

MarketView

Brussels Offices

www.cbre.eu/research

Second Quarter 2010

Quick Stats

	Current	Change from last	
		Yr.	Qtr.
Vacancy	11.84 %	↗	↗
Lease Rates	285 €	↗	↗
Office demand	95.081 m ²	↗	↘
Construction	86.561 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

- More tenants are now actively considering to move, as evidenced by the increase in the number and size of office requirements. A full recovery in the occupiers market however is expected only from 2011
- Prime office space in the CBD is leading the turnaround in rents, with more focus on space efficiency. Overall, landlords however continue to be confronted with heavy competition and peaking rental incentives.
- While most investors continue to look at core/prime properties with long leases, a number of transactions at shorter lease lengths has been completed. "Super core" products trade at pre-crisis yields.

OVERVIEW

Because of favorable real estate opportunities, more tenants are now actively looking into the possibility of relocating. In the second quarter of 2010, 95.081 m² of office space was transacted in the Brussels market, bringing year-to-date take-up to 246.864 m².

Office development continues to be strong in 2010. In the first half of 2010, office development completions totaled 142.312 m². Development completions will continue throughout the second half of 2010. From 2011 onwards, office development is expected to slow down as less projects are being launched.

Office vacancy rose further, pushed up by new speculative completions. Vacancy in the Brussels office market is currently estimated at 11.84% or 1.546.691 m².

Rents remain under pressure in a very competitive market, although we can see early signs of stabilisation in rental values. In the CBD, some transactions for newly developed space are being closed at above headline rents. Prime office space in the Leopold area currently trades at 285 euro/m², up from 265 euro/m².

A total of approximately 230 millions euro was invested in office properties in Brussels in the first 6 months of the year.

Prime office properties in Brussels trade at 6.25% in the CBD and at 7.50% in the suburbs for 3/6/9 year leases.

ECONOMY

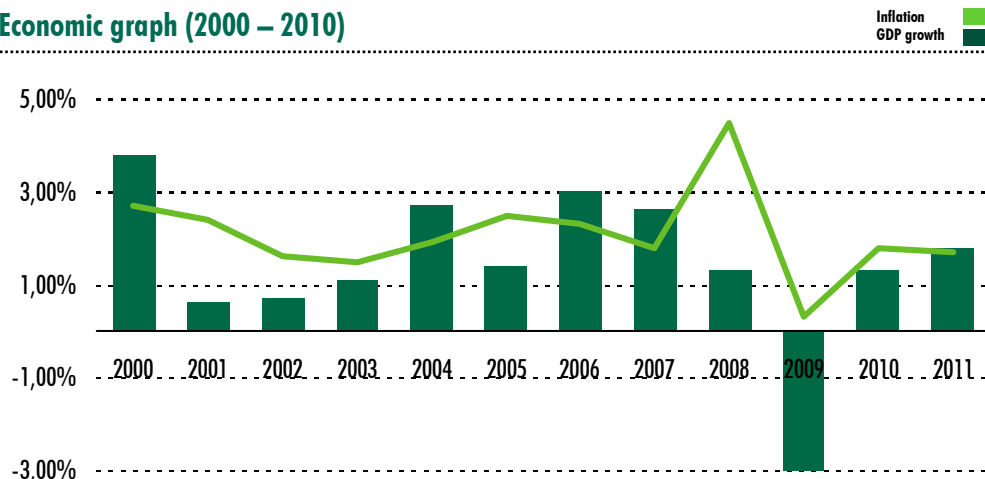
The economic recovery in Belgium remains sluggish, with business and consumer confidence levelling off recently. Exports on the other hand have showed sensible improvements in the wake of the noticeable recovery in foreign demand and world trade. Employment held up quite well until now, which is partly due to labor hoarding practices.

The Price Index (HICP) has been increasing since the start of 2010 because of price volatility of some of its components, but underlying inflation remains flat.

The outlook is still for a slow recovery. While exports are trending up again and the trade balance has turned positive, domestic demand remains subdued in a context of continuing economic and business uncertainty and renewed financial tension. Fiscal consolidation measures, such as welfare cuts and tax increases, could also dampen demand and temper recovery.

GDP is forecasted to increase by 1.3% in 2010 and 1.8% in 2011. Inflation is expected to increase, partly as a result of higher oil prices and the weak euro. Latest forecasts predict prices will increase by 1.8% in 2010.

