DTZ Research

Property Times

Belgium Industrial Q4 2011

The year logistics stole the show

9 January 2012

Contents

Executive summary	1
Economic overview	2
Belgian industrial market	3
Flanders	4
Brussels (incl. Brabant)	6
Wallonia	8
Definitions	10
Contacts	11

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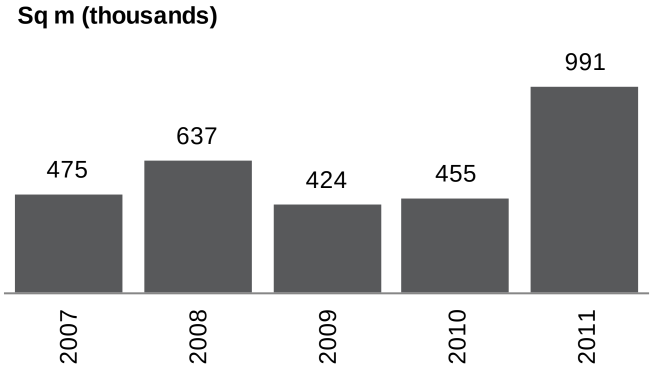
- The year 2011 will be remembered for runaway activity in the logistics sector: Flanders propelled the sector to a 118% growth in activity compared to 2010, achieving 991,000 sq m of take-up (Figure 1).
- Among the outstanding logistics activity emerged a trend for owner occupation which usually characterises the semi-industrial sector. Large deals also boosted this year's logistics take-up.
- Flanders showed the strongest growth in semi-industrial take-up as well with 51% on a yearly basis. In Brussels and the Brabants, Flemish Brabant provided the impetus which helped the region's take-up grow by 20% on 2010. Wallonia take-up decreased by 39%, due to an absence of recorded deals in the third quarter and weak take-up in Hainaut.
- Liège and Limburg are characterised by competitive land prices between €30 and €40/sq m. In addition Liège is cementing its positioning as a multi-modal area of choice, while Limburg has a wealth of available land allocated for logistics use at its disposal. Therefore, we expect these submarkets to follow-up on their current levels of activity and provide competitive alternatives to sought-after Golden Triangle submarkets in the future.
- Belgian logistics prime rent remain at €45/sq m/year - we do not expect it to increase a great deal due to a competitive market. On the other hand, semi-industrial prime rent has been at €58/sq m/year since the third quarter, and is found in Flemish Brabant in proximity to Brussels Airport, an area very much in-demand with low levels of supply.

Figure 1

Belgium logistics take-up



Source: DTZ Research

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Belgium Industrial Q4 2011

Economic Overview

Belgium's economy has slowed alarmingly in H2 2011.

The Eurozone crisis has undermined demand for exports and availability of financing, with an impact across industrial sectors. Households have become increasingly cautious because of the deteriorating external background, as well as accelerating inflation. Meanwhile, firms are scaling back investment plans.

As the external outlook worsens further, we expect a modest contraction of output in H1 2012. As a result, we have lowered our GDP growth forecasts again, to 0.6% in 2012 and 2.1% in 2013. Further ahead, assuming a resolution of the Eurozone crisis, Belgium will benefit from a rebound in intra-European trade, and a steady recovery should follow.

Forecasts relating to production and distribution show production GVA is forecasted to decrease overall in 2012 (Figure 2), though it should pick up during the last quarter, while retail sales are forecasted to decrease by 0,40% in 2012 (Figure 3).

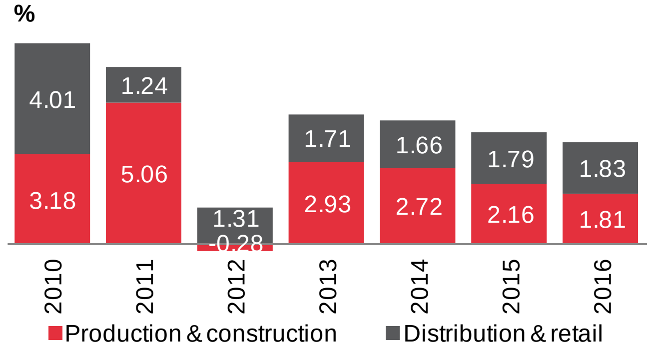
On a more positive note, the political deadlock has at last been broken. The new six-party coalition has agreed a budget for 2012, and must now begin to tackle Belgium's structural vulnerabilities.

