Investment Market Update
Belgium Q2 2011
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- Investments are keeping up the good pace set mid-2010 and Q2 2011 accounts for an encouraging €469m. The second part of the year being traditionally more dynamic we can expect the current figure of €909m invested in Belgium commercial real estate to double at least, leaving behind the years 2009 and 2010 (Figure 1).

- The office sector is back on track (62% of the investment volume so far in 2011) as investors are coming back to Brussels. The healthcare property sector has also continuously increased its share since 2008 and stands at 15% in 2011.

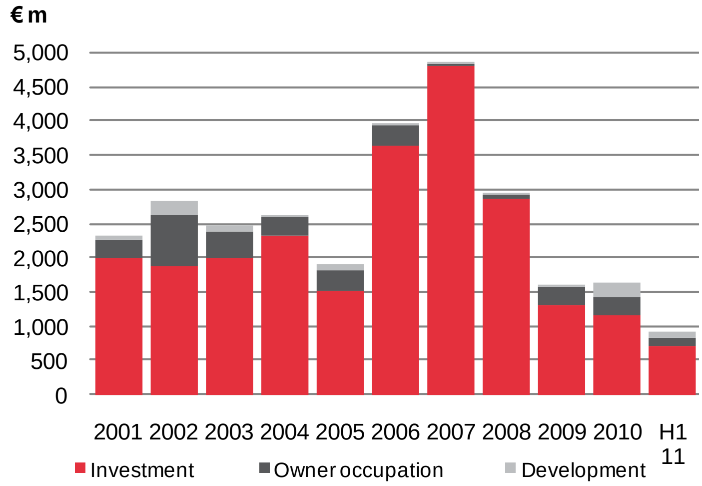
- The investment market in Brussels offices seems disconnected from the occupational market as it is performing strongly with €507m recorded since January. This is close to the annual performance of 2009.

- Belgian investors are still kings in their country but German funds are back and were involved in some of the most significant deals of the quarter: Espace Orban (€80m), Montoyer-Science (€62m) or the Guim'art Corner (€33m).

- Prime yields have remained stable across the board and we could see further slight compression before the increase that will inevitably lead the rise of interest rates.

Figure 1

Investment volumes by type of investment



Source: DTZ Research

Investment Market Update

Investments in Belgium

Unlike the occupational market, the investment market in Belgium is clearly picking up. The quarterly investments in Belgian commercial real estate amount to €469m, bringing the total for the first half of the year to €909m (Figure 2). This is an encouraging figure in line with the progression observed since 2009 when the first half year result was of only €585m, €692m were then recorded in H1 2010. Taking into account the fact that the second half of the year is traditionally more dynamic and given the number of deals due to be closed, some of them in the €50-100m bracket, we can expect the level of investment to be well above 2009 and 2010 result. We will most probably reach a level in line with the "pre-boom" years between 2001 and 2005 (Figure 2).

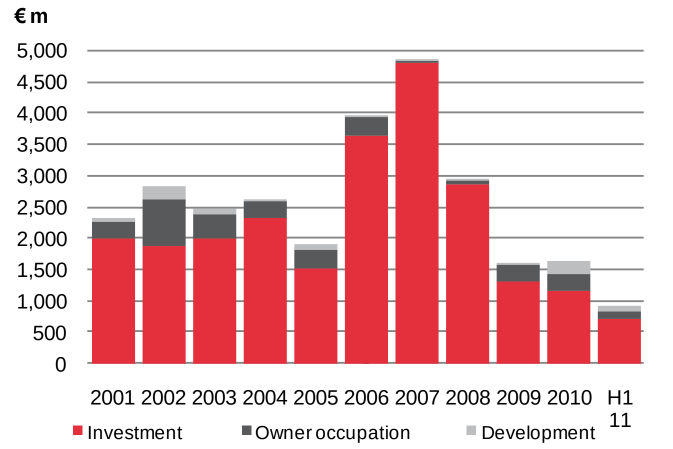
Unlike the European markets that recorded a 64% increase of their investment in 2010, Belgium is taking it one step at a time. The quarterly levels of investment have stabilised at a ceiling around €400m (Figure 3).

Judging from the distribution of investment by sector, it appears that the office sector is back on investors' agendas (see further). No less than 62% of all investments in Belgium (€564m) have been directed to the office market (Figure 4), this is the highest share observed since 2006. But the most striking aspect of the investments distribution is the ever growing share of the healthcare sector that now stands at 15%.

