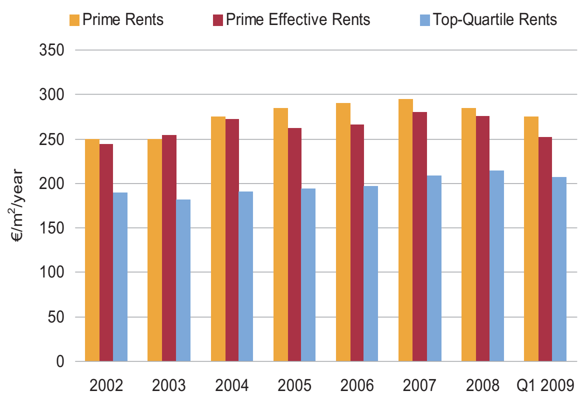
Brussels Office Market

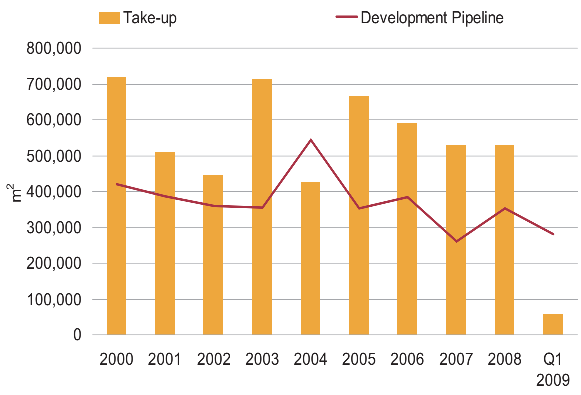
Q1 2009

Rental values



Source: Savills Research

Take-up / Development pipeline



Source: Savills Research

"The dramatic decrease of investment levels, down 60% in Belgium and 95% in Brussels compared to Q108 are a combination of factors related to high financing margins, a lack of prime properties and fewer buyers. "

Sheelam Chadha (Head of Research / Investment advisor)

- Take-up during the first quarter of 2009 reached a record low of 58,031 sqm - its lowest quarterly level in the last ten years and down 46% compared to Q1 2008.
- In 2009 and 2010 supply is estimated at around 715,000 sqm of which approximately 430,000 sqm (60%) is speculative. The likelihood of an increasing vacancy rate, which today stands at 9.7%, is more than probable.
- The prime rent decreased to €275/sqm/year, down 3.5% compared to last year. Top-quartile rents decreased slightly from €210/sqm/year to €207/sqm/year.
- Q1 2009 Investment levels in Belgium closed at €322.5 million of deals with only €31 million closed in Brussels. This represents a decrease of 60% and 95% respectively compared to Q1 2008.
- Only 4% of total deals were purchased by foreign buyers with the remaining acquisitions by domestic investors.
- The prime yield for 3/6 year lease increased to 6.5% however a 9-year lease, the most-sought after today, remains at 6%. The average premium between a 9-year firm and a 3-6 year lease since 2000 is 55bps.

Savills Research

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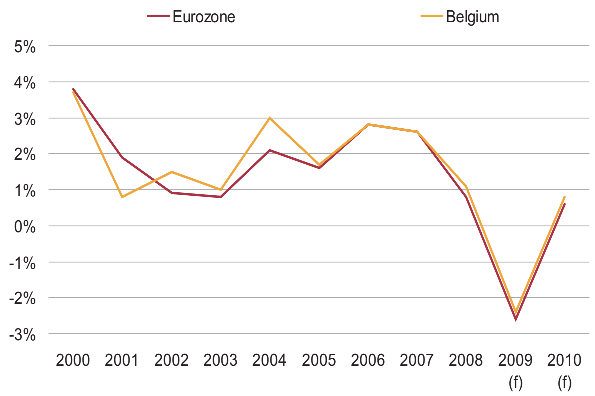
Economy and letting market

Economy

The economic outlook in Belgium today remains fragile with the vulnerability of the overall finance sector still shaken by the inconclusive yet likely Fortis-BNP take-over. However, the consensus remains today that although Belgium is affected by the economic slowdown, it is less so than its neighbours. Negative GDP over the course of the year is expected in Belgium at -2.4% on average compared to the Euro area at -2.6%. Growth in 2010 is expected to pick up at a modest 0.8% yet when compared to the Euro area at 0.6%, highlights Belgium's expectations to withstand the economic turmoil more so solidly than its European neighbours.

