# The Brussels Office Market

H2 2023

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**European occupier deals and low investment volumes.**

Inflation, interest rates, employment and elections are all key themes which will play a major role as the market looks to the year ahead.

Belgium's economy remained relatively robust in the past year, significantly surpassing the Eurozone average. According to the National Bank of Belgium (BNB)'s projections, the Belgian economy in Q4 is expected to have grown at a quarterly rate of around 0.3%. This would result in an annual growth of 1.5% for 2023, followed by a forecast average of 1.3% up to 2026. Strong household consumption will continue to be a key foundation to support economic growth.

Total inflation continued to decrease and briefly turned negative during the autumn, as anticipated. Energy prices are now much lower than a year ago, and the so-called underlying inflation has also slowed. Figures for 2023 indicated 2.3% inflation – this is expected to temporarily rise in 2024 to 4.0 % due to the technical repercussions of withdrawing energy support measures. However, in 2025 and 2026, inflation is projected to remain well below 2%.

As far as employment figures are concerned, Statbel's most recent data on Q3 2023 indicated an employment rate increase to 72.2% (against 71.4% in Q2). Among the three regions, the sharpest increase was noted in Brussels, at 68.2% (against 65.3% in Q2). Additionally, the Belgian unemployment rate was estimated at 5.6% at Q3, with stable projections through 2026 – in Brussels this figure was 10.0%.

The ECB decided to maintain its rates rather than increase further in the wake of its most recent meeting, mid-December. Its Deposit Facility rate is at 4.00%. The question for the year ahead is when - not if - cuts will occur, as the ECB's own forecasts point towards Eurozone inflation levels nearing its 2% objective, starting with 2.7% in 2024. Hence, many commentators predict cuts will start taking place mid-2024.

Finally, more than half of the world's population will be heading to the polls in 2024. This will include three elections which take place in Belgium on 9 June: the Belgian Federal, Regional as well as the European elections. The market will look keenly to their results with the ramifications on the economy, unemployment and ESG of paramount importance.

## Market Trends Indicators (2023)

| | |
|---|---|
| Take-up, sq m | 322,000 |
| Take-up (H2 2023), sq m | 156,000 |
| Deliveries, sq m | 146,000 |
| Stock, million sq m | 13.93 |
| Vacancy rate (%) | 7.47 |
| Prime rent, EUR/sq m/year | 340 |
| Average rent in EUR/sq m/year | 215 |
| Prime yield (%) | 4.90 |
| Invested volume, EUR million | 652 |

# Occupier activity

Brussels' best quarter of activity since the end of 2021 rounded off a decent (taking the current circumstances into account) second half to 2023 with 156,000 sq m of take-up recorded. This brings the total in 2023 to more than 322,000 sq m – below the average of the past five years, albeit a resilient figure taking the economic climate into consideration.

Strong European Union involvement, one of Brussels' pillars of demand, assured the market was spared any severe blushes. Indeed, the two largest deals in 2023 are attributed to the EU Commission, including its Q3 letting of more than 14,000 sq m in the Commerce 46 (European district), which had initially been developed for ING.

Occupiers from the education sector had the second largest share of take-up in 2023 with 28,000 sq m, including the pre-letting of close to 13,000 sq m by Haute École Francisco Ferrer of the Waterside building (North district) which will be renovated following its acquisition to this end by the City of Brussels.

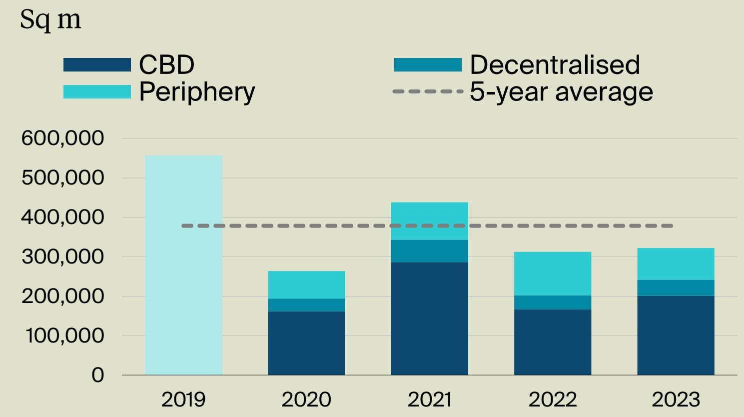
Excluded from these figures are the Wallonie-Bruxelles Enseignement (i.e. the francophone ministry of education)'s letting of the Pacheco project (Centre district), attributed instead to the Belgian public sector occupier type.

