The Importance of Infrastructure and Real Estate for the Future of Brussels, Europe's Capital.

ERES INDUSTRY SEMINAR, Brussels

Jean-Paul Loozen, March 11, 2016

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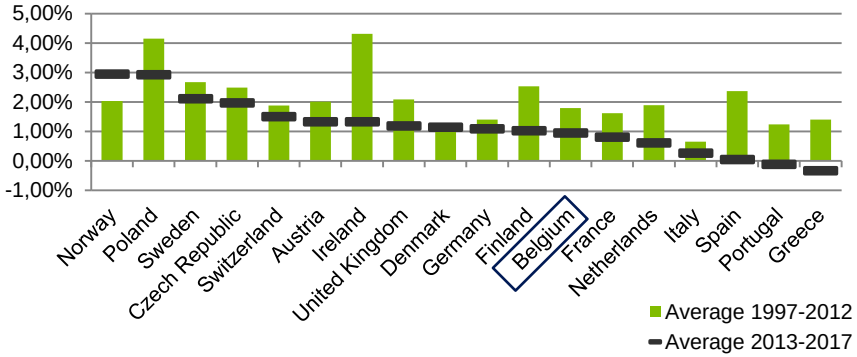
1. The Brussels Investment Grade Real Estate Market

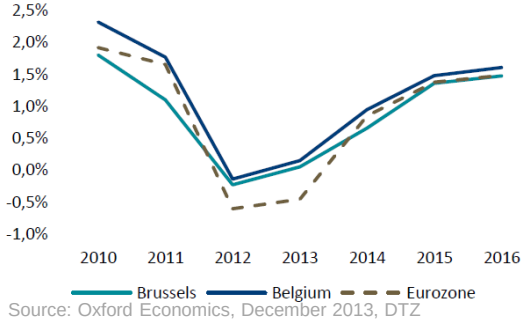
Real GDP growth in European countries (1997-2017)

Regional differences within Europe remain large



GDP growth in Belgium

- Belgium performs better than the Eurozone average

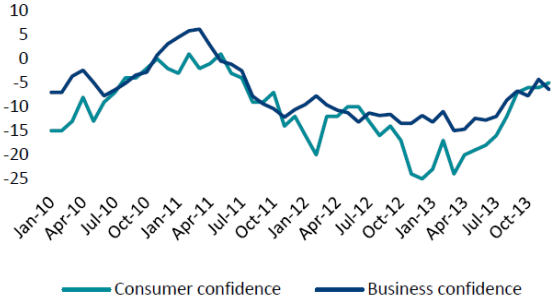


Source: Oxford Economics, December 2013, DTZ

Consumer confidence

- The enhancement of the economic conditions had positive impacts on the consumer and business confidence indices which have increased since April 2013
- As a result, consumer confidence has reached its highest level since July 2011. The prospects for households' financial situations and savings capacities are more favorable
- The economic climate has also presented positive evolutions, even if some slight deterioration is observed in December, especially in the construction sector

Consumer and business confidence index



Source: National Bank of Belgium, December 2013, DTZ

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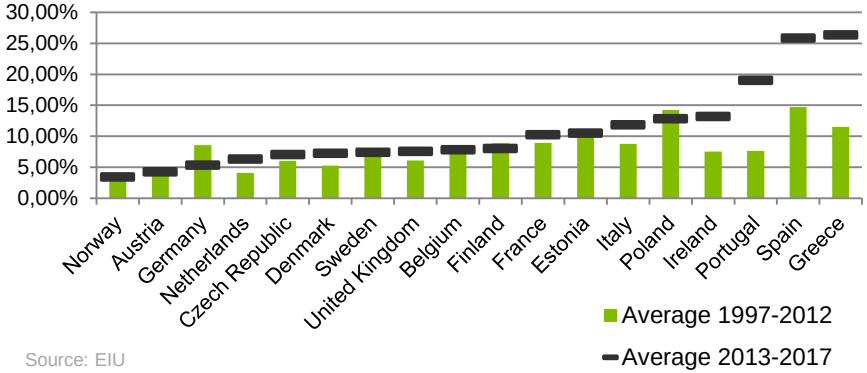
Unemployment rate in European countries (1997 – 2017)

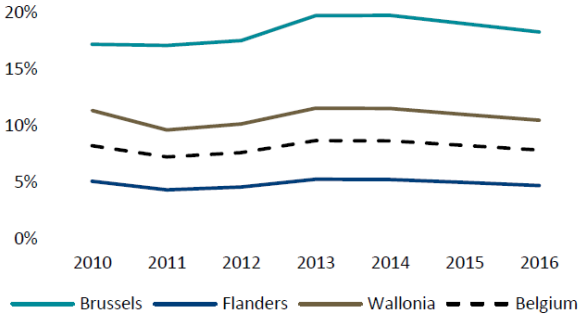
- Despite an enhancement of the economic conditions, unemployment has raised in the Eurozone to reach 12% at the end of 2013, up from 11.4% in 2012.
- Unemployment has also increased in Belgium to reach 8.7% coming from 7.6% a year ago.



