

The Belgian Industrial Market



H2 2023

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

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The Belgian Industrial Market H2 2023

The sector demonstrates its resilience again.

► **Inflation, interest rates, employment and elections are all key themes which will play a major role as the market looks to the year ahead.**

Belgium's economy remained relatively robust in the past year, significantly surpassing the Eurozone average. According to the National Bank of Belgium (BNB)'s projections, the Belgian economy in Q4 is expected to have grown at a quarterly rate of around 0.3%. This would result in an annual growth of 1.5% for 2023, followed by a forecast average of 1.3% up to 2026. Strong household consumption growth will continue to be a key foundation to support economic growth.

Total inflation continued to decrease and briefly turned negative during the autumn, as anticipated. Energy prices are now much lower than a year ago, and the so-called underlying inflation has also slowed. Figures for 2023 indicated 2.3% inflation – this is expected to temporarily rise in 2024 to 4.0 % due to the technical repercussions of withdrawing energy support measures. However, in 2025 and 2026, inflation is projected to remain well below 2%.

As far as employment figures are concerned, Statbel's most recent data on Q3 2023 indicated an employment rate increase to 72.2% (against 71.4% in Q2). Among the three regions, the sharpest increase was noted in Brussels, at 68.2% (against 65.3% in Q2). Additionally, the Belgian unemployment rate was estimated at 5.6% at Q3, with stable projections through 2026.

The ECB decided to maintain its rates rather than increase further in the wake of its most recent meeting, mid-December. Its Deposit Facility rate is at 4.00%. The question for the year ahead is when - not if - cuts will occur, as the ECB's forecasts towards Eurozone inflation levels nearing its 2% objective, starting with 2.7% in 2024. Hence, many pundits predict cuts will start taking place mid-2024.

Finally, more than half of the world's population will be heading to the polls in 2024. This will include three elections which take place in Belgium on 9 June: the Belgian Federal, Regional as well as the European elections. The market will look keenly to their results with the ramifications on the economy, unemployment and ESG of paramount importance.



Occupier Trends Indicators

Semi-industrial (2023)		Logistics (2023)	
Take-up 2023, sq m	1,046,000	Take-up 2023, sq m	1,007,000
Take-up H2 2023, sq m	732,000	Take-up H2 2023, sq m	584,000
Deliveries H2 2023, sq m	n.a.	Deliveries H2 2023, sq m	306,000
Stock, million sq m	17.96	Stock, million sq m	26.77
Prime rent, €/sq m/year	70	Prime rent, €/sq m/year	65
Average rent, €/sq m/year	54	Average rent, €/sq m/year	53
Prime yield (%)	6.60	Prime yield (%)	4.90
Invested volume € million	286	Invested volume € million	97

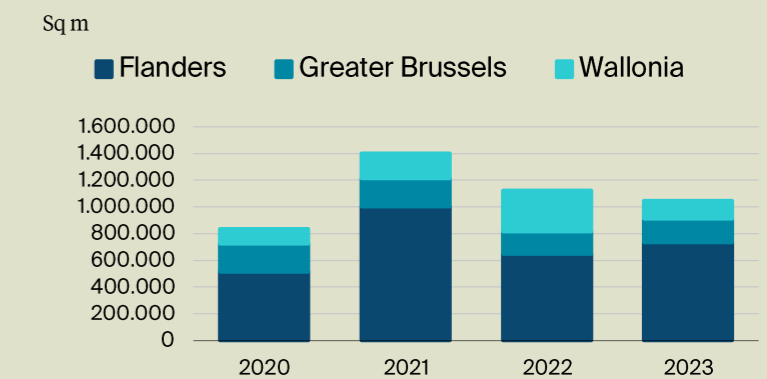
Occupier activity

Semi-industrial

A traditional end of year rally has helped deliver very strong semi-industrial activity in the second half of the year. Indeed, take-up totalled 732,000 sq m in H2 of 2023, bringing the total for the year to a respectable 1,046,000 sq m. This has been underpinned by a memorable end of year in Flanders, the main focus of Belgium's semi-industrial demand with 547,000 sq m take-up in H2.

Lettings accounted for 43% of take-up while sales were back to a strong 57%. Indeed, purchases for own occupation have traditionally dominated this asset class in Belgium, where SMEs are the bedrock of demand, and business owners often acquire their own premises as an additional investment. Purchases for own occupation had decreased in the wake of the interest rates spike. It appears this trend may already have been reversed in a resilient Belgian market.

