Introduction

Higher rents, finally?

After years of stagnation, positive signals arise from the occupier market about higher rental values. In order to secure a relocation in the right building consistent with a company’s corporate image, susceptible to attract the right people and in keeping with intelligent use of energy resources, more and more occupiers are ready to pay the right price.

The supply-side has hardly changed so far, new projects with a strong identity and excellent green credentials are still very scarce in the best locations. At the same time as employment perspectives have improved, corporates - and administrations - return to the occupier market with new demands with selection criteria that have limited corresponding offer.

In the real estate sector, we more and more hear the words “smart cities” and “smart buildings”, whatever the right definition of these idioms it ultimately suggests “something different”. Energy efficient, easily accessible, serviced, flexible, pleasant to work in, are among the key characteristics of what occupiers consider as “smart”.

Higher requirements on the demand side will inevitably lead to rising prices if supply is slow to adapt. Prime rents in Brussels overall haven’t changed for some time, but at submarket level, increases of 2-3% have been recorded.

At MIPIM, it was heard that Facebook will pay €350 / sq.m. / year in the Regent Park building at the crossing of the Pentagon and European district: this is 27% above current prime rent of Brussels.

In the European district, a landlord decided not to sign for a 3,000 sq.m. lease at €285 / sq.m. / year, 4% above current prime rent, because of it was convinced it would find another, less risky, tenant at the same price. Most projects in the CBD are asking a 10-15% premium to current prime headline rent. Top quartile and weighted average rents in Brussels overall are also upward oriented.

Brussels is very cheap compared to all neighbouring countries, but it seems finally to be time for a change.
2017 started on a positive note with a first large size deal: Beobank prelet 22,000 sq.m. in Befimmo’s Quatuor project in the North district, moving from the Decentralised South East (Etterbeek) and the Pentagon. This 60,000 sq.m. project will be built after demolition of the Noord Building which is obsolete. Works will start in early 2018 once the current occupier (the Flemish Community) has left. Such a transaction is a good example of deals motivated by M&A, Beobank is the combination of the former Citibank Belgium and BKCP Bank, both subsidiaries of French banking group Credit Mutuel.

Take-up in Q1 amounted to 88,200 sq.m., down 6% vs. last year and 8% above the 5 year average for a first quarter. Average deal size was 1,208 sq.m. sq.m. vs. 979 sq.m. on average the last 5 years and we recorded 73 transactions, vs. 84 on average the last 5 years. The corporate sector dominates the market with a share of 91%.

Besides Beobank, representative transactions comprise amongst others UTC Fire & Security in the Pegasus (Periphery, 3,240 sq.m.) and Altran in the Gradient (Decentralised, 2,991 sq.m.), both transactions are relocations within the same sub district.

A number of mid-size transactions are currently under discussion, but in our view the strong performance of 2016 will not be repeated.

Take-up volume over the full year 2017 is more likely to be in the region of 325,000 - 350,000 sq.m. not least because the mega transaction of the US Embassy, announced in the media last year, is uncertain.
Belgian authorities work on positioning the Brussels region as an alternative to London for corporates and administrations having to leave the UK amidst Brexit. Brussels is not particularly known as a financial centre but has much to offer (cheap office market, cheap residential market, highly skilled and multi-lingual population, and more). This seems to be credible since Lloyds of London selected Brussels to host a subsidiary here. Brussels is also competing to host the European Medicines Agency which would represent about 20,000 sq.m., but in our view it is unlikely that Brussels will attract the big banking names that are likely to prefer Amsterdam, Paris, Frankfurt or Luxembourg as they are established financial centres.

Thanks to the Beobank deal, the take-up share of the North district is particularly strong at 25%, but given several mid-size deals the periphery leads with 38% of the transacted volume. Decentralised contributed 23%, the European district 9%, the Pentagon 4% and Louise 1%.

Quatuor (North district) – Landlord: Befimmo
Architect: Jaspers-Eyers

Source all charts: JLL Research
Representative transactions Q1 2017

<table>
<thead>
<tr>
<th>District</th>
<th>Building</th>
<th>Age Class</th>
<th>Surface</th>
<th>Operation</th>
<th>Tenant</th>
</tr>
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<tbody>
<tr>
<td>North</td>
<td>Quatuor</td>
<td>Project</td>
<td>22,000 sq.m.</td>
<td>Pre-letting</td>
<td>Beobank</td>
</tr>
<tr>
<td>Periphery</td>
<td>3T Estate</td>
<td>Old</td>
<td>4,120 sq.m.</td>
<td>Acquisition</td>
<td>Officenter</td>
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<tr>
<td>Periphery</td>
<td>Imperiastraat, 12</td>
<td>Old</td>
<td>3,966 sq.m.</td>
<td>Acquisition</td>
<td>SAMO</td>
</tr>
<tr>
<td>Periphery</td>
<td>Pegasus Park</td>
<td>Modern</td>
<td>3,240 sq.m.</td>
<td>Letting</td>
<td>UTC Fire &amp; Security</td>
</tr>
<tr>
<td>Decentralised</td>
<td>The Gradient</td>
<td>Modern</td>
<td>2,991 sq.m.</td>
<td>Letting</td>
<td>Altran</td>
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Vacancy at the lowest since Q4 2002

Vacancy narrowed again to 9%, the lowest since Q4 2002, the major movement was in the Decentralised where 12.4% is vacant vs. 13.7% 3 months ago.

