

MarketView

Brussels Offices

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Second Quarter 2011

Quick Stats

	Current	Change from last	
		Yr.	Qtr.
Vacancy	11.92 %	↗	↗
Lease Rates	285 €	→	→
Office demand	68.380 m ²	↘	↗
Completions	17.320 m ²	↘	↘

*The arrows are trend indicators over the specified time period and do not represent a positive or negative value. (e.g., absorption could be negative, but still represent a positive trend over a specified period.)

Hot Topics

- Demand with limited development activity on the horizon, net demand is clearly favouring new space, while voids in older buildings are accumulating.
- A further decrease in grade A voids might support a broader market recovery in terms of rents, but not sooner than the second half of 2012 or 2013.
- New development in 2013 remains a significant unknown, with new development projects unlikely to leave the drawing boards given current market conditions.

OVERVIEW

Demand for office space weakened considerably in the first 6 months of 2011. In total, only 111.661 m² of office space was leased. Take-up was driven by demand from the corporate sector, while the public sector was largely absent.

With a limited number of construction starts, a pronounced drop in development completions can be expected for 2011 and 2012. New development in 2013 remains a significant unknown.

Overall vacancy in Brussels increased to 11,92% or 1.565.221 m², ending a downward trend.

Prime rents for Brussels remain unchanged. Prime office space in Brussels trades at 285 euro m² and the weighted average rent in Brussels stands at 174 euro/m².

The Brussels office investment market grew to 464 million euros in the second quarter of 2011. Prime office properties with 3/6/9 year leases in Brussels trade at yields of 6,25% in the CBD and at 7,50% in the suburbs. Long-term leases change hands at yields of 5%

ECONOMY

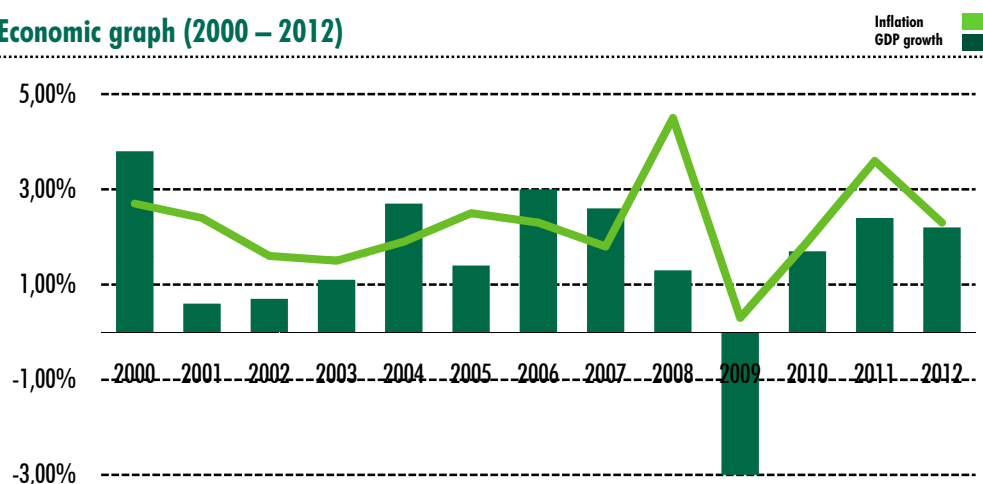
The Belgian economy has improved over recent months, and economic growth for the year has been revised upwards as first quarter results came in strong. Real GDP growth in Belgium is now expected to rise to 2,4% in 2011 and 2,2% in 2012, well above the European average.

While the surge in economic performance is clearly supported by the strong German economy and international exports, also private spending is gaining strength. Belgian consumer confidence is back at pre-crisis levels, with households in particular less concerned about unemployment prospects. The Belgian unemployment rate is expected to continue its declining trend, and to drop to 7,6% in 2011 and 7,4% in 2012.

