The Brussels Office Market

H2 2024

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« Stop me if you think you've heard this one before. » (Morrissey)

Occupational fundamentals provide a platform for the investment market to turn the page on another disastrous year. Belgian power brokers must urgently follow suit.

The **Belgian economy** grew by only 1.0% in 2024 per the NBB, due to sluggish consumer demand. Prospects are hindered by low consumer confidence going forward, and growth will be limited to 1.2% in 2025 with expected US tariff hikes playing a key role. Indeed, US exports represent 5% of Belgian GDP (per CBC), the second highest ratio in the EU. Furthermore, political and economic turmoil affecting Germany, Belgium's main trading partner, will hardly grease the wheels for an improved outlook. More on this in our European Commercial Outlook 2025 article.

Inflation was high in Belgium during 2024 at 4.3%, an elevated level relative to other Eurozone countries. This was partly caused by the removal of the cost of energy financial aid to Belgian households in 2023.

Inflation forecasts for Belgium in 2025 vary, from 1.9% (Federal Planning Bureau) to 2.9% (National Bank of Belgium). Negative scenarios involving geopolitics affecting the cost of energy, as well as expected US trade tariffs will place inflation under further upward pressure.

The ECB has pursued four rate cuts in 2024, with more forecasted in 2025 as the Eurozone inflation level nears its 2% target, creating a safer environment for investing.

Job prospects in the industrial sector have significantly declined due to the ongoing fallout from the cost of energy crisis, low export prospects, and increased competition from outside the EU. According to CBC, Belgium is expected to record more bankruptcies in 2024 than in the previous two years. The disruption impacting Belgian industry has been recently illustrated on a large scale by the closure of Audi's plant in Brussels.

Hiring in the service sector is still progressing at a steady rate overall, albeit the limited pool of available skilled workers is a challenge. Unemployment was 5.6% in 2024, and is expected to remain at this level through 2027.

Market Trends Indicators (2024)

Take-up, sq m	328,000
Take-up (H2 2024), sq m	165,000
Completions, sq m	205,000
Stock, million sq m	14.17
Vacancy rate (%)	7.44
Prime rent, €/sq m/year	375
Average rent, €/sq m/year	232
Prime yield (%)	5.25
Invested volume, € million	1,347

Belgian economic indicators	2024	2025	2026
GDP Growth (%, YoY)	1.0	1.2	1.4
Inflation (%, YoY)	4.3	2.9	1.3
Unemployment (%)	5.6	5.6	5.7

Source: National Bank of Belgium, Federal Planning Bureau

Politics and the Belgian budget deficit.

Belgium held federal, regional and European elections on 9 June 2024. Over six months later, the Brussels Capital Region and the Federal governments are yet to be formed. A regrettable case of déjà vu, to which this report's title refers.

For Brussels, the clock is ticking ahead of Standard and Poor's rating review in March, with parties at loggerheads and absolutely no prospect of a coalition in sight.

The formation of a federal government looks nearer with 31 January pencilled in as a key deadline for the government negotiator, Bart De Wever. The Belgian government deficit is a high priority issue, with Belgian debt among the highest levels in the EU. The deficit in 2024 was projected to increase to 4.6% of GDP, per the EU Commission's November forecast, against a requirement for EU Member States to be below 3% of GDP.

Occupier activity

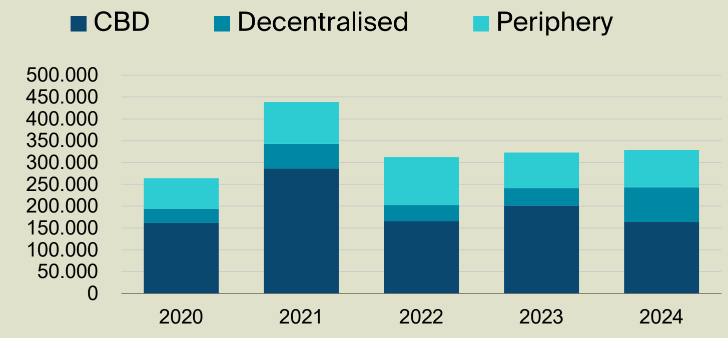
Take-up on the Brussels office market totalled 165,000 sq m during H2, bringing the total for 2024 to 328,000 sq m, thereby scraping past the healthy totals recorded during the two previous years.

