MARKETBEAT
BELGIUM
Brussels Office

Q2 2024

CUSHMAN & WAKEFIELD

BRUSSELS / Office Q2 2024

179K
Take-up
(000s sq m)
YoY Chg
12-Mo. Forecast

8.38%
Vacancy rate
YoY Chg
12-Mo. Forecast

375€
Prime rent
(EUR/sq m/year)
YoY Chg
12-Mo. Forecast

5.15%
Prime yield
(3/6/9 lease)
YoY Chg
12-Mo. Forecast

Economic Indicators
Q2 2024

	YoY Chg	12-Mo. Forecast
1.31% 2024 GDP Growth		
5.83% 2024 Unemployment Rate		
3.23% 2024 Consumer Price Index		

Sources: Moody's Analytics, BNB, Eurostat, Federal Planning Bureau, June 2024

Please note the economic data can vary significantly from one source to the other. Therefore, the figures provided should merely be used as an indication or trend.

Steering through uncertainty

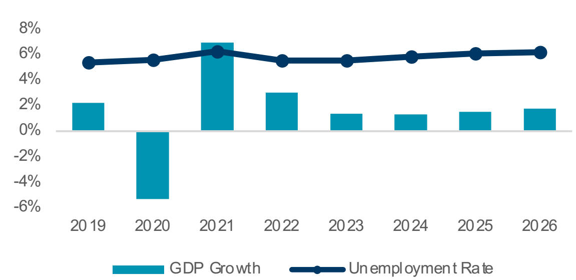
Belgium's economic landscape in the second quarter of 2024 is marked by a blend of cautious optimism and underlying challenges. As we progress through this election year, a period often associated with heightened economic uncertainty, the Belgian economy is projected to grow modestly. GDP growth for 2024 has been revised downwards from previous forecasts to 1.31%, with a slight uptick to 1.54% anticipated in 2025. This steady but slow climb comes amidst concerns about the country's public debt. Despite previous high inflation aiding in the reduction of the government debt ratio in 2022, projections indicate that without significant policy changes, government debt could escalate, reaching 130% of GDP by 2030.

In June 2024, the European Central Bank (ECB) cut interest rates for the first time in nearly a year, prompted by a slowdown in eurozone inflation. However, in Belgium, inflation surged again in the first half of 2024, with an estimated rate of 3.23% for the entire year. Inflation is expected to approach the ECB's 2% target by 2025. This recent rise in Belgian inflation complicates the ECB's task, requiring them to closely monitor price trends in the coming months before considering another rate cut.

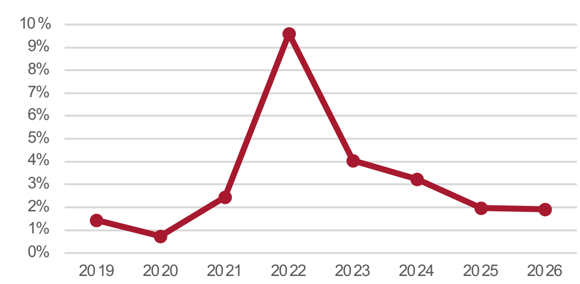
Belgium's unemployment rate, which hovered around 5.5% in 2023, has shown a worrying upward trend in recent months, currently standing at 5.8%. Experts predict it could climb even higher in the coming years due to several factors. The ongoing war in Ukraine has sent shockwaves through the global economy, with Belgium feeling the impact through higher energy prices, up over 20% year-on-year, and significant supply chain disruptions. These challenges have forced businesses to tighten their belts, leading to layoffs and an increase in bankruptcies. Stricter financing terms and an uncertain economic landscape further contribute to the rising unemployment rate, painting a complex and challenging picture for the job market in Belgium.

Overall, the economic outlook for Belgium in Q2 2024 reflects a period of cautious growth, with inflation and unemployment posing significant challenges. The upcoming elections across the world add a layer of unpredictability, impacting business confidence and economic forecasts.

GDP Growth and unemployment rate



Inflation rate



Large transactions keep the market buoyant

After two years of subdued activity, demand appears to be rebounding in the first half of 2024. Take-up for the first six months of the year reached just under 180,000 sq m, marking an increase of nearly 25% compared to the same period in 2022 and 2023.

While this suggests a positive trend, a closer look reveals some nuances. Large transactions are significantly buoying the market, with four deals alone accounting for over 80,000 sq m of take-up. Specifically, the European Commission pre-let 20,645 sq m *Montgomery Square* and 14,262 sq m *Montoyer 34* in the Leopold district. Additionally, Engie pre-let 28,000 sq m in the *OXY* project in the Centre district, and IHECS acquired the *BluePoint* for its own use.