In line with the international economic recovery, especially in Asia, commodity prices have risen considerably. Belgian consumer prices are especially vulnerable to rising oil prices, and HICP inflation has therefore been estimated at 3.6% in 2011 and 2.3% in 2012.

Thanks to better than expected economic growth, Belgium has been able to revise downward its general government budget deficit, to 3.6% of GDP in 2011 and 3.2% in 2012. Public debt is expected to slow to 96.4% at the end of the year.

Economic graph (2000 – 2012)



Source: CB Richard Ellis, BNB

DEMAND

Demand for office space weakened considerably in the first 6 months of 2011. In total, only 111.661 m² of office space was leased. While leasing activity held up well in the Leopold Area and the Periphery Area, it was significantly down in the City-Centre and the Decentralised Area.

Many tenants took advantage of market conditions in 2009 and 2010, resulting in a record amount of renegotiations taking place. Accordingly, activity slowed in 2011, resulting in a decrease in the number of deals and a limited pipeline of those actively looking for space in the market for the remainder of the year.

Take-up was driven largely by demand from the corporate sector, which accounted for 81% of all deals. The largest deal of the quarter saw BsB take 6.700 m² at Boulevard Baudouin 1er in the Periphery South quadrant. The brand new office building was build for Wyeth, but returned to the open market after the merger between Wyeth and Pfizer. BsB will sublet 2.183 m² to IBA. At the Corporate Village close to the Airport, Yara agreed terms on 5.358 m² in the Aramis building. Together with Pegasus Business Park, the Corporate Village has been quite successful at securing a series of space requirements in the Airport Area. In the European District, the Embassy of Finland acquired the Cortenbergh 80 (4.600 m²).

The public sector was largely absent in the first 6 months, contributing no more than 21.141 m² to overall take-up. The anticipated occupation by the European Commission of the remaining 45.501 m² in The Capital building remains unsettled, while the European institutions have another 55.000 m² of office requirements outstanding. With most European countries imposing strict local austerity measures, it remains unclear whether this will impact the budget of the European institutions in any way.

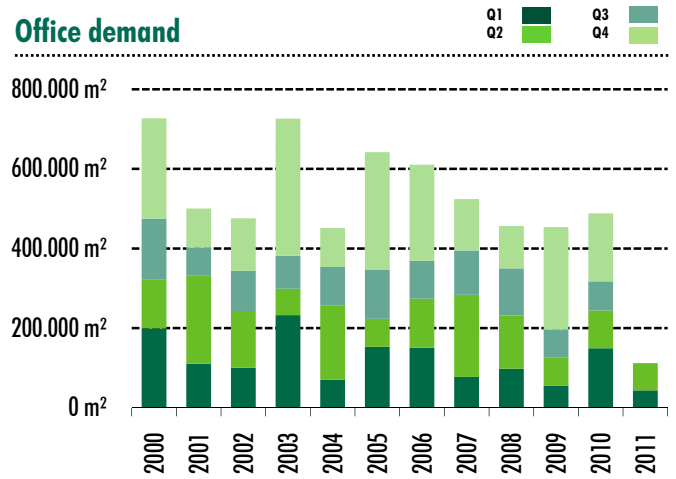
Demand for new office space remains high, with close to 40% of take-up taking place in grade A buildings. New building designs allow for increased efficiencies, which allows companies to decrease the size of offices, reducing conference and reception facilities, creating more flexible space and using technology to streamline operations.

DEVELOPMENT

With a limited number of construction starts, a pronounced drop in development completions can be expected for 2011 and 2012. Only about 100.000 m² is expected to come online in the next 18 months, and 37.000 m² thereof secured to end-users. The only construction starts that are taking place are redevelopments and renovations of empty space, especially in the European District.

