DTZ Research

Property Times
Brussels Offices Q3 2011
"People don't know whether to invest...

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Contents

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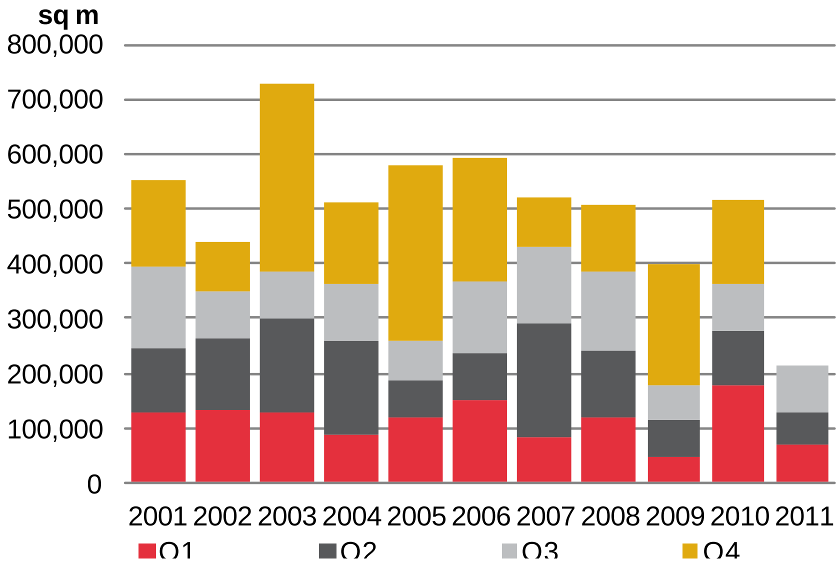
- …or to hire because they don't know" is how Ben Bernanke explained the situation in July 2011. This statement could just as well refer to this quarter activity on the Brussels office market where most property decisions seem to have been frozen due to the current economic environment. The revised economical forecasts confirm the strong downward revision of the office job generation in 2011-2012.

- In Q3 2011, take-up reaches an unimpressive 83,900 sq m, nearly 46,000 sq m of which relate to the long awaited confirmation of the letting by the EU Commission in the *Capital* building. Since January, activity only totals 212,000 sq m (Figure 1) and there is no hope of coming close to the annual average of 560,000 sq m in the next three months. However, the sad record set by 2009 with close to 400,000 sq m of take-up may very well be broken as no major deal is expected during the last quarter.

- The good news comes from the availability that remains under control, albeit at a high level, at 12% on the back of the reduced pipeline and, to a lesser extent, change of use of some empty office buildings.

- The weak level of activity is putting pressure on the rents of some districts, mostly in the Decentralised districts that are strongly suffering in terms of activity.

Figure 1
Annual take-up by quarter



Source: DTZ Research

Economic overview

Belgium is being increasingly buffeted by financial and economic headwinds from elsewhere in the Eurozone, compounded by an ongoing lack of political leadership. The recovery is slowing and risks for 2012 are increasingly on the downside.

The economy has been hit by the financial market turmoil, with spreads reaching new highs as investors retreated to safety. Despite a relatively good short-term fiscal position, Belgium suffers from a number of vulnerabilities, including bank exposure to Greece, a large debt ratio and heavy financing needs. But with GDP having risen 0.7% in Q2, defying the slowdown seen elsewhere in the Eurozone, Oxford Economics still expects GDP growth of 2.5% this year.

But even before the latest financial turbulence the recovery was starting to lose some steam as exporters felt the impact of slower German growth in Q2 and consumer confidence deteriorated.

However, Oxford Economics' forecast for 2012 remains largely unchanged, with downward revisions to exports offset by weaker imports. Wage indexation provides some respite for consumers, but the risks are clearly on the downside.

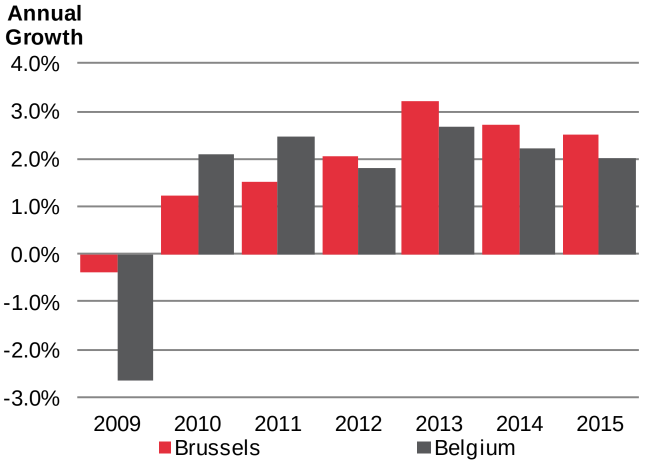
Office jobs generation forecast for Brussels have been revised downward with an estimate of 17,000 jobs to be created between 2011 and 2015 against an estimate of 25,000 last quarter.

