

BRUSSELS OFFICES

Marketview Q3 2023

FIGURES

CBRE RESEARCH
Q3 2023

Brussels office market welcomes first big ticket investments of the year



Note: Arrows indicate change from previous quarter

SUMMARY

- NICP inflation reached its lowest level in two years, standing at 2.4% in September. Core inflation, on the other hand, remains elevated despite a small decrease.
 - Take-up volume was weak in Q3 at 58,000 m². The European Commission once more drove figures this quarter.
 - Prime rent remained stable at 340 €/m²/year.
 - Vacancy decreased slightly to 7.29%.
 - Development delays push offices delivery to the end of the year, with a notable pipeline expected.
 - Office investment activity through Q3 was stronger than the first two quarters with the arrival of the first big ticket deals of the year.
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ECONOMY

The European economy has been treading water in recent quarters, while the Belgian economy is somewhat more resilient. The National Bank of Belgium's BPN survey consensus view is for 1.0% growth in 2023 and 1.0% in 2024, as the impact of tighter monetary policy and broader slow down of activity continues to weigh on the outlook.

In September, the European Central Bank raised key interest rates for the tenth consecutive time. The ECB rate on main refinancing operations is now 4.50%, the rate on the marginal lending facility is 4.75% and the rate on the main deposit facility is 4.00%. The Governing Council believes these levels will make a substantial contribution to the return of inflation to the target rate if held for a sufficiently long duration, according to a September press release.

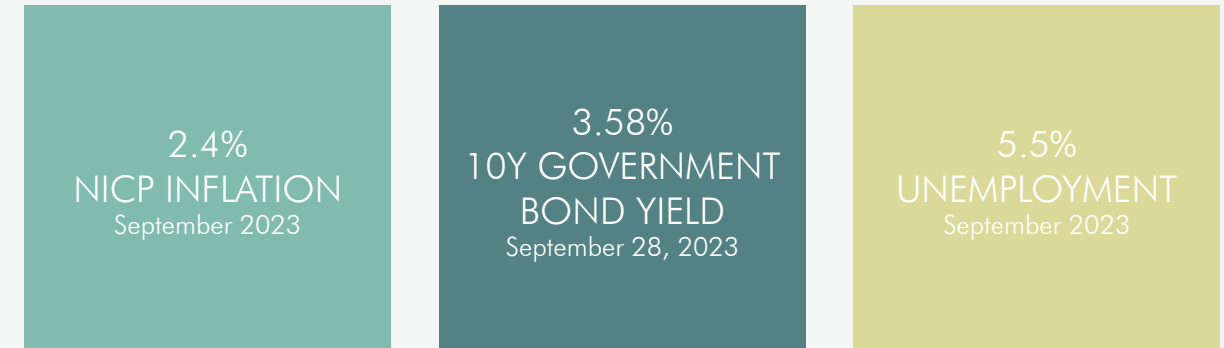
Inflation has been losing steam since its October 2022 peak. General inflation (NICP) has declined to 2.4% in September 2023. Core inflation (not taking into account price changes in energy and food) has followed a different evolution and remains slightly off its highs at 7.0% in September 2023. Core inflation is expected to be sticky, reflecting tighter domestic conditions such as the resilient labour market.

After floating around the 3.00% to 3.30% range for most of the year, the yield on the 10-year Belgian government bond increased in September to 3.6%, defying earlier forecasts. This trend of higher bond yields is similar to Belgium's neighbours and is a result of central bank activity.

Despite these dynamics, the labour market in Belgium remains rather resilient. Through August 2023, the national unemployment rate was 5.5% and roughly unchanged year-to-date. That said, the number of unemployed job seekers has climbed by some 6% over the same period.

