THE BELGIAN RETAIL MARKET

by CB Richard Ellis Research, Belgium

SUMMARY Demand for new retail space is clearly more sluggish, with international retailers clearly more careful and opportunistic. While prime city-centre retail space and new retail parks remain successful at finding tenants, shopping center development is pushed back. While triple A locations remain strong, secondary or tertiary markets are witnessing increased pressure on rents.

Economic Growth

The Belgian economy is no longer in recession, and has posted growing output since the summer of 2009. The recovery process is however anticipated to be slow and downside risks to growth still exist.

The rising consumer and business confidence indicators seem to have lost some of their momentum since the start of the year. Belgian consumers remain extremely cautious about the economic recovery and employment prospects. This could in turn curb private spending. The low interest rate environment is currently cushioning consumers to some extent, and it is unclear how consumer spending will react when interest rates ultimately start to increase.

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.

In parallel with most other European countries, year-on-year volume of retail trade in Belgium was largely negative throughout 2009 and during the first quarter of 2010.

Retailer demand

Demand for new retail space is clearly more sluggish since the start of the year. While a number of notable retailers have performed remarkably well through the current downturn, many retail operators have become far more cautious with their expansion plans.

Demand for hightstreet retail locations in the first quarter of 2010 appears to be rather stable compared to the same period last year. Leasing activity for both shopping centers and retail warehousing in particular however showed sharp declines in terms of take-up.

Retailers are clearly more careful in analyzing business risks, which has resulted into longer decision-making periods and a more opportunistic approach to new lease contract negotiations.

Large international retailers in particular have become much more hesitant about taking new space in Belgium. While some are struggling in their home markets, others are focusing their expansion strategy on the larger European economies such as France, the UK and Germany. Local retailers with a strong footprint in Belgium on the other hand continue their expansion, and remain active in the letting market. Veritas for example continues to expand in city-centre retail. Likewise, new well-structured retail parks still enjoy great popularity among Belgian retailers. That said, a number of Anglo-Saxon retailers such as Prime Mark and Forever21 have been looking at Belgian retail as well. Primark recently opened its first shop in Liège, and is actively looking at the other big retail cities. Forever21 recently agreed terms on a lease for their first store in Belgium, which will be located along the Meir in Antwerp on 3.400 m². Spanish newcomer Desigual will open its first shop in the Galerie de la Toison d'Or.

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Void

Belgium's better quality high street locations continue to perform extremely well, with no major declines in footfall nor noticeable increases in void. Those voids which do come onto the market are usually snapped up quite quickly. River Island for example quickly replaced Sfera after its departure on the Meir.

While the best retail locations still enjoy great popularity, retail locations in secondary cities are encountering difficulties and might see falling rents to keep void levels down.

Overall, shopping centers might suffer as well under the current economic circumstances. While the better shopping centers should be able to cope with the changed consumer sentiment, secondary shopping centres will have to be more reactive towards a possible reduction in foot traffic.

Also the more cyclical peripheral retail warehousing market seems to face tougher times, with less transactions being closed. While this could be due to a decrease in the number of new retail parks coming online, the number of re-leases of vacated space is down as well.

Well-structured retail parks with a good location on the other hand continue to attract tenants, as was recently exemplified by the successful opening of the Lochristi Retail Park. Other plans for new retail park have proven equally successful with retailers happy to commit, but their eventual development is often subject to the lengthy process of obtaining the necessary building permits.

Evolution of retailer demand

Market segment	Q1 2009	Q2 2009	Q3 2009	Q4 2009	Q1 2010
High Street Retail	23.801 m²	16.075 m²	10.454 m²	31.124 m²	20.264 m²
Shopping Centers	12.432 m²	11.006 m²	6.306 m²	23.391 m²	7.712 m²
Retail warehouses	45.372 m²	23.466 m²	16.081 m²	36.265 m²	14.707 m²
All sectors	81.605 m²	50.547 m²	32.841 m²	90.780 m²	42.683 m²

Source: CB Richard Ellis

Most notable transactions

Date	Address	Floor area	Retailer
03/2010	1050 Bruxelles, Galerie de la Toison d'Or	1.095 m²	Desigual
03/2010	2000 Antwerp, Meir 56	1.000 m²	River Island
03/2010	2000 Antwerp, Meir 42-46	3.400 m²	Forever21
01/2010	1620 Drogenbos, Paul Gilsonlaan 455 (Retailpark Redevco)	2.882 m²	Dreamland
01/2010	1070 Bruxelles, Boulevard S. Dupuis 433 (Westland Shopping)	1.376 m²	Esprit
12/2009	9080 Lochristi, Lochristi Retail Park	1.605 m²	Koodza
12/2009	4500 Huy, Avenue du Bosquet	600 m²	Hema
11/2009	1050 Bruxelles, Galerie de la Toison d'Or	1.954 m²	AS Adventure
10/2009	4000 Liège, Médiacité	5.300 m²	Primark
10/2009	1050 Bruxelles, Avenue Louise 1	340 m²	Nespresso

Source: CB Richard Ellis

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Highstreet retail rents (units of 200 m²)

