BRUSSELS OFFICES

Marketview Q2 2024

FIGURES

CBRE RESEARCH
Q2 2024

CBRE

The Commission and Engie secure large new spaces, as the ECB cuts interest rates by 25bps

117,905	7.5%	€ 860 mio	390 €/m²
m² Take-up	Vacancy rate	Q2 Brussels office investment	Prime office rent

Note: Arrows indicate change from previous quarter

SUMMARY

- General inflation increased in Q2 to 3.7% Core inflation continued its overall downward trend and is now standing at 3.0%.
- The ECB lowered its three key interest rates on 12 June, 2024 by 25 bps each for the first time in 5 years.
- Take-up volume at 117,905 m² was carried by 3 big ticket transactions in Q2.
- Prime rent increased to 390 €/m²/year, with changes noted in several submarkets
- Vacancy remained stable at 7.5%, mainly driven by availability in grade C office buildings.
- No office completions in Q2 2024, but a lot is in the pipeline for the remainder of the year.
- Core office investment activity remains depressed. The Cityfoward fund acquired a large portfolio in Leopold.

ECONOMY

The euro area economy got off to a positive start in Q1 with 0.3% growth and continued expansion expected through the year. The Belgian economy perfomed similarly at 0.3% in Q1 with an expected 0.4% in Q2. Household consumption and business investment have softened and are expected to be muted in the near term. Housing investment surprised to the upside in Q1 after three quarters of contraction. Net exports are again contributing positively to GDP growth. The NBB forecasts economic growth of 1.2% in 2024 and 1.2% in 2025 (June 2024).

The general inflation index has picked up notably in the first two quarters of the year and currently stands at 3.7% for June 2024. Core inflation (not taking into account price changes in energy and food) has followed a more consistent downward trend and fell below general inflation in April 2024 for the first time since December 2022. It currently stands at 3.0% for June 2024. The NBB expects further moderation in core inflation to 3.0% in 2024 and 1.8% in 2025 (June 2024).

Unemployment is drifting upwards from a low of 5.3% in August 2023 to 5.9% in May 2024. Overall, the NBB sees upward pressure on the unemployment rate with forecasts of 5.7% in 2024 and 5.8% in 2025 (June 2024).

Perhaps the biggest recent event was the ECB lowering three key interest rates on 12 June, 2024 by 25 bps each. The deposit facility, main refinancing rate and marginal lending rate are now 3.75%, 4.25% and 4.50%, respectively. The change of monetary action is a significant step in restoring confidence to businesses and investors, and should help support the real estate industry.

Finally, Belgium watched the outcome of this years election with full excitement. Surprisingly, the reformist parties N-VA and MR won in their respective regions. Several parties are now trying to reach a coalition agreement on different levels. Although Belgium has a track record of having difficulties when it comes to effectively forming a government, it seems to be running smoother this time due to the lack of possibilities and the urgence of the situation. The impact of this electoral result on the Belgian economy remains to be seen.

Belgian economy key metrics (Q2 2024)