Source: EIU

Unemployment rate in Belgium

- In Belgium, Regional disparities in terms of unemployment have widened in 2013 with an important increase of unemployment rate in Brussels to 19.7% in 2013.
- Unemployment will remain a major issue in 2014 as it should rise to 19.8% in Brussels while it should slightly decrease in Wallonia and in Flanders.



Source: Oxford Economics, December 2013, DTZ

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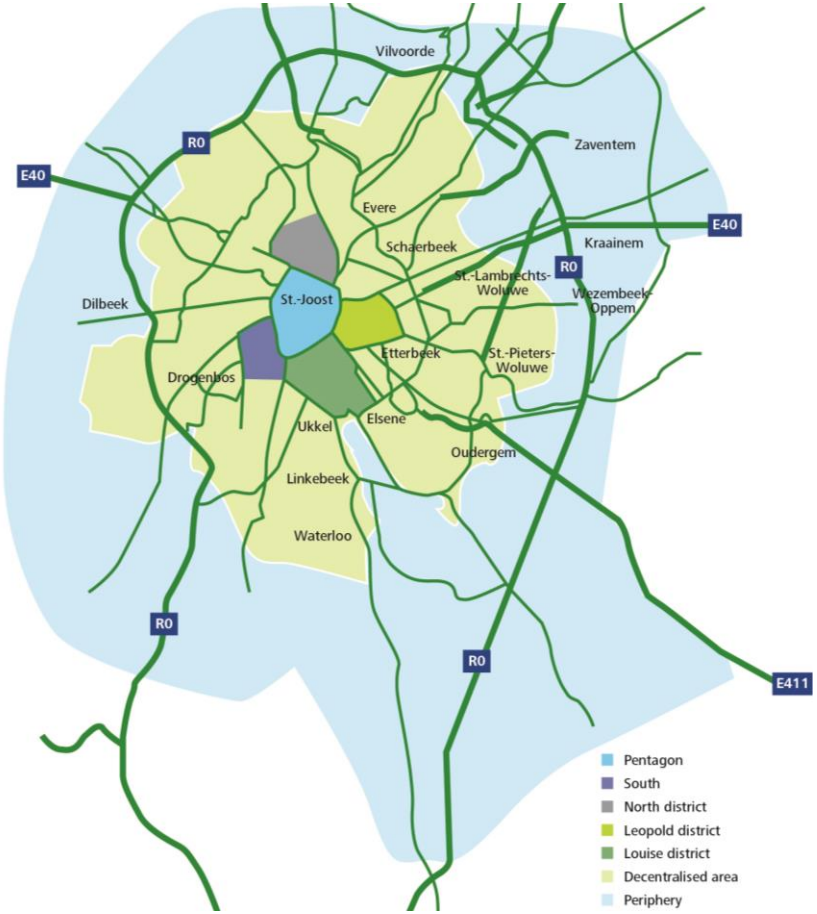
The office stock in 2015



By Sub-market (in ’000 m²)	
Center & South	2.920
North Quarter	1.500
Leopold/E.U. quarter	3.400
Louise	700
Decentralised	2.710
Periphery (outside Region boundaries)	2.070
Total	13.300

Source: BNP Paribas Real Estate/Deloitte R.E.

