The Brussels Office Market

Knight Frank

H1 2023

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Moderate economic growth against a backdrop of receding inflation

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 employment rate in Brussels continues to increase (66% in Q1 2023, against 65.1% in Q4 2022). The National Bank of Belgium forecasts a 5.8% unemployment rate annual figure for 2023, before receding slightly to 5.6% in 2024.

The ECB has already proceeded to four interest base rate 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

(H1 2023)

Take-up in sq m	167,000
Completions in sq m	53,000
Stock in million sq m	13.8
Vacancy rate in %	7.20
Prime rent in €/sq m/year	340
Average rent in €/sq m/year	211

Take-up

More than 167,000 sq m of take-up has been recorded on the Brussels office market across the first half of 2023.

At first glance this figure reflects well against overall demand in Brussels' post-pandemic market, and corresponds exactly to the six-month average since 2020 included.

Nevertheless, the reality is more complex. Indeed a 36,500 sq m pre-letting by the EU Commission announced at the end of June significantly improved the overall picture at the death.

Despite the Commission's considerable involvement via this North District pre-letting, the CBD has witnessed an ambivalent first six months, which have also been notable for the absence of any activity in the Midi District as well as less than 10,000 sq m of take-up in the Centre District.

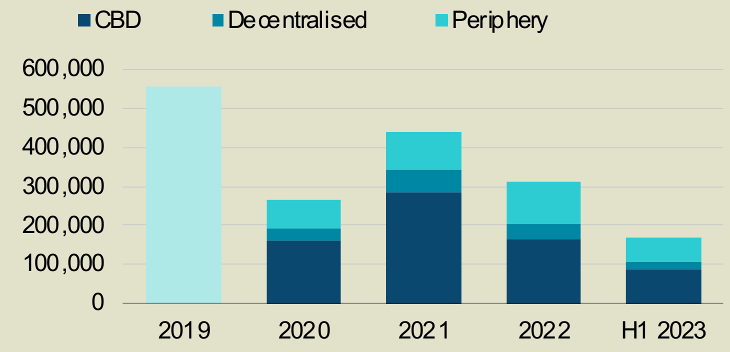
Decent figures in the Decentralised districts were boosted by the 6,000 sq m purchase of the Rue de la Fusée 98, a Grade A property, by Solvay in Evere, although we note this is a new example of a large occupier decreasing its surfaces on the Brussels market as it targets increased efficiency.

Finally, activity was strong in the Periphery districts, where availability is greater and rents more attainable.

A long-mooted 5,000 sq m letting by Lims-Mbnext (this surface includes lab spaces)in the CBTC project in Louvain-la-Neuve kickstarts activity in this recent delivery.

Take-up, Brussels offices

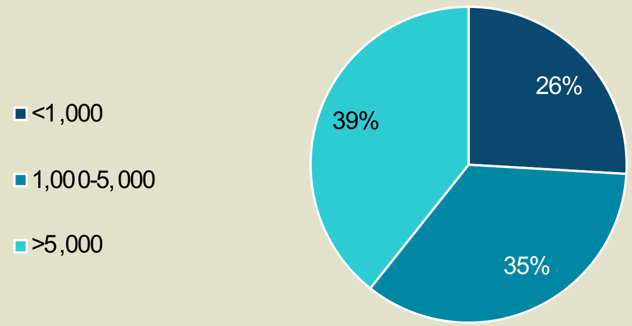
Sq m



Source: Knight Frank Research

Brussels offices - Distribution of take-up by range, H1 2023

Sq m



Source: Knight Frank Research

Top three occupier deals H1 2023

Property	Tenant	Sector	Size (sq m)
Engie Towers - North Light	European Commission (OIB)	European/International institu-tions	36,500
The Wings	Securitas	Services	6,900
Rue de la Fusée 98	Solvay	Industry/Manufacturing	6,000

Deliveries & Pipeline

H1 2023 saw the delivery of a handful of office buildings on the Brussels office market, totalling more than 53,000 sq m, almost all of which were entirely pre-let.

