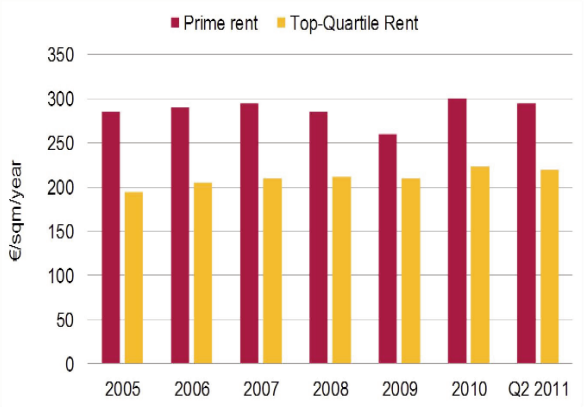
Brussels office market

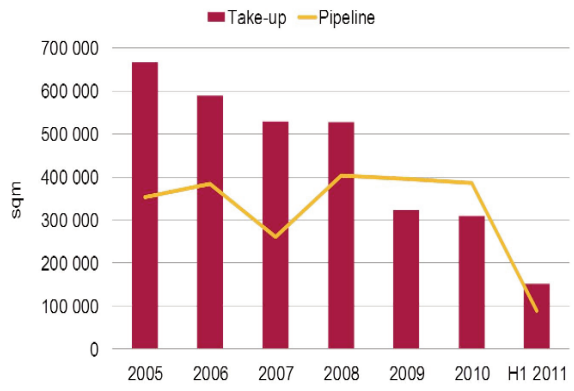
Q2 2011

Rental values



Source: Savills Research

Take-up / Development pipeline



Source: Savills Research

"The upturn in the investment market seen in Q1 has persisted in Q2 but was more moderate. The letting market figures are below the average. "

Sheelam Chadha (Associate Director)

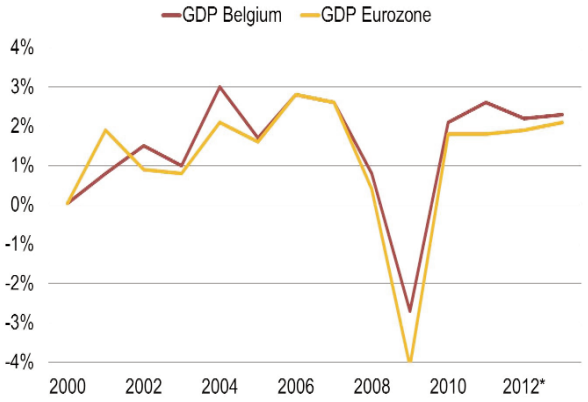
- The Brussels take-up market has dropped considerably by 48% compared to Q2 2010 to reach a total of 36,200 sqm due to an absence of public tenants.
- Corporate demand represents 85% of all letting transactions.
- Prime rents remain stable at around €295/sqm/year. Top quartile rents in the Brussels market have increased by 4% to €219/sqm/year.
- Investment market in Brussels underwent a slowdown compared to Q1 2011 but the turnover is higher than in Q2 2010 at €269 million which represents a 43% increase.
- Investment turnover in the Belgian market increased by 13% compared to Q2 2010 at €382 million. The first half represents €923 million i.e. already 96% of the total volume achieved in 2010.
- Prime 3/6 year leases are estimated at 5.85%-6.00% whilst prime yields for 9-18 years remain stable at 5.00-5.25%.

Economy and letting market

Economy

The Belgian GDP should reach a 2.6% increase, 80 bps above the Eurozone average. The Belgian economic outlook is better than Greece, Italy and Spain but the country needs to reduce its public debt which represents more than 96% of its GDP. The last estimation foresees a 3.3% cut of GDP in the budget deficit in 2011. After the agreement of European leaders to a further bail-out of Greece and to decrease interest rates on rescue loans to all three countries in bail-out programmes, the debt auction of the Belgian government (€2.51 billion) was a success. The 10 year bond rates still remain at a high level towards 4.2% as investors remain dubious of Belgium as the country has been without a government for more than one year. Despite the in extremis congressional approval of a deficit-cutting plan, investors remain worried about a credit downgrade in the Eurozone.

