BRUSSELS OFFICES

Marketview Q2 2023

FIGURES

CBRE RESEARCH
Q2 2023

European Commission relocates agencies in the North area in massive new deal

▼ 80K
Take-up

▲ 7.52%
Vacancy rate

▲ €125 mio
Q2 Brussels office investment

▶ 340 €/m²
Prime office rent

Note: Arrows indicate change from previous quarter

SUMMARY

- HICP inflation continued to ease in Q2 and is expected to hit 3.4% by the end of the year, though forecasts can vary notably from different institutions.
- Take-up volume is similar to the previous quarter, though the European Commission drove figures in Q2.
- Prime rent remains under upward pressure, as new developments in the CBD are commercialising well, but still stands at 340 €/m²/year for now.
- Vacancy remains stable at 7.52%.
- Some landmark developments were delivered, such as Science 12, The BelliArt and Royale Belge.
- Office investment activity through Q2 is weak, as an uncertain macro environment sidelines some investors while providing opportunities in off-market deals.

ECONOMY

The economic outlook for Belgium improved this quarter, with lower energy costs and a more resilient economy surprising to the upside. As a result, GDP growth forecasts by the European Commission have been revised upwards to 1.2% for the year. 2024 is expected to be stronger than this year, with GDP growth of 1.4%. For Brussels, growth was reported 3.1% in 2022 and is forecast to expand by 0.6% in 2023, according to Oxford Economics.

Belgian CPI declined sharply from 5.2% in May to 4.15% in June. HICP for May (latest available data) also fell from the month before to 2.7% and is the second lowest in the EU behind Luxembourg. HICP is expected to be 3.4% year-on-year for 2023 and 3.5% year-on-year for 2024, according to the European Comission. Core inflation in Belgium, however, remains stubbornly elevated.

Despite inflation being past the peak in most eurozone countries, CBRE expects the European Central Bank to raise interest rates another 25 bps at its next meeting in July and then hold until the end of the year. The ECB rate increases have been widely expected and are already reflected in long-term interest rates, which peaked in March. A further gradual decline in long rates is expected, provided that inflation continues to fall.

The yield on the 10-year Belgian bond has been floating around the 3% mark through the quarter. This trend is similar to that of other countries in Western Europe. CBRE forecasts a modest decline in the coming years but no return to pre-covid levels at this time.

Finally, the Belgian labour market has been strong in recent months, showing resilience through the macro turmoil. Monthly unemployment data has fluctuated very little over the last year and stands at 5.6% today (April 2023). Employment expansion, however, has weakened somewhat. Unemployment in Brussels is historically higher, with just over 11%. This is, however, on a downward trend, and growth is expected over the coming years.

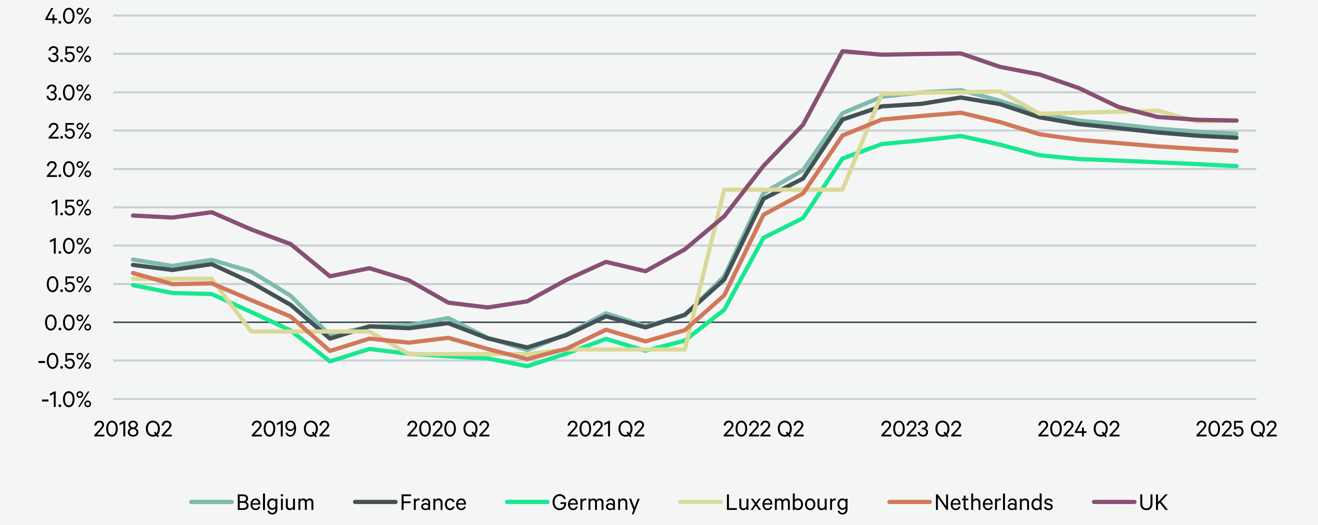
Belgian economy key metrics (Q2 2023) Source: European Commission, NBB.Stat