This should give a modest boost to confidence in the short term despite the recent drop, but substantial policy action is needed to improve long-term growth prospects and put public finances on a more sustainable path. Belgium remains vulnerable to fragile market sentiment, as illustrated by the downgrade in its credit rating to AA by S&P in late November and the threat of more downgrades to come. However, after a historic high peak at 425bps on November 24th, the spread between German and Belgian bonds has decreased during the month of December.

Source: Oxford Economics

Figure 2

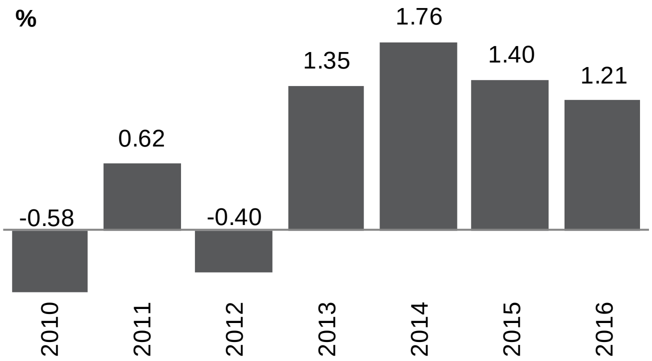
Belgium Gross Value Added growth forecast per sector



Source: Oxford Economics

Figure 3

Belgium retail sales growth forecast



Source: Oxford Economics

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Belgium Industrial Q4 2011

Belgium industrial market

Flanders elevates Belgium to a record year for logistics activity while semi-industrial activity is mixed across regions.

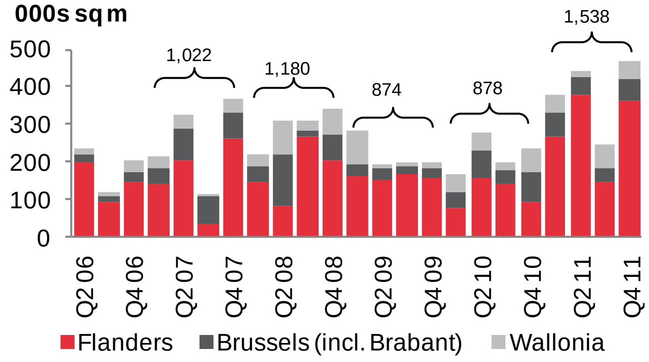
Overall, semi-industrial activity grew by 31% in 2011 to reach 552,000 sq m (Figure 4). In Flanders, activity grew by 55% due to in-demand submarkets performing strongly, while more modest submarkets also accounted for their share of the growth. Flemish Brabant was the driver behind Brussels and the Brabants' 20% growth in activity. At the other end of the spectrum, activity in Wallonia dropped by 39% due to a total lack of recorded activity during the third quarter, and a below-par level of take-up in Hainaut in comparison to 2010. Semi-industrial take-up in the last quarter was 204,000 sq m.

The overriding sentiment regarding logistics take-up in 2011 is positive, with staggering growth of 118% and a total of 991,000 sq m newly occupied (Figure 5). This performance is mainly due to Flanders progressing by 246% against take-up in 2010, to reach an outstanding 764,000 sq m, i.e. more than the whole Belgian logistics sector in 2010. A large number of owner-occupier deals and demand for larger spaces in general have been noticed in 2011. Indeed, in the current financial climate, family run businesses especially, view logistics spaces as a good investment, on top of their primary distribution purposes. In Brussels and the Brabants, activity dropped 29% to 92,000 sq m due to a lack of deals in Flemish Brabant, although activity did improve somewhat in the Brussels submarket compared to 2010. Take-up progressed by 29% in Wallonia with Liège stepping up its game and Hainaut performing at a similar rate to 2010. Logistics take-up in the last quarter was 273,000 sq m.

Prime rent has increased on two occasions for semi-industrial buildings (Figure 6) and is currently at €58/sq m/year in Flemish Brabant, in close proximity to Brussels Airport, demonstrating that quality spaces come at a price in the area. Logistics prime rent has remained flat throughout the year at €45/sq m/year and is not likely to grow to a great extent due to stiff competition among 3PL suppliers[1].

