Property Times
Brussels Offices Q2 2011
Down we go, again

6 July 2011

Contents

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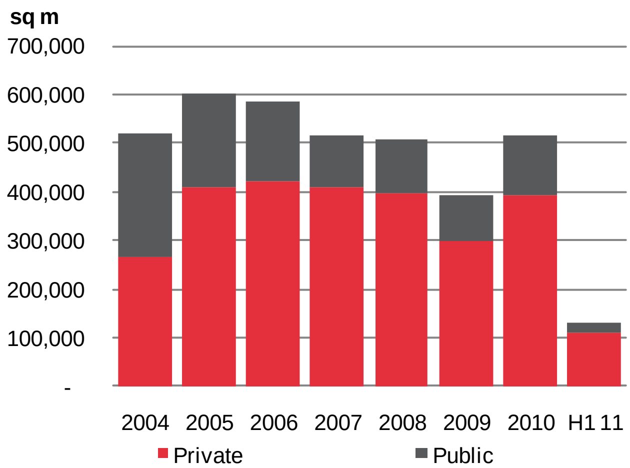
- The occupational market does not live up to our expectations with a catastrophic second quarter in terms of activity, recording the second worse result of the decade (56,000 sq m).
- We still expect tenant activity to pick up in the coming 12 months on the back of a strong economic forecast and job creation, although part of the needs may be met by “hidden availability”.
- The public sector has been quieter than ever with only 10,000 sq m of take-up since January (Figure 1), it is expected to pick up in the second part of the year.
- Availability seems to be back under control despite at a historically high level. The near absence of speculative developments in the coming 18 months combined with some outdated office reconversions should allow for a progressive reduction of the available stock.
- Rents are taking opposite direction with the prime compressing at €265/sq m/year but the effective rent gaining some ground on the back of a slight incentive diminution.

Figure 1
Take-up from public and private sectors



Source: DTZ Research

Economic overview

Having emerged relatively unscathed from the recession with GDP only falling by 0.4% in 2009, the Brussels' economy has had less scope for bounce back in 2010. GDP is estimated to have grown by only 0.8% in 2010. Total employment is estimated to have increased by 0.9%, higher than the European city average of 0.7%. This is largely due to the strong performance of office-based sectors, particularly business services, and the buffer provided by public administration jobs.

Brussels' GDP is forecast to accelerate in 2011 to 2.9%, as private services, such as financial services, contribute positively. The labour market is also forecast to perform strongly, with employment forecast to grow by 1.2%, comfortably outpacing the national and European city averages.

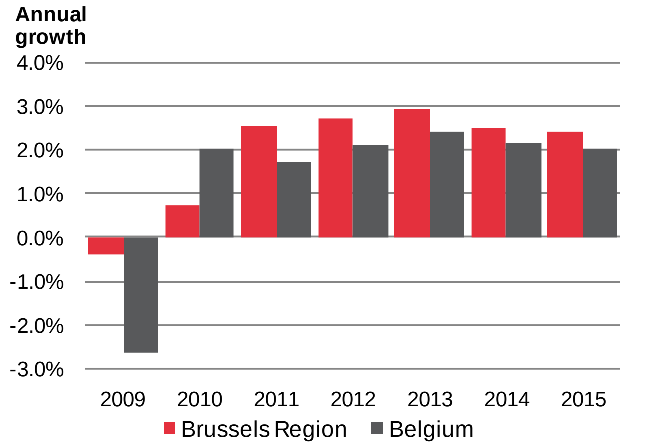
Brussels' GDP is forecast to grow by 2.7% a year between 2011 and 2015, with employment growth of 1.0% a year. These rates of growth are higher than the national and European city averages. Employment growth will be driven by strong job creation in business services, while the presence of European Commission related activity should continue to maintain employment across the public sector over the medium-term. Office-based employment is expected to grow by 1.3% a year. It is expected that over 7,000 new jobs will be generated in 2011 (Figure 3), which could in turn generate a net office space demand of at least 100,000 sq m.

Belgium has now been without an elected government for more than a year. Although the fiscal consolidation process appears to be making good progress, the country will need a full government to decide on the longer-term direction of economic policy. With public debt at 96.8% of GDP last year, the third-highest level in the Eurozone, the economy remains at risk of contagion from renewed financial market turmoil. Indeed, spreads on Belgian sovereign debt rose back above 120bp over German bunds in June as investor sentiment in Eurozone bond markets deteriorated once again (Figure 4).

