Investment Market Update

Belgium Q2 2012

Slowdown confirmed

13 July 2012

Contents

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- After a mitigated start to the year with €400m investment volume recorded in Q1 2012, the Belgium investment market continues to slow down in Q2 with the investment volume barely reaching €345m. As a consequence, total investment volumes present a total of €715m, 20% below the level of half 2011.

- Economic uncertainties and difficult access to credit negatively impact the investment market. New regulations imposed by Basel III, Solvency II and the stress-test of the European Bank Authority will impose new way of thinking the real estate, notably to finance or refinance real estate debt. In this context, insurance companies might play a significant role on the real estate financing market and might add some “fresh air” to this suffering market.

- As a consequence of this turbulent weathered market and a still cautious behaviour of investors, we increased our prime office yield by 10 bps, now standing at 6.35% for 3/6/9 years lease contracts.

- Belgian’s investors were the only ones active on the purchaser side, trusting 82% of the total invested volumes.

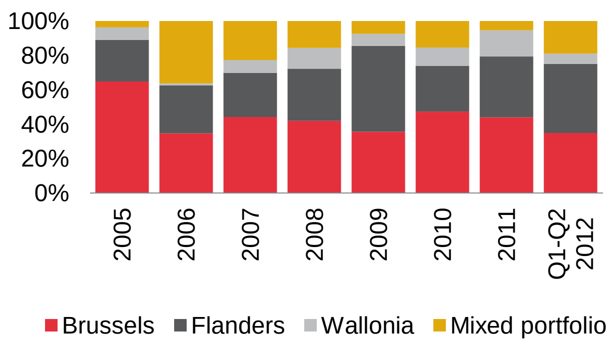
- Trend to diversification continues this quarter with investment in offices representing only 28% of the total invested. Retail remains very attractive as major deals were once again recorded. A new actor enters the nursing homes sector this quarter, confirming trends to diversification of the portfolio.

- The investment in the Brussels office market remains apathetic this quarter with only four deals recorded for an amount of €70m. If no major deals occur this year, the investment in Brussels’ offices could reach its lowest level of the last decade.

- The breakdown of investment volume by region (Figure 1) reveals an interesting draw with investment in the Brussels Region reaching only 35% of the total. Flanders is the first market in terms of investments this half-year.

Figure 1

Breakdown of investment volume by region



Source: DTZ Research

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Economic climate

Belgium shows some positive signs of recovery despite economic uncertainties but the financial crisis continues to negatively impact the market.

Europe accumulated many of the characteristics of a structural crisis (sovereign debt crisis, bank risk) these last months, reducing the probability to see the European economy recover in 2012. After Greece, investors fears are focusing on the Spanish economic situation. Even if the risk of the Eurozone falling apart is lessening, the banking market remains weak and has increased the possibility to see the European commercial real estate market shrink in 2012, as already shown at the European level in Q1 2012.

In this context, the breakdown of Belgium's national accounts for the first quarter of 2012 shows a surprising 0.3% rise in GDP, mainly due to its strengthening trade balance 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 good results of Germany. But in the meantime, the external outlook has worsened with evidence of slowing growth around Europe. As a result, the boost to net trade seems unlikely to last and export volumes are likely to fall by almost 1% in 2012 as a whole.

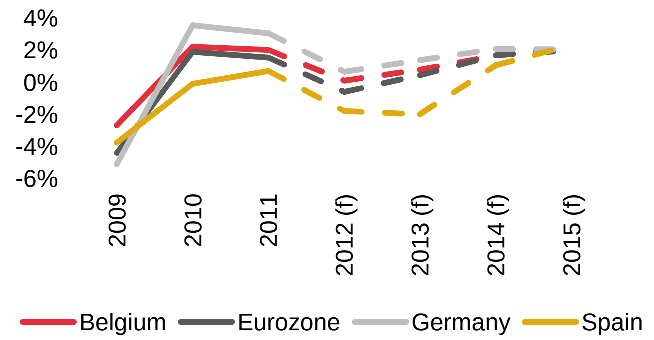
GDP growth in 2012 as a whole is now forecast at just 0.1%. Recovery in Belgium would proceed sluggishly. As in 2010, we expect a rebound in exports to lead the way, with a gradual improvement in business investment and a boost to consumer confidence. Recovery is expected for 2013 with a GDP growth around 0.8%. Afterward, growth is expected to be recorded around 1.7% (Figure 2).