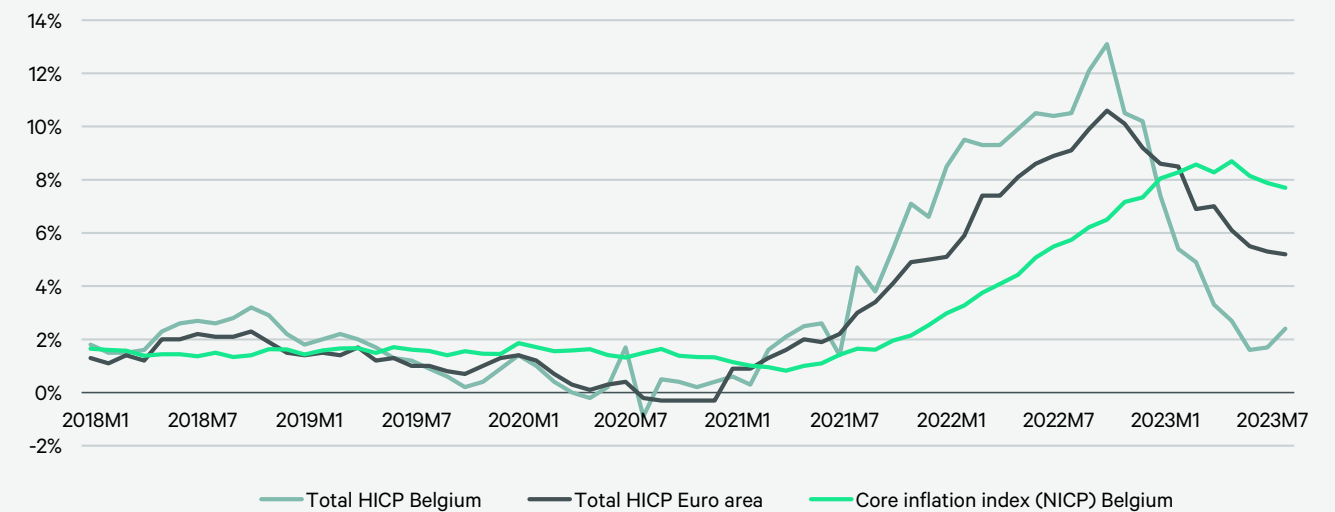
Belgian economy key metrics (Q3 2023)

Source: European Commission, NBB.Stat



Inflation rates Belgium vs Euro area (September 2023)

Source: CBRE Research



DEMAND

Office take-up in Brussels recorded 58,000 m² in Q3 of 2023. Third quarter take-up was very modest by historical standards, down by 25% from the long-term average. Still, YTD take-up of 230,200 m² is in line with the volumes achieved over the same period in 2020 and 2022. The most notable deals recorded were to be found in Commerce 46, Quatuor, The Wings and The Gradient:

58,000 m²

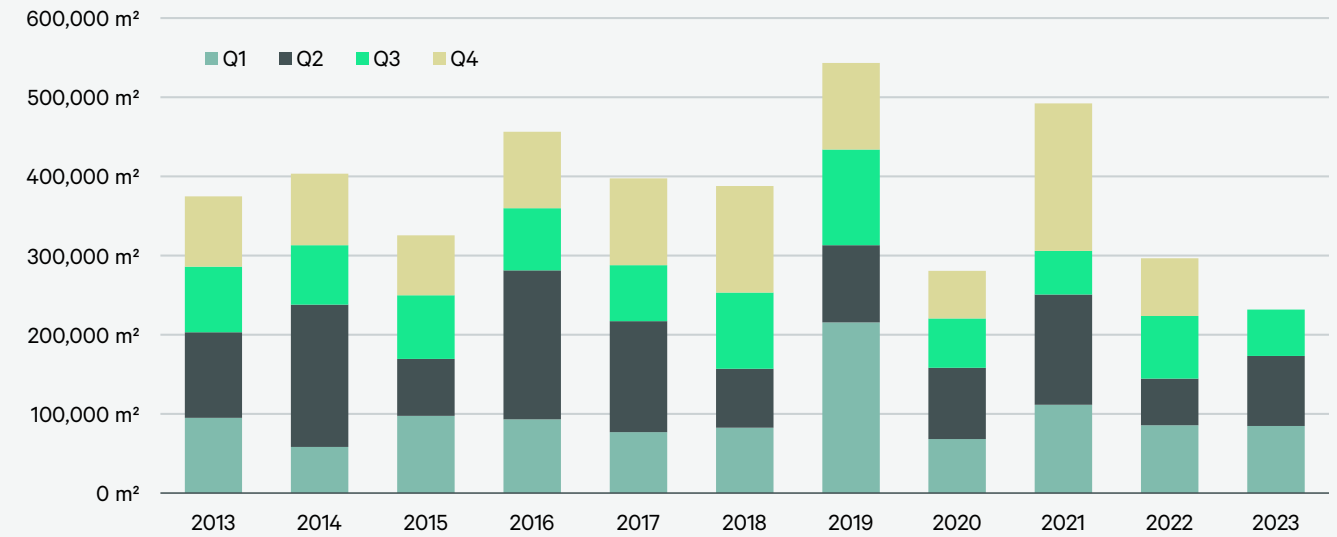
in Q3 for Brussels office take-up

- The European Commission has once more secured a large surface. This time it is the long-expected Commerce 46 deal. Consisting of 14,200 m² of office space and in possession of a 'BREEAM Outstanding' certification, Immobel delivered this building last year. ING was to occupy this space but will ultimately remain in their Marnix office.
- Secondly, the French cosmetics group L'Oreal is moving its headquarters in Belgium from Atlantis Bridge in the Decentralized North-West market to the Quatuor building in the North district. This concerns a transaction of 2,616 m² of office space. The Quatuor building is now more than 90% leased following its completion in Q3 2021.
- A third notable transaction can be found in The Wings. The newest development in the Periphery Airport district is expected to open in Q4 and has secured another tenant in Pro League for 750 m². They will join other notable tenants such as EY, Devoteam and Securitas.
- Also of note, Paradigm and IRISnet, currently housed in Arts 21, will move to Iris Tower in the North district and The Gradient in the Decentralised North-East market, respectively. Paradigm secured 5,540 m² of office space in Iris Tower that is currently owned by Deka Immobilien fully let to the Brussels Capital Region. IRISnet, on the other hand, will take 1,464 m² in The Gradient that is currently owned by Cofinimmo. Both are expected to move in Q4 2024.