Street	City	Rent
Meir	Antwerp	1.700 euro/m²
Steenstraat	Brugge	1.100 euro/m²
Rue Neuve	Brussels	1.600 euro/m²
Avenue Louise	Brussels	1.250 euro/m²
Rue de la Montagne	Charleroi	650 euro/m²
Veldstraat	Gent	1.200 euro/m²
Hoogstraat	Hasselt	1.100 euro/m²
Kustlaan	Knokke	850 euro/m²
Bondgenotenlaan	Leuven	850 euro/m²
Vinave d"île	Liège	1.000 euro/m²
Rue de l'Ange	Namur	1.000 euro/m²

Shopping center rents (units of 200 m²)

Street	City	Rent
Wijnegem	Antwerpen	1.250 euro/m²
City2	Brussels	1.050 euro/m²
Woluwe Shopping	Brussels	1.250 euro/m²
Belle Ile	Liège	750 euro/m²
L'Esplanade	Louvain-La-Neuve	700 euro/m²
Les Grands Prés	Mons	650 euro/m²

Retail warehousing rents (units of 2.000 m²)

Street	City	Rent
Rue de Stalle	Drogenbos	165 euro/m²
Kortrijksesteenweg	Gent	140 euro/m²
Bredabaan	Merksem/Schoten	170 euro/m²
Chaussée de Tongres	Rocourt	150 euro/m²
Leuevensesteenweg/Chaussée de Louvain	Schaerbeek/St-Stevens-Woluwe	150 euro/m²
Chaussée de Bruxelles	Waterloo	150 euro/m²
Boomsesteenweg	Wilrijk	150 euro/m²
Weiveldlaan	Zaventem	160 euro/m²

Source: CB Richard Ellis

Development pipeline

Following a series of retail development in Belgium over the last 5 years, development activity has now essentially ground to a halt. As such, most of the take-up in the retail sector this year is likely to comprise re-lettings of vacated space as opposed to lettings in new schemes. While a number of existing shopping centers have expansion plans, none of these are likely to break ground any time soon.

With very little new supply coming through, primary retail unit shortages in highstreets remain. Belgian cities are however becoming increasingly conscious of their unique city-centre retail offer, and the need to optimize the consumer experience and to enforce and diversify the local retail offer. A number of city development schemes are therefore planned in previously underdeveloped cities such Leuven, Mechelen and Ghent. The opening of the K in Kortrijk shopping centre was for example extremely well received by both retailers and the general public. The city of Kortrijk already reported a substantial rise in footfall in nearby retail streets.

Rental Values

With retail over its top of the past few years going into a more difficult period of time, rental values at their current heights are looking somewhat fragile.

Top-tier high streets continue to benefit from the local lack of retail units and sustained footfall numbers. Retailers demand for these locations remains robust and there is no evidence of much downward pressure on rents. The Meir in Antwerp remains the most expensive retail location in Belgium with prime rents at about 1.700 euro/m²/year (for the best unit of approximately 200 m²). In Brussels, rental rates for prime units are at 1.600 euro/m² on the Rue Neuve and 1.250 euro/m² along the Avenue Louise.

If any, deteriorating market circumstances are first seen in a decrease of key money. Secondary markets

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on the other hand are hit harder with a number of downward rental revisions coming up.

Retailers are also increasingly turning to rents that are at least partly based on sales and revenues. Most landlords, and especially the bigger institutional ones, are following suit, doing deals within this increasingly popular legal framework and hoping for the upside at a later date.

While top-level rents for shopping centers and retail parks might remain stable as well, overall rental values could decline under the pressure of lower demand and footfall.

Yield evolution

Prime yields	2006	2007	2008	2009	2010
High Street Retail	4.50%	4.50%	5.00%	5.00%	5.00%
Shopping Centers	5.25%	5.25%	6.00%	6.00%	6.00%
Retail warehouses	6.50%	6.50%	7.00%	6.50%	6.25%

Source: CB Richard Ellis

Investment

In Q1 2010, Only 22 million euros have been invested into Belgian retail. While demand is large, the offer of good quality high street units is extremely low with nearly no investors interested in selling.

Most investment activity concerned highstreet retail transactions, with private investors being extremely keen to invest their personal funds in this stable market.

With rental corrections expected to be limited on the triple A locations in the biggest cities in Belgium (Brussels, Antwerp, Ghent, ...), prime investment yields have stabilized at around 5.00%.

Shopping centres and retail parks are generally seen as more risky in the current economic climate, with less investors willing to make sizeable offers.

For more information regarding the Retail MarketView , please contact:

Kim Verdonck
Head of Research
CB Richard Ellis
Avenue Lloyd George 7
B-1000 Brussels
t: +32 2 643 33 34
e: kim.verdonck@cbre.com

Patrick Tacq
Head of Retail
CB Richard Ellis
Schilderstraat 1
B-2000 Antwerp
t: +32 3 248 68 60
e: patrick.tacq@cbre.com

John Collin
Head of Retail
CB Richard Ellis
Schilderstraat 1
B-2000 Antwerp
t: +32 3 248 68 60
e: john.collin@cbre.com

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