1.4%
GDP GROWTH
2023 forecast

3.4%
HICP INFLATION
2023 forecast

3.0%
10Y GOVERNMENT BOND YIELD
June 29, 2023

10-year government bonds in neighbouring markets (Q2 2018 - Q2 2025f) Source: CBRE Research



DEMAND

79,895 m²

in Q2 for Brussels office take-up

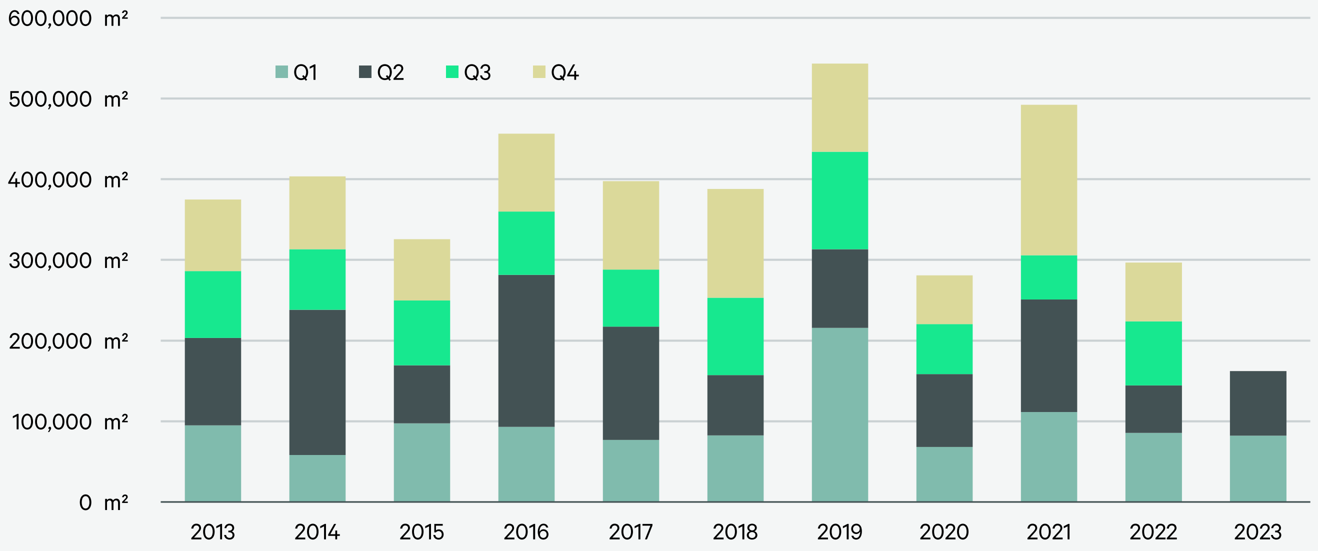
Office take-up in Brussels recorded 79,895 m² in Q2 of 2023, a similar amount to the first quarter. This is lower than the five- and ten-year averages for take-up through the first half of the year, but it is higher than the same period in 2022. One large deal in particular is supporting take-up figures through Q2.