Additionally, the VGC (Flemish community)'s decision to let Befimmo's ex-Beobank building (Decentralised South district) for two schools is not yet included in our figures as the project awaits permits.

The letting in the Pacheco is one of a handful of large deals concluded in the CBD's Centre district, where we note one of the best quarters of these past years. Indeed, Eaglestone and ION's Core project will be temporarily let to ULB (another occupier from the education sector) until the start of refurbishment works, while Fluxys will let 5,305 sq m in Rue de la Chancellerie 1.

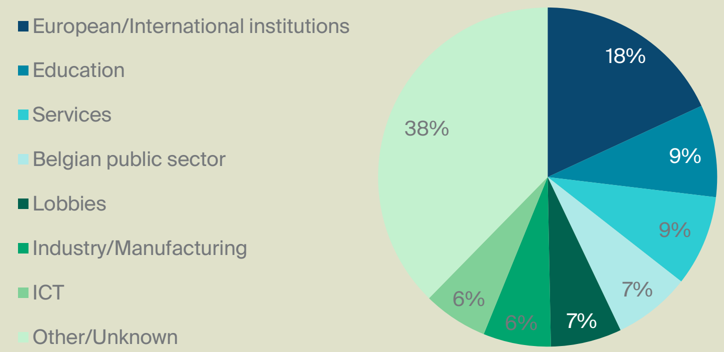
The larger the deal category, the likelier the overall impact on the year's total tally, as the chart opposite demonstrates. Deals in the 5,000 sq m+ bracket had the largest share of take-up despite their weak number across 2023 (nine), as opposed to the 126 deals recorded in the <1,000 sq m bracket which had the lowest share.

**Take-up, Brussels offices**



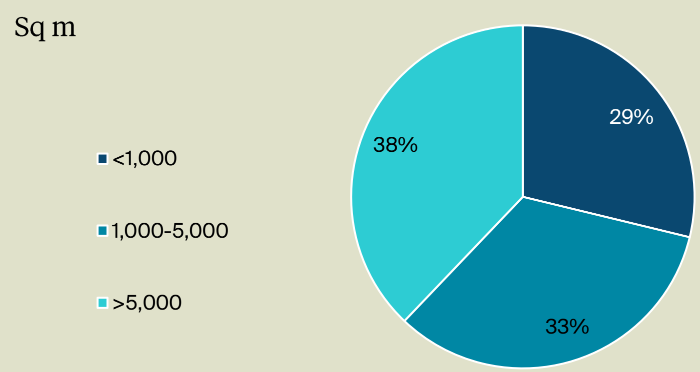

Source: Knight Frank Research

**Brussels offices - Distribution of take-up by occupier type, 2023**




Source: Knight Frank Research

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




Source: Knight Frank Research

# Top five occupier deals H2 2023

| Property | Tenant | Sector | Size (sq m) |
|---|---|---|---|
| Commerce 46 | European Commission | European/International institutions | 14,200 |
| Waterside | Haute École Francisco Ferrer | Education | 12,619 |
| Pacheco | Wallonie-Bruxelles Enseignement | Belgian public sector | 9,428 |
| Core | Université Libre de Bruxelles | Education | 9,250 |
| Iris Tower | IBPT-BIPT | Belgian public sector | 5,540 |

## Occupier outlook

As the previous paragraph demonstrates, large deals almost always end up making the difference between weak and strong figures on the Brussels office market. This will likely be underlined once again in the short term.

