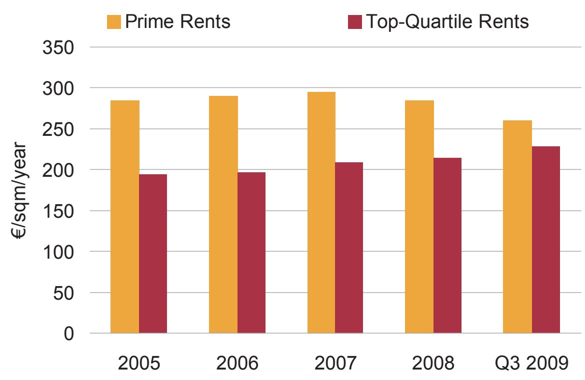
Brussels office market

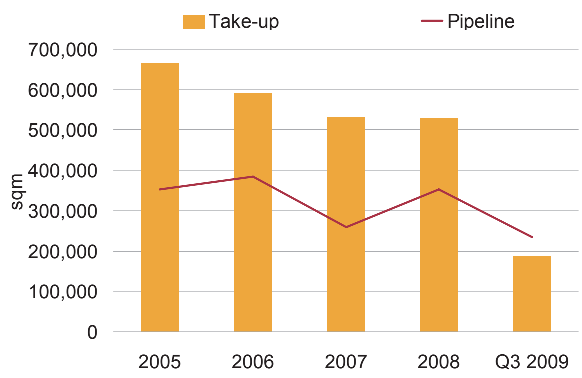
Q3 2009

Rental values



Source: Savills Research

Take-up / Development pipeline



Source: Savills Research

"Although some key deals this quarter should re-ignite confidence in the investment market, the lack of prime assets could see some keen players competing, which could even cause some yield compression in the top-tier market. However, overall market conditions will not improve much more until 2010."

Sheelam Chadha (Head of Research / Investment advisor)

- Take-up reached 53,916sqm during the third quarter which represents a decline of 51% compared to Q3 2008. The total take-up for 2009 is now at 186,214sqm, down 51% compared to the first three quarters of 2008.
- Vacancy has risen to 11.5% due to weak demand and the ongoing speculative projects. Another 450,000sqm should be delivered by the end of 2010.
- The prime rent stands at €260/sqm/year (down 5.45% compared to H1 2009) and is still reached in the Léopold district. Overall, there is a downward pressure on rents in most locations, but some tenants are still finding difficulty in finding very high-quality space in some key locations.
- During Q3 2009, 11 investment deals were closed in Belgium representing a total investment volume of €276 million for the quarter. In Brussels, €142 million of notable deals were closed during Q3 alone representing a drop of 62% compared to the same period last year however, increasing activity over four times compared to Q2 2009.
- Foreign buyers, in particular the German funds, have re-entered the Brussels office market, but domestic investors are still responsible for 77% of the total investment volume in 2009. Investors are looking for long leases generating secure cash flows.
- Prime yields currently stand at 6.75% in the CBD for 3/6-year leases and at 6.0% for 9+ year leases. Outside the CBD, 3/6-leases are estimated at 7.0% and long leases at 6.5%.

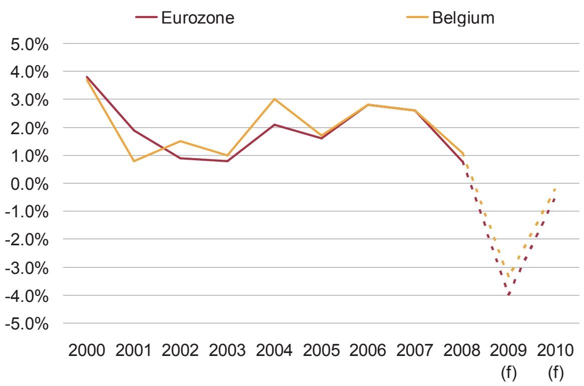
Economy and letting market

Economy

Several indicators reveal that the Belgian economy has started growing again over Q3 2009. The Belgian budget will show a deficit in 2009 and 2010, but will be balanced again from 2011 onwards due to a series of government measures. However, the economy still remains fragile and a 'double-dip' scenario could still occur.

The Belgian GDP is expected to decrease by 3.5% in 2009, less than the economy in the Euro zone, which is expected to shrink by 4.0%. For 2010, the GDP in the Euro zone is expected to decrease by 0.5% whereas the decrease will only be 0.1% in Belgium. The Belgian budgetary deficit will be 3.4% of the GDP in 2009 due to the recession and the underestimation of the cost of the recovery plan.

