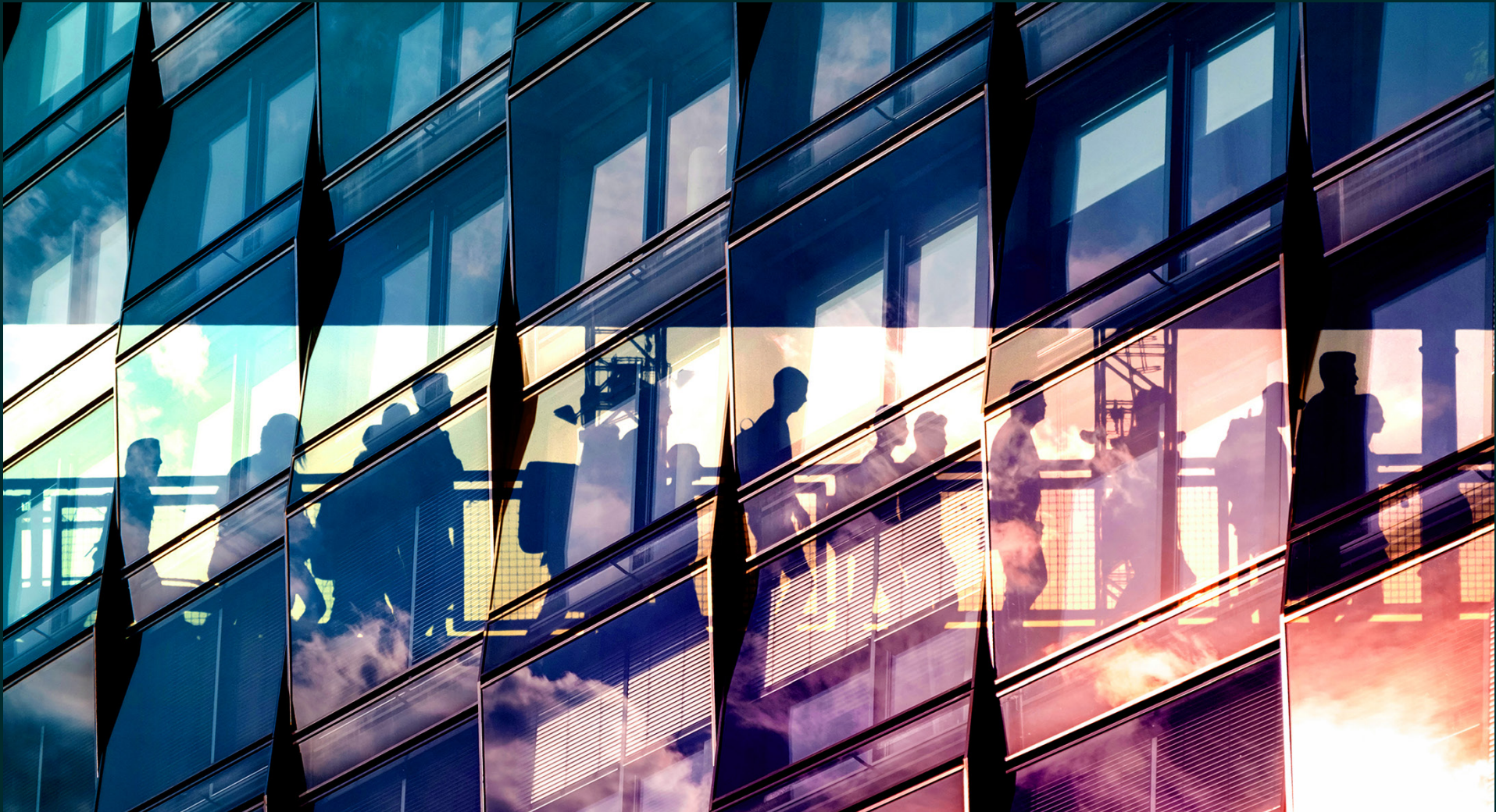


Belgium Investor Survey 2023

FEBRUARY 2023



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The Investor Survey was designed by CBRE Belgium in order to provide in-depth insights into investor sentiment and planned capital allocation. The Survey is based on a comprehensive questionnaire completed by 35 national and international developers and investors in the months of December 2022 and January 2023.

