

The Belgian Industrial Market



H1 2023

Fresh data and insights on semi-industrial and logistics property at the crossroads of Europe

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The Belgian Industrial Market

Contrasting dynamics across segments and markets

► The Federal Planning Bureau's latest June-July forecasts point towards a 1.3% GDP growth for Belgium in 2023, and 1.6% in 2024 before stabilising at around 1.4% over the 2025-2028 period. Regional GDP forecasts also indicate growth of 1.3% for Brussels in 2023, then 1.1% per year on average over the 2024-2028 period.

Salary and social benefit indexations are playing a key role in stimulating consumer spending and somewhat mitigating the consequences of the tough inflationary environment. Indeed, in line with improving confidence indicators (per the National Bank of Belgium), household consumption is expected to keep expanding going forward.

Regarding inflation, the expected annual figure for Belgium in 2023 is 3.9%, against 9.59% in 2022. Inflation is expected to slow to a rate of 3.4% in 2024. The decline in energy prices – in part supported by government measures - has been central in this slowdown.

Unemployment figures are broadly stable. Statbel, the Belgian office for statistics, recorded an unemployment rate of 5.7% in the first quarter of 2023, the same rate for a fourth quarter in a row.

The ECB has already proceeded to four interest increases in 2023 up to June included, bringing its deposit facility rate to 3.50%, a 22-year high, in a bid to moderate inflation on top of additional tightening measures.

A further increase has since taken place in July with more expected from September onwards as inflation is expected to remain above the ECB's 2% target for an extended period. These measures will continue to impact real estate activity through 2023 and beyond.

Occupier Trends

Indicators

| Semi-industrial (H1 2023) | | Logistics (H1 2023) | |
|------------------------------|---------|-----------------------------|---------|
| Take-up in sq m | 311,000 | Take-up in sq m | 423,000 |
| Completions in sq m | n.a. | Completions in sq m | 59,000 |
| Stock in million sq m | 18 | Stock in million sq m | 26.4 |
| Prime rent in €/sq m/year | 67 | Prime rent in €/sq m/year | 65 |
| Average rent in €/sq m/year | 48 | Average rent in €/sq m/year | 46 |



Take-up

Semi-industrial

Semi-industrial take-up in Belgium is off to a weak start compared to its usual dynamic standards, with just over 311,000 sq m recorded.

Activity in Flanders (189,000 sq m), and especially Wallonia (51,000 sq m) fell short compared to post-pandemic averages.

Across Belgium, the best performing district was West Flanders, a testament to its local SME economy, the fulcrum of semi-industrial demand through Belgium, with a total take-up amounting to 58,000 sq m. This was despite no especially large transaction having occurred. Meanwhile, the five districts composing the Golden Triangle, totalled 136,000 sq m, with space for developments thinning out in a context of strong demand

Logistics

Logistics activity has been faring better, nearing its average for six months with a total of 423,000 sq m of take-up across H1 2023.

Q1 2023 take-up was somewhat sluggish, after which activity ramped up, featuring one of the year's highlight deals in Flanders' A12-E19 district – more on this below.

Activity was dominated by 3PL occupiers to the tune of 38%, i.e. close to 160,000 sq m. Industry/Manufacturing (30%), and Consumer goods/Retail (21%) occupiers enjoyed a greater share of the take-up than usual thanks to large deals involving Audi or BayWa r.e. Solar Systems for the former, as well as Kellogg's in the case of the latter.

These two deals were also part of the reason why Grade A deals amounted to 59% of logistics take-up in H1.

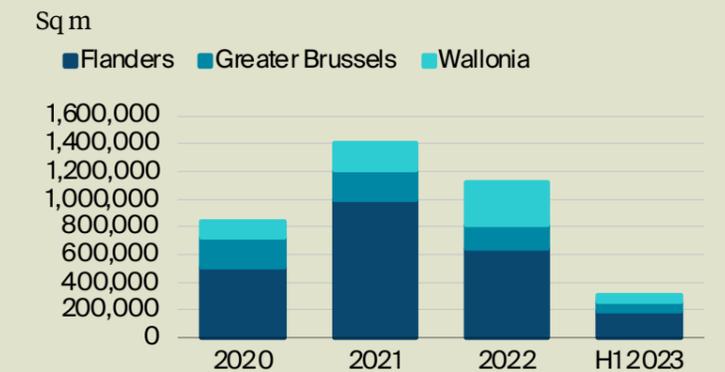
Each of Belgium's three industrial regions recorded a deal inside the five largest transactions recorded over the first six months of the year.

The most noteworthy was the 65,000 sq m pre-let by Kellogg's for its Benelux and North of France product distribution in MG Real Estate's MG Park Malinas project.