Economic graph (2000 – 2010)



Source: CB Richard Ellis, BNB

DEMAND

In the second quarter of 2010, 95.081 m² of office space was transacted in the Brussels market, bringing year-to-date take-up to 246.864 m². As such, take-up almost doubled as when compared to the same period last year, but still stays below pre-crisis average.

While there was a lack of large transactions this quarter, the evident increase in the number of office requirements suggests that more tenants are now actively looking into the possibility of relocating and right-sizing their leasing footprints. The favorable real estate opportunities are also prompting companies to upgrade towards affordable more efficient buildings in terms of space use and energy costs.

The most notable deal this quarter was closed by Vivaqua. The water company acquired the Empress Court, Befimmo's renovation project (13.800 m²) in the City centre, right next to Brussels' Central station.

The City centre was one of the more active office districts this quarter, with also IAB-IBR and IP Globalnet taking substantial amounts of space respectively at Renaissance (±3.045 m²) and Pacheco 34 (±4.128 m²). In the Leopold district, the "Fond Commun de Garantie Automobile" leased ±1.970 m² at Leopold House while EWEA signed for ± 1.800 m² at Arlon 80.

In the Decentralised office district, notable deals were completed by Electrolux signing for 8.242 m² at Fusée 40 while Kone agreed terms on 2.800 m² at WEB. Lunch Garden has recently established its new headquarters (±1.369 m²) at the Olympiades building and CMS De Backer leased ±1.270 m² at Strato building, in the South-east quadrant of Brussels. In the Periphery, G4S will occupy ±1.200 m² in the Corporate Village.

DEVELOPMENT

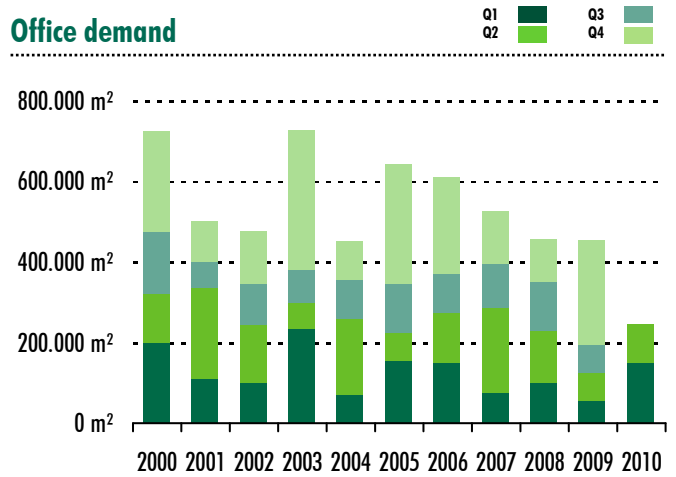
In the first half of 2010, office development completions totaled 140.000 m². For the remainder of 2010, there is a similar volume of office projects coming online. About half of the upcoming pipeline is committed to end-users.

In the CBD, recently completed projects include The Platinum by DEGI (23.600 m²) in the Louise area, Renaissance by CBRE Investors (10.100 m²) in the City centre and Meeus 23 by Cofinimmo (9.000 m²) in the Leopold district.

In the Brussels' suburbs, the second and third blocks of the Atlantis project are at advanced stages of completion while the Airport Plaza office complex will soon be available for occupation. In the Periphery South, Baxter has just inaugurated its 13.500 m² headquarters in the Parc de l'Alliance.

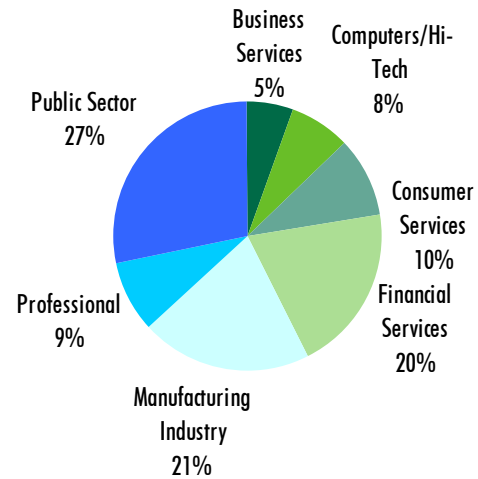
2011 will see a clear reduction in office completions due to the current low level of development starts. Development activity will likely remain quite subdued also in 2012. A number of larger renovation schemes are however planned towards the end of 2012, with some new schemes expected to come online in 2013.