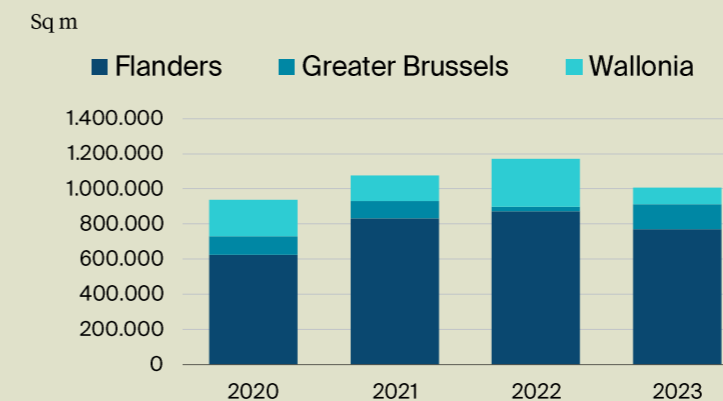
Belgian semi-industrial take-up per region



Source: Knight Frank Research

Logistics

Belgian logistics take-up per region



Source: Knight Frank Research

Likewise, logistics take-up improved substantially during H2, with a total figure of 584,000 sq m, a 38% increase on H1 activity. This is the best semester of activity since the first half of 2022, after which increased inflation began establish a strong foothold on costs of rents, not to mention overheads, substantially cooling occupier demand in the process.

3PL occupiers were involved in 65% of take-up during H2. This figure includes the e-commerce/parcel delivery subcategory of occupiers active across three deals (10% of H2 take-up – 58,000 sq m). Chief among the latter category is Cainiao, Alibaba's logistics fulfilment operator, with its 40,000 sq m extension at Liège Airport which was rubberstamped by planning authorities at the end of the year.

Consumer goods occupiers have also been busy, with occupiers such as Lidl, Delhaize and Flamingo Pet Products accounting for close to 25% of take-up across 137,000 sq m.

On the topic of airports, Brussels Airport is redeveloping an obsolete area in Brucargo, the new facilities have been pre-let by various logistics operators, totalling close to 40,000 sq m in take-up.

It is also fair to state that big boxes have been under the spotlight in H2, as deals over 15,000 sq m have accounted for 65% of take-up, across as much as ten deals. Foremost among these was Eutraco's pre-letting of MG Big Bear, a 62,000 sq m development by MG Real Estate in the port of Ghent area.

Finally, a note on Grade A deals which accounted for 76% of take-up in H2 (against 59% in H1) – every single deal above 15,000 sq m applied to Grade A premises. Grade B (8% of take-up) transactions averaged 7,000 sq m, and Grade C transactions (1% of take-up) averaged 4,700 sq m. These figures accurately reflect the trend of large occupiers requiring large high-quality warehouses built to their specifications.

BREEAM certifications and logistics - spotlight on Knight Frank's *Is the logistics sector delivering on ESG?* report