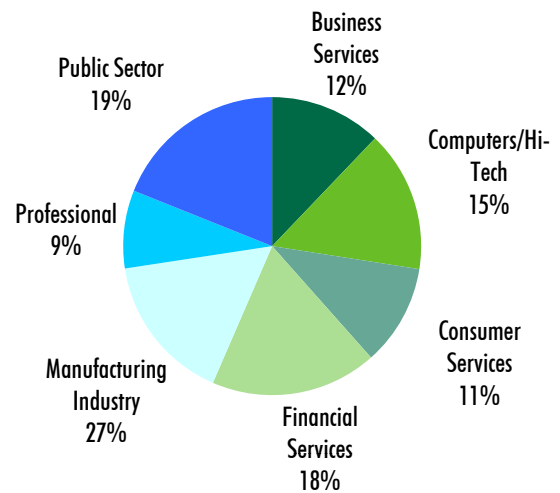
New development in 2013 remains a significant unknown, with new development projects unlikely to leave the drawing boards given current market conditions. At this point, about 240.000 m² is expected for 2013, but a number of schemes could easily be delayed.

Office demand



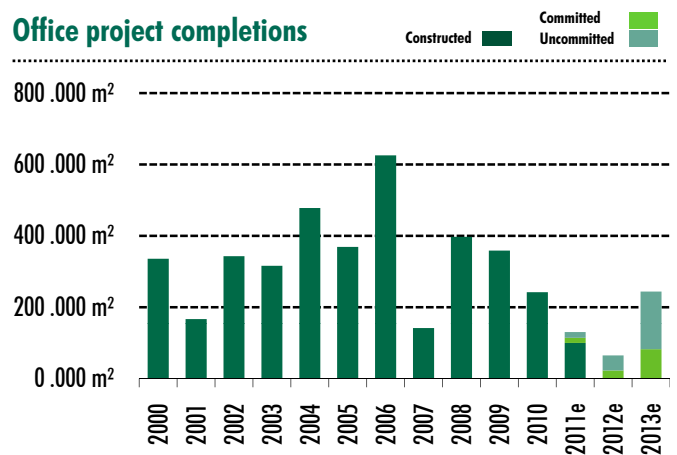
Source: CB Richard Ellis

Origin of Occupants (Q2 2011)



