2011, A DISAPPOINTING YEAR

EXECUTIVE SUMMARY

The leasing activity in the Brussels office market slowed during the year. Overall 2011 take-up was 321,400 m² representing a 36% fall on the Brussels’ market five year average and down 33% from 2010. The economic climate alone can not explain the slump of leasing activity in the Brussels market - the dynamics of the market have changed. As in the last three years, lease renegotiations formed a significant part of market activity.

In the meantime, availability saw a marginal decline to 1.49 million m², a fall of 2% over the last 12 months. This equates to a vacancy rate of 11.2%. The year has been marked by acceleration in the shift of grade A availability at the expense of second-hand units. The level of development starts since 2008/9 has had a significant effect on completions which recorded its lowest level in 2011.

Prime rental levels have fallen to 265 euro/m² representing a quarter-on-quarter decline of 7%. The average followed the same line and stood at 152 euro/m². Nevertheless, several lettings under 500 m² were signed at a rental values reaching 295 euro/m² for office units close to European institutions.

The investment volume amounted to € 579 million in the Brussels office market in 2011. Although this was a 15% increase compared to 2010, the year 2011 performed a volte-face mid-way in activity. Prime yields for a 3/6/9-year lease didn’t move and stood at 6.25% in the CBD-market while the secondary yields (a second-hand property with 3/6/9 year) stood at 6.75% at the end of 2011.
ECONOMIC DATA

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012 (f)</th>
<th>2013 (f)</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP Growth (Belgium)</td>
<td>2.80%</td>
<td>2.80%</td>
<td>0.80%</td>
<td>-2.70%</td>
<td>2.30%</td>
<td>2.00%</td>
<td>0.00%</td>
<td>1.50%</td>
</tr>
<tr>
<td>GDP Growth (Euro Zone)</td>
<td>3.20%</td>
<td>2.90%</td>
<td>0.70%</td>
<td>-4.20%</td>
<td>1.80%</td>
<td>1.50%</td>
<td>0.00%</td>
<td>1.20%</td>
</tr>
<tr>
<td>Domestic Demand</td>
<td>2.40%</td>
<td>2.80%</td>
<td>1.90%</td>
<td>-1.20%</td>
<td>1.10%</td>
<td>1.60%</td>
<td>0.10%</td>
<td>1.30%</td>
</tr>
<tr>
<td>Exports</td>
<td>5.00%</td>
<td>4.40%</td>
<td>1.40%</td>
<td>-11.30%</td>
<td>9.90%</td>
<td>5.80%</td>
<td>0.20%</td>
<td>4.60%</td>
</tr>
<tr>
<td>HCIP</td>
<td>1.80%</td>
<td>1.80%</td>
<td>4.20%</td>
<td>0.00%</td>
<td>2.30%</td>
<td>3.50%</td>
<td>2.00%</td>
<td>1.80%</td>
</tr>
<tr>
<td>Unemployment rate</td>
<td>8.30%</td>
<td>7.50%</td>
<td>7.00%</td>
<td>7.90%</td>
<td>8.30%</td>
<td>7.00%</td>
<td>7.40%</td>
<td>7.40%</td>
</tr>
<tr>
<td>Gross Gov. Debt (% GDP)</td>
<td>88.00%</td>
<td>84.10%</td>
<td>89.30%</td>
<td>95.90%</td>
<td>96.80%</td>
<td>96.60%</td>
<td>97.70%</td>
<td>96.90%</td>
</tr>
</tbody>
</table>

Source: BNB - OECD - BNP Paribas Real Estate
OCCUPIER MARKET

A new record

The leasing activity in the Brussels office market idled during 2011. A better second six-month period, coinciding with an active public sector in the occupational market, didn’t prevent take-up from reaching its lowest level over the last ten years.

Overall 2011 take-up was 321,400 m² representing a 36% fall on the Brussels’ market five year average and down 33% from 2010. This low level demonstrates how difficult the Brussels market has been.

Not active during the first six months, the public sector has been livelier over the second half, boosted by a sizeable deal from the European Commission. The 45,000m² remaining in the Capital building was let by the European Commission to establish the services of the High Representative of the Union for Foreign Affairs.

The significant transactions signed during the last quarter were the acquisition of Marais 33 (9,114 m² - City Centre) by HUB and the two first lettings in the Zenith (North District) respectively 6,286 m² by ETNIC and 6,950 m² by SNCB.

Throughout the year, the leasing market has been mainly confronted by a private sector adopting a hesitant behaviour and even more, an opportunistic attitude. The private sector take-up amounted to 205,300 m² compared to 309,900m² in 2010.

As in the last three years, lease renegotiations formed a significant part of market activity. Facing the deterioration of economic climate, the majority of occupiers made soundings in the market to conclude renegotiations of their lease contracts.

