The Brussels Office Market

H1 2024

Fresh data and insights on the capital of Europe

knightfrank.be/research

The Brussels Office Market H1 2024

« Sometimes maybe good, sometimes maybe [not] » (Gennaro Gattuso)

The first half of 2024 has seen the best and the worst of what typifies the Brussels office market, from crucial occupiers, to absent investments.

On 6 June, the European Central Bank reduced its deposit facility rate by 25 basis points to 3.75%, marking its first cut in five years.

Financial markets are expecting additional reductions totalling 50 basis points in the ECB's base rate by the end of the year, with the next cut likely to occur in September.

This set of decisions will provide some initial respite to debt-laden businesses throughout the Eurozone. In real estate terms, these are the short-term rates on which developers base their funding, so there should be a marginally positive impact on costs.

Three days after the ECB's first cut, Belgium held federal, regional, and European elections on 9 June 2024. We go deeper into the significance of these results below. It will be imperative that Belgium's future executive tackles the country's budget deficit (4.4%), as well as its elevated level of public debt, at 105.2% of GDP at the end of 2023.

As far as economic output figures are concerned, the National Bank of Belgium (NBB)'s June 2024 forecasts indicate a 1.2% expected GDP growth in 2024 and 2025.

This considers the fact that exports will continue to wane this year in a Belgian economy which is heavily based on international trade. This decrease in exports is offset to an extent by robust private consumption and overall lower energy prices.

The decrease in energy prices support the Federal Planning Bureau's 3.2% forecasted annual rate of inflation in 2024, which could drop to 2.0% in 2025.

Per Statbel's June figures, unemployment in Belgium increased to 5.8% in Q1 2024, against a rate of 5.5% in Q4 2023. In Brussels, the rate of unemployment has increased from 10.2% to 11.9% over the same period; the employment rate has decreased from 66.7% in Q4 2023 to 63.3% in Q1 2024.

The NBB forecasts an overall rate of 5.7% for Belgium in 2024, with a mild increase to 5.8% in 2025.

Market Trends Indicators (H1 2024)

Take-up, sq m	163,000
Completions, sq m	175,000
Stock, million sq m	14.10
Vacancy rate (%)	7.75
Prime rent, €/sq m/year	375
Average rent, €/sq m/year	280
Prime yield (%)	5.25
Invested volume, € million	971

Belgian economic indicators	2023	2024	2025
GDP Growth (%, YoY)	1,5	1,2	1,2
Inflation (%, YoY)	2,3	3,2	2,0
Unemployment (%)	5,6	5,7	5,8

Source: National Bank of Belgium, Federal Planning Bureau

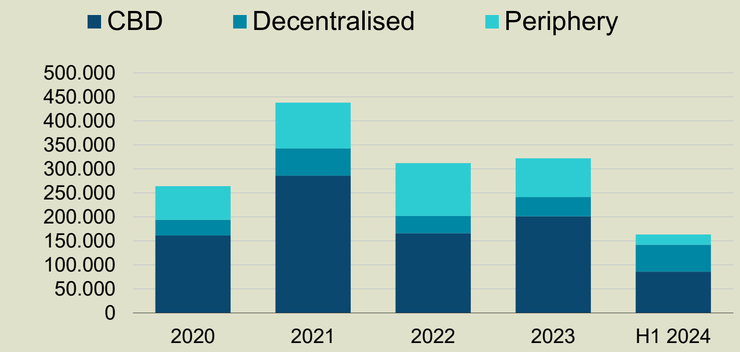
Occupier activity

Total take-up in H1 includes the worst and best quarters since 2022 included and clocks up a total of 163,000 sq m.

A noteworthy feature of take-up during the first half of 2024 has been the Decentralised districts ranking second ahead of the Periphery. A closer examination reveals that two of the three largest transactions in H1 2024 occurred in the Decentralised North-East subdistrict – the EU Commission's letting Montgomery Parc is in fact on the border with the EU district and remains highly accessible; IHECS' acquisition of BluePoint is strategically located near RTBF and VRT's current and future campuses, aligning with its focus as a school of media and communication.

