RESEARCH

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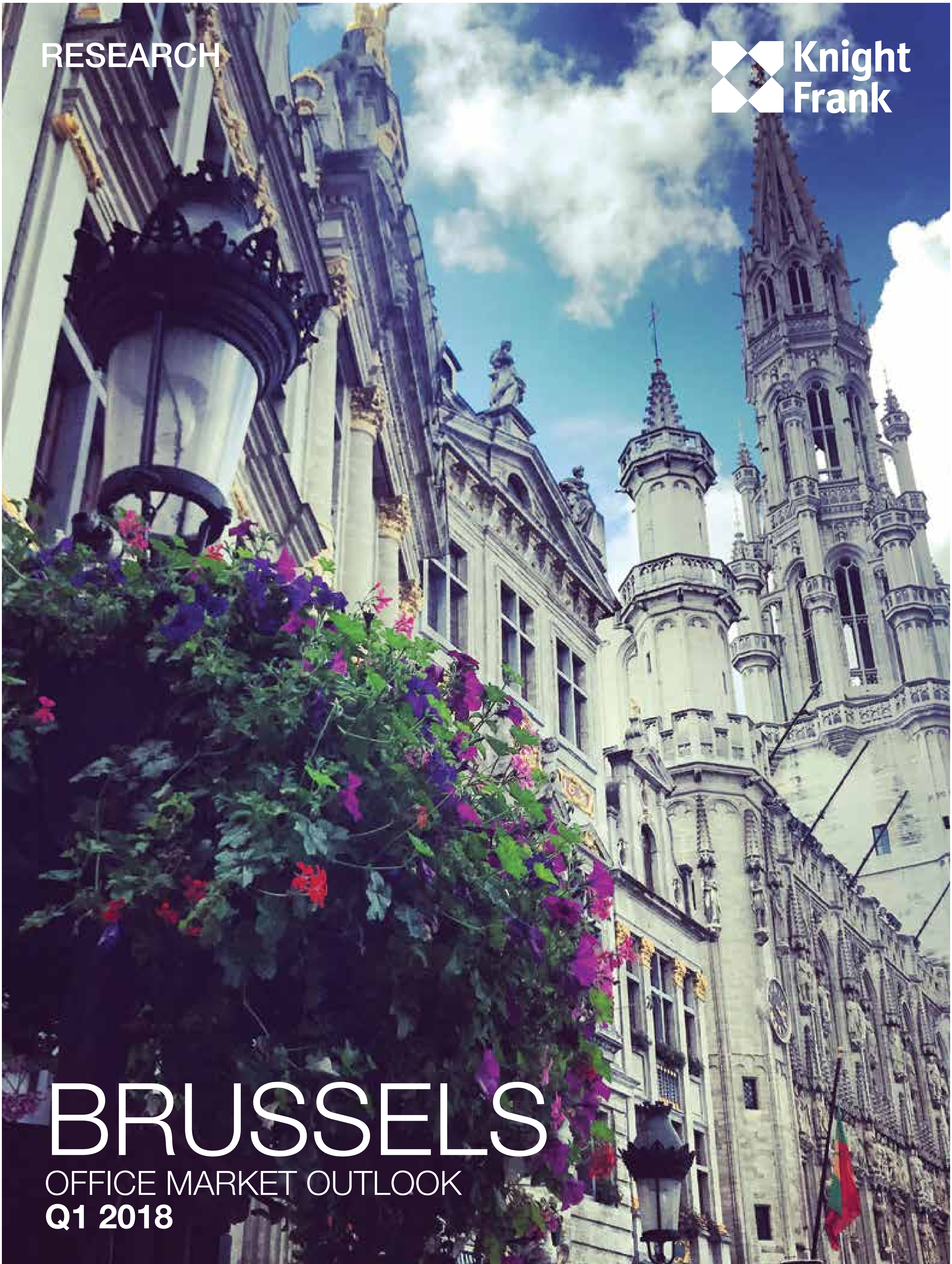


BRUSSELS

OFFICE MARKET OUTLOOK

Q1 2018

OCCUPIER TRENDS | INVESTMENT TRENDS | MARKET OUTLOOK

KEY FINDINGS

Office take-up in Brussels in 2017 fell by 5% from the previous year but remains around the 10-year average.