Office demand



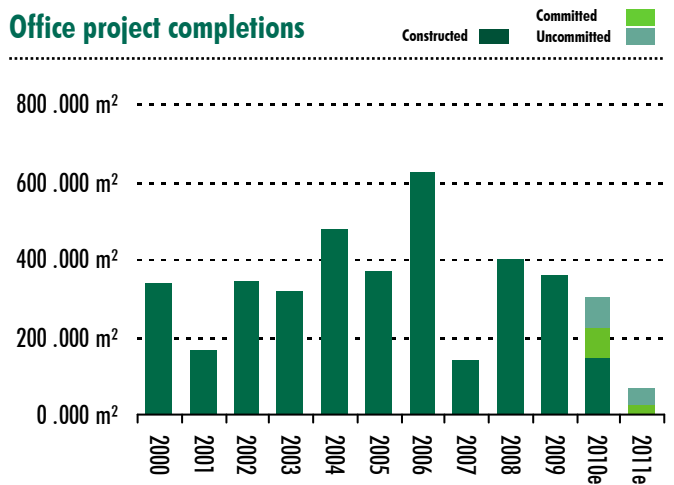
Source: CB Richard Ellis

Origin of Occupants (2010)



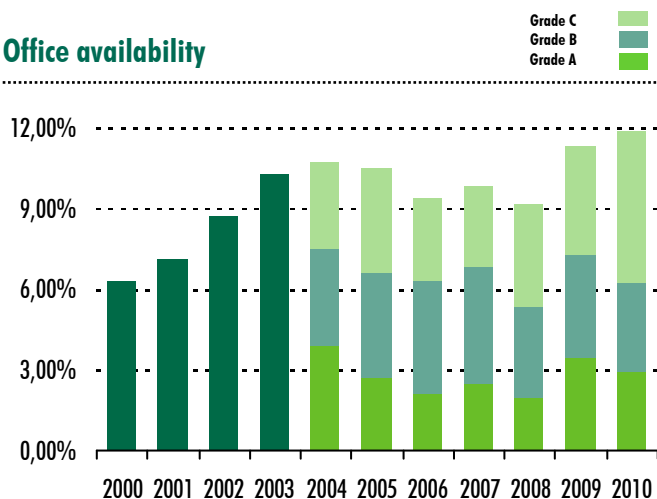
Source: CB Richard Ellis

Office project completions



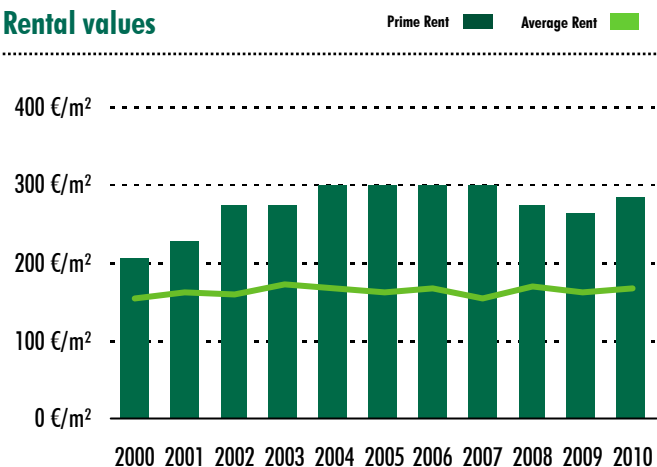
Source: CB Richard Ellis

Office availability



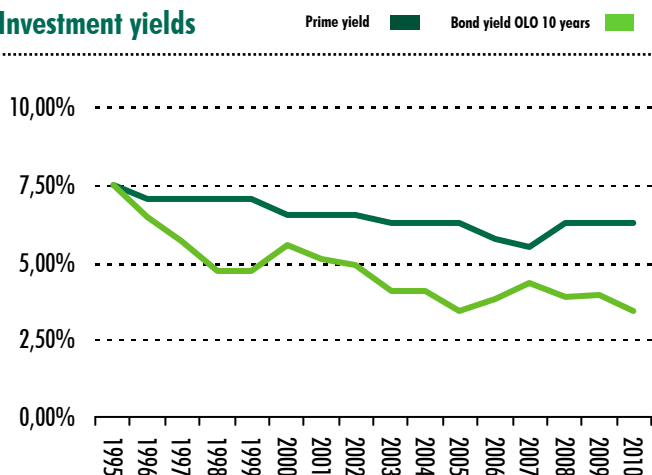
Source: CB Richard Ellis

Rental values



Source: CB Richard Ellis

Investment yields



Source: CB Richard Ellis

In the meantime, developers have been noticed to buy assets again, but almost solely consider well-located CBD properties. The sale of the former Vivaqua headquarters, next the Court of Justice, is still ongoing and it is sparking strong developers' interest.