Aside from the large scale of this transaction. It is noteworthy for putting the spotlight on an extensive revitalisation of a brownfield site in the A12-E19 district around Mechelen, on the Antwerp-Brussels axis. This is one of Belgium's most highly sought-after logistics locations, where land available for developments is evaporating.

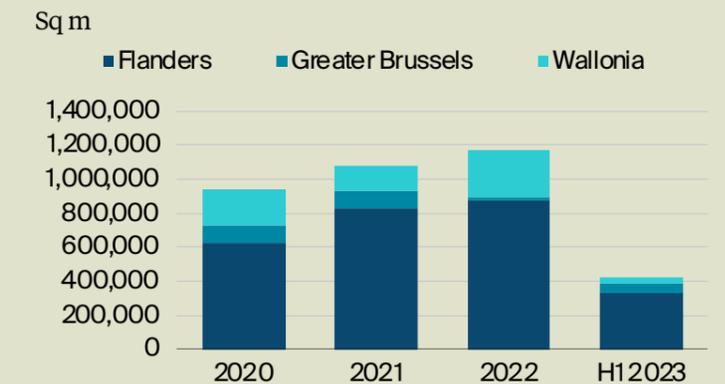
We also note that Cainiao (Alibaba's 3PL operator) has signalled its intent to expand its logistics activities with an additional two warehouses totalling 45,000 sq m at Liège Airport in Wallonia. However, we do not count this in our take-up figures yet since the project still awaits its permits.

Belgian semi-industrial take-up per region



Source: Knight Frank Research

Belgian logistics take-up per region



Source: Knight Frank Research

Top logistics occupier deals H1 2023

| Property | Tenant | Market District | Property type | Warehouse (sq m) |
|-----------------------------------|--------------------------|------------------------------------|---------------|------------------|
| MG Malinas – Kellogg's DC | Kellogg's | Flanders A12-E19 | Logistics | 65,000 |
| Tongeren Logistics | BayWA r.e. Solar Systems | Flanders Limburg | Logistics | 36,000 |
| Europe Inland Logistics Campus 21 | Tailormade Logistcs | Flanders Limburg | Logistics | 32,000 |
| Brusselsesteenweg 464 | ALD Automotive | Greater Brussels Flemish Brabant | Logistics | 23,000 |
| WDP Liège Trilogiport | Jost | Wallonia Liège | Logistics | 25,000 |
| Meer | Confidential | Flanders E313-E34 | Logistics | 23,000 |

Deliveries & pipeline

Semi-industrial

Developing new semi-industrial projects is complicated across most of Belgium and developers have to navigate the decreasing supply of land available for such projects. Indeed the supply vs demand imbalance has been an issue for over a decade in Belgium, despite fast construction turnaround times. Adding to that the shrinking supply of constructible land compounds the problem and large-scale business parks with units over the 3,000-5,000 sq m mark are increasingly complicated to develop.

Logistics

The shortage of modern accommodation is just as challenging in the short- to medium term in the Belgian logistics sector. Readily available space is being leased in record time, and the vacancy rates dropped to around 1% for the Belgian market overall. Any new projects are pre-let or turnkey developments, and almost never speculatively developed. Additionally, occupiers of new sheds tend to sign longer term leases:

- To ensure just-in-case storage on the back of the ongoing supply chain crisis that originated during the global health crisis and was exacerbated by the war in Ukraine;
- Due to the specificity of their requirements, they are happier to stay longer term in a purpose-built warehouse than short term in one which is not adapted.

Large-scale logistics space is rare, especially in the established commercial areas. Whilst newly built properties are mostly built-to-suit, speculative development is starting to increase where larger plots of land still exist (not around Antwerp or Brussels).

Sites in prime locations are rare to non-existent on the market. Even though older properties are usually more challenging to re-let, the shortage of supply decreases the availability at a fast pace.

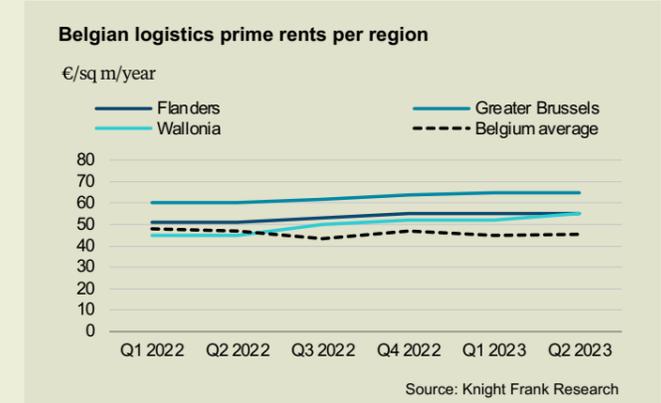
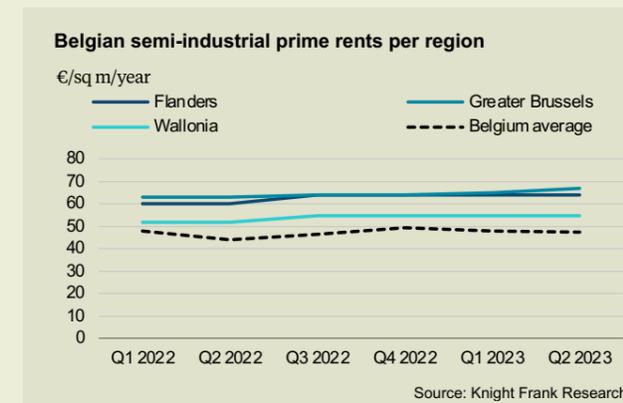
In H1 close to 59,000 sq m of mostly committed logistics warehouses were delivered across Flanders and Wallonia, a further 100,000 sq m will be delivered by the end of 2023.