Source: European Commission, NBB.Stat

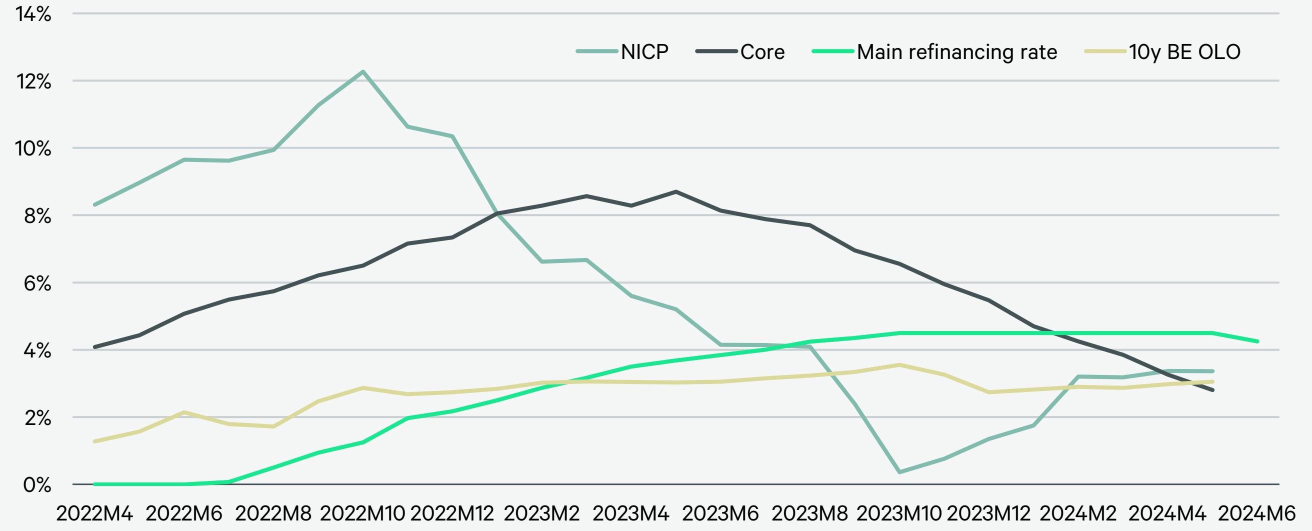
3.7%
NICP INFLATION
June 2024

3.13%
10Y GOVERNMENT BOND YIELD
June 28, 2024

5.9%
UNEMPLOYMENT
May 2024

Inflation, interest rate and bond yield evolution (June 2024)

Source: NBB



DEMAND

Office take-up in Brussels improved in the second quarter to 117,905 m², bringing the first half total to 167,567 m². This is higher than five of the previous six second quarters, which helps make up for the slow start to the year. Through the first six months, take-up is approximately 25% lower than the long-term average, while the decline in number of transactions is less dramatic at 20%. Nevertheless, we can expect the total take-up for 2024 being in line with the previous two years.

167,567 m²

in H1 for Brussels office take-up

Several key major deals helped propel the market forward and forge new ground. The European Commission closed two deals (pre-lets) in ongoing projects. These were Montoyer 34 (14,252 m²) in and Montgomery Parc (22,056 m²), the latter securing a new prime rent for its submarket. These deals follow up two signings from the Commission in 2023 totalling 50,700 m². The Commission is under pressure to modernize its office stock to meet sustainability requirements and have now secured almost 90,000 m² in 18 months on that front.

The Belgian public sector signed one new deal and renegotiated space in two properties, including 56,000 m² in North Gate (Regie der Gebouwen). The new deal was the IHECS acquisition of Blue Point (18,900 m²), continuing the trend of higher education institutions securing large surfaces in existing office buildings.

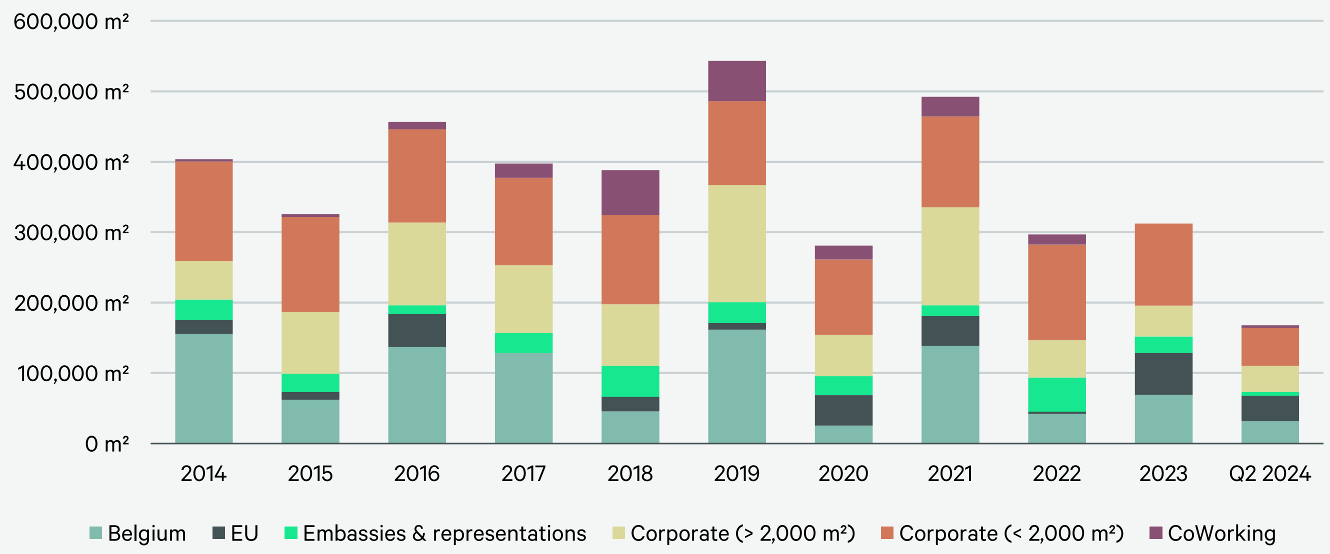
The largest deal of the quarter, however, belongs to Engie, signing for 31,500 m² in the Oxy project in the city centre. This represents 80% of the available space in one of the largest projects in the CBD. It is also the largest corporate deal since Proximus signed in Boreal in 2021.

