Market Intelligence

Market Outlook

2022

REPORT

BELGIUM

REAL ESTATE

CBRE RESEARCH

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Investment

OUTLOOK

Market sentiment is high heading into 2022 on the back of almost €4 billion of deals in 2021. Offices and logistics helped make up for the lack of retail liquidity, though we expect more deals due to recent repricing. Residential interest remains very high, though assets are limited.

INVESTMENT OVERVIEW

A flurry of deals in Q4 brought CRE investment in Belgium to €4 billion for 2021. Though historically a strong year, the volume was down by a third year-over-year while occupier (and even European investment) markets posted a notable recovery.

The more modest figures are due to several phenomena including limited asset availability and retail asset liquidity, the timing of major deals inflating annual changes and pandemic-caused travel restrictions prolonging due diligence. Many of these are practical and not fundamental issues.

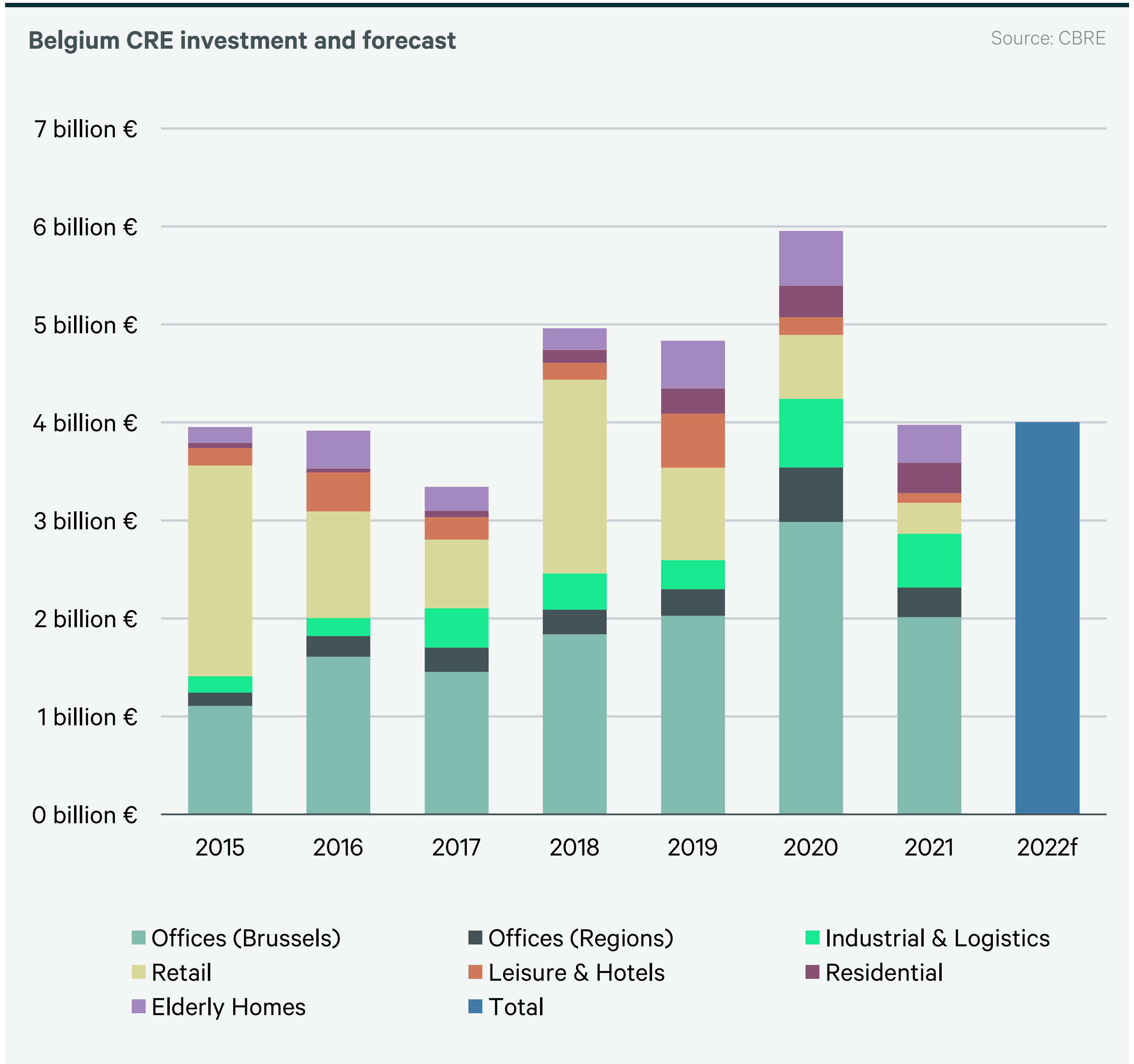
€4 billion

2021 CRE investment volume in Belgium driven by Brussels offices

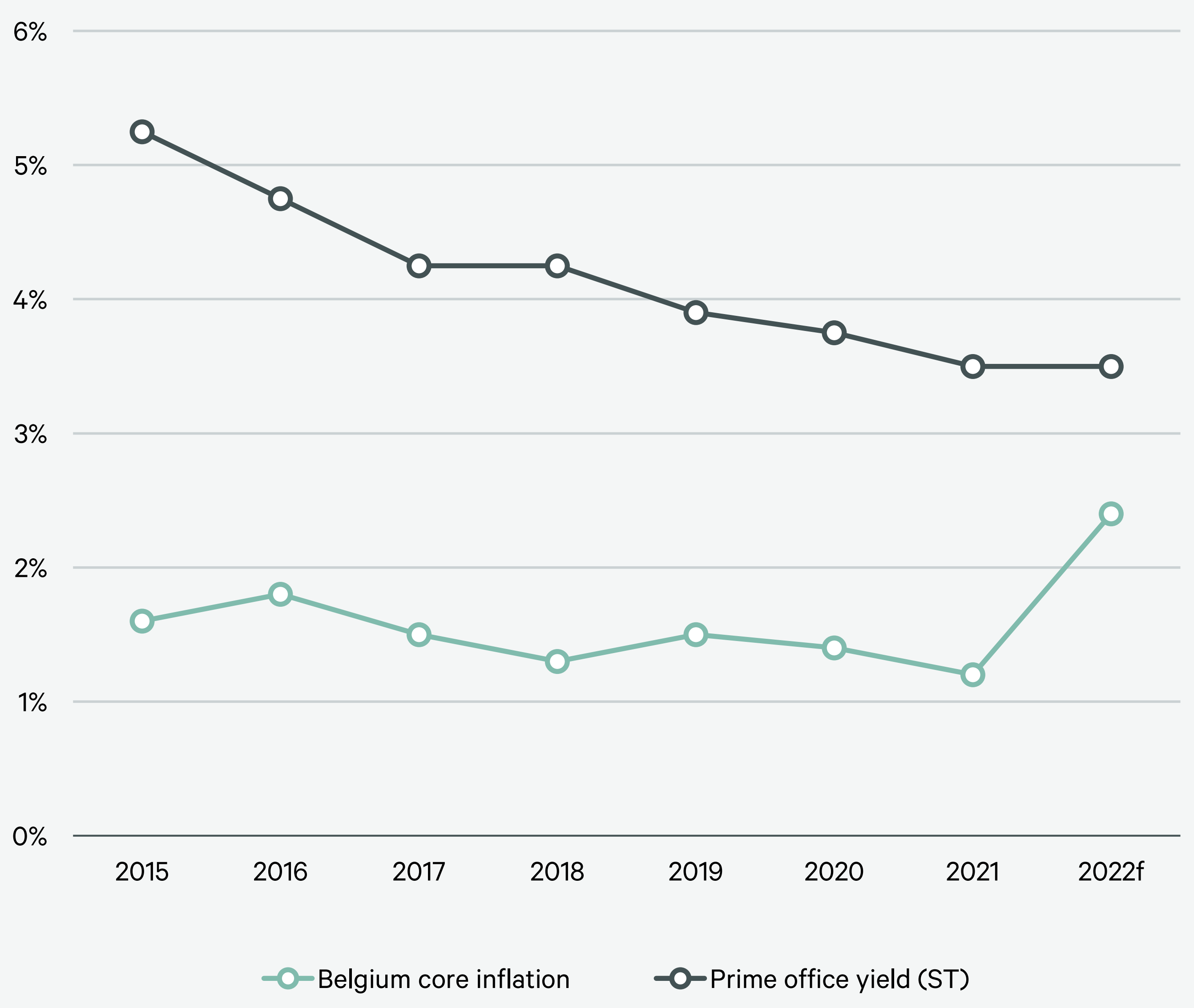
MARKET SENTIMENT HIGHER THAN VOLUMES SUGGEST

Moderate investment volumes are certainly not reflective of the strong market sentiment. The Belgian market remains extremely attractive to investors for its stability and relatively favorable pricing. Quality assets across sectors can receive dozens of offers, and yields for offices, industrial and some retail formats have compressed to record lows. Funds have cash and are looking to deploy capital. Thus, demand for CRE will be strong in 2022.

The pipeline is building for the coming year. Already €1.5 billion has been identified for a potential Q1 2022 closing including the landmark North Galaxy offices and Regent portfolio in Brussels, and large offices in regional markets. Additionally, relaxed travel restrictions should facilitate the return of international investors. As a result, annual volumes around the €4 billion mark are expected for 2022.



Core inflation and office yield (short-term) expectations in Belgium



Source: CBRE EMEA Research, Statbel

Note: 2021 core inflation reading is an estimate from the NBB in December 2021

ASSET CLASSES

Office transactions of some €2.3 billion in 2021 closing at still-low yields suggest investors have largely digested the impact from COVID and are keeping offices as the cornerstone of their real estate portfolios. That said, future-proof offices will lead the market in 2022 and redefine core product, leading to pricing divergence even among newer assets. Quality regional assets can still offer a discount of 100bps or more compared to the Brussels CBD and will be sought after in the coming year, particularly well-designed offices close to transport nodes offering low occupancy risk.

3.0%

Prime yield for long-term secured Brussels office assets.

Logistics assets have experienced record yield compression as investors bid up prices in light of signficant rental growth. They will continue to be in the spotlight in 2022 given the strong occupier fundamentals and limited asset availability.