The three largest of these deliveries, outlined below, are certified BREEAM Excellent.

The pipeline for the remainder of 2023 is quite substantial with upwards of 125,000 sq m scheduled to be delivered, including close to100,000 sq m which were launched speculatively, (and many of which have registered pre-lettings in the meantime).

The largest delivery will be Ghelamco's The Wings 34,000 sq m of offices in the Periphery's Airport District, while developments such as Athora's Aria (10,000 sq m) in the Centre District, as well as Union Investment's The Precedent (8,000 sq m) in the Louise District will both appeal to occupiers seeking top of the range spaces in the CBD.

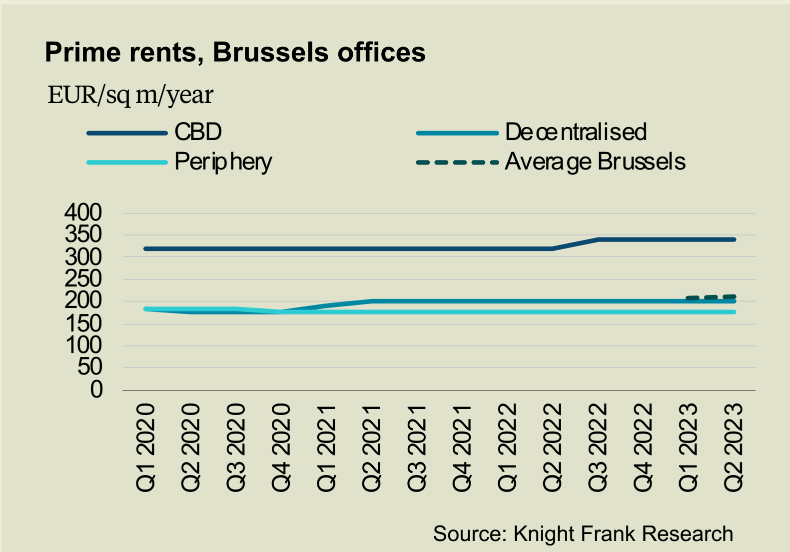
Beyond, Befimmo's ZIN (CBD North district, 75,000 sq m, fully pre-let) or Patrizia's The Louise (CBD Louise district, 30,000 sq m), will contribute to shaping the future of the Brussels office market from 2024 onwards. The latter will increase the availability ratio of the Louise district once delivered as things stand..

Overall, Brussels' availability rate was at 7.20% at the end of H1. This level could well increase should demand remain weak while new speculative projects will continue to be delivered.

Selected buildings delivered in H1 2023

Property	District | Subdistrict	Size, sq m
Royale Belge	Decentralised | South	21,000
Victoria Tower	CBD | North	14,000
The First	CBD | European	9,400
Workways Keiberg Excelsiorlaan 8	Periphery | Airport	7,000
Lucia	CBD | European	2,500