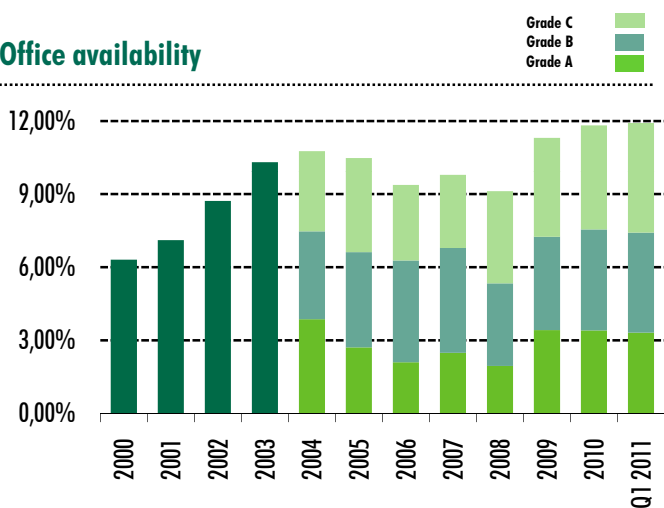
Source: CB Richard Ellis

Office project completions



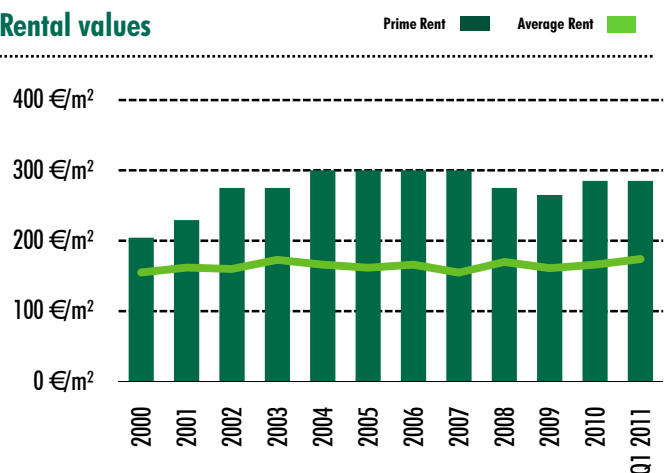
Source: CB Richard Ellis

Office availability



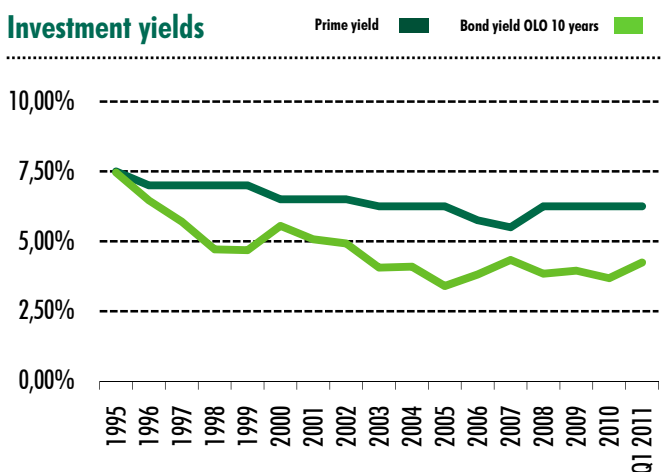
Source: CB Richard Ellis

Rental values



Source: CB Richard Ellis

Investment yields



Source: CB Richard Ellis

VACANCY

The largest new availabilities to hit the market were the Crescent, Stassart 33-35-36 and Toison d'Or 27. In the recently renovated Crescent (10.783 m²), only 5.551 m² remains vacant. Both Stassart 33-35-36 (13.770 m²) and Toison d'Or 27 (7.795 m²) were recently emptied by the Regie des Batiments.

Slow leasing activity during the second quarter was unable to offset these new availabilities. As a result overall vacancy in Brussels increased to 11,92% or 1.565.221 m², ending a downward trend over the preceding quarters.

In terms of age category, both new and old office space continue to post comparable availability rates. Yet, with limited development activity on the horizon, net demand is clearly favouring new space, while voids in older buildings are accumulating.

RENTS

Prime rents for Brussels remain unchanged, with the most successful buildings in each submarket still able to sign leases without too much incentives. This hides the fact that average rents for the broader market are mostly down in favour of the tenant. High vacancy therefore remains a concern for landlords. The Brussels area will therefore likely remain a tenant's market throughout 2011 and 2012 allowing companies to look at multiple opportunities before closing on a competitive lease rate.

A further decrease in grade A voids might support a broader market recovery in terms of rents, but not sooner than the second half of 2012 or 2013.

Prime office space in Brussels trades at 285 euro m² and the weighted average rent in Brussels stands at 174 euro/m².

INVESTMENT

The Brussels office investment market grew to 464 million euros in the second quarter of 2011. Investment turnover is significantly higher than in the same period last year at 257 million euros.

Although the market continues to be driven by a small number of larger deals, volume growth confirms the ongoing strength of investor demand for core assets. Notable transactions were the acquisition of 7.000 m² in the north area Up-Site project by Ethias and a series of acquisitions by German investors in the European district. German fund manager iii bought the Guim'Arts Corner from Provinzial Versicherung and closed-end fund Hesse Newman acquired the Montoyer-Science from Cofinimmo. All these transactions concern assets with long-term secured rental cash flows.

Prime office properties with 3/6/9 year leases in Brussels trade at yields of 6,25% in the CBD and at 7,50% in the suburbs. Long-term leases change hands at yields of 5%.

