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

Academic Director – Executive Programme in Real Estate
Solvay Brussels School – Brussels University

EMEA Real Estate Advisory Services leader - Deloitte
1. The Brussels Investment Grade Real Estate Market

2. The European Institutions, key to the market

3. Is infrastructure adequate for Europe’s capital?

4. Conclusions
1. The Brussels Investment Grade Real Estate Market

Real GDP growth in European countries (1997-2017)

Regional differences within Europe remain large

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

GDP growth in Belgium

- Belgium performs better than the Eurozone average

Source: Oxford Economics, December 2013, DTZ

Consumer and business confidence index

Source: National Bank of Belgium, December 2013, DTZ
1. The Brussels Investment Grade Real Estate Market

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.

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.
1. The Brussels Investment Grade Real Estate Market

The office stock in 2015

<table>
<thead>
<tr>
<th>Sub-market</th>
<th>Stock (’000 m²)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Center &amp; South</td>
<td>2.920</td>
</tr>
<tr>
<td>North Quarter</td>
<td>1.500</td>
</tr>
<tr>
<td>Leopold/E.U. quarter</td>
<td>3.400</td>
</tr>
<tr>
<td>Louise</td>
<td>700</td>
</tr>
<tr>
<td>Decentralised</td>
<td>2.710</td>
</tr>
<tr>
<td>Periphery (outside Region boundaries)</td>
<td>2.070</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>13.300</strong></td>
</tr>
</tbody>
</table>

Source: BNP Paribas Real Estate/Deloitte R.E.
1. The Brussels Investment Grade Real Estate Market

Brussels Region: Evolution of the Total Office Stock

Sources: Ph. Winssinger & Associés, Catella Codemer, Deloitte Real Estate, Observatoire des bureaux, DTZ
1. The Brussels Investment Grade Real Estate Market

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
In 2015, the initial gross yield reached 5.3%.

Brussels: Initial Gross Yield
Class-A Office Space
(excluding L.T. leases)

Sources: Ph. Winssinger & Associés; Catella-Codemer; Deloitte Real Estate
1. The Brussels Investment Grade Real Estate Market

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%
1. The Brussels Investment Grade Real Estate Market

**Brussels: investment value / m²**
Class-A Office Space (a)

(a) with regular leases; without exceptional rent levels
Sources: Ph. Winssinger & Associés; Catella-Codemer; Deloitte Real Estate

© 2014 Deloitte Belgium
1. The Brussels Investment Grade Real Estate Market

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

Source: Deloitte Real Estate Research
1. The Brussels Investment Grade Real Estate Market

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

Sources: Deloitte Real Estate Research, Drivers Jonas Deloitte UK
© 2014 Deloitte Belgium
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 ?**
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
2. The European Institutions, key to the Market

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

Source: European Commission
2. The European Institutions, key to the Market

European Commission:

- 830,000 m²
- Spread over 54 buildings

European Parliament:

- 520,000 m²
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.
### Occupier’s market in Brussels

#### Financial Services Industry
- AG
- BNP Paribas Fortis
- Belfius
- KBC
- ING
- Axa Belgium
- Euroclear
- Allianz

#### Public Sector
- 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

#### Public owned enterprises
- Bpost
- Proximus
- Belgian Railways
- Etc.
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%
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
4. Conclusions