GDP Growth



Source: BNB

Letting Market

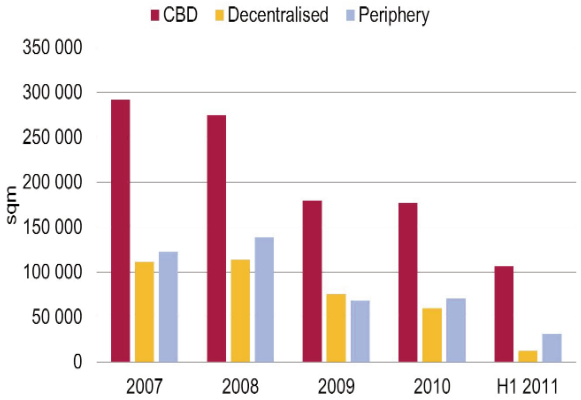
Take-up and demand

Excluding own occupation purchases and renegotiations, take-up on the Brussels market reached a poor 36,200 sqm which would be one of the worst quarterly figures during the last decade. The global take-up totals 61,205 sqm this quarter including own occupation purchases and renegotiations. Q2 activity fell 48% compared to Q2 2010 and 69% compared to Q1 2011. Among the 62 transactions recorded, none were noted above 5,000 sqm. Only five transactions represents more than the third of the transactions. The average deal size stands at 584 sqm compared to 1,353 sqm in Q1 2011 and 911 sqm in 2009.

Corporate demand represents 85% of all letting transactions. The activity of EU Administration was low and the Belgium Administration conducted the biggest transaction over the quarter (4,219 sqm to ONEM/RVA).

In the CBD, the two main letting markets are below-average levels, down 80% in Pentagon and down 54% in Leopold compared to Q2 2010. The Pentagon however saw a significant drop mainly due to the size letting of the Police during Q1 2011 (54,500 sqm). The Louise district remained stable compared to the same period last year. Other notable transactions in the CBD included the Royal Atrium in the North (1,837 sqm to Arcadis) and the South City Broodthaers in the Midi (4,219 sqm to ONEM/RVA) give a better performance than in Q2 2010. The outer-CBD represents 42% of total activity. The Decentralized district suffered the highest drop at 4,000 sq m down 79%, whilst the Periphery decreased by 17% compared to Q2 2010. The Periphery represents 31% of the overall letting market in Brussels, ahead of the Leopold (20%), Louise (12%), Midi (12%) Decentralised (11%), Pentagon (9%) and North (5%) districts

Take-up by district



Source: Savills Research / Expertise

Stock and completions

There has been no delivery during Q2 2011. The 2011 figures are significantly lower than the 400,000 sqm delivered in the last three years on average. The main expected deliveries are located in the CBD (70%). The total stock now stands at 13,600,000 sqm.

Rents

Prime rents in Brussels remain stable compared to Q1 2011. Top quartile rents increased (+4%) to €219/sqm/year. Average rents increased (+11%) to €173/sqm/year due to some stronger lettings.

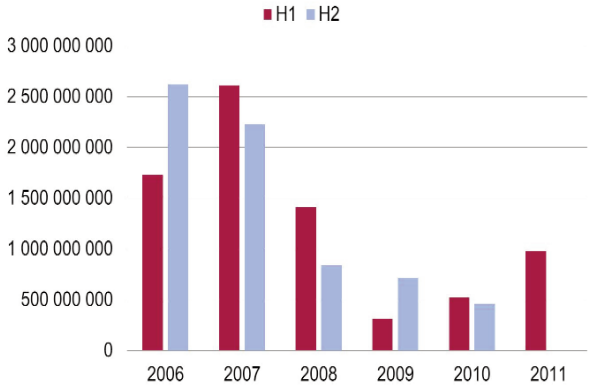
In Brussels prime rents are still observed in the Leopold district, which represents one of the most notable increases (+13% European Central Bank, The Capitol, €295/sqm/year) with the Louise district (+18% SCCB, IT-Tower, €230/sqm/year). The Pentagon is the only area where the prime rents fell (-2%). In the outer-CBD prime rents increased to €170/sqm/year (+13%) in the Periphery (Health Connect, Vilvorde) and to €185/sqm/annum (+16%) in the Decentralized district (KBC, Auderghem).