In light of deteriorating export markets, growing spare capacity and the uncertainty over the future, we expect business investment to slow down in the coming quarters. With it, firms' demand for labour is likely to fall and as a result, we expect unemployment to edge up towards 8% by early 2013 (Figure 3).

Household consumption is far more subdued, in line with the generally gloomy tone of households and their concerns over the labour market. 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

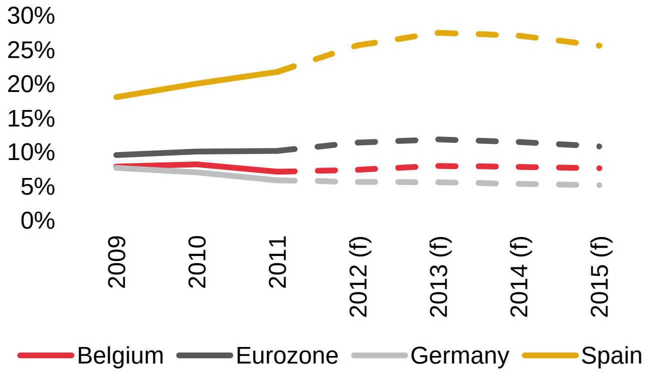
GDP growth



Source: Oxford Economics, June 2012

Figure 3

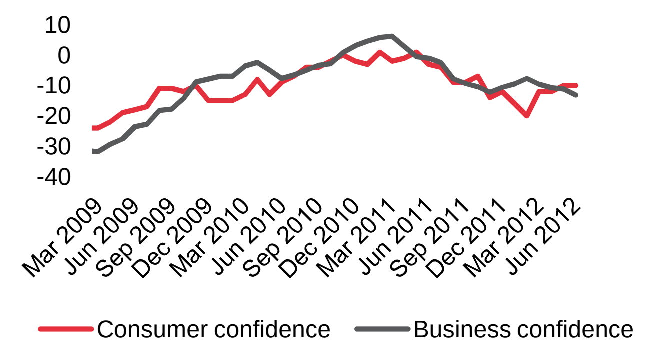
Unemployment rate



Source: Oxford Economics, June 2012

Figure 4

Consumer and business confidence index



Source: National Bank of Belgium, June 2012

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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 budget 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, even if Belgium's borrowing costs have remained relatively well anchored over the period of renewed financial market volatility (spreads have remained relatively steady around 2% after having reached almost 3% in November 2011), the country's substantial debt burden makes it more exposed than most "core" countries to the ongoing crisis in financial markets (Figure 5).

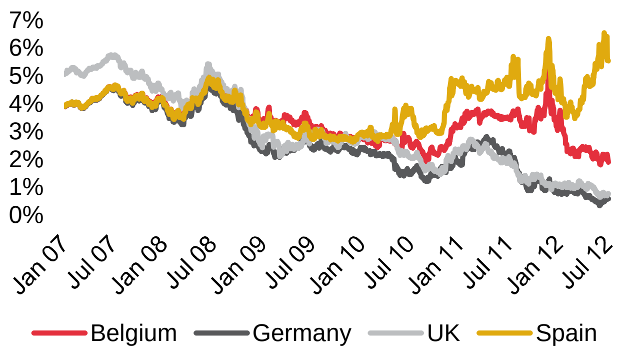
Although liquidity injection by the European Central Bank appears finally to be a solution to the sovereign debt situation since the start of 2012, the interbank debt market has weathered turbulent times. In this context, tension has heightened accordingly on the interbank financing market. The difference between Euribor three months and EONIA swap rate has nevertheless decreased this quarter, after having reached a peak in January (Figure 6), highlighting a less difficult access to debt. Given the interaction between commercial real estate market and banks in Europe, this easement could help financing real estate. But new rules imposed by the European Bank Authority (EBA) and Basel III could impact the market in a negative way.