Take-up, Brussels offices

Sq m



Source: Knight Frank Research

The EU will continue to play a crucial role.

Along with the Belgian public sector, the EU as an occupier is the linchpin of the Brussels office market and it will continue to play a vital part up to 2030 within the context of its climate targets (reducing the EU's greenhouse gas emissions by 55% against 1990 levels). Similarly, the Régie des Bâtiments/Regie der Gebouwen will optimise its occupancy quite significantly in order to reduce its emissions substantially up to 2040.

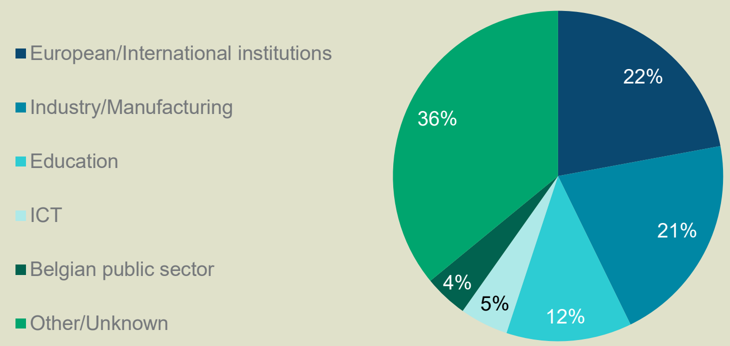
So far this year, the European Commission has helped propel Brussels take-up to its best quarter since 2022 included during Q2 (118,000 sq m) across three deals totalling more than 36,000 sq m. As a result, European institutions were the most impactful type of occupier during H1 with 22% of take-up during this period.

Thanks chiefly to the confirmation of Engie and Tractebel's 31,500 sq m pre-letting in Immobel and Whitewood's Oxy project in the Centre district, occupiers linked to Industry and manufacturing were a close second with 34,000 sq m across seven deals. This deal will also set dominoes in motion as the EU will be free to commit to fully occupy current Engie Towers (77,000 sq m), where it has already signed a 36,500 sq m lease in 2023.

Higher education school IHECS' 20,000 sq m purchase for own occupation of the BluePoint (Decentralised North-East district) puts Education-related occupiers in third place.

The future Brussels government must move the market away from an overreliance on the public sector and stimulate a new public-private balance through fiscal instruments. Just as the public sector preserves the stability of the office market, new business segments need to be attracted to the market, something last achieved with the mass arrival of coworking operators a few years ago.

Brussels offices - Distribution of take-up by occupier type, H1 2024



Source: Knight Frank Research

Top five occupier deals H1 2024

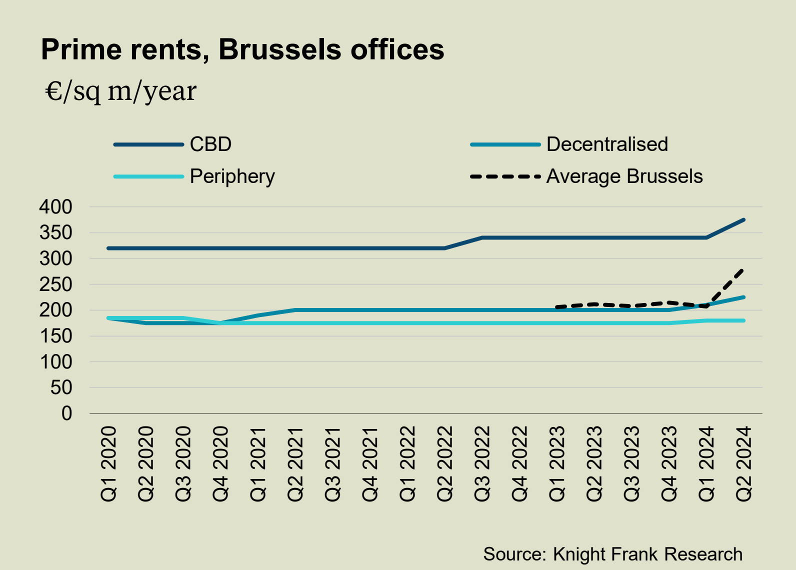
Property	Occupier	Sector	District I Subdistrict	Size (sq m)
OXY	Engie, Tractebel	Industry/Manufacturing	CBD I Centre	31,500
Montgomery Parc	European Commission	European/International institutions	Decentralised I North-East	20,500
BluePoint	IHECS	Education	Decentralised I North-East	20,000
Montoyer 34	European Commission	European/International institutions	CBD I European	14,500
Möbius I	IBPT-BIPT	Belgian public sector	CBD I North	5,500