There are already €134m invested in nursing homes (and hotels to a minor extent) with Cofinimmo leading the charge since the beginning of the year (three deals, close to €65m and 905 beds). While Cofinimmo is consolidating its position as Europe's leading nursing home property owner, new entrants such as Ethias are dipping their toes into these fairly new waters. The first investment in this sector by the insurance company is the reconversion project of an office building on the Colonel Bourg Street in Brussels (to be reconverted by Groupe Liégeois). This area may soon be packed with nursing homes as another reconversion project may be undertaken just a couple of blocks down the road (investment by Wilmarc Invest) and some successful projects have been realized in the surrounding. This is the perfect example of the reconversion of an outdated office district with an availability ratio above 30% into a new residential area.

Figure 2

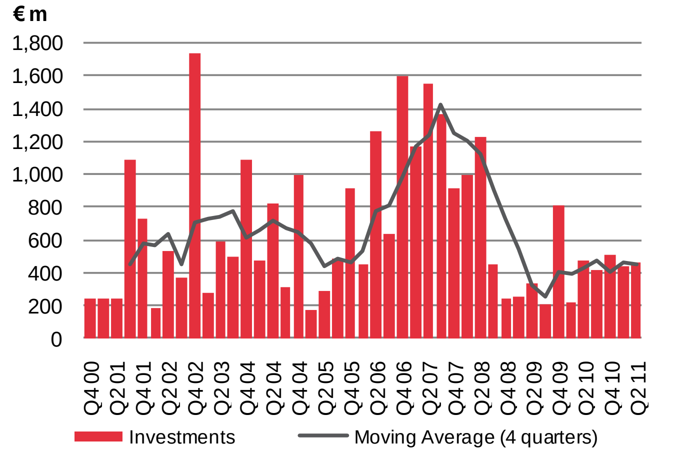
Investment volumes by type of investment



Source: DTZ Research

Figure 3

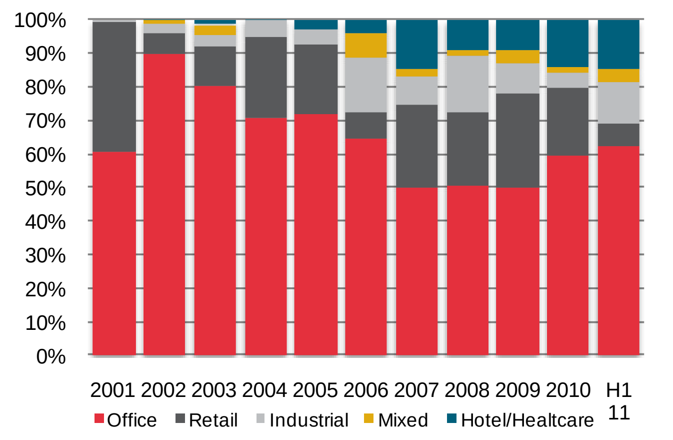
Quarterly investment volumes



Source: DTZ Research

Figure 4

Total investments by sector



Source: DTZ Research

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Prime yields have remained stable across the board (Tables 1-3), which is in line with the risk free rate that barely moved over the quarter from 4.24% to 4.13% (Figure 5). Despite the upturn observed in the investment volumes, it does not yet show in the pricing of assets, except for assets with long term leases where the battle can be harsh between 5.0% and 5.5%.

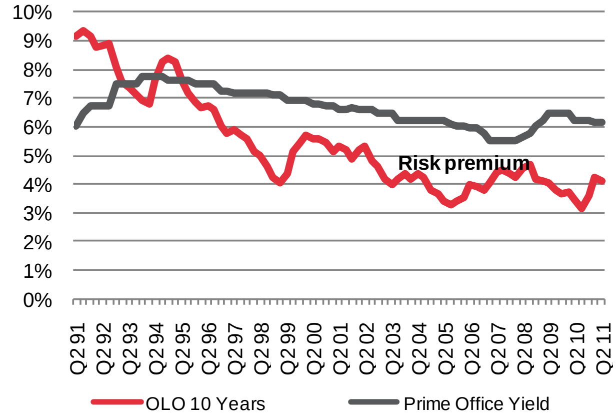
As suggested last quarter already, foreign investors are back on the market (Figure 6). The vast majority of foreign investment is attributed to German funds notably with the two major deals of the quarter, incidentally some of the most important office deals seen in the last couple of years. The first is the purchase of the Espace Orban (€80m) to Degi (Aberdeen) while the second is the purchase of Cofinimmo's Montoyer-Science (€62m) by Hesse Newman Capital.