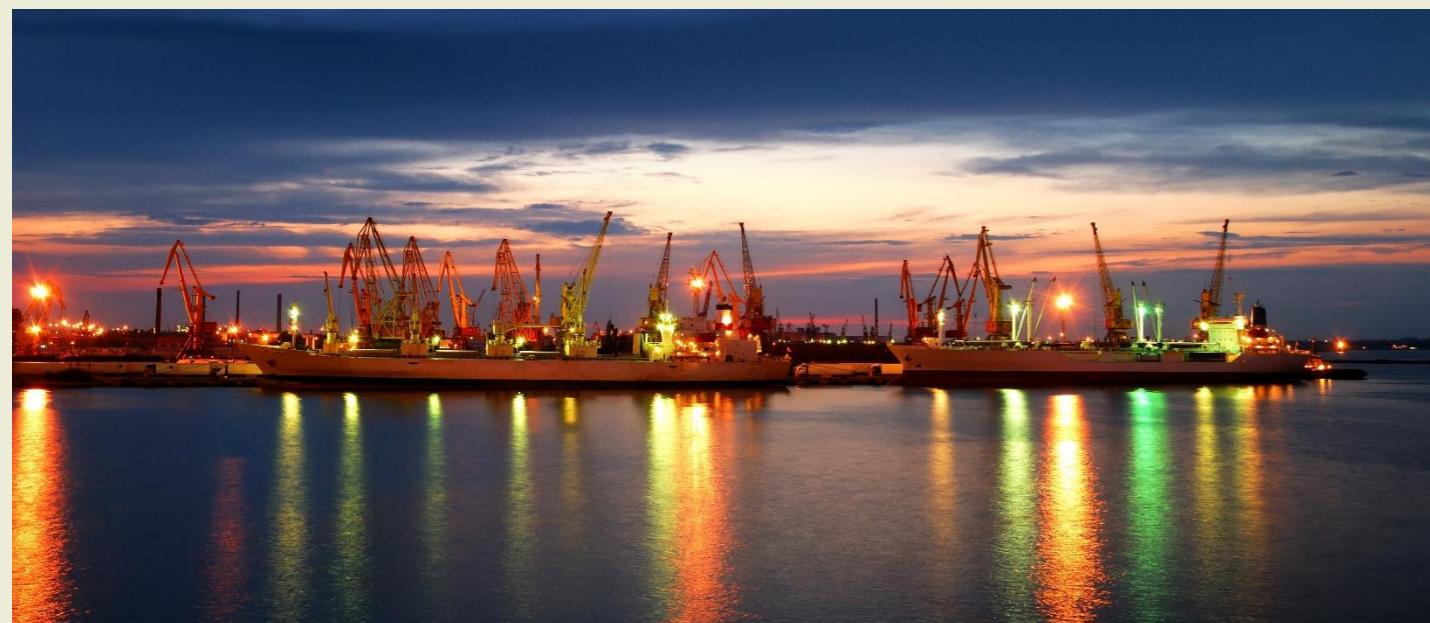
The strong demand for Grade A spaces in Belgium ties in with the surge identified in the UK as stated in Knight Frank's *Is the Logistics sector delivering on ESG? – 2023* report:

“In the last three years, the logistics industry has experienced a surge in demand for real estate, largely driven by the onset of the Covid-19 pandemic and subsequent rapid expansion of online retailing. The growth in online retail has led to operators needing to scale up capacity and has resulted in record occupancy levels, declining vacancy rates, and limited supply. Occupiers are increasingly seeking high-quality, modern facilities to help them achieve their ESG goals, reduce running costs, and enhance operational efficiencies through automation and technology. This rise in demand is driving the need for new, sustainable, and well specified warehouses, creating a significant opportunity for development within the sector.”

Nevertheless while logistics occupiers in the UK are making BREEAM certifications a firm requirement, the same cannot be said for Belgium: we note only 107,000 sq m of warehouses which will be delivered in 2024 with declared BREEAM certifications.

Top logistics occupier deals H2 2023

Property	Tenant	Market District	Property type	Warehouse (sq m)
MG Big Bear	Eutraco	Flanders East Flanders	Logistics	62.000
WLP XIX	Kuehne + Nagel	Flanders Limburg	Logistics	59.000
Heat 21	Lidl	Flanders E313-E34	Logistics	43.000
Depot 21	Flamingo Pet Products	Flanders E313-E34	Logistics	40.000
Cainiao Liège Airport - Phase 2	Cainiao	Wallonia Liège	Logistics	39.000
ex-Milcobel Deurne	Gosselin	Flanders Antwerp	Logistics	39.000



Deliveries & pipeline

Semi-industrial

A strong pipeline will be required to sustain the level of semi-industrial activity recorded these past years in Belgium. As much as 190,000 sq m of new deliveries are expected over the 2024-2026 period. Homogenous business parks brought to life by a single developer are increasingly the trend. According to our figures, on average, the pipeline comprises of business parks which will include 21 units, and will be slightly superior to 7,100 sq m.

Logistics

As much as 306,000 sq m of logistics warehouses were delivered in H2 2023, meaning more than 410,000 sq m of new logistics warehouses were delivered in 2023. Of these surfaces, 28% were launched speculatively.

Going forward, more than one million square metres are in the pipeline, including 690,000 sq m to be delivered over the 2024-2026 period, among which 311,000 sq m are to be launched speculatively, increasing the share of speculative projects substantially. Further projects in the same vein are expected to be announced in 2024.