Rents

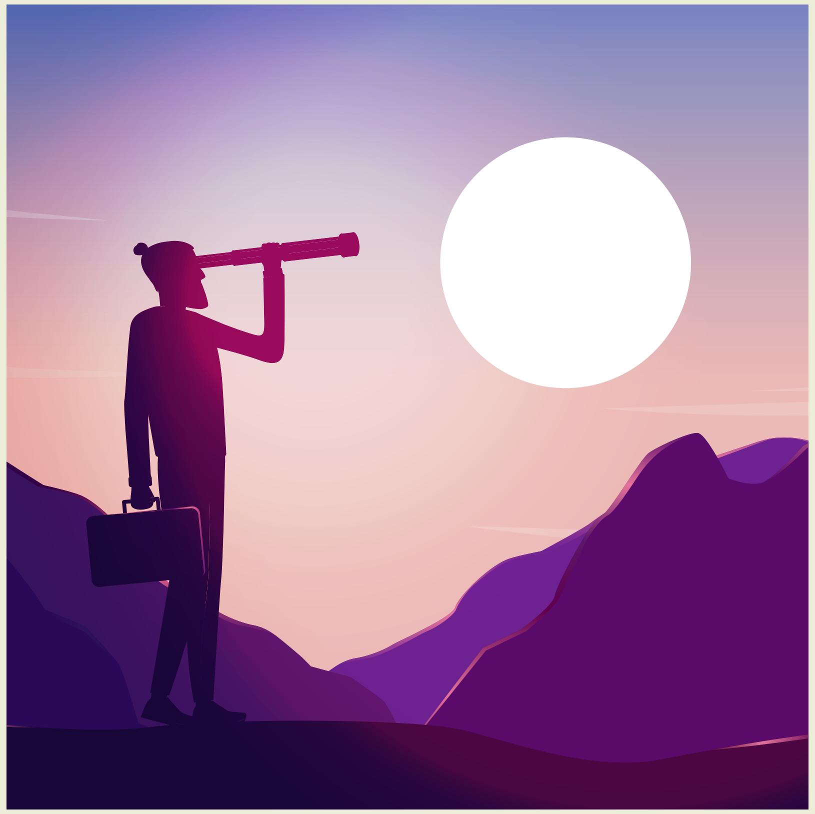


The flight to energy-efficient office buildings by large occupiers explains the premium now paid on Grade A buildings.

This is especially true for buildings which are compliant with all aspects of ESG – all the more so if they have the certifications to show for it. This explains that other CBD districts are edging closer to Brussels' prime rent of EUR 340/sq m/year – historically only found in the European district.

The average rent on the Brussels market in Q2 2023 was €211/sq m/year, varying from €130/sq m/year in the Decentralised and Periphery districts to €238/sq m/year in the CBD districts.

Outlook

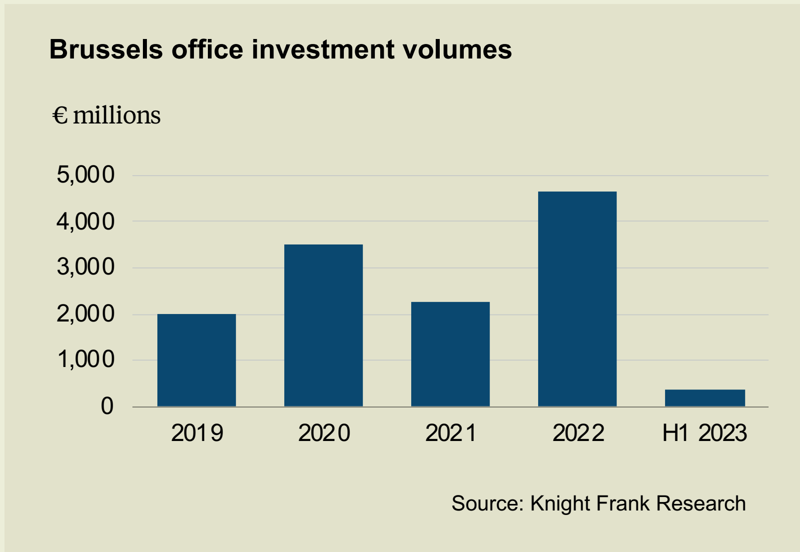


Landlords of Grade A assets are unwilling to let spaces to smaller occupiers (i.e. under 1,000 sq m). Therefore, a dichotomy is emerging, where the Grade A market is a landlord market, while the Grade B and C market is a tenant market. This is evidenced by the amount of Grade A take-up (80,000 sq m) recorded in during H1, of which more than 90% is linked to deals larger than 1,000 sq m.

Good Grade B spaces are encountering demand at reasonable rents, especially in the 200- to 800 sq m bracket. Demand for good Grade B spaces is reinforced by the fact that VAT is applied on recent Grade As, which clearly impacts the decision process of occupiers with activities that are not subject to VAT and therefore cannot deduct VAT.

