DTZ Research

Investment Market Update

Belgium Q1 2012

Challenging year awaited

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- After the year 2011 ended with investments totalling €2bn, 2012 would be a challenging year, with economic uncertainties putting pressure on European economic reforms to exit the crisis. Furthermore, other issues such as the oil price rising could unsettle all the expectations. Despite this troubled context, this first quarter of the year recorded a total investment volume in the Belgian commercial property market around €372m, comparing favourably with previous years.

- Retail has led the way this quarter with around €150m invested, representing a market share of 40%. The major transaction was the purchase of the Westland Shopping Centre by AG Real Estate for €78m.

- We also record an interesting repartition of investments by sector. Indeed, offices represent only 30% of the total investments (€115m) while retail amounts to 40% and investments in nursing homes (€93m) confirm the interest of investors for this type of asset with a market share around 25%.

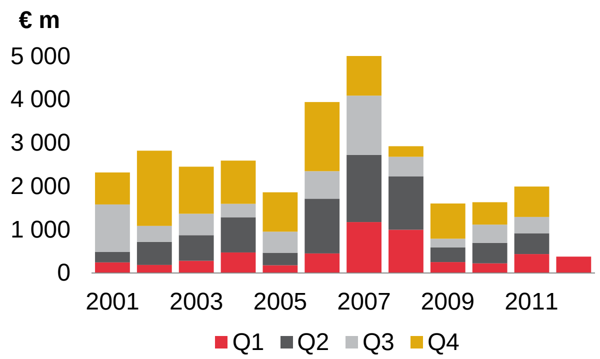
- As is to be expected in times of crisis, domestic investors are the most active as Belgian investment volumes represent 86% of the total invested, followed by Asian investors (6% of the total invested). European investors were not present on the purchaser side and were, on the contrary, quite active on the vendor side with a divestment representing €117m and 31% of the total investment volumes.

- The Brussels office market has not yet recovered, with only €104m invested in seven deals and none above €20m. A high availability ratio and little improvements expected in the short term are depressing the market.

- There is little doubt that 2012 will reveal new trends in real estate development as offices seem to be losing weight compared to other types of assets which offer brighter outlooks for less risk.

Figure 1

Belgium – Quarterly invested volumes



Source: DTZ Research

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Economic climate

The global economy experienced a "convalescence" in 2010 after the subprime crisis in 2008 and 2009. However in 2011, economies around the world experienced major turbulence given the sovereign debt crisis and falling stock markets.

But thanks to a combination of domestic and European level policy action, the European crisis looks (for now) to have been averted, with a sense of relative calm restored around the continent. A number of first steps towards economic reform have been taken in the past three months.

This has been complemented by bold policy moves at the European Central Bank (ECB). Through its two Long Term Refinancing Operations (LTRO) the ECB has injected approximately €1trn into the European banking system, at an interest rate of just 1%, with a maturity of up to three years. This seems to have addressed the immediate risk of a credit crunch forcing governments to nationalise banks as in 2008-9, and in turn, the banks that are now able to access cheap cash seem more willing to invest in sovereign debt.

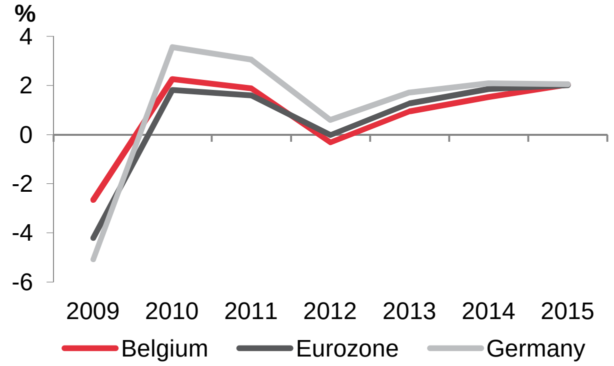
However, these improvements have come too late to prevent the Eurozone from slipping into recession and this weakness is set to continue through most of 2012. An expected recovery in the latter part of the year will come too late to prevent output falling 0.2% over 2012 in the Eurozone (Figure 2). The European economy is forecasted to bounce back in 2013 and beyond with a GDP growth reaching 2% in 2015.

