Diversification and quality

All property investment markets have suffered during the crisis – and Belgium is no exception – but there are signs of recovery. And while some of the unique elements of the Brussels office market in particular mean it is still of considerable interest, it is no longer all about offices alone…

The year 2010 saw a continuing appetite from investors for diversifying their portfolios. In Belgium, this has been seen through investment in all types of property, but especially, over recent months, in the old people's homes segment. This translates into a total investment figure within this segment of € 121 million over the year, out of a total invested across the whole market of some € 1.64 billion. In other words, this segment represents around 7.5% of all commercial property investment volumes. One of the attractions is that these homes are often on 18 or 27 year leases, with a great deal of the upkeep costs falling to the tenants and not the owner. However, one leading Belgian investor warned that the quality of the tenant (the operator of the home) and especially in terms of a viable business plan, was something to be taken into consideration.

Confidence

This diversification away from offices also involves other types of commercial property. An analysis of the past five years investment trends carried out by DTZ, shows that while in 2006, offices accounted for 70% of investments, this proportion has been dropping since then, hitting a low of around 50% in 2007 and 2008, before recovering slightly to 57% in 2010. Alongside old people's homes, two other significant investment classes are also gaining strength. While homes have drawn in a total of € 800 million since 2005, the industrial and retail segments have also been performing well. The retail segment in particular, helped by the strong consumer confidence which has remained in Belgium despite the crisis, attracted around € 330 million (some 20% of the total) of investment in 2010. The industrial sector, which clearly has suffered from the crisis, accounted for around 8% (from around double this proportion in 2008, for example).

Quality – inside and out

Turning to the 'traditional' office market, it too has been evolving, in terms of investor preferences, during the crisis period. Firstly, it is reflecting signs of the economic recovery which appears to be underway. Total volumes invested on the Brussels office market in 2010 (by far the largest market in Belgium) amounted to almost € 750 million. Although this is still only around half of the average over the past decade, it is still up by almost a third compared to 2009. The importance of reducing risk by investing in quality assets has become even more pertinent over the past year or so. By quality assets is implied, apart from the quality of the building itself (including the increasing desire for 'green' certification), the quality of the occupant. Long term leases of up to 27 years, occupied by high quality tenants, are very much prized. In Brussels, this type of tenant often means the European Union. The presence of the European Parliament (even though it migrates to Strasbourg for one week every month), the European Commission, Council of Ministers and most of the other allied services, is a rich source of income for investors in Belgium. It is in fact this segment which has led to Brussels being seen as a traditionally safe city for professional investors. To put this into perspective, the European Institutions occupy 1,340,000 m² of office space in the European district of Brussels alone, with further space recently having been taken in zones which fall outside of this perimeter. This represents more than 10% of Brussels' total office stock of some 13 million square metres. In 2010, investments in this type of core office asset (on long or shorter term leases) represented two thirds of all office investment, with the remaining third being in assets to which the investor wished to add value. It has also been seen that, as a corollary to the above, while the banks are starting to lend again, and investors to invest, nobody is sufficiently convinced by the emerging recovery to put their money in 'secondary' assets. These are becoming difficult to place, and many, the major agencies and others all agree, will never come back onto the office market. It is estimated that only around one third of current vacancy of 11-12% is in grade A office space.

Staying at home

Although Brussels is therefore seen as a relatively safe haven for investment, this does not mean that

are the keys

all of the volumes are being concluded by foreign investors. One of the effects of the worldwide economic crisis is to lead investors to stay in their home markets, putting their money into the market they know best. Un 2010, thus, 60% of all investment in offices was from Belgian players with Germany, the UK and France accounting for a further 25% or so. In retail, the figure is even more one sided – according to research by Cushman & Wakefield, more than three quarters of all investment transactions were carried out by Belgian companies, and almost all of the rest by the neighbouring Netherlands. In the old people's homes segment too, half of all investment since 2005 has been made by a major Belgian player.

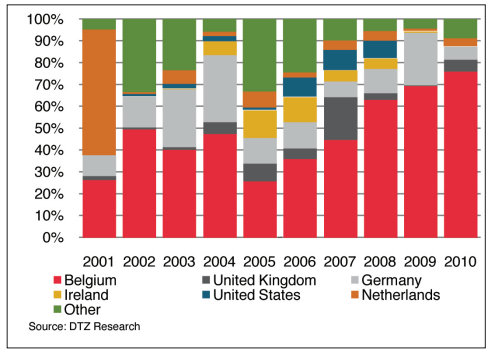
Steadying yields

The effect of all these factors on prime yields has been somewhat restricted. Prime yields on the Brussels market are hovering around the 6% mark or just over, and have been steadily making their way to this level (in an almost straight line) since 1993 when they stood at almost 8%. The yield gap, however, between the Belgian risk free rate and Brussels prime office yields, is at one of its highest ever levels, some 268 base points in the fourth quarter of the year.

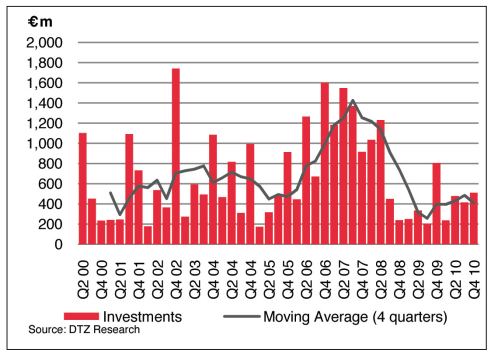
What of the future?

If investment volumes have been adversely affected by a disinclination to take any financial risk over recent times, this also points to the fact that there is very little quality office space available. And with the development pipe-line having been severely choked off during the crisis, little such space is set to come onto the market (speculatively) in the immediate future. Yet CBRE believe that there is still a 'wall of equity' waiting to be spent, including by at least one sovereign fund which has never been a player on the market before. The Belgian sicafi's (property certificates) and German funds are also in the market – and none of this is likely to push yields higher…

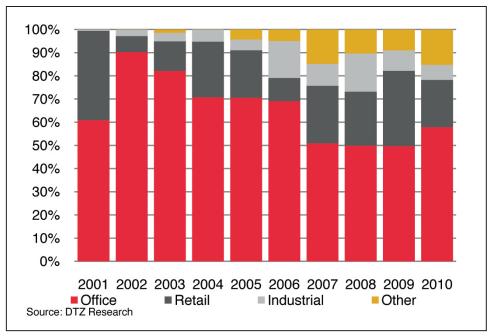
Tim HARRUP ■



Investor origins



Investment history by quarter



Investment by segment preferences

Investment in Belgium : key facts

	Q4 2009	Q4 2010
Prime yield Brussels office	**6.50%**	**6,25%**
Prime yield Logistics	**7.50%**	**7,25%**
Prime yield Retail	**5.25%**	**5,00%**
Total investment	**€ 1.58 billion**	**€ 1.64 billion**