



2012 BRUSSELS

Residential market report - new-builds
Knight Frank

HIGHLIGHTS

- The average price of new-build apartments in Brussels in 2011 was €2,670 per sq m.
- There has been an increase in demand from private investors, who have bought residential property as a refuge from the highly volatile financial markets.
- The number of residential building permits granted remained relatively stable during 2011, but the total amount of square metres for which permits were granted decreased by 12% compared with 2010, reflecting a reduced average lot size per dwelling.
- Due to rising land prices, there has been a trend for developers to construct higher buildings with smaller units.
- The reconversion of office buildings into residential property is a feasible option for no more than 20% of the vacant office stock in Brussels.



Key economic indicators

- The financial crisis hit Belgium again in 2011 with one of its major banks, Dexia, facing financial difficulties. The Belgian economy continues to struggle in the aftermath of the global and European financial crisis.
- Unemployment decreased during 2011 to reach pre-crisis levels (7.2%), supported by a flexible labour market.
- The Belgian OLO 10 year interest rate rose to new highs during 2011, but was kept under control (4.23%) by the newly formed government who have implemented strict austerity measures.
- Current projections still include a considerable deficit in public finances, although the Belgian government has introduced an austerity plan, aiming to balance its budget by 2015.
- Demographic forecasts for Brussels indicate that the population will rise to 1.21 million (+ 8.1%) in 2020 and 1.33 million (+19%) by 2060.

Belgian residential market overview

Since the onset of the financial crisis in 2008, the Belgian residential market has performed relatively robustly compared with other property sectors and residential markets in similar European countries.

While the historically low long-term interest rates would usually be expected to help buyers to increase their disposable incomes, the general economic climate and lack of confidence, in combination with the stricter credit policies of banks, have led to many buyers postponing their purchases. The behaviour of owner-occupiers has changed, as they take more time to compare the quality and price of dwellings. On the other hand, we have noticed a dramatic increase in demand from private investors, who have bought residential property as a refuge from the highly volatile financial markets. Overall, this balance between owner-occupiers withdrawing from the market, while investors increase their activity, has led to a stable year with average

Table 1
Key economic indicators

	2007	2008	2009	2010	2011
Belgium population	10,584,534	10,666,866	10,753,080	10,839,905	10,951,266
Brussels population	1,031,215	1,048,491	1,068,532	1,089,538	1,119,088
GDP growth	2.8%	0.9%	-2.7%	2.3%	1.9%
Unemployment rate	7.5%	7.0%	7.9%	8.3%	7.2%
Interest rate (OLO 10y)	4.33%	4.42%	3.90%	3.46%	4.23%
Inflation rate	1.80%	4.50%	-0.10%	2.20%	3.50%

Source: National Bank of Belgium, Statbel, OECD

INCREASED DEMAND FOR RESIDENTIAL PROPERTY HAS BEEN NOTED FROM PRIVATE INVESTORS.



Table 2
Brussels housing stock

	2007	2008	2009	2010	2011
No. of dwellings	543,172	545,308	544,601	546,118	545,313
Annual change	8,388	2,136	-707	1,517	-805
Annual change (%)	1.57%	0.39%	-0.13%	0.28%	-0.15%
Population growth	12,411	17,276	20,041	21,006	29,550
Annual growth (%)	1.22%	1.68%	1.91%	1.97%	2.71%

Source: Statbel

price increases being slightly higher than the rate of inflation.

Moreover, Brussels still benefits from the presence of the European institutions. Some Eurocrats who make their career in Brussels are buying their own accommodation. Their presence also stimulates the local investment market as they support the letting market and are willing to pay higher rents.

The Belgian market remains relatively stable in comparison with other European countries. We have not seen price drops, but dwellings remain on sale for longer time periods.

Stock

Belgium's residential stock is dominated by family houses, but new projects mainly consist of apartment block developments.

Changing demographics have caused the demand for dwellings to gradually increase over recent years. In Brussels, this has particularly boosted the demand for apartments, due to immigration, the migration of young professionals to the city centre, changing family structures, the rise of single households and the ageing population. This last factor has also led to a growing demand for retirement accommodation.

Table 2 illustrates the growth in the stock of housing units between 2007 and 2011 in Brussels.

Compared to the Brussels population, the number of dwellings has been extremely stable for the last five years at around 1 housing unit per 2.05 people.