Lower grade offices have to contend with weaker demand, and in order to attract occupiers, owners of these assets may have to offer significant discounts on their rents given the higher charges attached to occupying inefficient premises.

Investment Market



The situation on the Brussels investment market over H1 2023 has been grim, with barely €282 million transacted over the period.

The consecutive interest rate increases mentioned at the top of this report have consigned any hope of a return to cheap money to the past. Therefore, cash rich investors such as private investment funds are expected to have the upper hand across all asset classes – that is, if they can identify willing sellers.

Indeed, the investment pipeline is weakened, especially where offices are concerned, and the spread with Belgian 10-year government bonds reduces.

Investing in H2 will remain a challenge as investors continue to adjust to the new normal. Nevertheless a €100 million disposal by AG Real Estate of its City Centre has since been closed in early July, while a €1 billion deal involving some of the EU's buildings is in the works (more on this in our Spotlight section).

Smaller investments and alternative asset classes are being examined by certain investors, while 2024 is already eagerly awaited.

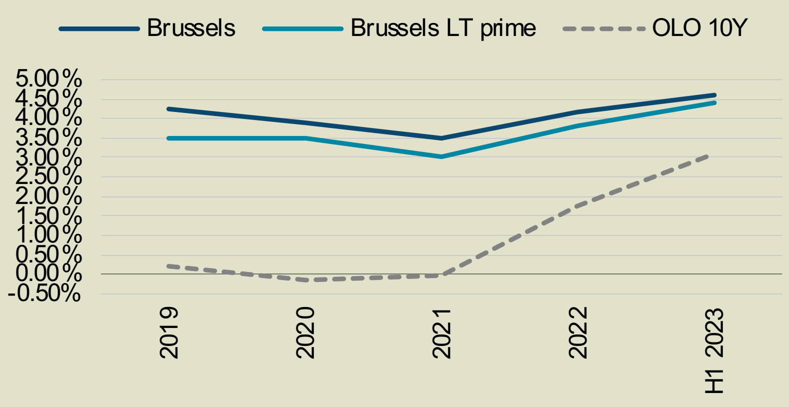
Investment Market

The largest investment in H1 was the acquisition by KGAL Investment Management of Treesquare, Nextensa's 6,700 sq m prime development in the European district.

Top five office investment transactions, H1 2023

Property	Vendor	Purchaser	Price (€ million)
Treesquare	Nextensa	KGAL Investment Management	44
Liberty House	Cofinimmo	Alides	36
Wood Hub	BPI Real Estate	Ethias	35
RTL House	Cofinimmo	Corum	29
Royale 138	HIH Global Invest	Eaglestone	25

Brussels offices - prime yields



Source: Knight Frank Research

The Treesquare deal took place at the beginning of Q2 and constitutes the most concrete piece evidence for determining prime yields going forward.

This acquisition was communicated with a yield of 4.23%. We therefore have established our prime yield at the end of H1 2023 at 4.60% taking into account steeper borrowing costs.

This will further soften over the rest of 2023 as the key issue remains the outlook on inflation and the ECB's interest rate policy.

Spotlight on an upcoming landmark deal

By the end of 2023, a landmark deal involving the Belgian State and the European Union will have been closed. The latter will offload a portfolio of 300,000 sq m covering 21 inefficient buildings in the European district for a sum of € 950 million as it streamlines and optimises its occupancy strategy*.

Cityforward, a joint venture between the Belgian State's SFPI/FPIM organ and Ethias, and managed by Whitewood,, will purchase the buildings, once enough additional funds have been raised.

A further budget of €750 million is earmarked to redevelop and augment the portfolio into 330,000 sq m of top-grade properties, including 25% of residential units. The first deliveries are expected as from 2028.

*The EU must decrease its Brussels office occupancy to 700,000 sq m from a current 890,000 sq m by 2030

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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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