RESEARCH

Knight Frank

BRUSSELS

OFFICE MARKET OUTLOOK
Q1 2015

OCCUPIER TRENDS | INVESTMENT TRENDS | MARKET OUTLOOK

KEY FINDINGS

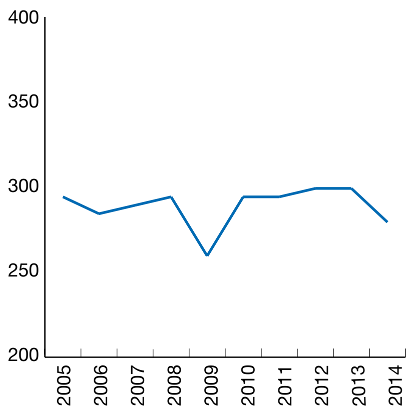
Prime office rents in the CBD fell to €280 per sq m per annum in 2014, with non-central areas achieving around half this level

Increased take-up and reduced development activity in 2014 continued to drive vacancy rates down to levels seen before 2009

Brussels' biggest deal of 2014, now also Belgium's largest recorded deal, accounted for approximately 30% of total office investment volumes

Domestic investors accounted for a 58% share in office investment volumes, but cross-border purchases were behind some of the largest deals of the year

FIGURE 1
Prime office rents
€ per sq m per annum



Source: Knight Frank Research

OCCUPIER MARKET

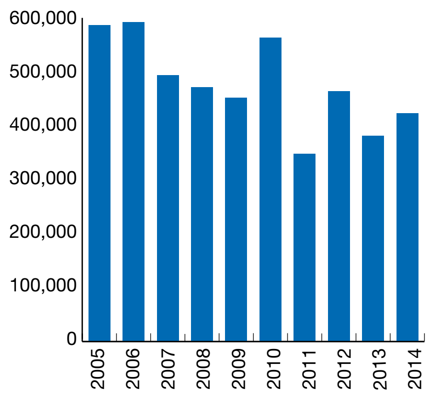
Positive sentiment is evident in the Brussels occupier market. However, 2014 leasing activity was unable to reach the peaks achieved pre-financial crisis.

Although office take-up for 2014 increased by 11% compared with 2013, to reach 426,000 sq m, this figure was still considerably below the levels achieved before 2009. The strongest quarter was Q2, with deals such as the pre-leasing of 35,000 sq m by Actiris in the Astro Tower and leasing of 16,000 sq m by the European Commission in the Livingstone II building. Both deals were in the Leopold district, which had the highest take-up of all the sub-markets, accounting for approximately a third of full-year totals. The largest deal of the year was, however, the pre-leasing of 50,000 sq m by the Flemish Administration in the North district, in Q2.

Prime rents in the CBD fell to €280 per sq m per annum during 2014. Within the sub-markets, prime rents in the Leopold district declined despite the rise in leasing activity, with prime rents in other CBD markets remaining stable throughout the year. In the decentralised and periphery areas, prime rents have fallen slightly and are much lower than the prime locations at €180 and €150 per sq m per annum respectively.

Demand for office space remains robust, and increased take-up coupled with reduced development activity prompted the overall vacancy rate to fall 50 basis points to 10.1% by the end of 2014. Approximately 52,000 sq m of office space entered the market by way of new stock in 2014, almost a third of the figure seen in 2013. This included 16,250 sq m in the IBGE HQ (North district) and 5,000 sq m in the Belview building (Leopold district), which was pre-let to the Japanese Embassy. Vacancy rates in the decentralised and periphery areas remained high at 14.9% and 22.1% respectively, predominately because of weaker occupier demand. However, the upcoming completion of the 12,000 sq m Triomphe II building in the decentralised area, which is currently being refurbished and is due to complete in 2015, is just one example of on-going development in non-central locations.

FIGURE 2
Office take-up
sq m



Source: Knight Frank Research

Key office leasing transactions in 2014

Quarter	District	Building	Tenant	Size (sq m)
Q2	North	Meander	Flemish Administration	50,000
Q2	Leopold	Astro Tower	Actiris	35,000
Q2	Leopold	Livingstone II	European Commission	16,000
Q2	Decentralised	Plaine 15	Sodexo Belgium	9,320
Q3	Leopold	Da Vinci	Embassy of Slovakia	7,635