The low take-up level is of course related to the summer period, but behind this also lies the problem of occupiers delaying their real estate decisions and overall lengthening due diligence. Occupiers are acknowledging higher rents for more efficient, quality space, but the increase in total occupancy costs has been a sticking point for some that has held up or even ended deals all together. Amidst an uncertain economic outlook, the current market environment is not without its challenges.

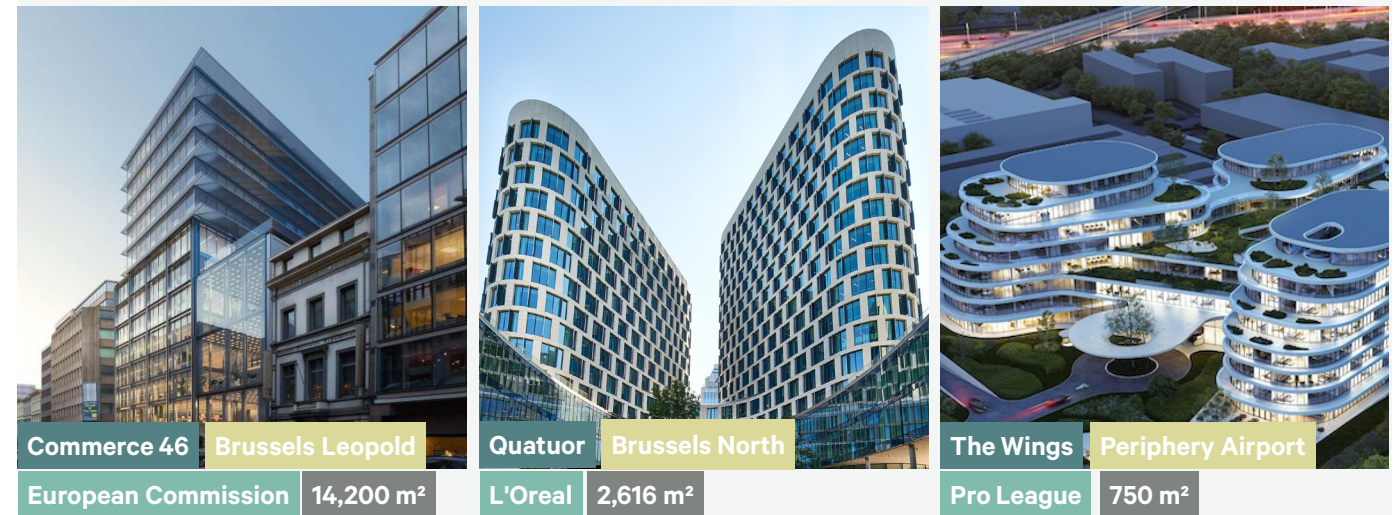
Brussels office take-up (Q3 2023)

Source: CBRE Research



Notable letting & sale transactions in the Brussels office market (Q3 2023)

Source: CBRE Research



VACANCY

Vacant office space decreased slightly to 7.29 % of total stock in the Brussels market in Q3. This is equivalent to 914,000 m² including 89,000 m² of grade A vacancies. Vacancy in grade A and grade B buildings declined compared to the previous quarter.

Office vacancy in the CBD was stable at 3.9% in the third quarter. The decentralised and peripheral markets noted decreases to 10.4% and 17.1%, respectively.

Notable CBD vacancies for Q3 include: Botanic Tower (15,070 m²), Manhattan Center (13,811 m²) and Regence 52-54 (11,845 m²). With some notable exceptions, vacancy is heavily concentrated in older building stock.

7.29%

Q3 vacancy is slightly up from last quarter

CONVERSION

In the third quarter of 2023, developers marked 12,300 m² of office space for conversion into alternative uses, bringing the total for this year on just over 23,000 m². Conversion into residential uses remains the dominant option in the market. Regarding this quarter, two conversions were noted down:

- First, Bouygues is planning to convert the Pagodes Centre offer into residential use. The offices are located in the Decentralised NW market and comprise 2,314 m² of office space. The building is currently still partly rented and was purchased for reconversion at a later stage.
- Vastint Belgium acquired Louise 143a -Defacqz 1. It concerns old offices that are currently occupied by Fedasil that is planned for a future residential use. Around 10,000 m² will be converted.