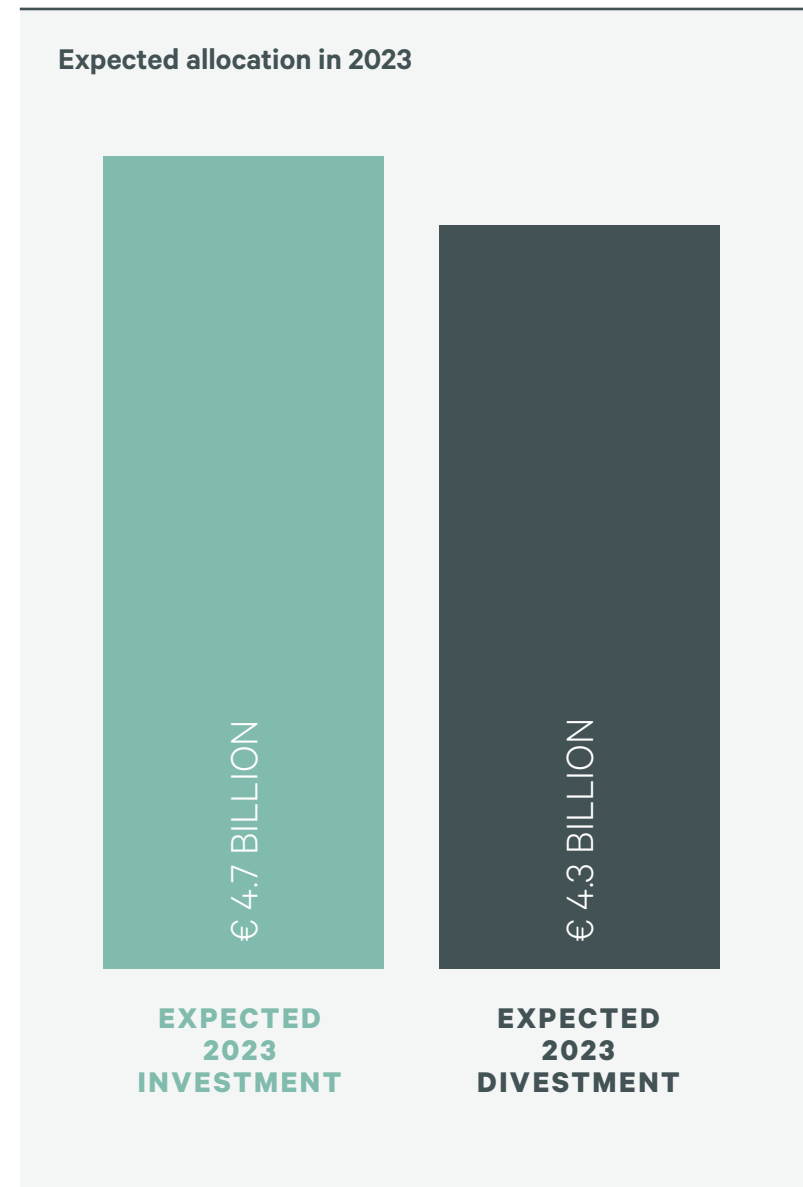
INVESTMENT VOLUME

The 2023 CBRE Belgium Investor Survey reveals that 35 questioned investors plan to allocate €4.7 billion in Belgian commercial real estate investment in 2023, well below the €9.0 billion that was available at the start of 2021 and the €6.0 billion that was planned for 2022. Therefore, economic uncertainty, inflation and higher interest rates are likely to lead to less capital allocation and, eventually, investment volume in 2023.

At the same time, the survey shows that investors will divest about €4.3 billion of their current holdings, in line with previous years. Of the respondents, 66% are expected to be net buyers while 34.5% are expected to be net sellers.