The change is once again largely explained by conversions, over the last quarter several large properties in the North East (eg, Rue Colonel Bourg) were sold to residential developers.

We recorded a modest reduction of vacancy in the CBD to 4.7% vs. 4.9% in Q4 2016. On the one hand two large refurbished properties became immediately available: 11,000 sq.m. in the Alhambra (Pentagon) and 9,440 sq.m. in the Green Island (North, along the canal), and on the other hand the combination of leasing transactions and stock removals for renovation purpose dragged vacancy down.

In volume terms, 1,183,000 sq.m. is vacant in Brussels and its periphery, 56,000 sq.m. less than 3 months ago. Only 67,000 sq.m., or 6% of total vacancy, is available in new buildings (< 5 years old).
Development activity finally seems to increase, but risk aversion remains as the vast majority of projects are in CBD locations. 25,000 sq.m. will be delivered speculatively in the remainder of the year like Befimmo’s Guimard 9 in the European district (5,292 sq.m.) and Leasinvest’s Three Square also in the European district (5,906 sq.m.).

In the Airport area, Codic’s Passport project (c. 25,000 sq.m. in total) is c. 75% prelet by KPMG and Microsoft, approximately 4,500 sq.m. will be potentially available for new occupiers by year-end, though this project is a real success story and the likelihood is that it will be fully let before completion. 172,000 sq.m. should be speculatively completed next year, once again almost exclusively in the CBD.

Rental values: rising rents

At this stage, there is no change in prime headline rents for Brussels as a whole: €275 / sq.m. / year remains valid, but prime rents increased by another 2% in the Louise district where Grade A vacancy is minimal. On a yearly basis, top quartile rents for Brussels as a whole increased by 2.3% to €209 / sq.m. / year, the upward pressure could continue with lettings in new properties and projects that mostly command higher rents than current benchmarks.

For example, Cofinimmo’s Belliard 40 (18,800 sq.m., European district) will be completed in Q1 2018, Victory’s Manhattan (North district) will offer 36,000 sq.m. of refurbished space by the end of next year, Atenor’s The One (30,000 sq.m., European district) could be delivered in Q4 2018 and Ghelamco’s Spectrum (16,000 sq.m., Pentagon) would be delivered by the end of next year as well. The speed of completion of the speculative projects, especially the biggest ones, is subject to adaptation linked to the commercialisation process, so actual deliveries for 2018 may be materially lower.

For example, in the Regent Park building (Pentagon) floors are let at rents well above €300 / sq.m. / year, these are however exceptional transactions not representative of the full market. The same is trend is seen in weighted average rents that increased by 10% year-on-year to €172 / sq.m. / year whilst average rents increased by 2.7% to €153 / sq.m. / year.
Capital Markets

Slow start, promising outlook

Offices lead the market.

We recorded a volume of €689 Mln in Q1 2017, down from €858 Mln last year and €807 Mln 2 years ago. Offices dominated with 61% of the volume, followed by retail with 13% and hotels with 11%. This year so far, Belgian investors represent 64% of the volume, vs. 18% for Korea and 7% for France. These figures cover the whole country.

2017 Could be the year of shopping centers, again

Adrian Glatt
Head of Capital Markets Belux
The office segment performed well with a volume of €376 Mln, 20% below last year and 75% above the 5 year average for a first quarter. The interest from international investors for core office properties was illustrated by the acquisition of the Brederode building in the Pentagon. This building is let to law firm Linklaters as well as to Interparking on a long term lease, and has still still some 10% vacant. It was acquired by the pension fund of the Korean Post (POBA), managed by CBRE Global Investor, for €122 Mln.

The volume also involved two core transactions along the Avenue Louise, ie the iconic IT Tower sold to AG Real Estate for €73 Mln and the Louise Centre sold to AEW Europe for €50 Mln. There is an important pipeline of large size transactions, in the short term the sale of the Meeus 8 (let to the European Parliament) is expected to be closed above €200 Mln and media sources announced the possible sale of the Finance Tower (a property of Breevast) which is valued above €1bn). If completed, this transaction would be the largest ever made in Belgium.
Top 3 office deals Q1 2017

Regarding yields, we see them stabilising at current level of 4.75% for traditional lease terms with creditworthy tenants and at 3.75% for long term leases, but lower yields cannot be ruled out on transactions with exceptional location and / or highly reputed tenant(s).