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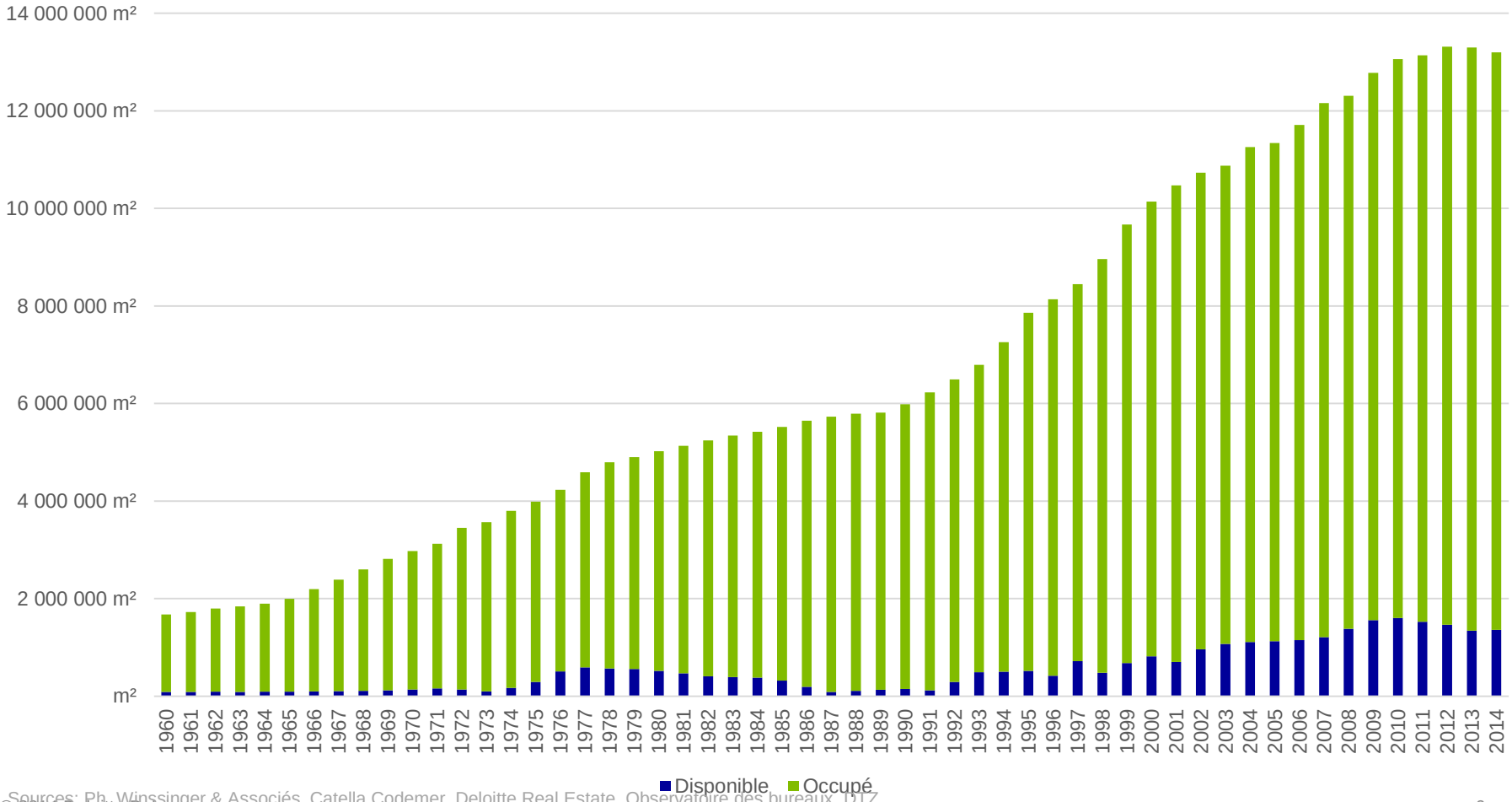
Brussels Region: Evolution of the Total Office Stock



Sources: Ph. Winssinger & Associés, Catella Codemer, Deloitte Real Estate, Observatoire des bureaux, DTZ

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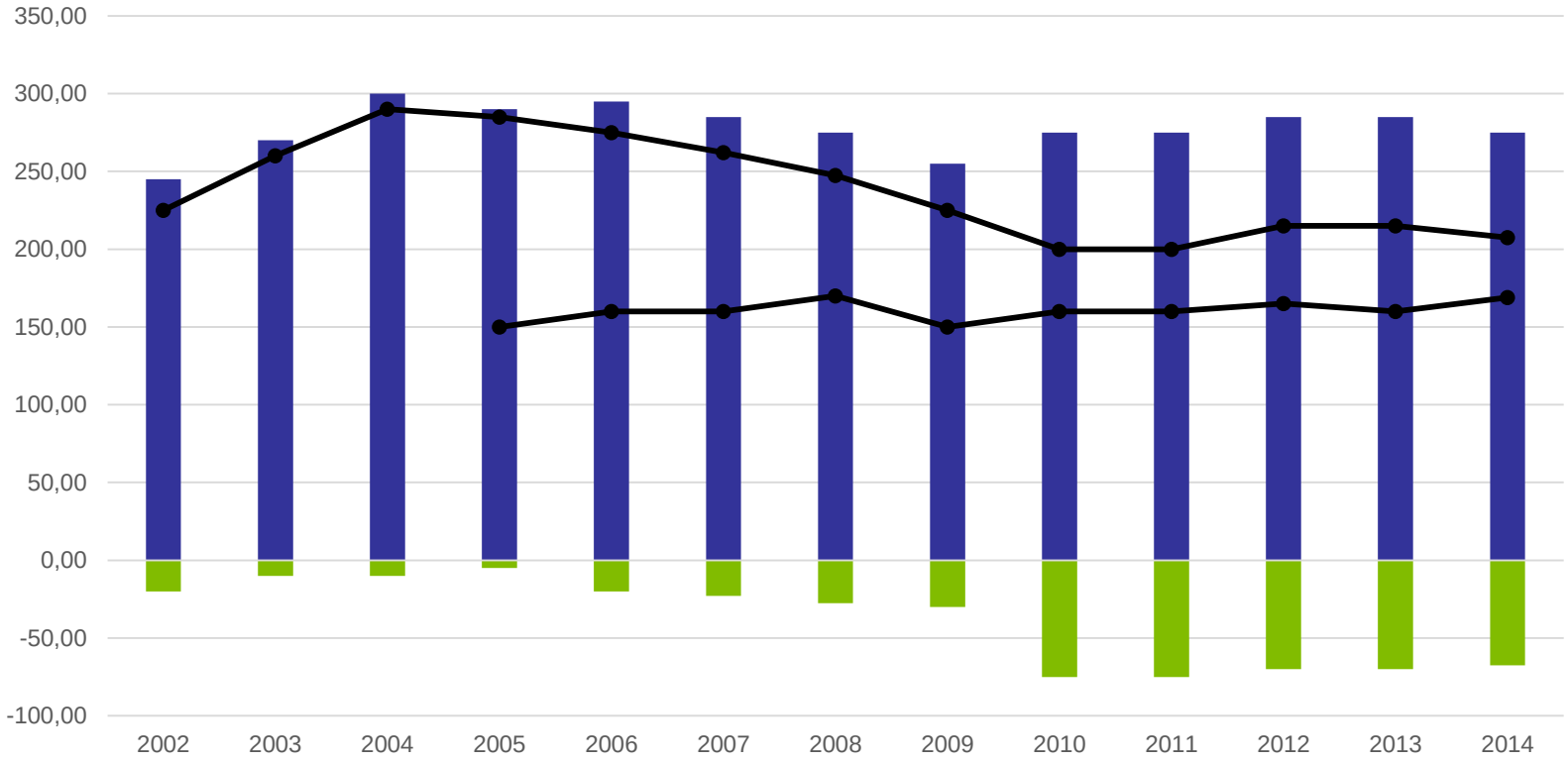
Rental Cash Flow / m² / Year – Nominal rent vs. Real rent (Prime rent – Brussels) (a)