Although the Belgian bonds are now at the same level as they were three months ago, the German bonds have massively decreased and the spread (Figure 4) between Belgium and Germany is therefore once again at a high level of 216 (26/9/2011).

Source: Oxford Economics

Figure 2

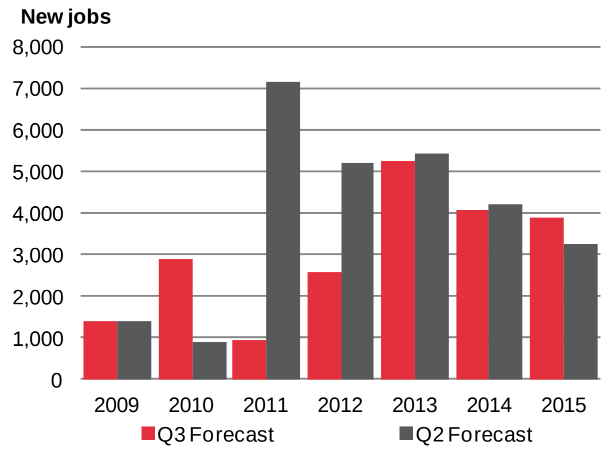
GDP growth



Source: Oxford Economics

Figure 3

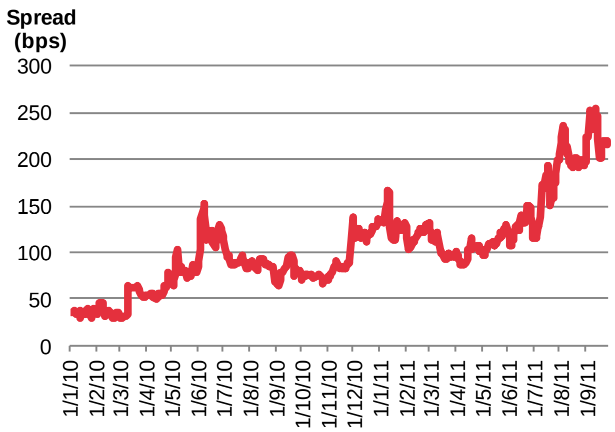
Office jobs generation in Brussels



Source: Oxford Economics

Figure 4

Belgium: Spread over Bunds



Source: Oxford Economics

Brussels market

Strong downward trend in activity and gloomy outlook.

The Brussels office market seems to have come to a second halt after the pause seen in 2009, as far as the occupational market is concerned. Judging from the latest figures, most companies are holding off on possible moves or extensions. If it weren't for the long awaited letting of 46,000 sq m in the *Capital* building by the EU Commission, activity would barely have reached 40,000 sq m this the quarter (Figure 5). With 212,000 sq m of take-up since January 2011, we are a long way from the annual average of 560,000 sq m and we will probably fare lower than 2009, the worst ever result so far with 400,000 sq m.

As observed these last few quarters, the Decentralised districts are the worst off and seem to be increasingly suffering from the competition of the Central districts benefiting from a better location as well as the Periphery benefiting from lower costs.

On the bright side, the almost non-existent speculative pipeline (Figure 7) and, to a lesser extent, the reconversion trend is putting pressure on the availability that has stopped its growth (Figure 5). The same goes for the prime rent that is holding its ground (Figure 6), although the situation can strongly differ from one district to another.

As said by the Chairman of the Federal Reserve, "people don't know" and fear of the unknown is what has gripped the market in 2009. In these conditions it is very difficult to forecast what will happen in the coming months but we are certainly not expecting a surge of activity at the last hour. Hopefully however the weak pipeline of the next couple of years will allow for a control of the availability, the biggest threat on Brussels office market.