GDP Growth



Source: BNB

Letting Market

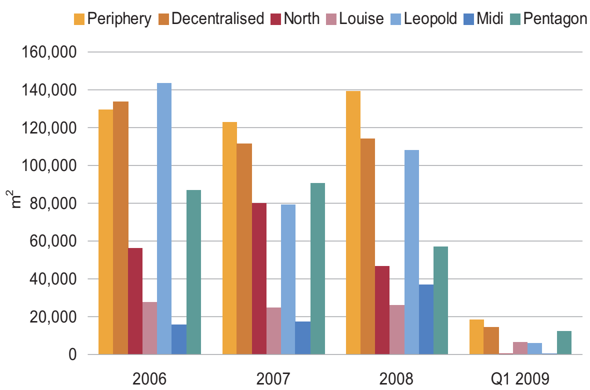
Take-up and demand

Take-up during the first quarter of 2009 reached a record low of 58,031 sqm- its lowest quarterly level in the last ten years and down 46% compared to Q1 2008. It has been 18 months since the inception of the credit crunch began, and today, its effects are now impacting overall take-up in Brussels. Nonetheless, a cushioning by the large legislative bodies in the city will help deter any major fall-out compared to the heavily reliant service-sector based office markets elsewhere in Europe. Many landlords have now switched their focus from acquisition to managing existing tenants in a bid to retain them. This universal and exhaustive theme will concern mostly those where upcoming breaks, short leases or B-locations are concerned.

Take-up within the CBD reached 25,000 sqm (46%) yet once again, the majority of the take-up was located in the outer-CBD in the Periphery District (31%) and the Decentralised (25%). The most notable lettings to take place in the outer-CBD included Nissim SA which let 1,670 sqm in Uccle (Decentralised) at €110/sqm/year; Alternative Business Centre which let 1,525 sqm in the University Building in the Louvain-la-Neuve (Periphery South) at €95/sqm/year; CA Belgium which let 1,246 sqm in the Corporate Village in the Airport area (Periphery) and Bank of Tokyo which let 1,191 sqm in the Arsenal Building on Boulevard Louis Schmidt (Decentralised) for €190/sqm/year.

The most notable lettings to take place in the CBD included Electrabel which let 1,765 sqm in the Winterthur Building on Avenue des Arts (Leopold) at €235/sqm/year; the Brussels Economic and Social Region which let 1,661 sqm on Boulevard Bischoffsheim (Pentagon) at €176/sqm/year; Editions Casterman which let 1,629 sqm in the Central Gate Building on Rue Ravenstein 50 (Pentagon) at €180/sqm/year and lastly, the Institut de Formation Judiciaire which let 1,274 sqm in the Stéphanie I building (Louise) at €198/sqm./year

Take-up by district



Source: Savills Research / Expertise

Vacancy rate and future completions

In 2009 and 2010 total supply will pose some challenges to the overall letting market in Brussels as a result of the potential supply, which today is estimated at around 715,000 sqm of which approximately 430,000 sqm (60%) is speculative. To add to this, 67% of this speculative pipeline is located within the CBD. The likelihood is of an increasing vacancy rate, which today stands at 9.7%, is more than probable.

The largest speculative projects due for delivery this year include; the Zenith Tower, a 31,000 sqm project from Meag in the North District; Atlantis, a 31,000 sqm project by UBS in the Decentralised District; and the JECL, a 50,000 sqm project by AXA in the Leopold District.

Rents

The prime rent has decreased to €275/sqm/year, down 3.5% compared to last year. The increasing bargaining power of tenants today due to much availability and the weak economy indicates that landlords are offering higher rent-free periods. On a standard 6-9 year lease in a prime location, rent-free periods have increased

Investment and outlook

from no more than 4,3 months to 4,5 months thus decreasing the net-effective prime rent from €275/sqm/sqm to €252/sqm/year today (-9%). The top-quartile rent, which on average stood at €210/sqm/year during Q1 2008 and €214/sqm/year during 2008, achieved a high of €207/sqm/year this quarter.