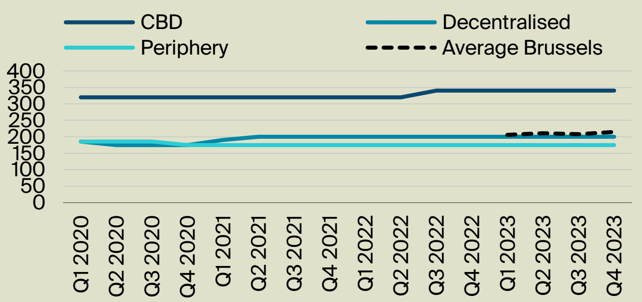
Indeed, aside from the potential VGC deal mentioned above (8,000 sq m), 2024 could again feel the positive influence of the EU's moves within the market. Indeed, the Commission is understood to be interested in Engie's Pole Star building in the North district, should Engie rubber stamp a move of its own (28,000 sq m) from Pole Star to the Oxy building in the Centre district. Crucially, the Commission already occupies the North Light building, the direct neighbour of Pole Star. On their own these two moves could yield up to 68,000 sq m of take-up in 2024.

In the medium- to long term we look to the upcoming elections as a further source of influence on demand, given the weight of the public sector on Brussels demand. Indeed, the Federal, Regional and European elections will all take place on 9 June. Direct and indirect repercussions could include change in occupational policies, growth and decrease of various parties' or groups' seats in Parliament, and the carrousel of lobbies, think tanks and consultancy firms working in their midst. EU- and Belgian public bodies, as well as lobbies were already three of the five most active occupiers in 2023.

## Rents

**Prime rents, Brussels offices**

EUR/sq m/year




Source: Knight Frank Research

The Brussels prime rent is systematically based on activity in the European district. Furthermore, these rents do not evolve erratically, again, due to the important of public bodies in the district, which guarantee a certain level of stability as far as demand is concerned, albeit, at the expense of a higher prime level. Indeed, the Brussels prime office rent is much lower than that of prime rents in neighbouring capitals and major cities. It is currently €340/sq m/year, also now recorded in the CBD's Louise district, and is likely set to increase in the European district during 2024 on the back of several deals in the €350-375/sq m/year bracket.

The average rent has been remarkably consistent through 2023, albeit increasing slightly to reach a high of €215/sq m/year in Q4.



# Deliveries and pipeline

We note a seven deliveries in H2 2023 for a total of 88,000 sq m, bringing deliveries in 2023 to more than 146,000 sq m. Just over half of this figure concerned committed buildings, i.e. either turnkey projects, or buildings (partially) pre-let when construction works started. Therefore, the availability rate has increased to 7.47% against 7.20% at the end of H1.

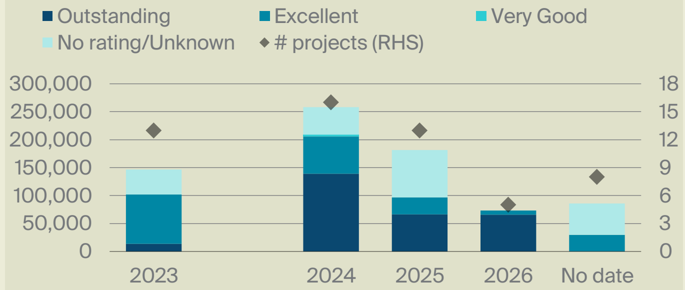
Looking at the overall 2024-2026 pipeline (i.e. concerning buildings with all required permits and/or already under construction), close to 513,000 sq m are expected, including as much as 396,000 sq m initially launched on a speculative basis. This could impact the availability rate, particularly in the CBD where about 260,000 sq m of projects are launched speculatively. A further 86,000 sq m of projects are currently awaited beyond this timeframe.

We have mapped out the pipeline according to expected certifications. From this we draw two conclusions on ESG:

1. Close to 70% of the current pipeline concerns spaces aiming for a BREEAM certification, illustrating developers' willingness to comply with improving the market's environmental footprint. Although BREEAM also addresses social and governance aspects to an extent, certain developers are moreover looking to certifications such as WELL to be as future-proof as possible. Indeed 40% of the pipeline also aims to obtain a WELL certification.
2. There is a correlation between the size of projects and the BREEAM rating expected to be achieved. Indeed, the average GLA of projects expecting Outstanding certifications is 19,000 sq m, against 13,000 sq m for Excellent certifications, and 10,000 sq m on average for unrated projects. In simple terms, this could suggest that the greater the size of the expected occupier, the more significant their environmental concern.