Table 1

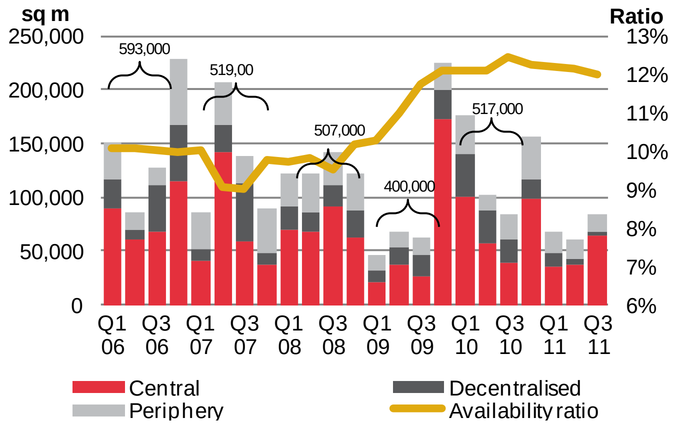
Market indicators Q3 2011

	Brussels office market
Stock (sq m)	13,114,000
Take-up (sq m)	83,902
Availability (sq m)	1,577,000
Availability ratio (%)	12,02
New supply (sq m)	22,532
Of which speculative	*16,032*
Prime rent (€/sq m/year)	265

Source: DTZ Research

Figure 5

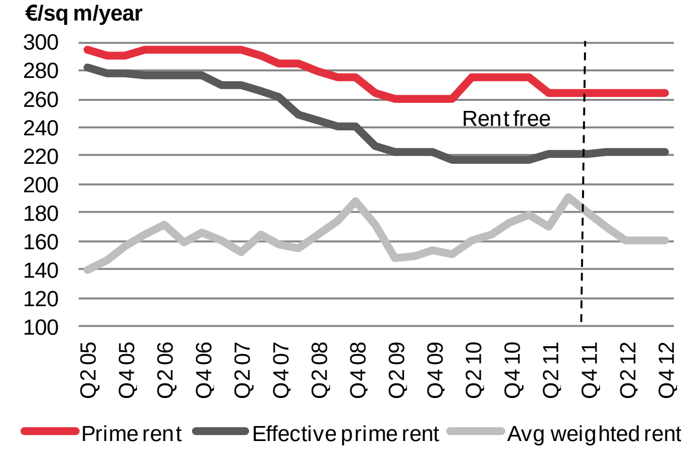
Take-up & availability



Source: DTZ Research

Figure 6

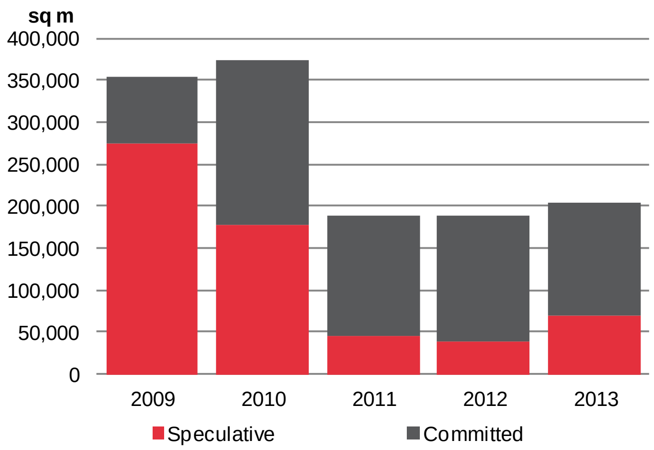
Rents



Source: DTZ Research

Figure 7

New supply & pipeline



Source: DTZ Research

Central districts

A single transaction managed to boost the activity and decrease availability. But the general trend is not positive.

If it weren't for the long awaited EU Commission deal in the *Capital* Building, take-up in the Central district would have reached one of the lowest points ever. With 63,000 sq m recorded this quarter, 46,000 sq m of which being the result of the aforementioned deal, activity is nonetheless substantially outperforming the beginning of the year (Figure 8).

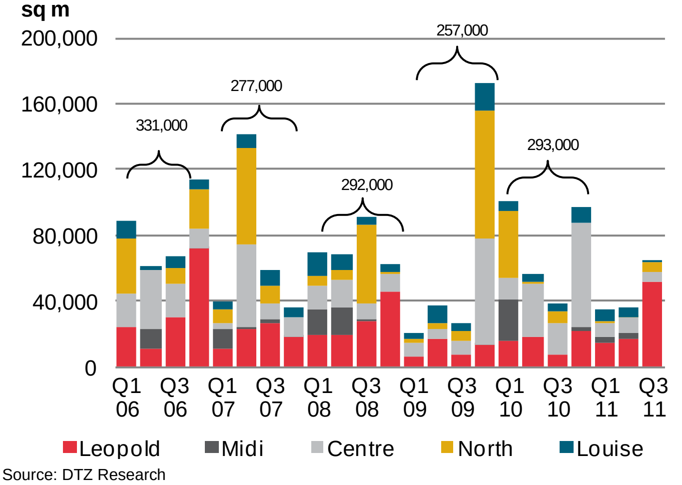
Looking more closely at the activity map (Figure 9), it appears however that there have been very little movements during the quarter. No deals have been observed in the Midi district and the Louise district has never seen so little activity with a single deal of 210 sq m. The same goes in the other districts where only a handful of deals were recorded in each case.