Other major deals of the quarter include the purchase of Dexia Immorent portfolio by Cofinimmo. This nursing home portfolio (592 beds) had been purchased by Dexia from the operator SLG in 2009. Also worth mentioning are two quite similar deals, the Guim'art Corner (iii investments) and the Up38 (Ethias). Both are office deals with long term leases (ENI and Smalls) in recent buildings (the former renovated in 2010, the latter still to be built). Consequently, both deals have initial yields below 5.5%.

The change of the investment market can also be seen in the deal sizes (Figure 7). We are recording an increasing number of deals above €50m. This shows that banks are also playing along and opening up the credit lines little by little.

Figure 5

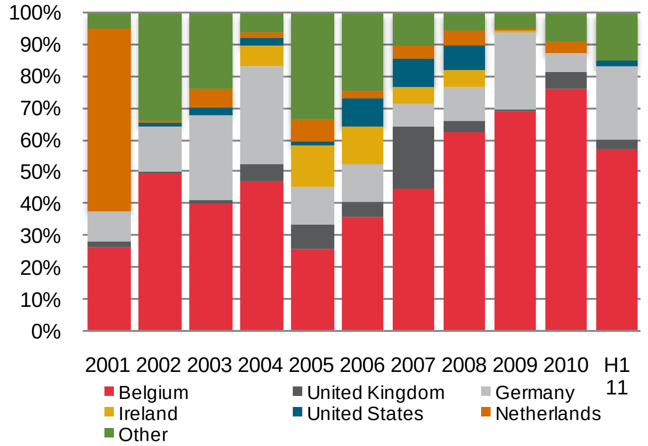
Brussels office prime yield & Belgium risk free rate (quarterly average)



Source: DTZ Research

Figure 6

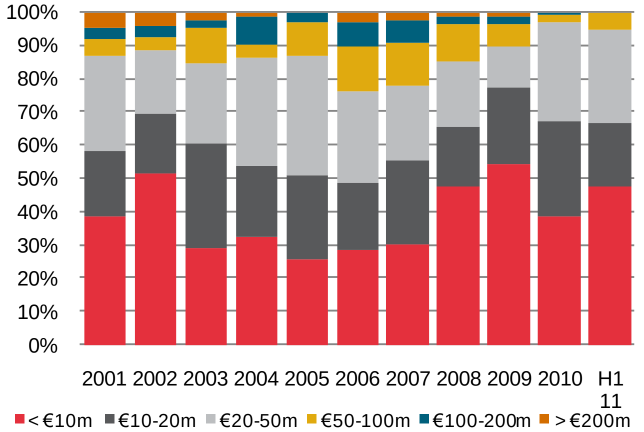
Total investments by investor nationality



Source: DTZ Research

Figure 7

Total investments by size of deals



Source: DTZ Research

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Brussels office market

As shown on Figure 8, the first half year of the Brussels office investment market has been excellent. With €507m recorded between January and June, there is no doubt that 2011 will be a much better year than 2009 (€578m) or even 2010 (€706).

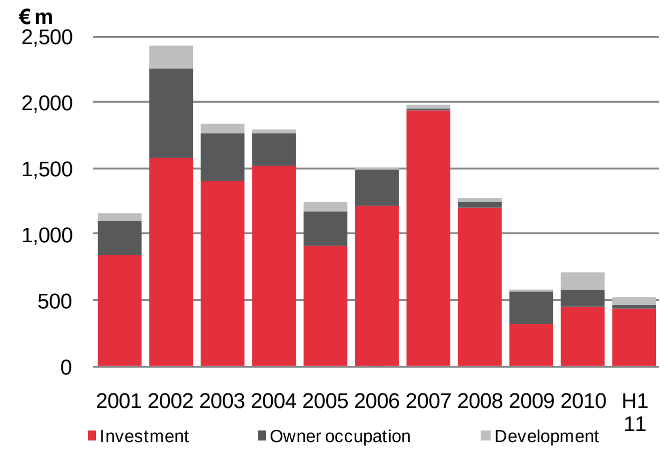
There are numerous products currently on the market in Brussels but one could however wonder if this is the result of a "window of opportunity" or an "exit wish" of some investors. Given the current interest of many investors despite the prices are not being seen to decrease, comforting the first hypothesis. A dozen office buildings have changed hands in the second quarter alone; this brings the number of transactions to nearly 25 since the beginning of the year.

