DTZ Research

Property Times

Brussels Offices Q1 2012

Mixed results as uncertainty grows

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Author

Cédric Van Meerbeeck
Head of Belgium Research
+32 (0)2 629 02 86
cedric.vanmeerbeeck@dtz.com

Contacts

Magali Marton
Head of CEMEA Research
+33 (0)1 4964 4954
magali.marton@dtz.com

Tony McGough
Global Head of Forecasting & Strategy
+44 (0)20 3296 2314
tony.mcgough@dtz.com

Hans Vrensen
Global Head of Research
+44 (0)20 3296 2159
hans.vrensen@dtz.com

- After the worst year of the decade in terms of take-up, recent economic uncertainties impact the markets. As forecasts predict a negative GDP growth and a rise in unemployment rate of the Brussels Region in 2012, the Brussels office market is clearly under pressure.

- This first quarter of the year presents a mitigated start with a take-up reaching 95,000 sq m, neither better nor worse than the last years. But strong differences were recorded across the districts but also intra-districts. This mixed picture will probably contribute to reshaping the Brussels office landscape in the medium term.

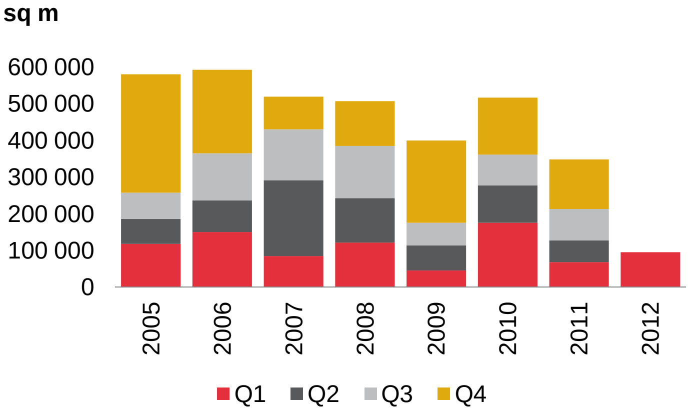
- Despite economic uncertainties and a low level of activity, the prime rent rose to reach €275/sq m/year in the Leopold district. However, this rental level is not representative and conceals a wide range of rents between the districts as the weighted average rent is rather around €170 /sq m/year.

- Availability continued to decrease at a slow rate. There are now 1.6 million sq m of office space available in Brussels which represents a vacancy ratio of 11.9%, down from 12.2% a year ago. Availability in recent buildings continues to decrease. However, availability in older or obsolete offices buildings causes important issues for the future.

- As the Brussels office market continues to suffer, new ideas to re - develop real estate in the coming years are emerging with some reconversions of offices into nursing homes, residential units or educational equipment. High demographic growth expectations in Belgium and in Brussels in particular could serve as a catalyst for redevelopment.

Figure 1

Brussels – office take-up



Source: DTZ Research

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Economic climate

The Eurozone slowdown continues to depress the outlook for Belgium and Brussels.

Thanks to a combination of domestic and European level policy action, the 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. However, the improvement in financial market conditions has come too late to prevent the Eurozone from slipping into recession and this weakness is set to continue through most of 2012, with GDP expected to decline by 0.2% (Figure 2).

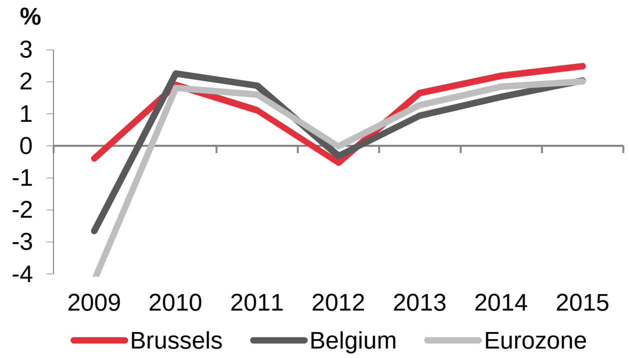
Belgium has not been spared and was one of the first European countries to fall back into recession, posting quarterly GDP falls of 0.1% in Q3 and 0.1% in Q4 2011. The GDP is expected to fall by 0.4% over the year 2012. Important efforts made by the Government to keep public deficit under 2.8% of the GDP undermine economic activity. From this point of view, it's noteworthy that Belgium's own economic forecasts predict the GDP will grow by 0.1% for 2012. As Belgian's growth expectations seem higher than currently anticipated, more cuts may eventually prove necessary with a potential negative impact on the real estate market.