Given the strong dependence of the Central districts to the public sector and the current situation of both the Belgian federal government and the European countries (see our latest report on the austerity measures impact in Europe), the current results are not surprising. There is very little chance that the last quarter will bring a surge of activity and 2011 will undoubtedly be one, if not the, lowest year on record for the Central districts.

To make matters worse, two new speculative developments have been delivered over the quarter. However, they do not add much empty space with a combined total of little more than 11,000 sq m. The *Science-Montoyer* (5,000 sq m) has been redeveloped by Befimmo into a BREEAM Excellent building and the *Bota 145* offering 6,400 sq m adjacent to the Finance Tower has been delivered by Galliford.

Figure 8

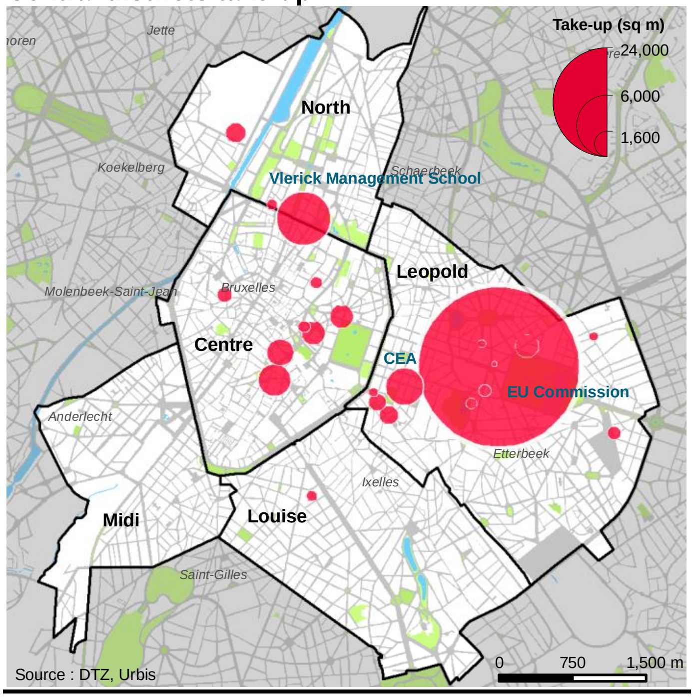
Central districts take-up



Source: DTZ Research

Figure 9

Central districts take-up



Source : DTZ, Urbis

Central districts

Quite surprisingly, the Louise district is the only one whose availability keeps rising (from 15% to 17%). It is certainly understandable given the weak level of activity recorded in the area but the other districts are not faring much better. Therefore, it seems the Louise district can't retain its tenants despite the quality of its environment and of its developments.

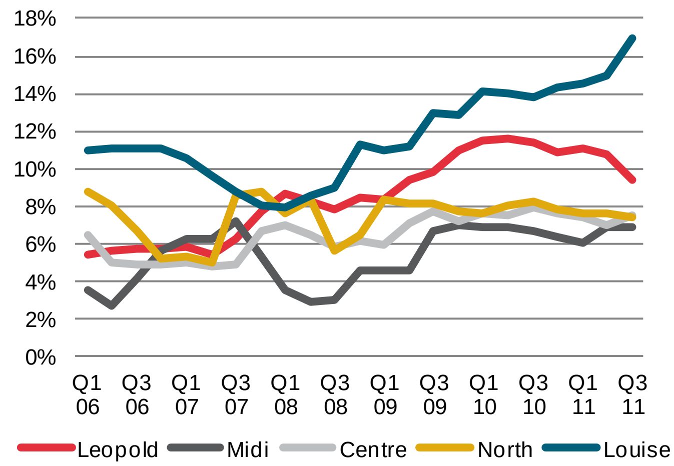
Overall the vacancy ratio in the Central district has decreased from 9.3% to 9.1% on the back of the Capital deal in the Leopold district, reducing the availability in the area by 46,000 sq m (13% of the total available space in the district). For the first time since mid-2009, the availability ratio in the Leopold district has dropped below 10%.

Another piece of good news is the continuing decrease of the availability in buildings of less than five years old in the Central district. While there was more than 435,000 sq m (54% of the total) available in buildings delivered less than five years ago by the end of 2010, this figure has dropped to 315,000 sq m or 41% of the total.