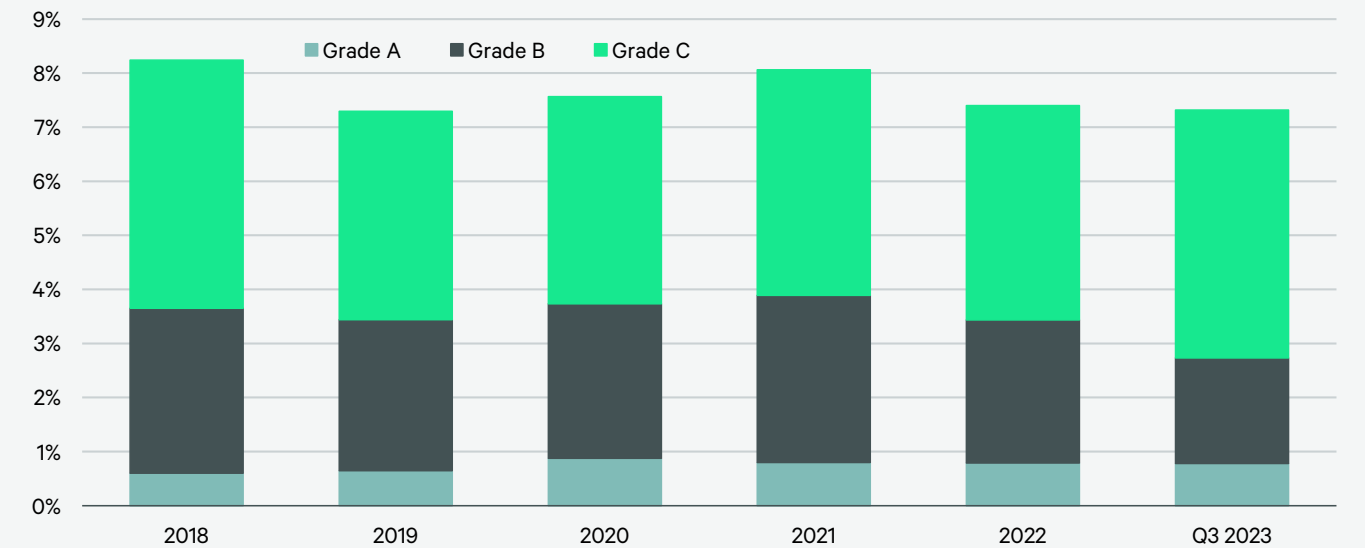
Despite the low conversion figures so far this year and overall slowdown in residential permitting, we expect conversions to continue from the changing occupier demands on offices. New requirements will force landlords to weigh costly capex improvements to upgrade facilities to new standards or disposing of the property for a potential other use.

12,300 m²

Office space marked for conversion in Q3 2023

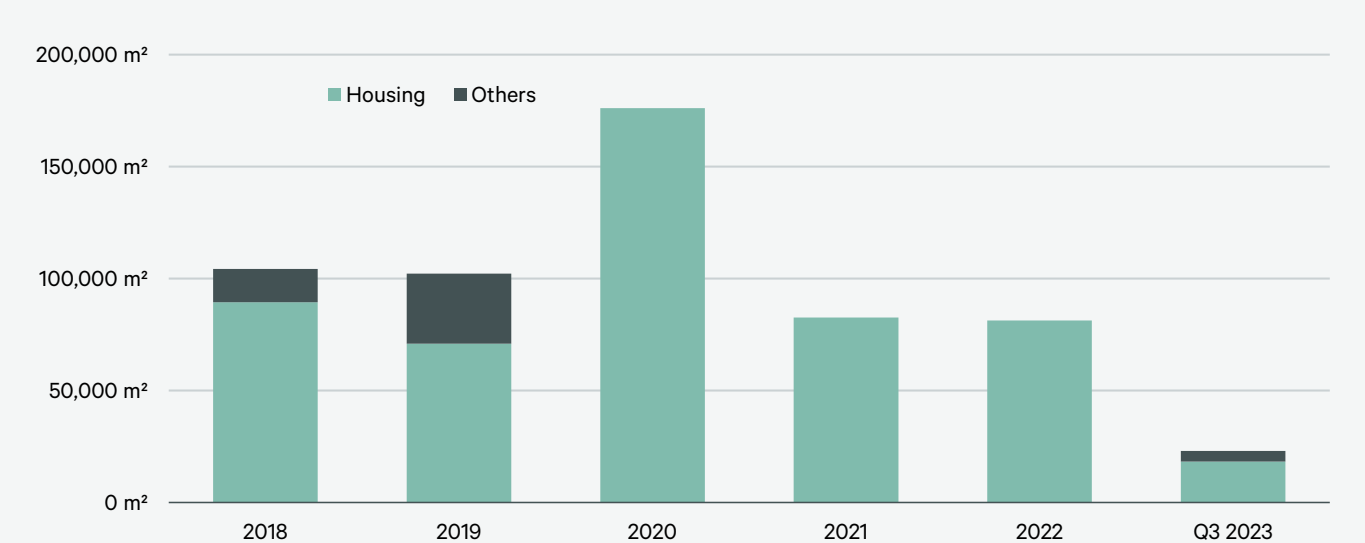
Brussels office vacancy rate (Q3 2023)

