

THE BELGIAN LOGISTICS MARKET

by CB Richard Ellis Research, Belgium



Economy

The industrial real estate market was severely hit by the economic crisis. The economic recession has been marked by a drop in global trade and industrial output. The decline in both domestic and foreign demand triggered in turn destocking by companies, reducing stockpiles in face of waning business and uncertain demand evolution. The aggregate result was a sharp reduction in demand for logistics real estate in 2009.

Nevertheless, 2009 ended better than it started, with the economy heading out of recession after having contracted over four consecutive quarters. As a result, expectations of growth in 2010 have been generally strengthened in recent months but overall the economic recovery remains fragile.

Export prospects have improved recently as a result of the positive changes seen in the international environment. In Q4 2009 however, outgoing trade flows were still below Q4 2008 levels (-0,4%) and down by over 10.5% compared to the peak hit earlier that year.

Industrial production, an important component of warehousing space demand, is gradually recovering but significant spare capacity still exists and needs to be absorbed. Encouragingly, recent figures point to an increase in new orders and inventories although this process is often occurring from very low levels. According to Eurostat for instance, new orders in December 2009 were still 3,2% below the volumes recorded in the same period one year earlier. Looking ahead, the expected recovery in world demand and trade could help reviving the highly-export

SUMMARY Demand for logistics space struggles and it's to a large extent driven by rationalisation efforts. Development of logistics space has come to a standstill, with only a handful of projects being built at risk. While for turnkey projects rents seem to have held up well, for existing space the trend is still downward.

oriented Belgian manufacturing sector.

The retail market, particularly food, performed reasonably well during the downturn but seems to have lost momentum recently. The fall of retail trade volume observed in January (-3,1%) and February (-5,2%), combined with stalling consumers confidence, suggest that

the recovery is still fragile and that retail driven logistics could also start suffering.

For 2010 and 2011, GDP is expected to increase by 1.5% and 1.9%. Inflationary pressure will likely remain low for some time, with prices forecasted to rise by only 1.5% in the course of 2010.

Demand

Take-up in the industrial real estate market totalled approximately 850.000 m² in 2009, showing a decrease of 20% compared to 2008. Demand for large logistics units (>10.000 m²) declined by approx. 8% in the same period, with take-up slightly exceeding 400.000 m². Annual take-up figures in this segment of the market were inflated by a number of transactions completed by owner occupiers. Colruyt for example will develop a new 80.000 m² distribution centre in Ath, Hainaut. Likewise, Dow Corning will construct 35.000 m² in Seneffe.

Logistics real estate had a tough start in 2010, with very few deals recorded in this first part of the year. The most notable transaction was probably KDL leasing WDP's property (± 10.500 m²) at Havendoklaan, in Cargovil.

While it appears that the bottom has been reached with respect of the economy, take-figures suggest that recovery in warehousing demand has yet to take place. Most logistics occupiers are still operating in a challenging market environment and have had to cope with a reduction in volumes and consequent loss of operations, reducing the need for storage space. This has in many cases led tenants to take steps to reduce their cost base through rationalization and consolidation of premises. A prominent example was the consolidation of its distribution operations by Unilever into a new distribution scheme to be operated by DHL in Bornem.

In times of economic uncertainty, flexibility in lease terms is also increasingly sought. The increased desire for flexibility is mainly the result of shorter business planning horizons, creating the need to be able to review or reverse strategic decisions more quickly. Flexibility however tend to have a higher price attached in terms of higher initial rent. Gauging the required level of flexibility, and its price, is often crucial to tenants in the current market, especially for logistics subcontractors. Tenants' focus on the short term at the same time is creating tensions with landlords, who prefer to avoid the costs and uncertainty of re-letting that shorter lease involve.

Geographically, Flanders proved more resilient in terms of activity, with smaller deals continuing to take place. Wallonia was suffering from the lack of transactions involving pan-European distributors, a

major catalyst of space demand in the southern hubs of the country.