Other properties recently sold to developers concern the Realex project (estimated at a potential of 45.000 m²) acquired by EuropaCapital and the Euler-Hermes headquarters (9.000 m²) to Immoel. Both are located in the Leopold Area. Land values for these kind of prime locations are on the rise as well with purchase values fluctuating between 1.000 euro/m² and 1.500 euro/m² of expected future GLA.

VACANCY

Office vacancy rose further, pushed up by new speculative completions. Voids in the Brussels office market are currently estimated at 11.84% or 1.546.691 m².

With more companies looking at newer more efficient space, we expect an influx of grade C space onto the market in the coming months, in both urban and suburban office markets. With vacancy rates peaking, it is unsure how these products will be treated by developers. At this moment, developers are only considering purchases in the CBD districts.

RENTS

Rents remain under pressure in a very competitive market, although we can see early signs of stabilisation in rental values. In the CBD, some transactions for newly developed space are being closed at above headline rents. Prime office space in the Leopold area currently trades at 285 euro/m², up from 265 euro/m².

Overall, rental values are expected to further stabilize in the coming quarters, in conjunction with the current activity boost in the occupiers' market and the anticipated economic recovery. Nonetheless, most deals are currently still taking place at a considerable rental discount, with letting incentives such as rent-free periods peaking.

INVESTMENT

A total of approximately 230 million euros was invested in office properties in Brussels during the first half of the year. While most investors continue to look at core/prime properties, a number of transactions at shorter lease lengths has been completed.

In the meantime, stiff competition for core products has resulted in a strong yield compression with "super core" and long-term secured cash flow trading at 5,25%. Investment activity is expected to increase in the coming months with several deals in the pipeline to complete. As the occupier market stabilizes, investment activity will be also increasingly driven by investors looking into non-prime investment opportunities.

Prime office properties in Brussels trade at 6.25% in the CBD and at 7.50% in the suburbs for 3/6/9 year leases.

Most notable letting & sales transactions



Building
Submarket
Occupier
Transaction floor area
Type of transaction



Empress Court
Centre
Vivaqua
13,823 m²
Purchase



Fusée 40
Decentralised (North-East)
Electrolux
8,242 m²
Letting



Pacheco 34
Centre
IP Globalnet
4,128 m²
Letting



Renaissance
Centre
IAB-IBR
3,045 m²
Letting



WEB
Decentralised (North-East)
Kone
2,800 m²
Letting



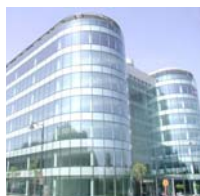
Da Vinci Park
Decentralised (North-East)
Damovo
2,550 m²
Letting



Leopold House
Leopold
Fond Commun de Garantie Automobile
1,973 m²
Letting



Arlon 80
Leopold
EWEA
1,371 m²
Letting



Olympiades
Decentralised (North-East)
Lunch Garden
1,369 m²
Letting



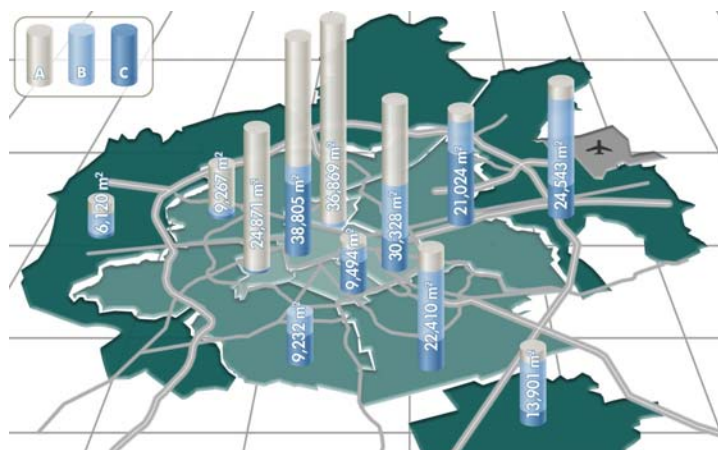
Corporate Village
Periphery (Airport)
G4S
1,199 m²
Letting

