Property Times

Belgium Industrial Q2 2012

Vintage logistics quarter

13 July 2012

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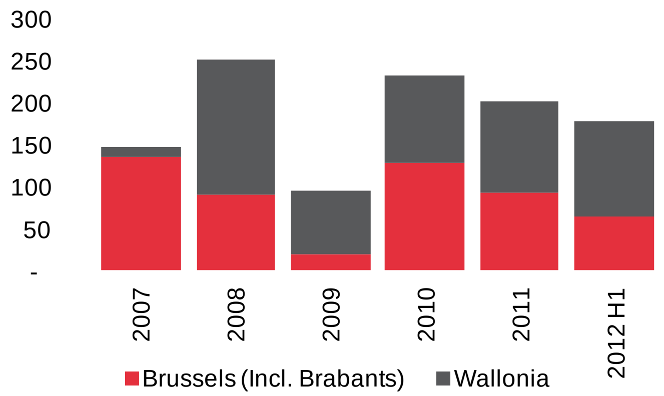
- Activity decreased overall by 8% to see semi-industrial take-up amount to 140,000 sq m this quarter. As such take-up in this segment finds itself at exactly the same level as it did this time last year.
- We note demand for larger spaces across the country in the semi-industrial market, as well as occupiers moving into low-grade facilities, which, to an extent, was a hindering on the market in the past. In Wallonia, authorities are looking to increase the supply of new facilities for SMEs.
- Logistics take-up was above average for the country; this is down to vintage levels of activity in the Brussels and Wallonia regions where total take-up for the year is already very close (Brussels) or superior (Wallonia) to that of 2011 (Figure 1).
- In the Brussels region, a landmark deal was struck in Brucargo, where DHL Global Forwarding will rent 23,000 sq m for 15 years from the beginning of next year.
- In Wallonia, several large-scale logistics deals were recorded, the five largest of which were all purchases for own occupation. This illustrates the region's strategy to attract companies having an effect on the market. We expect more significant deals to materialise in the region, notably in Garocentre (Hainaut) before the end of the year.
- The semi-industrial prime rent has decreased to €55/sq m/year this quarter, although it remains located in the Flemish Brabant district. The logistics prime rent remains ever stable at €45/sq m/year.

Figure 1

Selected regional logistics take-up (000s sq m)



Source: DTZ Research

Economic overview

Belgium shows positive signs of recovery despite European uncertainties

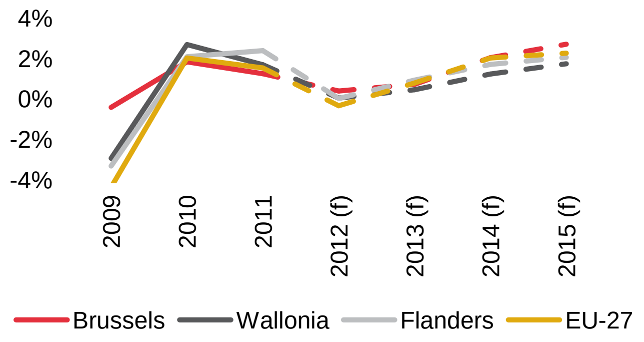
The first quarter of 2012 shows a surprising 0.3% rise in GDP for Belgium, mainly due to strength in net trade. According to the Governor of the National Bank of Belgium, the Belgian economy is strongly attached to the German economy and benefits from the results of Germany. Therefore, due to growth data being better than expected, GDP forecasts have been upgraded slightly to 0.1% for 2012. A recovery is expected for 2013 with a GDP growth forecasted to reach 0.8%. After 2013, growth is expected to be recorded around 1.7%. A breakdown by regions reveals similar trends for 2012. After, Wallonia would recover at a slower pace than Brussels and Flanders (Figure 2).

Government spending was subdued this semester, reflecting the start of efforts to trim the budget deficit. The stability programme's target of a general government deficit of 2.8% in 2012 is expected to be reached. Important consolidation efforts will be required to meet the target for next year and to keep the budget on a sustainable path. Furthermore, Belgium remains more exposed than most "core" countries to the ongoing crisis in financial markets. Spreads have remained relatively steady over the past months, around 2% after having reached almost 3% in November 2011. But the country's large debt and gross financing needs leave it especially exposed to movements in the cost of borrowing (Figure 3). The recent decision by the European Central Bank to reduce its interest rates to 0.75% reveals the European willingness to boost the economy and might have some positive effects in the second part of the year.

Household consumption is far more subdued than net trade, in line with the generally gloomy tone of households and their concerns over the labour market. Meanwhile, industrial production is expected to fall in 2012. The business services sector has also suffered from falling demand in Q2, according to the National Bank survey. This is feeding through into business index which has decreased this quarter and remained well below normal levels (Figure 4).

