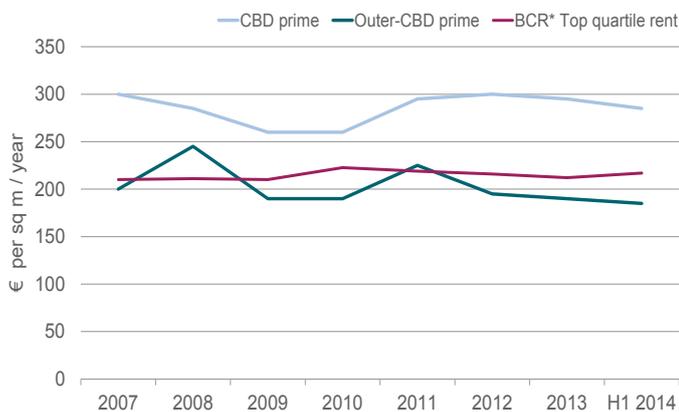


Market report Brussels Offices and Belgium Investment

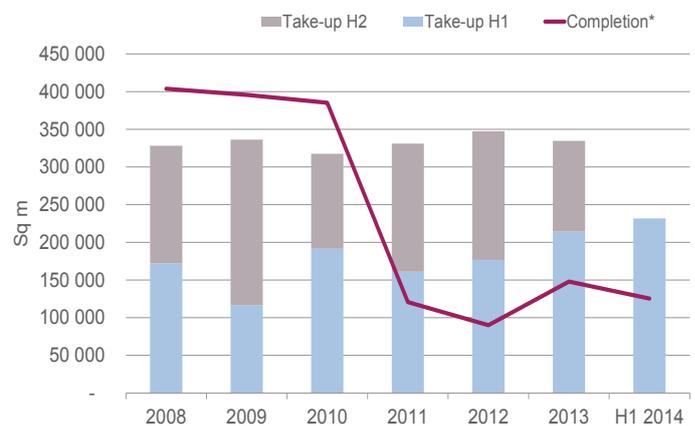
H1 2014

GRAPH 1
Brussels prime rents
In line with 2013 in most submarkets



Graph source: Savills / *Brussels Capital Region

GRAPH 2
Take-up and development pipeline
Slight increase in take-up



Graph source: Savills / *Forecast for development pipeline

SUMMARY

Large transactions boosted H1 2014 investment volume

■ Standard & Poor's raised Belgium's credit rating from AA with negative outlook to AA with stable outlook, a sign that uncertainty due to the crisis is abating.

■ Brussels take-up reached 231,000 sq m in H1 2014, 8% above H1 2013.

■ The public sector accounted for 54% of Brussels take-up in H1 2014.

■ The Leopold district was very active with 32% of the take-up (74,520 sq m) and was boosted by the pre-letting of 36,000 sq m by the Belgian

employment services.

■ The vacancy rate decreased to 9% in Brussels due to a low level of new developments coming to the market.

■ Prime rent was recorded on the Schuman roundabout at €285 per sq m/year.

■ Belgian investment volume stood at €1.3bn in H1 2014, 3% above H1 2013 level.

■ The investment market was helped by several large transactions in Q2

2014 such as North Galaxy in Brussels and the Kievitplein in Antwerp.

■ The office sector accounted for the largest amount of volumes at 67%.

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"The 130,000 sq m mixed-use Kievitplein transaction was the largest deal in terms of sq m since 2007" Gregory Martin, Managing Director, Savills Belgium
.....

➔ **Economy**

In March 2014, Standard & Poor's raised Belgium's credit rating from AA with negative outlook to AA with stable outlook, a sign that uncertainty due to the crisis is abating.

The GDP growth projection (1.3%) for 2014 remains above the Eurozone average of 1.1% and with 8.5% the Belgian unemployment level is among the lowest in Europe. Among its neighbours only Germany and Luxembourg do better.

Government debt remains 6% above the Eurozone average of 95.5% but unlike many other countries, public debt is now stabilizing at around 101% of GDP.