Source: Oxford Economics

Figure 2

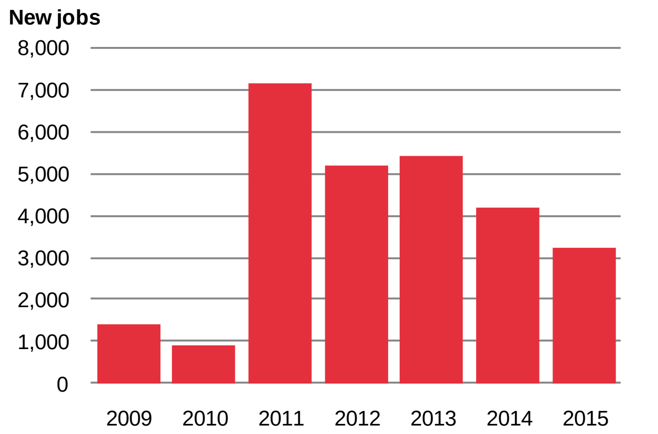
GDP growth



Source: Oxford Economics

Figure 3

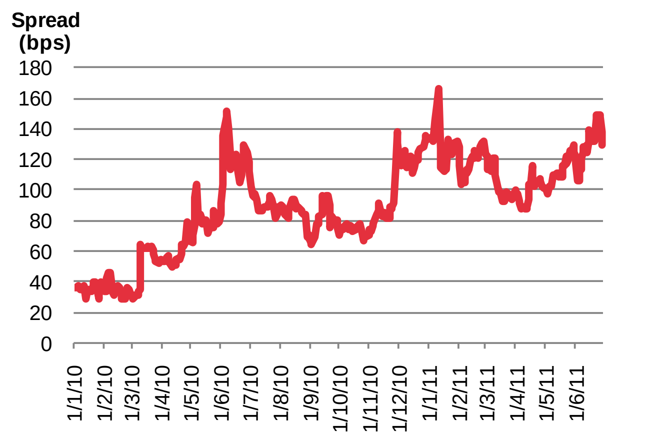
Office jobs generation in Brussels



Source: Oxford Economics

Figure 4

Belgium: Spread over Bunds



Source: Oxford Economics

Brussels market

The occupational activity has further compressed during Q2 2011 with a mere 56,000 sq m of take-up (Figure 5). This is lower than Q1 2011 and the second lowest figure of the decade. Less than 130,000 sq m of take-up have been recorded since the beginning of the year, this is half the long-term average. The only years having recorded a worse start were 2001 and 2009, bottom years of the real estate cycles. Although the private sector has performed well below its average with 110,000 sq m, the main lack of activity comes from the public sector with less than 20,000 sq m of take-up during the first half of the year, the lowest level recorded over the past 10 years. However, according to our research[1], the correlation between Belgian GDP and Brussels take-up is strong. We should therefore expect an upturn in the coming 12 months given the good economic prospect (Figure 2), although part of the needs may be met by "hidden availability" (a company not using all of its contractual space).

This shortage of activity has not impacted the availability ratio which remained fairly stable at 12.14% (Figure 5). The total availability has diminished by a mere 4,000 sq m, continuing the trend started in Q4 10. This is mostly the result of a very low speculative pipeline (Figure 7) combined with some outdated stock reconversion. We expect this trend to continue as the speculative pipeline will be almost non-existent next year and take-up is expected to pick up on the back of stronger economic activity.

Rents are taking different directions this quarter. The prime rent is indeed decreasing as the level of €275/sq m/year has not been observed anymore but the effective rent is increasing due to the compression of the rent free period. Incentives reached their peak during 2010 and are seemingly slowly decreasing.

Table 1

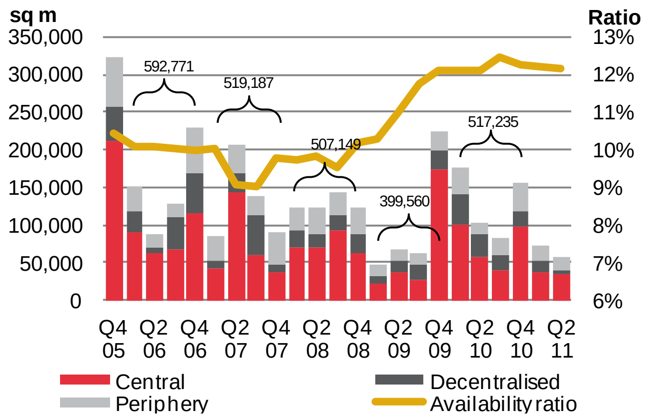
Market indicators Q2 2011

	Brussels office market
Stock (sq m)	13,151,000
Take-up (sq m)	56,077
Availability (sq m)	1,596,000
Availability ratio (%)	12,14
New supply (sq m)	34,219
Of which speculative	*10,000*
Prime rent (€/sq m/year)	265