Figure 2

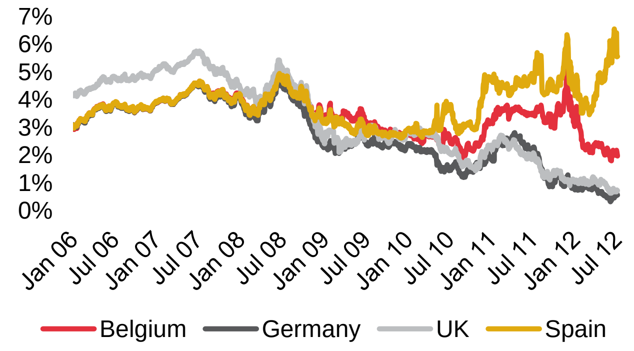
GDP Growth



Source: Oxford Economics, June 2012

Figure 3

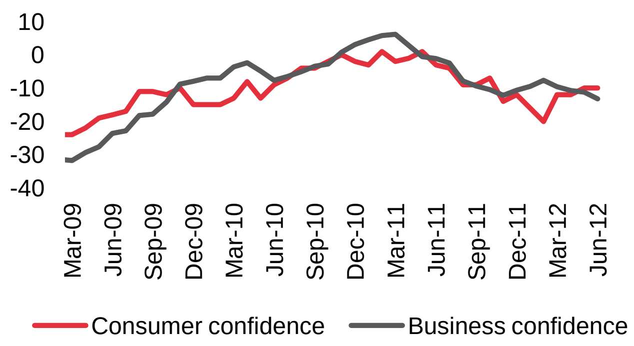
Belgian bonds spread over German bonds



Source: DTZ, June 2012

Figure 4

Consumer and business confidence index



Source: National Bank of Belgium, June 2012

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In 2011, Belgium recorded a rise in the total employment with around 4,550,000 persons employed (+ 1.3% compared to 2010). However, in 2012 employment is predicted to decrease, mainly due to a slowdown in the consumer consumption and in the corporate investments. Some divergences are to be noted between regions. Brussels' economy is expected to gain momentum between 2013 and 2015 with a labour market helped by the presence of a large number of jobs at the European Institutions. Conversely, employment growth is expected to be muted over the 2012-2015 period in Flanders and in Wallonia, with decrease in agriculture and manufacturing, barely compensated by job creation in services.

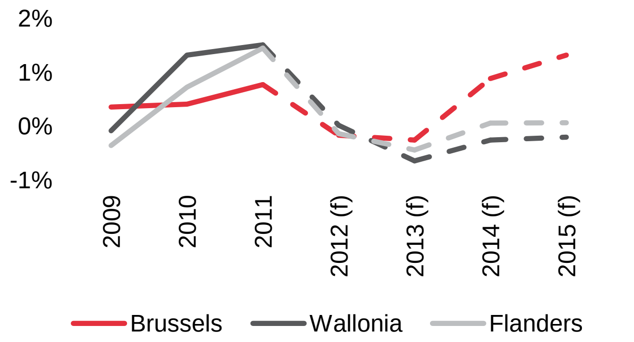
Due to the combination of the muted employment growth and the demographic boom expected in Belgium (especially in the Brussels-Capital Region where the Federal Planning Bureau predicts an increase of 170,000 inhabitants for 2020), the unemployment rate is foreseen to rise in 2012 and 2013, only decreasing at a slow pace from 2014. Important differences are to be noted between regions, Flanders records the lowest rate below 5%. Wallonia stands close to the European evolution with a rate around 10%. Unemployment constitutes a major issue for the Brussels region with a level expected to reach 17% in 2013. After, job creation would help to reduce unemployment at a faster pace than for Belgium despite remaining at a high level.

The combination of these forecasts leads us to think that the global recovery of Belgium will be slow in the next few years. Nevertheless, such an element as the annual growth of the household disposable income could generate some activity in the retail sector (Figure 7).

Source: Oxford Economics, National Bank of Belgium and DTZ Research

Figure 5

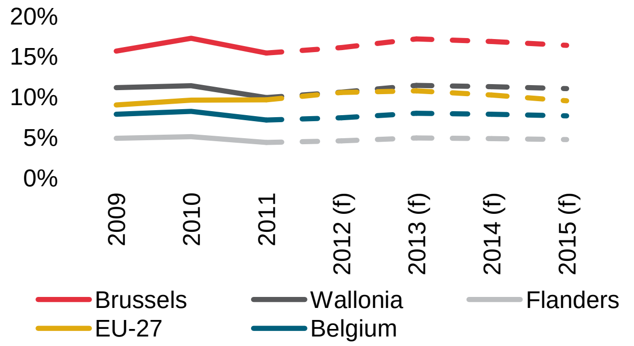
Total employment, annual growth



Source: Oxford Economics, June 2012

Figure 6

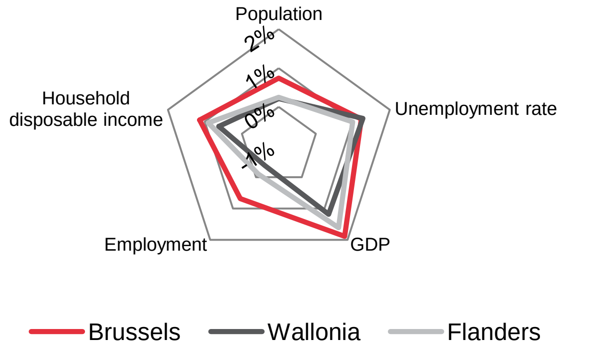
Unemployment rate



Source: Oxford Economics, June 2012

Figure 7

Main economic indicator annual growth, 2012-2015



Source: Oxford Economics, June 2012

Belgium industrial market

Brussels and Wallonia take-up increases by leaps and bounds to round off a vintage logistics quarter.

