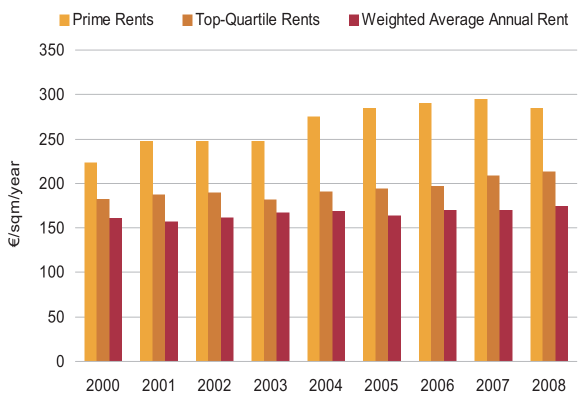
Brussels Office Market

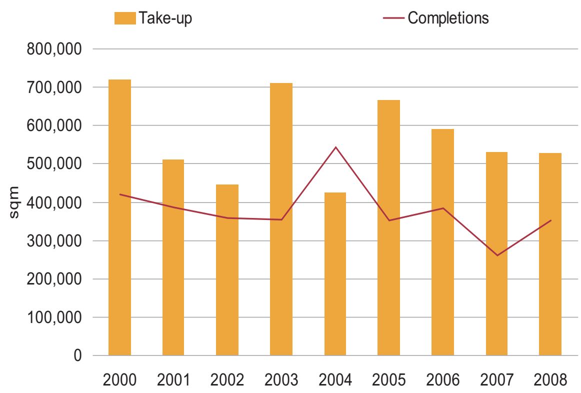
Q4 2008

Rental values



Source: Savills Research

Take-up / Completions



Source: Savills Research

"Today, it is clear however that the profile of the investor base has changed and much hangs in the balance during the important month of January. The potential re-opening of the German funds will set the tone for investment activity during 2009".

Sheelam Chadha (Head of Research / Investment advisor)

- Total take-up reached 529,000 sqm representing a slight increase compared to 2007 yet a 9% decrease compared to the five-year average.
- By district, the highest take-up was recorded outside the CBD totalling 139,000 sqm in the Periphery (26%) and 114,000 sqm in the Decentralised district (22%).
- Low speculative supply during 2008 and strong letting transactions have led to a stable vacancy rate of around 9.3%.
- Investment levels in Belgium closed at €2,1bn, down 58% compared to 2007. In Brussels, investment levels closed at €1,147bn, down 46% compared to 2007 and 28% compared to the five-year average.
- The prime yield, at its sharpest point during mid-2007 at 5.4%, has now increased by 60bps to 6% for a 3/6/9 year lease.
- We forecast around €1.5bn of deals to close at year-end 2009, which could represent a 55% decrease compared to the five-year average.

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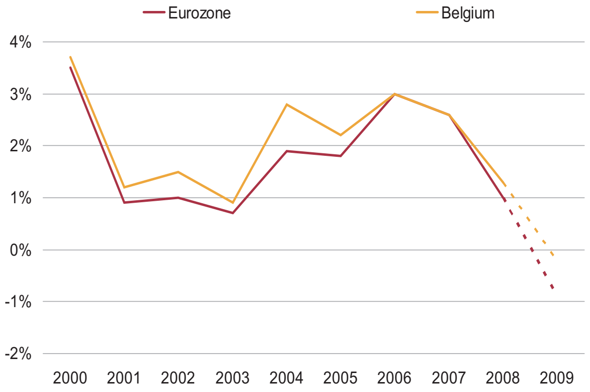
Economy and letting market

Economy

The credit crunch, which unravelled from the subprime crisis in America over early 07, has finally seeped its way onto mainland Europe and claimed its largest casualty in Belgium- Fortis.

Nonetheless, GDP growth in Belgium is still projected above the euro area for 2009 at -0.2% versus 0.5%. The strong inflation during the first half of the year, peaking at 5.91% in July, has finally receded to 2.63% which should help ease costs and thus improve consumer spending. The labour market will see net job creation slowdown to 0.2% growth during 2009 compared to 2008.