Source: DTZ Research

Figure 5

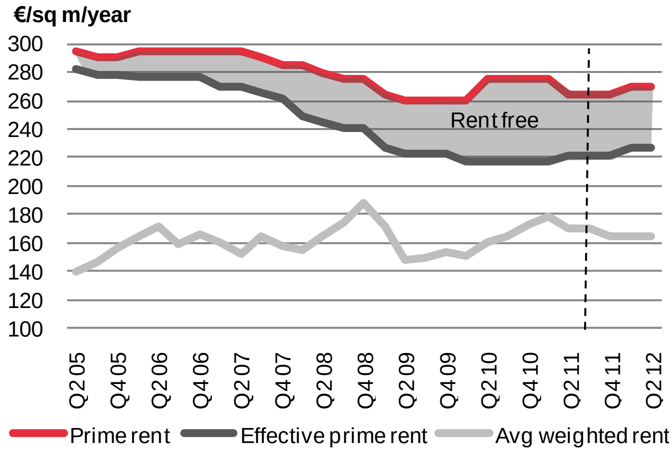
Take-up & availability



Source: DTZ Research

Figure 6

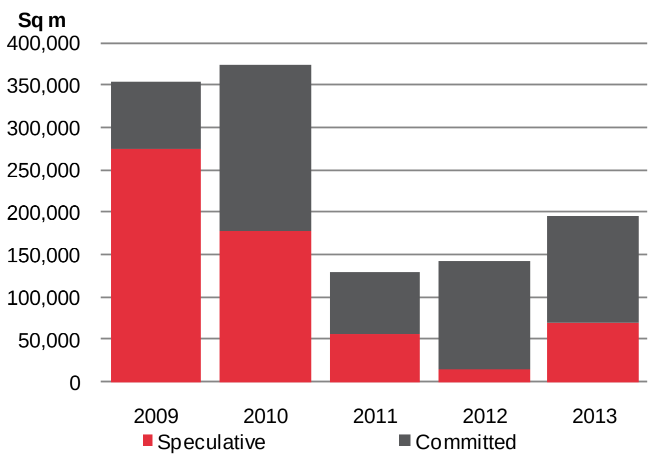
Rents



Source: DTZ Research

Figure 7

New supply & pipeline



Source: DTZ Research

[1] The correlation between the GDP in Belgium and the Brussels take-up since 1970 returns a Pearson factor of 0.83.

Central districts

The Central districts are still waiting for an uplift of the activity and rents while the availability remains dangerously high.

With 32,550 sq m recorded over the quarter (Figure 8), the Central districts' activity is decreasing by 7% on the quarter and reaches one of the worst quarterly results of the decade. This is the result of the absence of major corporate deals as well as a weak level of public sector activity.

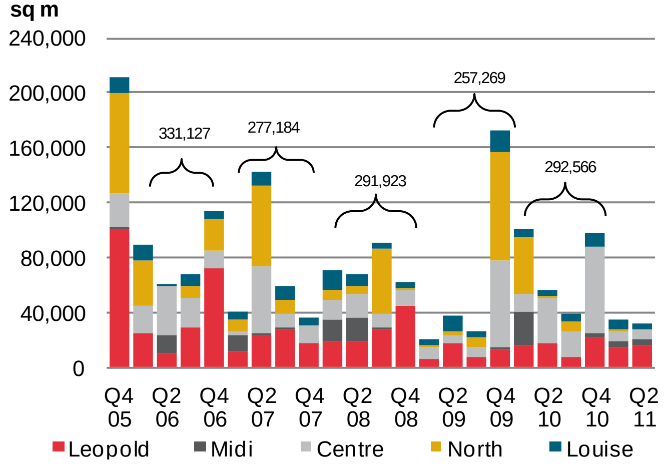
As usual the Leopold district has been the main contributor to activity, clocking up 16,535 sq m i.e. 50% of the Central districts' total activity. This is mostly due to three deals between 3,600 and 4,600 sq m (well below what we could expect from the major office district). The Midi, Louise and Centre districts have levels of take-up ranging from 4,000 to 6,500 sq m. In any case, well below their respective averages, especially for the Centre district, more used to take-up nearing the 20,000 sq m mark.

Four transactions are making half of the total activity (Figure 9): The Embassy of Finland in the Corrège (4,600 sq m), the ONEM/RVA in the South City (4,219 sq m), Euler Hermes in the Arts 56 (4,000 sq m) and Voka in the Royale 154 (3,849 sq m). There are therefore no transactions above 5,000 sq m, which shows that major corporates are still freezing their property related decisions. After the strong boost offered by the Belgian Administration to Q4 2010 take-up, the public sector has remained quiet as we are still waiting for the confirmation of the letting by the EU Commission of the Capital Building.

There has been no new deliveries in the Central districts over the quarter, which is good news given the level of availability. No more than 21,000 sq m of speculative development will be developed during the second half of the year, which will allow for a progressive recovery of the availability.