Semi-industrial take-up has decreased slightly (8%) to total 140,000 sq m this quarter (Figure 8), this signifies that the market is at exactly the same level of activity as it was one year ago. In Flanders and Wallonia in particular, this quarter saw demand for larger spaces. In Wallonia, lower grade facilities found occupiers, while authorities seek to boost SME activity by developing sustainable economic zones, which are sure to be in-demand once delivered. In the Brussels district, lower-grade facilities also found occupiers, perhaps explaining why Walloon Brabant witnessed low activity by its recent standards.

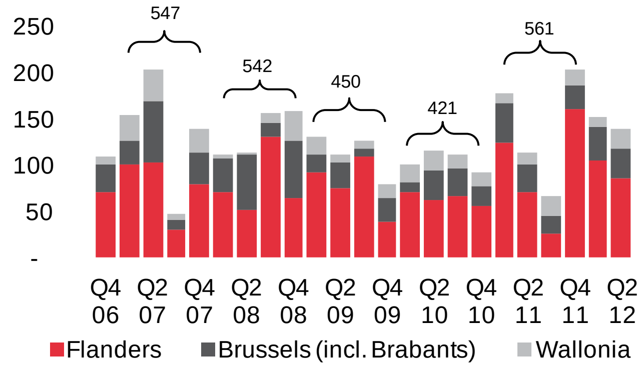
In total, 246,000 sq m of take-up were recorded across the three regions this quarter (Figure 9). Flanders witnessed a slight increase in activity despite dynamic activity in the Antwerp and Kempen districts. A large-scale deal in Limburg, as we had become accustomed to observing was all that was missing to round off the quarter. The highlight, however, is undoubtedly the vintage activity witnessed in the Brussels and Walloon regions. In the Brussels region, high levels are due to more deals being successfully brokered than usual, as well as a landmark deal in Brussels airport. In Wallonia, large deals, including in the Ardennes district were numerous. The five largest deals were purchases or own occupation, which are likely to have been triggered by the region's strategy to provide significant incentives to companies deciding to establish distribution activities there. Such was the case of the high-profile decision by foreign company, Xtratherm, to locate its production and distribution centre in Feluy. In terms of Belgium's overall stature as an international logistics destination, the new LPI was published in May. It reveals Belgium's rank has increased overall from ninth in 2010 to seventh this year, partly due to the improvements brought to its infrastructure, now ranked eighth (previously 12th)[1].

The Belgian semi-industrial prime rent decreases to €55/sq m/year, and is still located in the Flemish Brabant district. Unsurprisingly, the logistics prime rent, located in Antwerp remains flat (Figure 10).

[1] http://lpisurvey.worldbank.org/

Figure 8

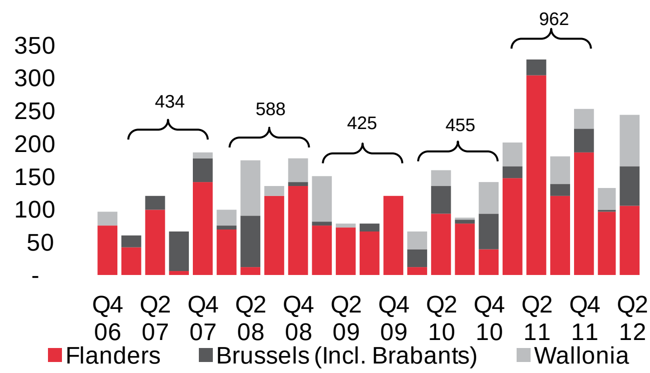
Take-up: Belgium semi-industrial per region, 000s sq m



Source: DTZ Research

Figure 9

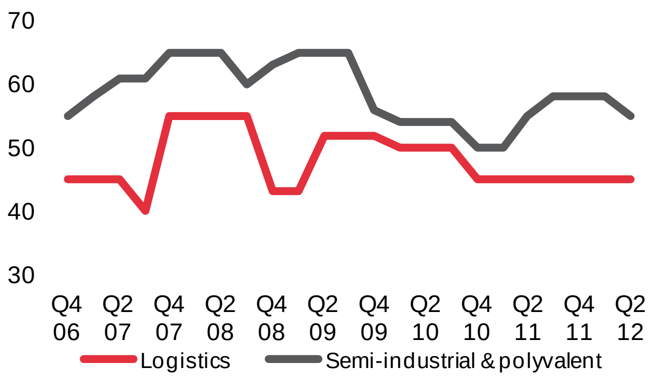
Take-up: Belgium logistics per region, 000s sq m



Source: DTZ Research

Figure 10

Belgium semi-industrial and logistics prime rents, €/sq m/year



Source: DTZ Research

Flanders

The region is a model of stable activity this quarter.

Semi-industrial take-up in Flanders has decreased again, by 18%, however levels remain more than respectable as with the 87,000 sq m recorded this quarter (Figure 11), the region reaches the exact same level it was at this time last year.