Source : DTZ Research, Expertise; Deloitte Real Estate

(a) Exceptional values included

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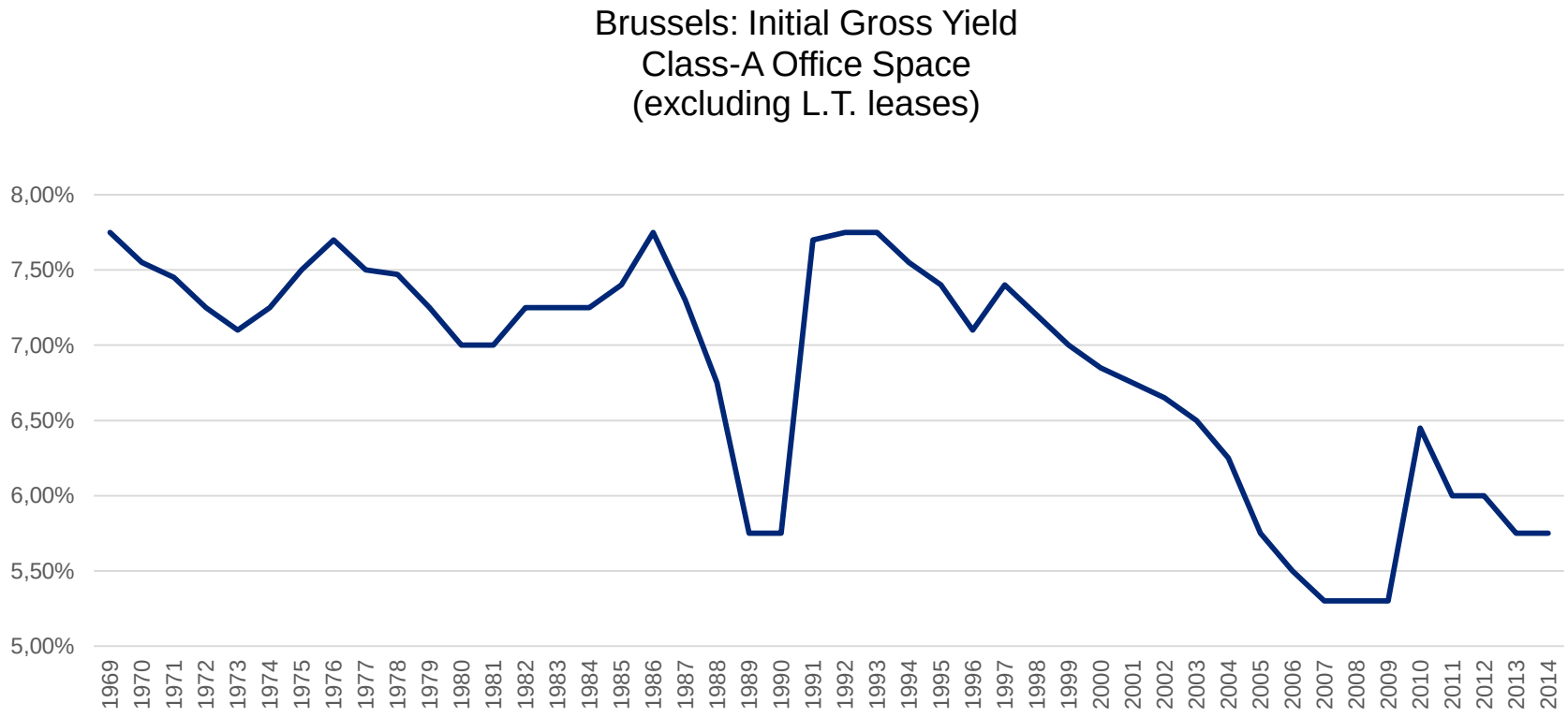
In 2015, the initial gross yield reached 5,3 %.