Other smaller but notable transactions include:

- RBB economics signing for 983 m² in Regent Park and marking a new prime rent for Brussels.
- IWG signing some 1,156 m² for a new coworking space in Axis Parc.
- INNO securing 1,642 m² in The Precedent that is expected to open later this year.

Brussels office take-up (Q2 2024)

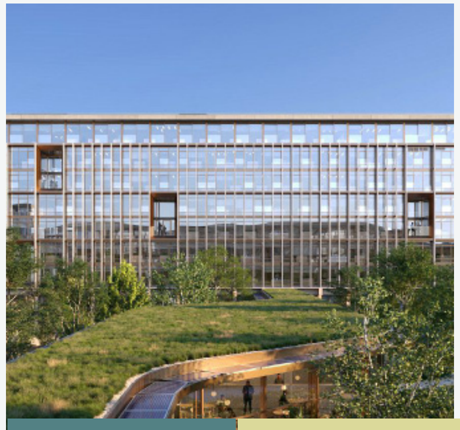
Source: CBRE Research



Notable letting & sale transactions in the Brussels office market (Q2 2024)

Source: CBRE Research

Montoyer 34 | Brussels Leopold
European Commission | 14,252 m²



Montgomery Parc | Brussels Dece NE
European Commission | 22,056 m²

Oxy | Brussels Centre
Engie | 31,500 m²

VACANCY

Vacant office space remained stable at 7.5% of total stock in the Brussels market in Q2. This is equivalent to 932,000 m² including 107,500 m² of grade A vacancies. Vacancy in grade A decreased slightly but increased for grade B and grade C buildings compared to the previous quarter, resulting in a higher vacancy rate.

Office vacancy in the CBD decreased to 3.8% in the first quarter of 2024. The Decentralised and Peripheral markets increased to 10.3% and 18.6%, respectively, on the back of new commercialisations such as Ypso (15,000 m²) and Park Station (11,200 m²).

The largest CBD vacancies for Q2 2024 include the Admiral Building (18,721 m²), Botanic Tower (18,044 m²), Manhattan Center (13,259 m²) and Park Station (11,174 m²).

7.5%

Q2 2024 vacancy is up from last quarter

CONVERSION

In Q1 of this year, developers already marked 53,000 m² of office space for conversion into alternative uses, mostly into residential. This quarter was again strong with 40,323 m² of office space planned to be converted into residential use:

- Of the 23 buildings sold by the European Commission, 2 will go to a joint venture between Vicinity and Matexi. This concerns Beaulieu 25 and Beaulieu 29-33, where 19,227 m² and 20,096 m² of office space respectively will be converted into residential. Earlier this year, Beaulieu 5-15 was already marked for conversion as well.
- In the Centre of Brussels, ION and Belfius Immo plan to convert the office building on the corner of Zandstraat and Broekstraat into 222 units of student housing. The public inquiry has already started.