Rents

Much has been made of the increase of the Brussels prime rent in the European, Centre and Louise districts over the past year. Our methodology dismisses top floor rents in prime schemes from consideration, the fact that many lower levels in top recent deliveries have struggled to fill up adds weight to this standpoint. We acknowledge recently communicated rents reaching as much as €400/sq m/year in very specific circumstances.

Nevertheless, we note an increase of the prime Brussels office market rent to €375/sq m/year in the European district during Q2, with further increases expected. Additional increases are likely to be achieved later this year.

In the Louise district, a Q2 pre-letting by Inno in Union Investment's The Precedent (to be delivered later in 2024) was signed at €300/sq m/year, despite BREEAM Outstanding and WELL Shell and Core Gold certifications. This provides an interesting comparable going forward.



Furthermore, and unrelated to the above deal, rents on Grade As delivered speculatively are understood to be likely to offer considerable incentives, possibly increasing the spread between nominal and economic rents.

Elsewhere, prime rents increased to €225/sq m/year in the Decentralised districts, while remaining stable at €180/sq m/year in the Periphery where increases are likely to be confirmed soon on the back of the continued success of new projects in the Airport district.

The average weighted rent has also increased quite substantially to €280/sq m/year, although this owes a lot to the EU's 21,000 sq m letting in Montgomery Parc at €290/sq m/letting. We will therefore see this figure decrease again in coming quarters.

Deliveries and pipeline

We note upwards of 150,000 sq m of deliveries during H1 2024, including more than 90,000 sq m which were initially launched speculatively. Approximately 25,000 sq m from the latter registered pre-lettings before delivery, meaning there are some well-located Grade A spaces on the market to let, provided agreements can be found as far as expected rents are concerned.

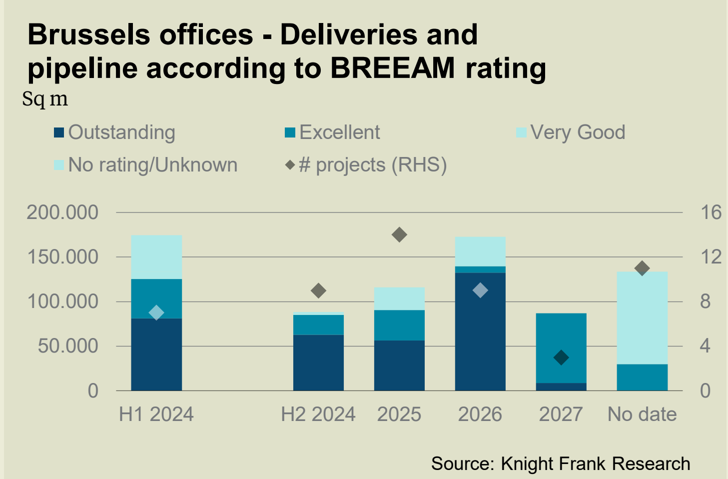
The pipeline of projects under construction or with granted permits up to 2027 amounts to 442,000 sq m, of which close to 300,000 sq m have been launched speculatively. Beyond, 133,000 sq m of deliveries with permits but without a set date are in the pipeline. Potential projects without permits in Brussels amount to a further 753,000 sq m.