Sources: Ph. Winssinger & Associés; Catella-Codemer; Deloitte Real Estate

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Lowest Capitalization Rates – 'Prime' Yields - January 2016 – Belgium

• Retail :	
- Shopping centers	4,3 %
- High Street	4,0 %
• Office :	
- Regular leases	5,3 %
- L.T. leases	<5,0 %
• Logistics	6,5 %
• Student housing	5 to 6 %
• Residential (by institutional investor)	5,0 %

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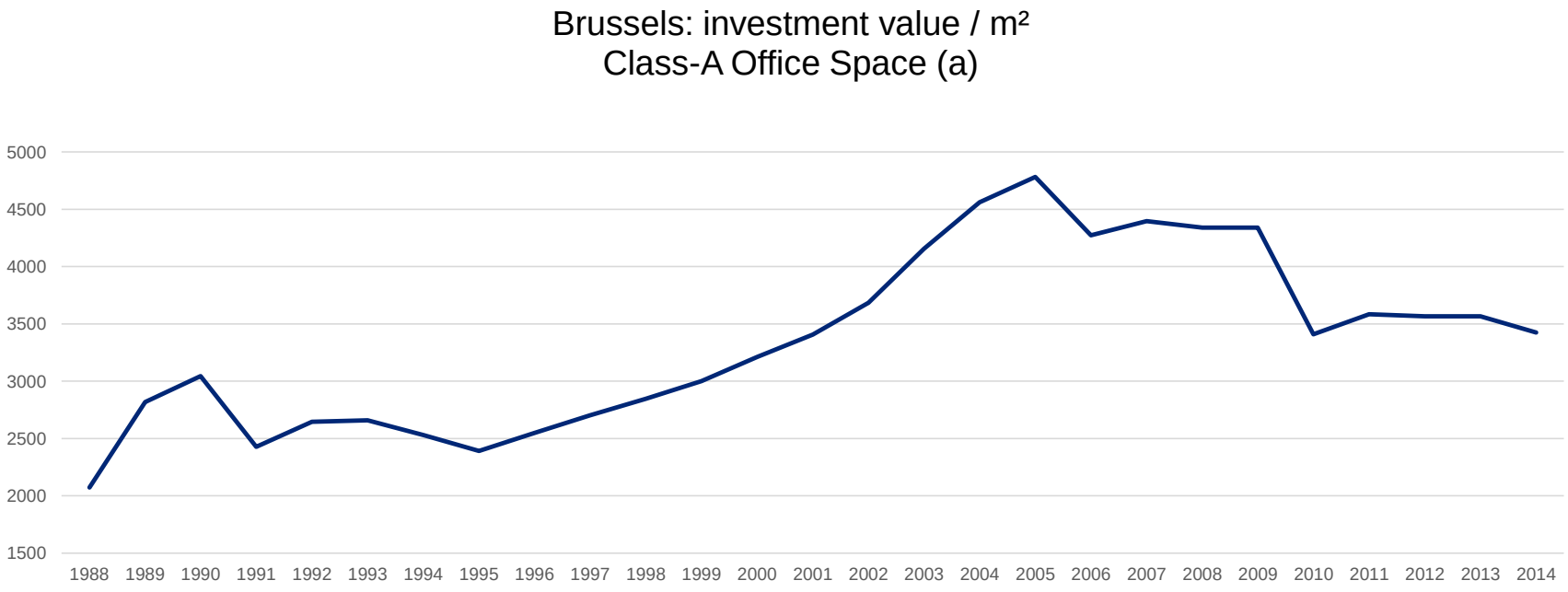