The repercussions on Brussels are forecasted to be more severe than for Belgium and Eurozone as Brussels' GDP is expected to decrease by 0.5% in 2012. After a tough 2012, Brussels' economy is nevertheless forecast to bounce back strongly with growth rates remaining relatively robust all the way from 2013 to 2016 (average growth of 1.7% per year), performing better than Belgium and the Eurozone.

The recently approved package of budget cuts means Brussels will suffer from a slowdown in public services, which together with sluggish private services, would also result in a contraction of employment by 1% in 2012, which is broadly in line with expectations for European cities.

Figure 2

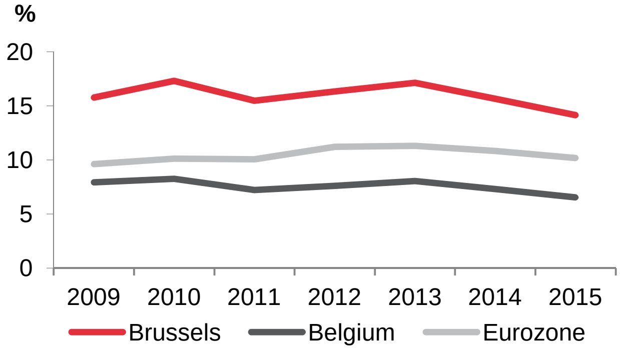
GDP growth



Source: Oxford Economics, March 2012

Figure 3

Unemployment rate



Source: Oxford Economics, March 2012

As a consequence of the economic crisis, unemployment is expected to grow in 2012 and 2013. Following the same trends than Eurozone, Belgium is however performing better with unemployment expected to decrease to 6.6% in 2015.

For Brussels, unemployment is clearly a major issue both on the political and economic level. With a level of employment around 700,000 jobs including more than 50% corresponding to people who don't live in the Brussels Capital Region, unemployment is around 16% for now and is expected to rise, at a relatively high rate, till 2013 to reach 17%. Even if unemployment is expected to fall after 2014, it will remain at a high and challenging level.

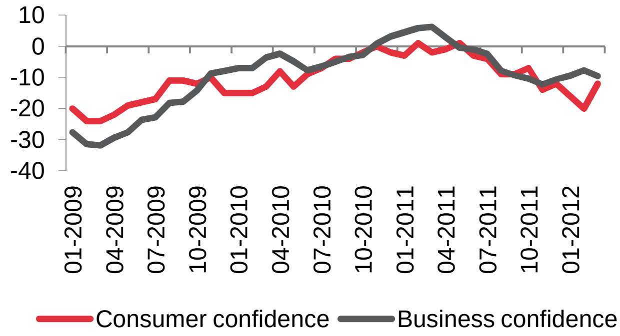
After a strong dive from early 2011 to end 2011, consumer confidence rose considerably in March 2012 (Figure 4), wiping out the entire fall recorded in the first two months of the year. The recovery of consumer confidence is mainly attributable to significantly better macroeconomic forecasts in Belgium. Households appeared to be slightly more optimistic about their financial situation over the coming twelve months. However, their assessment of their future saving capacity was a bit more negative than a month ago.

Business confidence follows the same course except for the last three months when trends were different. Indeed, business confidence rose in the beginning of the year namely due to an improvement in the economic climate in business-related services and in the building industry. However a decline in business confidence was recorded in March due to degraded sentiment in manufacturing and construction.

Source: Oxford Economics, National Bank of Belgium and DTZ Research

Figure 4

Consumer and business confidence, Belgium



Source: National Bank of Belgium, March 2012

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Brussels office market

Mitigated start recorded due to economic uncertainties

After the worst level of take-up of these last 12 years recorded in 2011, the occupational market presents a mitigated start. Indeed, despite economic uncertainties and recession expectations for 2012, 95,000 sq m of take-up have been recorded in the first quarter of the year (Figure 5), a level closed to the first quarter average (2005 – 2012).

Two major deals recorded at the end of March explain this unexpected take-up level. AGC Glass Europe let 9,000 sq m of office space in the periphery while the European Commission has leased on a long term basis the New Orban office building (24,000 sq m) in the European quarter. European authority will continue to be a major actor on the Brussels occupational market as the European Commission needs 80,000 sq m by the end of 2012. The European Parliament could also play an important role during the year, namely with the expected confirmation of the letting of the Trebel building.