Belgium has not been spared and was one of the first European countries to fall back into recession, posting quarterly GDP falls of 0.1% in Q3 and 0.1% in Q4 2011. Oxford Economics expect the GDP to fall by 0.4% over the year 2012. Important efforts made by the Government to keep public deficit under 2.8% of the GDP undermine economic activity. Trends in recovery are expected to follow the European ones, with a GDP growth around 2% in 2015.

With a depressed economy, job creation is expected to contract in 2012. As a result, unemployment is forecasted to rise in 2012 and 2013 (Figure 3). At the Eurozone level, the trend is the same, namely a decrease in unemployment expected from 2014. Conversely, Germany presents a continuous fall in unemployment since 2009.

Figure 2

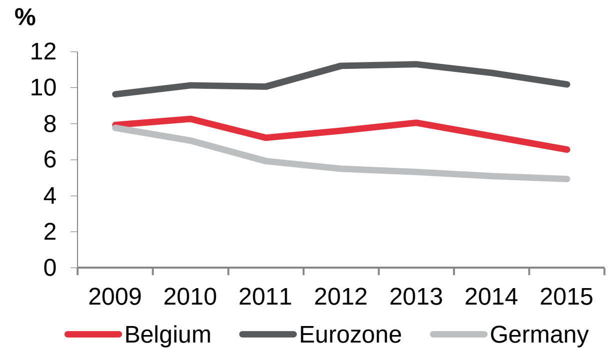
GDP growth



Source: Oxford Economics, March 2012

Figure 3

Unemployment rate



Source: Oxford Economics, March 2012

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The crisis in financial markets, and the impact on short term demand around the Eurozone, has had a substantial impact on firms' appetite to invest. Capital spending fell 0.7% in the final quarter of 2011. In light of somewhat gloomy business confidence, it seems unlikely that firms will need to invest to keep up with orders for at least the first couple of quarters of 2012. Even if firms were looking to invest, despite the success of the LTRO in calming fears of a banking crisis, there is little evidence as yet to suggest that the ECB's policy measures have resulted in an easing of credit supply to the "real economy".

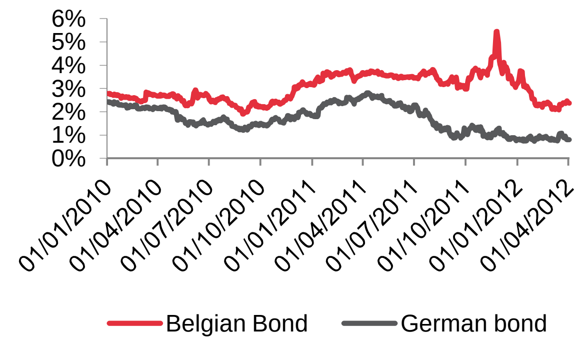
However, the concerns coming from the international finance sphere seem to ease as the spread is on the downside after an historical peak at 425 bps in November 2011 (Figure 4). The spread continues to fall in response to both domestic policies and liquidity measures by the European Central Bank. The spread is around 150 bps at the time of writing, still far away from the 40 bps recorded at the start of 2010. More needs to be done to ensure some stability and the taken measures should be complemented by reforms to boost growth, with the labour market the priority.

With the new decrease of the Belgian 10-year bonds and an expected flat office prime yield, the spread has widened during this first quarter. With a prime office yield expected to remain stable over the year, a fall of the 10-year bond could reinforce the interest for real estate. But economic oscillations can change this recent trend over 2012.

Source: Oxford Economics and DTZ Research

Figure 4

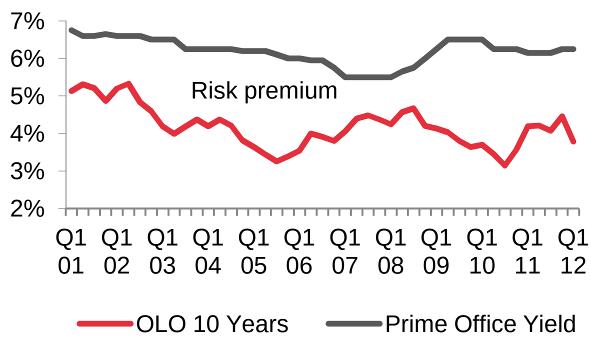
Belgian and German bonds



Source: Oxford Economics, March 2012

Figure 5

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



Source: DTZ Research

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Investment in Belgium

The year starts slowly, as economic measures adopted recently have no effect yet.