(a) with regular leases; without exceptional rent levels

Sources: Ph. Winssinger & Associés; Catella-Codemer; Deloitte Real Estate

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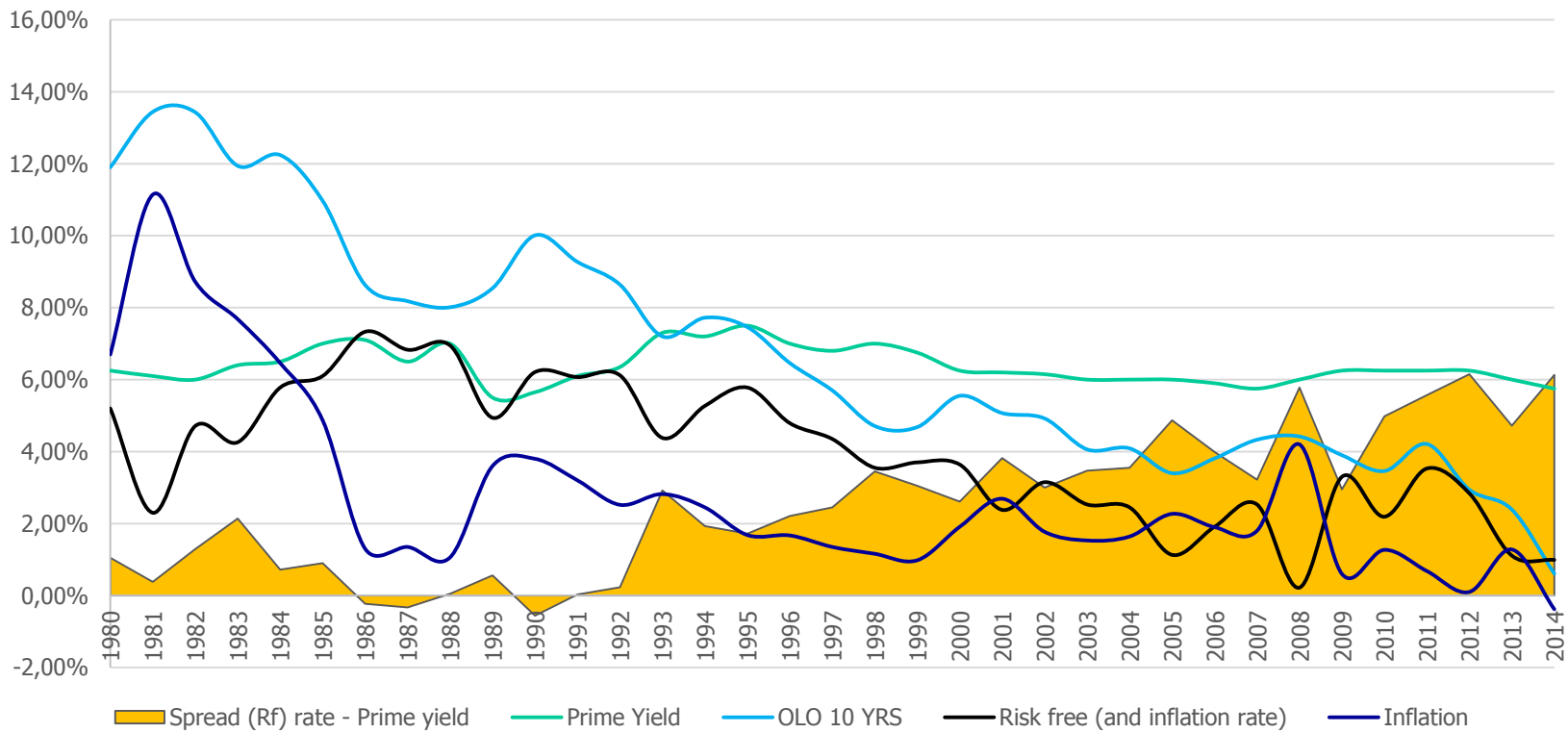
The Brussels office market spread.
Brussels Real Estate premiums vs. Risk-free rate.