Development

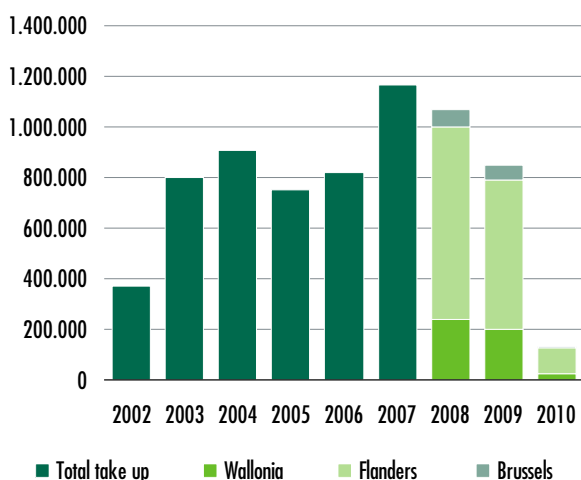
Construction of logistics facilities dipped sharply in response to low demand and tightened lending conditions that made it difficult to obtain construction financing. In current market conditions, development of logistics is almost exclusively driven by built-to-suit as developers are reluctant to break ground unless they've secured occupiers for their projects. WDP for example is developing a new 16.000 m² facility for Terumo Europe in the Hermes Park in Genk.

Notable exception is the Canal Logistics from Leasinvest, in the Brussels Periphery. The first phase (25.000 m²) of this speculative project was delivered in late 2009.

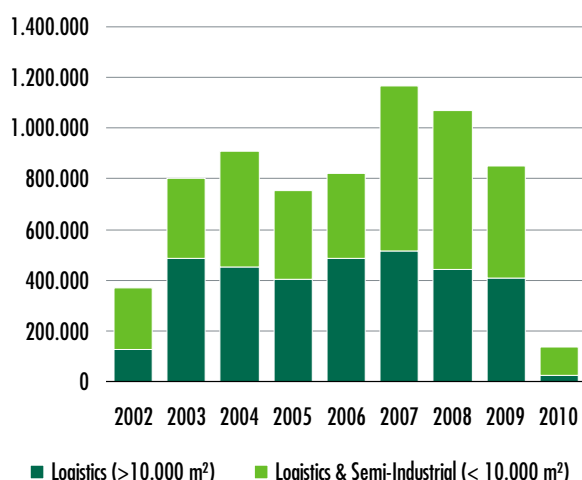
When funding is available, custom development for own occupation is an alternative with for instance a number of retailers such as H&M, Colruyt and Blokker Group in the process of developing their own new distribution centers.

A remarkable feature of logistics development is the shorter construction process, relative to other sectors such as offices. As such, developers are better able to respond to changes in demand and time the delivery of their new projects accordingly. This has luckily helped avoiding significant imbalances in demand-