Multifamily residential assets are few and far between despite high demand that has propelled European investment volumes to pre-pandemic levels. The development of this market is hindered by a long and drawn-out development and permitting process and a lack of management experience. Other residential markets such as student housing are thriving, and new service flats marketed to active seniors are gaining popularity. Coliving remains an attractive asset for residential exposure that benefits from high occupancy and rent collection. Yields for residential assets secured long-term with an operator are being pushed below 3.50%.

Retail and hotels are down but not out. Out-of-town and grocery-anchored assets will be in demand in 2022 as the COVID-proof retail assets. Higher environmental standards and more thoughtful design have also contributed to increasing capital values. Mitiska's new Malinas retail park offers sustainability features such as a solar panel array that investors require.

INFLATION RISING

High inflation quickly developed in H2 2021, driven primarily by energy prices. For now, central banks have resisted raising short-term rates amidst an economic recovery and debate around inflation transience, creating tension in interest rate-inflation expectations in 2022. Proactive buyers flush with cash are expected to pursue more off-market deals, capitalising on the uncertainty of the present environment. That said, real estate backed by indexed-leases has historically offered inflation protection, and we expect it to continue to do so.

ESG THE NEW STANDARD

ESG will be a central theme in 2022. What began as voluntary initiatives like organizational commitments and building certifications has evolved into accountable actions such as the Sustainable Finance Disclosure Regulation (SFDR), and that is already having repercussions in the CRE market. ESG requirements are likely impacting liquidity even for core product. Thus, value erosion presents a real threat to some assets or investors finding themselves behind the curve.

This does, however, open the door to a broader range of assets. Where we saw a flight to core product and polarization in the market during the height of the pandemic, core+ to value-add buildings could present opportunities to bring them to ESG compliance, and thus expand commercialisation potential.

> Value erosion presents a real threat to assets or investors finding themselves behind the ESG curve

02

Offices

OUTLOOK

Brussels offices rebounded in 2021 to even out the sluggish market from the year before, while regional offices have remained remarkably steady. Homeworking and ESG requirements have led to high demand for quality space, though short-term pipelines remain constrained.

BRUSSELS OFFICE OVERVIEW

The Brussels market recorded 492,000 m² of take-up in a stand-out year. Looking at the evolution, it appears to be a catch-up to 2020's dismal record, evening out to the longer-term average over the two years. There was a good balance of demand, with small (<2,000 m²) and large (>2,000 m²) corporates contributing comparable amounts to take-up. All told, the private sector was about 60% of deals. The 40% of take-up from the public sector was supported by the Belgian government's new acquisition policy and the EU's ongoing portfolio renegotiation and Leopold concentration.

492k m²

Brussels office take-up in 2021

Scarcity is driving demand and will continue to do so in 2022. The Leopold and North area saw more than 40% of the annual volume of the Brussels market, as that is where the new supply is. Less than 50,000 m² of available space is expected to be delivered in 2022, which will hinder take-up volumes. As a result, lower volume of around 400,000 to 450,000 m² is anticipated for the year.