Central to this was a good Q4 (102,000 sq m) which helped round off this successful year of occupier activity. Resilient private sector demand is an encouraging bonus as we develop below in this report.

While activity was relatively subdued in the CBD districts, deals in Decentralised districts provided the icing on the cake for a fruitful year. During H2, a couple of 2,500 sq m purchases involving Belfius (North-East district), and a local Police service (South district) consolidated this trend.

Take-up, Brussels offices

Sq m



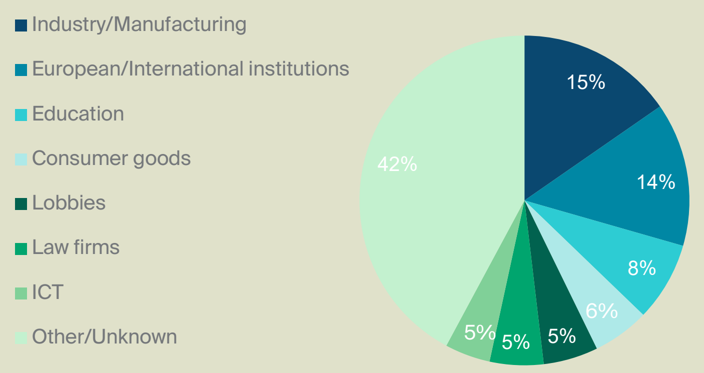
Source: Knight Frank Research

A reason behind the upswing of take-up during H2 was a strong performance in the 1,000-5,000 sq m segment, with these transactions totalling more than 78,000 sq m. Interestingly, they were evenly spread (20% apiece) between Grade A and C buildings; traditionally, Grade A buildings usually attract most deals on the larger end of the spectrum. Additionally, these deals were mostly located in the CBD districts (39,000 sq m). Chief among deals in this category was HE2B's 4,288 sq m letting in Espace Rolin (CBD - European district), sealing the case for a very strong year for occupiers from the education sector, adding to the 20,000 sq m blockbuster Ihecs deal from H1.

Overall though, occupiers linked to Industry and Manufacturing enjoyed the largest slice of the pie during H2 with 17,000 sq m of take-up, or 10% of activity during the semester. This sector also dominated proceedings across the year as a whole with 55,000 sq m of take-up, contrasting with the overall bleak economic situation for companies in this sector as detailed in the economic section of this report. This was underpinned by Lhoist's 9,500 sq m pre-letting of a new HQ in Louvain-la-Neuve (Periphery – Walloon Brabant), a BREEAM Excellent development by Macan Development expected to be delivered in 2026.

European institutions were the second most important occupiers of 2024 (46,000 sq m), and despite a subdued H2, the sector still carved out the semester's largest transaction with a 10,000 sq m deal for the European Defense Agency in Immobel's The Muse (CBD – European district) agreed in July.

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



Source: Knight Frank Research

Looking to 2025, EU institutions will again play a key role. On the one hand, the deal for the full occupation of the Engie Towers (CBD – North), which will be vacated once Engie completes its move to Oxy, was not finalised in 2024 and is expected to extend into 2025. This would result in approximately 35,000 sq m of take-up on its own. On the other hand, the European Parliament may have to consider new or temporary housing solutions during the renovations of the Meeûs 8 building (41,000 sq m) and the Paul-Henri Spaak complex (ca 70,000 sq m).

Based on economic forecasts, high-margin service sectors such as ICT could be expected to expand demand for the private sector, while Grade A availability in the Louise district may help law firms build upon a dynamic 2024 during which as many as 19 deals were recorded.

Top five occupier deals H2 2024

Property	Occupier	Sector	District | Subdistrict	Size (sq m)
The Muse	European Defense Agency	European/International institutions	CBD | European	10,000
Lhoist new HQ	Lhoist	Industry/Manufacturing	Periphery | Walloon Brabant	9,500
The Pulse	Mobia	Lobbies	Periphery | Airport	7,500
Brouck'R	Loterie Nationale	Consumer goods	CBD | Centre	6,800
Espace Rolin	HE2B	Education	CBD | European	4,300

Rents

The overall prime rent for the Brussels office market ended the year on €375/sq m/year, and is related to several lettings in the European district recorded since Q2 2024. We note a first letting at €400/sq m/year in Montoyer 10 – once additional increases will doubtless come to confirm this level in 2025 we will raise our prime rent accordingly.