Aside from the recognised potential offered by repurposing brownfields, developers looking to attract large occupiers will continue to invest in so-called peripheral areas where large plots of land immediately available for development are situated. This is evidenced by the scale of large pre-lettings and developments in H2, which have almost exclusively taken place outside of the Antwerp-Brussels axis. Instead, the focus is increasingly on the port of Ghent, as well as the E313-E34 area, and places like Genk and Tessenderlo in the Limburg district.

In Wallonia, apart from Liège which is also encountering land supply issues, large products are best developed in areas such as Garocentre (Hainaut).

Spotlight on Knight Frank's Future Gazing 2024 report

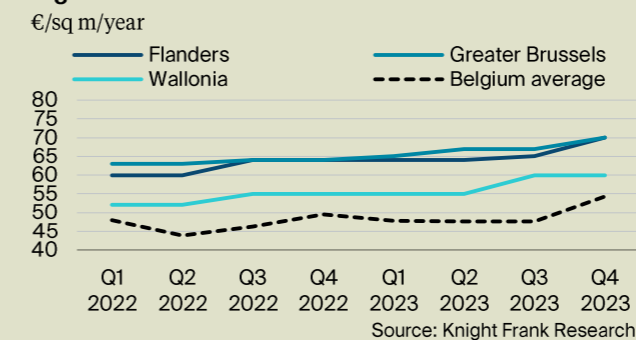
Regarding logistics demand and the future pipeline, the following is an interesting conclusion from Knight Frank's *Future Gazing* report which can also apply to Belgium:

“There is more floorspace per dwelling now compared with ten years ago and this trend is expected to continue due to growth in household incomes, increasing urbanisation, changing consumer preferences, including rising online sales and demand for convenience, as well as an expanding manufacturing sector, and a drive for greater supply chain security.”

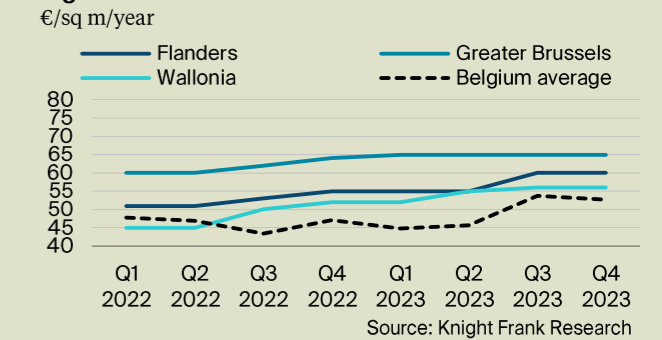
Rents

Semi-industrial prime rents have increased across most of Belgium at the end of 2023. In the Greater Brussels area as well as Flanders, this now stands at €70/sq m/year, a 9% YoY increase, with average rents for Belgium having increased quite substantially to €54/sq m/year at the end of the year. These increases can be explained by the surge in take-up against a backdrop of dwindling supply and the number of new projects which are emerging and commanding higher rental levels.

Belgian prime semi-industrial prime rents per region



Belgian prime logistics prime rents per region



Logistics prime rents are at €65/sq m/year in Greater Brussels on the back of deals in the Brussels Airport area. In Flanders, the prime rent is at €60/sq m/year, a level noted across many deals in Golden Triangle districts. The Wallonia prime rent is €56/sq m/year following several lettings in the Liège district. The average logistics rent at the end of 2023 was €53/sq m/year. The prime rent is expected to increase across Belgium through 2024.

Investment activity

Semi-industrial

Semi-industrial investment volumes totalled €286 million across 2023, including more than €158 million in H2 2023. Aside from the usual owner occupiers, the sector managed to garner interest from institutional investors. Semi-industrial assets which have attracted these types of investors include:

- sheds which can be reconverted in the long term to logistics;
- portfolios which constitute a volume high enough to attract interest outside of the usual pool of semi-industrial investors;
- properties which include a higher-than usual proportion of offices (i.e. more 20% of the built surface).