Belgian 10-year government bond stands at an all-time low and fell from 5.7% in November 2011 to 1.55% in July 2014.

The consumer confidence index of Belgian households has highly improved during the last few months standing at -6 in June 2014 compared to -23 in January 2013. These figures suggest that consumers are more optimistic and we predict that this will have a positive impact on sales in the next few months, especially with current interest rates being low. FocusEconomics expects private consumption growth to reach 1.2% in 2014, an increase of 40 basis points compared to 2013.

Take-up

Brussels accounted for approx. 75% of the total Belgian take-up during H1

“The public sector was very active during H1 2014 accounting for 54% of Brussels take-up” Jérémy Lecomte, Research, Savills Belgium

2014 with 230,000 sq m, 8% above H1 2013 and under way to overtake the five-year average of 335,000 sq m. During the first half of 2014, the public sector was very active accounting for 54% of the take-up and leaving the private sector behind with 105,000 sq m (46%). Major transactions were the pre-letting by the Flemish Government of 50,000 sq m in the Meander (North district), the pre-letting by Belgian employment services of 36,000 sq m in the Astro Tower (Leopold district) and the pre-letting by the European Commission of 16,000 sq m in the Livingstone II building (Leopold district).

Development activity

In H1 2014, 35,000 sq m of development were completed in Brussels, of which the Belview building (5,000 sq m) in the Leopold district pre-let to the Japanese Embassy and the IBGE HQ in the North district (16,250 sq m) were the most important.

The only new speculative developments delivered so far in 2014 are the C de Ligne in the Pentagon District (9,500 sq m) and the E-lite building in the Louise district. The E-lite totalises 7,000 sq m from which approx. 4,000 sq m are now let. The limited number of speculative

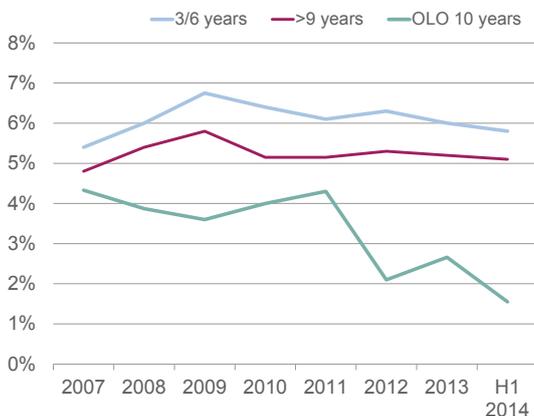
developments has had a positive impact on the market as the overall vacancy continued to drop for the third year in a row, now standing at 9.4% (vs. 12% in 2011). The positive effect on the average vacancy in Brussels is mainly due to central districts where average vacancy fell under the 6%. The situation in decentralised districts and the periphery remains worrying with 13% and 23% vacancy, respectively. In these districts, the positive effect from reconversion is largely counterbalanced by a lack of office demand.

Main speculative projects expected to be completed in 2014 are the Black Pearl (11,000 sq m) in the Leopold district and the Triumph I in the Decentralised area (12,000 sq m).

Rents

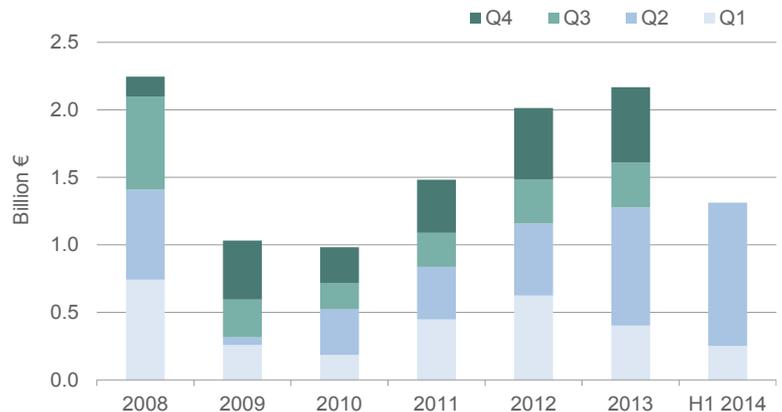
The average rent remained relatively stable at €167 per sq m/year. Excluding the periphery the average rent can reach €180 per sq m/year. The top rent in Brussels is found on the Schuman roundabout in the European district standing at €285 per sq m/year. We expect the prime rent to increase until the end of the year with the completion of the Black Pearl building and the lack of new office space available.