As usual in Q1, investment volumes recorded were very low, reaching barely €375m (Figure 6), in line with first quarter volumes recorded since mid-2008. Few transactions occurred, explaining this poor performance. The major ones were the purchase of the real estate certificate of the Westland Shopping Center by AG Real Estate (€78m) and the purchase of the Arthur building in Antwerp by Ethias (€38m).

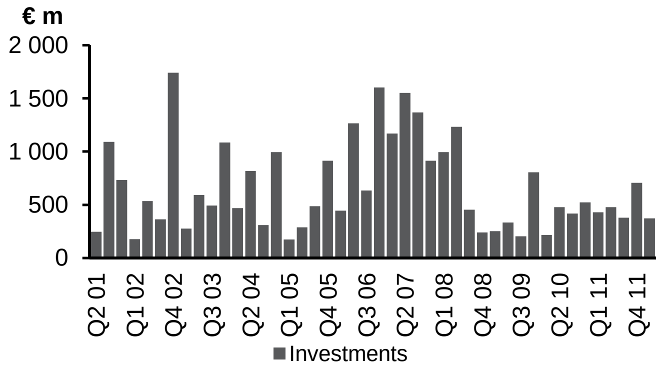
No development deals were concluded, clearly showing that the adopted package of measures to reinforce the economy has had currently no effect on real estate investments. A single owner occupation deal was recorded this quarter. Investors are reluctant to develop new projects. Furthermore, obtaining financing is still difficult exercise; that explains the low volumes invested this quarter.

During this year's first quarter, Belgian investors were the most active with 86% of market share (Figure 8). Even if an analysis for one quarter is not quite representative and will not define the trend for the rest of the year, this figure seems to reveal that foreign investors are putting on hold investments in Belgium in time of economic uncertainties. Political uncertainties have probably impacted the market as the new coalition government is only in place since 6 December, after a world record 541 days of political crisis. Asian investors were the second most active on the Belgian market this quarter but they were only involved in two transactions, representing a volume of €25m and a market share of 6%.

As the economic crisis is expected to find a positive exit, the Belgian market could improve in terms of volumes and the presence of foreign investors. But with other issues such as the oil price rising, 2012 should not witness major improvements compared to 2009, 2010 and 2011.

Figure 6

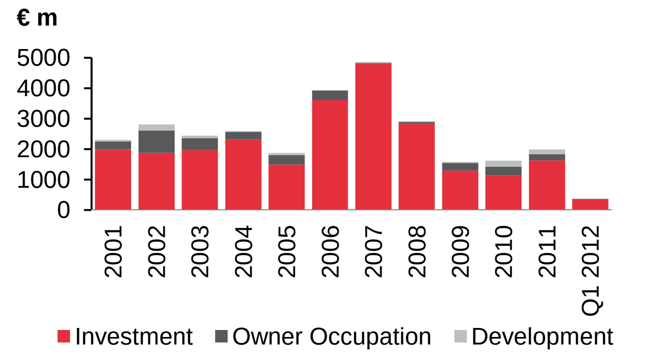
Quarterly investment volumes in Belgium



Source: DTZ Research

Figure 7

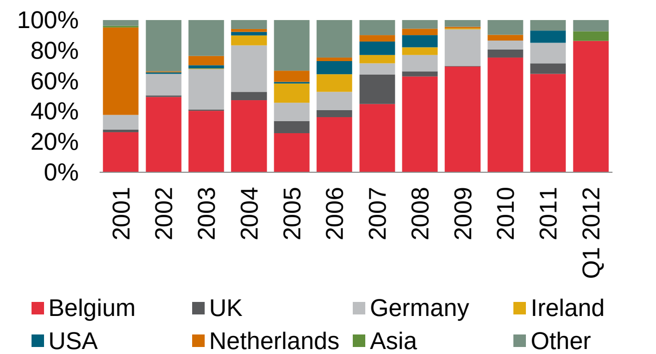
Investment volumes in Belgium by type of investments



Source: DTZ Research

Figure 8

Total investment in Belgium by investor nationality



Source: DTZ Research

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The first quarter of 2012 shows some interesting trends. The first one, already noted in the last few years is the diversification of the sectors where investments are recorded. It is worth mentioning that this quarter, investments realised in offices represent only 30% of the total invested (Figure 9).