REGIONAL OFFICE OVERVIEW

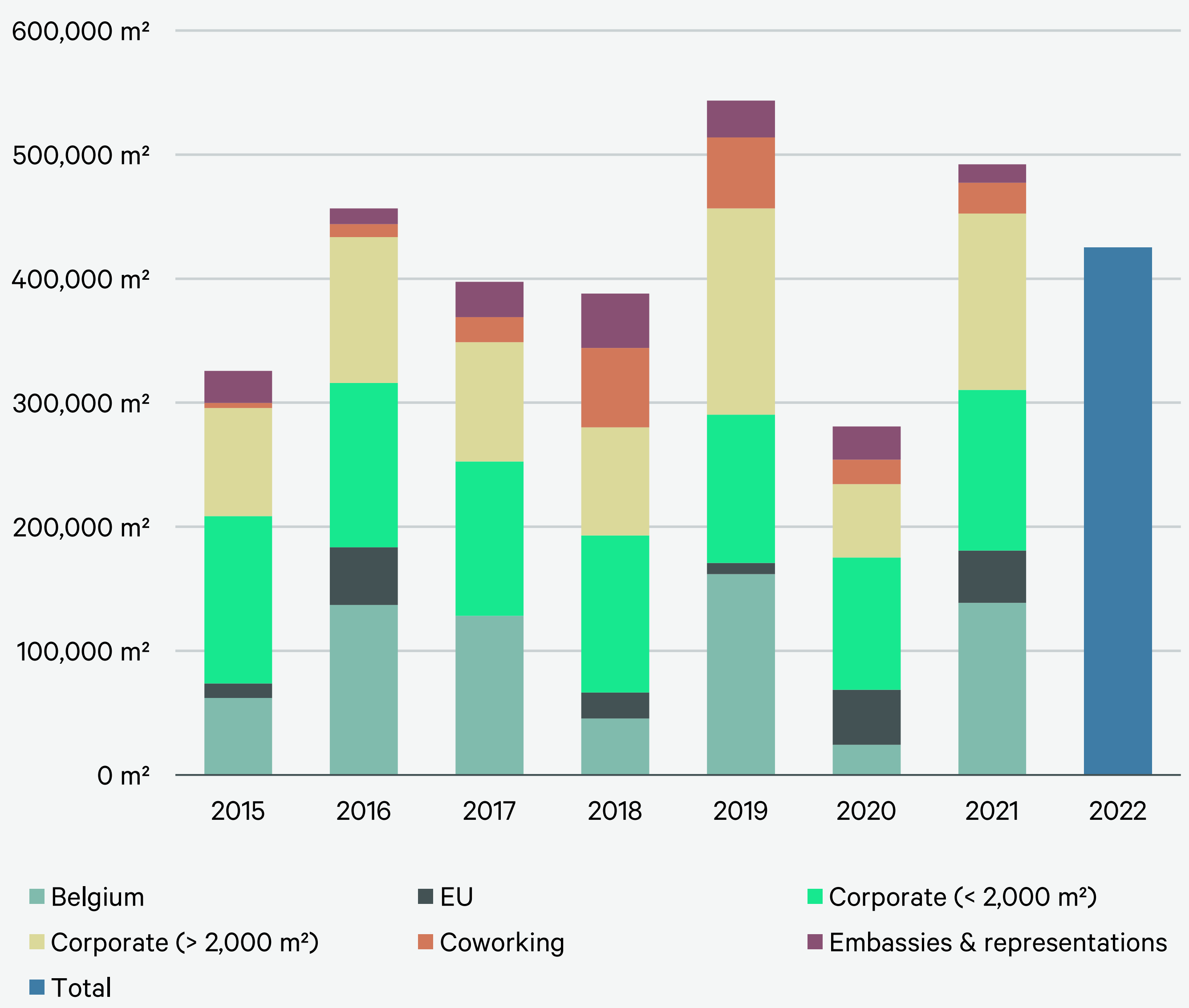
The regional office market has remained remarkably consistent through the recent tumultuous years, recording another 297,000 m² of letting and sales activity in 2021. Flemish markets rebounded with 258,000 m² of take-up, driven by diverse occupiers across all geographic markets including Antwerp, Ghent, Mechelen, Kortrijk and Hasselt. Walloon markets were quieter at 39,000 m² of take-up and more reliant on the public sector.

Regional markets are also facing a limited short-term pipeline that is hindering activity for high-quality space. Thus, occupiers will need to be quick in their decisions or turn to build-to-suit options to meet spatial requirements. At the moment, however, many corporates are in the middle of lengthy internal audits to more precisely define their requirements, pushing arrangements further into the future. Overall, take-up volumes should be comparable in 2022.

We expect regional market demand to be buoyed by, among other factors, the increasing demand for flexibility. The pandemic has further highlighted this need from both a practical, business continuity standpoint and as a way to accommodate staff in the pursuit of talent.

Brussels office take-up and forecast

Source: CBRE



OCCUPIERS DEMAND HIGH-QUALITY SPACE

New demands have re-prioritized familiar requirements for space. ESG and sustainability is at top of mind for those with the largest footprints - particularly the European institutions - as they push for carbon neutrality. A higher quality office including a full range of services and amenities are demanded to both attract talented staff and lure employees out of their homes and into the workplace. Proactive landlords will invest in building features that make its occupants feel comfortable, and will use technology, sustainability and adaptive reuse to create new ways to keep us connected while maintaining our safety in the office buildings of the future.

315 €/m^2

Annual Brussels office prime rent

Accessibility is also playing an important role. New rules around personal transport such as a cut to subsidies for normal gas cars and reduced parking in Brussels is a clear message of more limited car use. These factors have translated to a new occupier push into the CBD.

Those with grade B and C buildings will be in a difficult position to commercialize vacant space. The changing preferences and office demands have effectively shortened the lifespan of offices. Well-located buildings will have the opportunity to be renovated to high BREEAM standards, an effort that can be technically easier to achieve than building new. This is also true for decentralised Brussels markets, where the most iconic buildings will be repositioned while older stock will continue to be converted to alternative uses. Thus total office stock will continue to decrease but will be of a higher quality.

A higher quality office is demanded to both attract talented staff and lure employees out of their homes and into the workplace

CONTINUED RENTAL GROWTH

A confluence of factors will put rents under upward pressure in 2022. Increasing land prices, office scarcity, rising construction costs and greater technical and quality demands will need to be balanced by higher rents in developer pro formas. Landlords will thus be in a strong position to renegotiate higher prices.