€4.7 billion

*Expected investment
volume for 2023*



CAPITAL ALLOCATION

Almost half (45.7%) of all planned commercial real estate investments in 2023 is likely to be offices. Office space is once again the preferred investor asset in 2023, at €2.15 billion and well above last years' allocation of €1.83 billion. The re-emergence of offices as the top investment product in Belgium encapsulates the acyclical nature of Brussels' public (and private) sector and the long-term cashflows with full indexation as the ideal investment product in today's economy.

Logistics was last years' investor favorite, and now drops back to second place with a planned allocation of €1.55 billion. Industrial and logistics space therefore remains extremely popular among investors.

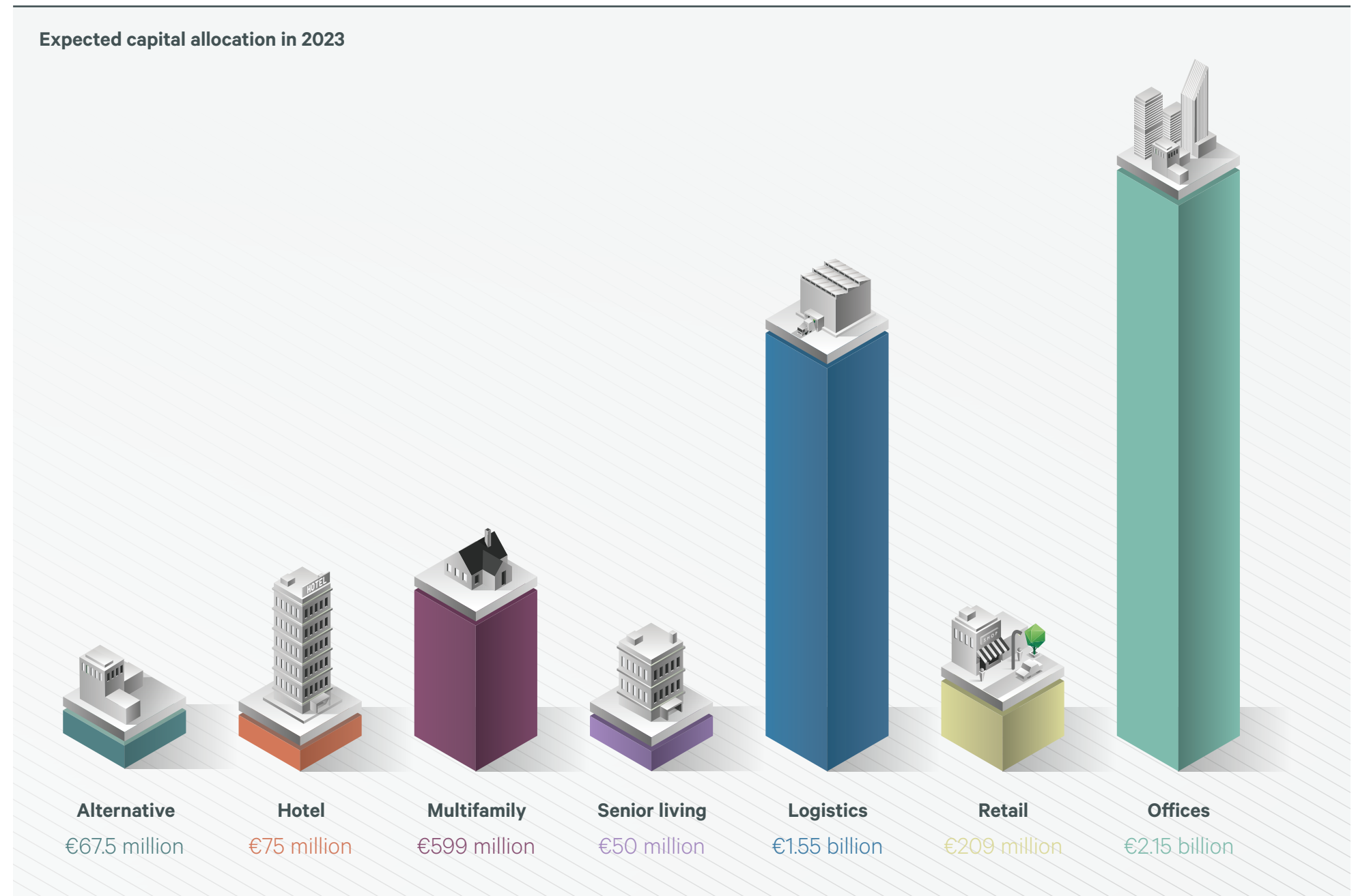
Although lower than last year, around €600 million of investor funds could find their way into residential investment in 2023.