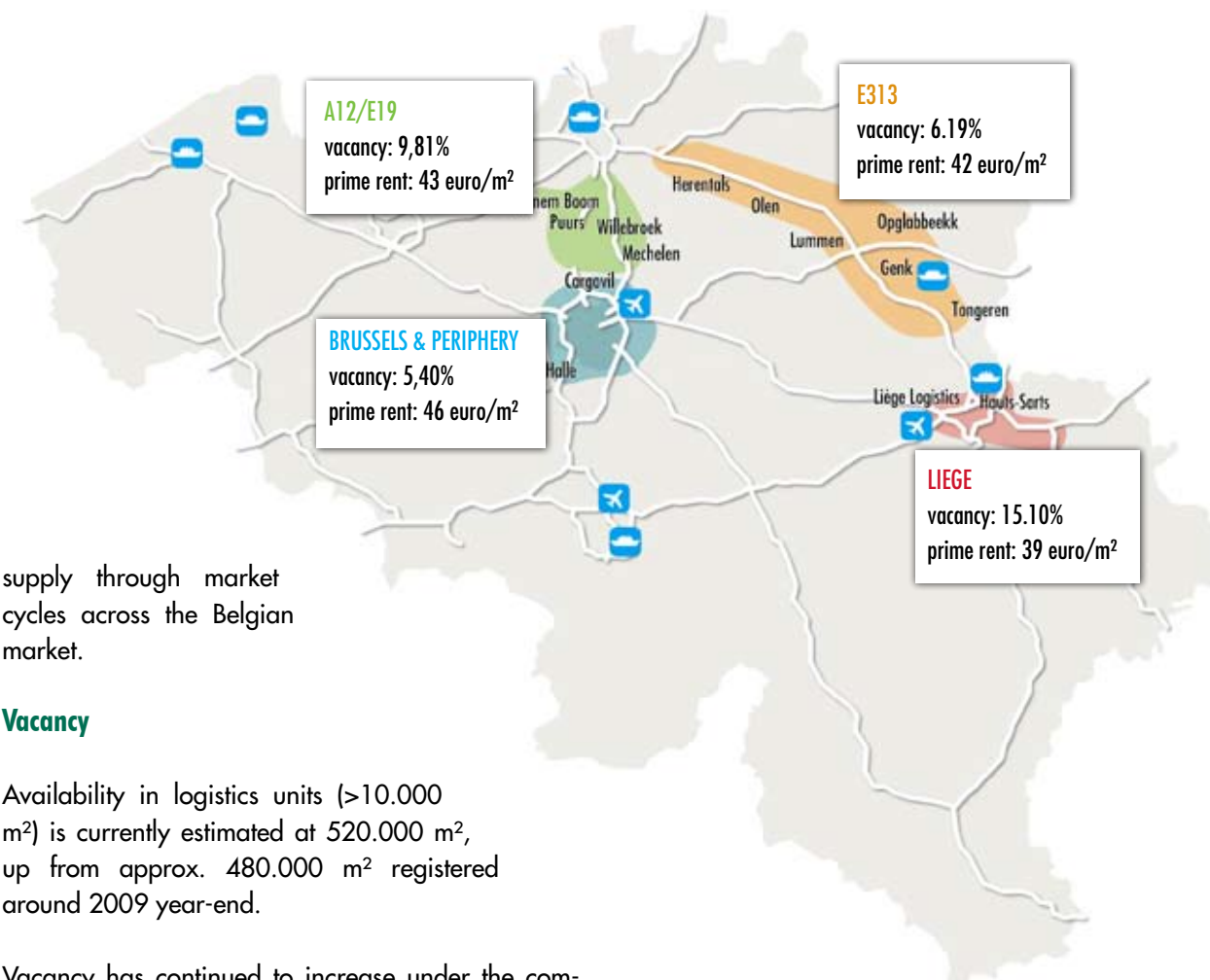
Take-up per region



Take-up per segment



Statistics per logistics zone for Q1 2010 (Source: CB Richard Ellis)



supply through market cycles across the Belgian market.

Vacancy

Availability in logistics units (>10.000 m²) is currently estimated at 520.000 m², up from approx. 480.000 m² registered around 2009 year-end.

Vacancy has continued to increase under the combined effect of lower demand and the flow of space returning to the market via subletting or as a result of companies downsizing. The fact that speculative development has come to a nationwide halt, prevented an even sharper upturn in voids levels. It must be noted however that part of vacancy is found in older warehouses which are in need of redevelopment.

The A12/E19 submarket probably witnessed the more severe increase in availability, with vacancy rising from just below 8% to an estimated 9.8%. This is partly the result of some companies using breaks or lease expiries to reduce the amount of occupied space, such as JVC in Boom and Schenker in Willebroek. The province of Liège has currently the higher amount of vacant space relative to its stock, mostly thereof is modern and of good quality. Availability in Liège is estimated at 15,1%. Further to KDL transaction in Cargovil, voids in Brussels Periphery decreased to 5.40% from 6.70% previously.

Rents

Rental values remain under pressure across the Belgian logistics market, especially for existing space. Owners of older properties in particular are forced to offer more attractive lease terms to fill voids.

For turnkey projects, rents have appeared much more resilient. As the decrease in construction costs has been insufficient to compensate for the recent rise in yields, developers remain reluctant to cut prices for their turnkey projects.

Prime logistics space trades at 43 euro/m² along the Brussels/Antwerp axis and 46 euro/m² in the Brussels periphery. Prime rents stands at 42 euro/m² along the E313. Quality warehousing in the best location in Liège is being let at 39 euro/m².

Canal Logistics Brussels



Investment

The industrial investment market remains characterized by a halt in transactional activity. Last year was very slow with only 107 million euros invested in logistics properties and smaller semi-industrial warehouses.

The continued low investment volume is mainly the result of a shortage of prime well-let properties available for sale. In addition investors are extremely demanding in terms of property specifications and

still require a significant risk premium to buy logistics real estate, whereas landlords are not eager to sell at discount and prefer to postpone transactions in the expectation of a recovery in values.

For prime logistics properties yields are currently estimated at 7.5%. Unlikely, secondary properties are still perceived as too risky by the majority of investors, especially foreign ones.

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