Figure 4

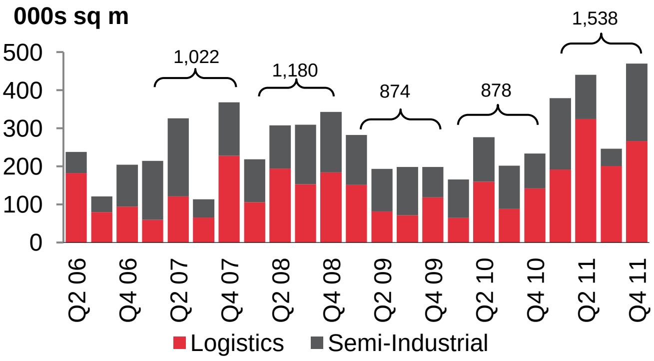
Belgium industrial take-up per region



Source: DTZ Research

Figure 5

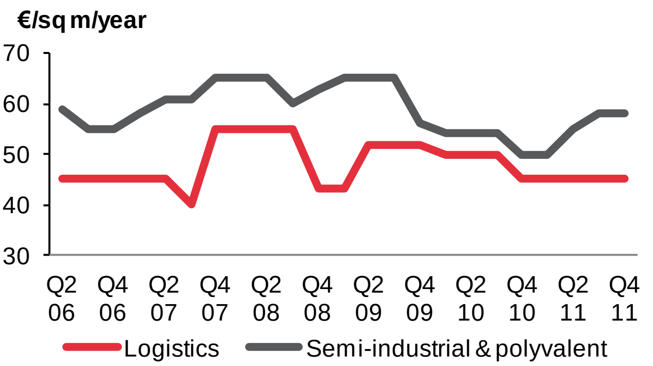
Belgium industrial take-up per type



Source: DTZ Research

Figure 6

Belgium logistics and semi-industrial prime rents



Source: DTZ Research

[1] See DTZ Insight - In-house view of Belgium 2011

Flanders

A record year for semi-industrial and logistics activity.

After a subdued third quarter as far as take-up of semi industrial facilities was concerned, 2011 ended on an impressive high with just over 161,000 sq m of newly occupied warehouses (Figure 7) in the last quarter. This follows the trend which occurred during the first quarter, where in-demand Golden Triangle submarkets performed exceptionally well, and more modest submarkets such as West-, and East Flanders also showed for above-average demand. The year ends thus with 393,000 sq m of take-up activity.

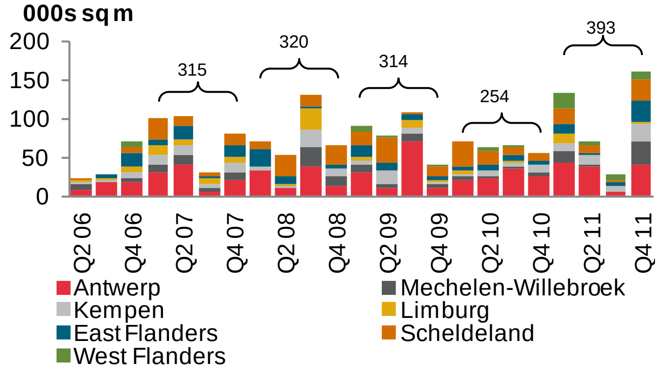
As far as logistics is concerned, the last quarter has been similarly positive, as demonstrated by take-up of over 200,000 sq m (Figure 8). In line with a trend that has carried on throughout the year, a majority of the last quarter's logistics take-up in Flanders has been due to owner-occupier deals (over 130,000 sq m over the quarter), as illustrated on Figure 12. Among these transactions is the mammoth purchase of 61,000 sq m of warehouse by Stanley Black & Decker, which is to be developed by Goodman in Limburg. Such transactions in this location may become more widespread in the future, due to a significant amount of land allocated for the construction of logistics buildings still available. This land can be purchased at cheaper rates (€30-€40/sq m) than land in the Golden Triangle (up to €150/sq m), which would be to the liking to developers and owner-occupiers alike, given the tendency of built-to-suit which has grown strong in 2011, and the tumbling availability of quality premises and land in the Golden Triangle[2].

In Antwerp, the construction of the largest lock in the world, joining the Deurganckdok to the Waaslandkanaal is now underway and will be delivered by 2016. The lock will relieve saturation in the Waaslandhaven on the left side of the Schelde. Meanwhile, the Beverdonk Container Terminal, in Kempen is now operational. The surrounding Antwerp East Port has the capacity to accommodate up to 150,000 sq m of logistics buildings.