This quarter, the European Commission signed for 30,000 m² in the North Light building in the North district. This is the largest new transaction from a European institution in almost ten years and is a major win for the North area as it continues its transformation into a revitalised, mixed-use district. A long-anticipated deal, the Commission will complete fit-out works by the end of the year. Additionally, this deal helps the Commission take another step towards its energy reduction goals after leaving their outdated Genève and Beaulieu locations. The Commission is expected to clarify its strategy in the Leopold district later this year.

The Commission was not the only active European insitution this quarter. The European Parliament acquired the 5,935 m² Trèves 9 building in Leopold. Also in this market, Davis Polk & Wardwell secured 682 m² in the Lucia building as its third tenant. Outside of the CBD, four buildings sold to three different occupiers comprising a total of 9,500 m² in the Keiberg business park in the Airport market.

Corporate take-up has been relatively subdued through the first half of the year at 88,150 m². The macro environment has put businesses' margins under stress, with some occupiers delaying major real estate decisions and others weighing the cost of a move in a market with limited immediately available options. 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. The market is changing rapidly and expectations will need to readjust.

Brussels office take-up (Q2 2023) Source: CBRE Research



Notable letting & sale transactions in the Brussels office market (Q2 2023) Source: CBRE Research

European Commission | 30,000 m²

European Parliament | 5,935 m²

Davis Polk & Wardwell | 682 m²

> Current take-up is masking the underlying challenges in the office market. A lack of new, well-located space is preventing occupiers from moving, especially in the Leopold quarter.

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VACANCY

Vacant office space increased slightly to 7.52 % of total stock in the Brussels market in Q2. This is equivalent to 942,000 m² including 102,000 m² of grade A vacancies. Vacancy in grade A has remained stable compared to last quarter (0.82%), but decreased for grade B assets (2.1%).

Office vacancy in the CBD declined to just 3.9% in the second quarter. The decentralised and periphery markets noted slight increases to 10.9% and 18.2%, respectively.

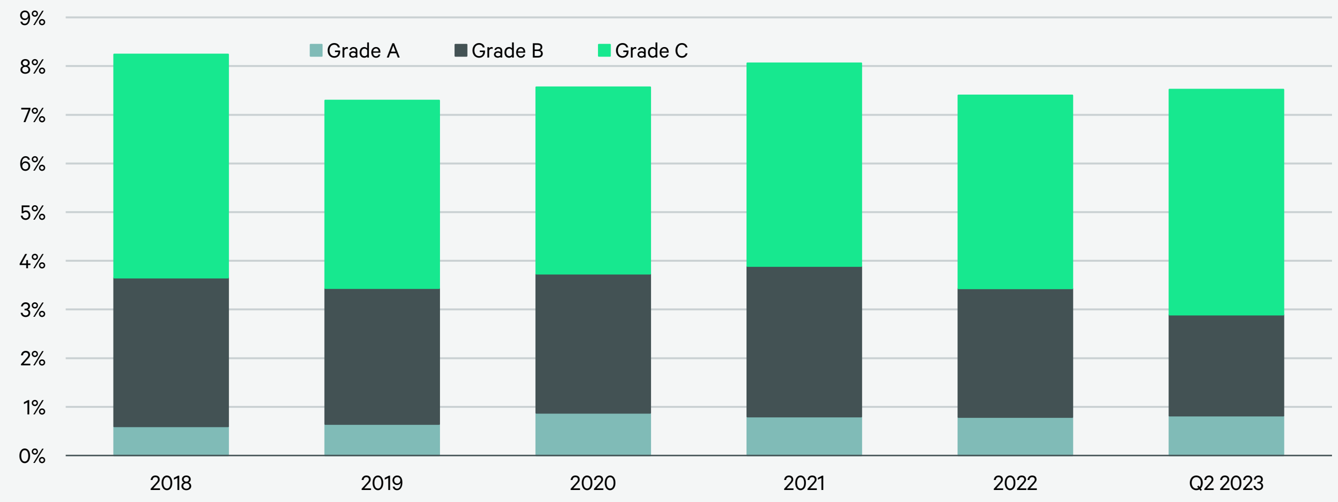
Notable CBD vacancies for Q2 include: Manhattan Center (16,429 m²) and Botanic Tower (15,070 m²) in Brussels North, and Commerce 46 (14,274 m²) in the Leopold district. However, Commerce 46 is in negotiations with key occupiers. Overall, vacancy is heavily concentrated in older building stock.

