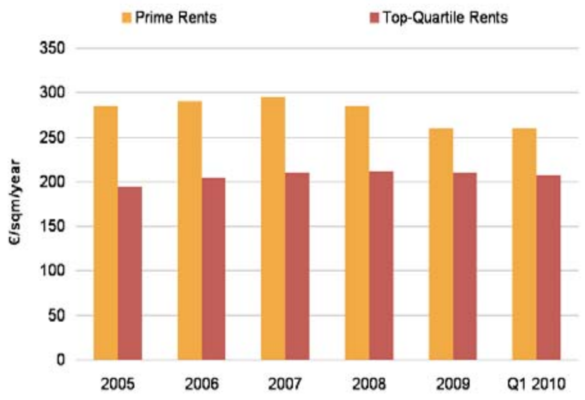
Brussels office market

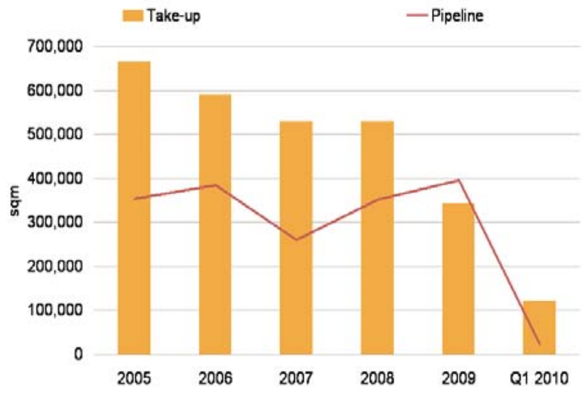
Q1 2010

Rental values



Source: Savills Research

Take-up / Development pipeline



Source: Savills Research

"The Brussels office market could well be in its early recovery stages with Q1 take-up off to an exceptionally strong start whilst investment market demand for prime assets is burgeoning."

Sheelam Chadha (Head of Research / Investment advisor)

- The Brussels take-up market exceeded initial expectations and remains buoyant for the second quarter running- up 152% compared to Q1 2009 and up 8% compared to the Q1 average of the l ast 5 years·
- Completion levels this quarter, including non-speculative schemes, were low and totalled around 25,000 sqm out of an estimated 385,000 sqm due for 2010, of which 56% is speculative so far.
- Prime rents remain unchanged since the last quarter at €260/sqm/year. Notable key lettings in recent months however are understood to be transacted around key location in the Leopold District at between €300-€310/sqm/year.
- The investment market has shown healthy signs of improvement with demand slowly outweighing supply for prime assets.
- Investment levels for the first quarter of 2010 were low and stood at €85.5 million - representing around 11% what had been transacted a year ago in Belgium. However, €76 million was located in Brussels - up 63% compared to Q1 2009.
- Prime yields are now compressing quickly due to the better prospects in the letting market coupled with a more aggressive nature of bidders. 3/6 year lease now stands at 6.50% whilst 9 year lease stands at 5.75%.

Savills Research

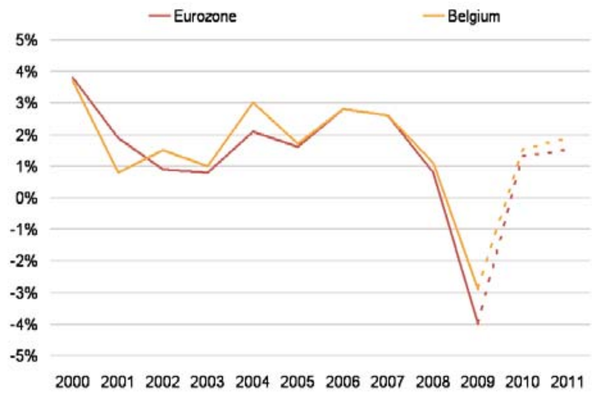
savills.com/research

Economy and letting market

Economy

Economic recovery began late last year and should continue moderately into 2010 as Belgian GDP reaches an estimated 1.5% this year and 1.9% in 2011- still above the EU average. Inflation should remain under control at around 1.5% this year and 1.7% for 2011. Nonetheless, the recession which was the worst to hit Belgium in the last 60 years is officially over with business and consumer confidence now stable (source: BNB).