GDP growth



Source: Banque Nationale de Belgique

Letting market

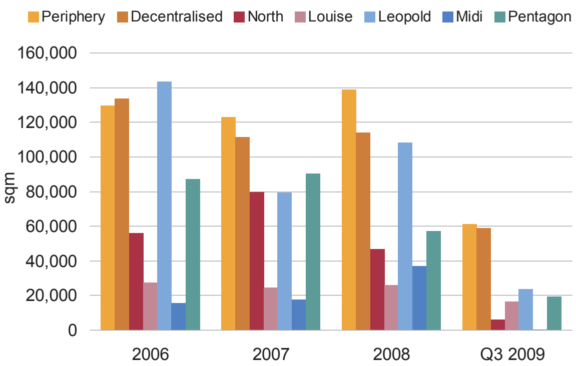
Take-up and Demand

Take-up reached 53,916sqm during the third quarter, which represents a decline of 51% compared to the same period in 2008. The total take-up for 2009 is now at 186,214 sqm reflecting a 51% decrease in comparison with the first three quarters of 2008. The majority of the lettings took place outside the CBD (65%). Since the beginning of the year, 32% of the take-up was realised in the Periphery and 32% in the Decentralised District. No real lettings have taken place in the North and Midi districts, where the Belgian State tends to be located in large volumes, and therefore represented only 3% in total.

The major letting transaction in the Periphery included the letting of 2,767sqm by Astra Zeneca in the Corporate Village at €165/sqm/year. In the Decentralised District, 5,480sqm was let in the Solaris-building, Brussels' first green building, to law firm Nauta Duthil (4,480sqm) and to Atlas Invest (1,000sqm) at an estimated rent of €200/sqm/year.

In the CBD, GSMA Europe let 421sqm in the Bell'Art at €260/sqm/year and Electrabel, which extended its space in the Bastion Tower for 1,266sqm at a rent of €230/sqm/year. In the Pentagon, Procapital/Fortuneo let 2,036 sqm in Park Atrium at €200/sqm/year and Capac occupied 1,722sqm in the Brouckère Tower at a rent of €165/sqm/year. In the Louise district, 3,000sqm was pre-let to Bird & Bird in the Platinum (ex-Tocopro) for €220/sqm/year.

Take-up by district



Source: Savills Research - Expertise

Vacancy rate and future completions

Vacancy has risen to 11.5% due to weak demand and the ongoing speculative projects. During the last quarter, the main projects that came onto the market were the Capital/JECL, a 50,000sqm development by AXA in the Leopold district and le Marquis, a 33,000sqm project by AEW. For the remainder of the year, 85% of the speculative pipeline (60.000sqm) should be delivered in Brussels. Total stock now stands at 13,321 million sqm.

Rental levels

The prime rent now stands at €260/sqm/year, representing a decrease by 5.5% compared to the first half of the year and 8.8% in comparison with Q3 2008. The top quartile rent however increased during Q3 by 6.8% compared to 2008 and stands at €228/sqm/year, whereas the weighted average rent decreased by 10.3% (€157/sqm/year). Overall, there is a downward pressure on rents in most locations, however in some key locations where tenants have specific needs, some key lettings may be announced at higher than expected levels. For example, the success of the Bell'Art project, which has let up considerably well due to its high quality and excellent location in the Leopold District. In the Louise area, the prime rent increased to €220/sqm/year due to the upcoming Platinum development where a sizeable letting transaction took place. We expect high rents for specific needs to be announced over the forthcoming quarters, but nonetheless, we take a bearish view on the overall letting market.

Investment and outlook

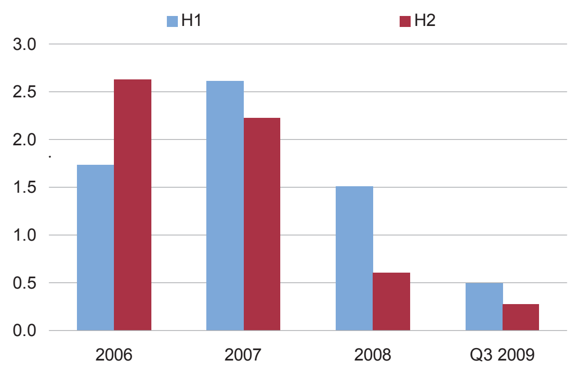
Investment

During Q3 2009, 11 investment deals were closed in Belgium representing a total investment volume of €276 million for the quarter. Although this is a decrease compared to the same period last year, down 47%, this quarter was exceptionally active given the current market conditions. In Brussels, activity was finally reignited due to some key deals closing. In Brussels, €142 million of notable deals were closed during Q3 alone representing a drop of 62% compared to the same period last year however increasing activity over 4 times compared to Q2 2009. Year-to-date, €204 million has been traded in Brussels, down 83% to the first three quarters in 2008.

The main transactions in Brussels include the sale of the brand new Ernst & Young headquarters by Segro to REAL I.S. for an estimated €35 million for its special fund. Once again, demand for high-quality long leases are of most importance and are being snapped up by investors. Additionally, the acquisition of Idalie 9-13 by IVG, the first multi-let building with vacancy that has been traded with an institutional fund since the beginning of the financial crisis also closed this quarter. Short-term contracts have been almost wiped off the radar of most investors in which IVG cleverly took advantage of. These deals should help realign values which have been almost impossible to gauge of late.

Year to date, domestic buyers represent 77% of the investment turnover in Belgium, down from Q2 2009 where they accounted for 100% of the market. Foreign purchasers have returned this quarter with French buyers representing 2.5%, Dutch buyers representing 7.7% and the German funds representing 10.3%.