Source: CBRE Research



Brussels office conversion (Q3 2023)

Source: CBRE Research



DEVELOPMENT

In Q3, some 17,000 m² of development was completed, bringing the total delivery amount for this year to 63,500 m². In the Brussels Centre market, the renovation of the Aria building across from central station was completed. It comprises 8,500 m² of office space. Also Building A & B of Strombeek Business Park were delivered this quarter adding another 8,500 m² to the delivery total.

The remaining office development pipeline for 2023 is considerable at 103,000 m², of which 63,000 m² (60%) is still available. In 2024, we expect 265,000 m² to be completed of which 110,000 m² (42%) is still available. For 2025, the current pipeline is 220,000 m² of office development.

The anticipated pipeline for the remainder of the year has some landmark buildings that are to be delivered, including The Wings (29,000 m²) and The Meadow (13,800 m²) in the Periphery Airport, Chancelier (15,400 m²) in the Brussels Centre and The Frame (8,000 m²) in Brussels Decentralised NE.

17,000 m²

Brussels office development in Q3 2023

Brussels office development (Q3 2023)

Source: CBRE Research



Brussels expected developments (Q3 2023)

Source: CBRE Research

 <p>Aria Q3 2023</p>	 <p>Strombeek BP- A/B Q3 2023</p>	 <p>Chancelier Q4 2023</p>	 <p>The Wings Q4 2023</p>	 <p>The Meadow Q4 2023</p>	 <p>Frame Q4 2023 8,000 m²</p>
 <p>Athora 10,200 m²</p>	 <p>Resolve 8,500 m²</p>	 <p>Codic 15,400 m²</p>	 <p>Ghelamco 29,000 m²</p>	 <p>Odebrecht 10,200 m²</p>	 <p>Urban Development Corporation (SAU)</p>

SUSTAINABILITY OF THE OFFICE STOCK

Sustainability and energy efficiency credentials for offices are an established trend that is at the forefront of both occupier and investor discussions. Behind this are the intentions of the EU to substantially reduce greenhouse gas emissions and energy consumption in the EU building sector by 2030 and follow a path to net-zero emission buildings by 2050. It also aims to increase the rate of renovations of energy-inefficient buildings and improve information on energy performance.

In light of the European Green Deal and investors' intentions to become taxonomy compliant, newly built or renovated buildings almost always apply for a sustainability label. CBRE estimates the current level of green building certification for existing stock (in-use) in the Brussels office market to be 16.4%, mostly represented by grade A and B buildings. The large representation of grade A buildings in certified stock is a result of the growing popularity of these assessments as proof of quality and compliance in recent years.

The most popular label in the Belgian market is BREEAM. Of the existing Brussels office stock that is certified, more than 90% has a BREEAM label. Most offices have either the label 'Very Good' or 'Excellent'. Only a few have obtained the 'Outstanding' label so far, including Commerce 46 (14,200 m²), Quatuor (62,000 m²) and Networks NØR (13,700 m²).

CBRE has also studied the implications of certification on various aspects of the market. In a recent analysis, CBRE finds a 6% rental premium of sustainability-certified buildings over their non-certified peers in the European office market. Additionally, 32% of European investors report that they are willing to pay premiums for 'ESG-friendly' assets¹.

Currently, occupiers are challenged by both getting more people back to the office and finding the right momentum of going into more sustainable office space. It is crucial for the building sector to overcome the challenges to building certification and be future fit.