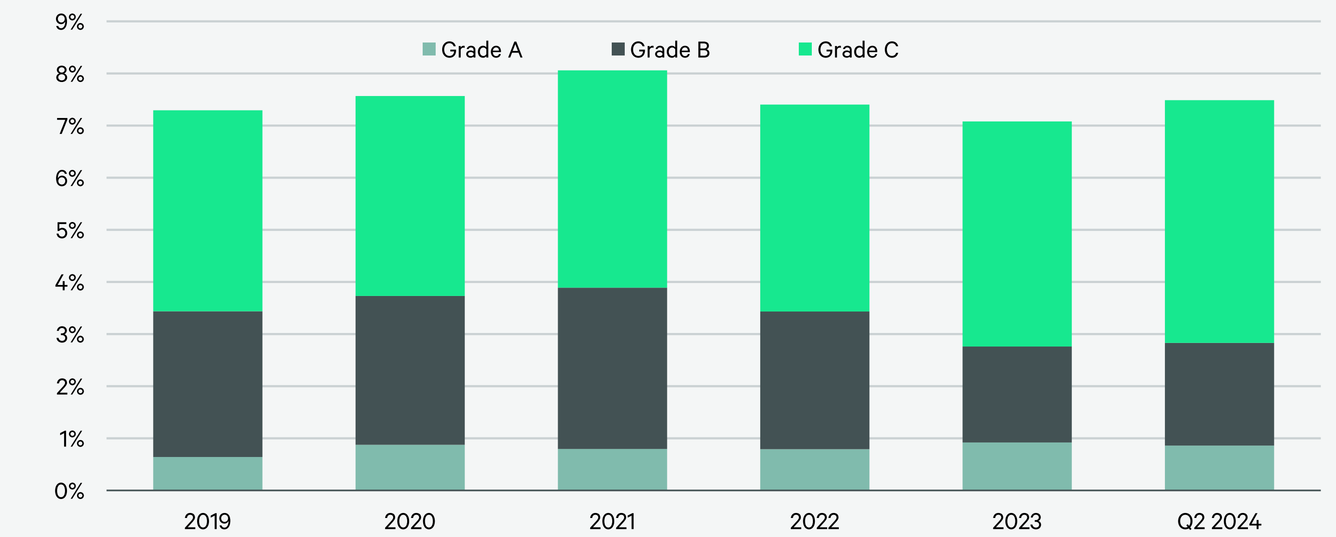
This brings the total conversion volume for H2 2024 to over 93,000 m², which is already higher than the total volume of the previous 4 years.

40,323 m²

Office space marked for conversion in Q2 2024

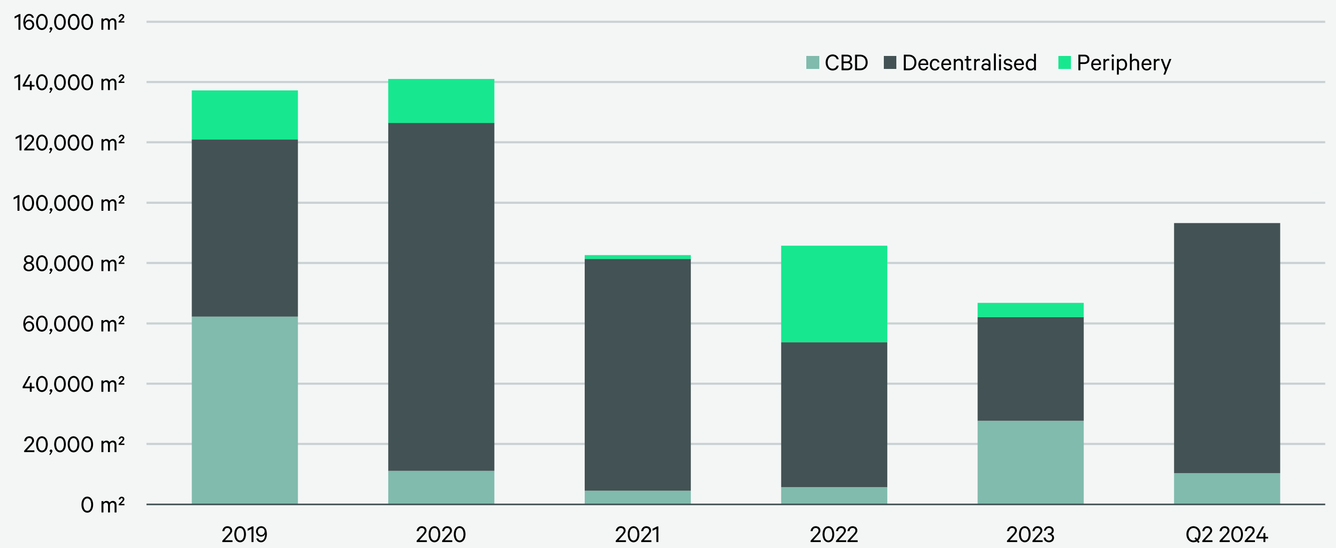
Brussels office vacancy rate (Q2 2024)

Source: CBRE Research



Brussels office conversion (Q2 2024)

Source: CBRE Research



DEVELOPMENT

In Q1, some 90,000 m² of development was completed. This significant volume of office completions is just the start of a busy year for office development.

However, for this quarter, no additional office completions can be noted down for Q2. Some projects have seen their delivery dates pushed back slightly but are still slated for a 2024 delivery.