At €45/sq m/year, logistic prime rent remains typically flat, although we observe a higher semi-industrial prime rent of €53/sq m/year (Figure 9), located in Kempen.

Figure 7

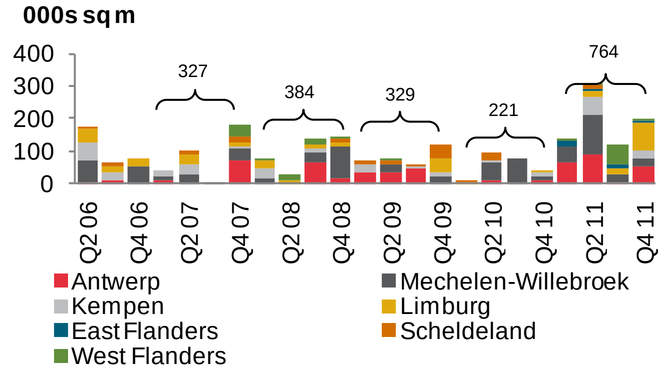
Take-up: Flanders semi-industrial



Source: DTZ Research

Figure 8

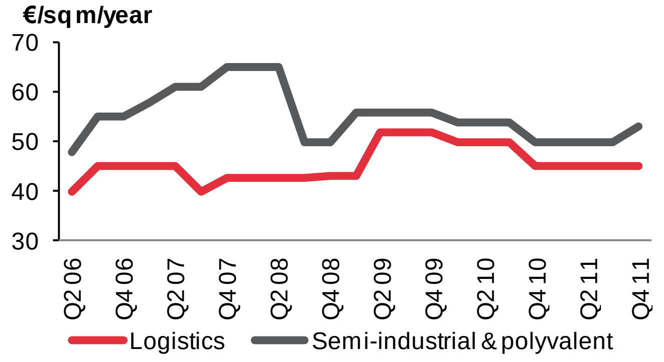
Take-up: Flanders logistics



Source: DTZ Research

Figure 9

Prime rents: Flanders



Source: DTZ Research

[2] See DTZ Occupier Perspective, Occupancy Costs – Logistics, 2011|2nd Edition

Table 1

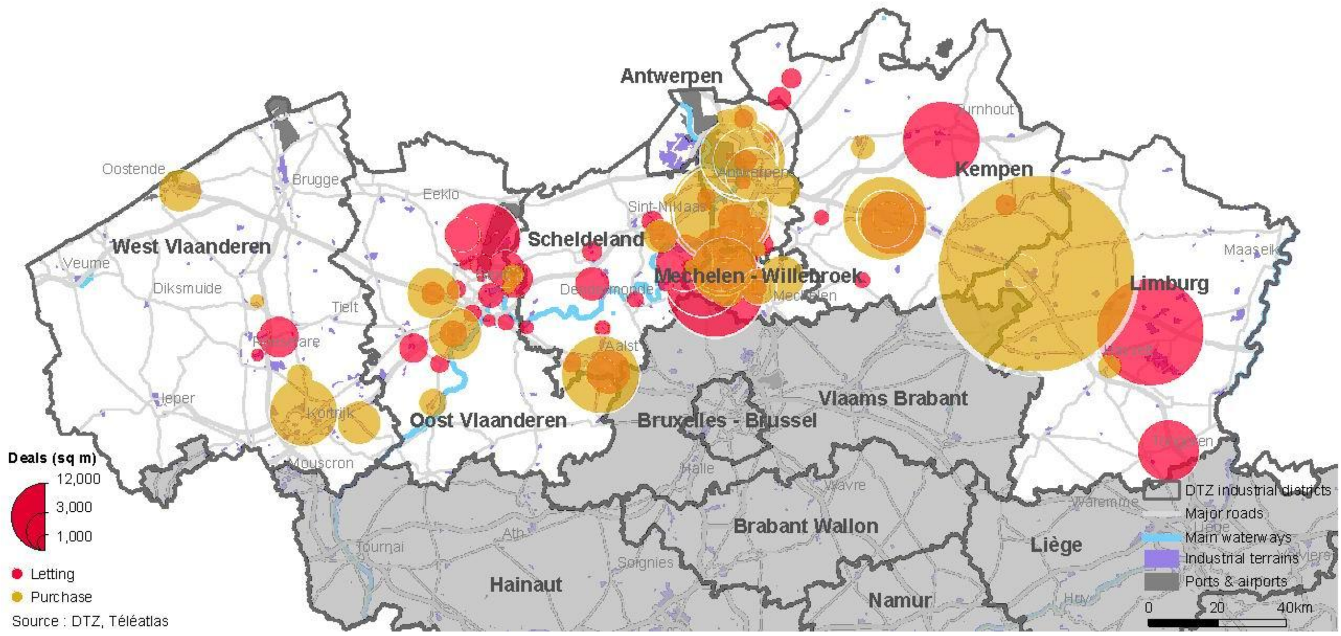
Top occupier deals in Flanders, Q4 2011

	Submarket	Municipality	Surface (sq m)	Tenant - occupier	Transaction
L	Limburg	Tessenderlo	61,486	Stanley Black & Decker	Purchase
L	Limburg	Genk	18,127	Unknown	Letting
L	Antwerp	Hoboken	16,245	Econor	Purchase

Source: DTZ Research / W: Warehouses L: Logistics

Map 1

Occupier deals Flanders, Q4 2011



Brussels (including Brabant)

Stable logistics prime rent despite rare lettings of qualitative buildings.

What has been a reasonably good year in terms of semi-industrial take-up has ended on an average note with over 24,000 sq m in the last quarter (Figure 10). A total of 116,000 sq m was recorded in 2011. Once again, Flemish Brabant submarket carried the region's level activity, although Walloon Brabant's level of activity was also its strongest this year.

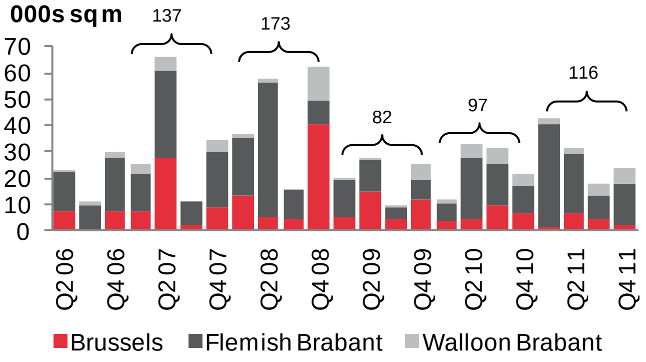