Rents

The supply/demand imbalance, and increased all-round costs lead to increasing rents. These will mainly concern highly sought-after recent developments as efficiency is fast becoming a growing concern, especially for the many energy-intensive occupiers housed by semi-industrial buildings. However, older buildings will not witness as sharp an increase in rents.

Due to the limited supply and strong demand, semi-industrial prime rents have increased to the current H1 2023 levels of €67/sq m/year in Greater Brussels, €64/sq m/year in Flanders, and €55/sq m/year in Wallonia. Average semi-industrial rents are €48/sq m/year at the end of H1 2023.

In H1 2023, logistics prime rents have increased to €65/sq m/year in Greater Brussels and are at €55/sq m/year in both Flanders and Wallonia. Average logistics rents have been relatively stable since early 2022 and were €46/sq m/year at the end of H1 2023.



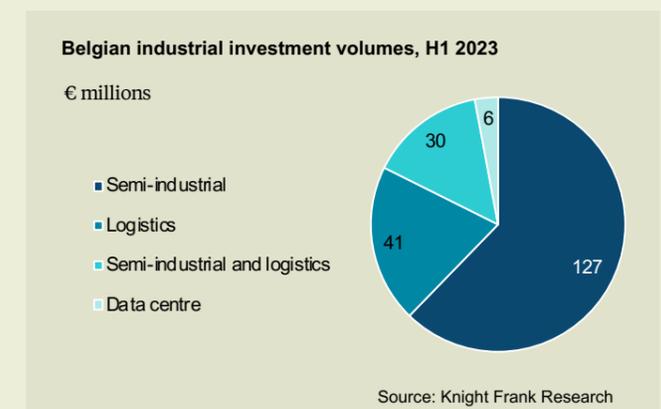
Investment Market

Semi-industrial

The semi-industrial market has a strong background of occupiers purchasing and/or developing their own premises, doubling up as a safe investment, especially in the case of family businesses, to the extent that 40- to 60% of annual invested volumes in the semi-industrial market can generally be attributed to own-occupation purchases.

Nevertheless, due to the inflationary context and successive interest hikes, semi-industrial property may increasingly attract traditional real estate investors as owning property becomes increasingly difficult for small businesses.

In H1 2023, more than €127 million has been invested in semi-industrial property, one of the largest volumes recorded over the past five years, albeit thanks to some above-average sized deals outlined on the next page, including the €32 million purchase of the CommScope facilities in Leuven by a consortium led by local university, KU Leuven.



Logistics

As far as logistics investments are concerned, so far 2023 has been remarkable insofar as only one pure logistics investment of note has been recorded, as outlined in the table on the next page.

The main snag on the logistics investment market currently is the misalignment between the pricing expectations of potential sellers and purchasers. For this reason also, there are little- to no sales files officially on the market. Therefore a weak H2 for logistics investment volumes must not be excluded.

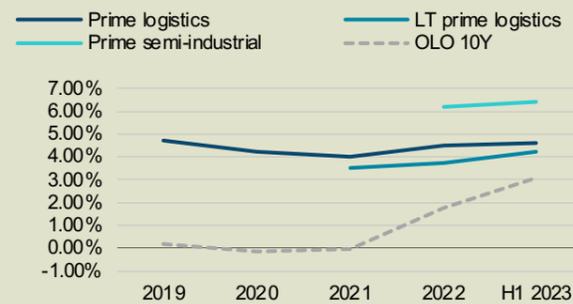
Top industrial Investment deals H1 2023

| Property | Vendor | Purchaser | Market District | Property type | Price (€ million) |
|--------------------------|-----------------|-------------------------------------|--|----------------------------------|-------------------|
| ex-Carrefour DC Nivelles | BentallGreenOak | Tristan Capital Partners, Whitewood | Greater Brussels Walloon Brabant | Logistics | 41 |
| CommScope | CommScope | KU Leuven, Stad Leuven, PMV | Greater Brussels Flemish Brabant | Semi-industrial | 32 |
| Alcopa-site | Alcopa | Alinso | Flanders Antwerp | Semi-industrial and logistics | 30 |
| deSter | deSter | Van Wellen | Flanders E313-E34 | Semi-industrial | 30 |
| ex-Martal | Martal | Novobric | Flanders A12-E19 | Semi-industrial | 15 |