Source: Deloitte Real Estate Research

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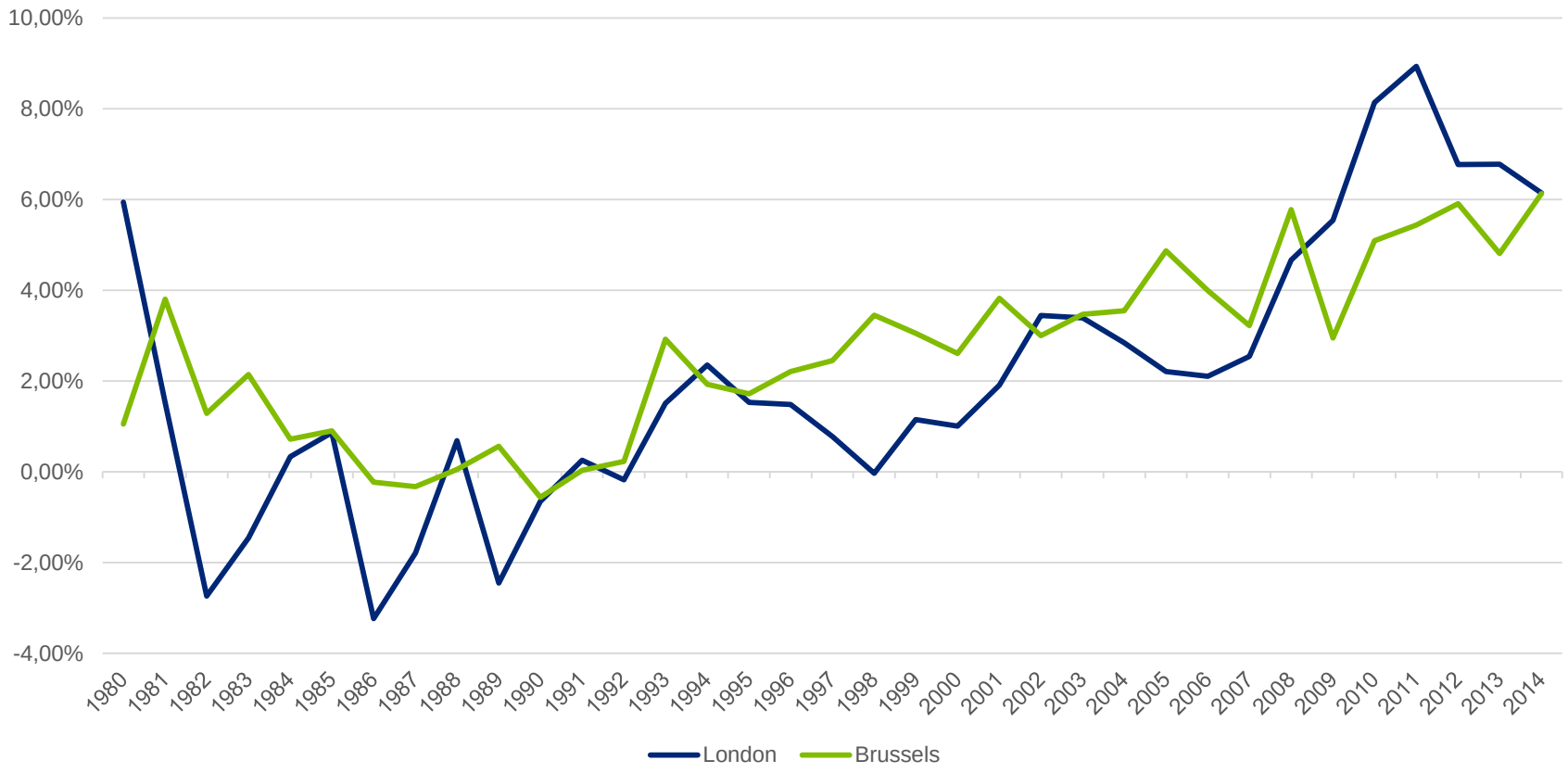
The Brussels office market spread.
London vs. Brussels – Spread comparison.



Sources: Deloitte Real Estate Research, Drivers Jonas Deloitte UK

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1. The Brussels Investment Grade Real Estate Market

- **Conclusions**:
  - an “island of stability”
  - low rent level by west-european standards
  - limited range of variation of the capital values
  - compensated by a higher spread or “yield premium”

- **Why ?**

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2. The European Institutions, key to the Market

European Institutions in Brussels:

- European Commission
- European Parliament
- The Council of the European Union
- European Economic and Social Committee
- Committee of the Regions