Commercial investors plan to spend €200 million on retail in 2023. There is indeed increasing interest for retail following high-profile deals in 2022. Building on positive occupier dynamics and key assets coming to market, 2023 is likely to be a good investment year.

The capital allocation for senior living, hotels and alternative real estate could be somewhat lower in 2023.

€2.15 billion

is lined up for office investment in 2023



INVESTMENT STRATEGY

In contrast to recent years, rising interest rates have changed investment strategies with fewer investors now looking into "core" and "core plus" real estate opportunities. Interestingly, investors do not yet seem content with the narrow risk premium that differentiates real estate from government bonds. "Opportunistic" and "value-add" real estate might look cheaper in this regard, and appears to be the more popular choice amongst investors.

RISK APPETITE

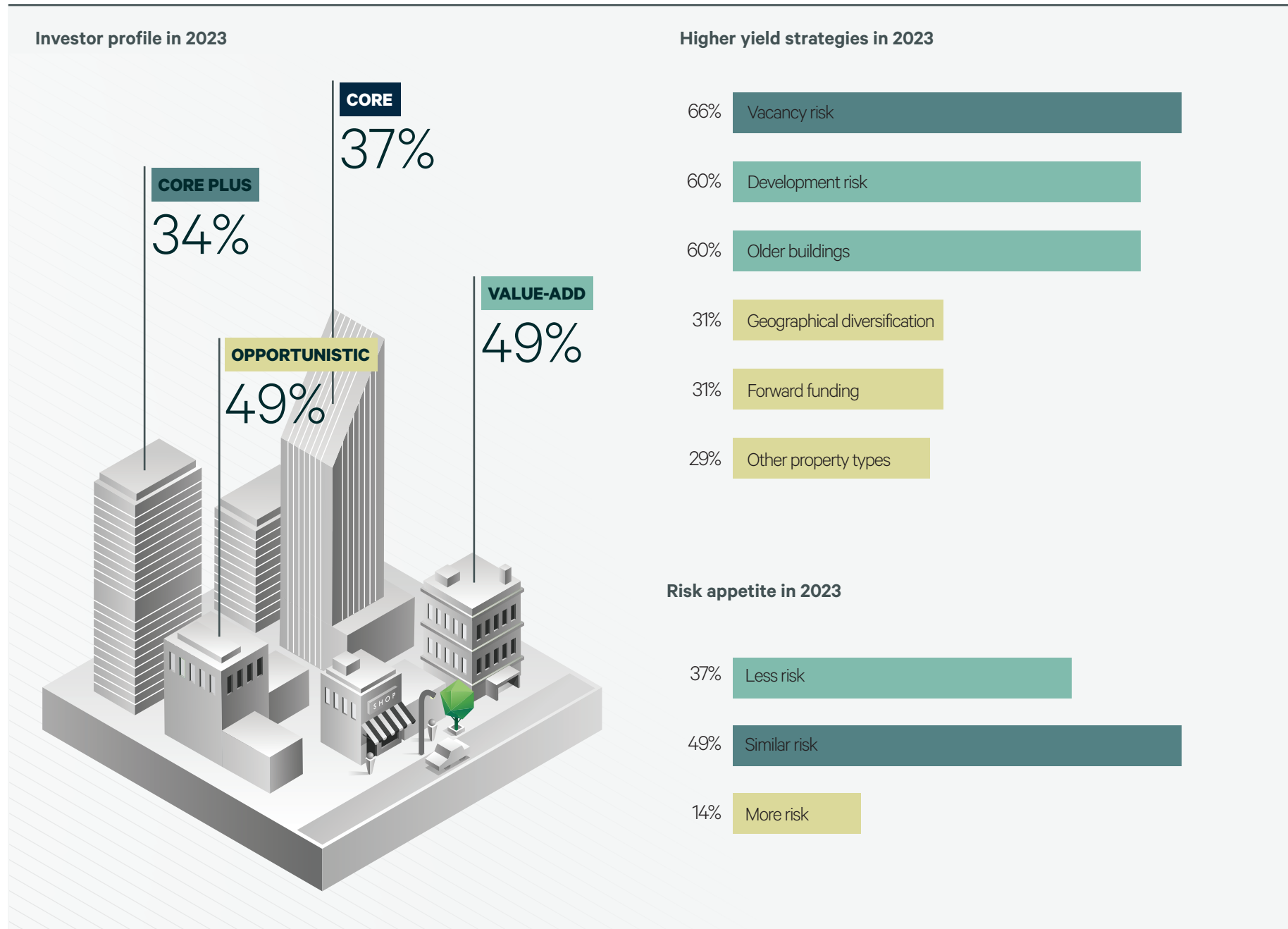
When asked about their willingness to take on risk in their real estate decisions, 37% of investors can be expected to take less risky decisions and 48.5% have an unchanged risk appetite. Only 14% of investors are looking at riskier investments.