The issue of refinancing real estate debt will be a major challenge in 2012 with much debt leveraged at the market peak in 2007 approaching their maturity dates. Consequently, the gap between financing/refinancing requirements and available funds should mechanically increase in 2012 and create situations favourable to "distress" sales. The emergence of insurance companies on the real estate financing market is now more precise. They will add a breath of "fresh air" to a suffering debt market. The other possibility for real estate actors to (re)finance their debt could be bond loans, capital increase or bond issues.

The return of bond rates to relatively low levels renewed the appeal from investors to commercial real estate assets. However, the European investment market is still negatively impacted by a lastly outlook and very low growth in rents and capital values. Investors are therefore continuing to focus on prime assets. In this context and despite the decrease in the Belgian 10 year bond, we choose to slightly increase the office prime yield by 10 bps this quarter, standing now at 6.35%, even if few comparables are availabe (Figure 7).

Figure 5

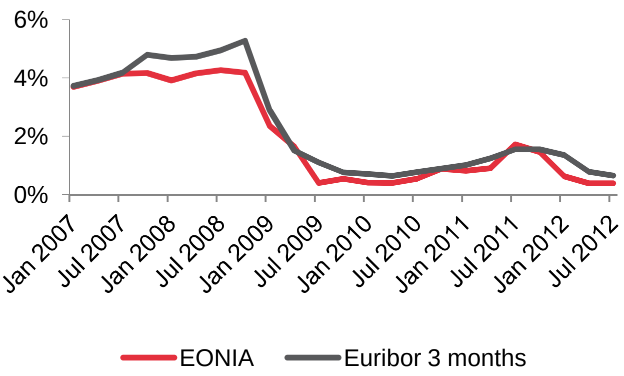
Five-year government bond yields for selected countries



Source: DTZ, June 2012

Figure 6

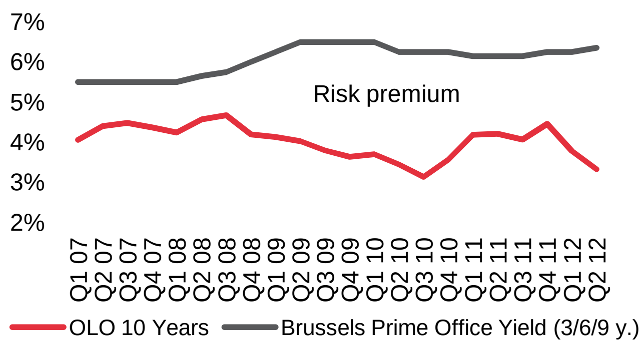
EONIA and Euribor 3 month rate



Source: DTZ, June 2012

Figure 7

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



Source: DTZ Research

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Belgium market

Slowdown recorded in Q1 2012 pursues in Q2 even if the average size of the deals tends to increase. Investment volume in Brussels falls below 50% of the total invested in Belgium.

Around €340m were invested this second quarter of the year, 20% below the level reached in Q2 2011. This first half of the year presents a total investment volume around €715m, a 20% drop compared to the first half-year 2011 (Figure 8).

After a classic rebound at the end of the year 2011, economic uncertainties, tensions on the financial markets and difficulties to access credits have negatively impacted real estate markets this first half of the year.

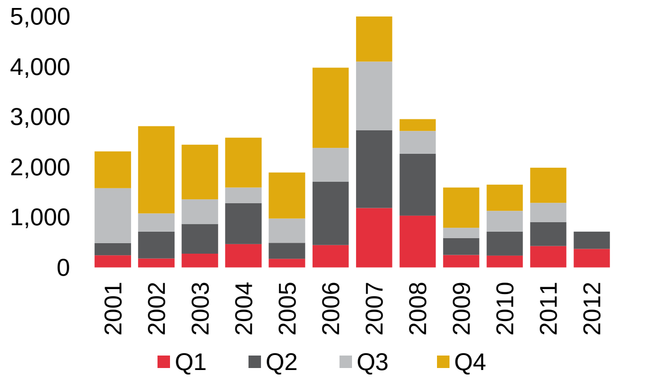
This first half of the year shows an increase in the size of the investments: deals above €20m represent around 50% of the total deals concluded since the beginning of the year, contributing to bring the average size of the deal to its highest level since 2008. This quarter, 7 deals were concluded above €20m for a total of €285m, confirming the trend observed in the previous quarter (Figure 9).