7.52%

Q2 vacancy is slightly up from last quarter

Brussels office vacancy rate (Q2 2023)

Source: CBRE Research



CONVERSION

In the first half of 2023, developers have marked 10,794 m² of office space for conversion into alternative uses in a slow first half. Conversion into residential uses remains the dominant option in the market. Regarding this quarter, only one conversion was identified:

- Cofinimmo has sold their headquarters along Woluwelaan 58 to Urbicoon. 3,836 m² offices will be converted into residential space.

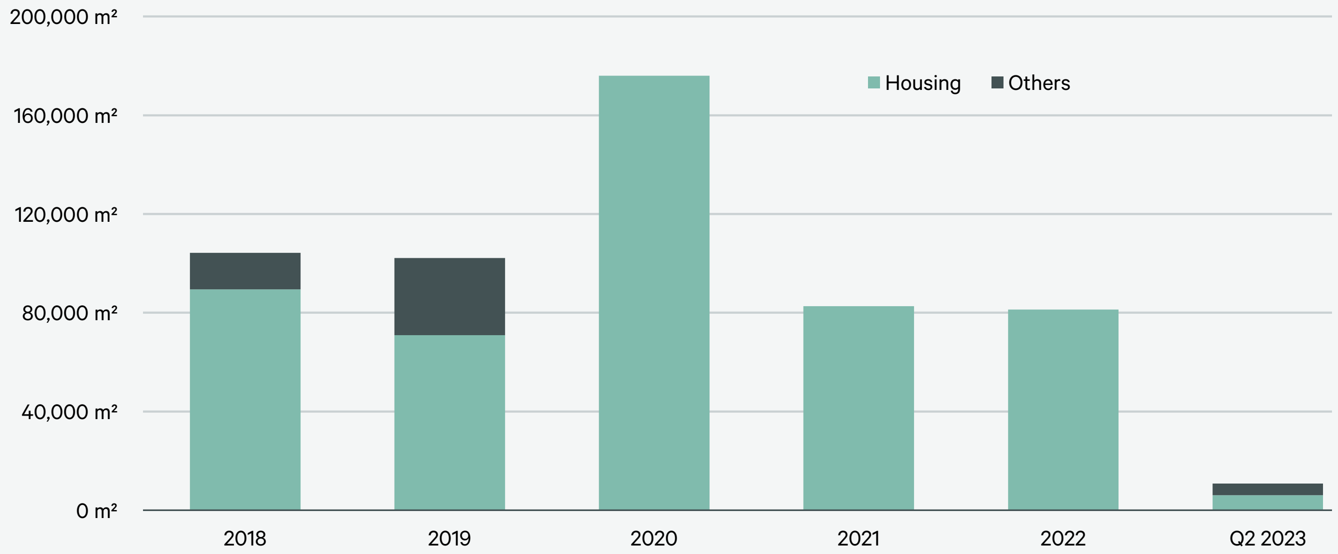
Despite the low conversion figures so far this year, we expect conversions to continue from the changing occupier demands on offices. New requirements will force landlords to weigh costly capex improvements to upgrade facilities to new standards or disposing of the property for a potential other use.

10,794 m²

Office space marked for conversion in 2023

Brussels office conversion (Q2 2023)

Source: CBRE Research



> Companies are quick to snap up the few available grade A spaces in the market, and are less district-bounded.