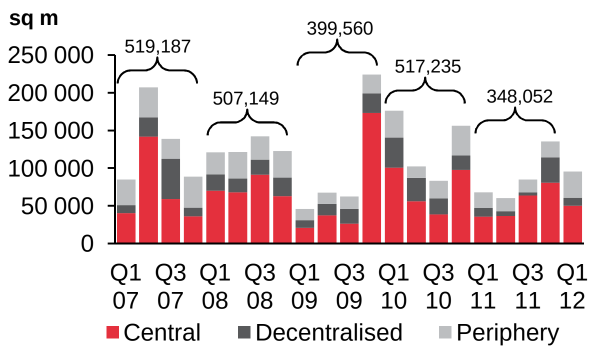
It is worth mentioning that renegotiations (not included in the take-up figure as they do not represent newly occupied spaces) represent a further 27,000 sq m. Renegotiations are expected to grow in the near term as uncertainty spreads across occupiers and lead them to a wait-and-see behaviour.

A review of figures on stock, availability and new supply has been done. As a result, figures have been adapted, notably concerning availability for Q4 2011 and Q1 2012, explaining the lower decrease in availability than presented in Q4 2011 (Figure 6). Although, these more accurate figures confirm a slow and continuing decrease in availability ratio to 11.9% in Q1 2012 from 12.3% in 2010.

This decrease is mainly due to a relatively stable stock. Indeed, since 2009 and 2010 which saw a lot of new developments coming onto the market, the private sector put on hold new speculative projects. As a result, the stock of the Brussels offices market is estimated at approximately 13.1 million sq m in Q1 2012.

Figure 5

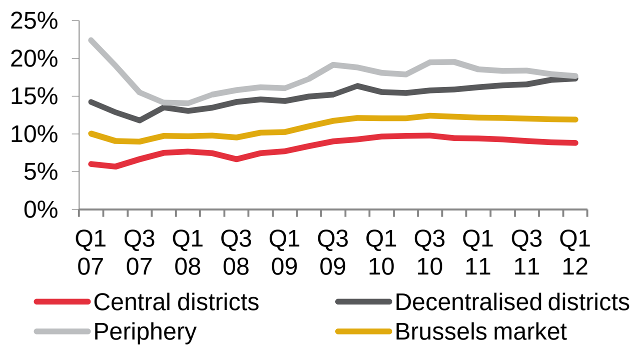
Brussels – quarterly take-up



Source: DTZ Research

Figure 6

Availability rate



Source: DTZ Research

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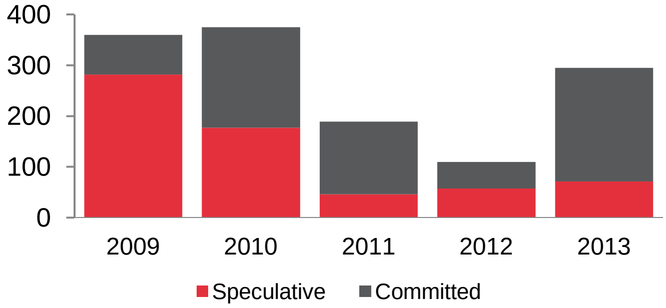
In 2012, a total of 110,000 sq m is expected (Figure 7). Half of this new supply has been launched on a speculative basis. Delays in projects have been reported, explaining a slip from 2012 to 2013 of 85,000 sq m of new supply. As a result, an impressive pipeline of +/- 300,000 sq m is awaited for 2013 including 70,000 sq m of speculative developments, confirming a slow recovery of the market. Major developments are already committed, notably the extension of new GDF Suez headquarters in the North district, the refurbishment of the State Administrative Center in the Center district or the delivery of the whole new building of the Council of European Union.

Compared to Q4 2011, the prime rent has slightly increased, achieving €275/sq m/year in the Leopold district (Figure 8), confirming that prime locations or prime buildings continue to attract occupiers. Effective prime rents have risen as gratuities decreased. No significant changes are expected over 2012.

A three-month moving weighted average rent has been realised in Figure 7 in order to shape trends on the Brussels offices market as a whole for a long period. Despite some variations due to major deals occurred at a very specific moment, rents have been relatively stable since 2005, increasing from €150 to €170 in 2012.