Most notable letting & sales transactions in 2011



Building
Submarket
Occupier
Transaction floor area
Type of transaction



Baudouin Ier
Periphery (South)
BsB
6.700 m²
Letting



Cortenberg 80
Leopold
Embassy of Finland
4.600 m²
Letting



South City Broodhaers
South
ONEM/RVA
4.219 m²
Letting



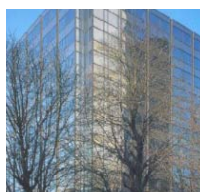
Winterthur Building
Leopold
Euler Hermes
4.000 m²
Letting



Science 14
Leopold
Windows on Europe
3.657 m²
Letting



Southgate
Decentralised (South-East)
Partners Assurance
2.977 m²
Sale



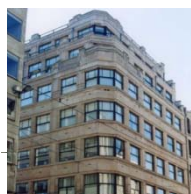
Louise-Claus
Louise
Vox Bone
2.524 m²
Letting



Baudouin Ier
Periphery (South)
IBA
2.183 m²
Letting

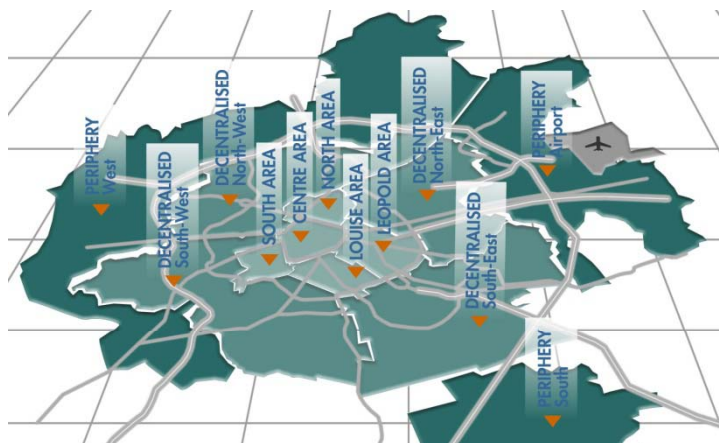


Winterthur Building
Leopold
Shearman
1.954 m²
Letting



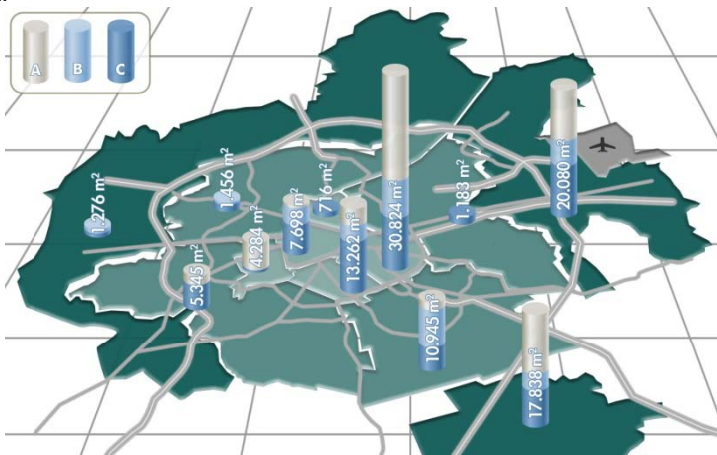
Royal 93
Centre
European Foundation House
1.917m²
Sale

Brussels Office submarkets



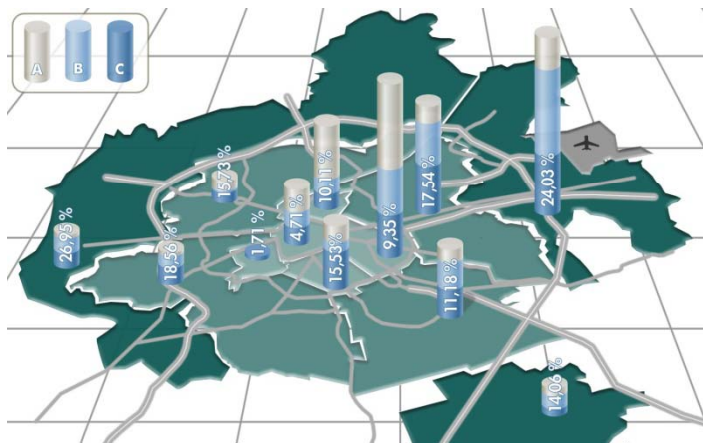
Source: CB Richard Ellis

Office Demand (Q2 2011)