GDP Growth



Source: BNB / Consensus Forecasts

Letting Market

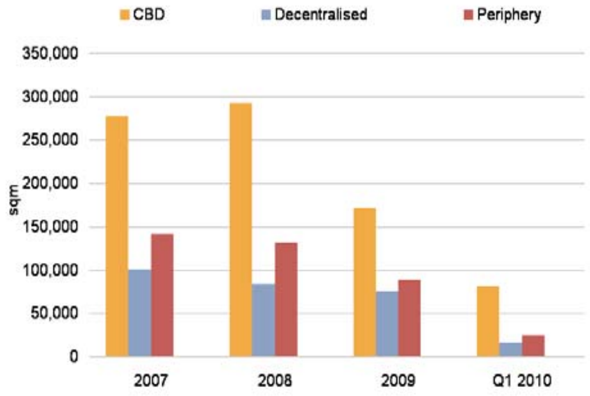
Take-up and demand

Following the trend during the last weeks of 2009, the Brussels take-up market exceeded initial expectations and remains buoyant for the second quarter running- up 152% compared to Q1 2009 and up 8% compared to the Q1 average of the last 5 years. Size lettings are back on the radar screen with 73 transactions already noted in total and of these some notable sizes include 1 above 30,000 sqm, 1 above 10,000 sqm and another 3 above 5,000 sqm - all equivalent for the entire 2009 period. Thanks to this, the average deal size now stands at 1,658 sqm compared to 911 sqm in 2009 and 1,000 sqm in 2008. Corporate demand is strong; the largest transactions in all of Brussels and Periphery above 2,500 sqm were signed with corporate tenants except one which is classified as a quasi-governmental body (South city).

The CBD has now surpassed the outer-CBD in terms of letting activity, representing 67% of the total letting market - inverse to tradition and up 27% on Q1 2009 and 11% on the five-year CBD average. In the CBD, the large lettings in the Midi area (20%) and North Area (30%) were mainly responsible for pushing up the CBD to above-average levels. Elsewhere in the CBD, letting activity was stale with the Pentagon at 11%, Leopold at 4% and Louise at 2%. In the outer-CBD, the Decentralised District stood at 13% whilst the Periphery once again performed well representing 20% of the overall letting market in Brussels.

.

Take-up by district



Source: Savills Research / Expertise

Top letting transactions - Q1 2010

District	Building	Area in sqm	Tenant
Nord	B'oreal	35,793	BNP Paribas Fortis
South	South City	17,500	Infrabel
South	South Crystal	7,221	Infrabel
Decentralised	Atlantis	6,150	L'Oreal
Periphery	Pegasus Park	5,942	KPN Group Belgium
Periphery	Pegasus Park	3,446	Rockwell Automation
Pentagon	Le Marquis	3,000	Fortis Holding

Source: Savills Research

Stock and completions

Total stock now stands at 13,113 million sqm in Brussels and Periphery. The vacancy rate level remains at 11.85%. Completion levels this quarter, including non-speculative schemes, were low and totalled around 25,000 sqm out of an estimated 385,000 sqm due for 2010, of which 56% is speculative so far. The speculative pipeline has decreased somewhat in recent months helping ease off pressure following a dearth of activity in 2009.

Rents

Prime rents remain unchanged at €260/sqm/year. Notable key lettings in recent months however are understood to be transacted around key location in the Leopold District (Rue Montoyer/ Schuman) at between €300-€310/sqm/year. Although this itself is not an indicator that demand is increasing, tenants are still willing to pay high rents where high-quality space is needed - still not easy to find in some locations today.

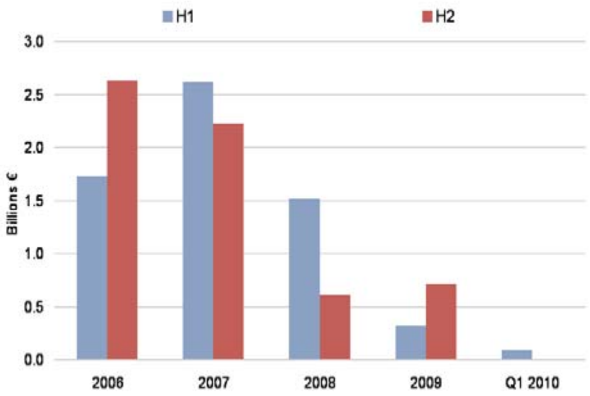
Investment and outlook

Prime rents during the last quarter fell 10% in the Periphery-Diegem area to €150/sqm/year from €165/sqm/year the last quarter - high speculative pipeline in the surrounding area over the next year will see landlords vying more competitively for lettings. Elsewhere, prime rents remain unchanged in all districts. Top-quartile rents fell in Brussels by 3.16% and most noticeably in the Periphery (-11%) and the Decentralised (-16%) due to weaker take-up. In the CBD, top-quartile rents fell by 0.5% overall due to stronger than expected performance. The Leopold District increased by 4% whilst the Pentagon increased by 2.6% and the Midi increased by 4%. Only the Louise District saw top-quartile rents fall by 3%.