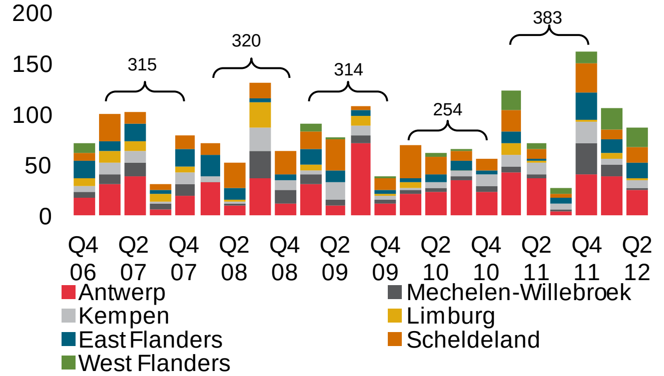
Flanders Golden Triangle districts (the area defined within Brussels, Antwerp and Ghent) accounted for exactly half of the region's take-up, even though very little activity was registered in Mechelen-Willebroek. West- and East Flanders sustain their impressive levels. Demand for larger spaces than last quarter was registered across Flemish districts.

Logistics take-up has witnessed a slight increase this quarter with 106,000 sq m newly occupied (Figure 12). This is partly due to a resurgence of activity in the Antwerp district where three transactions were recorded, including a 14,000 sq m extension by Powerline in Kontich which will be delivered at the beginning of next year. Such scenarios where land on already occupied sites is earmarked for future extension should play a crucial role as far as the occupier market is concerned in saturated districts. The shift in balance between districts is apparent again this quarter, even though no activity was recorded in Limburg. We pay particular attention to the Kempen district with 30,000 sq m recorded along the E313 and the Albert Canal, including a 20,000 sq m letting by Sumitomo Warehouse, who become Antwerp East Port's first residents. Impressive levels were also recorded in East Flanders where there were four transactions adding up to 29,000 sq m, while in West Flanders, it has been confirmed that the TransportZone in Zeebrugge is to be extended.

The semi-industrial prime rent is still located in the Kempen district and remains at €53/sq m/year. Logistics prime rents also remain stable at €45/sq m/year, a level unchanged since late 2010 (Figure 13).

Figure 11

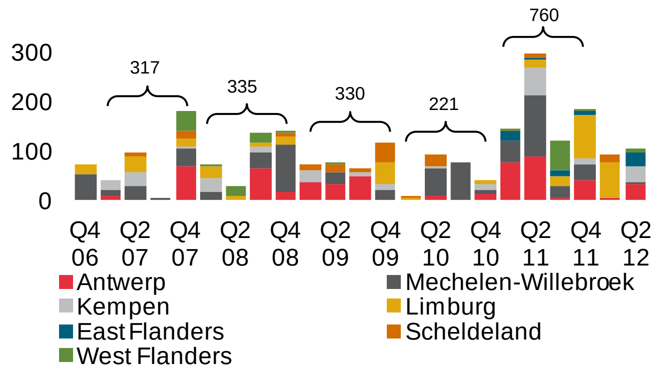
Take-up: Flanders semi-industrial, 000s sq m