Although the number of properties exchanged

THERE HAS BEEN A DECREASE IN THE AVERAGE SIZE OF DWELLINGS FOR WHICH PERMITS HAVE BEEN GRANTED.

in 2011 was slightly lower than the level reached in 2008, there is still no oversupply in the market. The number of transactions in the overall residential market is still rising compared with 2009 and 2010.

Year-on-year, the number of residential construction permits granted in Belgium in 2011 showed a small decrease in comparison with 2010, remaining significantly below the record number reached in 2008. A similar evolution has occurred in Brussels, with permits peaking at 2,669 units in 2008, but falling to 2,193 units in 2011 (-18%).

Table 3
Brussels housing permits

	Average size of dwelling (sq m)	No. of permits	Total (sq m)
2007	84	2,522	210,602
2008	81	2,669	215,195
2009	86	2,389	205,772
2010	83	2,243	187,222
2011	76	2,193	168,422

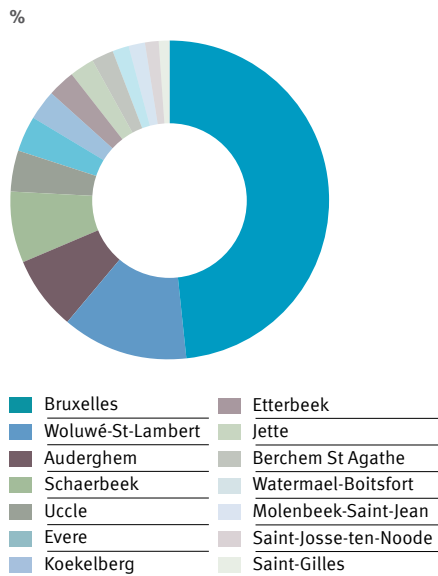
Source: Statbel

Following a period of high development activity, the number of permits granted has declined in each of the last three years. However, we note that the average time period between a permit being granted and the start of construction has shortened over the last two years.



Woluwé 34, Woluwé-Saint-Lambert - Cofinimmo

Figure 1
Permits granted by commune, 2011



Source: Statbel



Supply

Figure 1 shows the share per commune of the number of dwellings for which permits were granted in Brussels in 2011. In total, 2,193 dwellings were granted permits, including 2,108 apartments in 181 projects.

A lack of supply in some communes, such as Watermael-Boitsfort and Saint-Josse, has been recurrent in recent years, while the most

intense development activity has been noted in the Central Brussels district, Woluwé-St-Pierre, Auderghem and Schaerbeek. In view of these figures, we expect important developments to be completed in Central Brussels within the next two years, such as the Up-Site project (Atenor) with 350 units and Van Maerlant site (Allfin-BPI) with 280 units.

The average size of housing units has decreased substantially in recent years, and

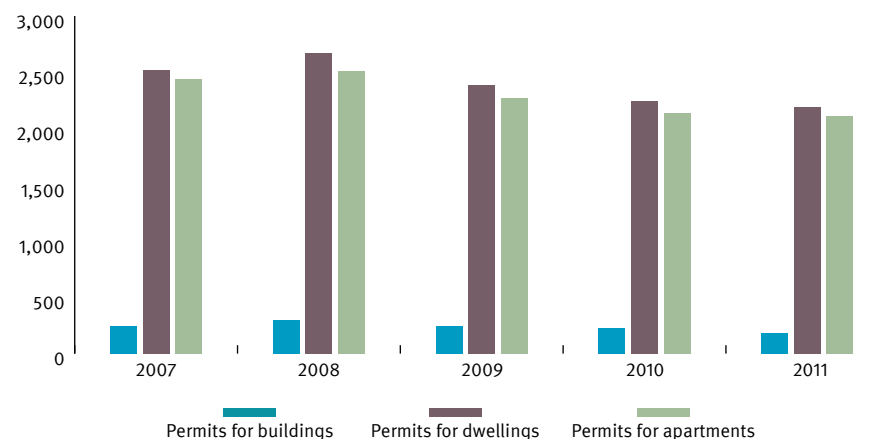
was 76 sq m for apartments in 2011, compared with approximately 90 sq m in 2003. The achieved density per block increased from 9.9 units in 2007 to about 11.4 units in 2011 (compared with just 5.5 in 2001).