This first half of the year, the Brussels market (the Brussels Capital Region and the Brussels office market as far as office is concerned[1]) represents 35% of the total invested volume in Belgium, a continuously decreasing share since 2010. In the meantime, Flanders' share has grown to 40% of the investment volume. This quarter specifically, more than €170m were invested in Flanders, representing 50% of the total.

Mixed portfolio (portfolios covering Belgium) acquisitions represent almost 20% of the total invested this half-year, notably due to acquisitions of nursing homes portfolios by Ethias (Q1 2012) and AG Real Estate (Q2 2012).

Figure 8

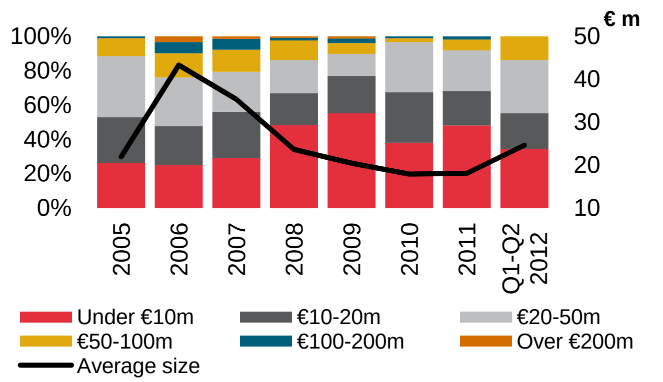
Investment volume in Belgium, € m



Source: DTZ Research

Figure 9

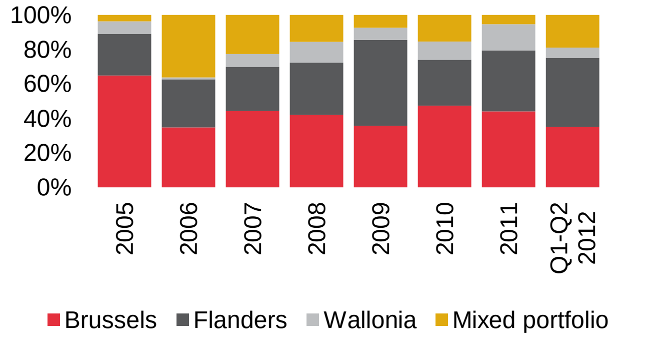
Investment in Belgium by amount and average size



Source: DTZ Research

Figure 10

Investment in Belgium by location



Source: DTZ Research

[1] See our Property Times Brussels Offices for the definition of the Brussels office market

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During this second quarter, Belgian investors were almost the only ones active on the purchaser side, with nearly €290m committed in Q2, confirming the figure recorded last quarter. Only the *Olen Shopping Park* was purchased by the Aberdeen European Balanced Property Fund. In an uncertain economic climate foreign investors prefer to invest in their domestic market rather than in foreign ones. The arrival of Asian investors observed in Q1 2012 was not confirmed this quarter. Belgians' investment volume for the first half of the year represents 82% of the total recorded (Figure 11).

Recent observations confirm that European investors used to invest in Belgium (namely Germany and Ireland) are only to be found on the selling-side since the start of the year. Belgian investors present a positive net investment, due to their activity on the purchaser side (Figure 12). Belgian investors show an asset class diversification strategy, investing in all the market sectors while foreign investors rather choose to concentrate on specific sector (office or retail) or on more secured class assets since the start of the year.

The trend observed in Q1 2012 toward a wider diversification of the sectors is clearly confirmed regarding the half-year results (Figure 13). Office represents only 28% of the total invested, far below its 10-year average. Few deals have occurred on the office market, except the purchase by PMV of the *UP-36* building in the *UP-Site* project developed by Atenor along the canal in Brussels, confirming the interest for this iconic mixed-use development. The purchase of a police station in Dendermonde by Cofinimmo confirms the strategy of this REIT toward a wider diversification regarding the sector as well as the location of the assets.