Brederode (Pentagon)

Brederode (Pentagon)

€122 Mln
Yield 3.7%
Seller: Befimmo
Buyer: POBA

IT Tower (Louise)

€73 Mln
Yield 6.5%
Seller: Kennedy Wilson
Buyer: AG Real Estate

Louise Centre (Louise)

€50 Mln
Yield 5%
Seller: AXA IM RE
Buyer: AEW Europe

Yields

Source all charts: JLL Research
Retail: The year of shopping centers? (again)

Retail volume was rather modest at €92 Mln, vs. €120 a year ago and vs. €146 Mln for a first quarter, with as representative transaction the sale of the former headquarters of Proximus in Antwerp (Meir 117-129) to Groep Tans and Urbicoon for €35 Mln (value-add deal) and the sale of the Papeteries de Genval retail warehousing park to Ascensio for €28 Mln (core deal).

Q1 is however not representative of the full year outlook as 3 shopping centers are for sale, including the Woluwe Shopping, one of Belgium’s top prime shopping centers.

As is the case for offices, prime yields are stabilising and currently stand at around 5.5% for retail warehousing, 3.75% for high street and 4.25% for shopping centers.

Top 3 retail deals Q1 2017

- **Meir 117-19 (Antwerp)**
  - €35 Mln
  - Seller: Connectimmo
  - Buyer: Tans / Urbicoon

- **Papeteries de Genval**
  - €28 Mln
  - Yield 5.5%
  - Seller: Equilis
  - Buyer: Ascensio

- **Portfolio 11 shops Roeselare**
  - €/2 Mln
  - Yield 6%
  - Seller: Binder NV
  - Buyer: Ulvenhout Retail Invest Fund
Industrial: limited liquidity

Industrial properties are traditionally the third largest asset class in investment volume, but it is often not the case in recent years in particular as opportunities are scarce. In Q1 we recorded a volume of only €26 Mln, vs. €29 Mln a year ago and vs. €70 Mln on average the last 5 years.

The driving force of the market is new projects developed in joint venture with B-REITs WDP and Montea, as well as portfolios.

Prime logistics yields on normal lease terms stabilised at 6.25% whilst semi-industrial yields stabilised at 7.25%, both being unlikely to compress further in our view.

It is fair to say though that the right product on the right lease terms would undoubtedly achieve sharper pricing than this.

Top 3 industrial deals Q1 2017

- **Solidus**
  - Location: Hoogstraten
  - Price: €15 Mln
  - Seller: Solidus
  - Buyer: IBP Pension Fund

- **Atlas Park**
  - Location: Zaventem
  - Price: €7 Mln
  - Seller: Fordgate
  - Buyer: Babemo

- **Welvaartstraat**
  - Location: Herentals
  - Price: €4 Mln
  - Seller: Van Calster Tegels
  - Buyer: Lierse Warehousing

Source all charts: JLL Research
## Summary

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>Q1 2017</th>
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</thead>
<tbody>
<tr>
<td>Take-Up (cumulative) (’000 sq.m.)</td>
<td>331</td>
<td>419</td>
<td>299</td>
<td>439</td>
<td>88</td>
</tr>
<tr>
<td>Take-Up (cumulative) (# deals)</td>
<td>352</td>
<td>398</td>
<td>366</td>
<td>364</td>
<td>73</td>
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<tr>
<td>Stock (Mio sq.m.)</td>
<td>13.3</td>
<td>13.2</td>
<td>13.1</td>
<td>13.1</td>
<td>13.1</td>
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<tr>
<td>Completions (cumulative) (’000 sq.m.)</td>
<td>229</td>
<td>88</td>
<td>109</td>
<td>156</td>
<td>47</td>
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<tr>
<td>Vacancy (’000 sq.m.)</td>
<td>1,351</td>
<td>1,369</td>
<td>1,270</td>
<td>1,239</td>
<td>1,183</td>
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<tr>
<td>Vacancy rate</td>
<td>10.1%</td>
<td>10.4%</td>
<td>9.7%</td>
<td>9.4%</td>
<td>9.0%</td>
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<tr>
<td>Prime Rent (€ / sq.m./ y)</td>
<td>285</td>
<td>275</td>
<td>275</td>
<td>275</td>
<td>275</td>
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<tr>
<td>Total Investment Volume BE (cumul, bn €)</td>
<td>2.240</td>
<td>3.406</td>
<td>4.377</td>
<td>3.755</td>
<td>0.689</td>
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<tr>
<td>Office Investment Volume BE (cumul, bn €)</td>
<td>1.256</td>
<td>2.235</td>
<td>1.390</td>
<td>1.863</td>
<td>0.421</td>
</tr>
<tr>
<td>Prime Yield</td>
<td>5.80%</td>
<td>5.75%</td>
<td>5.35%</td>
<td>4.75%</td>
<td>4.75%</td>
</tr>
</tbody>
</table>

Source all charts: JLL Research
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