GDP Growth



Source: Concensus Forecast

Letting Market

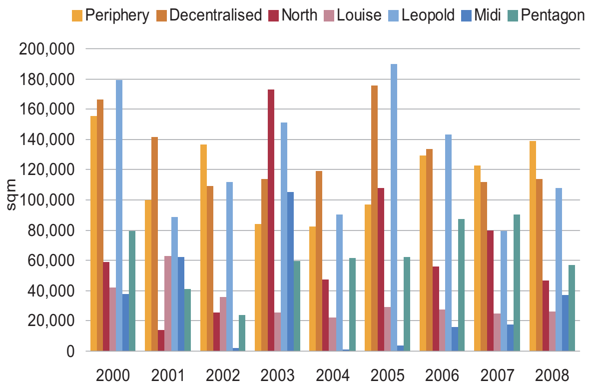
Take-up and demand

Total take-up reached 529,000 sqm representing a slight increase compared to 2007 yet a 9% decrease compared to the five-year average. The resilience of the market can be mainly attributed to the return of the EU and some key public sector lettings. The EU, following their tender process in 2007 which subsequently delayed lettings, now returned, buoying the market with some substantial lettings and represented 13% of total market share. The Belgian Administrations follow at 11% with International Administrations at 4%. However, the corporate sector took the lion's share of the market once again, accounting for 72% of total occupancy during 2008.

By district, the highest take-up was recorded outside the CBD totalling 139,000 sqm in the Periphery (26%) and 114,000 sqm in the Decentralised district (22%). Key letting transactions included BNP Paribas Group - 8,600 sqm in Espace Rolin on the boulevard Louis Schmidt; DHL - 7,664 sqm in Pegasus Park, G4S - 6,200 sqm in the Vilvoorde area; and Aon - 6,055 sqm in Omega Court on avenue J.Cockx.

In the CBD, take-up in the Léopold district reached 108,000 sqm (20%) representing an increase of 36% compared to 2007. Major transactions included Securex - 10,870 sqm on rue Père de Deken, EU Commission - 18,236 sqm in Nerviens II and City Garden; and Régies des Bâtiments - 7,488 sqm in Parliament Corner. The Pentagon registered 57,000 sqm take-up (11%) in which Starwood Hotels let 7,032 sqm in Brederode II and the Polish Administrations let 6,500 sqm in the De Post Building. In the North district take-up reached 47,000 sqm (9%), down 41% compared to 2007 and included the EU Commission - 31,000 sqm in Covent Garden and Arcelor Finance - 5,900 sqm in Ellipse building. The Midi district recorded 37,000 sqm of take-up (7%) with the public group SNCB/NMBS letting around 33,000 sqm on Avenue Fonsny. The Louise district saw take-up total 26,000 sqm (5%), representing an increase of 5% compared to 2007.

Take-up by district



Source: Savills Research / Expertise

Vacancy rate and future completions

Low speculative supply during 2008 (29% of total supply) and strong letting transactions have led to a stable vacancy rate of around 9.3%. Around 250,000 sqm of non-speculative office space was delivered during 2008 with the Finance Tower representing the largest (130,000 sqm).

Some speculative and elaborate projects, which were granted permits and had begun design phase have been ground to a halt. In 2009, around 390,000 sqm is so far planned of which 75% is speculative. We expect some of these projects could be delayed.

Rents

The prime rent, recorded in the Leopold district, decreased by 3% to €285/sqm/year over the course of 2008. However, the top-quartile rent increased by 2% - boosted mainly by the inflationary-friendly rent structures in Belgium which peaked at 5% over 2008.