The corporate sector was particularly dynamic, with flexible workspace operators becoming increasingly active in the market.

Prime CBD rents increased for the first time in six years in 2017 and letting incentives decreased.

Cross-border investors have accounted for a significant share of investment capital in Brussels due to its stability.

OCCUPIER MARKET

Prime office rents edged up for the first time in six years in the Brussels office market.

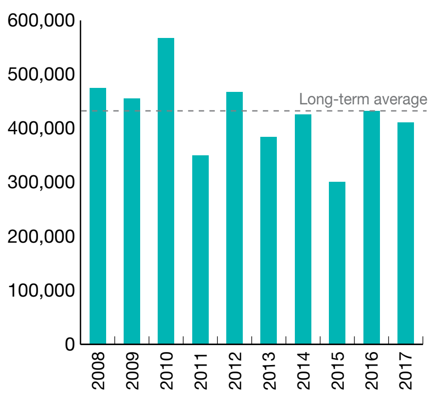
Take-up in the Brussels occupational market fell by 5% year-on-year to 410,716 sq m, bringing it in line with the 10-year average (Figure 1). Four deals over 10,000 sq m concluded during the year – INAMI / RIZIV were on top of the transaction table, leasing 32,400 sq m of space. Both Ecole des Métiers de la Sécurité (22,855 sq m) and Beobank (22,000 sq m) also secured large premises. Despite relatively subdued occupier activity over the first three quarters of 2017, the occupational market ended on a high note. One of the strongest ever final quarters was registered, with over 110,000 sq m of office space leased.

Occupier activity in 2017 was mainly driven by the corporate sector. Flexible workspace operators were increasingly active in the market, accounting for over 7% of total take-up. Spaces, Tribes, Fosbury and Sons, and Silversquare @Befimmo all leased space in the CBD and peripheral areas. This trend is expected to continue in 2018, with new operators entering the market. In contrast, European institutions were less active compared to previous years. There were no new deals registered by these institutions, only renewals totalling around 34,000 sq m.

The overall vacancy rate fell to 8.3%, the lowest level since 2002. Indeed, both the Centre and Leopold districts in the CBD had a reduction in vacancy, with availability in the CBD standing at just 4.4%. As the appetite is toward modern and high quality premises, availability in prime grade space has subsequently continued to diminish. The development pipeline is however improving, with around 120,000 sq m due to complete speculatively in 2018. The main schemes include Manhattan (36,000 sq m) and The One (30,000 sq m) in the Leopold districts.

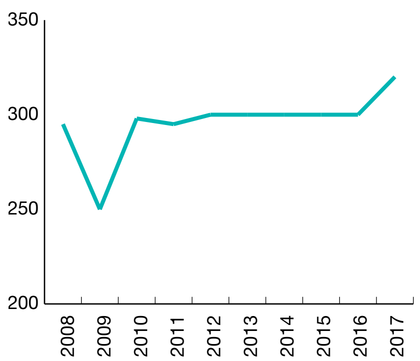
Prime CBD rents increased for the first time in six years to €320 per sq m per annum in the final quarter of 2017 (Figure 2). Incentives are still prevalent, particularly in secondary locations where landlords need to remain competitive in order to attract and retain occupiers. There is likely to be a slight uptick in rents in precincts that have high occupier demand and supply shortages of prime office space.

FIGURE 1
Office take-up
sq m



Source: Knight Frank Research

FIGURE 2
Prime office rents
€ per sq m per annum



Source: Knight Frank Research

Key office leasing transactions in 2017

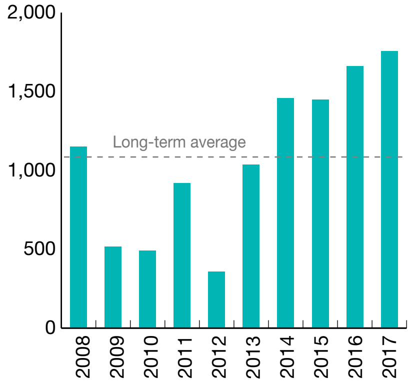
District	Address	Tenant	Size (sq m)
Royal	Galilée, Avenue Galilée 5, 1210 Brussels	INAMI / RIZIV	32,400
Decentralized	Blue Star, rue du Planeur 6, 1140 Evere	Ecole des Métiers de la Sécurité	22,855
North	Quatuor, av. Roi Albert II 56, 1000 Brussels	Beobank	22,000
Center	ex-Belgolaise, Cantersteen 1, 1000 Brussels	STIB / MIVB	14,307
Leopold	Belmont Court	European Parliament	11,000
Center	Arcadia, Mont des Arts 10-13, 1000 Brussels	Bruxelles Urbanisme & Patrimoine	8,849