Figure 7

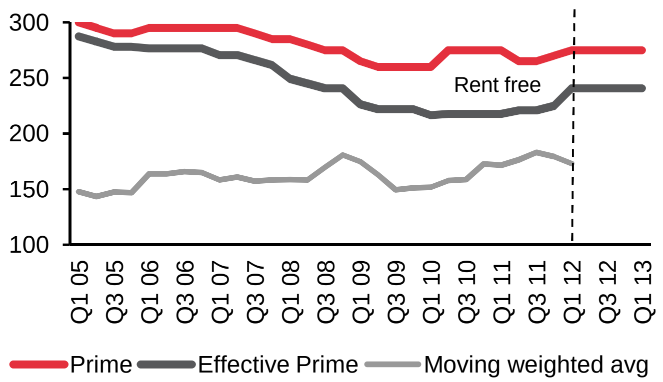
Brussels – office new supply and pipeline



Source: DTZ Research

Figure 8

Brussels - office rents



Source: DTZ Research

Table 2

Submarket	Building	Offices (sq m)	Tenant-Occupier	Transaction
Leopold	New Orban	24,000	European Commission	Letting
Walloon Brabant	AGC Glass Europe	9,800	AGC Glass Europe	Letting
North-East	-	4,200	Centre Islamique de Belgique	Purchase
Ring	Telecom Gardens	3,598	Alcon	Letting
Airport	-	3,217	3SI	Letting
Airport	Cluster Center	2,944	Toyota	Letting

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Central districts

Activity boosted by the European Commission transfer, elsewhere market activity has slowed down

The Central districts presented a mitigated start to the year, with take-up reaching 50,000 sq m (Figure 9). This level is compares relatively well with previous first quarters. However this global level hides some important differences between the districts.

From a global point of view, activity was once again salvaged by the European institutions with the letting of the New Orban project by the European Commission (above 24,000 sq m) in the Leopold district (Map 1). But apart from this transaction accounting for 50% of the total take-up, no major deals are to be mentioned and the average size of deals reaches more or less 620 sq m, down from more than 1,000 sq m in 2011.

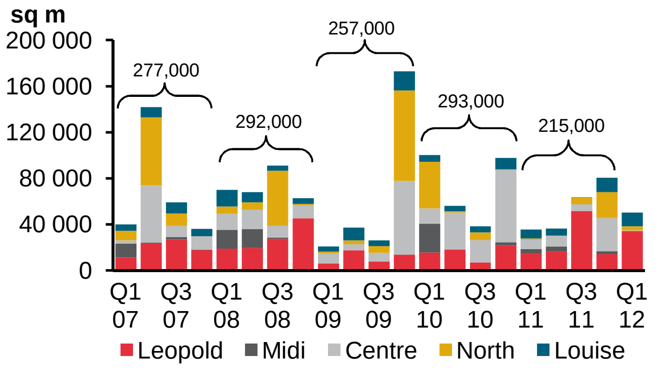
No deals were recorded in the Midi district but this is not exceptional as the stock is relatively low (compared to other central districts), especially in the recent buildings.

Market activity has also been reduced in the Centre sector with one deal reported in a submarket usually identified as active. This illustrates perfectly the wait-and-see occupiers' behaviour in the current market.

No new developments have been delivered in the Central districts during Q1 2012. Nevertheless, all the planned developments for the whole year are to be found in the Central districts with 110,000 sq m awaited.

Major awaited projects are the delivery of the Forum Phase II (Rue de Louvain in the Centre district), the Arts-Lux renovation project developed on a speculative basis (in the Leopold district) and the delivery of the Montindu which has established the prime rent of 2011, also in the Leopold district.

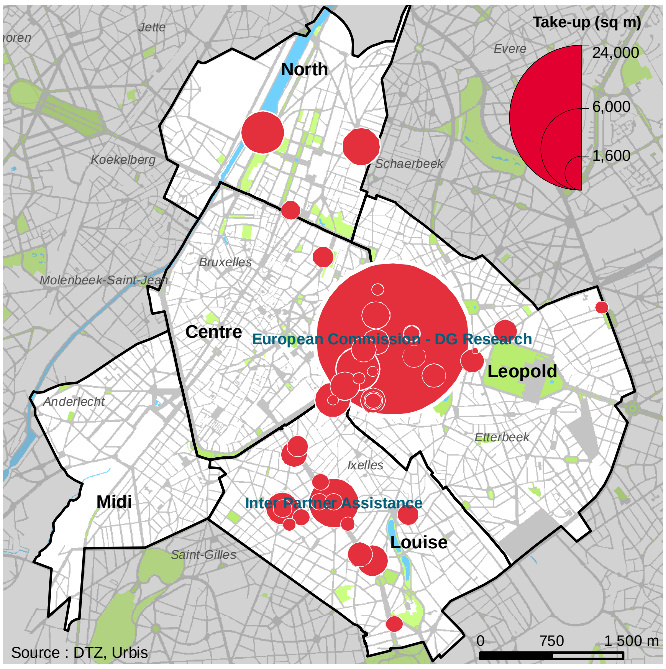
Figure 9
Central districts – office take-up



Source: DTZ Research

Map 1

Central districts office deals, Q1 2012



The availability in the Central districts continues to slowly decrease since its historic high in Q3 2010 (9.8% - 827,000 sq m) to reach 8.8% this quarter[1] (Figure 10). Compared to the average of the Brussels offices market, the Central districts perform better, despite a wide range of rates depending on the districts.

