

6 January 2011

Author

Vincent Leroux

Head of Belgium Research & Global Geomatics
+32 (0)2 629 02 86
vincent.leroux@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 Research
+44 (0)20 3296 2314
tony.mcgough@dtz.com

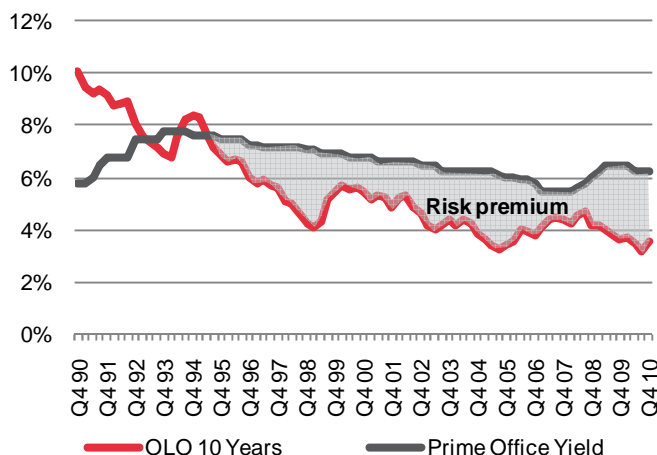
Hans Vrensen

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

- Investments in Belgium have totalled €510m over the quarter and €1.64bn over the year (+4% y-o-y). This level is in line with results for 2009.
- Investors have been mostly looking at assets offering secured cash flow over the longest possible term in prime assets. We have observed very aggressive pricing in the Long Term Core asset segment while the typical Core assets have attracted less interest and are recording one of the highest risk premiums ever (Figure 1).
- While prime yields have remained stable due to the lack of interest in prime properties but rather toward Long Term prime, we expect the yield to compress slightly in early 2011. There are indeed only so many Long Term Core assets and investors will have to focus on Core products in the coming months.
- As a result of this risk aversion environment, nearly 80% of investments have been realised by Belgian investors. Private investors have been especially dynamic with €243m invested in 2010 (double the level for 2009).
- The diversification continues in 2010 with only 57% of investments directed towards offices while the Nursing Homes asset class has attracted €121m in 2010 and nearly €800m since 2005.

Figure 1

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



Source: DTZ Research

Investment Market Update

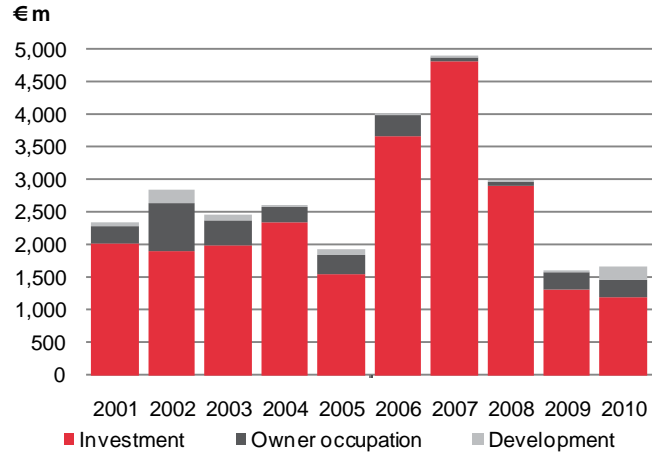
As expected, the total volume of investment on the Belgian commercial property market has roughly equalled last year's performance with €1.64bn, compared to €1.58bn in 2009 (Figure 2). No end of year rush has been observed and a few expected transactions will not be finalised until Q1 2011 (*Renaissance* and *Nerviens 85*). There were some Christmas gifts to be enjoyed nonetheless such as the purchase of *South City – Broodthaers* by Allianz at what seems to be a very competitive pricing (circa €66m) or the acquisition of two additional nursing homes by Cofinimmo totalling more than €30m. Elsewhere, the acquisition by Caisse d'Epargne Nord France Europe of an office building located in Tournai and rented by the Federal state, the *Château Rempart* was announced on Christmas Eve. A perfect way to close a busy year for Immobel who has sold *the South City & Crystal* (along with Atenor amongst other partners), bought the former *Euler Hermes HQ* and partly let the *BelAir* to the Federal Police (Breevast being the project's main developer).

The quarterly investment volumes (Figure 3) indicate that the transactions level has remained stable since Q2 10 at around €500m. With this level being barely 16% below the average (€600m), the investment market seems to be slowly picking up again. In 2009, the average quarterly volume was of €400m; therefore 2010 is a step forward.