Barely two transaction made up the logistics take-up for the region during the fourth quarter (Figure 11), including the letting of 21,000 sq m of warehouses by Caterpillar in Leasinvest's Canal Logistics (Table 2). Following Cameleon/Famous Clothes' letting of 7,000 in the previous quarter, the premises now account for a 60% occupancy ratio. The second phase of Canal Logistics was in fact delivered during the very last days of the year. The other recorded logistics transaction in the last quarter was the purchase of 15,000 sq m by D'Ieteren Auto in Kortenberg (Flemish Brabant). Therefore, these two end-of-year deals were also the two largest of 2011. Total logistics take-up in 2011 for the region was 92,000 sq m. In contrast with Flanders, most of these logistics deals in Brussels and Brabant were (pre-) lettings.

As far as potential developments are concerned, the Brussels government is currently negotiating with Katoen Natie (the concession holder), and Bpost, on the possibility of implanting a new sorting centre on the former Carcoke site in Brussels harbour.

Semi-industrial prime rent remains stable at €58/sq m/year in the vicinity of Brussels airport. We also maintain the logistics prime rent at €45/sq m/year (Figure 12), which highlights the capacity for the region to maintain stable rents, even in an area where take-up of quality logistics warehouses come few and far between.

Figure 10

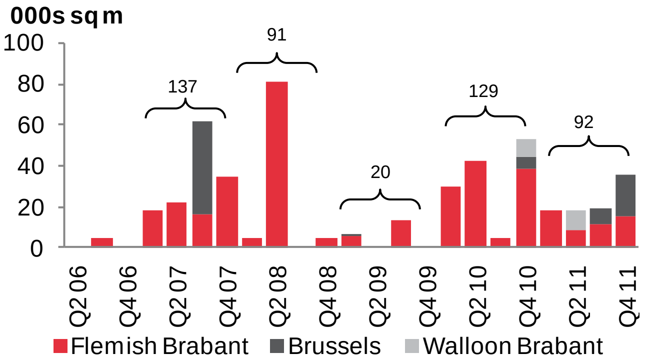
Take-up: Brussels (incl. Brabant) semi-industrial