HOMEWORKING REMAINS COMPLEX

Homeworking is now well-integrated into the Belgian economy, with 41% of employees engaging in hybrid work in 2021[1]. Far from diminishing the role of the office, it has refocused occupiers' portfolio strategy with the office at the center.

This environment has led to a stronger push for high-quality offices that are geared more towards soft work and collaboration, that reinforce company values and culture and that offer a premium professional experience. The successful commercialisation of projects like Royale Belge and Multi Tower in Brussels and Networks in Ghent are several examples.

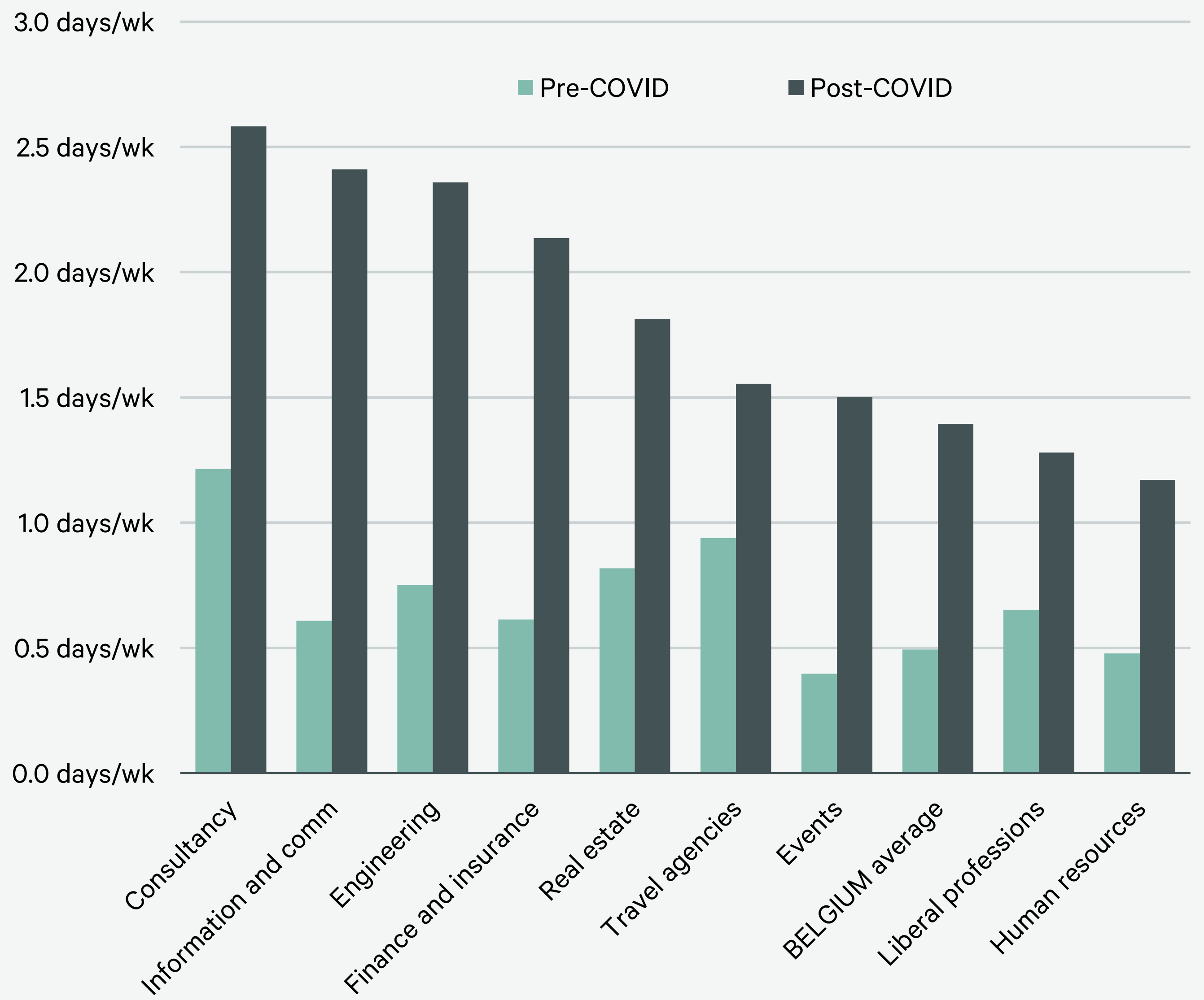
Another impact is occupiers' stated beliefs in the importance of flexible space to provide employees more choice and test new ways of working. A recent CBRE EMEA occupier survey found that 18% of companies expect flexible space to account for a majority of their office space within the next two years[2].

The homeworking effect and degree of change, however, is not uniform across sectors or companies, and an equilibrium will arise once the longer-term implications become clearer.

41%

Percentage of employees in Belgium teleworking at least part-time in 2021.

'Pre-' & 'post-Covid' homeworking expectations from Belgian companies (March 2021 survey)



Source: NBB

[1] August 2021 survey from Ministry of Mobility and Traffic

[2] CBRE EMEA Office Occupier Sentiment Survey 2021

03

Industrial

OUTLOOK

The industrial and logistics markets will struggle to meet the strong demand from further e-commerce adoption and occupiers seeking solutions to supply-chain disruptions. There are virtually no availabilities for modern logistics space.

INDUSTRIAL OVERVIEW

Disruptions to the global supply chain have dominated headlines this year. Renewed consumption in 2021 combined with labour market and operational frictions have disrupted the normally finely tuned machine. As a result, companies are increasingly hedging against these headwinds via the occupier market, driving take-up to a record 2.17 million m².

2.17m m²

A new record for Belgian industrial and logistics take-up in 2021.