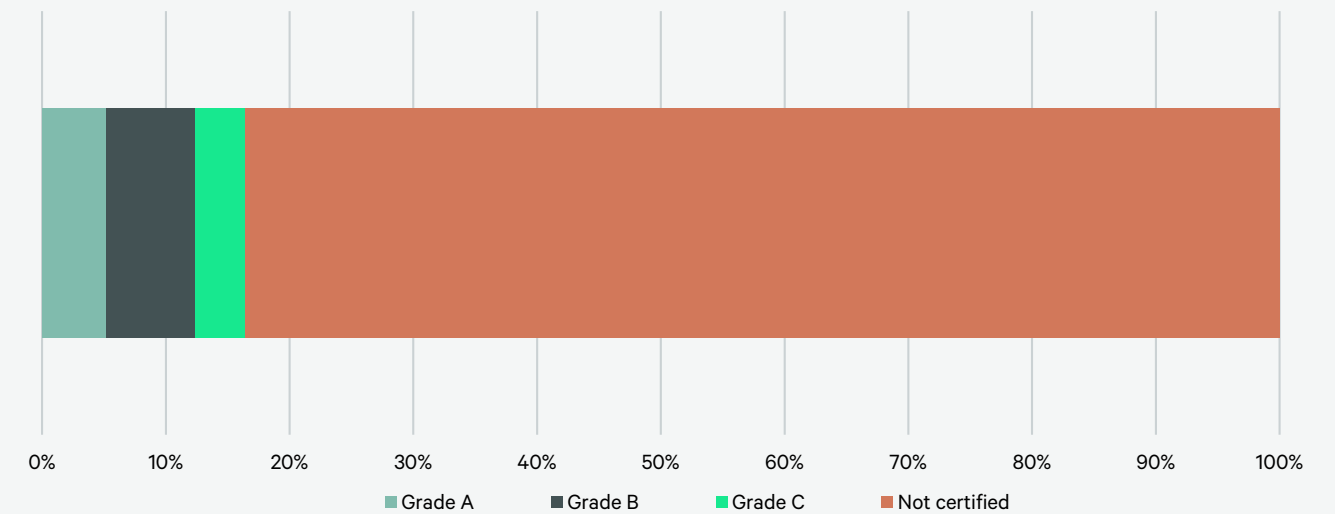
16.4%

of the Brussels office stock has a sustainability certification

¹ CBRE The Value of Sustainable Building Features

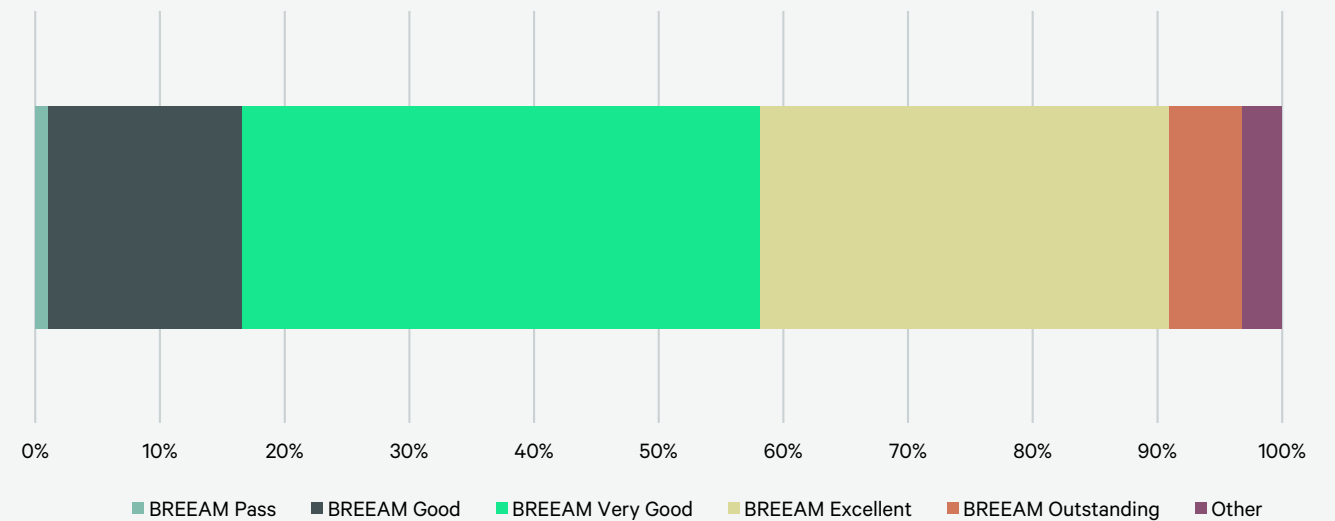
Brussels office certification rate by grade as a percent of total office stock (Q3 2023)

Source: CBRE Research



BREEAM label distribution among certified stock (Q3 2023)

Source: CBRE Research



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Friedel Laperre
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RENTS

Prime rent in Brussels was stable in Q3 at 340 €/m²/year. Moreover, prime rents were stable in all CBD submarkets, but select new developments will challenge these levels towards the end of the year. The prime rent in decentralised markets remained stable at 195 €/m²/year in Q3 after an increase last year. The same dynamic holds for the Periphery Airport.

Weighted average rents (ERVs) have also been increasing, but can vary by market. The Leopold and North quarter in particular have seen an upward trend over the long term to 245 €/m²/year and 212 €/m²/year in Q3, respectively. Vacancy remains under pressure in the Leopold market, while the North area has experienced a more widespread rejuvenation of the office stock. Brussels Centre and South districts on the other hand, saw decreases in their weighted averages, mainly due to the lack of transactions in landmark buildings.