Source: DTZ Research

Figure 11

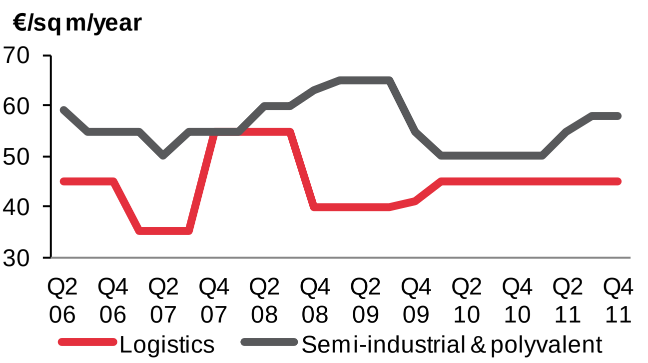
Take-up: Brussels (incl. Brabant) logistics



Source: DTZ Research

Figure 12

Prime rents: Brussels (incl. Brabant)



Source: DTZ Research

Table 2

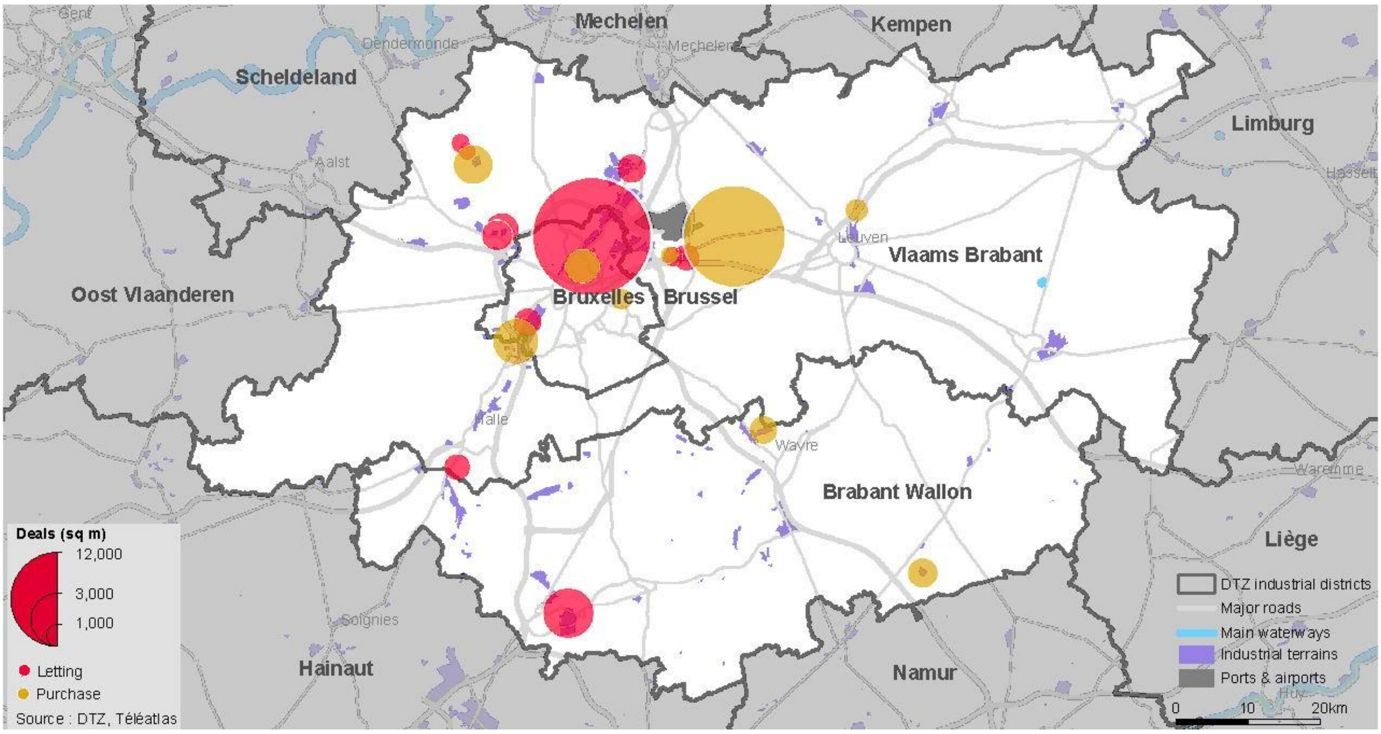
Top occupier deals in Brussels (including Brabant), Q4 2011