The major deals were the purchase of the AGC Glass Europe headquarters (€29m) by AXA in Walloon Brabant, the purchase of the Plaine 9 (+/- €20m) by an educational institution and the purchase of the Waterside (+/- €20m) by Intégrale in Brussels. Even if it is probably going to change over the year, this is quite symptomatic of the issues seen on the office market, especially in Brussels, notably a high availability ratio.

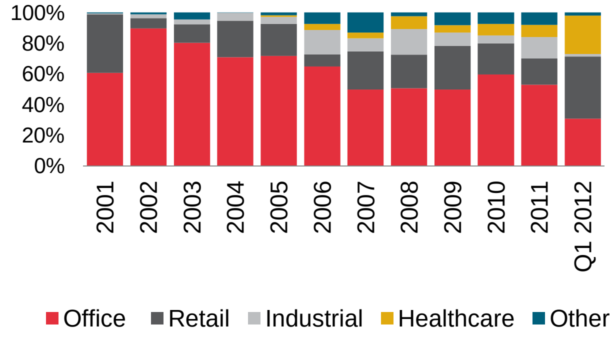
The retail segment performs well this quarter with 40% of the total investment volume. This performance is especially due to the purchase of the Westland Shopping for €78m and the purchase of three commercial buildings in Gent by the Tans group (€44m). Interest in retail remains important as retail continues to offer strong performances, even in time of crisis.

Nursing homes continue to attract investors as reveals by a 25% market share this quarter. Two transactions were concluded: the purchase of a portfolio of Orpea (€55m) and the Arthur Building in Antwerp (€38m). These two investments are realised by an insurance company (Ethias), showing the interest of these investors for secured assets with a long term vision.

Regarding the lot size of the deals (Figure 10), no significant differences are to be seen. The investment market in Belgium is mainly oriented towards transactions below €100m. This quarter, deals under €20m accounts for 67% of the total, still active with the involvement of private domestic and foreign investors. In a depressed economy where banks are forced to be extremely cautious, any significant change in this distribution is expected throughout 2012. Nevertheless, rumours concerning the potential sale of the Dexia Tower could contradict this statement with an estimated price above €200m.

Figure 9

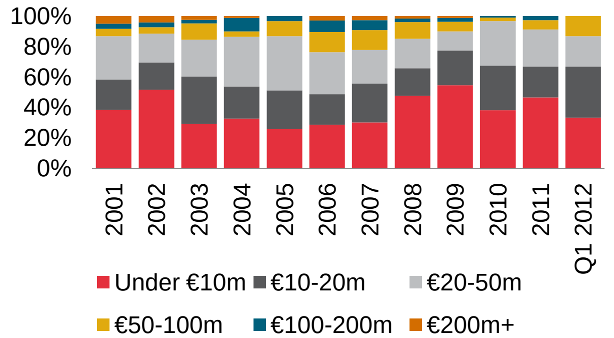
Total investment in Belgium by sector



Source: DTZ Research

Figure 10

Total investment in Belgium by lot size



Source: DTZ Research

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Brussels office market

A very low start to the year is putting pressure on the market as the economic crisis is expected to find a positive exit.

With a deal concluded at the very end of the quarter, the total amount invested on the Brussels office market barely reached €100m (Figure 11). This is a discouraging start of the year as only seven deals have been recorded, none of them reaching €20m. The uncertainties in the economy and the increasing difficulties to finance acquisitions on the lending side have negatively impacted the market this quarter.

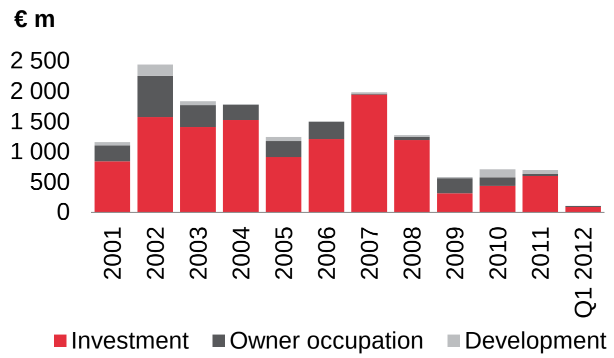
The distribution of deals by lot size is balanced, with three deals under €10m (Planet I, Industria I and Fin Shop) and three deals between €10m and €20m (Plaine 9, Arts 53 and the Waterside). Only one deal above €20m has been recorded, the purchase of the new headquarters of AGC Glass Europe by AXA in Louvain-La-Neuve.