Notable examples are The Meadow in the Periphery Airport, Deux Gares 80-82 in Brussels South and also the Precedent in the Louise District. All should still be delivered in the coming months.

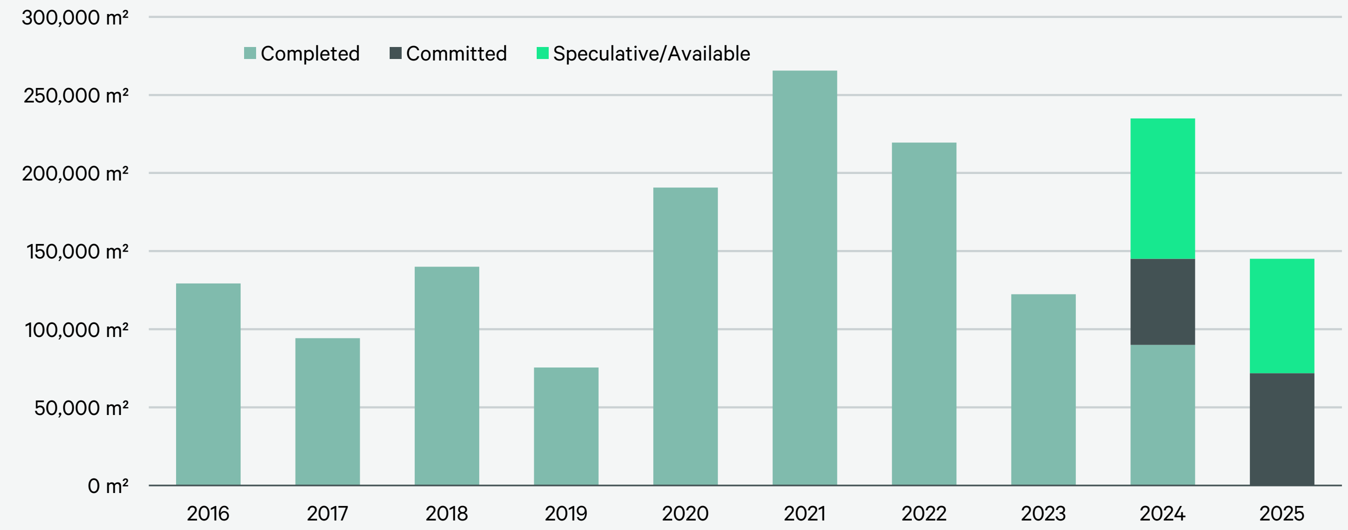
The remaining office development pipeline for the year is still large with 145,000 m² of projected office completions, of which 78,000 m² (54%) is still available. In 2025, we expect 145,000 m² to be completed, of which half is already secured by occupiers.

90,000 m²

Brussels office development in H1 2024

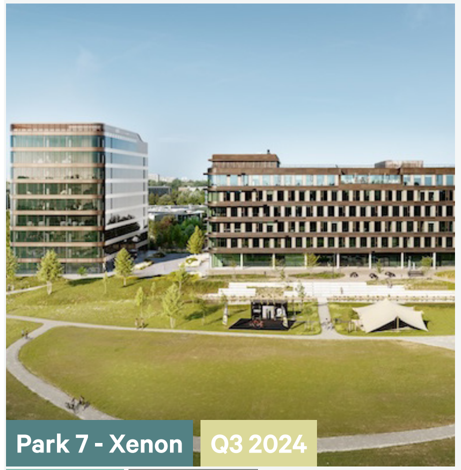
Brussels office development (Q2 2024)

Source: CBRE Research



Brussels expected office developments for H2 2024

Source: CBRE Research



Park 7 - Xenon Q3 2024
Immogra 11,000 m²

Deux Gares 80-82 Q3 2024
ViRiX 23,500 m²

The Louise Q3 2024
Patrizia 33,000 m²

Montoyer 10 Q3 2024
Cofinimmo 6,300 m²

The Meadow Q4 2024
Odebrecht 13,500 m²

Louise 375 Q4 2024
Macan/Landell 3,879 m²

RENTS

Rents for quality space remain under upward pressure given the scarcity of supply, level of demand and overall inflation including construction costs. This is also reflected in renegotiations of existing contracts to remain in current locations. As a result, average rents have been driven considerably higher in key markets this quarter (trailing four quarters). Double digit growth since end 2023 was experienced in the City Centre, Decentralised NE and SW and the Brussels market as a whole, which was 229 €/m²/year. Leopold and the North Area recorded 8% increases. While the large deals described earlier were important drivers of the recent increases, the trend over the last 8 to 10 years is noteworthy.