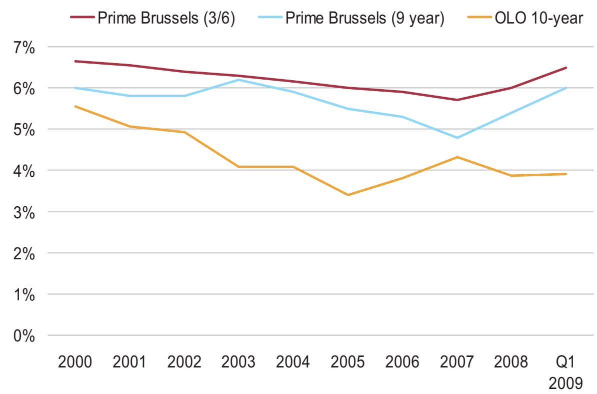
Investment

Last year signalled a significant change to the scope of the Brussels investment market with a dead halt to transactions from Q3 onwards. Deals which took place prior to Q3 2008 are no longer comparable to today's new landscape.

It should therefore come as no surprise that the investment market, which shuddered to a sudden halt following the collapse of Lehman Brothers, has begun to a very slow start over the New Year. €322.5 million of deals have been reported this quarter in Belgium so far with only €31 million closed in Brussels. To put this in context with Q1 2008 in terms of activity, this represents a decrease of 60% and 95% respectively.

The dearth of investment activity today is related to three factors: 1) the financing environment in which despite record low base rates, the margins banks are willing to finance remains high which has led to; 2) fewer, although still present and active, investors in the market today who in turn are 3) all seeking the same core, product at yields which are not (yet) conceivable by landlords or potential sellers.

Prime yield - OLO



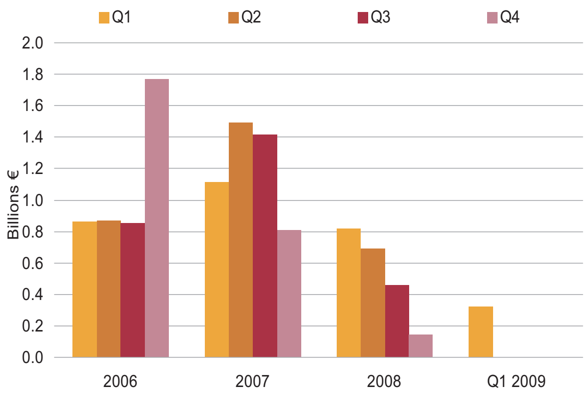
Source: Savills Research

Where are yields then? We have applied 9-year firm yields in our graph as it seems no longer realistic to only discuss the typical 3-6 year lease which although still has demand, has much less so than in 2008. A prime 9-year firm lease today indicatively stands at 6% in prime locations. Since 2000, the prime yield of a 9-year firm has on average, traded at a 55bps premium to a 3-6 year lease, which at Q1 2009, stands at 6.5%.

Overall, Q1 2009 saw 19 deals close with an average deal size of €17mio, down significantly on the average during the same period in 2008 of €45 mio. Offices represented 47% of total market share with the most of the remainder accounting for the warehousing market (27%) and retail (7.5%). 96% of the deals were purchased by domestic buyers with the remaining 4% by the UK.

Key secondary cities were of most importance this quarter with some key deals announced. Befimmo's announcement in Liège saw its commitment to invest around €91m in a re-development for the Belgium Buildings Agency due to start in 2011 on a 25 fixed-year lease at an estimated yield of 6%. In Antwerp, Ethias, the Belgian insurance group, announced its commitment to purchase the KAIROS project, 'Noord Toren', a 15,000 project due for delivery next year. The project, let on a 18-year firm lease to the Belgian Customs House, is believed to have closed at 5.5%. The third largest deal also took place in Antwerp which saw Meir Square, a mixed office-retail scheme sold by the CS Euroreal Groupe Hayen, a local property company for around €45mio representing a yield of 6.25%.