Investment

The investment market has shown healthy signs of improvement with demand slowly outweighing supply for prime assets. As of today, a pack of core buyers - up to 7 per asset and still increasing reveal that demand over the last year has increased significantly - compared to three last years.

Belgium investment volume



Source: Savills Research / Capital Analytics

Investment levels for the first quarter of 2010 were low and stood at €85.5 million - representing around 11% what had been transacted a year ago in Belgium. However, €76 million was located in Brussels - up 63% compared to Q1 2009. Clearly, an immense weight of capital overhangs Brussels at the moment with buyers scrambling to bid with few being officially marketed. Nonetheless, the market still remains in a two-tier phase with demand for secondary assets - those considered B-grade or B-located with shorter leases and weaker covenants, out of kilter with today's requirements.

On the other hand, three major changes have taken place in the last 8 weeks. Firstly, development projects have come back onto the radar screen with fully vacant assets in extremely well located streets being bid on by up to 5 parties. It is clear that the consensus is to buy and develop today in order to prepare for the next cycle which many foresee post 2012. Secondly, investors have come back to the market for shorter-term contracts even as low as 3-6 years on a multi-let basis as it is clear that the initial requirements sought after a year ago may prove too difficult to find- that being 10 year cash flow with a Grade-A covenant. And thirdly, debt financing for core assets has returned to the market. Any core purchaser which bought last year, having capitalised on 2009's tranquility, could expect to pay around 25bps more today.

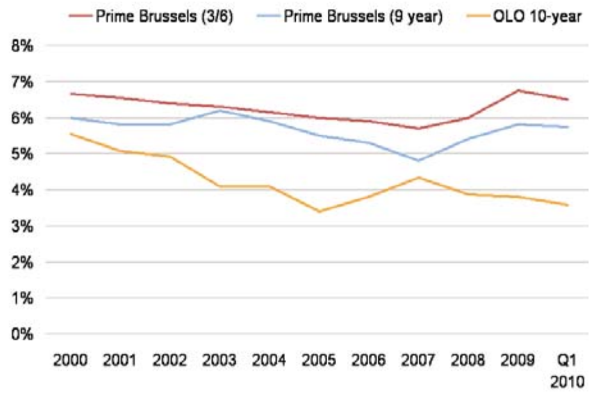
Top investment deals - Q1 2010

Property	Buyer	Vendor	Price in m €
G4S HQ	AXA Belgium	Kairos	12.5
Delta Project	Private Purchase	Bouygues Immobilier	11.0
Arts 39	AMMA Assurances	Cofinimmo	8.0

Source: Savills Research / Capital Analytics

Prime yields - those quoted for the best buildings in the best locations with excellent covenant strengths - are now compressing quickly due to the better prospects in the letting market coupled with a more aggressive nature of bidders. Prime yields for 3/6 year leases now stand at 6.50%, down from 6.75% last quarter. Prime yields for 9 year leases now stand at 5.75% in Brussels, down from 5.80% last quarter. Prime yields for 15 years or more could be quoted in the 5-5.50%.

