MARKET REPORT H2 2024

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LOGISTICS & INDUSTRY BELGIUM

Stability, sustainability and strategy: Belgium's balancing act

Amidst stabilizing economic growth, evolving ESG standards and shifting market dynamics, Belgian logistics real estate continued to adapt in the second half of 2024. This Stadim Focus explores key trends shaping the market, including the widening gap between prime and non-prime assets, the growing importance of sustainability metrics, and the role of Stadim's innovative tools like suREvalue in driving data-driven decision-making.

Belgium's economic recovery and investment climate expected to improve in 2025

The overall **economic growth** is forecasted to slightly rise again to 1.2% in 2025, after falling to 1.0% in 2024 from 1.3% in 2023. In addition, Belgium's growth remains higher than the Eurozone average in 2024, where annual growth equated to 0.8% and is expected to rise to 1.2% in 2025. The current economic expansion in Belgium is primarily driven by domestic demand. A stable growth rate between 1.2% and 1.4% over the period from 2026 to 2027 is expected.

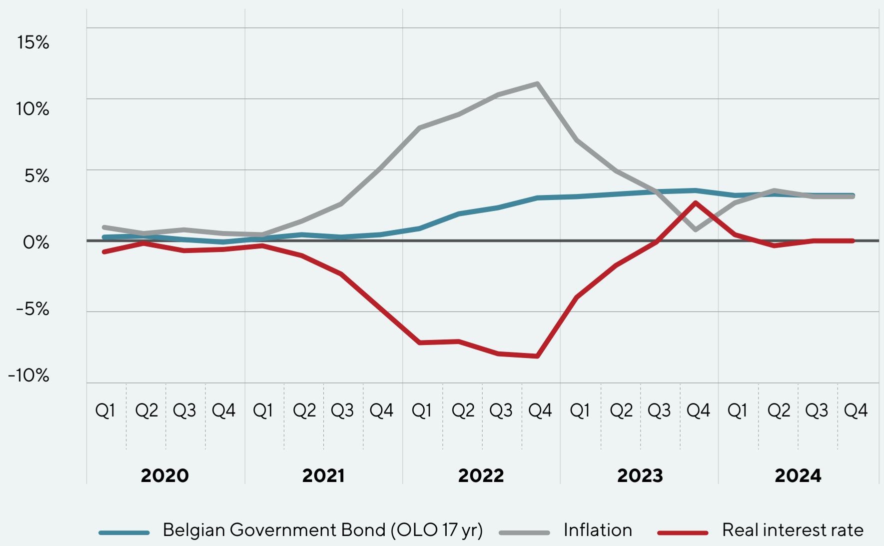
To anticipate future developments in the professional real estate sector, factors such as inflation and long-term interest rates play a crucial role. The expected average **inflation rate** for 2025 is 2.5%. From 2026 onwards, the Federal Planning Bureau (FPB) forecasts inflation to drop to 1.8%, remaining steady from 2027 to 2029.

As discussed in the previous edition of the Stadim Focus Logistics & Industry (Market Report H1 2024), high registration fees in Belgium result in a longer period in which investment costs are spread, typically 15-20 years. Therefore, the **Belgian Government's 17-year Linear Bond (OLO)** serves as the risk-free interest rate, influencing financial returns. In the second half of 2024, the OLO slightly decreased to an average of 3.26%, and it is expected to remain relatively stable in the medium to long term.

Due to the stability of the 17-year OLO in the last two quarters of 2024, **the real interest rate** (calculated as the difference with inflation) slightly rose over this period, reaching 0.05% in Q4 2024.

On December 12th, the **European Central Bank (ECB) reduced its interest rates** with 25 basis points, marking the fourth reduction of 2024. Financial markets anticipate three additional 25 basis points cuts in the first half of 2025. This trend benefits investors by providing access to more affordable capital. However, the timing and manner in which Belgian banks will adapt to these changes remain uncertain.

AVERAGE PER QUARTER (BELGIUM)



Source: National Bank of Belgium (NBB), Statbel, Federal Planning Bureau (FPB)

> With greenfields becoming increasingly scarce, sale-and-leaseback transactions have become a popular expansion strategy to grow the long-term land bank.