Belgium investment volume



Source: Savills Research

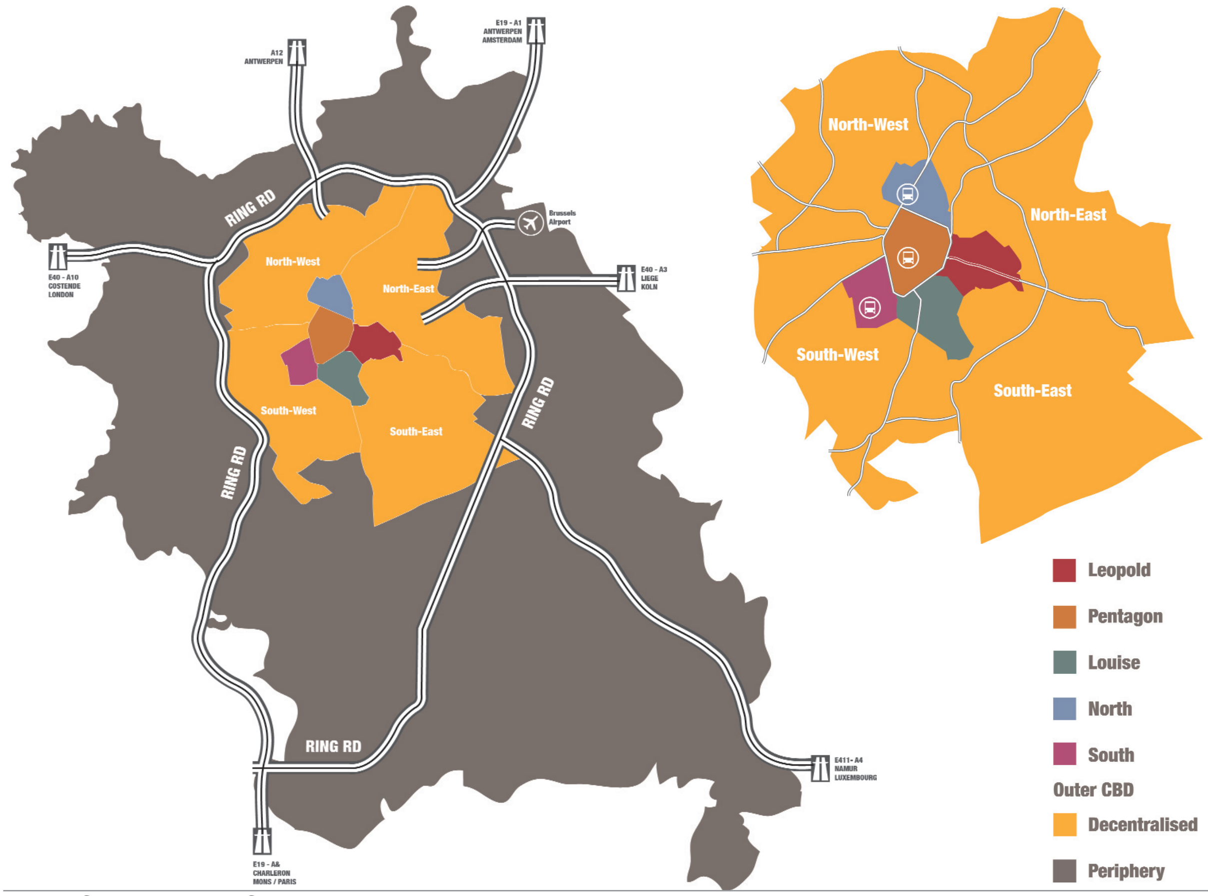
Outlook

The letting market this year will be challenging in the light of the economy and the forthcoming speculative pipeline due over 2009 and 2010. With a lower forecasted take-up, estimated at 400,000-450,000 sq m, we estimate that the vacancy rate will reach above 10% this year. Rental levels will also drop as incentives increase and tenants use their increased bargaining power to negotiate.

The forthcoming year will be characterised by an ongoing presumption that yields in Brussels will move towards the same high levels seen in London, a scenario envisaged by a handful of hopeful investors. Addionally, the market was never as highly leveraged as others, and to that, the prospect of a 'forced selling' scenario this year will be matched by an equal disappointment to those same hopeful investors on the look-out for core cherry-picking.

Brussels Office Market

Survey map



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