Investment and outlook

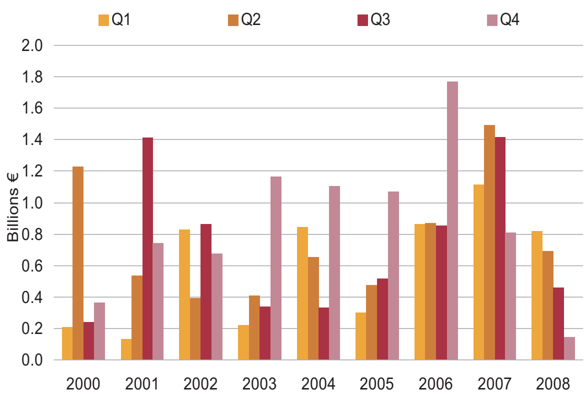
Investment

The investment market in Belgium suffered enormously during the second half of 2008 with 80% of the deals transacted during the first half and year-end total turnover reaching €2,1bn- down 58% compared to 2007. In Brussels, investment levels reached €1,147bn, down 46% compared to 2007 and 28% compared to the five-year average.

Investors by origin remained diverse but compared to 2007, domestic investors accounts for almost half of all investments (48%) compared to 2007 (36%). A clear decline in foreign funds is all-too apparent. In 2007 compared to 2008: International Joint-Ventures accounted for 12% compared to 11% respectively; German investors accounted for 10% compared to 5% respectively; Irish investors accounted for 10% compared to 6% respectively; and UK investors accounted for 20% compared to 8% respectively. We expect that domestic buyers will remain the most active in 2009 with few foreign buyers except cross-border opportunity funds.

In a market with few buyers, decreasing values, no securitisation/syndication and major balance sheet restructurations, many questions need to be answered over the next six months before things can move forward. Will a drop in interest rates help increase bank lending? Will the German Funds re-open in January? Have the banks fully revealed their losses?

Belgium investment volume

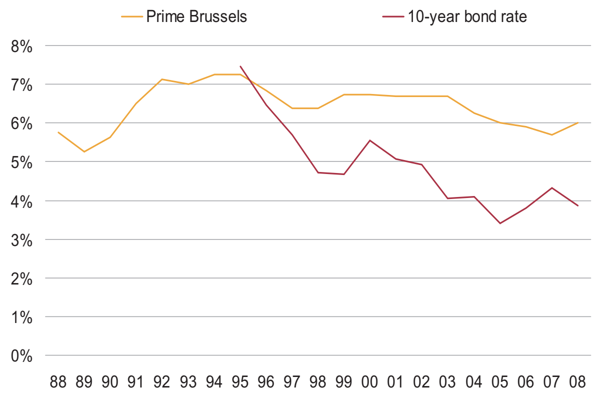


Source: Savills Research / Expertise

This point then leads to yields-or pricing in relation to rent. The prime yield, achieved at its record level during Q1 2008, stood at 5.4% for a 3/6/9 year lease. Although the prime yield, by definition, narrowly defines the market as not all deals represent the best location, with the best tenant covenant within the best quality building, average yields are more difficult to quote as rent review and lease lengths vary as does the economic solidity of the tenant (take banks for example, once the highest credit rating in the market, this no longer today).

A two-tier market has formed in Brussels today with a clear divide between investors still willing to pay a premium for long-lterm et assets with shorter-let assets becoming more difficult to place. The perceived higher risk premium for shorter-let assets, the lack of financing, and to that, the increased cost for any available financing, has led to an increase in the prime yield for 3/6/9 year leases, now up 60bps at 6%. Long-term let assets with strong covenants in good locations are still trading at 5.8% and will continue to perform strongly during 2009 and 2010 as investors seek a flight-to-quality attitude.

