trade this year and yields there likely shift outward.

## Prime yields vs OLO 10-year



Source: Savills Research / Expertise

# Outlook and forecast

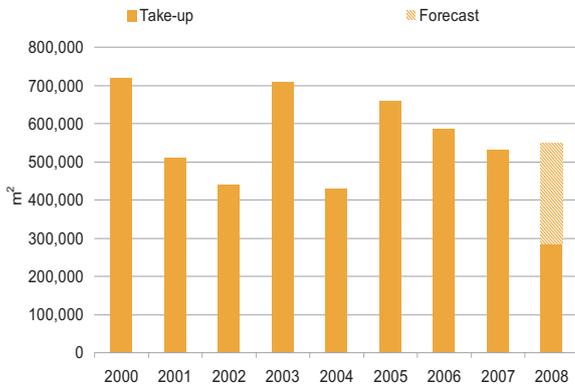
## Outlook

### Letting market

2007 was a weaker year for the letting market- unaided by dwindling business confidence and a potential economic slowdown due to the summer's credit crunch. We expect that take-up levels in Brussels over the course of H2 2008 should be well insulated by demand from the public administrations -in particular, the European Institutions. Their return to the market should be marked by substantial surface transactions of around 50,000m<sup>2</sup> to 100,000m<sup>2</sup> during 2008 and 2009. Therefore, we forecast total take-up to reach at least 550,000m<sup>2</sup> which could represent an increase of 4% if compared to 2007.

We do not forecast any further prime rental growth in all districts, however an upward pressure on average rents could be the case in key areas where demand remains strong, notably the CBD.

### Take-up forecast



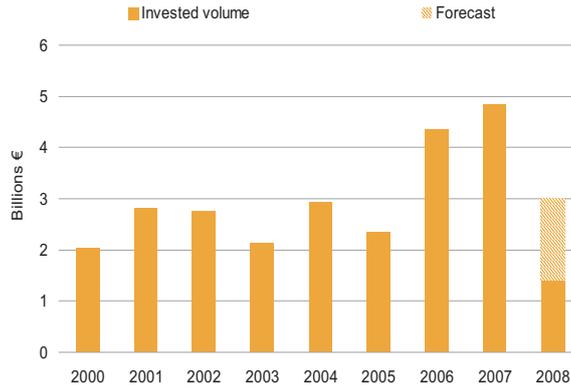
Source: Savills Research / Expertise

### Investment market

Last year, the record investment level was characterised by a flurry of foreign investment due to the availability of cheap debt. As that situation is no longer today, investment over H2 2008 will likely decline. We believe that single asset transactions above €50million will become increasingly more difficult to place, with few deals over €100million. Investors may want smaller assets with strong and secure covenants.

Financing costs have increased considerably this year and thus, equity players and institutional investors will likely drive the market forward. In our opinion, the Irish and UK-based investors will decline considerably over 2008 and 2009.

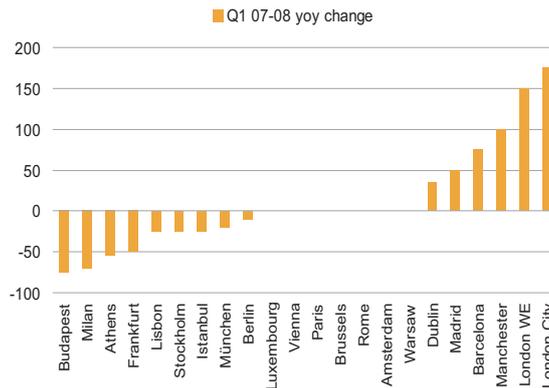
### Investment forecast



Source: Savills Research / Expertise

We forecast that an investment level of €3billion will be reached in Belgium this year which could potentially represent a drop of 38% if compared to 2007. No further compression will take place.

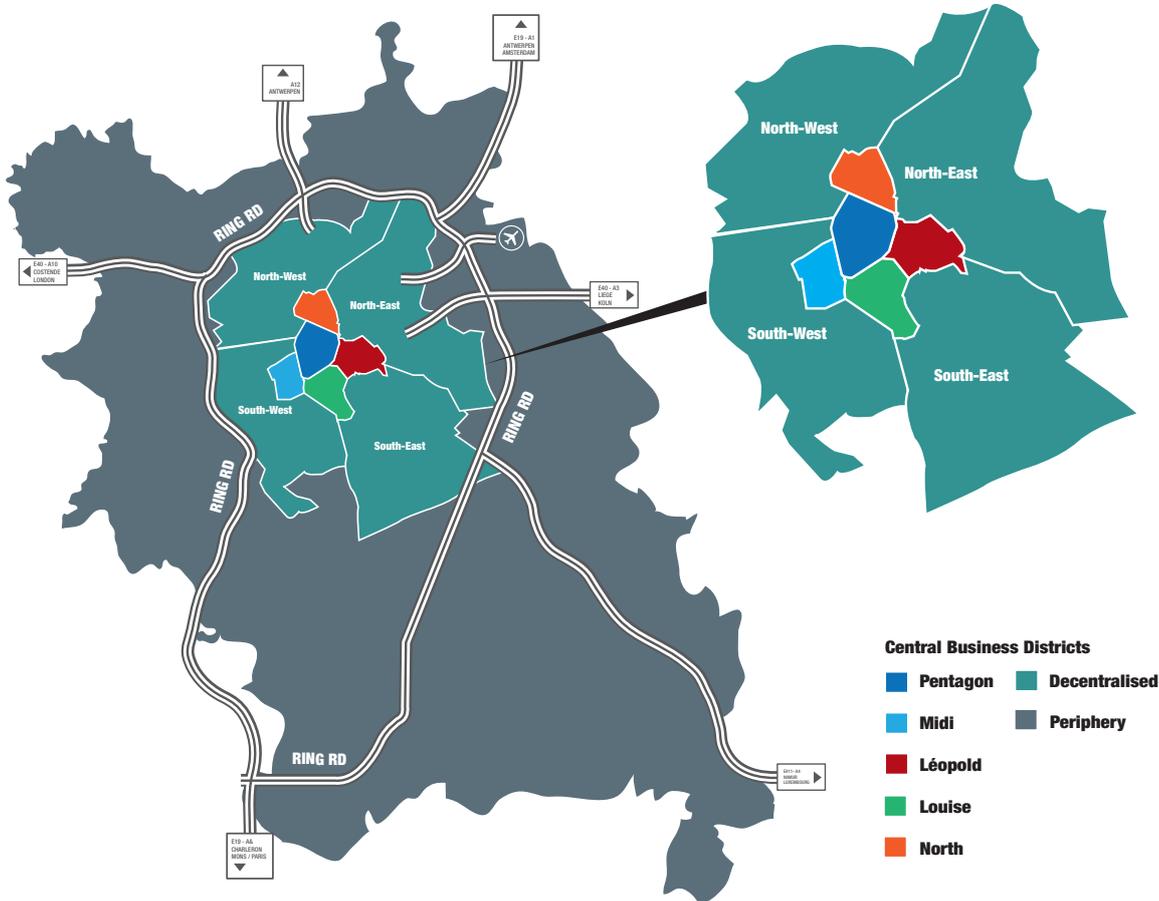
### Prime office yield shift in Europe



Source: Savills Research

# Brussels Office Market

## Survey map



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## About Savills Belux

Savills Belux opened on 22 February 2008 and will service the Belgian and Luxembourg property sector.

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