66%

of investors would indulge in vacancy risk to increase yields

HIGHER YIELDS

In general, investors are less keen to take on risk in comparison to last year. The three main sorts of risk that investors are willing to accept in 2023 to increase possible exit gains are vacancy risk, development risk and the acquisition of older buildings. Geographical diversification, forward funding and other property types are the least favorite ways to increase the rate of return on real estate investments.



THE IMPORTANCE OF ESG

ESG compliance remains top of mind for European investors, despite the more challenging investment landscape. Commercial real estate investors pay a lot of attention to the environmental aspects of real estate.

A vast majority of investors affirmed that they would continue to apply ESG criteria to all investment decisions. The most popular ESG strategy is to upgrade existing assets to meet the standards of sustainability certifications. Additionally, one-third of investors surveyed stated that they were willing to pay a premium to acquire ESG friendly assets.

How important is ESG to your investment decisions in 2023?



PRICING

High interest rates and a possible recession will make 2023 a challenging year for commercial real estate. Though inflation eased in late 2022, the ECB will continue raising rates until it sees a marked reduction in inflation. Therefore, interest rates are not expected to peak until mid-2023.

This translates into a general expansion of property investment yields, a measure of a property's value in relation to its cash flow. Globally, CBRE expects investment yields to increase 75 to 150 basis points from peak to trough.

Since the summer of 2022, prime property investment yields have increased by merely 50 to 75 basis points in Belgium.