Investment and outlook

Investment

After a promising start during Q1 2011, the investment market reached €382 million which represents a 13% increase compared to Q2 2010. The first semester already represents 96% of the total volume achieved in 2010.In Brussels investment activity increased by 43% compared to Q2 2010 to €269 million. Total year investment in Belgium now stands at €943 million.

Belgium investment volume



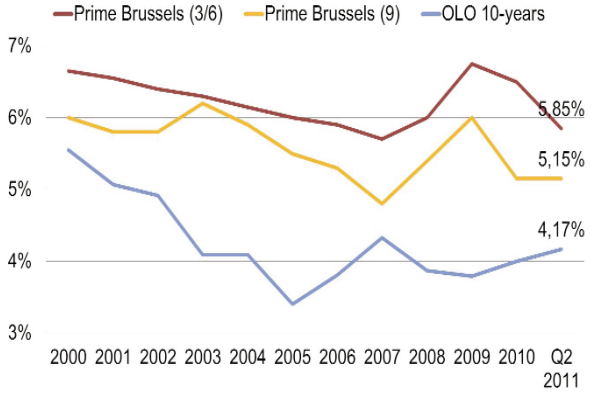
Source: Savills Research

Only one deal during the second quarter exceeded €50 million and was the Espace Orban Complex in the Leopold district, purchased by a German institutional investor. The property is let to the EU and totaled €80 million with an estimated 6.35% yield. Also of importance was the purchase of Nerviens 85 in the Leopold district by the German Spezial Fund Rreef and represented the second largest deal of the quarter at €35 million. The property is let to multi tenants on short-term leases. Elsewhere in the Leopold district, still the location of choice by most investors, German Fund Manager III bought Guim'Arts Corner , a renovated property let on a long term lease to Distrigaz, part of the ENI group.

By capital origin, the investment market remains dominated by domestic players (60% of total investments) and bordering country players (30% German and 11% French). Significant investments are attributed to institutional investors (30%) and German Funds (16%). Belgian Sicafis and Third Party Fund Manager are back on the market with a 21% and a 12% share respectively.

Hesitation during the late summer due to global market volatility has eroded some of the market confidence which prevailed in the first half of 2011. Deals which are ongoing have become more fragile due to global uncertainty. Yields are not forecast to compress any further. Long term yields, which reached a low of 5% at the beginning of 2011 are unlikely to go further down and remain between 5.00-5.25% whilst short-term leases, although still of interest to investors, will remain at their current 5.85-6.00% for prime assets.

Prime yield - OLO



Source: Savills Research

Top investment deals in Q2 2011

Property	Buyer	Vendor	Price in m €
Espace Orban Complex	Aberdeen	Degi	80.4
Nerviens 85	Rreef	Axa	35.0
Guim'Arts Corner	iii	Provinzial	33.0