GRAPH 3 **Yields vs 10-year OLO***



Graph source: Savills / *Obligation Linéaire/Lineaire Obligatie

GRAPH 4 **Investment volume**



Graph source: Savills

Investment market

The investment volume in H1 2014 stood at €1.3bn, a 2.7% increase compared to H1 2013. After the weakest start since 2010 in Q1, investors were much more active during Q2 with more than €1bn. The volume has been highly influenced by some large transactions such as the North Galaxy building in Brussels, purchased by a joint venture between Danish Pension Fund ATP (90%) and AXA (10%) for €475m from Belgian REIT Cofinimmo. The North Galaxy is a 105,000 sq m office building located in the Brussels North District and let to Belgium's Ministry of Finance on a long-term lease. Another notable transaction was the Kievitplein in Antwerp purchased by AG Insurance and sold by KanAm Grund. This transaction was the largest deal in terms of sq m since 2007 as Kievitplein is a mixed use office, hotel, retail, parking and residential complex of 130,000 sq m in the heart of Antwerp.

The Brussels Capital Region and Flanders remain the most attractive areas for buyers accounting for 57% and 40% of the total volume,

respectively. The remaining investment activity took place on trans-regional portfolios or in Wallonia where there is still a lack of opportunities that fit investor requirements.

The market remains dominated by domestic investors who accounted for nearly half of the investment volume (44%). Foreign buyers' proportion is higher than usual, mainly due to ATP, a Danish pension fund, accounting for 33% of the total volume thanks to its participation in the North Galaxy transaction.

H1 2014 investment market was mainly dominated by the office market accounting for 67% of the total investment turnover. Market shares of Industrial (10%), Retail (9%) and Senior Residence (8%) are far behind. Brussels offers one of the highest risk adjusted yield spread in Europe with a risk premium for prime assets of 420 basis points above the Belgian risk free Long Bond. The prime office yield currently stands between 5.80% and 6.20% for buildings with standard 3/6/9 year leases and is therefore very attractive compared to many other European cities. ■

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 "The investment market in H1 2014 was mainly dominated by the office market accounting for 67% of the total investment turnover" Henry Colle, Research, Savills Belgium

OUTLOOK

2014/2015

- The economic activity is gradually accelerating with GDP growth expected to reach 1.3% in 2014, 1.5% in 2015 and 1.6% in 2016.
- Vacancy should keep falling in central districts due to a low completion level and reconversion of obsolete office buildings into residential. 125,000 sq m of new/renovated office areas are expected to enter the Brussels market in 2014 from which approx. 75% are already pre-let. The development pipeline for 2015 is expected to reach 230,000 sq m (including the new NATO headquarters of 130,000 sq m).
- Rents are projected to be stable in the coming months in the CBD but rent free periods and incentives are expected to fall. In non-CBD locations, incentives tend to increase due to the weak occupier demand and increasing vacancy.
- Total investment turnover is expected to surpass the €2bn mark in 2014 supported by several large transactions expected to be finalised in the next months.
- The prime office yield, which currently stands between 5.80% and 6.20% could contract further in the coming months due to demand outstripping supply and the current scarcity of prime assets, particularly if Belgian long term interest rates remain low.

Savills Belgium

Please contact us for further information



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



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



Jeremy Lecomte
 Research
 +32 2 542 40 57
 jlecomte@savills.be



Henry Colle
 Research
 +32 2 542 40 54
 hcolle@savills.be

Savills plc

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