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Navigating scarcity, vacancies and ESG shifts in a robust market

In the last half year, Belgium's logistics real estate market has experienced gradual shifts, shaped by both longstanding trends and emerging dynamics.

Land scarcity continues to dominate the landscape, pushing logistics players to seek opportunities in brownfields and greyfields for future redevelopment. In this regard, **sale-and-leaseback transactions have become a popular expansion strategy**, especially for older buildings. On the one hand, occupant sellers are able to monetize their assets while remaining focused on operational continuity. On the other hand, buyer investors are presented with a dual opportunity. Retaining tenants in aging buildings provides a steady income stream amidst increasing vacancy pressures. When these tenants vacate older properties at a certain time, these spaces present opportunities for value-added and redevelopment projects.

The market is stabilizing after a period of rapid growth, with **take-up volumes declining** significantly compared to recent years. While vacancy rates have doubled, they still remain below historical averages and are concentrated in older buildings at less desirable locations. As older buildings fail to meet modern ESG standards, landlords are increasingly focusing on proactively renegotiating contracts to mitigate vacancy risks. As a result, tenant incentives such as **rent-free periods are re-emerging**.

In addition, **"hidden vacancy" is on the rise**. With companies retaining surplus space acquired during the pandemic for strategic stock purposes, more leased square meters have become underutilized or unused. Nevertheless, **many tenants opt to sublet these spaces instead of terminating contracts**, anticipating future needs and maintaining flexibility.

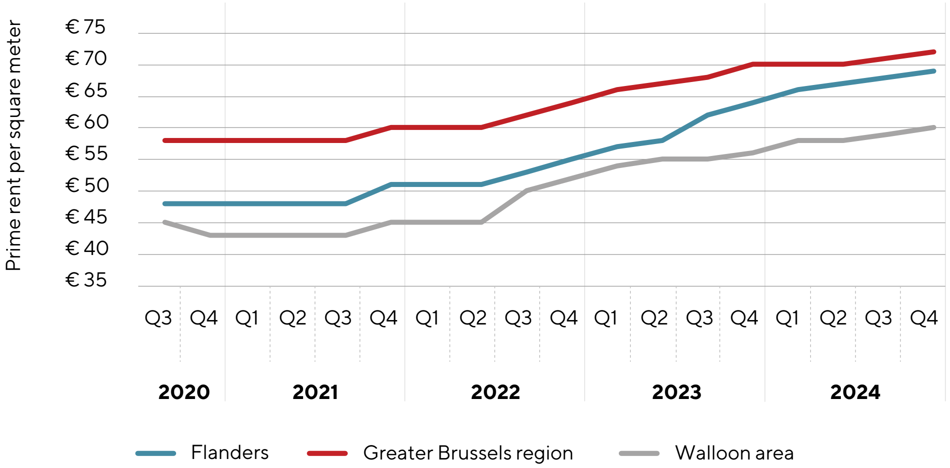
SALE-AND-LEASEBACK

RENT-FREE PERIODS

SUBLET SPACES

Prime rents continue to climb steadily

PRIME ESTIMATED RENTAL VALUE - LOGISTICS (BELGIUM)



Demand for logistics real estate has soared over the last years, for a large part driven by the significant growth in e-commerce volumes and the entry of ambitious international players. As a result, rental values have grown strongly and have been brought closer to neighbouring countries.

Today, **demand for prime properties in strategic locations continues to surpass modern supply, continuing the upward pressure on prime rental values**. In Q4 2024, the prime ERV in the Greater Brussels region stood at € 72/m², reflecting an increase of 1.4 % compared to the quarter before. Similarly, in Flanders, the prime ERV rose from € 68/m² to € 69/m², representing an increase of 1.5%. The prime ERV in the Walloon region experienced a slightly stronger increase of 1.7%, with a prime ERV reaching € 60/m². In the Netherlands, similar developments have taken place, with prime ERVs amounting to € 100/m² in Rotterdam and € 105/m² in Amsterdam.

It is noteworthy to mention that the abovementioned rental values apply to prime buildings in prime locations. With vacancies rising in older buildings and market players increasingly focusing on meeting ESG standards, the **gap between prime and non-prime rental values has widened** in recent months.