390 €/m²

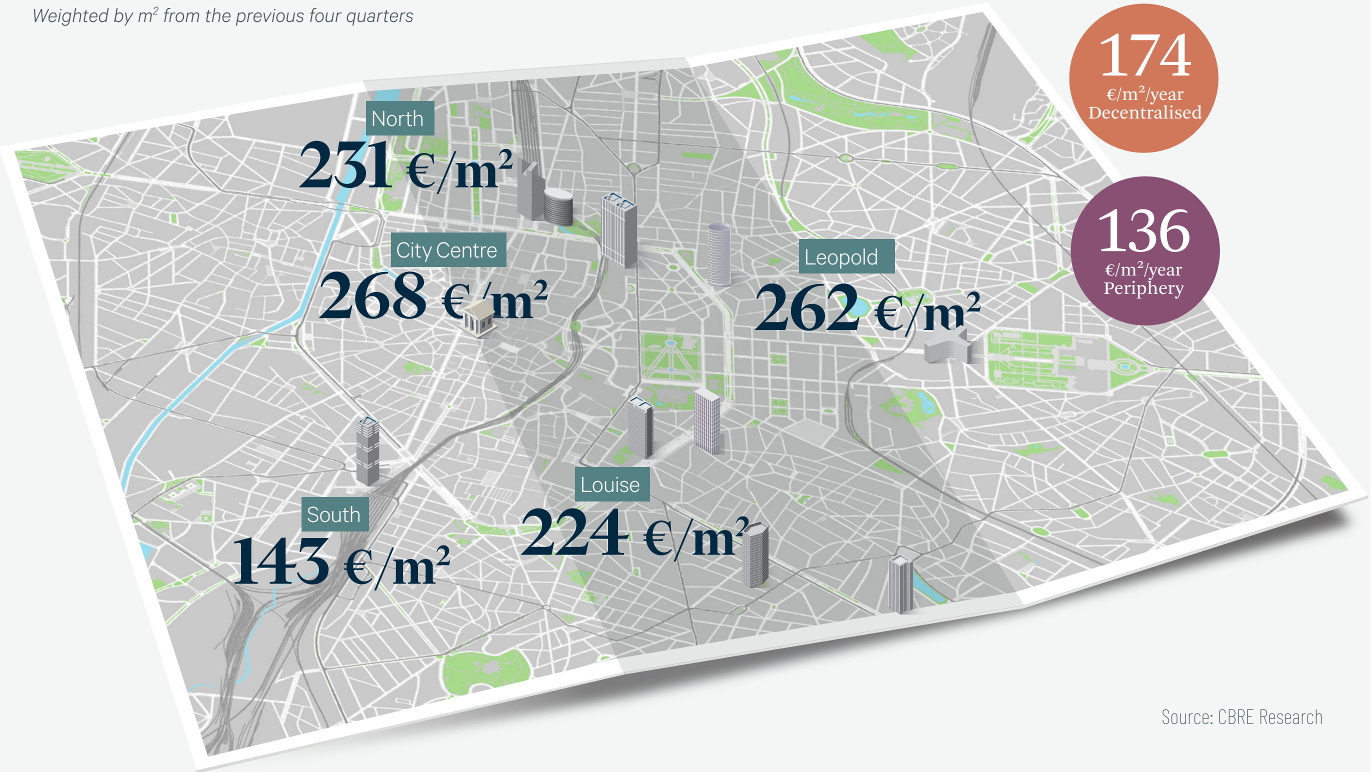
Current office prime rent for the Brussels market

Prime rents have also increased in multiple markets. Regent Park - the office building that defined the prime rent when it was initially built in 2017 - has now secured a record new signing of 390 €/m²/year. This deal deviates from the trend of pre-leases defining prime rental increases. Elsewhere, the Decentralised NE market noted a large jump in prime rent following the European Commission deal in the Montgomery Parc project.

Upward pressure on prime rent is expected to continue in 2024. Ongoing negotiations point towards a new level above 400 €/m²/year in the coming quarters.