Figure 8

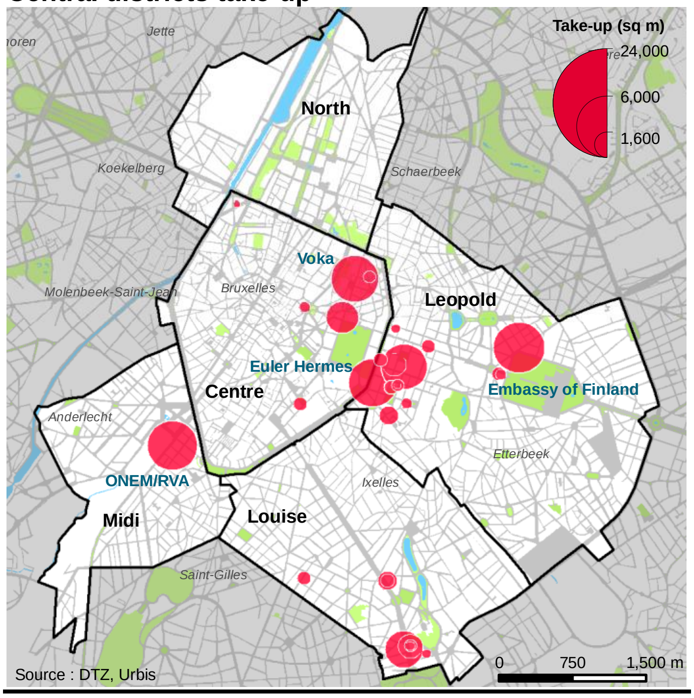
Central districts take-up



Source: DTZ Research

Figure 9

Central districts take-up



Source : DTZ, Urbis

Central districts

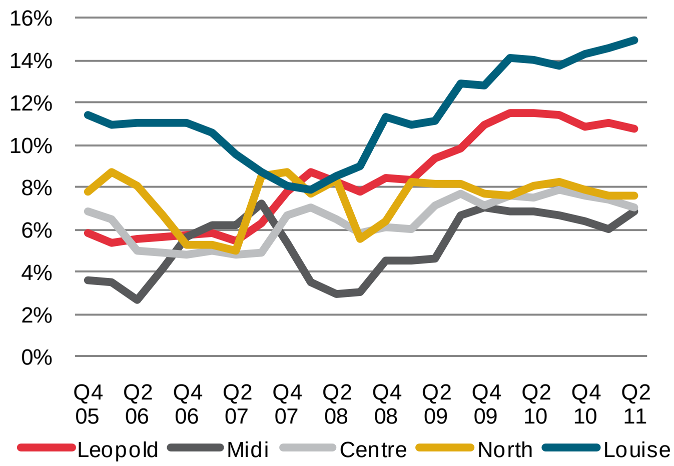
The availability ratio in the Central districts has come down to 9.31% from 9.47% in Q1. This is still a ratio never seen in the Central district before 2010 but the situation is slowly improving since Q3 2010 when the ratio reached its maximum of 9.79% and 827,000 sq m available. At the end of Q2 2011, there were close to 788,000 sq m immediately available in the Central district, 362,000 sq m of which (46%) were accounted for by buildings of less than five years. This figure has come down since its maximum of 54% recorded a couple of quarters ago, mainly thanks to the fact that the major transactions of this quarter were in recent buildings. The challenge remains however, and availability needs to continue its decrease.

The Louise district has reached a new maximum availability ratio of 14.94% which translates into 125,000 sq m being available, up 3,000 sq m on the quarter (Figure 10). The main reason lies in the increased availability in the Blue Tower and Louise 250. In the Midi district, the increase in availability is linked to the inclusion of the Brussels 2 building (owned by AG RE) in the stock. The Centre and Leopold districts on the other hand have managed to decrease the total available area by 10,000 sq m. Hopefully, this trend will continue in the following quarters if activity is picking up.

Despite its peak in availability the Louise district has strongly increased its prime rent, reaching €225/sq m/year. As usual, this level of headline rents has been observed in the IT and Blue Towers. The Leopold, Centre and North districts however have seen their prime rent decrease over the quarter. The prime rent in Brussels now stands at €265/sq m/year as no significant transactions (>500 sq m) have been recorded or communicated above this level.