The economic climate alone can not explain the slump of leasing activity in the Brussels market - the dynamics of the market have changed:

• The lengthening period without a break option in the lease agreement
  The demand in the Brussels market is mainly supported by the turnover of occupiers. This turnover was based on the right to terminate the lease agreement at the end of three-years for each party. Since 2008, tenants have been signing lease agreements with a longer fixed period before break options can be used. The main consequence of this is a freeze in the occupational market.

• The reduction of office space because of the changes in work practices. Although this is nothing new, the optimisation and cost cutting strategies enacted by the occupiers have accelerated since 2008/9 and translated into the implementation of new workspace strategy.
Grade A being favoured over secondary

Availability saw a marginal decline to 1.49 million m², a fall of 2% over the last 12 months. This equates to a vacancy rate of 11.2%.

The year has been marked by acceleration in the shift of grade A availability at the expense of second-hand units. Indeed, benefiting from very low speculative completions and take-up favouring new office units, the vacancy rate in grade A dropped to 16.1%.

Over the last 12 months, this phenomenon has been more visible in the Leopold District and the north district thanks to sizeable transactions that recorded an important decrease in their vacancy rate. Nevertheless, vacancy rate trends remained disparate depending on the sub-market.

In the same time, the market continued to suffer from the return of office space into the market.

Vacancy rate

No development starts

The level of development starts since 2008/9 has had a significant effect on completions which recorded its lowest level in 2011. Indeed, during the year, only 17,000 m² of speculative development has been completed in the Brussels office market.

Over the course of 2012, some 78,200 m² should be completed of which 56,700 m² are considered as at risk. The speculative part is mainly represented by the delivery of Orban 7-10 which accounts for 25,000m² of office space. The second largest scheme expected to be completed in 2012 is the “Arts 58” building with 16,500m². These two schemes are located in the Leopold District and owned by AG Real Estate.

The low rate of office completions will continue well into 2012 and 2013. Office development activity remains bogged down by the weak performance from the occupational market.
Still under pressure

As a result of disappointing performance in leasing activity, rental values have continued moving downwards in a challenging market.

Given the limited activity, landlords are tending to do everything they can to keep their existing tenant or to attract new tenants. This has the effect of driving market rents down.

Prime rental levels have fallen to 265 euro/m² representing a quarter-on-quarter decline of 7%. The average followed the same line and stood at 152 euro/m². Nevertheless, several lettings under 500 m² were signed at a rental value reaching 295 euro/m² for office units close to European institutions.

Tenant incentives in most markets remain considerable. In most locations tenants negotiate 1.5 to 2 rent free months per year without any break option. Some locations are more extreme than others, and in markets with considerable oversupply and for second-hand units, landlords have to push packages to unprecedented levels.

Rental values

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Market Statistics

<table>
<thead>
<tr>
<th>District</th>
<th>Take-up (m²)</th>
<th>Vacancy Rate</th>
<th>Headline Rents (euro/m²)</th>
<th>Yield (3/6/9yr)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Q4 2011</td>
<td>2011</td>
<td>2010</td>
<td>2011</td>
</tr>
<tr>
<td>City Centre</td>
<td>23,200</td>
<td>45,700</td>
<td>117,100</td>
<td>5.1%</td>
</tr>
<tr>
<td>North</td>
<td>13,300</td>
<td>26,200</td>
<td>43,700</td>
<td>7.5%</td>
</tr>
<tr>
<td>South</td>
<td>2,100</td>
<td>2,200</td>
<td>26,800</td>
<td>1.7%</td>
</tr>
<tr>
<td>Leopold</td>
<td>14,400</td>
<td>94,700</td>
<td>60,100</td>
<td>7.6%</td>
</tr>
<tr>
<td>Louise</td>
<td>10,700</td>
<td>23,100</td>
<td>23,800</td>
<td>12.3%</td>
</tr>
<tr>
<td>Decentralised</td>
<td>30,100</td>
<td>58,500</td>
<td>99,000</td>
<td>16.0%</td>
</tr>
<tr>
<td>Periphery</td>
<td>19,100</td>
<td>71,000</td>
<td>107,100</td>
<td>21.9%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>112,900</td>
<td>321,400</td>
<td>477,600</td>
<td>11.2%</td>
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</tbody>
</table>