During 2011, our database included more than 2,000 new-build apartments that were put on the market. Based on price criteria, the city can be segmented into three zones:

- The North West with Berchem-Saint-Agathe, Koekelberg, Jette, Anderlecht, Laeken, Ganshoren and Molenbeek
- The East with Evere, Schaerbeek, Woluwé-Saint-Lambert and Auderghem
- The City Centre and the South with Bruxelles, Ixelles, Etterbeek, Saint-Gilles, Uccle and Woluwé-Saint-Pierre. Woluwé-Saint-Pierre is attached to this area because of its high price levels and its substantial differences with neighbouring communes.

Year-in, year-out, supply levels have been relatively stable within the three zones. The City Centre/South supply has increased by about 6% per year since 2007, to represent 54% of the offer in 2011. The balance is shared between the two other zones.

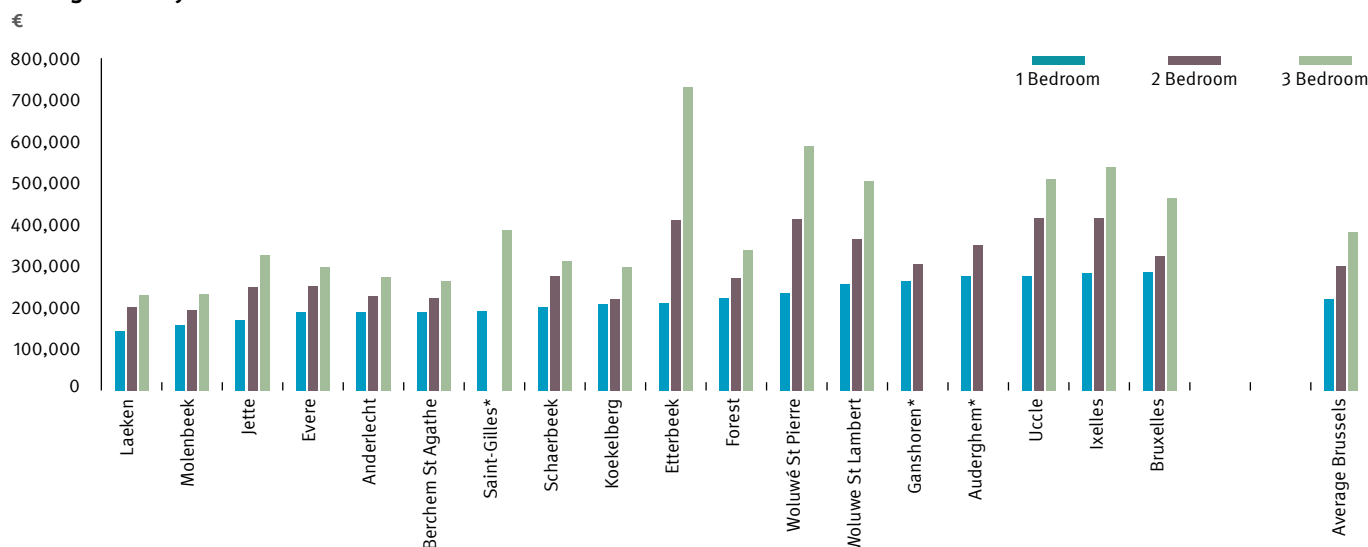
Figure 2
Permits granted in Brussels



Source: Statbel



Figure 3
Average sales by commune



*Insufficient sample data available in some submarkets
Source: Knight Frank Research

Average sales prices by commune

Figure 3 shows prices on a net basis, excluding 21% VAT on construction costs and land value. Shell and core projects have been taken into consideration, but including a fixed finishing cost of €700 per sq m.

The highest sales prices are obtained in Etterbeek, Woluwé-Saint-Pierre, Ixelles and Uccle.

Excluding the lowest and highest values, one bedroom apartments are sold for between €142,000 and €282,000 and average around €219,000; two bedroom apartments are between €200,000 and €412,000 with an average around €300,000; and three bedroom apartments are between €229,000 and €530,000 with an average around €381,000.

In comparison with 2009, we have observed a small increase in overall prices for three bedroom apartments (+2.97%). One bedroom (+9.88%) and two bedroom (+12.24%) apartments have seen their average prices increase at a higher rate.