Pierre Acke
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DEVELOPMENT

In Q2, a total of 42,000 m² of development was completed. In the Leopold area we saw the delivery of The BelliArt (2,600 m²) and Science 12 (6,170 m²). Also 3,500 m² of Strombeek Business Park has been delivered this quarter. Another 8,500 m² is expected to be delivered in Q3 of this year.

The stand-out delivery of Q2 is the new Royale Belge Offices in the Decentralised South-East district (55,000 m² in total). This project offers offices, a 4-start hotel, sports facilities and restaurants, and is opening end of June 2023. It is one of the few speculative projects in the decentralised market in recent years, and is being delivered fully pre-let.

The remaining office development pipeline for 2023 is 120,000 m², of which 70,000 m² (58%) is still available. In 2024, we expect 292,000 m² to be completed of which 136,000 m² (47%) is still available. For 2025, the current pipeline is 390,000 m² of office development. Not all of these projects are permitted, however.

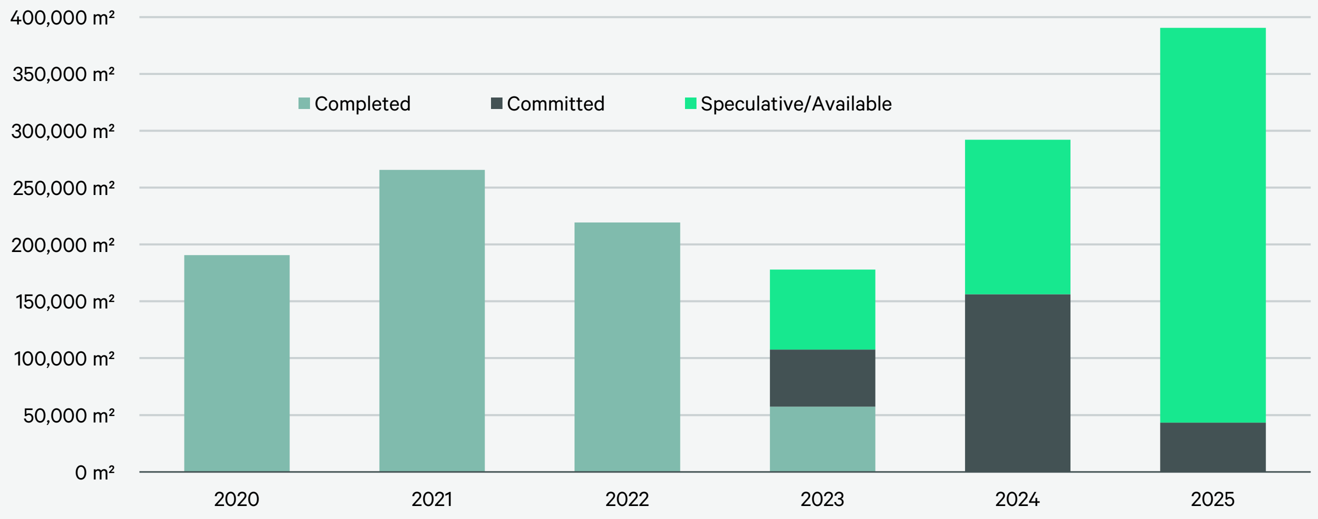
The anticipated available pipeline for the remainder of the year is a typical quarter's worth of take-up or less. Pre-lets and grade A take-up usually account for 25 to 50% of total annual take-up. Considering European institutions' and Belgian governments' ambitious real estate goals around ESG compliance and carbon neutrality, and corporate demands that are quickly following, qualitative office space is under pressure in key markets.