Despite its increased availability, the Louise district has some very attractive assets that are setting new highs in terms of the prime rent that now reaches €230/sq m/year. The rest of the districts are holding their ground, except for the North district where the lack of transactions is striking in the upper segment. The prime rent is now defined by Tour & Taxis at €160/sq m/year and we do not expect a recovery in the short term, despite possible deals in the Zenith tower.

Figure 10

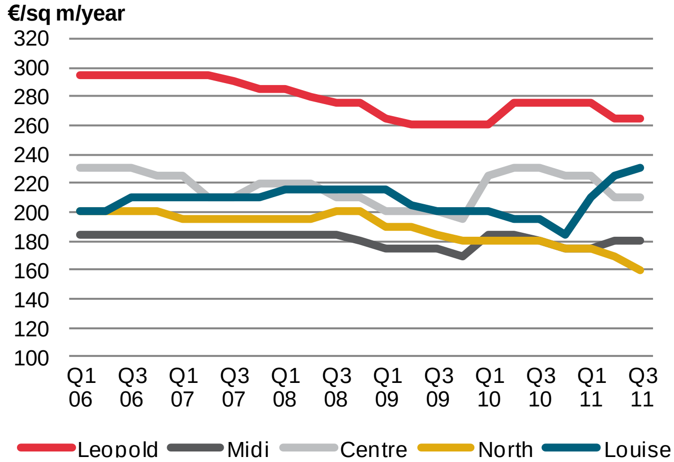
Central districts availability



Source: DTZ Research

Figure 11

Central districts prime rents



Source: DTZ Research

Decentralised districts

Incredibly low level of activity as the competition with the Central districts and the Periphery is taking its toll.

The decreasing trend continues for the Decentralised district's take-up as activity barely reached 4,500 sq m this quarter (Figure 12). This only represents a fifth of the quarterly average. With 22,000 sq m, take-up since the beginning of the year is barely above the quarterly average!

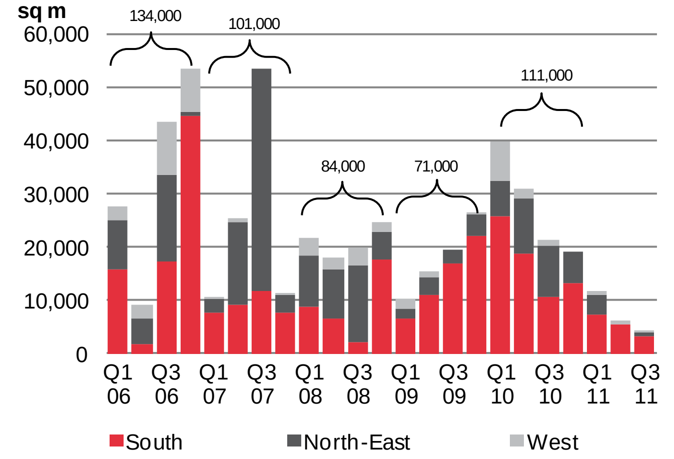
Barely 13 deals were recorded during the quarter, none of them above 800 sq m. Looking at Figure 13, the gravity of the situation clearly appears. None of the Decentralised districts have been able to display significant activity with only two deals of 250 sq m recorded in the West district and three deals below 300 sq m in the North-East district.

More than ever the Decentralised districts confirm their "buffer" position exposed to the fierce competition of the Periphery and the Central districts. The Periphery and its lower costs (both in terms of rent and outgoings) are attracting companies that are looking to reduce their property costs. The Central districts are attracting companies looking for better accessibility and location.

Fortunately, no developments have been delivered this quarter and none are scheduled in the short- to mid-term.