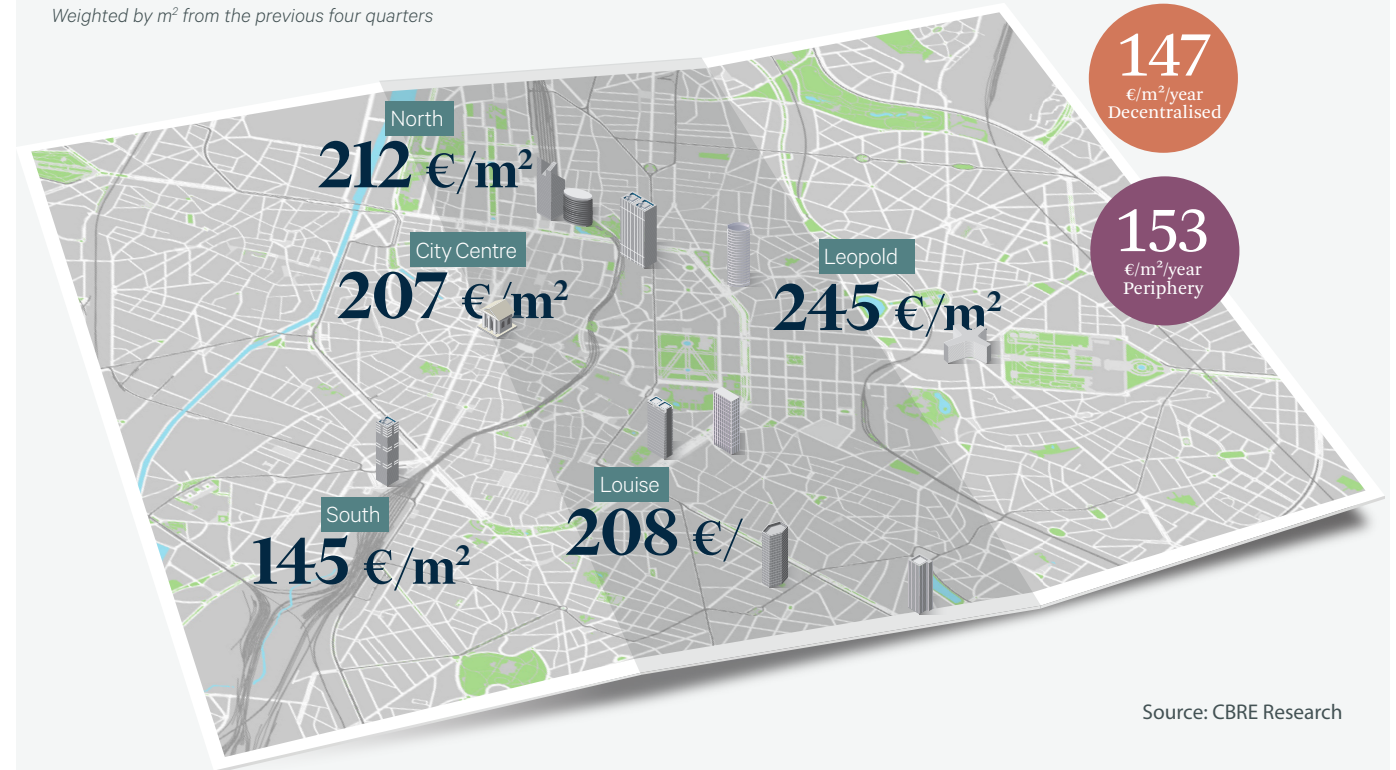
Rents in grade B & C buildings can be subject to change in markets that have higher levels of vacancy, particularly in buildings that are lagging in terms of capital improvements. Overall, demand for quality office space, limited new speculative development and higher construction costs remain the driving factors behind rental increases in most of the Brussels submarkets.

340 €/m²

Office prime rent for the Brussels market increased in 2023

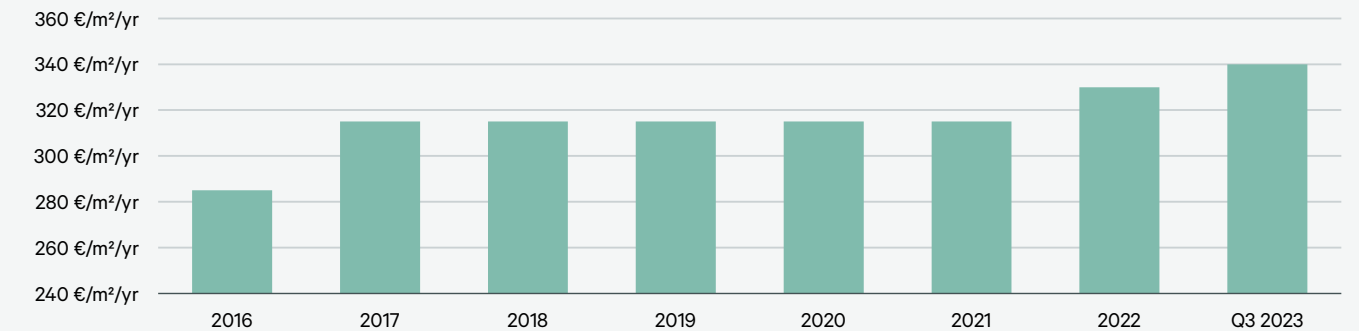
Weighted average rents for offices in Belgium (Q3 2023)