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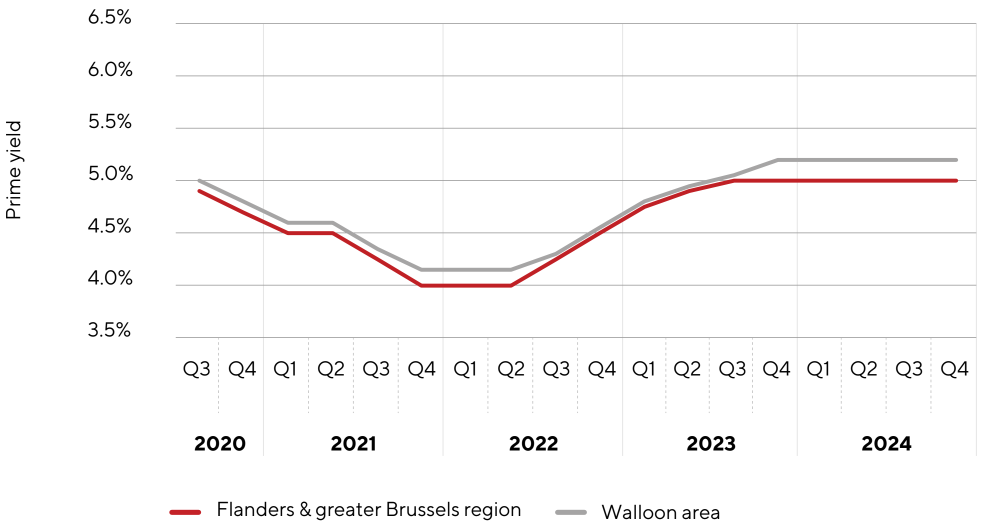
PRIME RENT LOGISTICS (Q4 2024)

€ 72/m²

Stable yields and improved market sentiment as 2024 progresses

PRIME YIELD - LOGISTICS (BELGIUM)



In our previous edition, we highlighted that the **relatively low transaction volume** in the first half of the year made it challenging to benchmark yields. While the market has shown signs of improvement and transaction volumes may have picked up, the overall situation has remained relatively stable in the second half of the year.

Based on the latest data, the **prime yield in Flanders and the Greater Brussels region has remained steady, standing at 5.00%** for both Q3 and Q4 2024. In the Walloon region, a similar trend is evident, with the prime yield remaining steady at 5.20% since the beginning of 2024. Finally, prime yields in the Netherlands followed the same pattern as seen in Belgium, standing at 5.00% over the last few quarters.

With a **positive economic outlook for 2025** and the logistics real estate sector showing continued strength, an increase in transaction activity is anticipated. This could offer greater clarity and help shape yield trends.

PRIME LOGISTICS YIELD (Q4 2024)

5.0%

suREvalue: Empowering quick and data-driven sustainable choices in real estate

With the Corporate Sustainability Reporting Directive (CSRD) mandating standardized sustainability reporting starting in 2025 for the 2024 financial year, **ESG considerations are becoming increasingly important in real estate.** Stakeholders, be they property owners, fund managers, or tenants, are focusing more intently on tracking and improving ESG metrics.

However, obtaining accurate ESG data remains a challenging and resource-intensive process. Real estate data gaps are common, often necessitating cost- and time-intensive technical due diligence to evaluate a property's sustainability performance comprehensively.

To address these challenges, **Stadim is developing suREvalue**, an innovative predictive tool that provides quick, actionable insights into the sustainability performance of real estate portfolios. By incorporating key building characteristics like envelope composition, size and occupancy, suREvalue simulates critical sustainability metrics. These include energy consumption, whole lifecycle carbon intensity (encompassing operational and embodied carbon emissions), stranding risk according to CRREM*, and operational costs like energy and carbon expenses under the EU Emissions Trading System Phase II (ETS II). **Using minimal input data collected on-site, suREvalue can deliver an estimated sustainability performance with > 80% accuracy.**

The primary aim of the suREvalue tool is to enable asset managers and property owners to **make informed strategic decisions regarding their portfolios**. Additionally, it offers insightful data for valuers and financial institutions, aligning with evolving stakeholder demands.