Average prices per commune

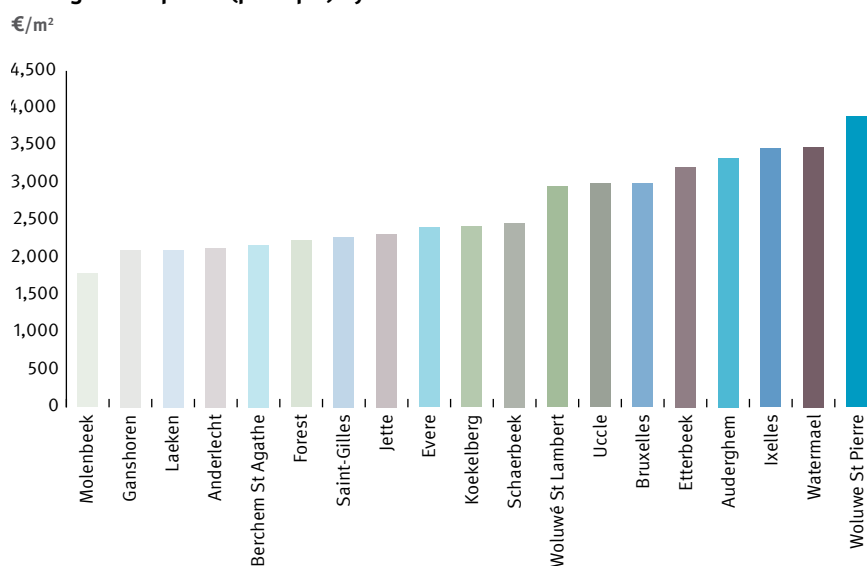
The average sales price for newly built apartments in the 19 Brussels communes

shown by Figure 4 is €2,670 per sq m, ranging from €1,788 per sq m in Molenbeek to €3,890 per sq m in Woluwé-Saint-Pierre. The majority of dwellings are offered within the €2,150-€2,900 per sq m range, which represents 53% of the total supply. A total of 23% of the supply is offered at prices above €3,000 per sq m. In some prestigious projects in Uccle, Ixelles and

Woluwe-Saint-Pierre, sales prices of more than €4,300 per sq m are quoted.

It should be noted that price variations of more than 35% can be observed between different areas of Uccle. Prices also vary, albeit to a lesser degree, in Etterbeek, which includes the Leopold area.

Figure 4
Average sales prices (per sq m) by commune



Source: Knight Frank Research

THE HIGHEST SALES PRICES ARE ACHIEVED IN WOLUWÉ-SAINT-PIERRE.



In comparison with previous years, we note only slight price increases in the cheapest northern communes, which had previously benefited from the real estate boom. On the other hand, the persistently expensive communes have seen their average prices per sq m continue to increase steadily. Subsequently, the difference between prices in the cheapest and most expensive areas is widening.

In 2008-2009, developers were obliged to adjust their prices due to the consequences of the financial crisis, but prices for new-builds are less elastic to demand than those in the second-hand market. The apartments currently offered are built on plots of land which were acquired two years ago when the market was already suffering from the crisis. The result is that the developers' marketing policies are focused on offering small incentives, rather than actual price reductions, as they were obliged to in 2008-2009.

Across the Brussels market, prices for both new-build and second-hand apartments are expected to maintain their moderate increases, as they did throughout 2011, at equal or slightly higher levels than the expected rate of inflation.

Rental market

The Brussels rental market predominantly offers apartments, which represent around 90% of the stock. Across the 19 Brussels communes, differences in rents are mainly due to the location and surroundings, but are also

influenced by the intrinsic characteristics of dwellings.

Between 2010 and 2011, rents have risen on average by approximately 0.9% per annum.

During 2011, we saw a slight decrease in monthly rents at the top end of the market. In a difficult economic environment, this is the result of a trend amongst big companies to reduce representative costs, as well as a reduced expat market.

In contrast, apartments under €900 per month still find tenants quite easily. In the communes



of Forest, Jette, Evere, St-Josse and Woluwé-St-Lambert we have seen price increases of more than 5%, with Koekelberg topping the bill with an increase of 9.6%. The increases can be explained by the fact that potential owner-occupiers in the cheaper segment have tended to rent rather than to buy property. This trend has not been translated into decreases in sales prices as small private investors have filled this void.

In general, the rental market follows the sales market in terms of pricing. Higher rents are recorded in Woluwé-Saint-Pierre, Ixelles, Woluwé-Saint-Lambert, Auderghem, Uccle and Etterbeek, where housing is more expensive.