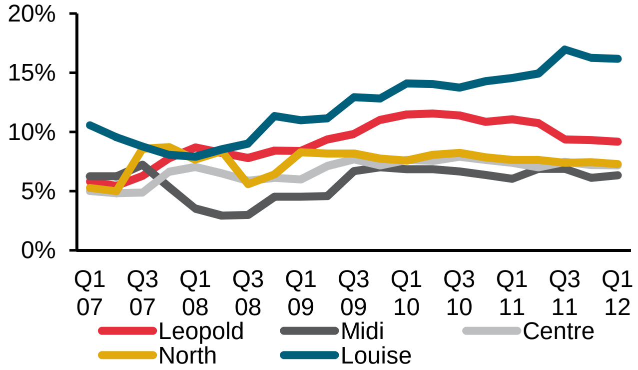
The North, Centre and Midi districts record the best performances, with ratio comprised between 6.3% and 7.3%, well below the Brussels average of 11.9%. In these districts, the slow decrease recorded is expected to continue as no speculative developments are awaited for 2012. Nevertheless, recent information concerning a possible departure of Belfius from the Dexia Tower (+/- 50,000 sq m occupied) at the Rogier Square might reverse this trend. The availability could also increase in the Leopold district where speculative projects (notably the Arts-Lux) are expected to be delivered at the end of this year.

Conversely, the Louise district's availability ratio is now above 16%. This high level represents a major issue for the coming years. Indeed, despite a more prestigious environment, the obsolescence of the stock combined to a lower accessibility quality is putting pressure on this district.

Contrasted trends in prime rents are also recorded between districts (Figure 11). The Leopold district continues to see rents rise to €275/sq m/year. On the opposite, rents in North, Midi, Centre and Louise are stable or decrease. Despite a quite good market activity, prime rents decrease in the Louise district as vacancy rate remains high.

Figure 10

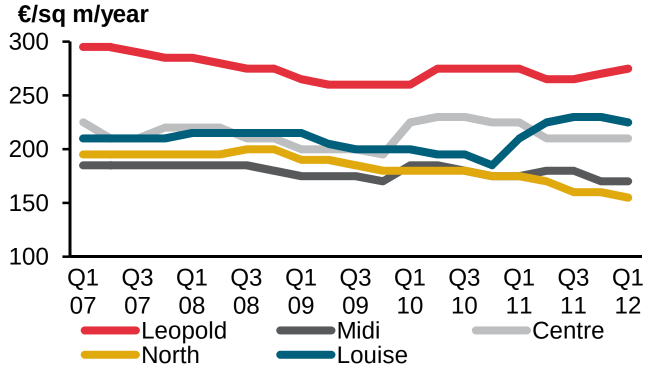
Central districts - office availability ratio



Source: DTZ Research

Figure 11

Central districts - office prime rents



Source: DTZ Research

[1] Difference in figure with Q4 2011 (availability ratio of 8.6%) is due to an enhancement of our Research databases.

Decentralised districts

All markets indicators are in the red

After an excellent level of take-up recorded in Q4 2011 (34,000 sq m), activity has strongly decreased in Q1 2012 with only 11,000 sq m of take-up recorded (Figure 12).

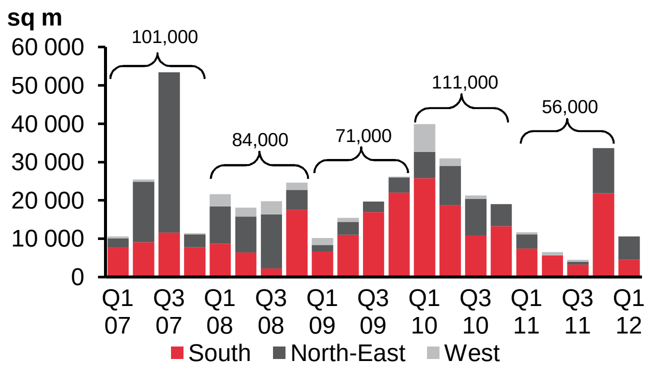
The West district has been the most impacted, as incredibly low activity level has been recorded since mid-2009. With the highest vacancy level of the Decentralised districts and a prime rent which continues to decline, the West district is and will continue to suffer from troubles on the offices market.