Prime yield - OLO



Source: Savills Research

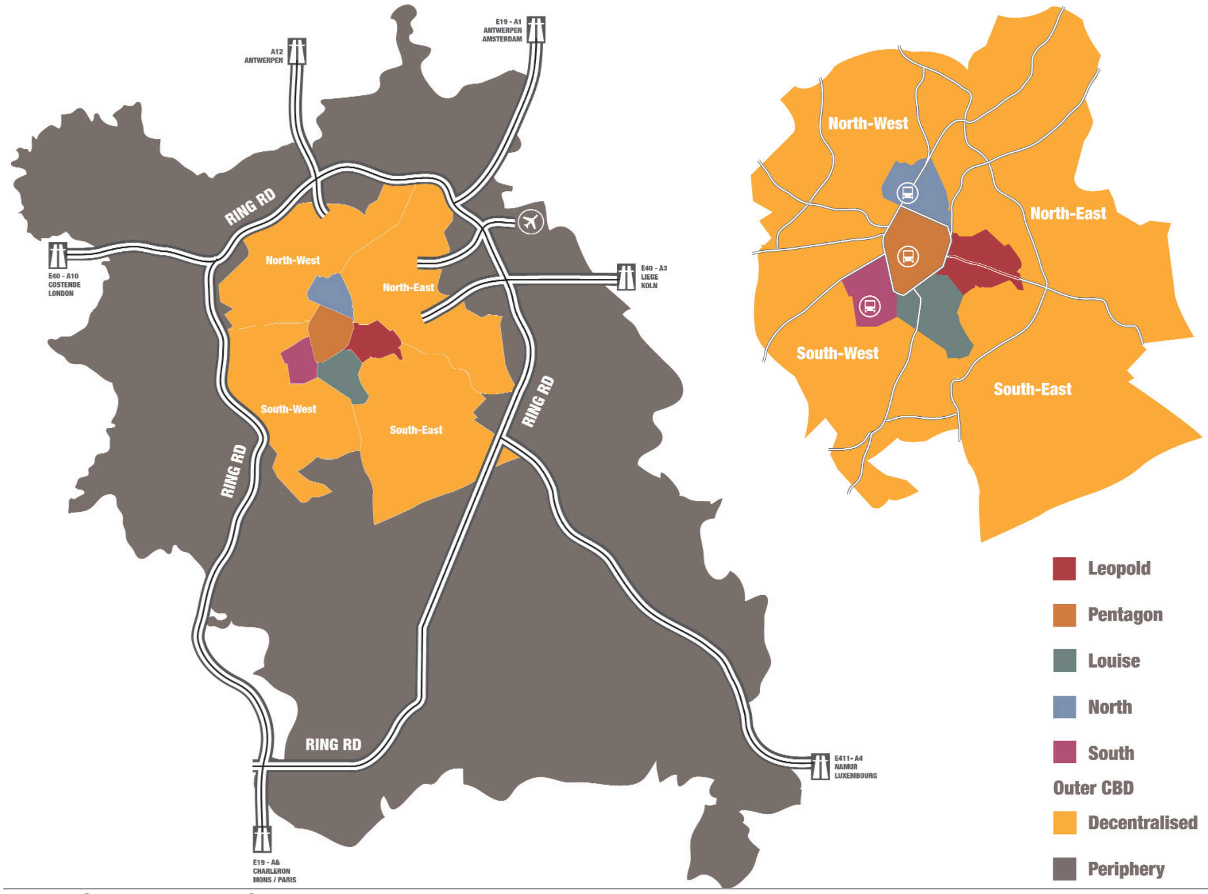
Outlook

2009 take-up is forecast to reach around 450,000 sqm which could represent a decrease of 25% if compared to the five-year average. This slowdown will be mainly attributed to a decline in corporate take-up and in particular, the banking and finance sector, which was the main corporate tenant group during 2005-2007. Nonetheless, the EU and its related agencies will continue to let office space and should remain strong during 2009 and 2010.

The buyers profile will change during 2009 - especially should the German Funds remain closed for the remainder of the year as much hangs in the balance during January 2009. There are two scenarios: should these funds remain closed, the growing bargaining power of the opportunity funds dictate investment activity during 2009 and yields could shift up even further. Should the German funds re-open, we believe that delayed investments will continue and yields will remain stable for quality, long-term let assets with potential decompression for 3/6/9 year leases. In any case, investment activity will take place at a much slower pace with deals likely to be capped at €50 million. Only investment-grade product will be traded with secondary assets becoming more difficult to place. We therefore forecast around €1.5bn of deals to close at year-end 2009, down well over three-times the record level recorded in 2007 and 55% if compared to a five-year average.

Brussels Office Market

Survey map



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