Source: DTZ Research

Figure 12

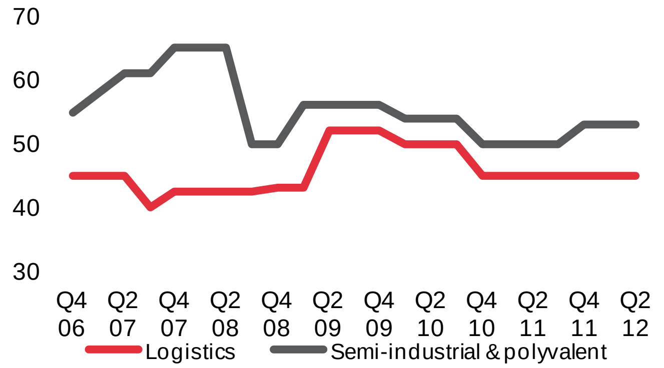
Take-up: Flanders logistics, 000s sq m



Source: DTZ Research

Figure 13

Prime rents: Flanders, €/sq m/year



Source: DTZ Research

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Table 1

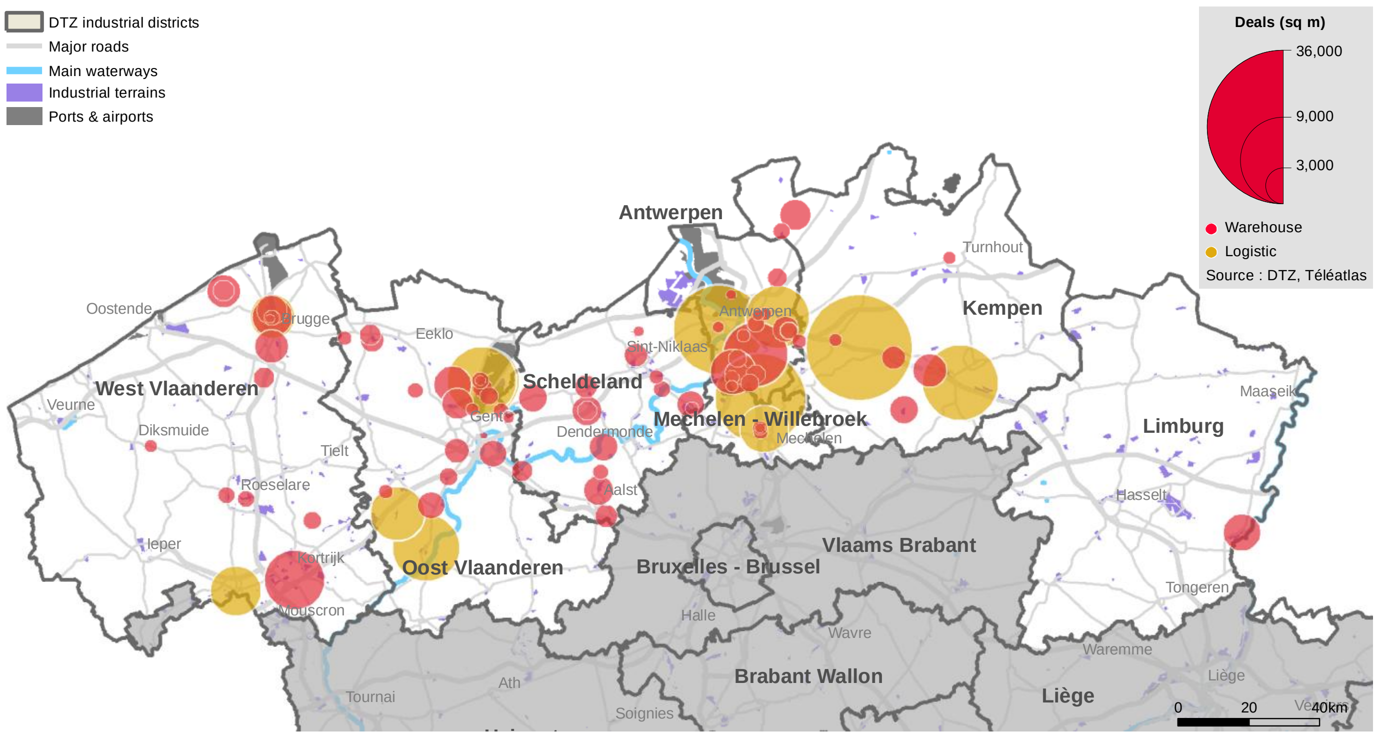
Top occupier deals in Flanders, Q2 2012

	Submarket	Municipality	Surface (sq m)	Tenant - occupier	Transaction
L	Kempen	Grobbendonk	20,000	Sumitomo Warehouse	Letting
L	Antwerp	Kontich	14,000	Powerline	Extension
L	Antwerp	Zwijndrecht	14,000	Quadriga	Purchase

Source: DTZ Research / W: Warehouses L: Logistics

Map 1

Occupier deals Flanders, Q2 2012



Property Times
Belgium Industrial Q2 2012

Brussels (including Brabants)

Logistics activity is boosted by a very significant project in Brucargo.

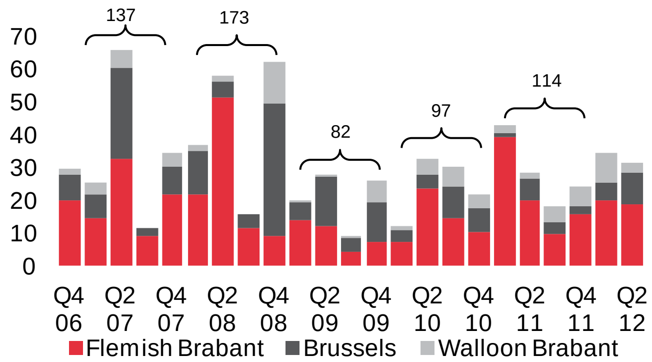
Previous levels of semi-industrial activity are maintained as the region pursues its strong start to the year; a marginal decrease means take-up amounts to 31,000 sq m this quarter (Figure 14). Flemish Brabant performs above its quarterly average as does Brussels. Deals in Walloon Brabant were both recorded in Wavre. This marks a departure from the trend that was emerging over recent quarters for Walloon Brabant, but does not especially surprise as the Brussels district answered demand with less difficulty this quarter.

As far as logistics activity was concerned, this quarter is one of the best in recent years as close to 60,000 sq m were recorded across the region (Figure 15). The high level achieved can be attributed to five deals, all over 5,000 sq m, including a standout 23,000 sq m pre-letting by DHL Global Forwarding in Brucargo. This 15-year lease will begin once the premises have been delivered by the developer, De Paepe Group. We note that Montea, who acquires the project, has put on record the importance of the new connection with the E19. We also note a rare letting in the Brussels district this quarter. In terms of new developments, WDP has delivered a new sustainable 3,200 sq m warehouse in Mollem for French international dairy group, Lactalis.

The semi-industrial prime rent decreases to €55/sq m/year this quarter and is located in Zaventem. There has been no increase in Walloon Brabant as yet, probably due to demand being met by the Brussels district this quarter. The region's logistics prime rent remains at €43/sq m/year, although it has risen from €40/sq m/year in Flemish Brabant (Figure 16).

Figure 14

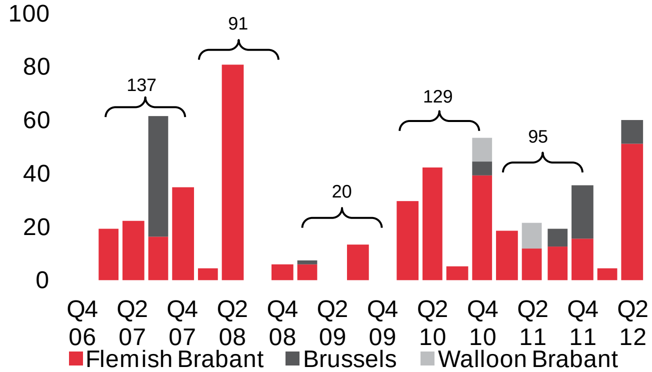
Take-up: Brussels semi-industrial, 000s sq m