As a result of the latest moves and deliveries on the market, availability has increased to 7.75% at the end of H1, against 7.23% at the end of 2023

Certifications and ESG

In April of this year, the EU Council revised rules to improve the European Performance of Buildings Directive, introducing minimum energy performance standards for non-residential buildings which will lead to a "phase out of the worst performing non-residential buildings", by ensuring that buildings do not surpass the specified maximum annual energy consumption per square meter.

As things stand, more than 60% of surfaces in the pipeline should obtain a BREEAM certification.



Furthermore, the correlation between the projects and their expected BREEAM certification remains true. Indeed, the average size of BREEAM Outstanding projects amounts to 17,000 sq m, against 13,000 sq m for BREEAM Excellent projects.

Selected H1 2024 deliveries

Property	District I Subdistrict	Size (sq m)	Ratings
ZIN	CBD I North	75,000	BREEAM Outstanding
The Louise	CBD I Louise	30,000	BREEAM Excellent , WELL Platinum
Chancelier	CBD I Centre	14,000	BREEAM Excellent
Montoyer 10	CBD I North	6,000	BREEAM Outstanding

The office market's existential crisis

Office demand must be interpreted in the context of a market where hybrid working is becoming embedded in the labour landscape. Indeed, hybrid working is the norm for a whole new generation of workers who have entered the market over the past four years in the wake of the pandemic, and have not experienced (nor do they intend to) 100% in-office working. Labour shortage is such that job-seekers and employees often have the upper-hand on several issues such as hybrid working.

This now established type of demand underscores the importance of quality buildings for days when employees work from the office. Indeed, developers of high-end spaces will ensure they are strategically positioned to meet the requirements of the younger workforce, with large corporate office occupiers competing for their attention. They will therefore increasingly have to incorporate an accessible and attractive location, and low-carbon high-spec offices to their occupational strategy.

From an ESG point of view, a downtown location often make more sense (higher accessibility, more amenities etc.); in Brussels however, off-putting fiscal measures can compel corporate occupiers to locate elsewhere. Authorities will have to resolve this issue rapidly to reverse this trend.

In the meantime, we will see the office market grapple with something of an existential crisis, like the one which hit the retail sector with the advent of e-commerce. While an equilibrium will doubtless be struck, it is also likely that the stock will decrease in the process, as occupiers downsize their office footprint as a byproduct of increased efficiency.

Investment activity

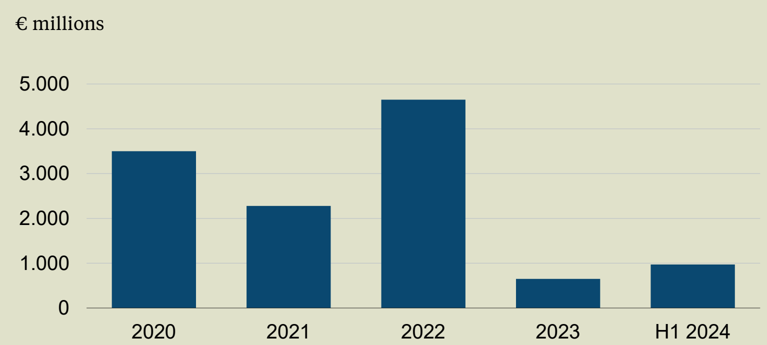
A first deposit rate cut by the European Central Bank has not been enough to jump-start the investment market.

A total of €971 million has been invested in the Brussels office market during H1 2024. Much of this can be attributed to the long-awaited closing of the portfolio acquisition of 23 buildings from the European Union by the Cityforward joint venture between the Belgian State (SPFIM), Ethias, and Whitewood. This investment alone amounted to approximately €900 million and has been detailed in a previous report. Two assets from this portfolio have immediately been sold on to local developers in order to be redeveloped or reconverted.

Investments not linked to portfolio deals or Cityforward in H1 2024 totalled only €13 million and gives a bleaker if more accurate picture of the current situation in Brussels.

Indeed, players await a more favourable investment climate before proceeding to investments. There are however several sales in the pipeline including Graaf De Ferraris (40,000 sq m), Espace Rolin (20,000 sq m), and Lavallée (16,000 sq m).