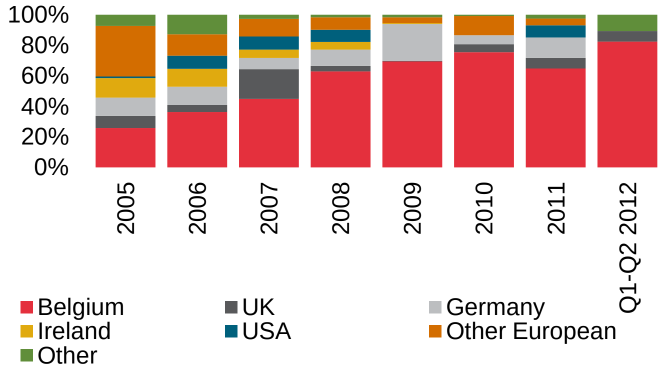
Retail still attracts investors, notably with the purchase of the *Genk Shopping I* by Wereldhave for €70m and the purchase of the *Olen Shopping Park* by Aberdeen.

Healthcare assets continue to be sought for as they represent some security assets. This quarter has seen the arrival of AG Real Estate on this specific market with the acquisition of a Vulpia portfolio.

A major deal was also recorded on the logistics side with the acquisition by Montea of a building next to Brucargo to host the future Global Forwarding centre of DHL.

Figure 11

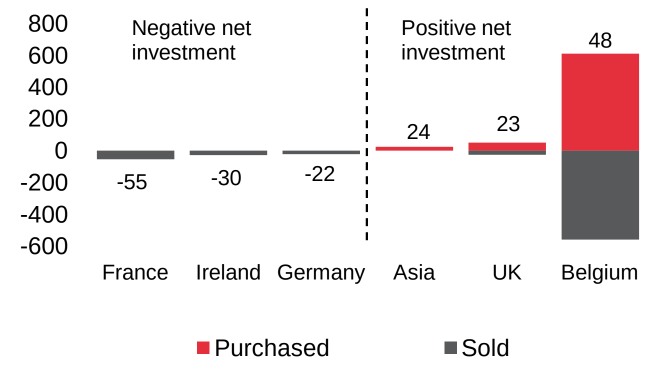
Investment in Belgium by purchaser nationality



Source: DTZ Research

Figure 12

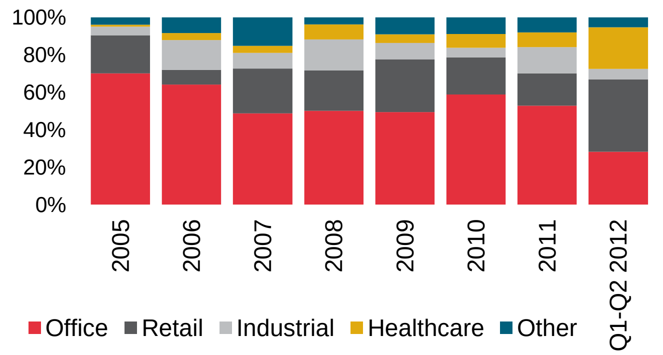
Net investment in Belgium by nationality, Q1-Q2 2012, € m



Source: DTZ Research

Figure 13

Investment in Belgium by sector



Source: DTZ Research

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Brussels office market

If any major deal is concluded by the end of the year, Brussels could record its worst year of the decade on the office investment market.

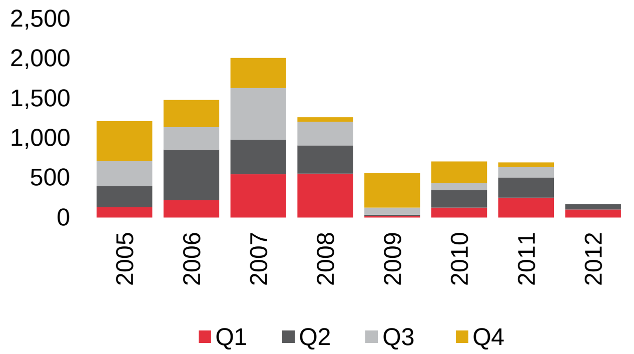
The second quarter of 2012 recorded barely €70m invested on the Brussels office market[2]. Regarding the first half of the year, only €170m were invested, a 65% drop compared to half-year 2011 and also below the average volume recorded between 2008 and 2011 (Figure 14). The disappointing start of the year is confirmed this quarter as only four transactions were observed this quarter, more than 50% less than the 2008-2011 average.