Transactions on core products let on a long term basis remain dominant (Figure 12), as investors are seeking for safer products in a time of greater risk aversion and depressed period. It is namely the case of the new headquarters of AGC Glass Europe, a brand new development which will house the firm for at least 15 years or the Waterside let on a long-term basis to a administration or also for. Insurance companies remain quite active on the Brussels market as they were involved in three deals on the purchaser side, all of them for long-term core products.

Belgian investors clearly are the most active actors this quarter on the Brussels office market as they were involved in all transactions (Figure 13), on the purchaser side (€82m) or on the vendor side (€42m). Only one transaction involved foreign investors exclusively. As expected in a period of uncertainties and austerity measures putted in place across Europe, foreign investors are more likely to sell their assets and exit the market, probably to find safer heaven elsewhere or to invest in their domestic market. However, while European investors sell their product (O'Mahony for the Waterside and Standard Life for the Plaine 9 for example), non-European investors are active on the purchaser side (a private Asian investor purchases the Arts 53).

Figure 11

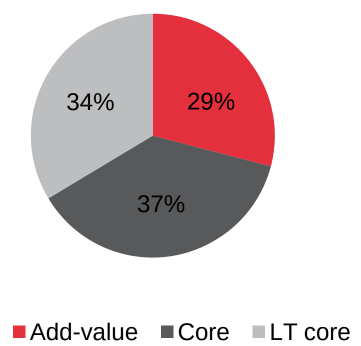
Brussels office market investment volume



Source: DTZ Research

Figure 12

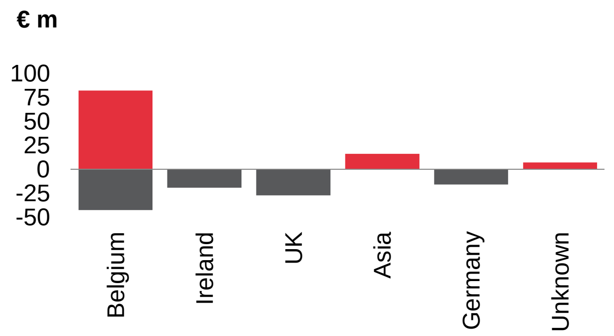
Brussels office market investment by asset quality, Q1 2012



Source: DTZ Research

Figure 13

Investment and divestment by nationality, Q1 2012



Source: DTZ Research

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Key statistics

Table 1

Major investment deals in Belgium, Q1 2012

Type	Sector	Building	Price (€m)	Purchaser	Market
I	Retail	Westland Shopping Center	78	AG Real Estate	Brussels
I	Healthcare	Orpea portfolio	55	Ethias	Belgium
I	Healthcare	Arthur Building	38	Ethias	Antwerp
I	Office	AGC Glass Europe Headquarters	29	AXA Belgium	Brussels
O	Office	Plaine 9	19	Educational institution	Brussels
I	Office	Waterside	19	Intégrale / Ogeo Fund	Brussels

O = Owner occupation / I = Investment / D = Development / Prices in italics are estimates

Source: DTZ Research

Table 2

Prime yields in Belgium, Q1 2012

Asset class	Prime yield	Q/Q change (bps)	Y/Y change (bps)
Offices	6.25	0	0
Retail	5.00	0	0
Logistics	7.35	0	0
Warehouses	8.00	0	0

Source: DTZ Research

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Definitions

Development:	Refers to the purchase of commercial real estate during the development /construction/comprehensive refurbishment phase where the completion date is known. The price of development deals refers to the acquisition price rather than the end value of the building/project.
Investment:	Refers to the purchase of commercial real estate for the purpose of receiving an income or rent.
Owner Occupation:	Refers to the purchase of commercial real estate for the sole purpose of occupation.
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.
Square meters:	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.

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