Another positive sign is the shift observed in the size of deals for the first time since 2007 (Figure 4). There has been a greater proportion of deals above €10m in 2010 than in 2009, especially for deals between €20 and €50m. However, there has never been fewer deals above €50m. Although the market is making a step in the right direction, there is still a long way to go before it regains full confidence.

Figure 2

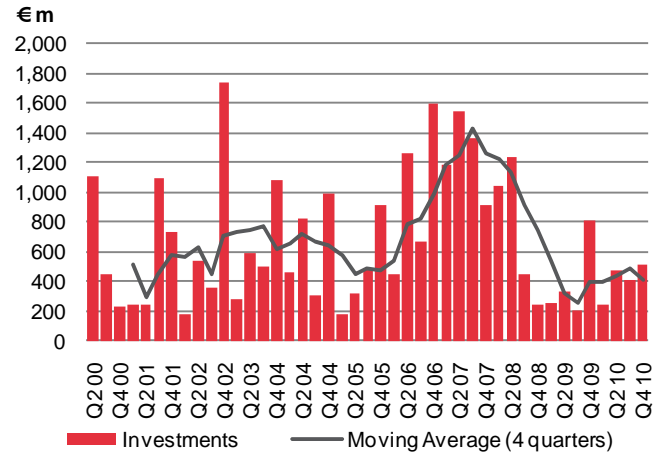
Investment volumes by type of investment



Source: DTZ Research

Figure 3

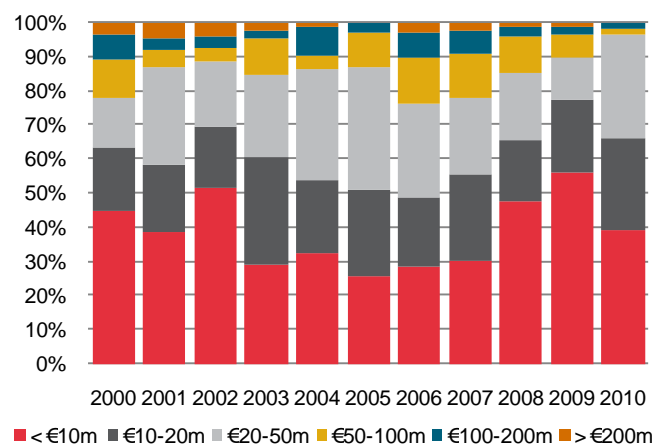
Quarterly investment volumes



Source: DTZ Research

Figure 4

Total investments by size of deals



Source: DTZ Research

Investment Market Update

Brussels office market

Although the investment volume on the Brussels office market has increased by 30% on 2009 to €749m (Figure 8), it is still 50% below its decennial average. This is however a positive sign of recovery for the market as 2009 was extremely depressed and some interesting deals have been recorded in 2010.

The major deal of the quarter and the year is the aforementioned purchase of the *South City – Broodthaers* near the Midi station. As the *South Crystal* building has also been purchased in December (Ethias, €25-30m) and the first part of *South City* was sold in Q2, all the recent office development near the Midi station have now been sold to investors or occupiers. This proves the success of the area not only in the eyes of some major tenants (mostly public services) but also for investors looking for core long term products.

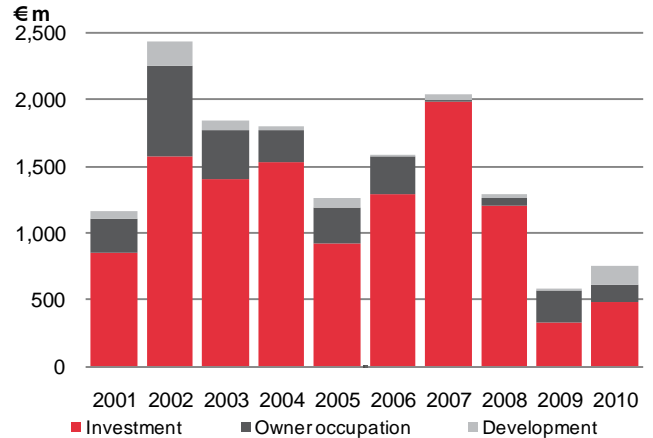
The split of the volume invested on the market in 2010 by the quality of the asset is yet another example of the priority that is being given by investors to Core assets and more specifically Long Term Core assets (Figure 9). With 40% of the investments directed to core office buildings let on a long term basis to quality tenants, the market is clearly driven by the low risk strategy. Moreover, all of the Add-value deals are below €25m and most of them are development projects. Very few investors are willing to invest significant amounts of money into Add-value assets.