	Submarket	Municipality	Surface (sq m)	Tenant - occupier	Transaction
L	Brussels	Neder-over-Hembeek	20,664	Caterpillar	Letting
L	Flemish Brabant	Kortenberg	15,000	D'Ieteren Auto	Purchase
W	Walloon Brabant	Nivelles	3,704	Herpain	Letting

Source: DTZ Research / W: Warehouses L: Logistics

Map 2

Occupier deals Brussels (including Brabant), Q4 2011



Property Times
Belgium Industrial Q4 2011

Wallonia

Poor year for semi-industrial activity in contrast with a strong level for logistics.

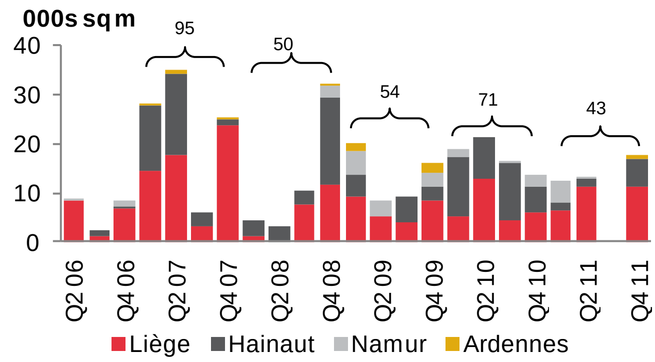
The year ended with one of Wallonia's better quarters (18,000 sq m) in recent times as far as semi-industrial take-up activity was concerned (Figure 13). This was mostly due to Liège which managed to resume its second quarter level of activity. In addition, we record a transaction in the Ardennes submarket for the first time in two years, namely the purchase of 900 sq m by CCM in Hamois. Overall, 2011 was an underperforming year for semi-industrial activity in Wallonia with 43,000 sq m, due to an absence of recorded transactions during the third quarter.

Conversely, the 2011 has been the best of the last three years in terms of logistics activity with a total of 135,000 sq m – this on the back of strong activity in Liège for a second quarter running. Indeed two of Wallonia's largest transactions (Table 3) were recorded in Liège this quarter (Map 3). Take-up in Wallonia this last quarter reached 37,000 sq m (Figure 14). In Liège, we note activity around the airport (two deals involving Swissport), which has also accounted for a 5.8% increase of handled cargo during the first ten months of the year. In Wallonia, most logistics deals remained lettings in 2011. As mentioned above for Limburg, we expect Liège could sustain its current level of activity thanks to equally inexpensive and available land (up to €36/sq m) allocated for logistics in addition to its multimodal aspirations.

Despite growing logistics activity this year, the prime rent has dropped to €33/sq m/year, and remains in Liège. Prime semi-industrial prime rent does not shift from its €40/sq m/year level (Figure 15).