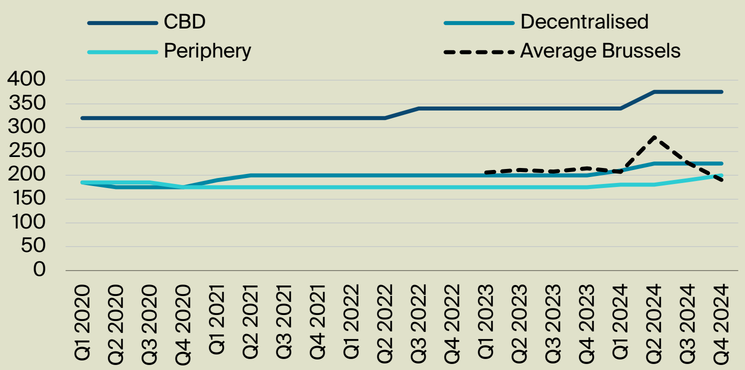
Recent changes in other districts include an increase to €340/sq m/year in the Louise district on the back of a dynamic year for the district driven by several lettings in Patrizia's The Louise (30,000 sq m), delivered during the first half of the year.

Elsewhere, prime rents in the Periphery have increased to €200/sq m/year (against €180/sq m/year previously) on the back of several lettings in both the Walloon Brabant and the Airport districts. These increases are however tempered by generous tenant incentives including increased rent-free periods. Indeed, demand in these districts is lower than usual while the number of new projects translates into a need for landlords to find an edge over the competition.

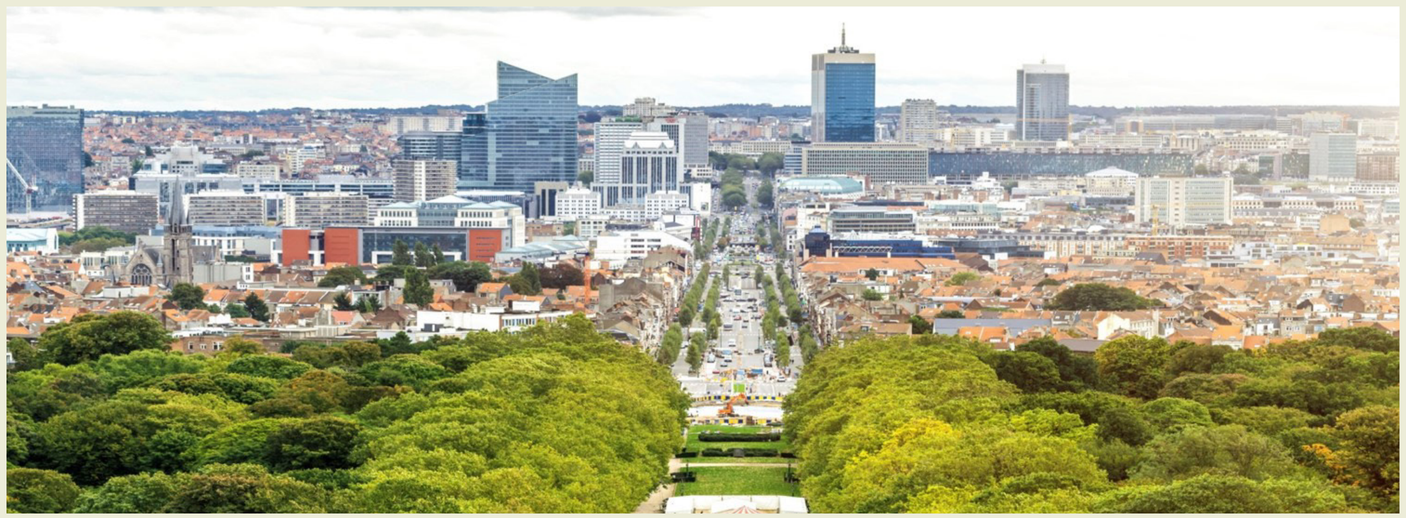
Interestingly, average rents underwent a sharp decrease from Q2 through Q4 when they reached €190/sq m/year. As detailed above, this is due to significant share of large Grade C lettings which occurred during the second half of the year.