The prime yield has remained stable over the last three quarters but we expect it to decrease to 6.00% during 2011 (Figure 10). There are indeed only so many LT Core products and investors will eventually increase their interest in Core products.

The office portfolio yields of the two majors REITs active on the Brussels office market have continued the compression started at the beginning of the year (Figure 10). As at Q3 2010, Cofinimmo's yield was of 7.38% and Befimmo's of 6.90%.

Figure 8

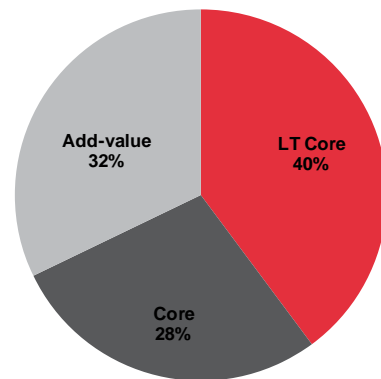
Brussels office market investment volumes



Source: DTZ Research

Figure 9

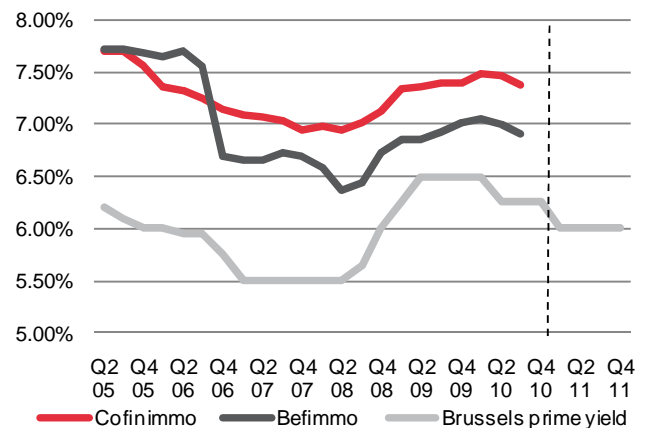
Brussels office market investment volumes in 2010 by asset quality (excl. Owner occupation)



Source: DTZ Research

Figure 10

Brussels prime yield and major REITs office portfolio equivalent yield



Source: DTZ Research

Investment Market Update

Table 1

Brussels office market prime yields								
	Q4 2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q/Q change (bps)	Y/Y change (bps)	Directional outlook
Central	6.50	6.50	6.25	6.25	6.25	0	-25	▼
Decentralised	7.80	7.80	7.80	7.70	7.70	0	-10	►
Periphery	8.10	8.10	8.10	8.00	8.00	0	-10	►

Source : DTZ Research

Table 2

Industrial prime yields									
		Q4 2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q/Q change (bps)	Y/Y change (bps)	Directional outlook
Antwerp	W	8.20	8.20	8.10	8.10	8.10	0	-10	►
	L	7.5	7.5	7.25	7.25	7.25	0	-25	►
Brabant	W	8.50	8.50	8.25	8.25	8.25	0	-25	►
	L	7.65	7.65	7.5	7.5	7.5	0	-15	►
Liege	W	8.75	8.75	8.50	8.50	8.50	0	-25	►
	L	7.8	7.8	7.7	7.7	7.7	0	-10	►

Source: DTZ Research / W= Warehouses & L= Logistics

Table 3

Retail prime yields									
		Q4 2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q/Q change (bps)	Y/Y change (bps)	Directional outlook
Brussels		5.25	5.25	5.00	5.00	5.00	0	-25	►
Antwerp		5.25	5.25	5.00	5.00	5.00	0	-25	►

Source: DTZ Research

Table 4

Major investment deals						
Type	Sector	Building	Price (€m)	Purchaser	Region	
I	Office	South City Broodthaers	66.00	Allianz	Brussels	
I	Office	Allard 40-42/ Régence 60-65	36.10	Private	Brussels	
O	Office	VAC Gent (49%)	35-40	PMV	Gent	
I	Office	Airport Plaza (50%)	30-40	Royal Properties Caisse d'Epargne Nord France	Brussels	
I	Office	Chateau Rempart	34.00	Europe	Wallonia	

Legend : O = Owner occupation / I = Investment / D = Development / Price in italics are estimated

Source: DTZ Research

Disclaimer

This report should not be relied upon as a basis for entering into transactions without seeking specific, qualified, professional advice. Whilst facts have been rigorously checked, DTZ can take no responsibility for any damage or loss suffered as a result of any inadvertent inaccuracy within this report. Information contained herein should not, in whole or part, be published, reproduced or referred to without prior approval. Any such reproduction should be credited to DTZ.

© DTZ January 2011