The most significant deal over the quarter has been the purchase of 4,200 sq m offices in the Chaussée de Haecht driving the activity for both the North-East district as for the Decentralised districts as a whole (Map 2). From a total of 11 deals, eight are comprised between 100 and 800 sq m, confirming that this area is mainly driven by the mid-size corporate sector.

No new developments have been delivered in the Decentralised districts this quarter and none are expected in the foreseeable future. Undoubtedly, new ways of developments are to be found for this area as no future for offices is foreseeable anymore. A greener environment and the need to offer housing to a growing population growth in the Brussels Capital Region (around 150,000 additional inhabitants by 2020) can offer perspectives for new functions like residential units, schools or nursing homes.

Figure 12

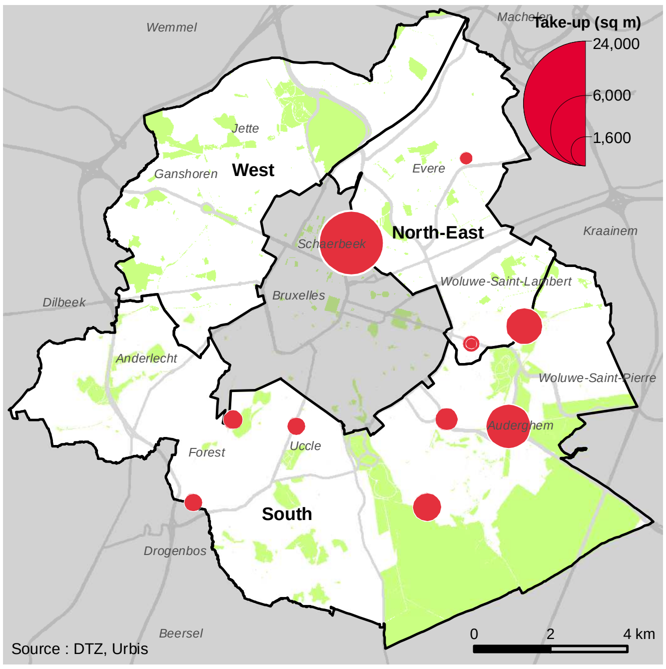
Decentralised districts - office take-up



Source: DTZ Research

Map 2

Decentralised districts deals, Q1 2012



Source : DTZ, Urbis

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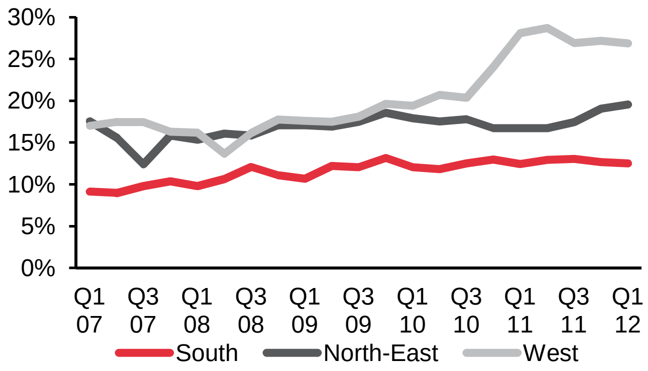
Despite the fact that no new developments appeared in this area, the global availability ratio continues to increase at a slow rhythm to 17.3% this quarter, representing a total of 470,000 sq m (Figure 13). More than 50% of this vacancy is to be found in the North-East district.

The South district is showing different trends to the West and North-East districts. Indeed, despite a low level of activity, availability decreases slowly and continuously while prime rent keeps its highest level since 2005. New deals in the Solaris building, empty for a long time after its delivery, confirm this recent trend. The South district benefits for a greener and prestigious environment, attracting specific activity like embassies and law firms.

In these sectors, prime rents have remained stable over the quarter (Figure 14), presenting few differences with Q4 2011. In the South district, the prime rent of €195/sq m/year is once again defined by the Solaris building where a new deal helps to fill the building. In the North-East district, rents remain stable since the end of 2010 at a level of €150/sq m/year. In the West district, prime rent has been reported from previous quarter (Q3 2011) has no deal has been recorded in Q4 2011 or Q1 2012.