Figure 12

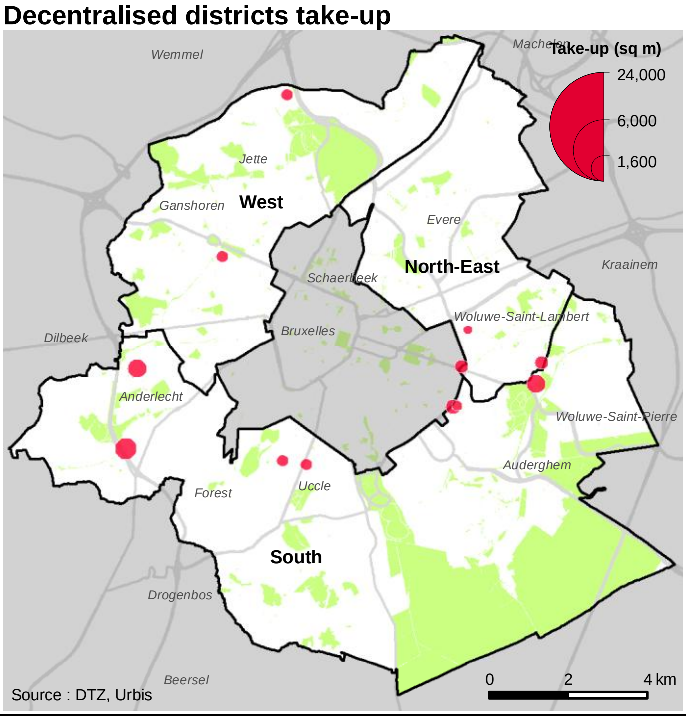
Decentralised districts take-up



Source: DTZ Research

Figure 13

Decentralised districts take-up



Source : DTZ, Urbis

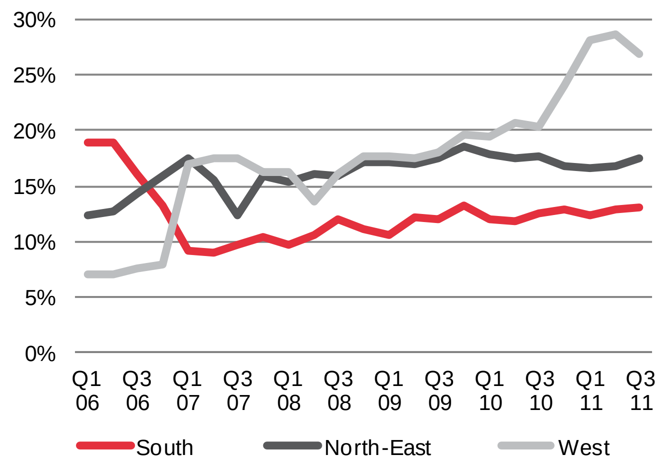
Decentralised districts

Availability in the Decentralised districts is steady at 16.5% on the back of some withdrawals from the stock. Indeed, empty buildings such as the Colonel Bourg 128 (8,000 sq m) or the West Office Center (8,000 sq m) have been taken out of the stock and will undergo a change of use (nursing homes and classrooms respectively). As stated before, this will be the most efficient way for the Decentralised districts to decrease their availability given the amount of outdated buildings.

Given the low demand directed towards the Decentralised districts, we have recorded very few transactions in top quality assets. Consequently, prime rents are suffering heavily and the prime rent in the Decentralised districts is now equal to the Periphery with €165/sq m/year recorded in the South district (down from €170 sq m). The West district's prime rent is now standing at €155/sq m/year while the North-East maintained its level of €150/sq m/year.

Figure 14

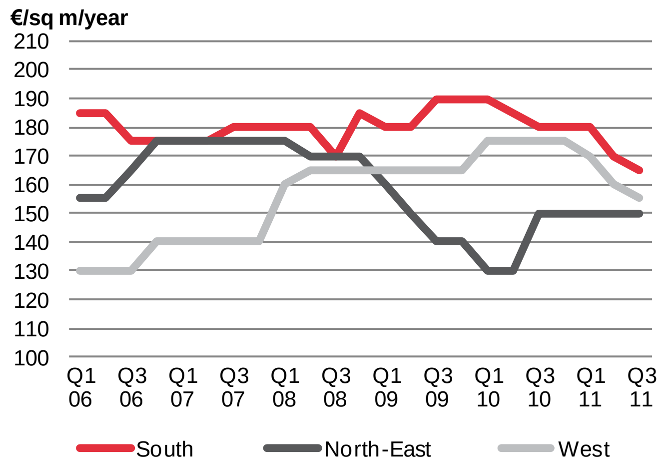
Decentralised districts availability



Source: DTZ Research

Figure 15

Decentralised districts prime rents



Source: DTZ Research

Periphery

The lack of decision from the private sector impacts the activity but the availability is holding up.

The Periphery activity amounted to 16,000 sq m over the quarter, barely 50% of the quarterly average (Figure 16). As in Q2, the Walloon Brabant was the best performer with nearly 8,000 sq m or half of the recorded activity. The Ring district also had a fair level of activity at 5,000 sq m mainly due to the deal of Staples (Figure 17). The activity since January amounts to 55,000 sq m in the Periphery.