Prime yield - OLO bond



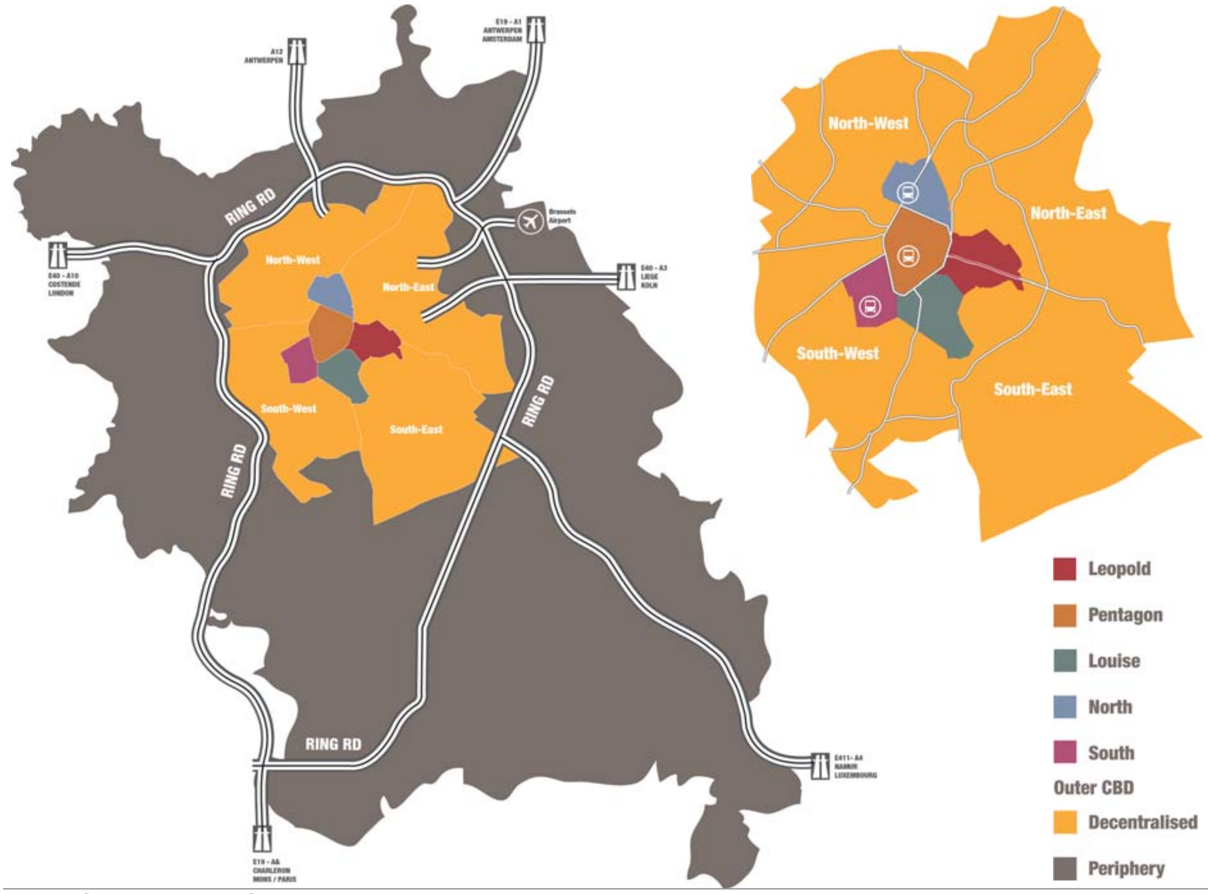
Source: Savills Research

Outlook

The letting market rebounded this quarter which should help boost confidence for 2010 and earlier than expected. Although it is clear that the letting market is still in its early stages of recovery, some large demands still remain in the pipeline for the remainder of the year with size letting transactions back on the table. The investment market will equally be impelled by occupational market confidence. We forecast that larger deals between the €50-100 million range will make their comeback as larger funds, particularly the open-ended sector, creep back into the market following 2 years of inactivity in the Brussels office sector.

Brussels office market

Survey map



For further information please contact



John Defauw
Managing Director
+32 2 542 40 55
jdefauw@savills.be

Gregory Martin
Managing Director
+32 2 542 40 52
gmartin@savills.be

Sheelam Chadha
Head of Research
+32 2 542 40 57
schadha@savills.be

Savills is a leading global real estate service provider listed on the London Stock Exchange. The company established in 1855, has a rich heritage with unrivalled growth. It is a company that leads rather than follows, and now has over 180 offices and associates throughout the Americas, Europe, Asia Pacific, Africa and the Middle East. A unique combination of sector knowledge and entrepreneurial flair give clients access to real estate expertise of the highest calibre. We are regarded as an innovative-thinking organisation backed up with excellent negotiating skills. Savills chooses to focus on a defined set of clients, therefore offering a premium service to organisations with whom we share a common goal. Savills takes a long-term view to real estate and works hard to invest in long term and strategic relationships and is synonymous with a high quality service offering and a premium brand.