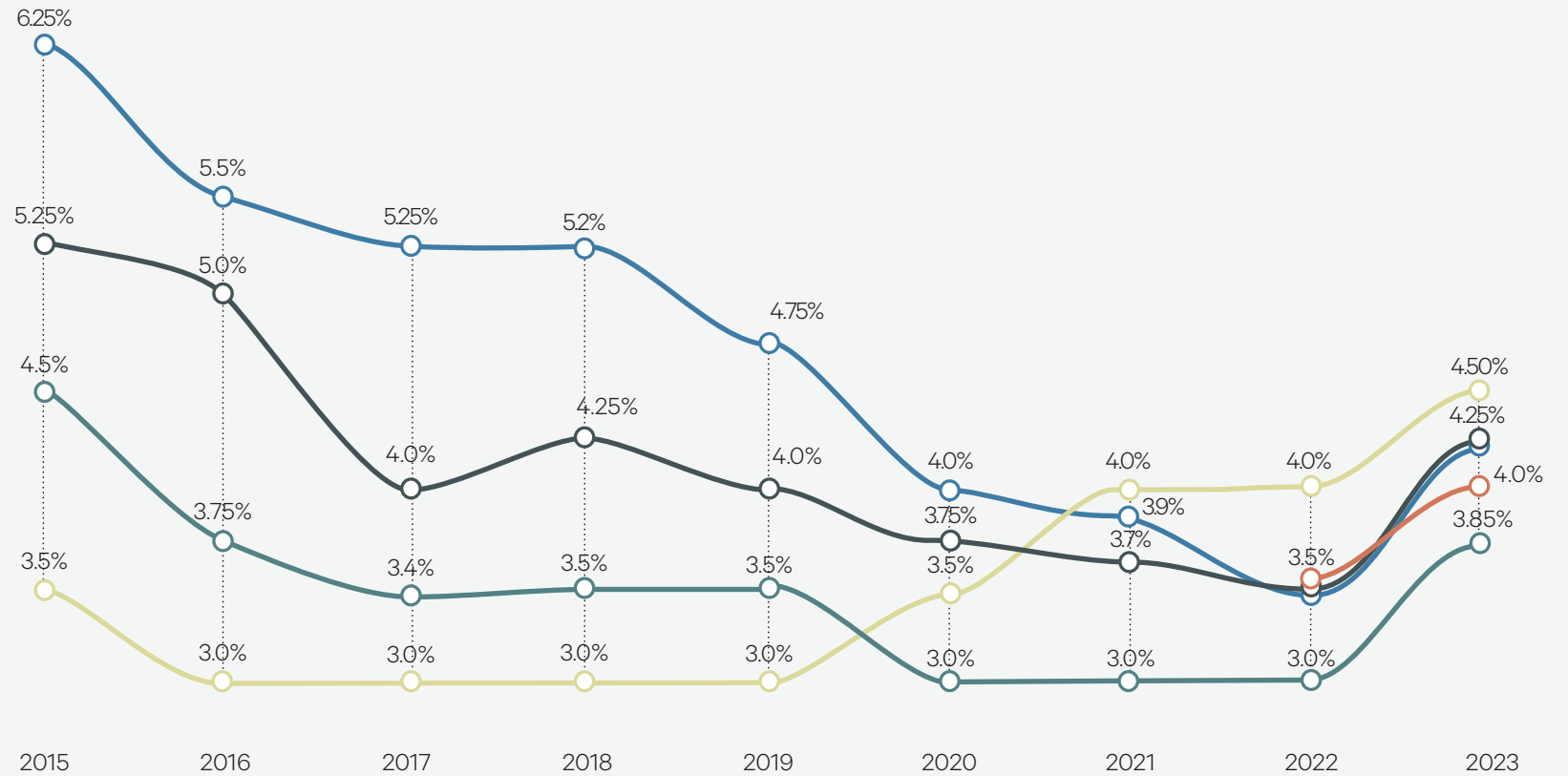
In our virtual auction for the best properties in Belgium, yields do not seem to move out much further. For the moment, the most aggressive investors in Belgium seem willing to bid at yields of 3.85% for long-term office leases (+85bp) and 4.5% for the best high street retail opportunities (+50bp). For logistics and standard office leases, the most aggressive bids were found at yields of around 4.25%, a yield correction of +75bp as compared to last year's results. For multifamily residential properties, the most aggressive bids can be found at around 4%.

The correction to Belgian yields seems to remain reasonable for now, both based on recent transactions and in this virtual auction game. This could be the result of our safe acyclical real estate market with strong inflation hedge, or arise from a more moderate yield compression in previous years as compared to our neighboring countries and their cities.

3.85-4.5%

Prime yields in Belgium range from 3.85% for long-term office leases to 4.5% for high street retail.

What is the most aggressive yield you are willing to bid/pay for prime buildings in Belgium?



Offices (Long-term Lease)



Offices (Standard Lease)



Logistics



High Street Retail



Multifamily

LOAN-TO-VALUE

Belgian commercial real estate appears healthy in terms of debt leveraging. 62% of respondents report typical Loan-to-value ratios for investments between 0% and 50%. Less than one-fifth of questioned investors generally use an LTV ratio above 60%.

77%

of investors expect the cost of debt to increase in 2023

DIFFICULTIES WITH DEBT FINANCING ?