33,000 m²

Brussels office development in Q2 2023

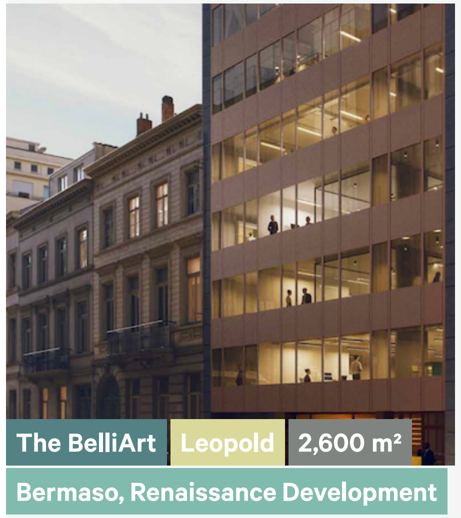
Brussels office development (Q2 2023)

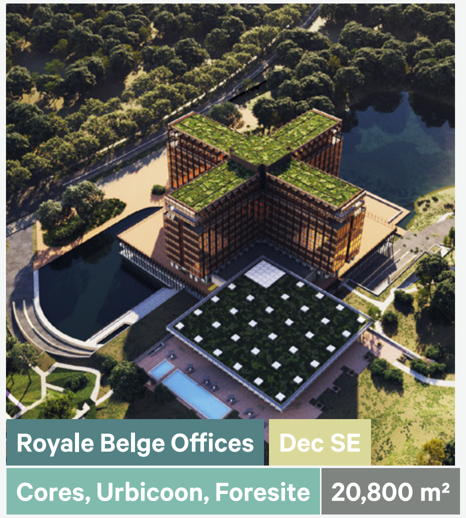
Source: CBRE Research



Brussels expected developments (Q2 2023)

Source: CBRE Research





RENTS

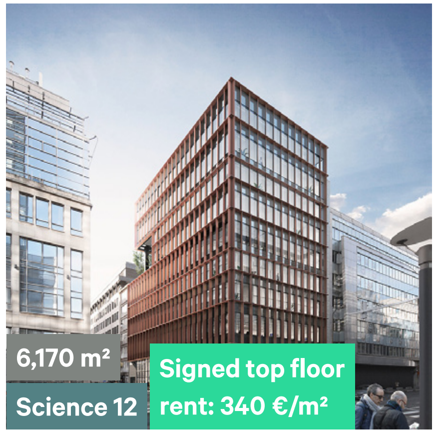
Sustained demand for quality office space, limited new speculative development and higher construction costs have put upward pressure on prime rents in the Brussels market.

Prime rent in Brussels remains 340 €/m²/year in Q2 after a record singing in The Louise (Louise Tower) last quarter. Prime rents are stable in other CBD submarkets, but select new developments will challenge these levels later this year. The prime rent in decentralised markets remained stable at 195 €/m²/year in Q2 after an increase last year. The same dynamic holds for the Periphery Airport.