Brussels office investment volumes



Source: Knight Frank Research

Commentators are reluctant to make predictions about the short-term direction of the market because due to its complexity.

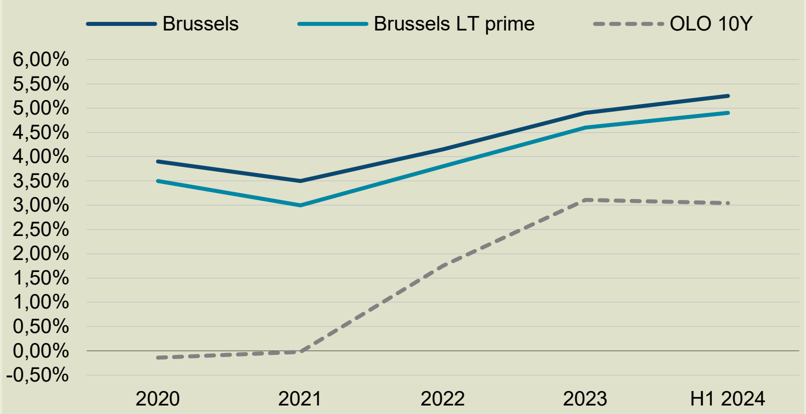
Various sales mandates and off-market deals are currently underway. However, a mandate is not synonymous with a transaction in the present market. Indeed, certain would-be sellers must decide whether to sell at a loss or whether they can hold on to an asset for longer.

Despite a first rate cut by the ECB in June, Belgian 10-year government bond (OLO) rates have not decreased substantially since June at the time of writing.

As the above volumes underline, there is very little interest in prime office investments currently.

As a result, the prime yield has increased to 5.25% and the long-term yield increases to 4.90%. This could however be reversed with next ECB cut which could be announced in September.

Prime yields, Brussels offices



Source: Knight Frank Research

The political situation post 9 June elections

Separatist party Vlaams Belang garnered 21.8% of the Flemish votes for seats in the federal Parliament, increasing their share by three percentage points since 2019. Despite this gain, they were unable to surpass the conservative New Flemish Alliance (N-VA), which secured 25.6% and remained the largest party in Flanders.

The liberal-conservative Mouvement Réformateur (MR) obtained 28.2% of Walloon votes, ahead of the traditionally dominant center-left Socialist Party (PS) and likely coalition partner, centre-right Les Engagés. As a result, MR and Les Engagés have agreed to partner at all levels of power while PS have opted to go into opposition across all levels of representation.

Prime minister De Croo tendered his government's resignation in the aftermath of the elections on 10 June.

An immediate tangible impact of these results (and the results across Europe) for real estate was the surge in Belgian government bond yield, which reached its highest levels so far in 2024 in the two days following the elections (3.27% for the OLO 10-year bond). These rates have since eased and stabilised towards the end of June.

Further down the line, the new governments are expected to tackle issues such as the slow issuance of planning permits, disagreements around regional mobility in Brussels, as well as possibly lowering transfer taxes in Brussels and Wallonia.

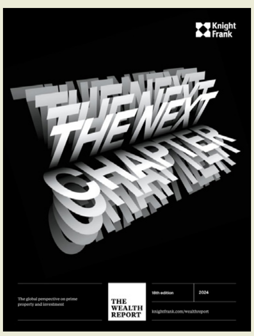
The Brussels Office Market

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

The Belgian Industrial Market H1 2024

Active Capital



The Wealth Report

Global Healthcare Report 2023

Research
Shane O´Neill
Head of Research
+32 2 548 05 65
shane.oneill@be.knightfrank.com

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

Capital Markets
Ulrik Mertens
Partner, Capital Markets
+32 2 548 05 57
ulrik.mertens@be.knightfrank.com

Offices
Pierre Collette
Head of Office Agency
+32 2 548 05 52
pierre.collette@be.knightfrank.com

Knight Frank