RISING PRICES, LIMITED AVAILABILITIES

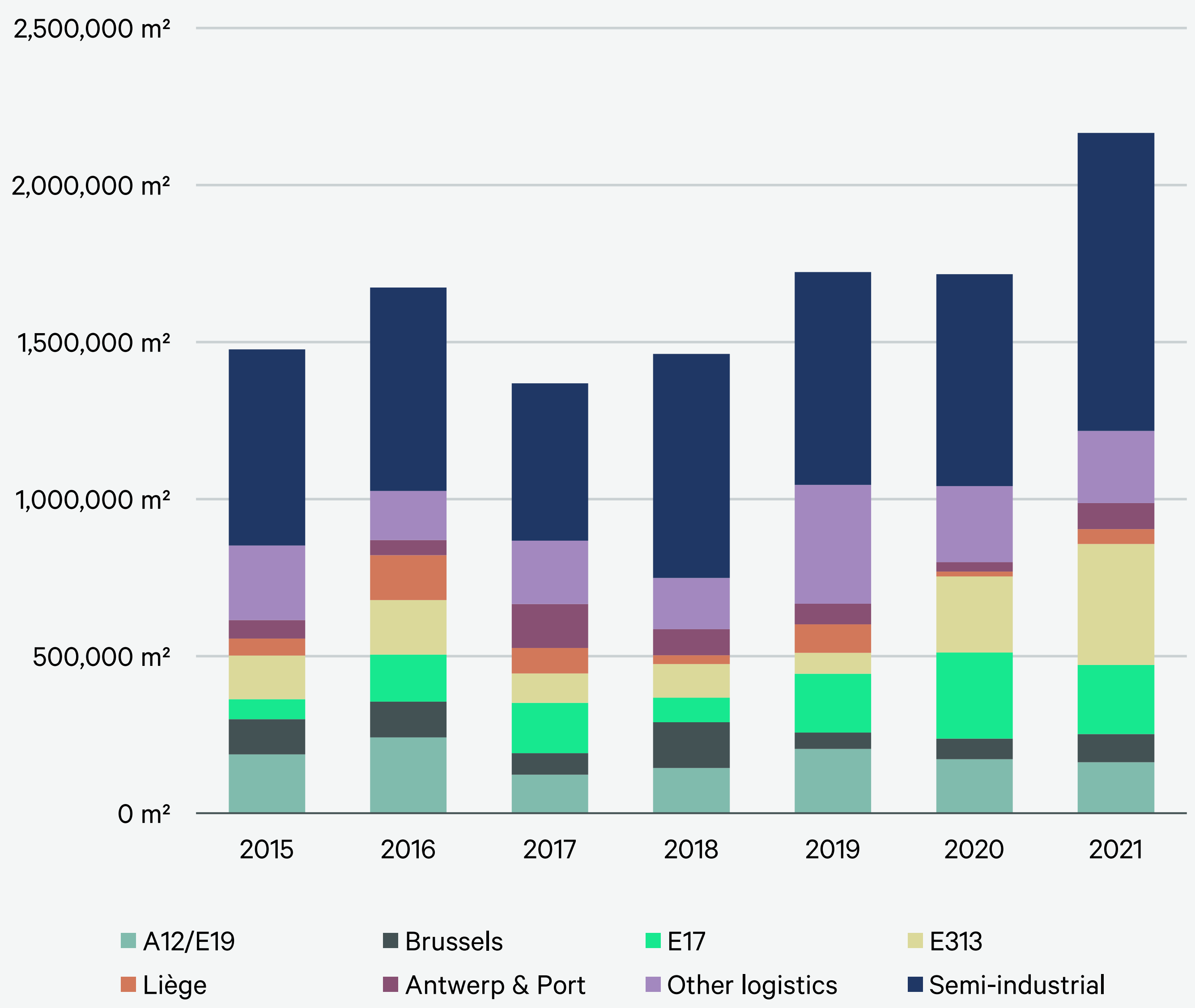
The consequences for logistics real estate are substantial. Rents will continue to be under upward pressure with vacancy maintaining record lows. New supply is significant but mostly accounted for. The possibility of increasing the pipeline in the short- to medium-term to relieve the demand pressure is limited given the lack of available land. Additionally, complicated permitting and looming environmental questions are further hindrances.

These dynamics spillover to the other industrial markets - both in terms of product type and geography. Smaller facilities of 1,000 to 2,000 m² normally used as SME and semi-industrial space are being absorbed as urban logistics for last-mile delivery. Land scarcity is putting upward pressure on SME spaces to 1,500 €/m² and beyond in hot markets and over 300 €/m² for the land itself.

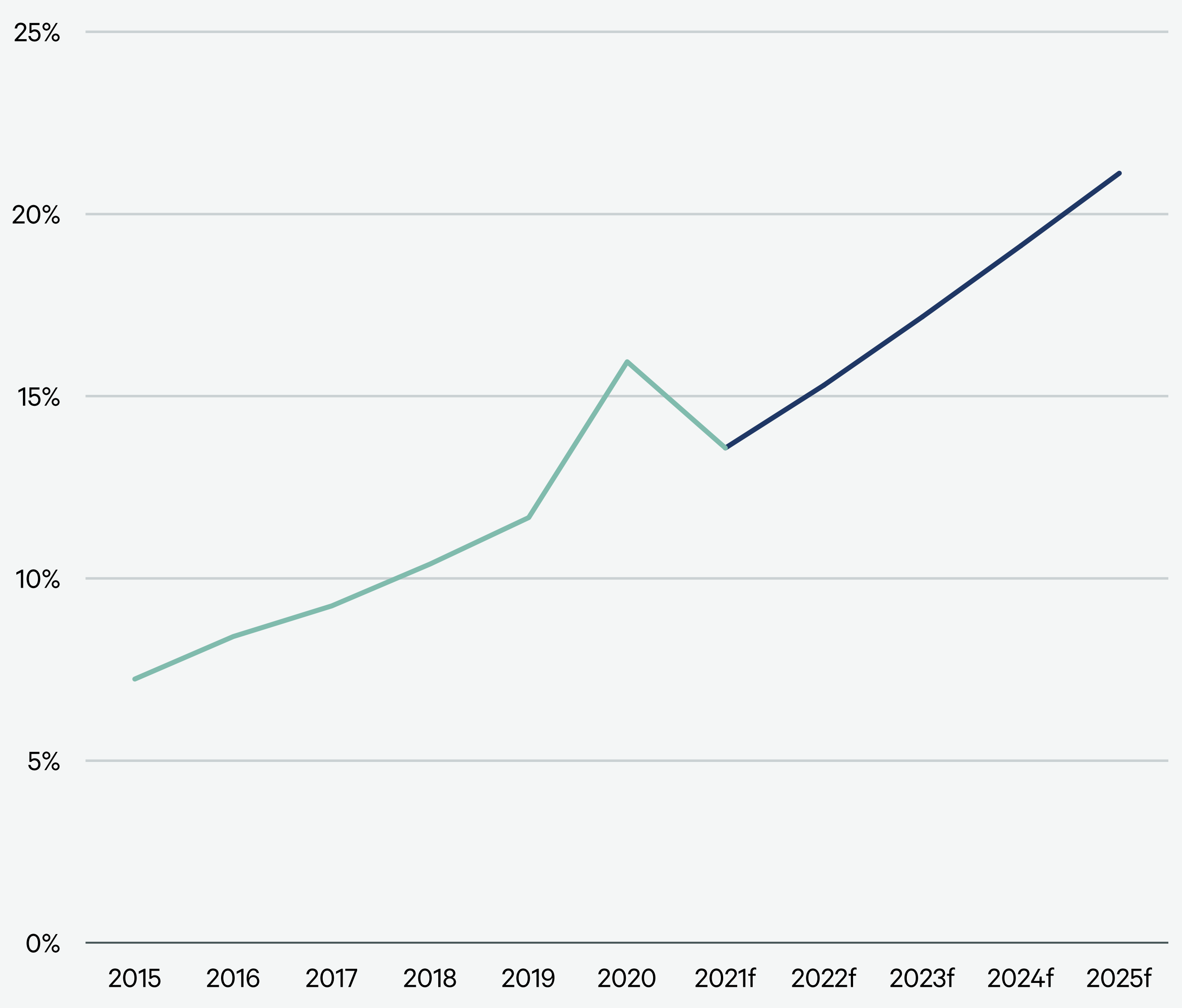
Another consequence is increased activity in more peripheral markets where availabilities exist, such as Charleroi or Lommel. Zeebrugge also just secured a 20,000 m² facility. While offering attractive features in their own right, we see more moves into such markets out of necessity.