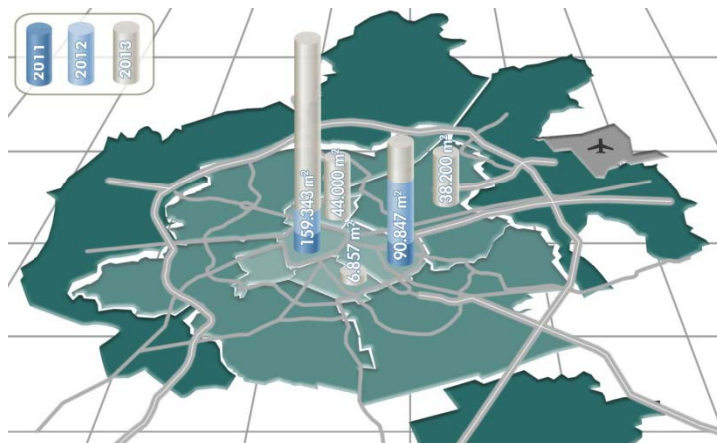
Source: CB Richard Ellis

Office availability



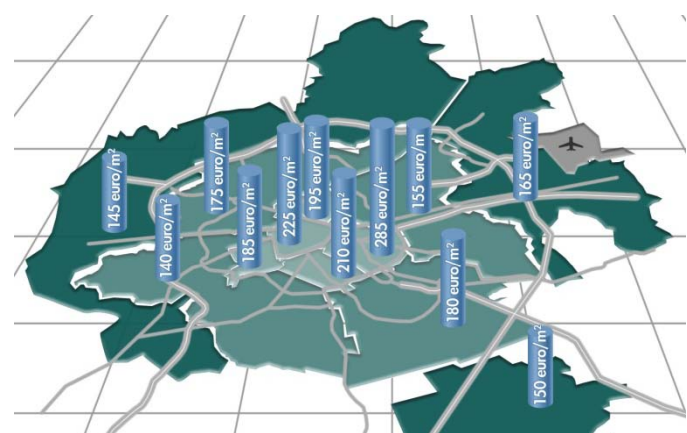
Source: CB Richard Ellis

Office development pipeline



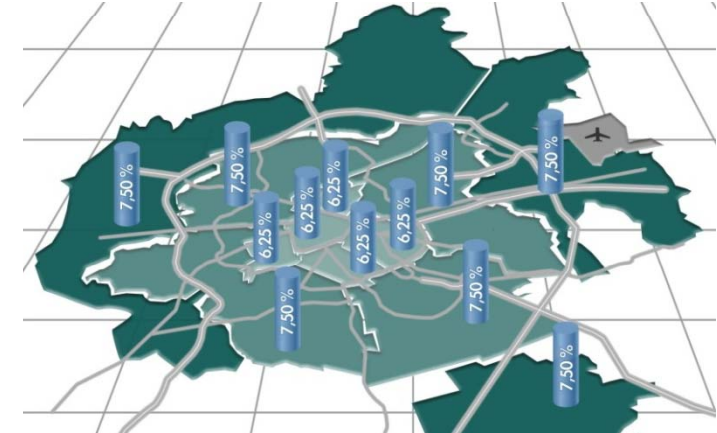