Source: DTZ Research

Figure 15

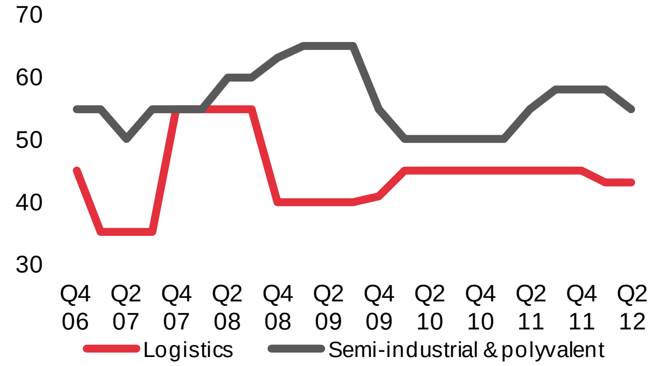
Take-up: Brussels logistics, 000s sq m



Source: DTZ Research

Figure 16

Prime rents: Brussels, €/sq m/year



Source: DTZ Research

Property Times

Belgium Industrial Q2 2012

Table 2

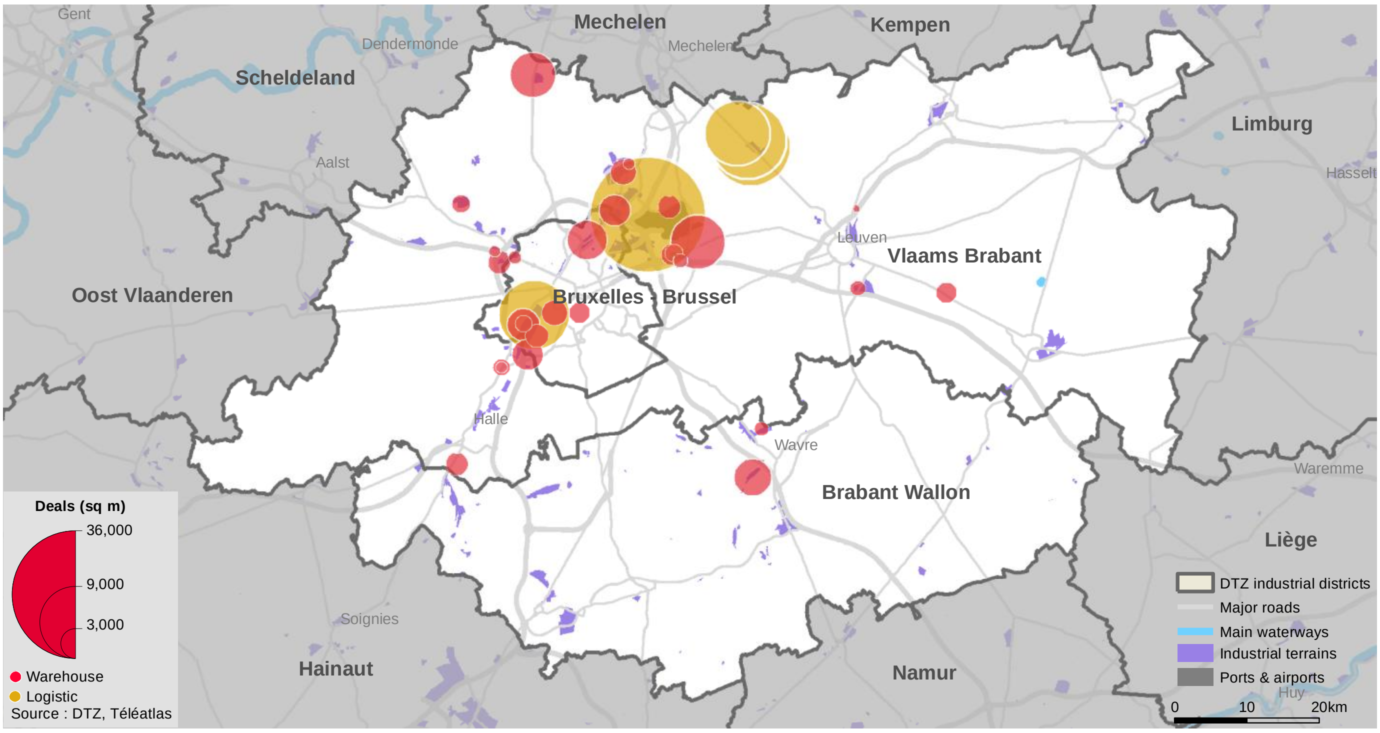
Top occupier deals in Brussels (including Brabant), Q2 2012

	Submarket	Municipality	Surface (sq m)	Tenant - occupier	Transaction
L	Flemish Brabant	Brucargo	23,000	DHL Global Forwarding	Pre-letting
L	Flemish Brabant	Kampenhout	11,000	Aveve	Letting
L	Flemish Brabant	Boortmeerbeek	10,000	Aveve	Letting

Source: DTZ Research / W: Warehouses L: Logistics

Map 2

Occupier deals Brussels (including Brabant), Q2 2012



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Wallonia

Large deals boost logistics activity across all districts.