Figure 13

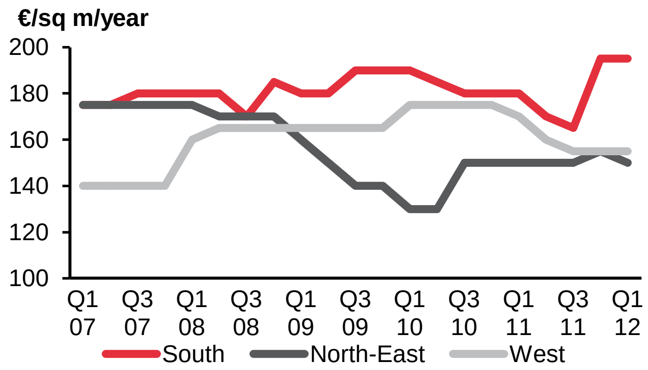
Decentralised districts - office availability ratio



Source: DTZ Research

Figure 14

Decentralised districts - office prime rents



Source: DTZ Research

Periphery

Important market activity recorded all over the Periphery but pressure on what remains

After annual take-up only reaching 76,000 sq m in 2011, well below the annual average, the periphery records an excellent start to 2012 with 35,000 sq m (Figure 15).

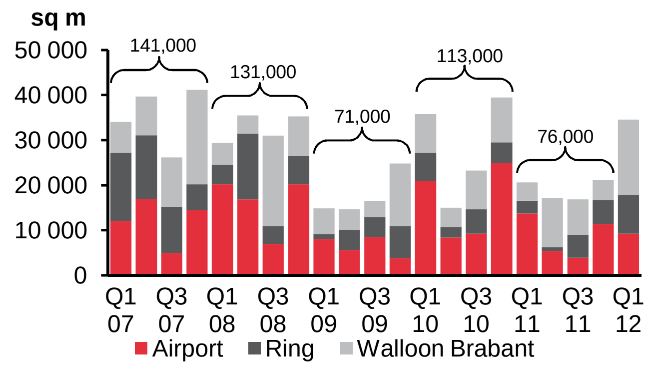
All the districts have shown dynamic activity, especially the Walloon Brabant, booqted by the development of the new headquarters of AGC Glass Europe in Louvain-la-Neuve. The other major deals (Map 3) took place in the Airport district (letting of 3,200 sq m by 3SI in Zaventem and letting of 3,000 sq m by Toyota in Sint-Stevens-Woluwe) and in the Ring district (letting of 3,600 sq m by Alcon in Vilvoorde).

No new developments have been delivered over the quarter and none are scheduled all over 2012. The only developments currently in the pipeline for 2013 are to be delivered in the Walloon Brabant district, the area showing the most dynamic activity of these last months. The extension of the Axis Office Parc is under way as this new park still attracts interest from many tenants given its good location close to motorways, in a green environment and close to a University and a shopping centre. In the longer term, few developments are expected, the major one being the extension of the Collines de Wavre.

In contrast, the Airport and Ring districts have to face major issues over the next years. The periphery was seen as an efficient alternative to the Brussels Capital Region in terms of location (lower rents and very good accessibility by car. But this area suffers now from some negative factors for several years. A depressed economy, ageing stock, a high availability ratio and low activity force developers to put on hold important projects as the low pipeline reveals. Only two projects are recorded for now, the Gateway (30,000 sq m of offices within Brussels Airport) and Uplace Machelen (40,000 sq m within a much broader and mixed-use scheme focusing on retail and leisure activities). These very specific developments could indicate a new way to develop the market in the Periphery, concentrating not only on offices but trying to propose integrated projects. Future developments are awaited to confirm or not this new direction.