Source: CB Richard Ellis

Prime rents



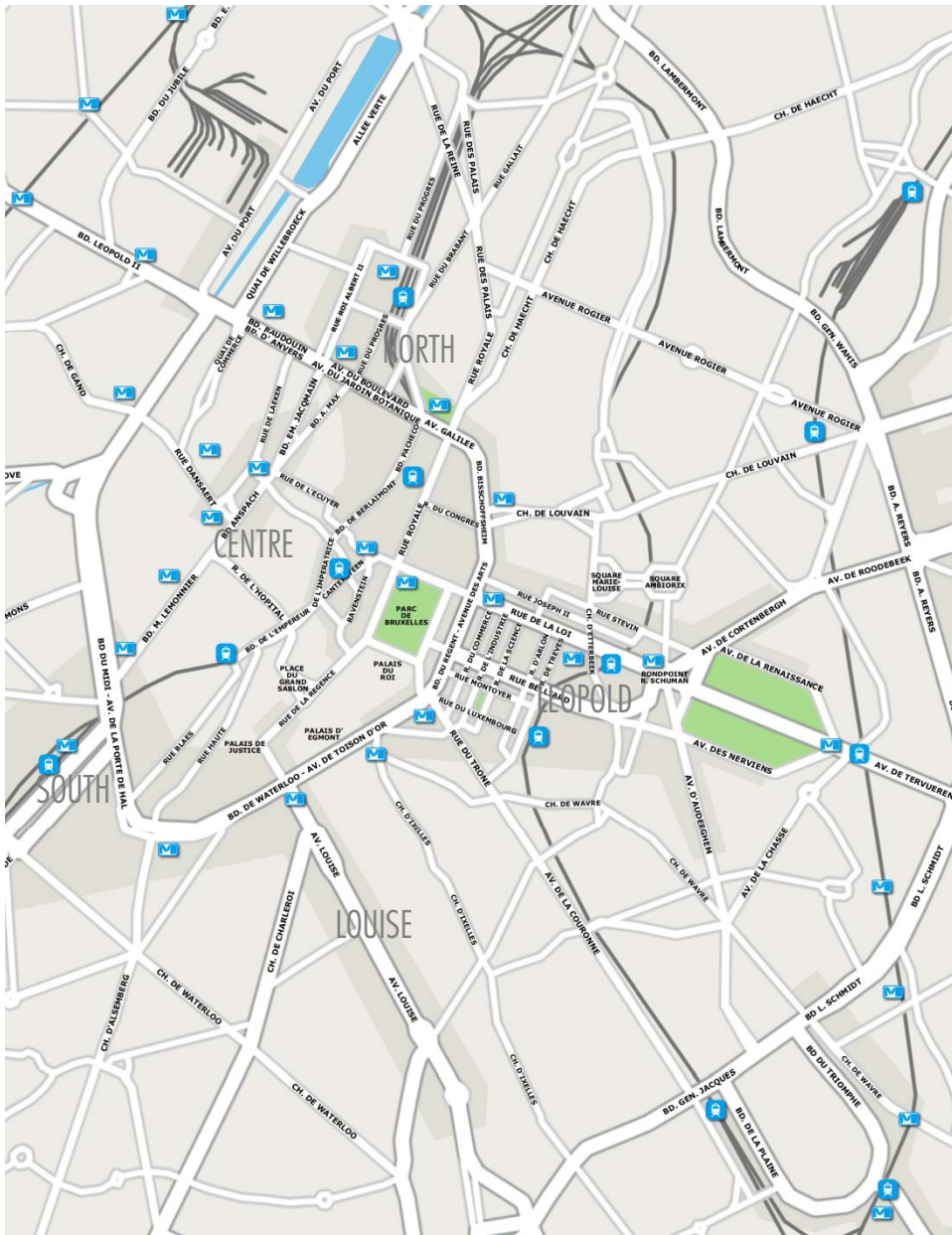
Source: CB Richard Ellis

Prime yields



Source: CB Richard Ellis

The Brussels CBD



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