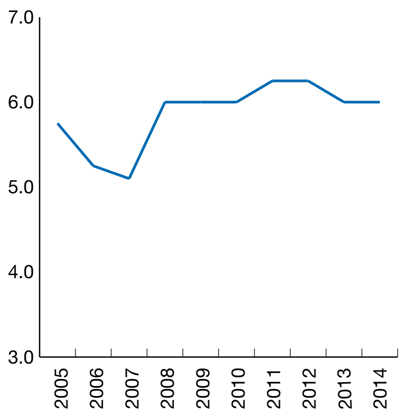
Source: Knight Frank Research

INVESTMENT MARKET

During the first six months of 2014, office investment activity in Brussels reached very high levels, exceeding the full-year 2013 total. Despite a lower level of activity in H2, the year eventually achieved €1.6 bn. Compared with an annual average of just €620m over the previous five years, Brussels showed strong recovery in 2014. Indeed Q2 saw a quarterly record of €713m, made possible by Belgium's largest ever deal, namely the purchase of the North Galaxy building in the North district by ATP Denmark (90%) and AXA Belgium (10%) for €475m. The second largest deal, the acquisition of the Covent Garden tower by Hannover Leasing and Gingko Investments for €270m, contributed to the higher than average Q4 investment volumes of circa €480m, with all other transactions in 2014 valued at below €100m.

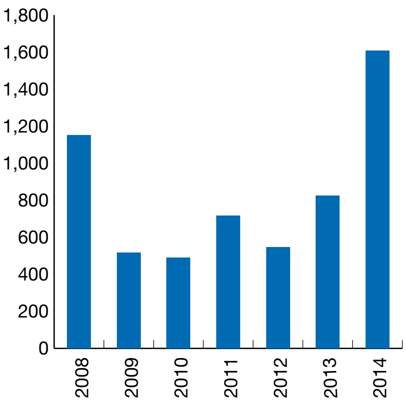
Prime yields in central areas (for offices with standard 3/6/9 lease lengths) remained static at 6.0% throughout 2014 and have only fluctuated by as much as 25 basis points since late 2008. Office yields are higher than in most major Western European capital cities, which has helped to attract international investors. European investors were dominant in 2014, accounting for circa three quarters of investment, with domestic investors contributing 58%, followed by the Danish, who took a higher than average share primarily because of the North Galaxy purchase. The North Galaxy building and Covent Garden tower achieved net initial yields of approximately 5.6% and 5.2% respectively, demonstrating the lower yields commanded by buildings with long-term leases.

FIGURE 3
Prime office yields
%



Source: Knight Frank Research

FIGURE 4
Brussels office investment volumes
€ million



Source: Knight Frank Research / Real Capital Analytics

Belgium's largest recorded deal, the North Galaxy building, bought for €475m in Q2 2014

Key office investment transactions in 2014

Quarter	Building	Vendor	Purchaser	Price (€ million)
Q2	North Galaxy	Cofinimmo	ATP Denmark/AXA Belgium	475
Q4	Covent Garden tower	Evans Randall	Hannover Leasing/Gingko	270
Q3	Platinum building	Aberdeen Asset Mgmt	GLL	90
Q3	Pegasus office park	SEGRO	ARES	87
Q1	IBGE HQ	T & T	L'Intégrale/Ethias/Ogeo	72
Q3	Manhattan Centre	LaSalle IM/Catalyst Capital	Victory Advisors	70
Q2	Belgacom building	Connectimmo	Allfin	60

Source: Knight Frank Research

KNIGHT FRANK VIEW

2015 has begun how 2014 ended – growing occupier activity and demand. Rents are forecast to remain at €280 per sq m per annum for the first six months, with potential for further increases thereafter, as demand for prime office space continues to grow. Low levels of development in the pipeline for 2015 will also contribute to rising rents and declining incentives, including rent-free periods, and put downward pressure on vacancy rates in the central districts. However, the non-core areas will continue to see vacancy rates rise, mostly due to weaker demand.

The Brussels investment market is well and truly in a recovery phase – 2014 investment volume figures almost doubled on 2013. The outlook for 2015 is promising but, as 2014 was boosted by two very large deals, transaction volumes are not expected to reach 2014 levels. However, with interest rates remaining low and long term bonds hardening, investors may consider office buildings an attractive long term investment, especially given the sector's high and stable yields. With demand outstripping supply and lack of prime office stock, yields in Brussels could begin to harden in 2015, particularly in the core areas. New developments in the pipeline for the next two years may also contribute to this, as investors compete to acquire the new prime stock.

EUROPEAN RESEARCH

Darren Yates
Partner, Head of Global Capital Markets Research
+44 20 7629 8171
darren.yates@knightfrank.com

Matthew Colbourne
Associate, International Research
+44 20 7629 8171
matthew.colbourne@knightfrank.com

Heena Kerai
Analyst, International Research
+44 20 7629 8171
heena.kerai@knightfrank.com

BRUSSELS

Filip Derijck
Managing Director
+32 2 548 05 55
filip.derijck@be.knightfrank.com

John van Paassen
Investments
+32 2 548 05 57
john.vanpaassen@be.knightfrank.com

Christophe Volckaert
Analyst
+32 2 548 05 54
christophe.volckaert@be.knightfrank.com

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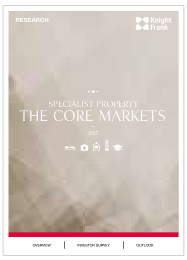

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