Prime rents, Brussels offices

€/sq m/year



Source: Knight Frank Research



Deliveries and pipeline

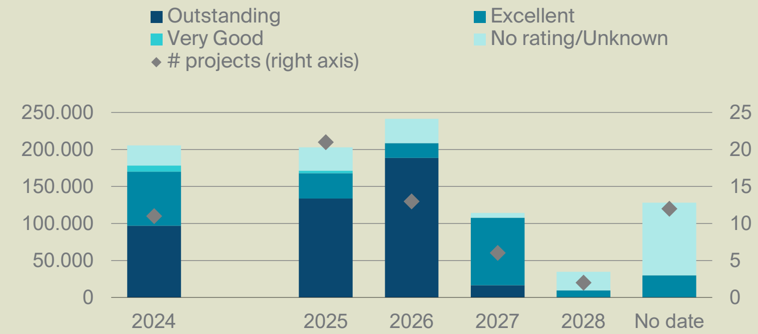
Over 205,000 sq m of deliveries have taken place during 2024, including 116,000 sq m which had been launched speculatively. An overwhelming majority (168,000 sq m) were delivered in CBD districts, while no deliveries took place in Decentralised district.

Many projects have secured a healthy number of prelets ahead of their completion. Nevertheless, approximately 55,000 sq m remain available from these deliveries to drive Grade A take-up going forward.

As a result of the latest moves and deliveries on the market, availability is at 7.44% at the end of 2024, against 7.23% at the end of 2023.

Brussels office - Deliveries and pipeline according to BREEAM rating

Sq m



Source: Knight Frank Research

Close to 560,000 sq m are scheduled to be delivered over the 2025-2027 period, across 40 different projects. This includes 414,000 sq m which have been launched speculatively (notwithstanding the pre-lets some of these may already have secured).

As things stand, more than 73% of surfaces in the pipeline (i.e. under construction, or holding all necessary permits) aim to obtain a BREEAM certification.

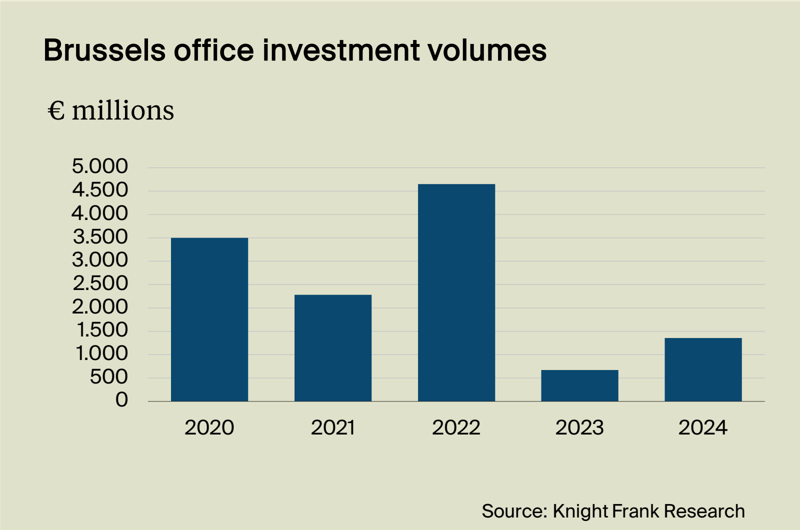
Furthermore, the correlation between the size of projects and their expected BREEAM certification is gathering pace. Indeed, the average size of BREEAM Outstanding projects amounts to 19,000 sq m, against 16,000 sq m for BREEAM Excellent projects. This is across a sample size of 40 projects. We note only one BREEAM Very Good project in the pipeline.

Selected H2 2024 deliveries

Property	District | Subdistrict	Size (sq m)	Ratings
The Meadow	Periphery | Airport	14,000	BREEAM Excellent
Park7 – Xenon	Periphery | Airport	11,000	BREEAM Excellent, WELL Gold
K-Nopy	CBD | European	8,200	BREEAM Outstanding
The Precedent	CBD | Louise	7,900	BREEAM Outstanding, WELL Gold

Investment activity

A prime deal which occurred in December could provide a glimmer of hope at the end of an otherwise wretched year.



The past year will be forgotten in a hurry as far as investment activity went. A volume of €1.36 billion is an improvement on the €672 million of investments registered in the annus horribilis of 2023, however this comes with some notable caveats.