340 €/m²

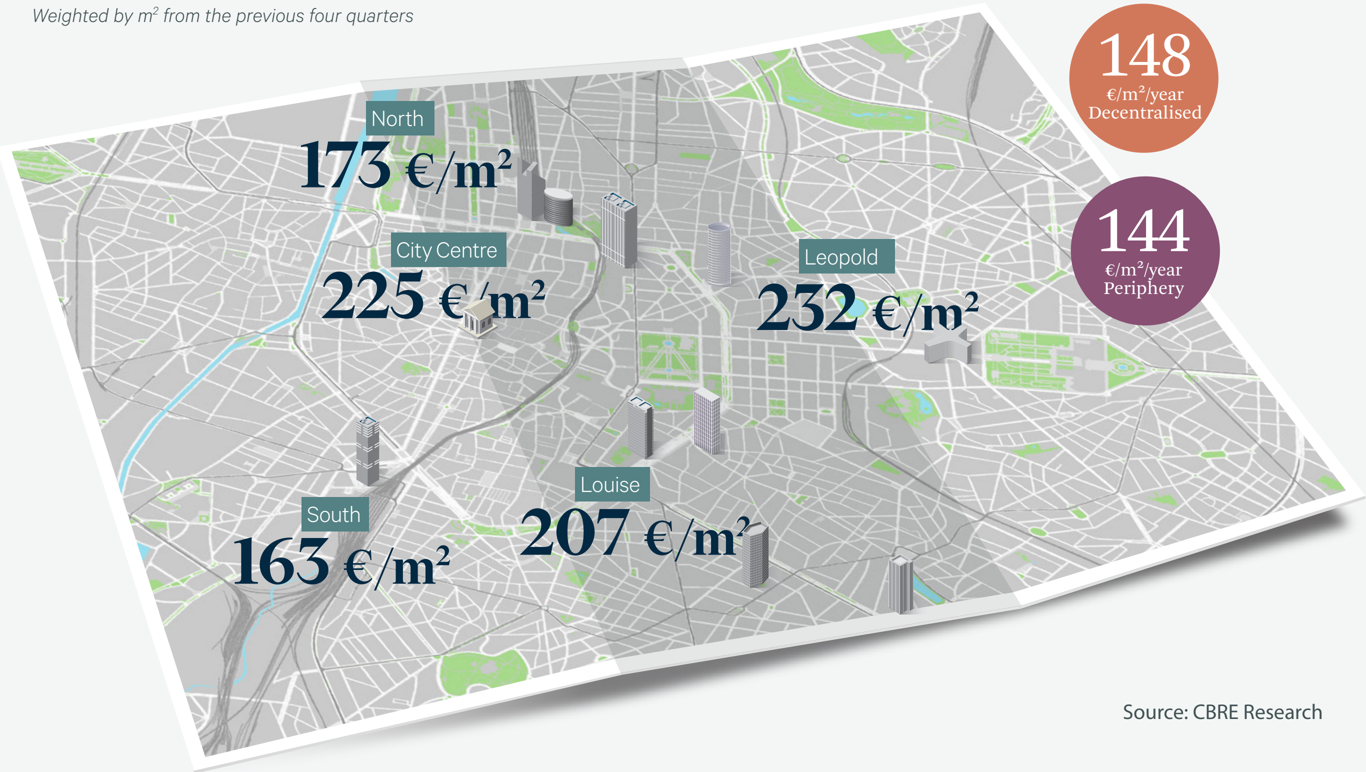
Office prime rent for the Brussels market increased in 2023

Average rents (ERVs) have also been increasing, but can vary by market.
The Leopold quarter in particular has seen an upward trend over the long term to 232 €/m²/year in Q2, as vacancy is squeezed. Rents in grade B & C buildings on the other hand can be subject to change in markets that have higher levels of vacancy, particularly in buildings that are lagging in terms of capital improvements.



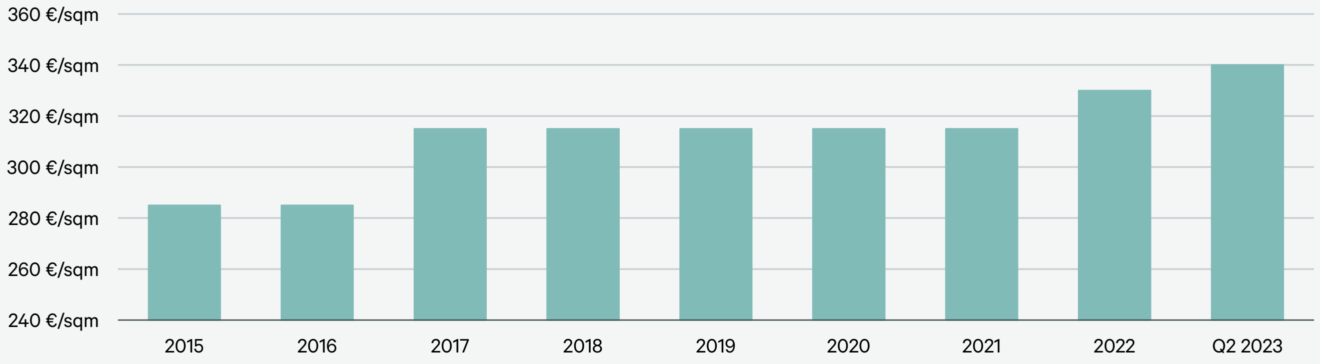
Weighted average rents for offices in Belgium (Q2 2023)

Weighted by m² from the previous four quarters



Source: CBRE Research

Prime rent evolution (2015-Q2 2023)



INVESTMENT

CRE investment activity in Belgium was weak in the first half of this year. Total investment volume for Belgium was recorded at just under €1 billion, of which €248 million was allocated to Brussels office investment deals. In Q2 alone, €125 million of office investment was noted.