Figure 10

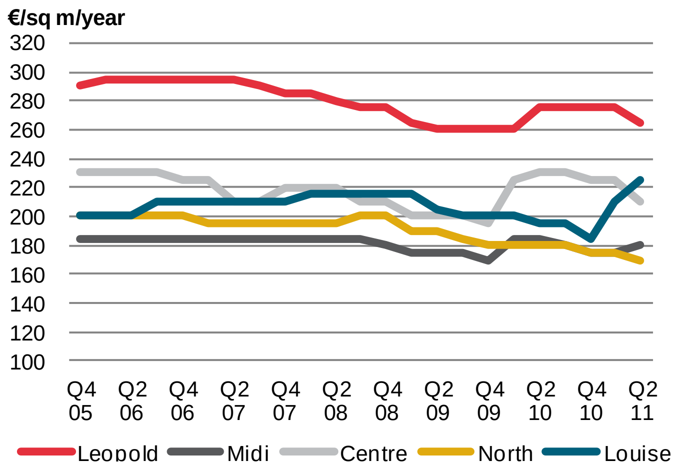
Central districts availability



Source: DTZ Research

Figure 11

Central districts prime rents



Source: DTZ Research

Decentralised districts

A never seen before level of take-up but availability is holding its ground.

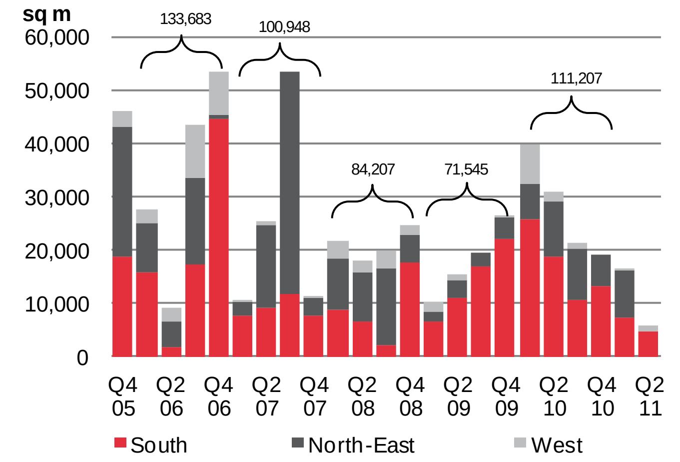
The Decentralised districts are the worst off this quarter when it comes to activity. There have been only eight deals totalling barely 5,700 sq m, making this quarter the lowest point of the decade. The only deal above 1,000 sq m was the letting of the South Gate Building (empty for a number of years) to Partner Assurance by its sister company Foncière Massena. The Decentralised districts are traditionally more dependent on smaller companies and these seems to have frozen their property related decisions once again despite the upturn observed between Q3 09 and Q2 10 (Figure 12).

The picture is gloomier in the North-East district where no single deals were recorded (Figure 13). The West district is not faring much better as only two small deals (376 and 438 sq m) were recorded. The South district has seen most of the activity but it does not amount to 5,000 sq m! The Crescent building of Leasinvest in the far south-west corner of Brussels is however keeping the pace and attracting new tenants as is the case with Batibouw/Fisa.

Luckily for the area, no new speculative developments have been delivered over the quarter and none should be in the second half of 2011 or even in 2012.