Despite rising interest rates, 66% of real estate investors claim not to have encountered difficulties with debt financing in 2022. Those investors who did experience funding problems on certain assets cited the following reasons most often:

- Low fiscal book values,
- environmental performance considerations,
- non-established investment location,
- and vacancy risk.

For 2023, most investors expect debt availability to stabilise or tighten further, and the cost of debt to become even more expensive.

REFINANCING OR SELLING ?

In case of debt maturing in 2023, developers and investors are most likely to refinance at a higher cost. Refinancing with more equity is considered an option by a few, but clearly less popular. Only a small minority of investors would prefer to sell instead of refinance.

Difficulties with debt financing in 2022?



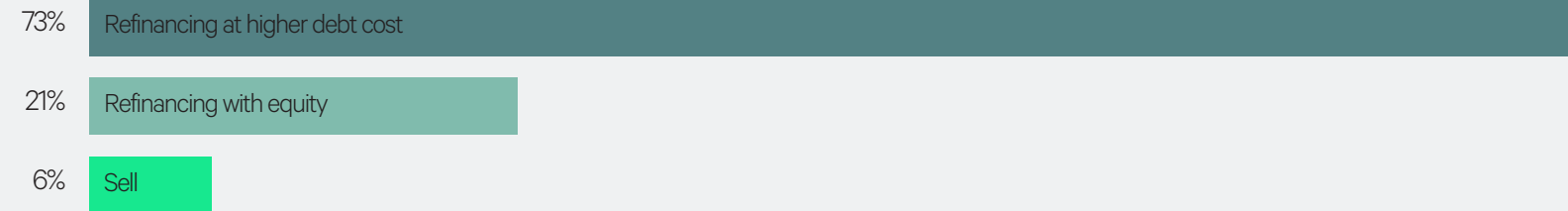
Debt availability in 2023?



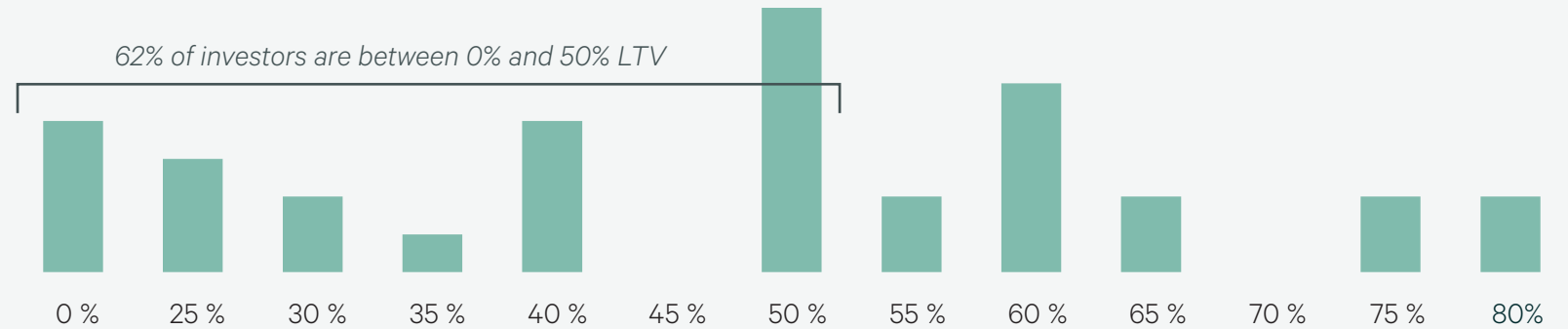
Cost of debt in 2023?



Refinancing deadlines in 2023 will be solved through:



Typical loan-to-value ratio (LTV)?



CONSTRAINTS IN 2023

This year's ranking of constraints to the Belgian real estate market performance sees "high interest rates" as the largest hindrance. After more than a decade of an easy money central bank policy, the rapid increase in interest rates is clearly weighing on investors' minds. Also, the cost of energy (and rent indexation) and its possible impact on occupancy costs is seen as a major impediment and a possible cause for concern.