* Stranding risk, according to Carbon Risk Real Estate Monitor (or CRREM), refers to the risk that real estate assets may lose value or become obsolete due to factors such as physical climate impacts, regulatory changes, or shifts in market demands related to sustainability.

Stadim is currently developing the tool with support from VLAIO, focusing on four key real estate categories: logistics, retail, healthcare, and office buildings. All models will be delivered in Q4 2025.
Currently, the models are being tested by different stakeholders and key actors from different industries. StadimESG is actively seeking partners to collaborate in refining and advancing the suREvalue application.
We warmly invite interested parties to become part of this exciting initiative, shaping the future of sustainable real estate management together.

Case study

This case study, focusing for illustrative purposes only on operational CO_2, demonstrates the effectiveness of the suREvalue tool in assessing the sustainability performance of a climate controlled **logistics building spanning 3,600 m² with limited data available**. Only the dimensions, orientation, building year, window-to-wall ratio and installed technologies are known. The building operates on fuel oil and is equipped with a 64 kWp solar panel system.

Using the suREvalue model, we calculated the building's energy consumption. The building requires 63 MWh of electricity annually, of which 30 MWh, is provided by the solar panels, and consumes 136,000 liters of heating oil. These energy requirements result in a high operational carbon intensity of 93.4 $kgCO_2/m^2/year$. As a result, the model indicates that the building has surpassed its stranding risk according to CRREM and needs renovation.

Associated to stranding risk is the **risk of value loss** due to incompliance with European regulations and market expectations. Furthermore, the stranding risk is accompanied with elevated operational costs. More specifically, excess CO_2 emissions in comparison to the European CO_2 reduction goals need to be financially compensated under the Emission Trading System II (ETS II) from 2027 onwards. Without an energetic renovation, the CO_2 tax under ETS II amounts up to an annual mean of 55,678 EUR from 2027 until 2050.

Switching to natural gas would nearly halve the building's CO_2 intensity to 49.1 $kgCO_2/m^2/year$. However, this option would still result in the building being stranded since 2020 due to its remaining high energy demand. Therefore, the building still has elevated CO_2 emissions which need to be compensated. Thanks to the reduced CO_2 intensity, the CO_2 tax declines until annual mean of 29,286 EUR.

In contrast, transitioning to fossil-free climate control by means of **electric air-to-water heat pumps** would reduce the CO_2 intensity to 8.2 $kgCO_2/m^2/year$, postponing the stranding risk to 2035. As the carbon intensity is reduced significantly, the CO_2 tax is reduced with about 92%. Notwithstanding these improvements, the suREvalue tool shows that even with heat pumps, carbon neutrality targets for 2050 will not be met. This insight **empowers users to make informed decisions**, recognizing that additional measures—such as improving the building's insulation properties—will be necessary.

	Status quo (fuel oil)	Transition to natural gas	Transition to air-to-water heat pump
Carbon intensity ($kgCO_2/m^2/year$)	93.7	49.0	8.2
Stranding year	2020	2020	2035
Mean annual CO_2 tax (2027-2050)	55,700 EUR	29,300 EUR	4,500 EUR

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> "SuREvalue accelerates ESG analyses, even with limited input data, enabling faster and more informed decision-making for sustainable building performance improvements."

KEY TAKEAWAYS

1

Belgium's economic growth is forecast to slightly rise again to 1.2% in 2025, after falling to 1.0% in 2024 from 1.3% in 2023.

2

Rising vacancy pressures and ESG shifts increase the popularity of sale-and leaseback strategies and rent-free periods.

3

While prime market rents continue their climb, the gap between prime and non-prime properties is widening.

4

Stadim's suREvalue delivers fast, accurate ESG insights, enabling data-based real estate decisions.

Contact

Stadim brings you nearly 30 years of experience as a trend-setting and independent real estate consultancy. Seasoned in all types of properties, we offer you analysis, valuations and advice in the Benelux at all stages of the real estate cycle. Regardless of whether it concerns a private property or an international real estate portfolio, we can always guarantee that you will receive well-founded advice in the most discreet way possible.

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