

Stable market, stable de

That the Belgian market struggled during the economic crisis, is one of the findings of a recent study from Cushman & Wakefield. The economic indicators remain cautiously positive for now, with growth forecast at 1.8 %.



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While Belgian politics are locked in stalemate, the economy is continuing to run with the rest of the European pack. Belgium benefits from its export-oriented economy, allowing it to respond to the excellent figures posted by Germany in 2010. Germany has completed some fundamental reforms, which had a particularly significant impact on the labour market. Politicians in Belgium are currently considering the options for putting together a new government, so it seems that radical reform has been put on the back burner. With negotiations having continued for more than 200 days, it is proving more difficult than ever to form a government, because of the strong political divisions in the major language groups in Belgium. Despite the political impasse, economic results have been more than adequate, boosted by stronger exports, which of course has a direct impact on logistics. Exports to the country's immediate European neighbours performed especially well. Industrial production grew in the second quarter, particularly compared to 2009. This meant that rents remained stable in the third quarter because the vast majority of firms stayed where they were. There was even a slight increase in the second quarter, although this trend did not continue later in the year. In stark contrast, the investment market experienced hardly any activity in the

third quarter. A handful of large contracts was signed, but in general terms there was scarcely any movement. Yields therefore remained static in the third quarter, primarily as a consequence of low demand. In addition, there are currently no signs of a sustainable recovery.

Golden triangle

Viewed from the perspective of deep economic crisis, the results recorded in the region between Antwerp and Brussels were more than reasonable. Take-up was pretty good, especially in the third quarter, although the figures were lower than in the second quarter. However, a large number of major deals was concluded in the spring. Demand can currently be described as stable. The emphasis is on smaller buildings and surface areas, which can offer all the facilities of a large building combined with an excellent location. The reason is clear: more expensive credit is making shippers and logistics service providers particularly sensitive to large stocks. These eat into the underlying capital, which translates directly into a demand for smaller storage volumes, which logically should rotate much more frequently. A contract like that signed by Distrilog in June for 45,000 square meters near Willebroek can almost be described as atypical under these circumstances.

Logistics rents (September 2010)

		growth% over 1 year	growth% over 5 years
Brussels	€46/m ²	-0.4	-2.1
Antwerp	€42/m ²	-0.5	-2.3
Liege	€34/m ²	-0.6	-5.6
Ghent	€36/m ²	0.6	-5.3
Hasselt-Genk	€35/m ²	1.8	-2.8

Industrial rents (September 2010)

		growth% over 5 years	growth% over 1 year
Brussels	€52/m ²	-0.4	4.0
Antwerp	€42/m ²	-1.4	5.0
Liege	€32/m ²	-1.8	6.7
Ghent	€30/m ²	-3.0	0.0
Hasselt-Genk	€32/m ²	-1.8	6.7

mand, building freeze



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The development and construction of warehouses is virtually at a standstill. There is hardly any building activity, as banks are being very cautious in assessing credit risk, but also and mainly because developers are finding that shippers and logistics players are not inclined to invest in or expand their operations. Because of this de facto moratorium, the vacancy rate in the region between Antwerp and Brussels remains rather low. That in turn explains why prices are not in free fall. A large number of projects is currently in the planning or licensing phase. But it is very unlikely that a single spade will be turned on any project before leases have been signed with shippers or logistics specialists. That way the developers restrict their risks. It can be expected that negotiations for relatively small areas within warehouses for different shippers will take more time to complete, especially if developers are aiming to get their building fully leased or under contract before starting construction. In the current climate that is indeed anything but rare. It seems likely therefore that there will not be any major moves in early 2011.

Investments

The market for industrial investment slowed during the third quarter. There was a total turnover

of 23 million euro, after a handful of contracts had been concluded in the previous quarter. The low level of investment is the result of several factors. First, the limited supply of well-located buildings with interesting rental contracts. Investors are still being especially careful about taking risks and are therefore holding fast to the certainties in their portfolios. Investors are trying to do something to put pressure on the market, but sellers have not been prepared to lower their prices for now and are holding onto their buildings. The result of this prudent policy is that yields are not under pressure. They remain more or less at the same level as in previous quarters, at 7.75% in Brussels and Antwerp. Other parts of the country are 8.25%.

Another factor is the political uncertainty, fed by the lengthy process to form a government. Because the two linguistic communities expressed very different political priorities in the elections, it is anything but simple to put together a representative coalition that can construct a government programme. The protracted political impasse creates uncertainty for many players in the logistics property market and obviously also for industrial companies and shippers. In principle, the Government should be formed and get to work during 2011 unless the country

goes back to the polls. In that case there will be a profound political crisis, which could also have an impact on economic activity in the country.

2011

What is expected for this year? The performance of the Belgian economy is traditionally closely linked to that of its immediate neighbours. Germany seems to have left the economic crisis behind, including a strongly performing automotive sector. In the Netherlands, the North Sea ports are reporting excellent figures. France is reacting somewhat cautiously, but 2011 will still be the year of economic recovery. The BRIC countries have emerged virtually unscathed from the economic crisis and continue to deliver strong growth rates. The United States continues to slowly climb out of its slump. Nevertheless, the negative impact of a slowdown in America is less than it would have been a decade ago, for example, because other economies are relatively more important.

The Belgian market is currently heading for 1.8% growth for 2011, the same figure as 2010. That is certainly not brilliant, but it is enough to stabilise the industrial property market. It seems likely therefore that the prospect is for stability: no decline (fortunately!), but not particularly

strong growth either. Take-up, rents and especially the supply of new and high-value buildings will change little.

The profound political crisis also appears to have had a negative impact on potential foreign investors. Quite a few foreign companies are waiting until a new government is formed, and an economic policy emerges that provides stability in the Belgian market. A new policy is therefore important. Belgium is facing a large number of challenges, which for foreign companies significantly outweigh the linguistic divisions: it is primarily the significant national debt and rigid labour market that deter potential investors. A new government will therefore have its hands full: to build a new balance between the language communities is only a first step of its policy. It will then need to work hard to produce a framework that creates a framework for the Belgian economy to enjoy stable growth over the next decade.

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Editor of Warehouse & Logistics Magazine

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