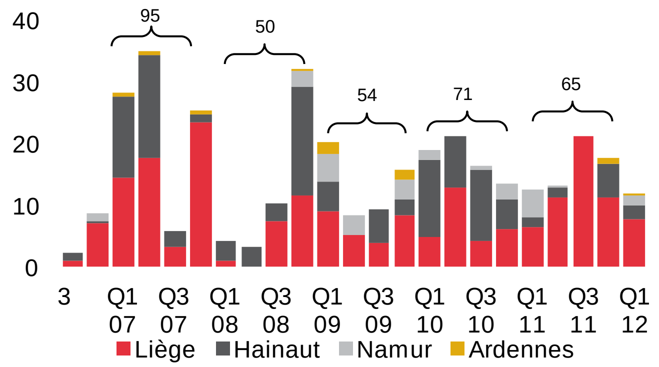
This quarter there were slightly less semi-industrial transactions than during Q1, however the average size of deals was far greater across the region than previously (2,000 sq m in Q2 against 800 sq m in Q1). In total we record 22,000 sq m (Figure 17). We have previously remarked on the lack of quality facilities in the region; this quarter we notice take-up seems equally spread across different grades of buildings. Certainly, activity in Hainaut, Namur and Charleroi is far better than in Walloon Brabant. In addition, intermunicipal structures are establishing new parks, as is the case of IDEA, which has inaugurated a new semi-industrial hall for SMEs in Manage (Hainaut), or the SPI (Liège) which is to stimulate economic activity through new sustainable economic zones, like a 25ha park in Waimes within the context of the *Plan Marshall 2.vert*.

An outstanding 80,000 sq m of logistics take-up was recorded this quarter in Wallonia, meaning the region outdoes its performance from last year already (Figure 18). As Liège improves further on its recent levels of activity, some large deals in the Hainaut and the Ardennes districts have boosted activity some way beyond levels of recent years (Map 3). It is noteworthy that the top five logistics transactions were all purchases, likely stimulated by strong incentives stemming from the region. Such was the case for Irish company Xtratherm, establishing a production and distribution centre in Garocentre (Hainaut). We expect some significant transactions to materialise in the Garocentre area before the end of the year, in addition to reported negotiations of Zeeman, mentioned last quarter. Finally, regarding the Trilogiport, the latest news is that works will commence in August or September, little is known about what this means in terms of a prospective delivery date, which will hinge on the construction of a bridge which will enable access to the area.

The prime rent for semi-industrial buildings has returned to its previous level of €40/sq m/year, recorded in the Liège district once again. The logistics prime rent remains at €35/sq m/year, defined in Grâce-Hollogne (Liège). Judging by the amount of deals in the area this quarter (Map 3), it obviously remains sought after (Figure 19).

Figure 17

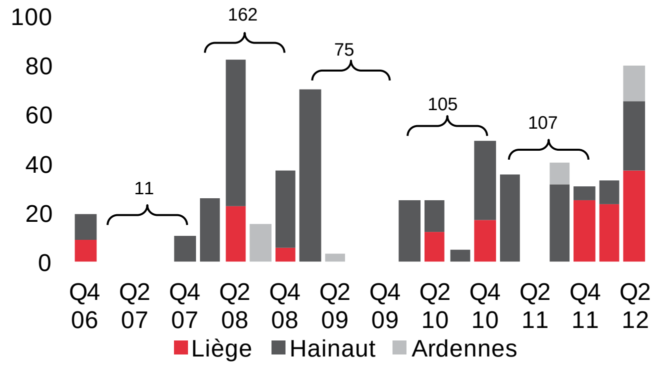
Take-up: Wallonia semi-industrial, 000s sq m