Industrial take-up in Belgium

Source: CBRE



E-commerce penetration and forecast (% of total retail sales) in Belgium



Source: CBRE EMEA Research

GOING DIGITAL

There are also more persistent trends driving demand. E-commerce in Belgium grew to 13.6% in 2021 and is forecast to grow to 21.1% by 2025[1]. That puts Belgium at the top of Europe for e-commerce expansion. 3PL companies, major players in the online space, secured an additional 550,000 m^2 in 2021, with strong demand anticipated in 2022.

The acceleration of digital trends has supported the conditions for data centre expansion in Belgium. Two of the world's largest tech companies are expanding their footprint near Charleroi and Brussels, while EdgeConnex will build a facility in Ternat. Additional demands are open, particularly in the Brussels periphery, and we expect more in the coming years.

21.1%

Forecast e-commerce penetration in Belgium, up 7.5 percentage points from today.

A LANDLORD MARKET

The market pressures also create risks. For occupiers, a loss of business from spatial constraints is a real threat as are higher prices at renegotiation breaks. For investors, the immense pool of new entrants will find it difficult to get a foothold in the market, while established players are in a more favorable spot.

The reality of the situation is that it is a seller and landlord's market and will continue to be in 2022.

[1]CBRE EMEA Research Q4 2021 forecast

04

Retail

OUTLOOK

Retail letting and sales hit a new record in 2021 despite lingering pandemic concerns. The market is polarizing with out-of-town and AAA performing well, while secondary and tertiary markets struggling. However, those locations with a strong residential catchment are thriving.

RETAIL OVERVIEW

The broad retail real estate had an extraordinary 2021 again despite the pandemic uncertainty. Take-up reached a new high at more than 482,000 m^2, AAA locations were stable and new projects and expansions commercialised exceptionally well. Select retailers in the home and household, food and beverage, footwear and supermarket sectors have also been expanding.

The overall performance masks the polarization in the market that will continue to define the narrative in 2022. The out-of-town market claimed a record two-thirds of retail activity in 2021 given its more COVID-resilient nature and pipeline of new space. The more limited pipeline will thus be a drag on total volumes. The best shopping centres are experiencing footfall moderately off their pre-pandemic levels and report high occupancy from proactive management. High street will continue to lag the broader market from well-established trends.

482k m^2

Belgian retail take-up marks a new record from out-of-town demand

RETAIL SALES & MOBILITY ON THE RISE

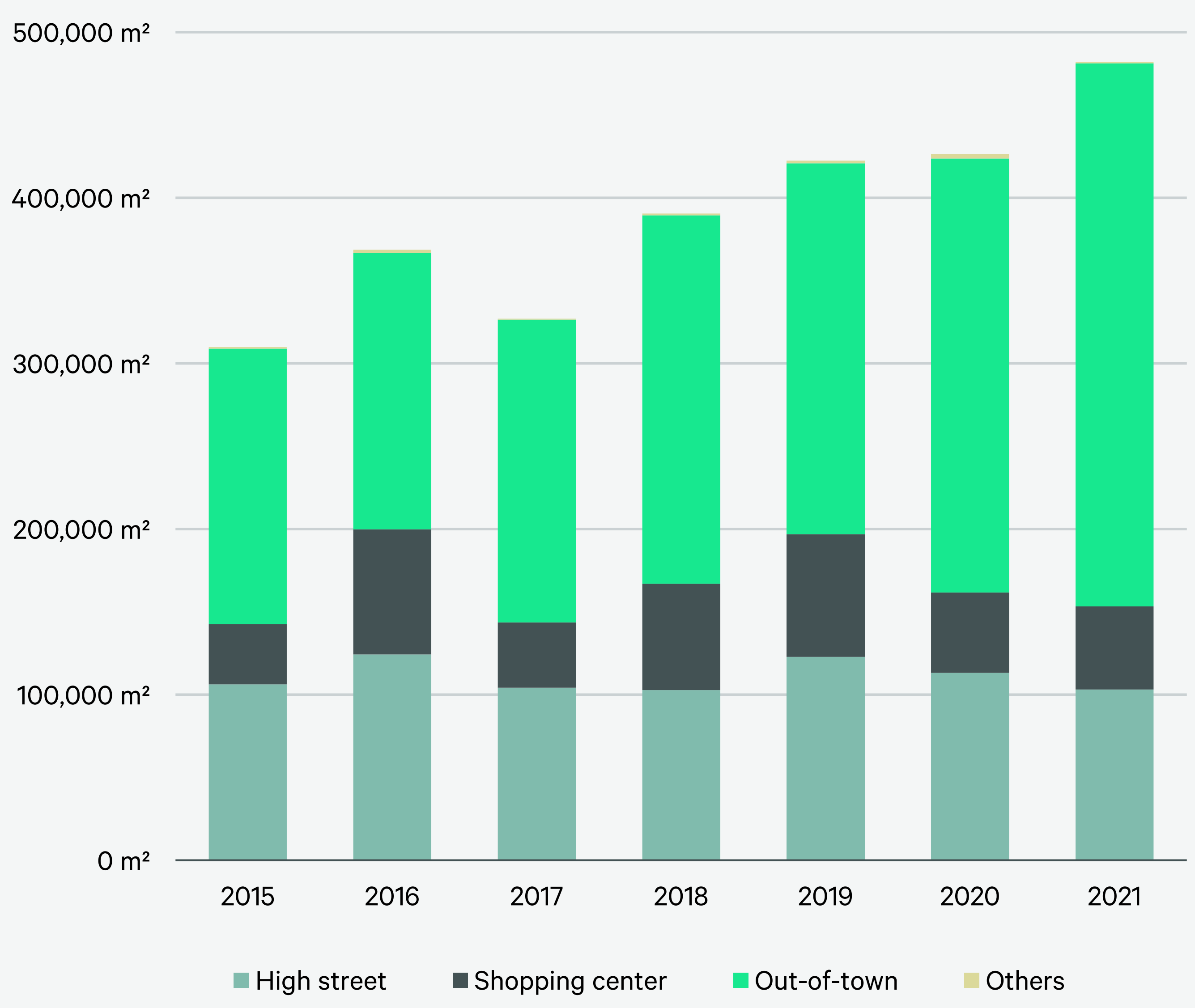
The latest Belgian sales figures from November 2021 show a year-over-year increase in the volume of goods sold (excluding fuels) of 12.3%[1]. Even compared to pre-pandemic (November 2019) this is an increase of 6.3%. Clothes and footwear have been amongst the strongest performers of the last 12 months, while e-commerce has cooled somewhat.