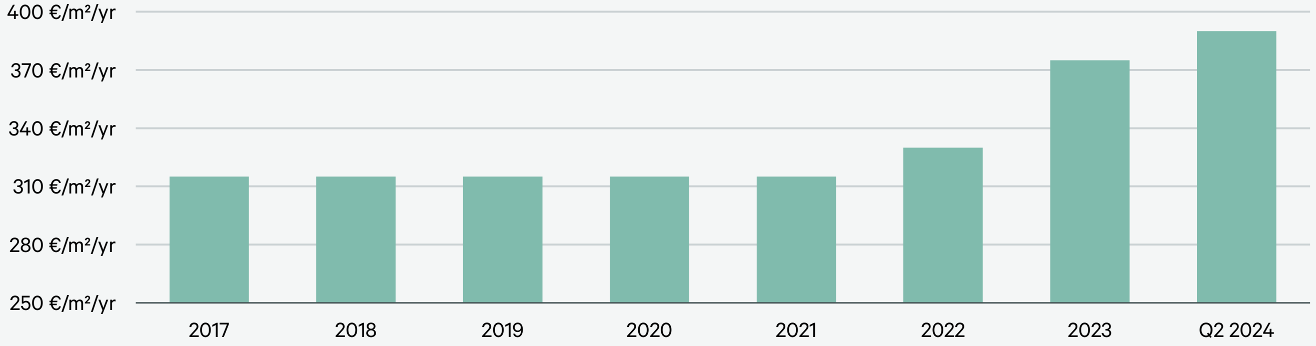
Weighted average rents for offices in Brussels (Q2 2024)

Weighted by m² from the previous four quarters



Source: CBRE Research

Prime rent evolution (2017-Q2 2024)



INVESTMENT

CRE investment in Belgium has increased dramatically this quarter to bring the YTD total to €2.52 billion and rivaling that of full year 2023. However, investment volume was boosted by 2 large transactions, being the TPG Real Estate acquisition of B-REIT Intervest Offices & Warehouses (Q1 2024) and the recently closed EU Deal (Q2 2024).

More specifically, the SFPIM acquisition of 23 buildings in the Leopold district drove investment volumes higher. This is one of the most significant deals in the Brussels office market for some time both for the volume and for what it says about the state of our market and the needs moving forward, in large part (but not solely) driven by the European Green Deal.

€2.52 bn

investment volume in Belgium in H1 2024

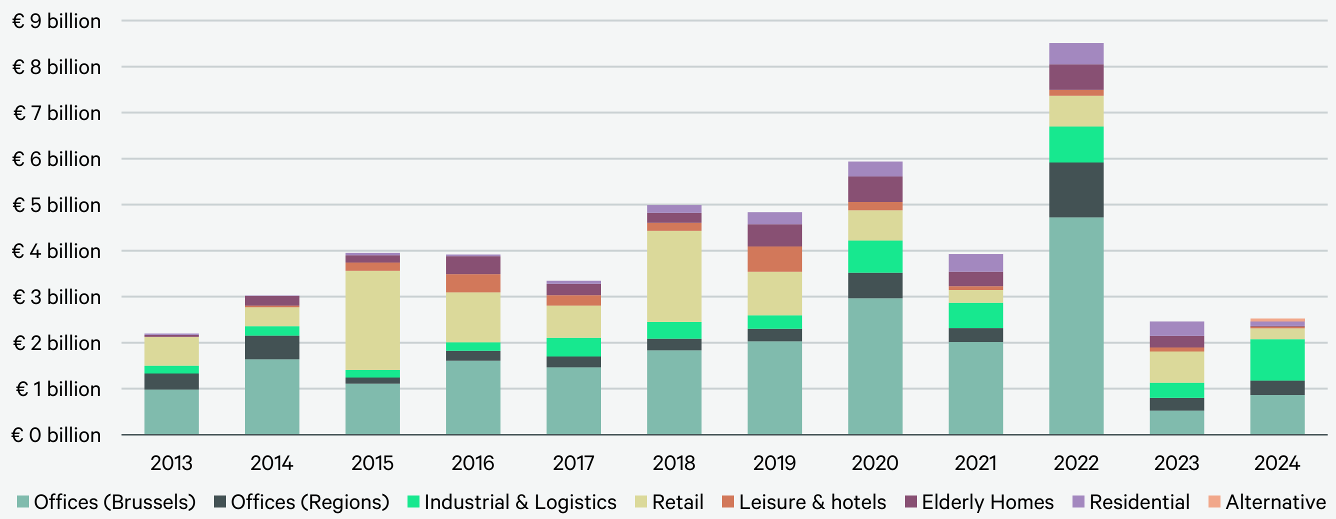
Of the 23 buildings, 21 were given leasehold to Cityforward. The other two buildings were Beaulieu 25 and 29-33, which were passed on to Vicinity and Matexi for residential redevelopment (see earlier). Cityforward then sold the Science 11 building (9,045 m²) to Alides who is developing the Montoyer 34 building (14,252 m²) next to it.