**Brussels offices - Deliveries and pipeline according to BREEAM rating**

Sq m




Source: Knight Frank Research

### Selected H2 2023 deliveries

| Property | District \| Subdistrict | Size (sq m) |
|---|---|---|
| The Wings | Periphery \| Airport | 34,000 |
| Strombeek Business Park | Periphery \| Ring | 17,000 |
| Aria | CBD \| Centre | 10,000 |
| White Angle (City Dox) | Decentralised \| South | 10,000 |
| Wood Hub | Decentralised \| South | 7,000 |

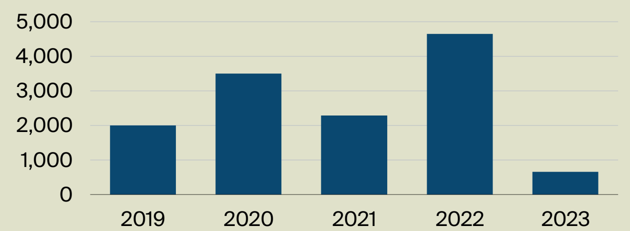
# Investment activity

The Brussels investment market, already in a grim state, saw minimal improvement in H2 2023. The total volume for this period amounted to €370 million, resulting in a yearly total of €652 million. This marks the lowest recorded level since 2012 when it stood at €290 million, reflecting the ongoing challenges in the market.

As is typical in a complicated context, investors usually stay close to home. This means that Belgian investors represented more than 65% of the total invested volume, with German investors in second place, representing 22% across two notable transactions: KGAL's then prime yield-defining acquisition of Treesquare for €43.7 million in Q2, followed by MEAG's €100 million purchase of City Center from AG Real Estate in Q3, the year's largest deal.

**Brussels office investment volumes**

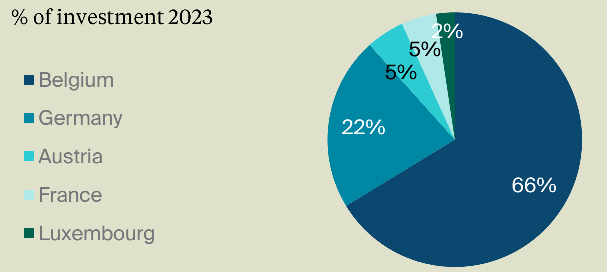
€ million




Source: Knight Frank Research

**Brussels offices – Investment volumes by purchaser nationality**

% of investment 2023




Source: Knight Frank Research

# Investment activity

**As far as Belgian purchasers were concerned, Ghelamco's Q3 purchase of Boreal in the CBD's North district was the most notable in terms of volume invested in 2023 (€70 million).**

## Top five Brussels office investment transactions, H2 2023

| Property | Vendor | Purchaser | Price (€ million) |
|---|---|---|---|
| City Center | AG Real Estate | MEAG | 100 |
| Boreal | Deka Immobilien | Ghelamco | 70 |
| C71 | M&G Real Estate | IG Immobilien | 31.6 |
| Waterside | Monument | Ville de Bruxelles | 29.5 |
| Royal Center (offices) | P&V | Growners | 25 |

## Price discovery continues while many developers are in a tight corner.

Developers have seen yields, development costs and financing costs moving in a negative direction. Many are approaching deadlock situations because they are unable to undertake projects that would yield an acceptable margin. In the absence of recurring income for an unoccupied asset, they therefore face the risk of being entangled in a credit crunch.

The nine-month delay of the sale by Proximus of their headquarters to Immobel illustrates the turmoil in which developers find themselves. In March of 2022, Proximus and Immobel had signed a binding agreement outlining the sale of Proximus towers to Immobel at a cost of €143 million.

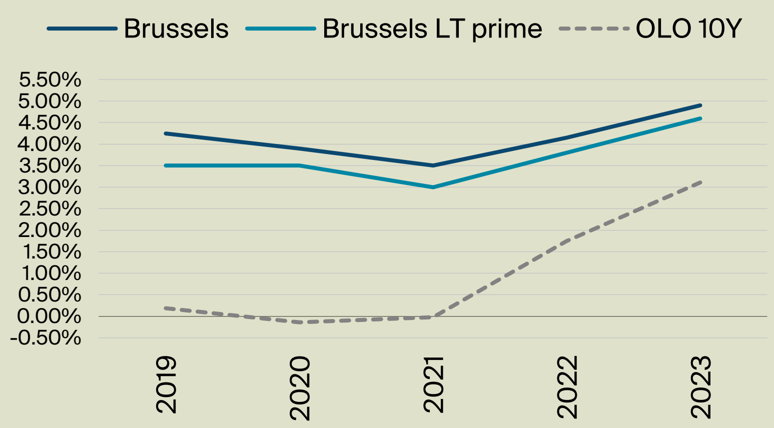
## Yields

We maintain our prime yield on the Brussels office market at 4.90%. We reviewed the prime yield upwards to this level in Q3 (against its previous level of 4.60% in Q2) on the back of successive ECB interest rate hikes.