Figure 15

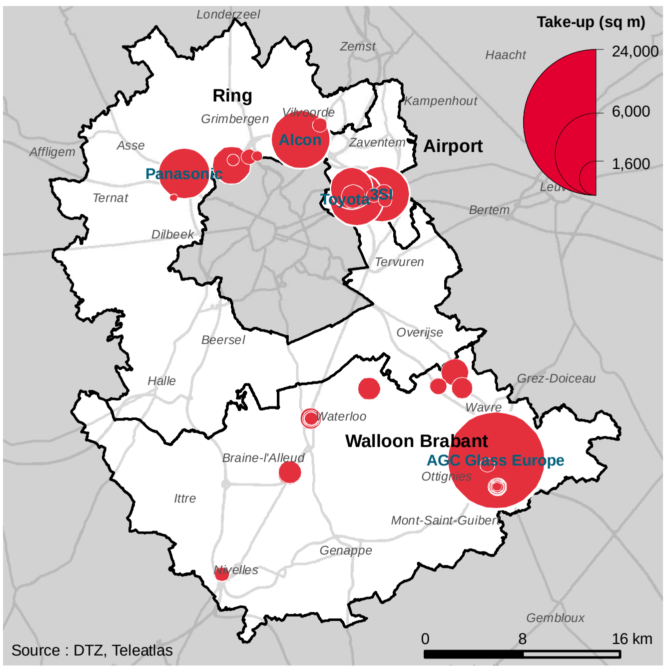
Periphery - office take-up



Source: DTZ Research

Map 3

Periphery deals, Q1 2012



Availability remains under control, even at a high level, with a ratio of 17.7%. Globally, availability is slowly decreasing in the Periphery, as observed in the Central districts.

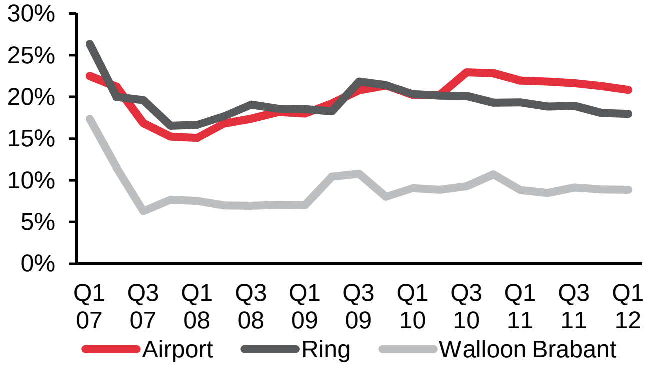
The best performing district remains Walloon Brabant (8.8% of vacancy ratio) with a relatively small offices stock and a quite dynamic market (Figure 16). These market conditions offer some place to develop new projects, even on a speculative basis, as mentioned previously.

On the other hand, even if decreasing, the availability in the Airport and Ring districts remains quite high at more or less 19%. This vacant stock partly results from important developments recorded in the 1990s which have considerably raised the stock of offices there. Important issues are linked to this vacant stock as its reconversion doesn't seem easy regarding the typology of the buildings and the quality of the neighbourhood, not so appropriate for housing developments for example. Available offices delivered in the last five years only amount to 51,000 sq m in these two districts, 15% of the total availability.

After a period of relative stability around €165/sq m/year, the Airport district's prime rent continues to come down since Q3 2011 and it now recorded at only €135/sq m/year (Figure 17). For the first time since begin 2007, prime rents in the Airport are lower than in the other two peripheral districts. This clearly demonstrates that tenants could negotiate lower rents due to an important available stock. On the opposite, the Ring district records a rise in the prime rent, recovering the level of begin 2010 after an important decrease throughout 2011. Walloon Brabant records a slight decrease of its prime rent but looking in the longer term, rents remain relatively stable around €140/sq m/year in this area.

Figure 16

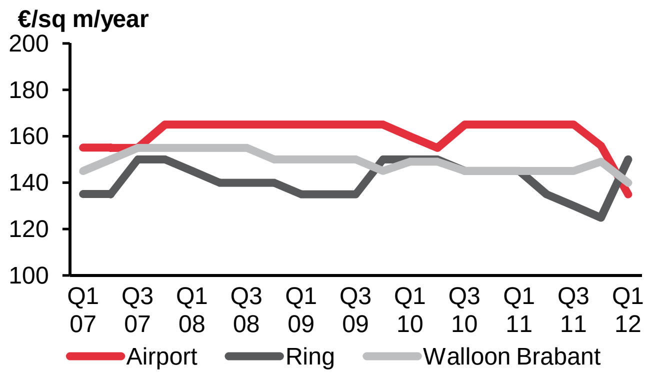
Periphery - office availability ratio



Source: DTZ Research

Figure 17

Periphery - office prime rents



Source: DTZ Research

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Definitions

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.
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 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 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.
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.
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.

Contacts

Occupational & Development Markets

Jérôme Coppée +32 (0)2 629 02 57 jerome.coppee@dtz.com	Pierre Badot +32 (0)2 629 02 05 pierre.badot@dtz.com
Harold d'Otreppe +32 (0)2 629 02 06 harold.dotreppe@dtz.com	Ulrik Mertens +32 (0)2 629 02 01 ulrik.mertens@dtz.com
Jean-Christophe Alpha +32 (0)2 629 02 03 jean-christophe.alpha@dtz.com	Kristof van Renterghem +32 (0)2 629 02 75 kristof.vanrenterghem@dtz.com