Figure 12

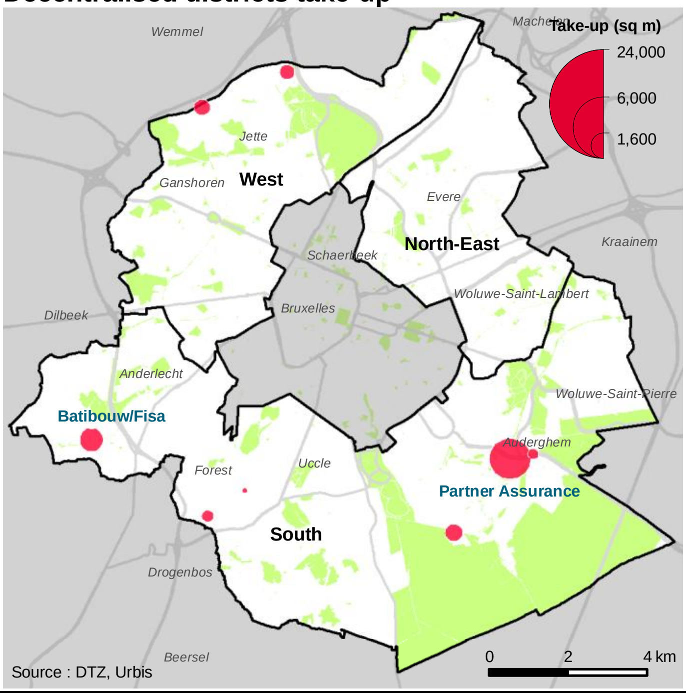
Decentralised districts take-up



Source: DTZ Research

Figure 13

Decentralised districts take-up



Source : DTZ, Urbis

Decentralised districts

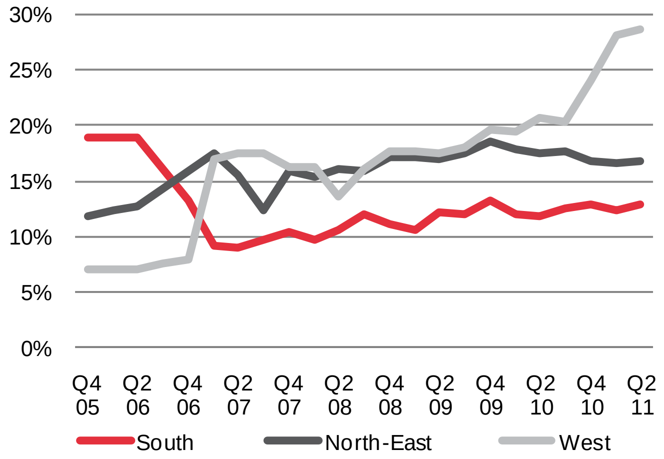
The situation has remained stable as far as availability is concerned. No new developments or departures of existing major tenants have significantly increased the availability that stands at 16.47%, i.e. 447,000 sq m. The major boost of the availability observed in the West district in Q1 2011 is due to the delivery of the speculative development of the SDRB, the Lavoisier.

Unlike the Central districts, the available spaces in the Decentralised districts tend to be in older buildings. Nearly 75% of the available offices are in buildings of more than 10 years. The reconversion of outdated office buildings is certainly a hot topic on the market at the moment and we can identify a few buildings that have or will undergo a reconversion to apartments or nursing homes. However these developments should not be enough at this stage to significantly decrease the availability in the Decentralised districts. This is nonetheless the market where it would be most effective as many outdated office buildings are in or close to residential areas.

The prime rent in the decentralised district has decreased over the quarter to €170/sq m/year as no transactions above that level have been recorded in the South district. This downward trend could very well continue in the coming quarter given the weak level of activity. The West district has also suffered a decrease of its prime rent to €160/sq m/year while the North-East district remained stable at €150/sq m/year.

Figure 14

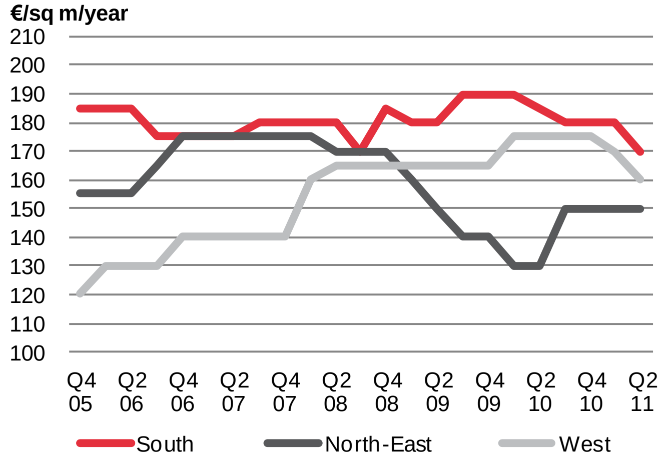
Decentralised districts availability



Source: DTZ Research

Figure 15

Decentralised districts prime rents



Source: DTZ Research

Periphery

The take-up level is saved by the Walloon Brabant as activity is depressed elsewhere.

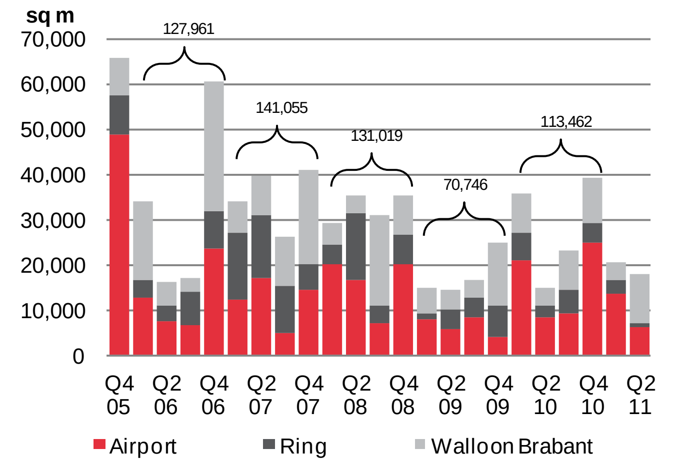
The story is not any different in the Periphery; the level of activity has been weak at best with close to 18,000 sq m (Figure 16), more than 30% below the average. This brings the take up since the beginning of the year to nearly 40,000 sq m, better than the 30,000 sq m recorded mid 2009 but worse than the 50,000 sq m recorded mid 2010. The upturn observed in 2010 has definitively halted until major corporates decide to act on their property related decisions as the Periphery is closely dependent on these players.

Interestingly, the Walloon Brabant has been the most dynamic this quarter with close to 11,000 sq m (above its average) as the Airport has recorded one of its lower quarters of the decade (6,145 sq m). The Ring district has never seen so little activity with less than 1,000 sq m of take-up.