Investors are still focusing a fair share of their capital towards core products with long term leases (Figure 9) as they did in 2010. However, as we predicted, they already have to take a closer look at typical core products as long term leases will be getting scarce. During the first half of 2011, we saw €231m of investments in core office assets in Brussels while €161m found their way to longer leases. Given the almost non-existent speculative pipeline for the next couple of years, we can also expect developers to start buying add-value assets again to prepare for the needs that will arise in three to five years.

As a result of the demand, the prime yield is holding its ground at 6.15% but we expect it to come back at 6.25% in 2012 on the back of rising interest rates. Cofinimmo and Befimmo's equivalent yields have followed the prime trend by lowering slightly during Q1 2011 (Figure 10).

Figure 8

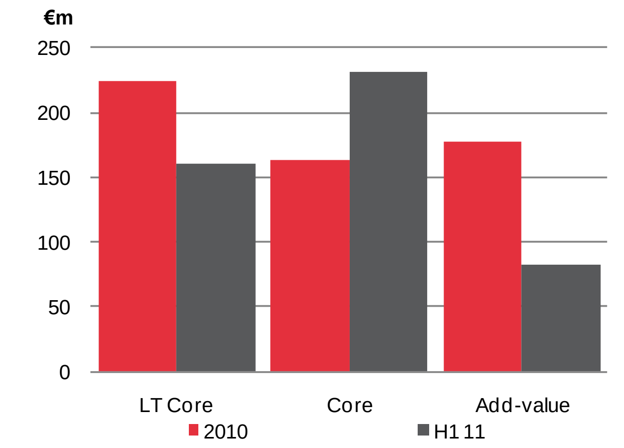
Brussels office market investment volumes



Source: DTZ Research

Figure 9

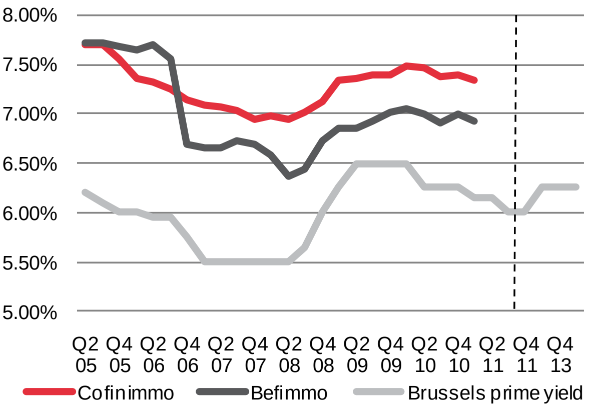
Brussels office investments by asset quality



Source: DTZ Research

Figure 10

Brussels prime yield and major REITs office portfolio equivalent yield



Source: DTZ Research

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Key figures

Table 1

Brussels office market prime yields

	Q2 2010	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q/Q change (bps)	Y/Y change (bps)	Directional outlook
Central	6.25	6.25	6.25	6.15	6.15	0	-10	▼
Decentralised	7.80	7.70	7.70	7.40	7.40	0	-40	▼
Periphery	8.10	8.00	8.00	7.60	7.60	0	-50	▼

Source : DTZ Research

Table 2

Industrial prime yields

		Q2 2010	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q/Q change (bps)	Y/Y change (bps)	Directional outlook
Antwerp	W	8.10	8.10	8.10	8.00	8.00	-10	-10	▶
	L	7.25	7.25	7.25	7.25	7.25	0	0	▶
Brabant	W	8.25	8.25	8.25	8.10	8.10	-15	-15	▶
	L	7.5	7.5	7.5	7.5	7.5	0	0	▶
Liege	W	8.50	8.50	8.50	8.40	8.40	-10	-10	▶
	L	7.7	7.7	7.7	7.7	7.7	0	0	▶

Source: DTZ Research / W= Warehouses & L= Logistics

Table 3

Retail prime yields

	Q2 2010	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q/Q change (bps)	Y/Y change (bps)	Directional outlook
Brussels	5.00	5.00	5.00	5.00	5.00	0	0	▶
Antwerp	5.00	5.00	5.00	5.00	5.00	0	0	▶

Source: DTZ Research

Table 4

Major investment deals

Type	Sector	Building	Price (€m)	Purchaser	Region
I	Office	Espace Orban	80	German investor	Brussels
I	Office	Montoyer Science	62	Hesse Newman Capital	Brussels
O	Logistics	Spar Retail DC	50	Spar	Mechelen
I	Healthcare	Dexia Immorent Portfolio	*45-50*	Cofinimmo	Belgium
I	Office	Guima'art Corner	*33*	iii Investments	Brussels

Legend : 0 = Owner occupation / I = Investment / D = Development / Price in italics are estimated
Source: DTZ Research

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