In terms of mobility, activity in 'grocery and pharma' has maintained level well above pre-pandemic levels for almost a year[2]. 'Retail and recreation' mobility has hovered around the same pre-pandemic level, but dipped after the holidays and latest wave of infections.

Overall, the retail sales and mobility trends show a favourable evolution heading into 2022 that should support the already active occupier market.

Retail take-up by format in Belgium

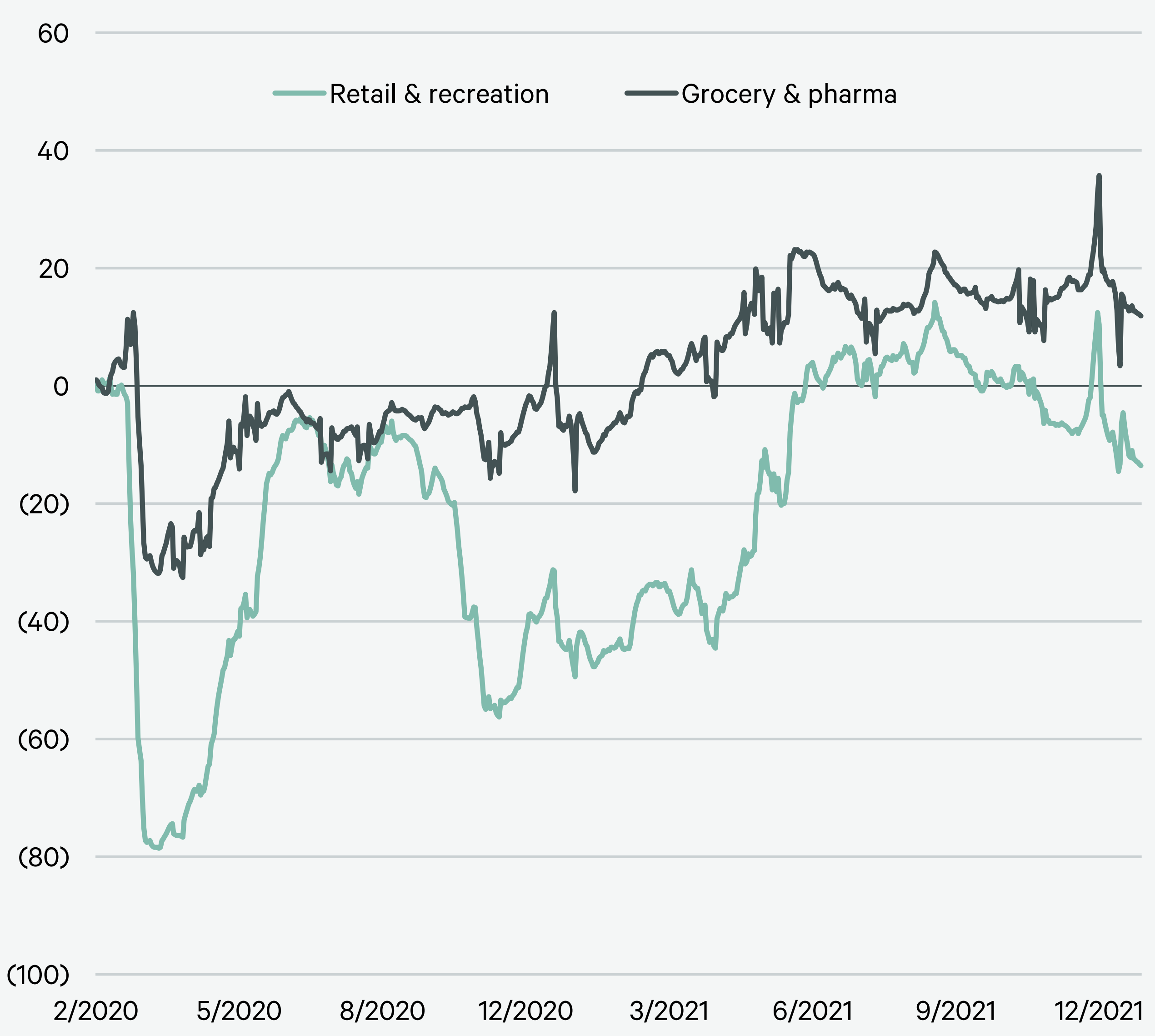
Source: CBRE



[1] Statbel

[2] Google Mobility

Google Mobility through January 21, 2022 (change from pre-pandemic baseline)



Source: Google Mobility

CONTINUED OPTIMIZATION

Portfolio optimization will impact geographic markets. Consumer demand has shifted to high streets closer to residential and easily accessible areas. Thus, markets such as Brussels Uptown and Nivelles will perform well. Those markets more reliant on tourism and business consumers – such as Antwerp, Bruges and Brussels centre - enter the new year in a more vulnerable position. While stable, a further 5% to 10% rental correction would not be unexpected if the pandemic threat persists.

Overall, the long-term prospects of AAA locations remain positive, though B and C locations face a more uncertain future. We expect local and service-oriented retailers to fill the gap in demand here in the face of elevated vacancies. Fashion in particular will continue to restructure, though at least one major retailer announced profits for the first time in four years, showing positive results after years of declining sales across the sector.

1,700 €/m^2

Prime rent in Brussels downtown high streets

INVESTMENT IN CONVENIENCE

Convenience-led assets will remain favorable, namely retail parks and grocery-anchored properties. They have become an alternative to prime high street assets, as investors have largely preferred a holding strategy over liquidation through the pandemic. Yields are believed to have stabilized following an upward revision to high street and downward revision to out-of-town and grocery assets. Investor interest is returning but focused on recently negotiated, 'COVID-proof' leases.