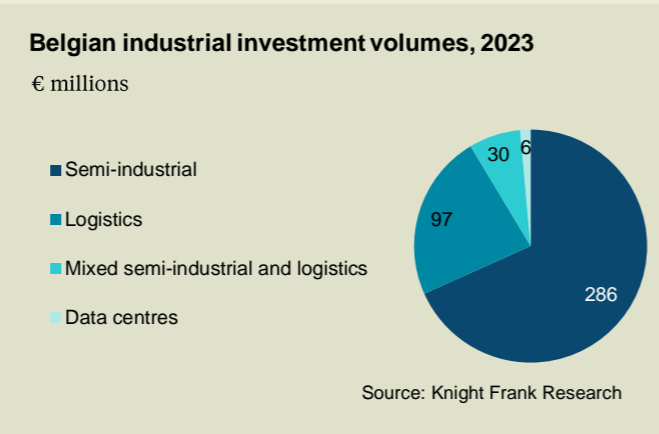
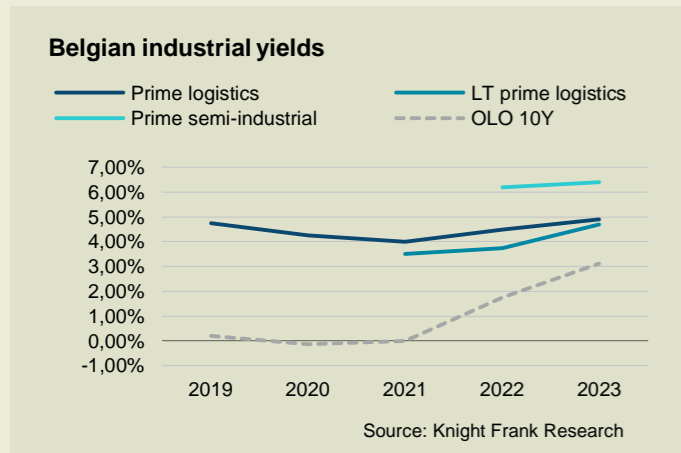
The largest investment recorded in 2023, falls under the second bullet point, with Swedish investors Sagax acquiring a European portfolio in a sale and leaseback transaction with Hedin Mobility Group. The latter has sold 16 assets across the continent, including eight in Belgium valued at €70.5 million.

Logistics

Logistics investment volumes in H2 2023 amounted to only €51 million, bringing the total in 2023 to €97 million – meaning logistics investments have been outstripped by semi-industrial investments in 2023. This low volume does not translate the strong interest in logistics assets, albeit one which did not result in many concrete deals. Indeed, on the side of potential acquirers, on top of complicated financing conditions, relatively large volumes were most in demand. However, owners of these types of assets were not willing to sell.

Therefore, there is more than ever a necessity for would-be acquirers to be creative in order to get a foothold on the market. Such strategies could involve repurposing brownfields, partnerships with developers or indeed with transport companies.

Looking to 2024, the mooted acquisition of Intervest Offices & Warehouses (IOW) by TPG should quite substantially boost investment volumes. IOW has primarily concentrated on logistics assets in recent years. This asset class comprises 75% of IOW's portfolio which has a fair value of €1.4 billion according to its H1 2023 financial report. For reference, the largest logistics acquisition in 2023 was Tristan Capital Partners' €45 million purchase of the former Carrefour DC in Nivelles.



Top industrial Investment deals H2 2023

Property	Vendor	Purchaser	Market District	Property type	Price (€ million)
Portfolio (eight buildings)	Hedin Mobility Group	Sagax	Portfolio	Semi-industrial	70
ex-Balta	Balta Rugs	Mohawk Industries	Flanders West Flanders	Semi-industrial	30
1re Avenue 50	Tyres Logistics International	Intervest Offices & Warehouses	Wallonia Liège	Logistics	29
Gutenberg	Monument	Régie des Bâtiments - Regie der Gebouwen	Greater Brussels Brussels	Semi-industrial	25
Nieuwlandlaan 97	Pascal Verbinden	Serris Reim + Venture Real Estate	Greater Brussels Flemish Brabant	Logistics	13,5



We have revised our semi-industrial prime yield upwards to 6.60% in Q3 2023 owing to the high interest rate context. However, this rate has remained stable through Q4 2023. In comparison, the prime semi-industrial yield at the end of 2022 was 6.20%. A relatively marginal increase in the space of the last 12 months reflects the resilience of this asset class.

The situation regarding the logistics prime yield is quite similar. It is at a level of 4.90% since Q3 2023, against 4.50% at the end of 2022. Long-term let assets would theoretically trade at a prime yield of 4.70%, meaning the spread with assets let on a regular term has reduced to 20 basis points, against 75 basis points at the end of 2022. Any increase in the logistics prime yield in 2024 would be marginal, with stability the likelier outlook during the first six months of the year.



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

Recent Research



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H2 2023



Future Gazing
2024



The Wealth Report



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