Source: Savills Research

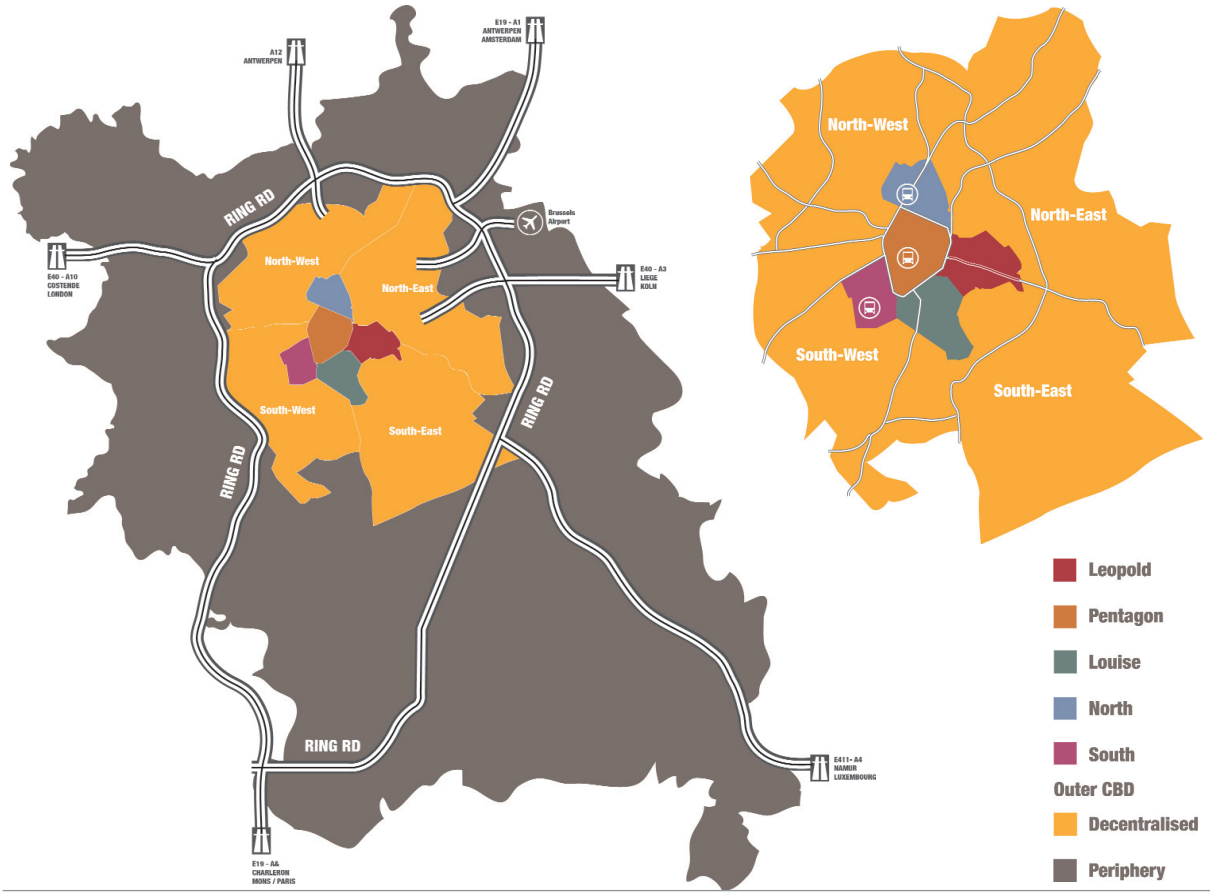
Outlook

The letting market remains weak overall with figures being upheld with one-off very large government transactions. Nonetheless, without these leases being signed, overall take-up remains weaker than anticipated. Companies are still under challenge and are not growing. Although the development pipeline has eased, take-up is still not forecast to rebalance and improve until late 2012.

The second half of the investment year will face challenges. Despite a positive start, global economic policies, stock market volatility and major US/Eurozone concerns will play far more important roles for investor sentiment. Although two views could be taken, either investors will plough more money into real estate, a defensive asset class whilst stock markets have witnessed severe plunges, or investors will take a wait and see attitude. Whatever the case, H2 will be a tougher period for most. Prime assets will continue to trade but buyers will start to question what the correct pricing should be today- with more a risk averse approach than seen during H1 2011.

Brussels office market

Survey map



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