Currently, we see no economic reason to justify higher yields. Indeed, the ECB decided to maintain its rates rather than increase further in the wake of its most recent meeting, mid-December. Its Deposit Facility rate is at 4.00% and Belgian 10-year bond yields (OLO) have trended downwards since a 3.55% monthly recent high was reached in October. By December, OLO rates had returned to monthly levels (2.74%) last recorded in December 2022.

On the other hand, we do not see any evidence to justify lower yields either. The shortage of significant deals which have occurred during H2 attests to the price discovery phase that the market currently finds itself in, while investors are eyeing interest rates to see if/how quickly they come down. Back in October 2024, economic forecasters anticipated a peak ECB rate of 4.50% in December (which did not materialise), and anticipated cuts down to 3.25- to 3.75% by the end of 2024.

**Brussels offices - prime yields**




Source: Knight Frank Research

## Investment outlook

Aside from two market-transforming deals (more on these below), a slow year is expected in 2024, as the Belgian market is still currently undergoing a value discovery phase with slightly more trading to take place as more liquidity enters the market.

We believe the number of office investment transactions in 2024 will increase. This is because owners, and particularly over-leveraged developers, will have to refinance or sell, due to the financial context. This leads us to believe that portfolio optimisations will take place. We expect traded volumes to remain low as small (i.e. more liquid) assets are likelier to be subject to disposals.

As noted in the latest episode of Knight Frank's Intelligence Talks podcast, we predict investment volumes globally will start to recover taking the following factors into account:

- More borrowers will be unable to refinance loans and will be forced to bring buildings to market. For more on this, and regarding Belgium in particular, please refer to Knight Frank's recent country-by-country European real estate outlook 2024.
- In certain countries, interest rates are expected to decline, leading to more affordable borrowing and instilling increased confidence among investors regarding future exit values.
- We might have more clarity on economic performances which will support occupational demand, which is already pretty strong in some areas.

Regarding sources of demand, cash-rich buyers (targeting smaller tickets) are likely to continue to be most active, irrespective of the asset class. These investors are poised to strategically concentrate on recalibrated secondary and tertiary real estate. This may open avenues for renovating to a higher sustainability standard or repurposing assets which are well located.

Additionally, providing they find products at prices they are willing to pay, institutional investors could also slowly begin returning to the market, following Ethias' two deals in 2023. Indeed, the Belgian insurer purchased Wood Hub (€34 million) in the Decentralised South district and Nova One (€20 million) in Antwerp West at the end of the year.

As far as potential external sources of demand are concerned, Knight Frank's European real estate outlook 2024 adds that sovereign wealth funds are forecast to continue to target best in-class real estate.

## Two market-transforming deals in the pipeline

The Cityforward disposal of 21 buildings by the European Union quoted at €950 million (more on this in our previous Brussels Office Market report), will be closed during Q1 of 2024.

Meanwhile, in late 2023, a potential market-changing deal surfaced as TPG expressed interest in acquiring Belgian REIT Intervest Offices & Warehouses (IOW), echoing Brookfield's acquisition of Befimmo, closed in 2022. If successful, this deal will have a significant impact on invested volumes in Belgium in 2024. However, the effect on the Brussels office market is expected to be limited, given that IOW has primarily concentrated on logistics assets in recent years. This asset class comprises 75% of IOW's portfolio which has a fair value of €1.4 billion according to its H1 2023 financial report. Additionally, most of IOW's office assets are located in Mechelen and Antwerp.

# 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.

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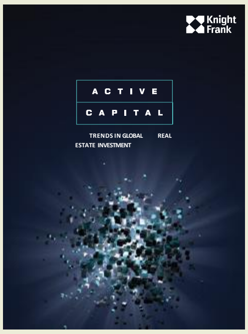


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