05

Residential

OUTLOOK

Fundamental changes to how we live are supporting the demand for multifamily. The market is maturing but is moving slowly. Coliving and multifamily-adjacent assets are absorbing some of the capital from the explosion of new residential funds.

RESIDENTIAL OVERVIEW

Strong fundamentals will carry the traditional multifamily market forward in 2022. The number of households is rising, and the proportion of which are single are the highest on record at 35.3%. Rising prices (+5.3% for houses and 5.4% for apartments[1]) will continue to be a barrier to new buyers, cancelling somewhat the increasing registration tax abatements adopted by regional governments.

35.3%

Percentage of single households in Belgium, up over the long-term

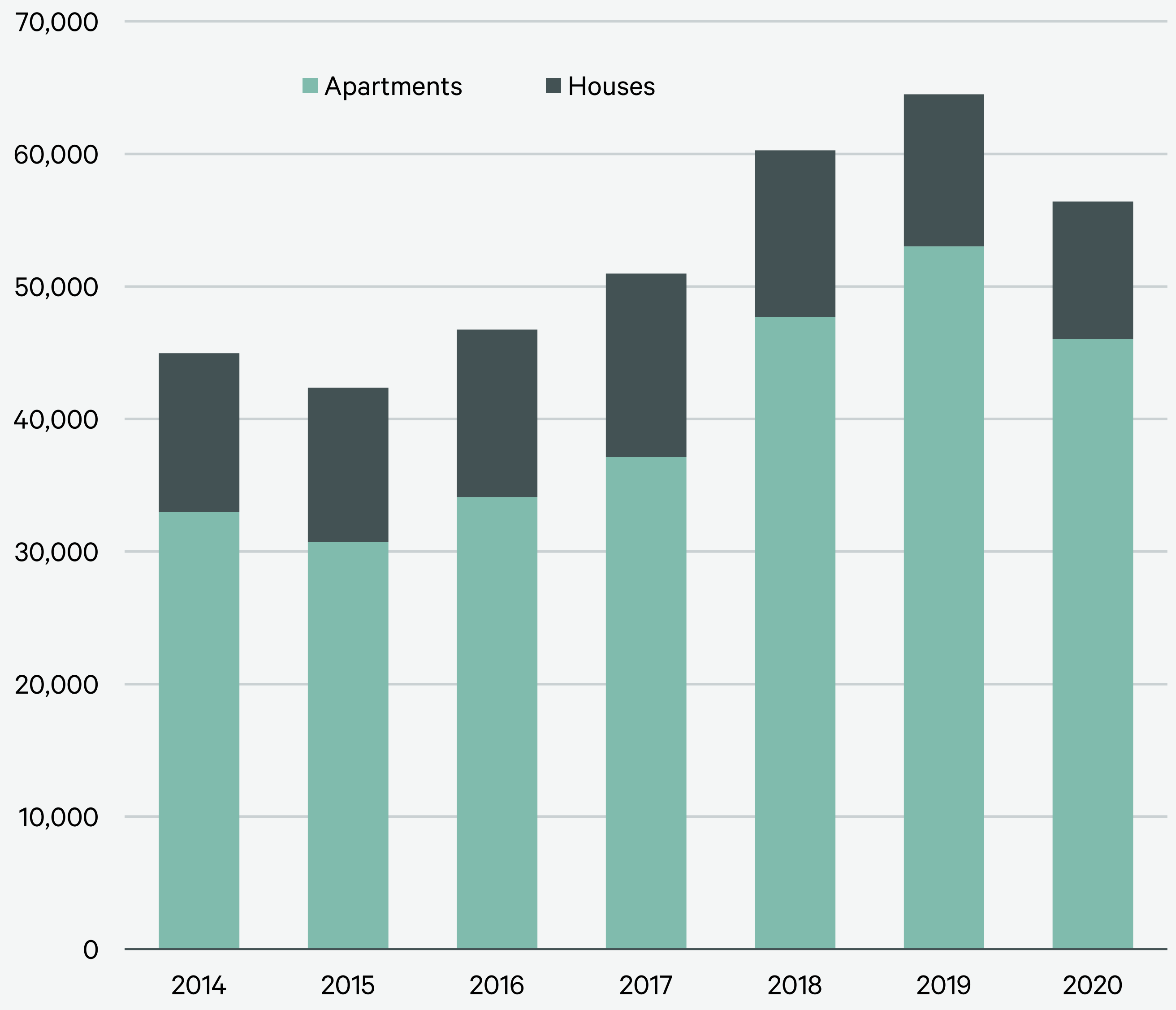
THE SEARCH FOR ASSETS

On the institutional side, there has been an explosion in the number of new funds looking to deploy capital in this asset class, though they are met with insufficent supply[2]. Development is ongoing, but existing investment grade assets with an operator are rare. Negotiations have been advancing on the back end, tying up effectively all major projects in the short- and medium-term.

New international investors are interested in penetrating this market, but it is domestic players and familiar internationals that are spearheading activity. These firms can stomach the slow, often complicated compliance processes ahead of new construction. Financing for these new developments has not been restrictive, but drawn-out timelines could become a problem in the future. As a result, investors are increasingly expanding their search for assets in markets outside of Brussels, following the supply and more realistic development possibilities.

Annual residential development in Belgium

Source: Statbel



[1] Median transaction price change in Belgium from 2020 to H1 2021 from Statbel.

[2] Some examples are Bouwinvest-GIP-ION with €280 million; Alter Coliving Fund Europe I; Doudev1 targetting €500 million; CER III

Key West, Brussels

CAPITAL FINDING A HOME IN COLIVING

On the flipside, coliving is a quickly expanding market with many new, small private players (Coloc Housing, Morton Place, IKOAB) and, increasingly, other international operators (Yust, Colonies, Quarters, Colive). The regulatory burden is significantly less than the traditional multifamily market, resulting in quicker redevelopment and return on investment and potentially higher capital values.

PRICES MOVING FASTER THAN RENTS

Pricing trends will stress the market. Prices are increasing faster then rents, putting downward pressure on yields. Private individuals can expect yields of 2.75% in high-demand markets. Family offices and institutional investors looking for block sales will need to continue searching in the north of Brussels and the decentralised markets such as Vorst and Anderlecht for exposure to the nation's capital and expect to pay under 3.50% for top product secured by an operator.

Available capital and limited Brussels assets have led funds to smaller regional markets and multifamily-adjacent properties

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