BRUSSELS
OFFICE MARKET OUTLOOK
Q1 2015
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.

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 in 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.

Key office leasing transactions in 2014

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

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.

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.