Nevertheless, this mega deal does not change the fact that core office investment in Brussels is still at a low point. And while the recent interest rate cut by the ECB is a welcomed one, interest rates are still near relative highs with pressure remaining on bid-ask spreads. Value-add and opportunistic deals are the primary driver of market activity.

Prime investment yields are believed to be stable in H1 of 2024. These are still estimated at 5.25% for standard-length leases, while those for long-term contracts are estimated at 4.75%.

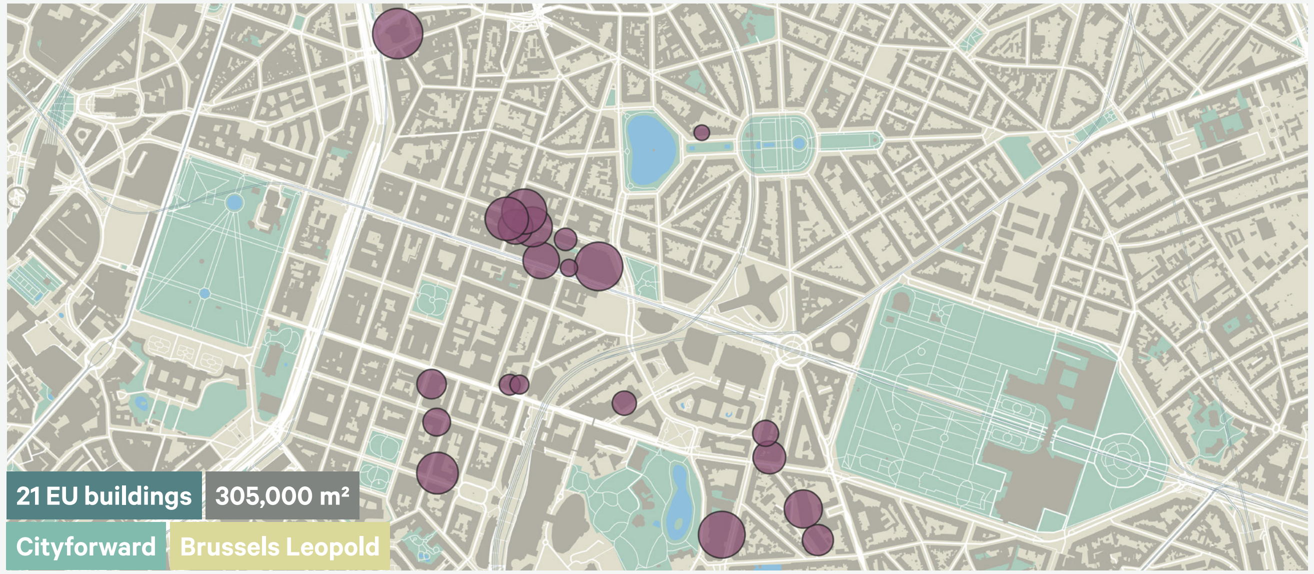
Total CRE investment in Belgium (Q2 2024)

Source: CBRE Research



Leopold buildings acquired by Cityforward (Q2 2024)

Source: CBRE Research



Contacts

Research

Kim Verdonck
Head of Research & Marketing
+32 2 643 33 34
kim.verdonck@cbre.com

Drew Misner
Senior Research Analyst
+32 2 643 33 66
drew.misner@cbre.com

Pierre Acke
Research Analyst
+32 468 21 64 30
pierre.acke@cbre.com

Capital Markets

Arnaud Smeets
Head of Capital Markets
+32 2 643 33 79
arnaud.smeets@cbre.com

Valuation

Pieter Paepen
Head of Valuation Services
+32 2 643 32 26
pieter.paepen@cbre.com

Advisory & Transaction Services

Friedel Laperre
Head of Investor Leasing Offices
+32 2 643 33 73
friedel.laperre@cbre.com

Dimitri Vanneste
Head of Occupier Services
+32 2 643 33 12
dimitri.vanneste@cbre.com

Jean-Michel Meersseman
Head of Contracted Clients
+32 2 643 33 58
jean-michel.meersseman@cbre.com

CBRE