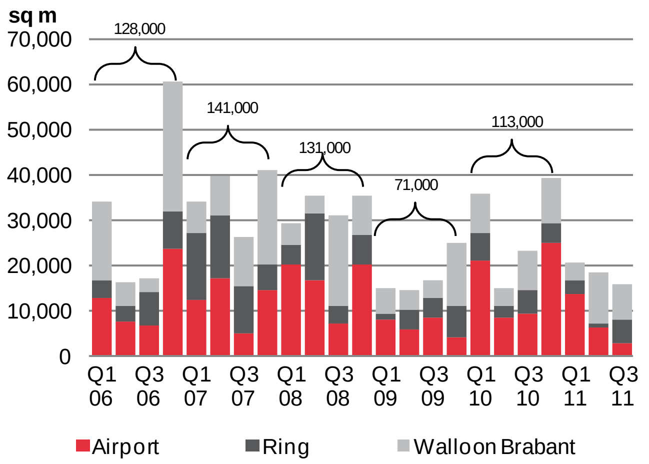
The Periphery accounts for five deals above 1,000 sq m, just as the Central districts. However, no deal reaches 3,000 sq m which confirms that the major companies are still in a wait-and-see mode.

The major deals are spread in the various districts. Toyota Tsusho rented 2,800 sq m in the *Astra Garden* in the Airport (€120/sq m/year) whilst Staples rented 2,600 sq m in *Bxl 7* (Ring) at €77/sq m/year. The *Axis Parc* confirms its success with another letting at €145/sq m/year to Knauf Insulation (2,300 sq m).

The only new delivery was the *Porte du Lion* development in Braine l'Alleud (Walloon Brabant) which offers 4,500 sq m just outside the *Parc de l'Alliance*. The only other development in the Pipeline for the coming 15 months is also in the Walloon Brabant (*Colline de Wavre VI*) as it is the only district which can afford it given its lower availability rate and healthy demand.

Figure 16

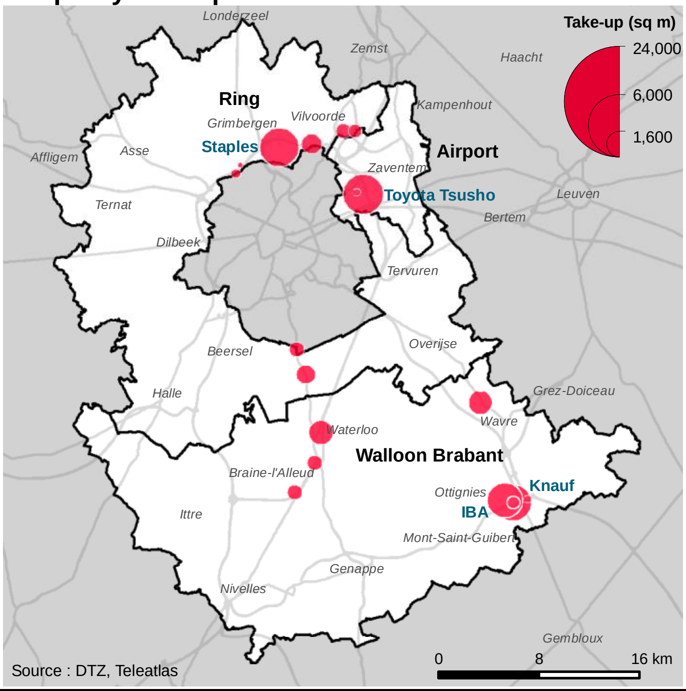
Periphery take-up



Source: DTZ Research

Figure 17

Periphery take-up



Source : DTZ, Teleatlas

Periphery

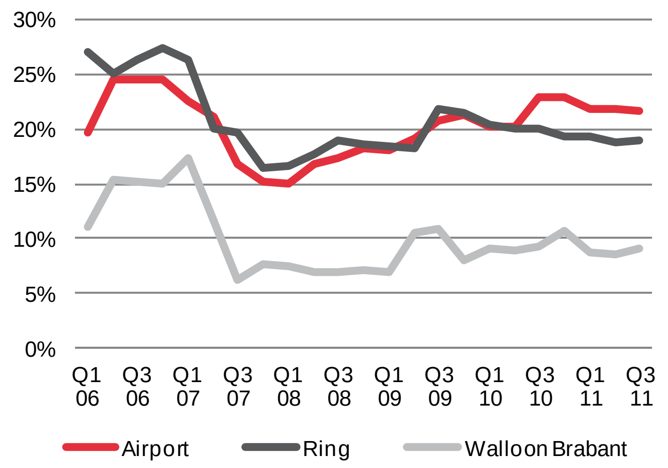
The availability remained stable in the Periphery at 18.4 %. There is now 363,000 sq m of office space to let in the Periphery, 54% of which are in more than 10 years old buildings, making it a structural problem. The Airport holds the largest amount of available space (233,000 sq m) against 92,000 sq m in the Ring and 37,000 sq m in the Walloon Brabant.