Main Transactions – Lettings & Sales 2011

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Tenant</th>
<th>Deal</th>
<th>Surfaces</th>
<th>Office Property</th>
<th>District</th>
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<tbody>
<tr>
<td>Q3</td>
<td>European Commission</td>
<td>Letting</td>
<td>45,945 m²</td>
<td>The Capital</td>
<td>Leopold</td>
</tr>
<tr>
<td>Q4</td>
<td>Hogeschool-Universiteit Brussel (HUB)</td>
<td>Sale</td>
<td>9,114 m²</td>
<td>Marais 33</td>
<td>City Centre</td>
</tr>
<tr>
<td>Q4</td>
<td>Sint Goedele Brussel</td>
<td>Sale</td>
<td>8,400 m²</td>
<td>West Office Center</td>
<td>Decentralised South-West</td>
</tr>
<tr>
<td>Q3</td>
<td>SPF Justice - FOD Justitie</td>
<td>Letting</td>
<td>7,625 m²</td>
<td>Waterside</td>
<td>North</td>
</tr>
<tr>
<td>Q4</td>
<td>SNCCB Logistics - NMBS Logistics</td>
<td>Letting</td>
<td>6,950 m²</td>
<td>Zenith Building</td>
<td>North</td>
</tr>
<tr>
<td>Q2</td>
<td>BSB</td>
<td>Letting</td>
<td>6,700 m²</td>
<td>Baudoin 1er</td>
<td>Periphery South</td>
</tr>
<tr>
<td>Q4</td>
<td>Communauté française - ETNIC</td>
<td>Letting</td>
<td>6,286 m²</td>
<td>Zenith Building</td>
<td>North</td>
</tr>
<tr>
<td>Q4</td>
<td>Land of Hessen</td>
<td>Letting</td>
<td>5,980 m²</td>
<td>Montindu</td>
<td>Leopold</td>
</tr>
<tr>
<td>Q4</td>
<td>CPAS de Bruxelles</td>
<td>Sale</td>
<td>5,490 m²</td>
<td>Royale 139</td>
<td>City Centre</td>
</tr>
<tr>
<td>Q1</td>
<td>Yara</td>
<td>Letting</td>
<td>5,358 m²</td>
<td>Corporate Village – Aramis</td>
<td>Periphery Airport</td>
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</tbody>
</table>
Decrescendo

The investment volume amounted to €579 million in the Brussels office market in 2011. Although this was 15% increase compared to 2010, the year 2011 performed a volte-face midway.

While the first-half of the year recorded an impressive growth in the invested volume, boosted by several large transactions, activity curbed during the second half producing only 28% of the investment volume of 2011.

Compared to the year 2010, investment activity in the Brussels office market evolved a little, although average investment value by transaction didn’t exceed the €20 million mark. Activity was mainly located in the CBD market and supported by cash-rich players.

In the meantime, the main disadvantage of the Brussels office market remained unchanged during the past 12 months period. Indeed, the investment market continued to suffer from the mismatch between investors’ expectations and the products offered. While investors continue to be focused on “secured” products, the majority of investment products concern mainly second-hand office property with a rental risk.

In addition, the disappointing performance from the occupational market, combined with the return of risk aversion (a result of the ongoing tensions in financial markets) didn’t help liquidity in the market.

By contrast, investor appetite was firmly focussed on “secured” opportunities, but the lack of products in Brussels forced investors to turn towards the regional market.

Over the last 12 months, the prime yields for a 3/6/9-year lease didn’t move and stood at 6.25% in the CBD-market while the secondary yields stood at 6.75% at the end of 2011.
DEFINITIONS

**Stock**
Stock represents the total amount of all completed office space, vacant or occupied at the survey date.

**Take-up**
Take-up represents the total floor space known to have been let or pre-let, sold or pre-sold to tenants or owner-occupiers during the survey period. It does not include space that is under offer.

An office space is deemed to be “taken-up” only when contracts are signed or a binding agreement exists. All deals (including pre-lets) are recorded in the period in which they are signed. Lease renewals and sublettings are not included.

Sales and leasebacks are not included as there is no change in occupation. Quoted take-up volumes are not definitive and are consequently subject to change.

**Vacant Space**
The vacant space represents floor space which is on the market and available for occupation. Speculative developments that are under construction are not included. Space available for subletting or assignment is included. By contrast, obsolete office property and office property pending redevelopment or major refurbishment is excluded from vacant space.

**Vacancy Rate**
Vacancy rate represents the vacant space divided by the total stock at the survey date.

**Prime Rent**
Prime rent is an opinion of the highest headline rent achievable at the quarter end of a hypothetical 500 m² unit of the best quality office space in the best location in each submarket. Annual rent per square metre, featured on the lease, exclusive of taxes, charges and incentives.

**Prime Yield**
Prime yield is an opinion of the net initial yield which would be appropriate for a freehold prime office investment let to a tenant with a typical standard lease (3/6/9 yrs).

**Investment Volume**
Investment volume represents the total capital value of freehold and long leasehold purchases during the survey period. Quoted investment volumes are not definitive and are consequently subject to change.
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