The distribution of deals by lot size presents a decreasing size of the deals concluded on the Brussels office market these last years (Figure 15). This half-year, 2 deals were recorded above €20m, the purchase of the phase V of the Collines de wavre by Tribeca for €25m and the purchase by PMV of the UP-36 for an estimated price around €30m. This first part of the year, no deal was concluded above €50m, confirming the cautiousness of investors and the difficulties to access to credit. Nevertheless, some "big deals" could boost the office investment market this year as the BelAir, the Blue Tower and the Manhattan Center are for sale.

The breakdown of investment volume by Brussels' submarkets also reveals some very interesting trends (Figure 16). Where the CBD amounted for more than 80% of the total invested in 2010 and 2011, the volume invested in the CBD during the first part of the year only reaches 45%, below 50% for the first time regarding the analysed period. But it is also to be noted that the decentralised districts see their market share decrease since 2007. In 2012, decentralised districts represent 10% of the total investment on the Brussels office market. This distribution of the investment volumes on the Brussels office market are quite similar to the recent observations on the letting market, where CBD and periphery continue to attract occupiers while decentralised districts seem to suffer from a complete withdrawal of all the actors.

Figure 14

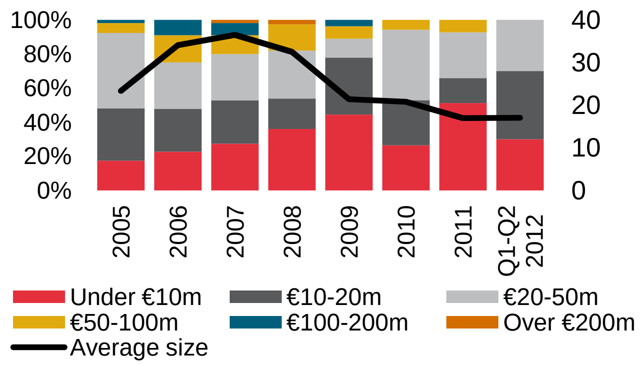
Office investment volume in Brussels, € m



Source: DTZ Research

Figure 15

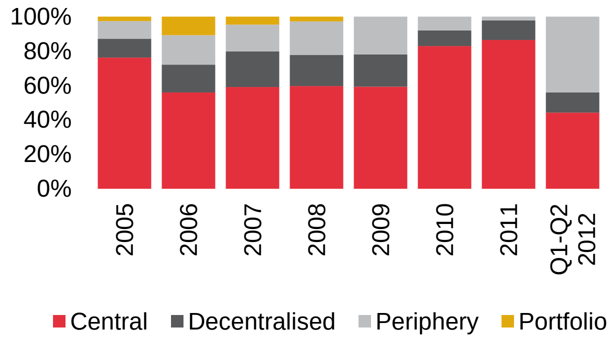
Office investment volume in Brussels by amount and average size



Source: DTZ Research

Figure 16

Breakdown of investment volume by submarket



Source: DTZ Research

[2] See our Property Times Brussels office for the geographical definition of the Brussels office market

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Key statistics

Table 1

Major investment deals in Belgium, Q2 2012

Type	Sector	Building	Price (€m)	Purchaser	Market
I	Retail	Genk hopping I	69	Wereldhave	Flanders
I	Healthcare	Vulpia portfolio	60	AG Real Estate	Belgium
I	Retail	Olen Shopping Center	50	Aberdeen European Balanced Property Fund	Flanders
I	Office	UP-36 (UP-Site)	*30*	Participatie Maatschappij Vlanderen	Brussels
D	Logistics	DHL Global Forwarding building	26	Montea	Brussels

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

Source: DTZ Research

Table 2

Prime yields in Belgium, Q2 2012

Asset class	Prime yield	Q/Q change (bps)	Y/Y change (bps)
Offices	6.35	10	10
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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