Weighted by m² from the previous four quarters



Source: CBRE Research

Prime rent evolution (2016-Q3 2023)



INVESTMENT

Total YTD CRE investment in Belgium through Q3 is down at €1.72 billion. Brussels offices account for 28% of this, or €487 million, which is lower than the long-term average. Changing market conditions driven by rapidly increasing interest rates has hindered deal flow.

Q3 has been a bright(er) spot for the office investment market that saw €214 million of new deals close including the year's first big ticket transactions. Off-market deals continue to be overrepresented in the current environment:

- This quarter, MEAG became the new owner of the City Center office building located on the edge of the pentagon. This is an office building built in 2001 and includes 31,000 m² of office space and a BREEAM 'Excellent' label. The current tenants include Communauté Wallonie-Bruxelles, ITUH and citydev.brussels. AG real estate sold it in a share deal in the largest office transaction in Belgium so far this year.
- Secondly, IG Immobilien acquired the Cortenbergh 71 building in the Leopold area. It concerns 7,300 m² of office space of which roughly 2,100 m² is vacant. The newest tenant is International the Road Transport Union (IRU), who secured 453 m² of space in 2023. M&G Real Estate was the former owner after acquiring the building from Rockspring in 2019.
- Third, Ghelamco acquired the Boreal building from Deka Immobilien. This 37,500 m² tower in the North district housed BNP Paribas Fortis before their move to their new HQ in Montagne du Parc and will house Proximus until their move to their new North area HQ. Boreal will be a renovation candidate before subsequent commercialisation.

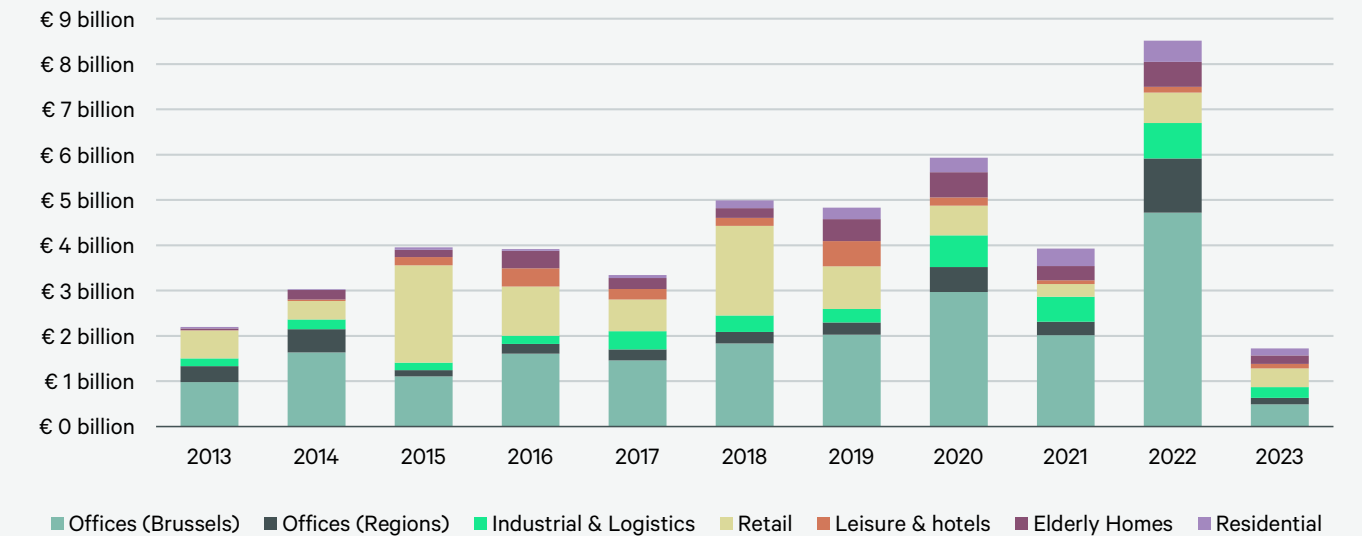
Yields remain under upward pressure, particularly as the ECB raised key interest rates another 25 bps in their September meeting. Though there is little market evidence, prime office investment yields are now estimated at 4.75% for standard-length leases, while those for long-term contracts are estimated at 4.25%.

€214 million

Office investment closed in Brussels during Q3 of 2023

Total CRE investment in Belgium (Q3 2023)

Source: CBRE Research



Brussels recent investment transactions (Q3 2023)

Source: CBRE Research



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