Beyond these major deals, the market remains relatively subdued, relying primarily on smaller transactions. Increasing renegotiations have been shaping the landscape for months, often postponing occupier relocations to await more favourable economic conditions in the future.

Polarisation in Brussels office market

In the Brussels office market, demand is predominantly for Grade A and Grade C buildings, with Grade A making up 50% of transactions and Grade C accounting for 40%.

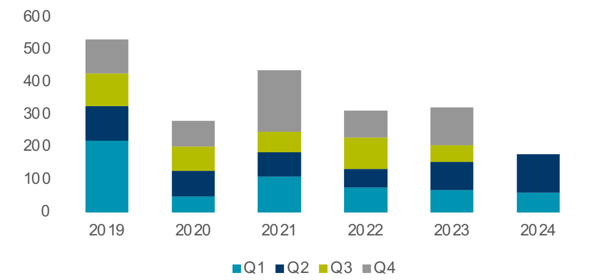
Grade C properties experience a variety of transactions across all surface areas, indicating the current economic uncertainties. On the other hand, most Grade A transactions involve large surface areas, spurred by significant recent deals from major tenants such as the European Commission and Engie.

Prime rents stabilise with potential for further increases

Following multiple quarters of increases in prime rents across central districts, prime rents remained unchanged in Q2, with a potential further increase expected by the end of the year.

However, it is noteworthy that a transaction occurred at a market-record level. RBB Economics leased the top floor of *Regent Park* at an unprecedented level of 390€/sq m/year. It remains to be seen whether such rents will materialise as the new prime rent for the Brussels office market.

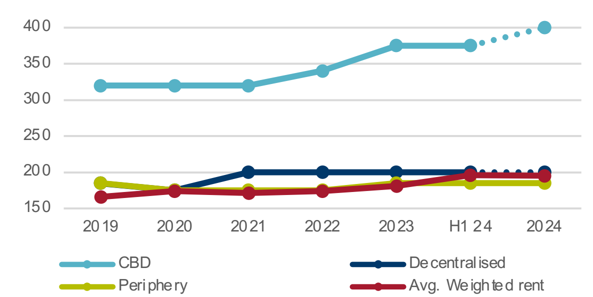
Take-up by quarter (000s sq m)



Take-up: split by grade and surface

	0-499	500-999	1,000-2,499	2,500-4,999	5,000-9,999	10,000 +
A	1,175	5,916	12,595	4,144	5,652	62,907
B	6,873	4,183	2,856	-	-	-
C	16,011	11,688	13,266	3,172	9,250	19,800

Prime rents (€/sq m/year)



Deliveries soar, pre-leases dive

The first half of 2024 has been active in terms of new deliveries, with no less than 150,000 sq m delivered on the Brussels office market since the beginning of the year. In Q2, six buildings totalling 65,000 sq m were delivered, notably *M10*, a 6,300 sq m project located in the Leopold district; *The Louise* and *The Precedent*, two projects totalling 35,000 sq m, both located in the Louise district.

It is important to note that of all surfaces delivered this quarter, only 25% of the total was pre-leased upon delivery. This marks a significant shift in market dynamics, as the Brussels office market is not as much a pre-letting market as it was a few years ago. The current economic climate and uncertainties have led to a decline in pre-letting transactions, with only large corporates and public bodies currently engaging in such agreements.

Vacancy rate continue to climb

Recent speculative deliveries continue to weigh on vacancy in the Brussels office market. While vacancy rates have been on a slight rise since the beginning of the year, the trend has accelerated this quarter with buildings entering the market (partially) empty. The vacancy rate currently stands at 8.38% for H1 2024, up from 7.84% in Q1.

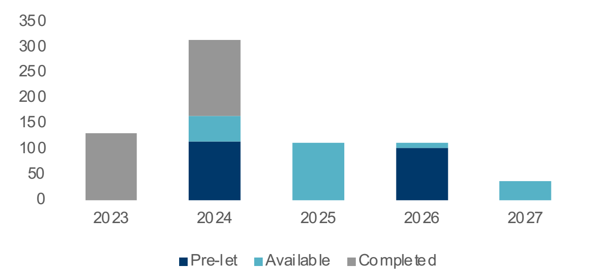
Speculative deliveries are not the only factor influencing the rise in vacancy; low take-up is also driving this phenomenon. Overall, vacancy rates are increasing across all submarkets. In the CBD, vacancy is now slightly above 5%, while in the Decentralised and Periphery areas, vacancy rates have surpassed 12% and 15%, respectively. This trend reflects the broader economic uncertainties and cautious approach of potential tenants in committing to new office space.