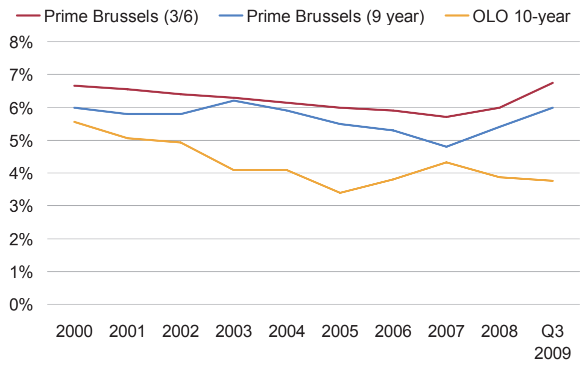
Belgium investment volume



Source: Savills Research, RCA

In the CBD, the prime yield currently stands at 6.75% for 3/6-year leases and at 6.0% for 9+ year leases. Outside the CBD, 3/6-leases are estimated at 7.0% although much harder to trade due to a lack of demand whilst long leases stand at 6.5%. The spread between a ten-year OLO bond and a 9-year firm lease contract is still on the increase and equates to 223 bps today adding to the base case for buying real estate.

Prime yield - OLO bond



Source: Savills Research

Top 3 investment deals - Q3 2009

Building	Price in million €	Seller	Buyer
Ernst & Young HQ	35	Segro	Real I.S
Arval Buildings	15	Codic	Intégrale
Idalie 9-13	<15	Irish private investor	IVG

Source: Savills Research

Outlook

Take-up

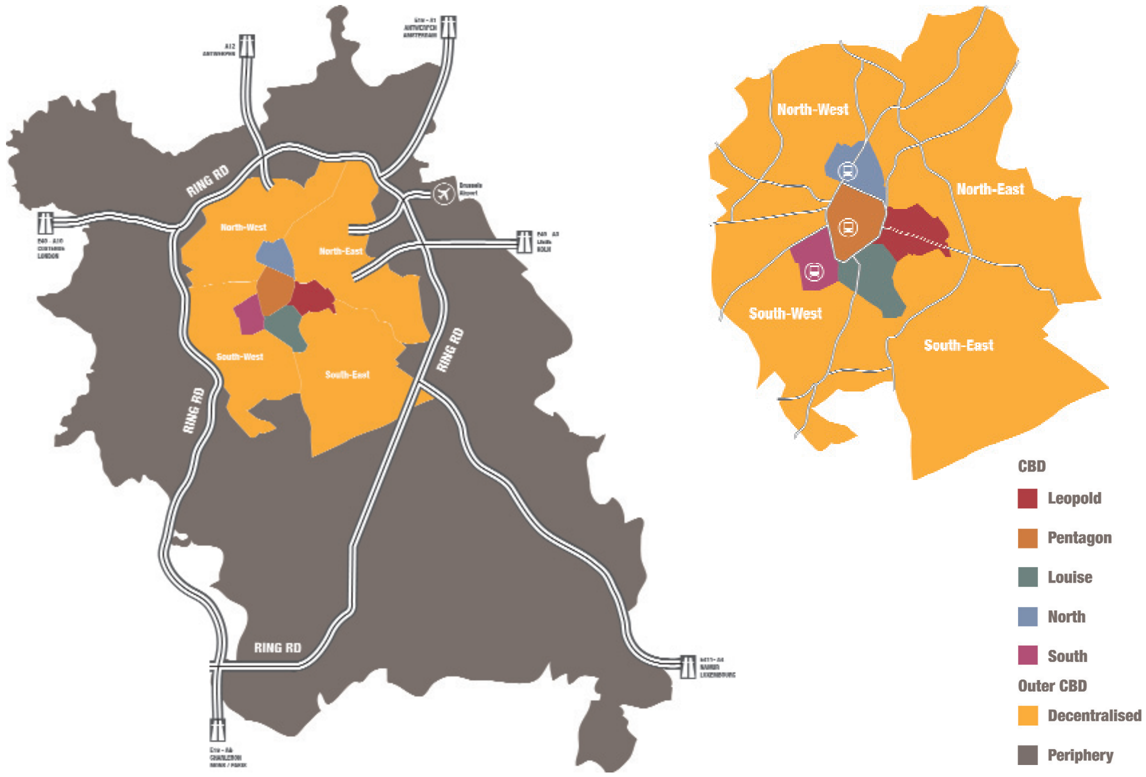
Total take-up is still below the Q3 average of the last five years and will likely be down by at least 60% by year-end. Although some large deals should be announced in the coming months, take-up will unlikely exceed more than 50,000-60,000sqm as per the quarterly average this year. We forecast around 250,000sqm to be let by the end of 2009 which would be the worst year in the letting market of the last ten years.

Investment

Although some key deals should re-ignite confidence in the investment market, a lack of prime assets could see some keen players vying with one another. We forecast that a potential scenario of yield compression for the top tier prime market could take place at below 6%. Since so few deals as such are around, investors are becoming agitated and have completely ignored secondary assets. This may create some interesting deal activity, but overall, investment levels will still be weak and market conditions will not improve much more.

Brussels office survey area

Survey map



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