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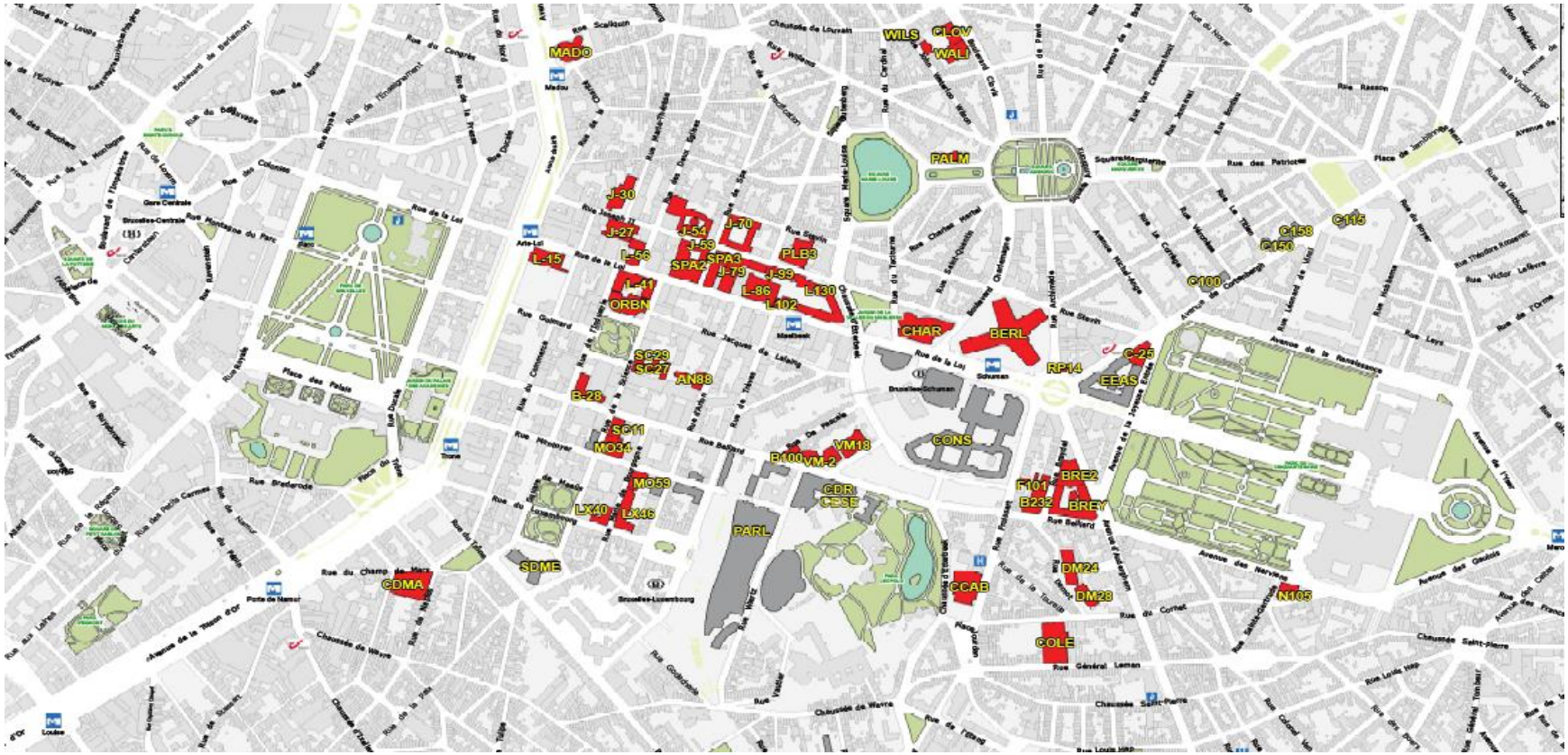
2. The European Institutions, key to the Market

Location of European Institutions in the heart of Brussels' CBD :



Source: European Commission

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2. The European Institutions, key to the Market

European Commission :

- 830.000 m²
- Spread over 54 buildings

European Parliament :

- 520.000 m²

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2. The European Institutions, key to the Market

The Council of the European Union :

- 310.000 m²

European Economic and Social Committee - Committee of the Regions :

- 100.000 m²

The European Institutions use **more than 1.700.000 m²** in the Brussels CBD.

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2. The European Institutions, key to the Market

Occupier's market in Brussels

Financial Services Industry	Public Sector	Public owned enterprises
• AG • BNP Paribas Fortis • Belfius • KBC • ING • Axa Belgium • Euroclear • Allianz	• European institutions (1.700.000 m²) – European Commission – Quartier Leopold – Evere – Beaulieu – European Parliament and its administration – EU Council of Ministers – Economic & Social Committee – Committee of the Regions • Federal Institutions (3.000.000 m²) • Local & Regional institutions – Flemish administration – French speaking Community administration – NATO	• Bpost • Proximus • Belgian Railways • Etc.

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2. The European Institutions, key to the Market

Stability through ownership concentration

Top 10 portfolio owners in Belgium – December 2015 (mio EUR):

1. AXA REIM Belgium (Assur.)	3.212	
2. AG Real Estate (Assur.)	3.116	
3. Cofinimmo (REIT)	2.565	
4. Befimmo (REIT)	2.291	
5. Redevco Belgium (Private fund)	1.959	
Sub-total *Top 5*	**13.143**	***25 %***
6. Retail Estates (REIT)	1.009	
7. AEW Europe (Asset Mgr)	937	
8. Aedifica (REIT)	929	
9. China Invest. Corp. (SWF)	825	
10. WDP (REIT)	822	
Sub-total *Top 10*	**17.665**	***33 %***
Grand total Top 100	**53.200**	**100 %**

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3. Is Infrastructure adequate for Europe's Capital ?

Brussels international mobility infrastructure :

- Direct connection to London with Eurostar (1 h 50 min.)
- High-speed train connections to major European cities (Paris, Köln, Amsterdam) (< 1,5 hrs.)
- Brussels Airport located at 15 min. from the city center
- Density of highways

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4. Conclusions

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