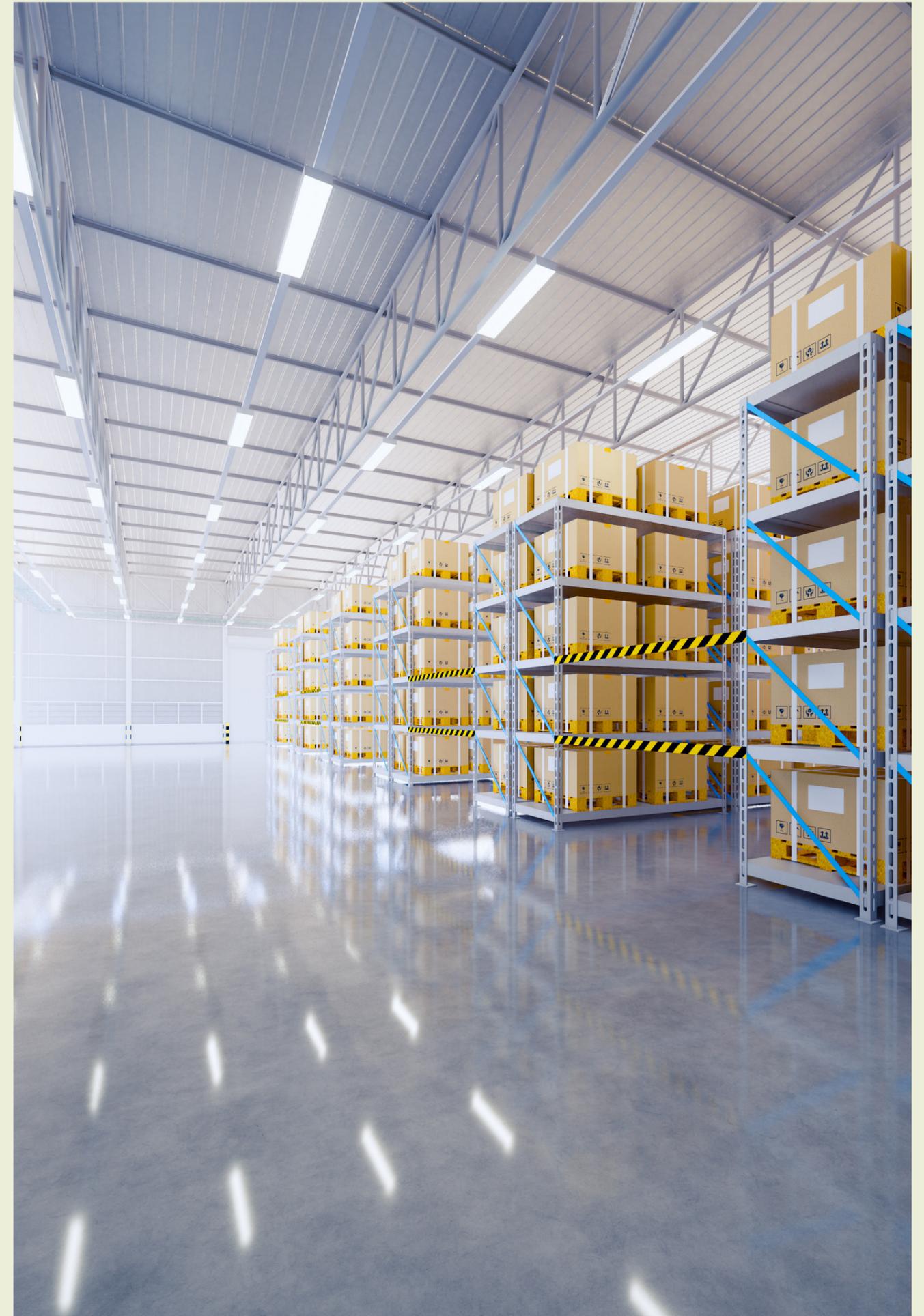
With the current inflation tackled by the increase of bank interest rates, semi-industrial prime yields started to increase and were at 6.40% in H1 2023, with further increases expected as the ECB continues to announce interest rate hikes.

Yields for logistics assets are also softening due to the context outlined above, as a result, prime yields were at 4.60% for Belgian logistics in H1 2023, having increased for several successive quarters. The prime yield on long-term let logistics assets increases to 4.25% at the end of H1 2023.

Belgian industrial yields



Source: Knight Frank Research





We like questions, if you've got one about our research, or would like some property advice, we would love to hear from you.

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