1. Out of this total volume, €951 million alone is attributed to the landmark acquisition of 23 assets from the European Union, known as the Cityforward portfolio.

2. In 2024, 26 deals were recorded in Brussels against a total of 34 in 2023.

A deeper examination of investments in 2024 yields some interesting results:

1. Excluding all assets linked to portfolios, the total volume for 2024 amounts to €419 million.

2. Excluding all owner-occupier deals (€89 million) from the above point, the total amounts to €330 million.

3. Finally, further excluding any remaining deals under €5 million (which are not especially regarded as investment grade assets), results in a total volume of investments for 2024 which was closer to €325 million.

4. For comparison, applying all of the above criteria to Brussels investments in 2023 results in a total volume of €627 million recorded for that year.

In terms of capital origin, 2024 was coloured *noir, jaune, rouge*, in a year absolutely dominated by domestic capital. Belgian investments in Brussels amounted to 97% of the total volume. This of course includes the once-in-a-lifetime Cityforward portfolio acquisition. The encouraging news is that - outlier deals excluded – investment volumes increased every quarter, with a total investment volume of €354 million across 19 deals during H2.

Top five Brussels office investment transactions, H2 2024

Property	Vendor	Purchaser	Price (€ million)
TdO	Genii Capital + Korean Investment Securities	Downtown + Straco	70
Graaf De Ferraris	Vlaamse Gemeenschap	IRET	60
Brouck'R (offices)	BPI Real Estate + Immobel	Loterie Nationale	45
Tervuren 2	AG Real Estate	Deka Immobilien	40
Park Lane	Cofinimmo	GAC	35

The purchase of the 8,000 sq m Tervuren 2 by German Open-Ended Fund, Deka Immobilien Metropolen at a rumoured yield of 5.25% stands out for several reasons that qualify it as the current prime-defining deal:

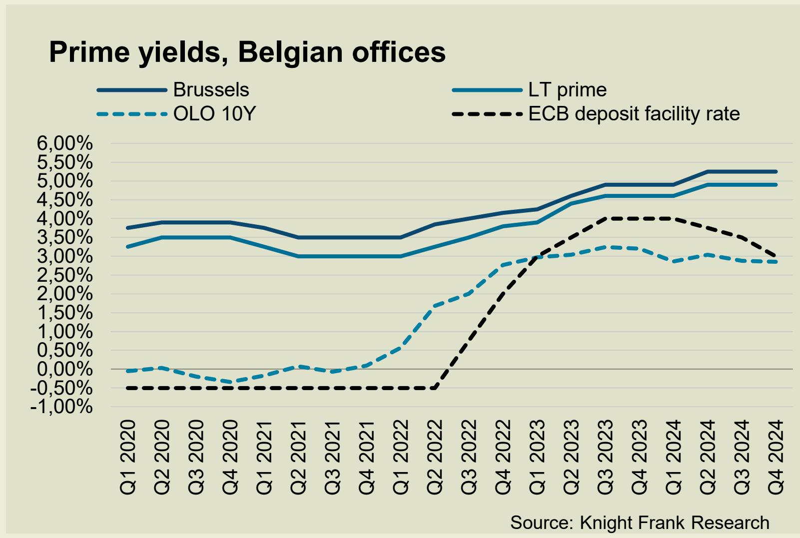
- The quality of the asset as a Grade A, BREEAM Very Good building delivered in 2019;
- Its location inside the European district;
- A lease term of approximately 9.5 years, 100% occupied by an international law firm.

Many will now hope Deka's purchase of Tervuren 2 will signal a return to normality, starting with the influx of more German investors in core assets. Meanwhile, Belgian investors can continue to be relied on, as illustrated by Revive's purchase of Solvay's historic campus (23ha) in Never-over-Hembeek, expected to be closed in 2025. Nevertheless, a return to purchasing activity for large players such as (former) Belgian REITs and other listed companies is yet to materialise.

Yields

Belgian 10-year government bond (OLO) rates have decreased during the second half of 2024 in the context of the ECB's four rate cuts, and, confoundingly, despite the fiasco surrounding government formation. However, these rates have started to creep upwards in early January 2025 – complex geopolitics must be taken into account.

For reasons outlined above, we maintain our prime yield at 5.25%. This could start to sharpen in 2025, especially if cross-border capital begins to flow back into the Brussels market.



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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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