On the new-build or fully-renovated rental market, we estimate that the average annual rent is around €121 per sq m, with rental values ranging from €100 per sq m up to €170 per sq m.

The outlook for the residential rental market remains stable.

Residential development – trends

Reconversion

The shortage of land stock for residential development and the structural oversupply of offices in Brussels have led to new opportunities. A good micro-location for prime residential real estate is often an inferior one for the commercial market, and vice-versa. As a result, in the right locations, there are opportunities to convert old office buildings into apartment buildings. The Brussels regional government has favoured this type of operation in its new PRAS (regional land use plan).

Reconversion has been the talk of the town over the last year, but, in reality, it proves to be a complicated matter. The technical implications of such developments, due to the nature of existing structures, heavily complicate their economic feasibility and, for over 80% of the empty office stock in Brussels, reconversion is not suited at all.

Smaller and higher (size matters)

The disposable income of potential owner-occupiers has not risen in recent years as new residential real estate prices have. The availability of lending to individuals is limited, even though different credit formulas can extend their budgets. In order to counter the increased prices, developers tend to build higher buildings to reduce the share of the land price in the final price per sq m, and smaller units to reduce the total price per unit.

Residential investment – the future?

Prior to the financial crisis, when capital growth prospects were substantial, the demand for residential property was strong from both foreign and domestic investors. However, the crisis has had a considerable impact on the residential investment market.

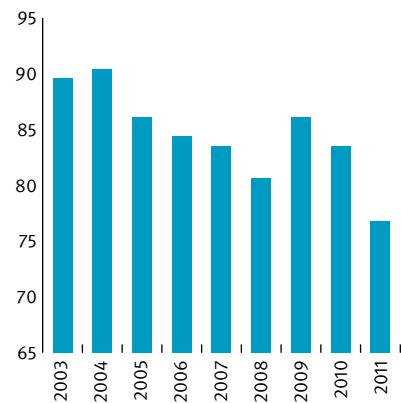
During 2011, institutional investment activity in Belgian residential property, including apartments and nursing homes, remained stable, but it is still a far cry from the activity in the pre-financial crisis years. The key players remain the national institutional investors while interest from foreign investors seems to have decreased. Gross yields for residential investments are between 4% and 5.5%. The retirement housing and student accommodation markets record yields between 6% and 6.5% and contracts are often double or triple net, with long term leases.

The effect of the decreased institutional investment activity is balanced out by small investors buying units as alternative investments. These buyers are often represented by an intermediate; private banks for block acquisitions or financial planners for individual asset acquisitions. They offer all-in solutions including property management and rental services.

Figure 5

Average size per unit in Brussels

sq m



Source: Statbel

In response to the illiquidity problem of real estate purchases, a recent development in residential investment is the securitisation of single properties. Market players, often private banks, transform property into securities and sell these to investors. This process is mostly implemented on retirement housing or cheap rental property. The first of these benefits from the aging population, the latter from the increasing demand for affordable rental property, mainly in the north of Brussels. Both products have long-lease contracts with operators or social housing companies.

The model of bulk acquisitions on plan in order to be re-sold piece by piece upon delivery of the property has collapsed. This is explained by the more stringent conditions of bank lending and moderate capital growth.

Current market conditions could lead to some opportunities for investors, who benefit from the stringent conditions that banks can impose on developers to negotiate block acquisitions at lower rates than would be achievable on individual assets. Indeed, we can expect some developers to divest some of their projects in the coming year because of their need for financing, to reduce financial costs and the cost of their land stock.

MUCH OF THE EMPTY OFFICE SPACE IN BRUSSELS IS NOT SUITABLE FOR RECONVERSION TO RESIDENTIAL USE.

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Filip Derijck

Director
+32 (0) 2 548 0 548
filip.derijck@be.knightfrank.com

Jean Vandezande

Director
+32 (0) 2 548 0 548
jean.vandezande@be.knightfrank.com

Alexis Duvieusart

Head of Investment
+32 (0) 2 548 0 548
alexis.duvieusart@be.knightfrank.com

Olivier Thiel

Residential Investment
+32 (0) 2 548 0 548
olivier.thiel@be.knightfrank.com

London

Chris Bell

Managing Director, Europe
+44 (0) 207 629 8171
chris.bell@knightfrank.com

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