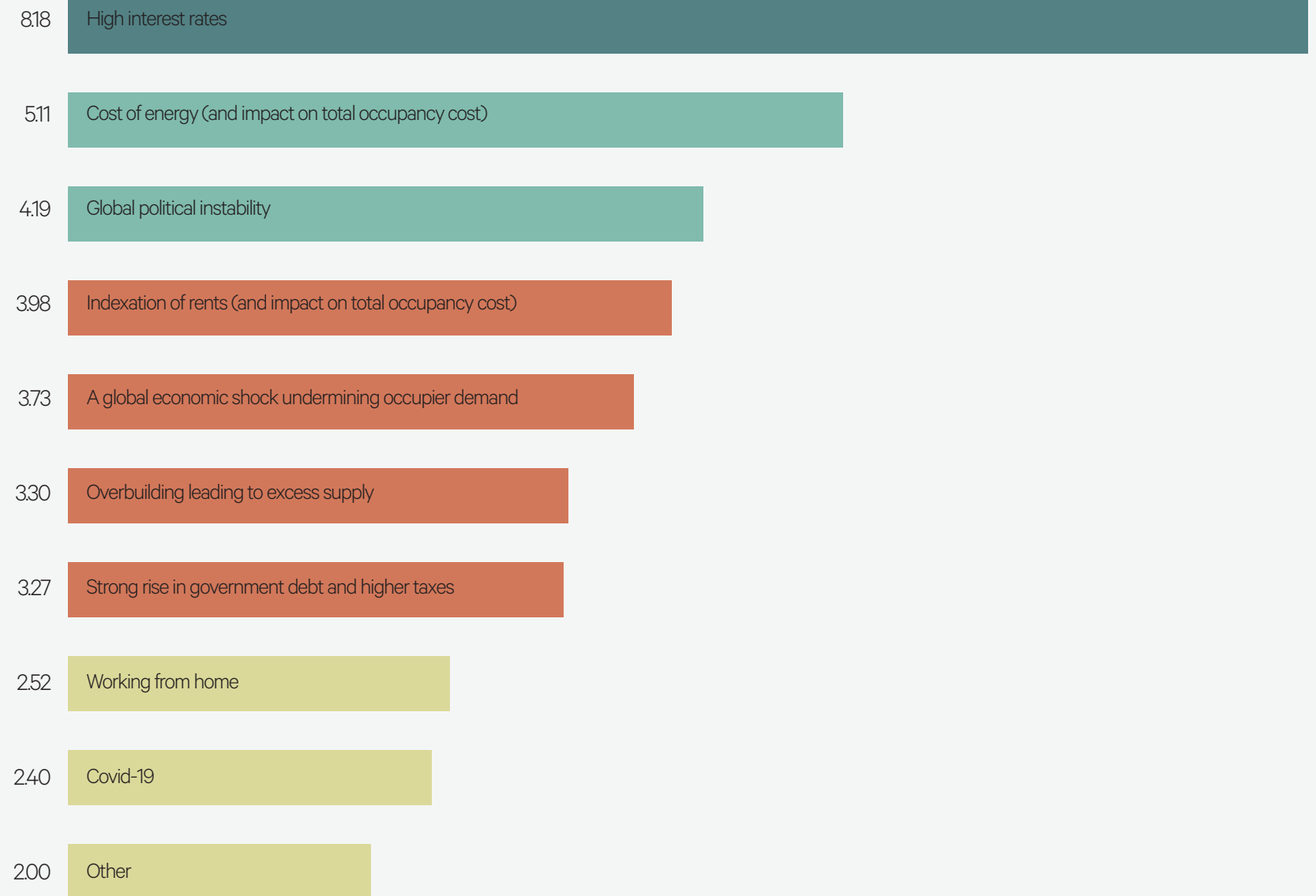
In third place, global political instability continues to dampen investors' spirits as the original genesis of the previously mentioned constraints, and possible source of more harm in 2023.

On a positive note, Covid-19 and working from home are no longer seen as major encumbrances for the performance of real estate.

8.18

High interest rates are the biggest constraint to the Belgian real estate market in 2023

What constraints could affect the performance of the Belgian real estate market in 2023?



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