€125 million

Office investment closed in Brussels during Q2 of 2023

The macro environment is still weighing on investor activity, as interest rates remain high to cope with rising inflation throughout Europe. Off-market investment has become more active as a result. With the ECB believed to be nearing the end of its rate-hike cycle, we expect greater certainty on the interest rate outlook to provide a foundation for recovery.

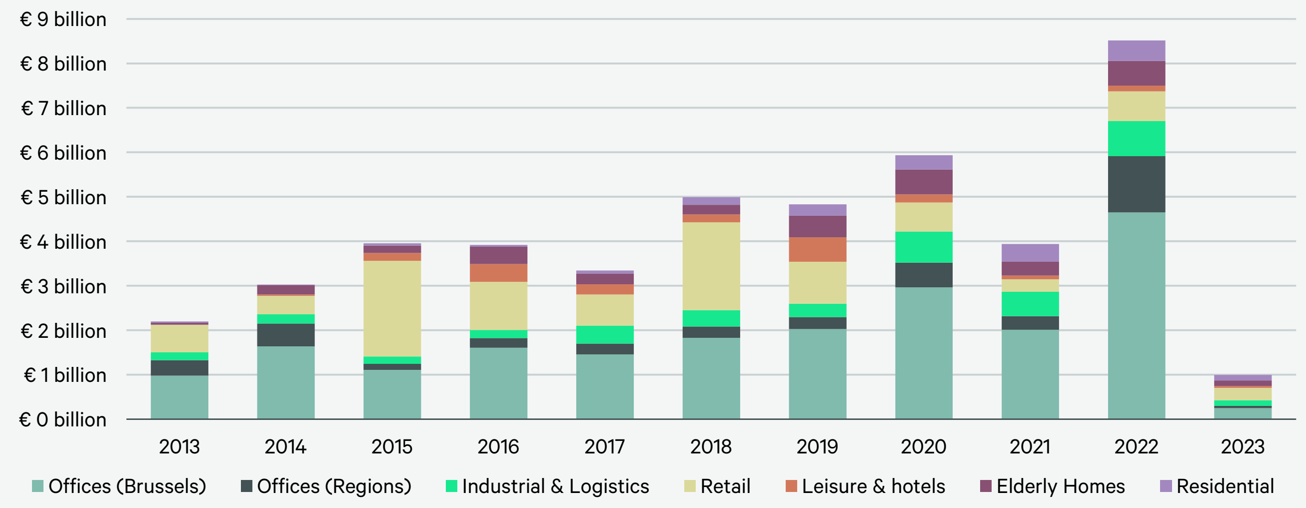
Still, some notable deals were recorded, underlining the value available across different Brussels markets. These include Liberty House, Science 41 and Royale 138:

- Located on Rue de la Loi 57, Liberty house comprises 10,280 m² office space and is fully let to Cleary Gottlieb Steen and Hamilton. Cofinimmo sold this building to Alides who also owns the Copernicus building next to it.
- Alongside Rue de la Science 41, Cofinimmo also sold 2,932 m² of office space to Galika in a JV with Montjoye.
- Royale 138 - built in 1986 and renovated in 2002 - was sold this quarter. It is located on the corner of Rue Royale and Rue de Ligne and comprises 8,471 m² of office space. HIH Global Invest sold this to Eaglestone.

With spreads under pressure, prime office investment yields are now estimated at 4.5% for standard-length leases, while those for long-term contracts are estimated at 4.1%.

Total CRE investment in Belgium (Q2 2023)

Source: CBRE Research



Brussels recent investment transactions (Q2 2023)

Source: CBRE Research

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