Figure 13

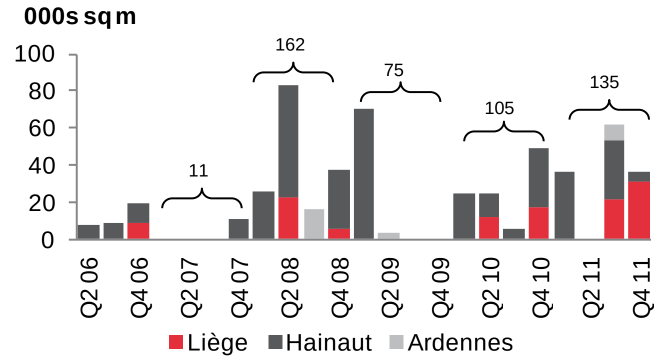
Take-up: Wallonia semi-industrial



Source: DTZ Research

Figure 14

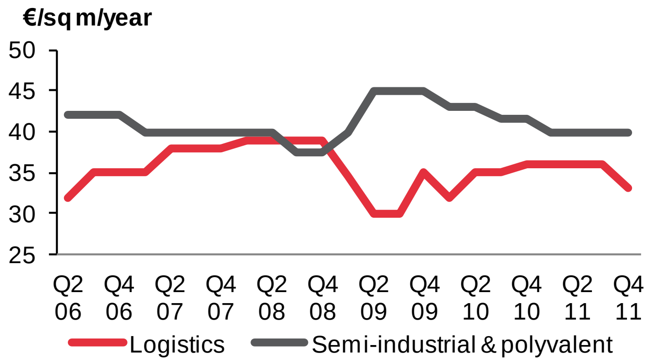
Take-up: Wallonia logistics



Source: DTZ Research

Figure 15

Prime rents: Wallonia



Source: DTZ Research

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Belgium Industrial Q4 2011

Table 3

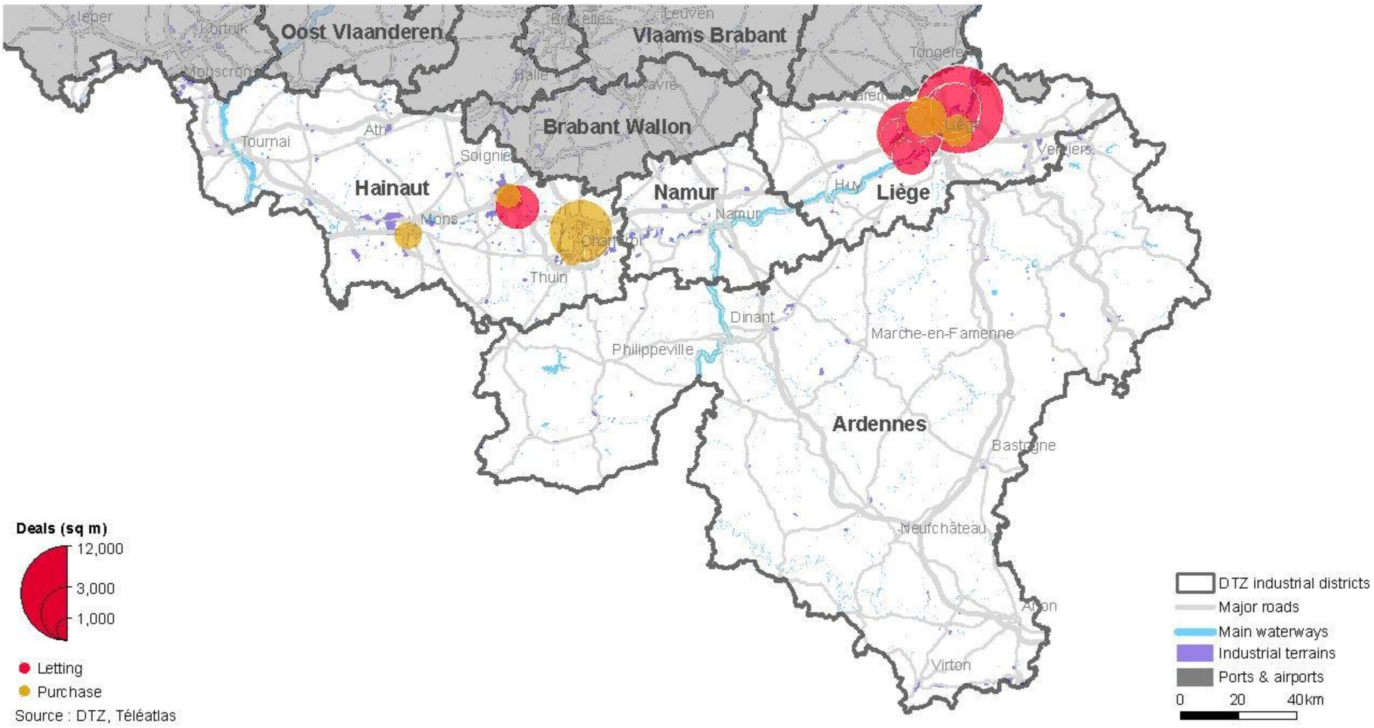
Top occupier deals Wallonia, Q4 2011

	Submarket	Municipality	Surface (sq m)	Tenant - occupier	Transaction
L	Liège	Herstal	11,600	Vincent Logistics	Letting
L	Liège	Grâce-Hollogne	6,200	Swissport	Letting
L	Hainaut	Jumet	5,760	Sotralease	Purchase

Source: DTZ Research / W: Warehouses L: Logistics

Map 3

Occupier deals Wallonia, Q4 2011



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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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