Brussels Office submarkets



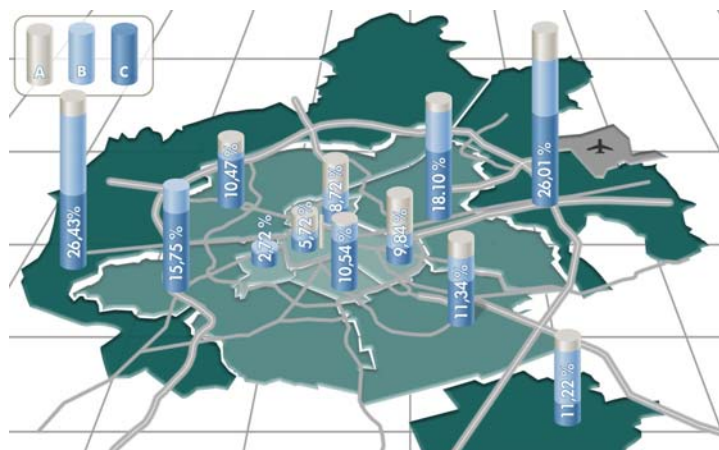
Source: CB Richard Ellis

Office Demand (Q1-Q2 2010)



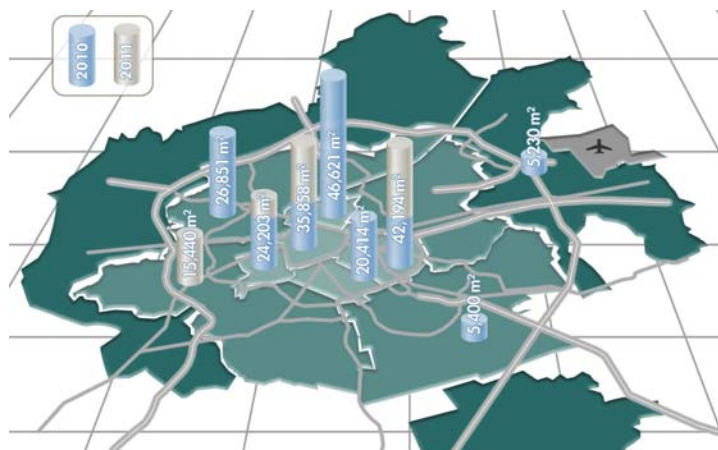
Source: CB Richard Ellis

Office availability



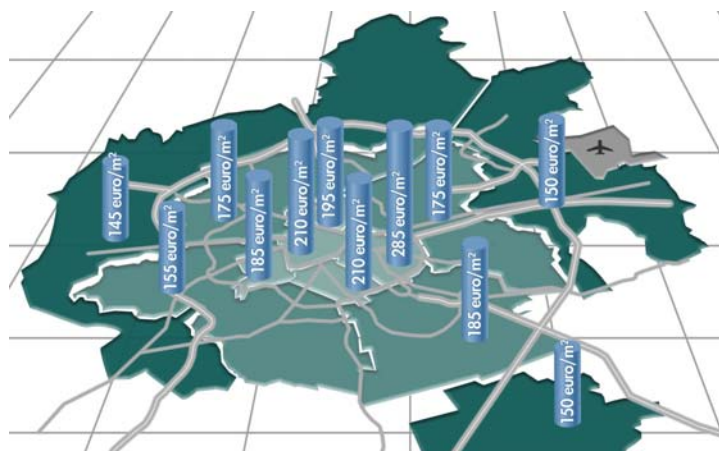
Source: CB Richard Ellis