Most of the take-up recorded in the Walloon Brabant came from the letting of the Double W building to local company BSB (6,300 sq m) in Louvain-La-Neuve (Figure 17). This building was to be let by Wyeth but Pfizer was looking for a way out of the lease after it bought the company. The second largest transaction of the quarter barely reached 1,800 sq m with the extension of Astra Zeneca in the Corporate Village in the Airport district.

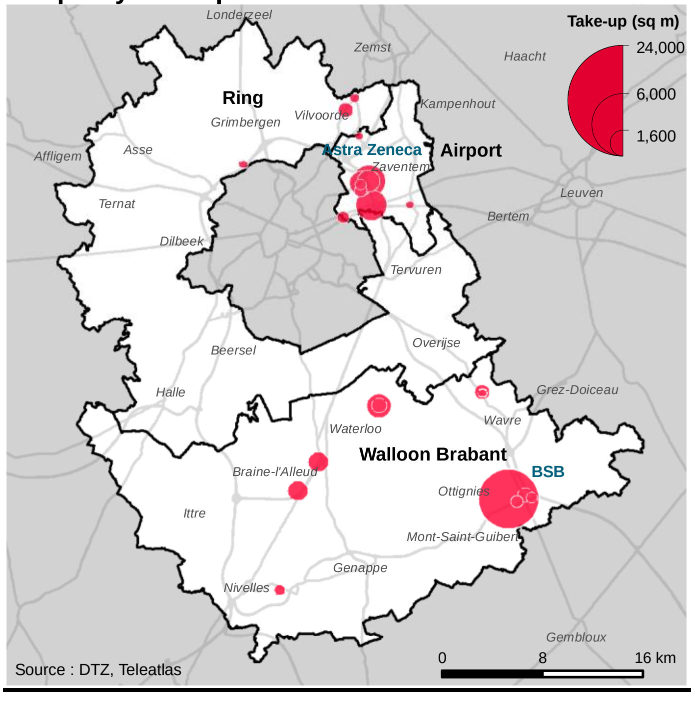
Only one development has been delivered over the quarter and, fortunately, it is a committed one. The Airport Business Centre has been purchased by Johnson & Johnson just six months ago and has been refurbished in the meantime. The only (partly) speculative development to be delivered in the Periphery in 2011 is the Porte du Lion in the Walloon Brabant (4,500 sq m). Walloon Brabant will also see the development of the only speculative building in 2012, the sixth phase of the Collines de Wavre.

Figure 16
Periphery take-up



Source: DTZ Research

Figure 17
Periphery take-up



Source : DTZ, Teleatlas

Periphery

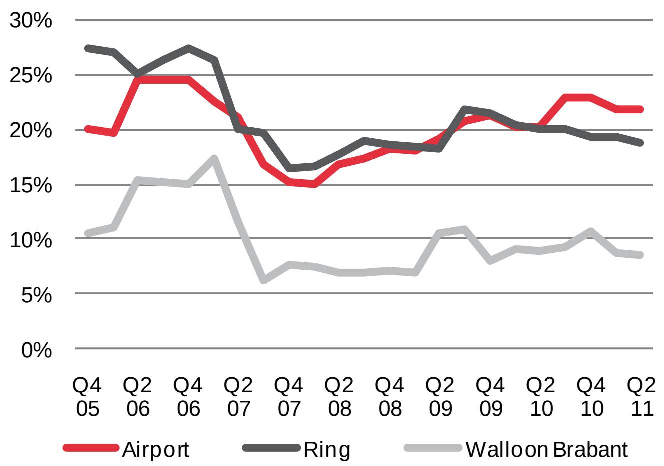
Despite the lack of transactions, availability has remained stable over the quarter at 18.36% and 361,000 sq m as a result of the non-existent pipeline. Depending on the choices that will be made by major companies with lease ending in the coming months however, availability could go either way.

The Walloon Brabant is still hovering around 9% availability ratio but does not have any major structural availability. The current challenge will be to fill the Parc de l'Alliance once again as some 7,000 sq m have been vacated recently. The Airport district on the other hand has many buildings standing empty for years but also large new development such as the Airport Plaza (36,000sq m), which still has to welcome its first tenant.

The prime rent is still being recorded in the Airport district (Corporate Village) at €165/sq m/year. The Ring district is the only one to suffer a decrease of its prime rent to €135/sq m/year given the lack of prime transactions but also prime assets.