Source: DTZ Research

Figure 18

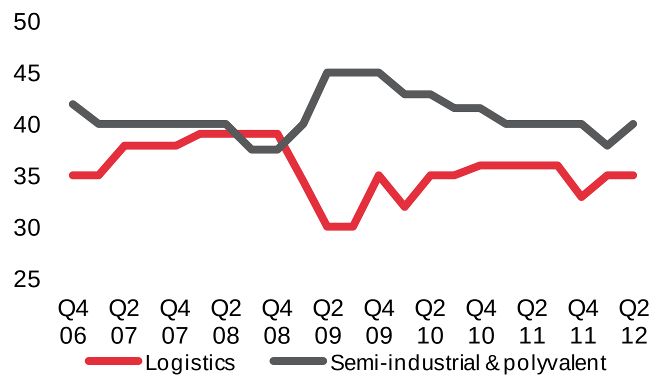
Take-up: Wallonia logistics, 000s sq m



Source: DTZ Research

Figure 19

Prime rents: Wallonia, €/sq m/year



Source: DTZ Research

Table 3

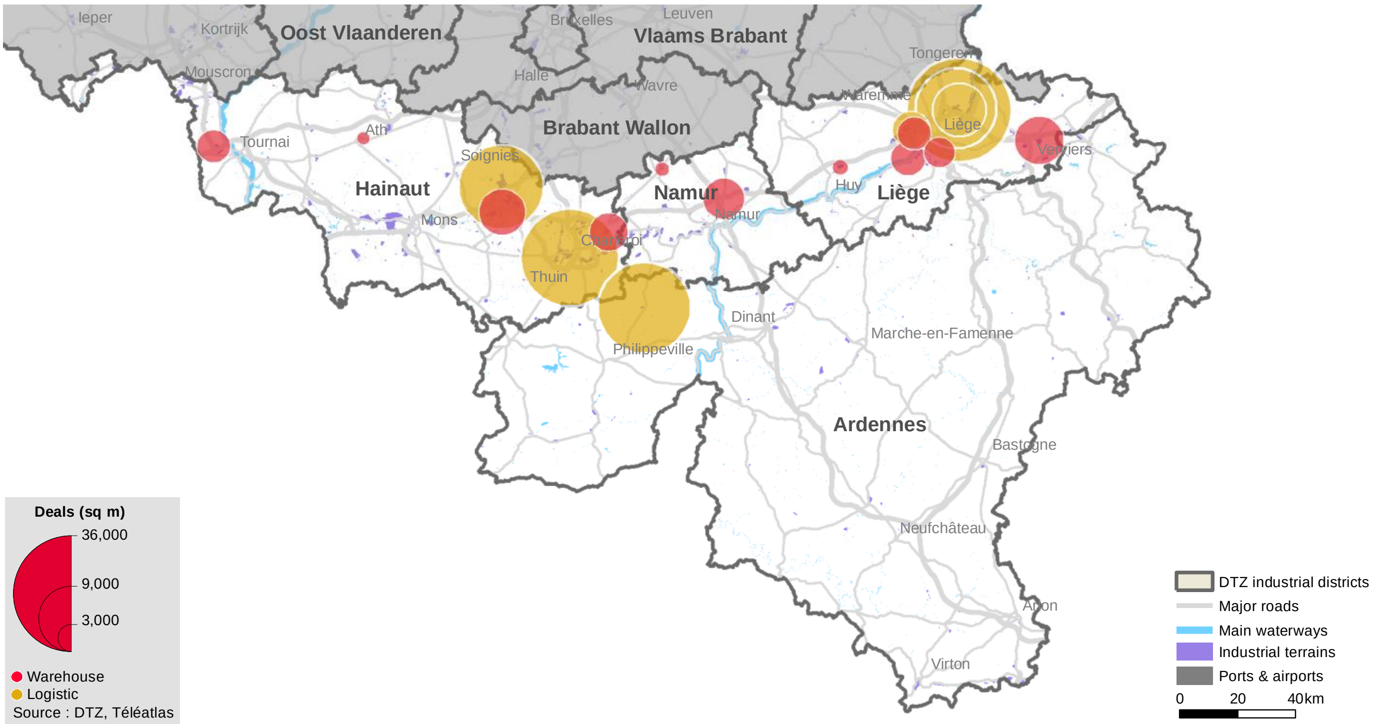
Top occupier deals Wallonia, Q2 2012

	Submarket	Municipality	Surface (sq m)	Tenant - occupier	Transaction
L	Liège	Herstal	19,000	Lutex	Purchase
L	Hainaut	Marcinelle	16,000	Famsalt	Purchase
L	Ardennes	Mettet	14,000	Atelier 85	Purchase

Source: DTZ Research / W: Warehouses L: Logistics

Map 3

Occupier deals Wallonia, Q2 2012



Definitions

Industrial submarkets:	The Industrial submarkets (see maps) are delimited using zip code limits. The complete list of zip codes used is available on request.
Investments:	Investments in the semi-industrial and logistic sectors refer to the purchase of commercial real estate in order to collect an income or rent. Also included is the purchase of commercial real estate during the development/construction/comprehensive refurbishment phase where the completion date is known.
Logistics buildings:	Buildings designed for logistics activities. These buildings vary considerably in size but are, in most cases, over 5,000 sq m. Some of the most important technical features of logistics buildings include: a free height generally over 8 metres; a minimum of one loading bay per 1,000 sq m; an office/warehouse ratio of about 5/95. For more information please refer to DTZ's "*Belgium, A Success Storage"* publication.
Prime rents:	Represents the highest rent that has been observed or reported on the market in the last six months preceding the survey date, excluding exceptional or irrelevant deals. When no relevant deal is observed, prime rent is defined as the rent that could be expected for an industrial unit (min. 500 sq m) commensurate with demand in each location, highest quality and specification in the best location in a market at the survey date. The rent is given as a base rent, i.e. no service charge or tax is included.
Prime yield:	Represents the initial yield estimated to be achievable for a notional industrial property of highest quality and specification in the best location fully let and immediately income producing in a market at the survey date. Long term leases are not considered. The yield is derived from the rental income divided by the purchase price.
Semi-industrial buildings:	Buildings designed for light industrial activities or for SMEs requiring a workshop, a showroom or a small storage facility. These buildings vary considerably in size but are, in most cases, below 5,000 sq m. Some of the most important required technical features of semi-industrial buildings include: a free height generally below 7 metres; a maximum of one loading bay per 1,000 sq m; an office/warehouse ratio of about 20/80. For more information please refer to DTZ's "*Belgium, A Success Storage*" publication.
Stock:	The property stock comprises all known semi-industrial and logistic properties. The total figure is the result of data collection from various sources such as field work, developers, institutional investors, specialised press… Figures do not include adjacent office spaces, where available. Figures are not exhaustive.
Take-up:	Represents the total industrial floor space known to have been either let, pre-let or developed for tenants as well as sold or pre-sold to owner-occupiers as known on the last day of the quarter. Adjacent office spaces, when known, are not included. Pure contract renewals, sales and leasebacks and sub-lettings are not included.

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