Office development pipeline



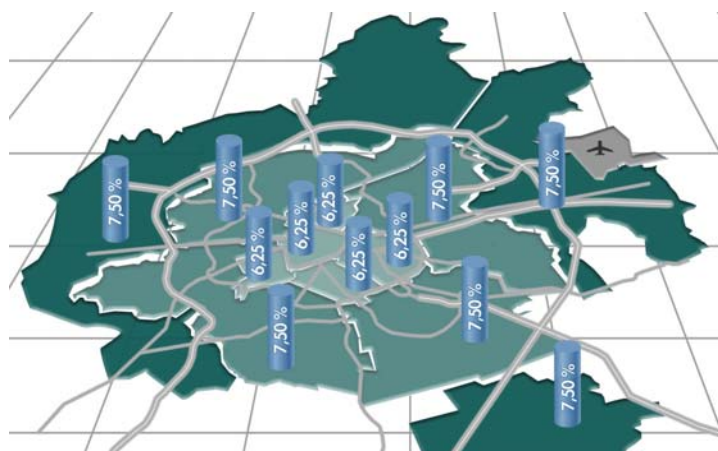
Source: CB Richard Ellis

Prime rents



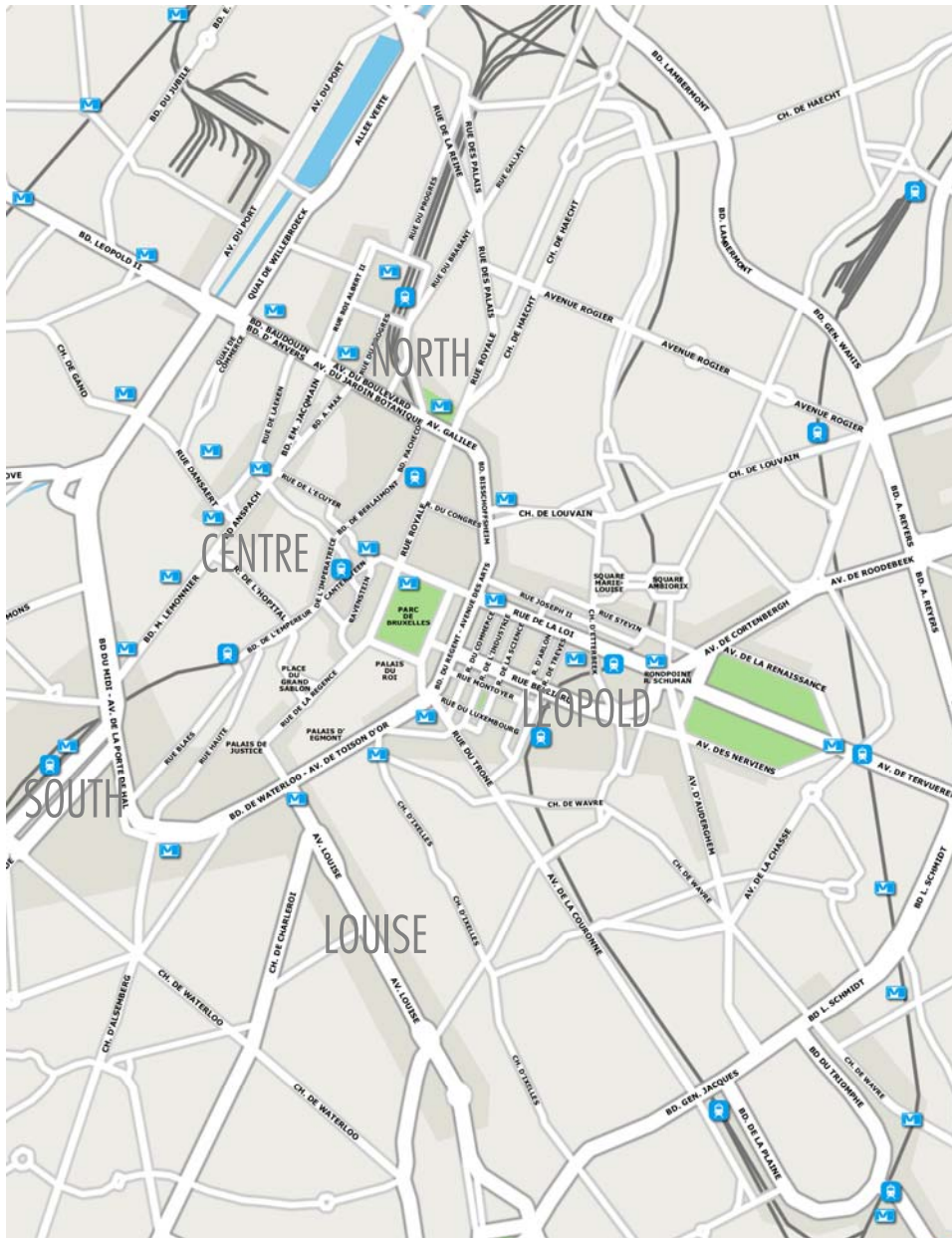
Source: CB Richard Ellis

Prime yields



Source: CB Richard Ellis

The Brussels CBD



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