Figure 18

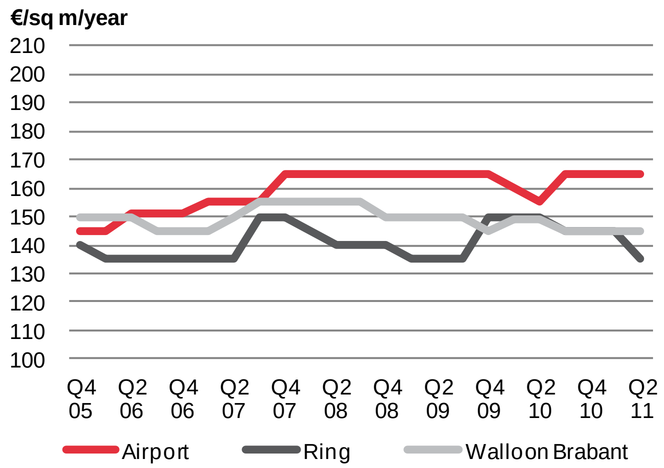
Periphery availability



Source: DTZ Research

Figure 19

Periphery prime rents



Source: DTZ Research

Key statistics – occupier market

Table 2

Occupier market

	Q2 2010	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q/Q change (%)	Y/Y change (%)	Directional outlook
Central								
Stock (m sq m)	8.44	8.45	8.45	8.47	8.47	0	0	▶
Take-up (sq m)	56,107	38,385	97,704	35,172	32,550	-7	-42	▲
Availability (sq m)	824,056	826,933	799,195	799,412	788,205	-1	-4	▼
Availability ratio (%)	9.76	9.79	9.46	9.43	9.31	-1	-5	▼
New supply (sq m)	35,820	28,718	65,618	30,037	0	-100	-100	▶
Prime rents (€/sq m/year)	275	275	275	275	265	-4	-4	▶
Decentralised								
Stock (m sq m)	2.66	2.67	2.67	2.70	2.71	1	2	▶
Take-up (sq m)	31,008	21,325	18,991	16,721	5,702	-66	-82	▲
Availability (sq m)	410,302	421,405	425,567	436,984	446,979	2	9	▼
Availability ratio (%)	15.42	15.77	15.91	16.18	16.47	2	7	▼
New supply (sq m)	27,356	19,823	28,750	13,899	23,374	68	-15	▼
Prime rents (€/sq m/year)	185	180	180	180	170	-6	-8	▶
Periphery								
Stock (m sq m)	1.89	1.92	1.94	1.96	1.97	0	4	▶
Take-up (sq m)	15,001	23,261	39,471	20,646	17,825	-14	19	▶
Availability (sq m)	338,661	374,536	379,219	363,931	361,069	-1	7	▼
Availability ratio (%)	17.89	19.48	19.54	18.58	18.36	-1	3	▼
New supply (sq m)	26,200	26,211	0	2,287	10,845	374	-59	▶
Prime rents (€/sq m/year)	155	165	165	165	165	0	6	▶

Source: DTZ Research

Table 3

Leasing transactions

Submarket	Building	Offices (sq m)	Tenant - occupier	Transaction
Walloon Brabant	Double W	6,300	BSB	Letting
Leopold	Le Corrège	4,600	Embassy of Finland	Letting
Midi	South City	4,219	ONEM/RVA	Letting
Leopold	Ex-Winterthur Building	4,000	Euler Hermes	Letting
Centre	Royale 154	3,849	Voka	Purchase
Leopold	Science 14	3,657	Windows on Europe	Letting
South	South Gate Building	2,977	Partner Assurance	Letting
Louise	Louise-Claus	2,524	Vox Bone	Letting
Centre	Royal Atrium	1,837	Arcadis	Letting
Airport	Corporate Village A	1,824	Astra Zeneca	Extension

Source: DTZ Research

Definitions

Take-up

Represents the total office 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.

New supply

Represents the total amount of floor space that has reached practical completion as known on the last day of the quarter (including major refurbishments) regardless whether the space is occupied or still available on the market.

Prime yields

Represents the initial yield estimated to be achievable for a notional office property of highest quality and specification in the best location fully let and immediately income producing in a market at the survey date.

Stock

The office property stock is the sum of office properties which are in use and office properties standing empty at the time of analysis. The office property stock is not a static amount. Due to new-build or totally refurbished operations it increases (new supply), due to demolition, change of use or even larger refurbishments that make the space not usable for a significant amount of time, it decreases.

Prime rent

Represents the attainable average prime rent that could be expected for an office 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.

Square metres

Unless stated otherwise, the square meters used in this publication refer to the Gross Leasable Area definition for Brussels. For more information, see our DTZ insight: Office Lease Area Comparison.

Availability

Represents the total floor space in existing properties, which are physically vacant, ready for occupation and being actively marketed as known on the last day of the quarter (with a margin of error of 5%). The vacancy rate represents the total vacant floor space divided by the total stock at the survey date.

Brussels submarkets

Since 2007, the submarkets within the limits of the Brussels Capital Region are derived from the division made by the Department of Land Use Planning and Housing in its Review of office property. The periphery submarkets are delimited using zip code limits. The complete list of zip code used is available on simple demand.

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