Source: Knight Frank Research

FIGURE 3

Brussels office investment volumes

€ million

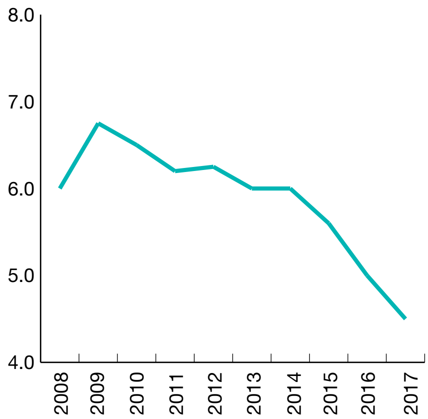


Source: Knight Frank Research / Real Capital Analytics

FIGURE 4

Prime office yields

%



Source: Knight Frank Research

Financial district in Brussels

INVESTMENT MARKET

A total of €1.8 billion transacted in the Brussels office sector in 2017, up 6% on 2016, and the strongest year in a decade. This excellent performance was supported by several large-scale transactions. The largest transaction of the year was the acquisition by La Française, representing a club of Korean investors, of Belfius Insurance's 60% stake in Engie Towers. The stake was reportedly €228 million.

Indeed, cross-border activity represented a significant share at 70% of the office investment volume. Pension funds from South Korea, institutional investors from France, and fund managers from various countries were the primary protagonists during 2017. Cross-border investors will continue to target Brussels in view of its stability.

Over the past year, prime office yields for buildings with standard lease lengths compressed by 50 basis points to 4.5% (Figure 4). Properties with longer lease terms and creditworthy tenants achieved yields sub-4%.

While rental growth prospects in Brussels are fairly limited due to the nature of the occupier market, compared to many other western European markets, property yields are attractive and this has given impetus for investors to deploy capital in Brussels. Hence, a combination of strong investor appetite and shortages in core assets may result in further yield compression in 2018, although this will likely be limited.

Key commercial investment transactions in 2017

Property	Seller	Buyer	Approximate price (€)
Engie Towers	AG + Belfius	La Française	228,000,000
Meeûs 8	KanAm	Hana	212,000,000
Logicor Portfolio	Logicor	CIC	138,000,000
Zuiderpoort	ADIA	Ares	125,000,000
Brederode	Befimmo	Poba	122,000,000

Source: Knight Frank Research / Real Capital Analytics

KNIGHT FRANK VIEW

A slight recovery in the occupational market is forecast for 2018, with the market benefiting from an increased development pipeline. Many occupiers seeking larger premises have typically secured space in peripheral markets and other Belgian cities. However, as a large volume of speculative development is due to complete in 2018, new opportunities for relocation will lead to increased occupier activity. Prime rents increased for the first time in six years to €320 per sq m per annum. The potential for further rental growth will however be limited to precincts with low prime availability.

Investment activity is expected to be strong again this year, with two large-scale transactions closing in the first quarter of 2018. These were the sale of Egmont I & II by Cofinimmo and Arts 56 by Befimmo. Strong investor demand may lead to further yield compression, although the scope for this is likely to be limited.

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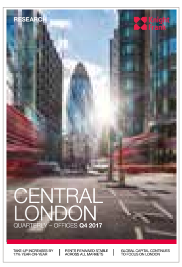

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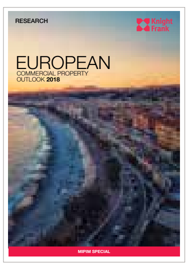

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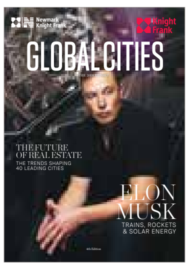

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