Availability in the Walloon Brabant has slightly increased but the market is in excellent shape and there is no structural problem as can be observed in the rest of the Periphery.

Prime rents of the Airport and Walloon Brabant have remained stable since the end of 2010 at respectively €165/sq m/year and €145/sq m/year. Regular transactions have confirmed this level of prime rent over the months. On the other hand, the Ring district has suffered a strong decrease from €150/sq m/year in Q2 2010 to €130/sq m/year today.

Figure 18

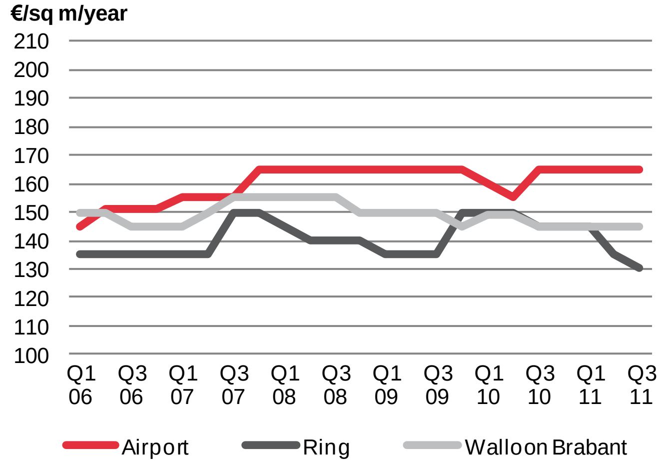
Periphery availability



Source: DTZ Research

Figure 19

Periphery prime rents



Source: DTZ Research

Key statistics – occupier market

Table 2

Occupier market

	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q/Q change (%)	Y/Y change (%)	Directional outlook
Central								
Stock (m sq m)	8.45	8.45	8.47	8.47	8.44	0	0	▶
Take-up (sq m)	38,385	97,704	35,500	35,944	63,549	77	66	▼
Availability (sq m)	826,933	799,195	799,412	788,205	765,605	-3	-7	▶
Availability ratio (%)	9.79	9.46	9.43	9.31	9.08	-2	-7	▶
New supply (sq m)	28,718	65,618	30,037	0	18,032	100	-37	▶
Prime rents (€/sq m/year)	275	275	275	265	265	0	-4	▶
Decentralised								
Stock (m sq m)	2.67	2.67	2.70	2.71	2.70	0	1	▶
Take-up (sq m)	21,325	18,991	11,701	6,362	4,497	-29	-79	▲
Availability (sq m)	421,405	425,567	436,984	446,979	448,335	0	6	▼
Availability ratio (%)	15.77	15.91	16.18	16.47	16.58	1	5	▼
New supply (sq m)	19,823	28,750	13,899	23,374	0	-100	-100	▼
Prime rents (€/sq m/year)	180	180	180	170	165	-3	-8	▶
Periphery								
Stock (m sq m)	1.92	1.94	1.96	1.97	1.97	0	3	▶
Take-up (sq m)	23,261	39,471	20,646	18,165	15,856	-13	-32	▶
Availability (sq m)	374,536	379,219	363,931	361,069	362,805	0	-3	▼
Availability ratio (%)	19.48	19.54	18.58	18.36	18.38	0	-6	▼
New supply (sq m)	26,211	0	2,287	10,845	4,500	-59	-83	▶
Prime rents (€/sq m/year)	165	165	165	165	165	0	0	▶

Source: DTZ Research

Table 3

Leasing transactions in Q3 2011

Submarket	Building	Offices (sq m)	Tenant - occupier	Transaction
Leopold	The Capital	45,945	EU Commission	Letting
North	Manhattan Center	4,890	Vlerick Management School	Letting
Airport	Astra Gardens	2,804	Toyota Tsusho	Letting
Ring	BXL7	2,565	Staples	Letting
Leopold	Neo	2,484	CEA	Letting
Walloon Brabant	Axis Parc Office	2,284	Knauf Insulation	Letting
Walloon Brabant	Double W	2,183	IBA	Subletting
Centre	Tour Sablon	1,866	Crowell & Moring	Letting
Centre	Saint Jean Tower	1,237	IHECS	Letting
Walloon Brabant	Waterloo Office Park	1,016	Desmet Engineers	Letting

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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