Anticipating stability

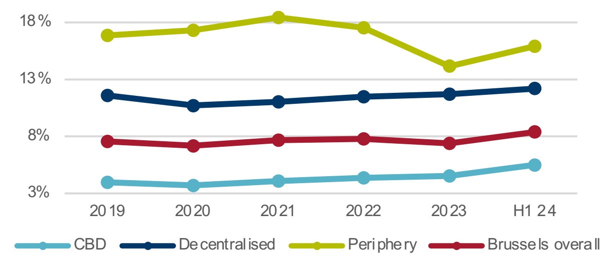
Looking ahead, despite the influx of new properties hitting the market in the coming months, a significant proportion of these developments are already pre-let, which serves to mitigate further increases in vacancy rate.

As a result, vacancy rate should stabilise around 8.5%. Additionally, with increasing emphasis on ESG criteria, occupiers are likely to prioritise relocating to ESG-compliant buildings in the coming months.

Office pipeline (000s sq m)



Vacancy rate by districts



Prime yields remained unchanged

In Q2 2024, the Brussels office market remains in a state of anticipation following the ECB's recent rate cut of 25 basis points on June 24. Despite this monetary easing, the spread between the policy rate and prime yields remains uncomfortably narrow, indicating persistent uncertainty among investors. Compounding this is the lack of market evidence, as there have been no transactions in this period, reflecting cautious market sentiment. Given these conditions, we estimate that prime yields will remain unchanged this quarter.

The static nature of yields highlights the ongoing challenges in the market, underscoring the need for more significant economic catalysts to stimulate activity and shift yield dynamics.

A one-off transaction

The long-running negotiations have concluded, and the historic Cityforward deal was finalised this quarter, giving a significant boost to the Brussels investment market to a total of 966 MEUR.

Cityforward has acquired an impressive portfolio of 23 buildings from EU institutions for just over 900 MEUR. They have already sold *Science 11* to Alides for 20 MEUR and the two Beaulieu buildings to Matexi and Vicinity for 20 MEUR as well.

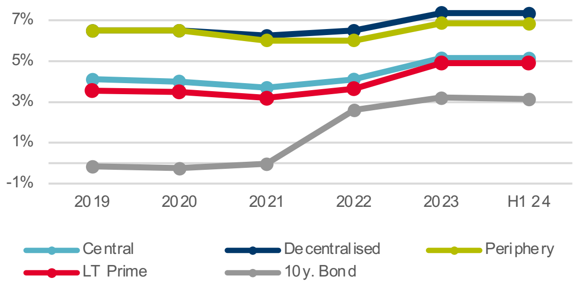
The plan is to transform these buildings into a dynamic mix of offices and residential spaces, with 70% designated for offices and 30% for residential units. This decision underscores Brussels' growing demand for modern office spaces to accommodate the influx of businesses attracted by the city's status as a major European hub.

Beyond rate cuts – inflation's rise

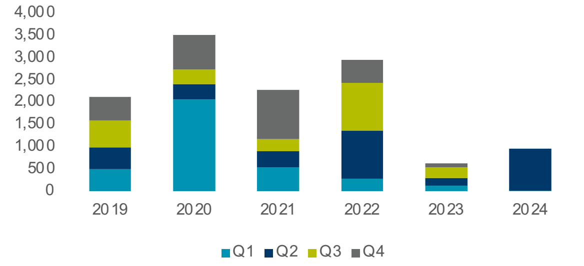
Following the ECB's recent rate cut of 25 basis point in June, inflationary pressures have intensified, driven by higher household consumption as the economy recovers from previous downturns. Energy prices, in particular, have surged significantly recording year-over-year increases exceeding 33%, further elevating the cost of living and operational expenses.

This inflationary spike poses challenges for the Brussels office market, as rising costs may dampen business investment and tenant demand. Consequently, market participants are closely monitoring these economic trends to gauge their long-term impact on the sector's stability and growth.

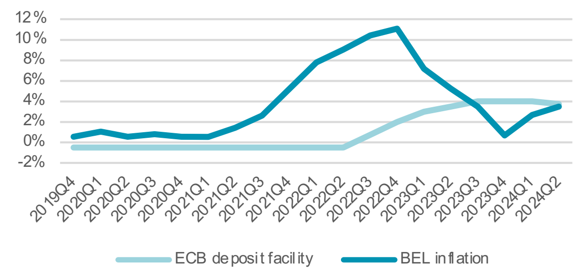
Prime yields



Investment volumes by quarter (MEUR)



ECB Interest rate vs Belgian Inflation



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Market Statistics

SUBMARKET	STOCK (SQ M)	AVAILABILITY (SQ M)	VACANCY RATE	Q2 2024 TAKE-UP	2024 TAKE-UP	UNDER CONSTRUCTION (SQ M)	PRIME RENT (€/sq m/year)	PRIME YIELD
Leopold	3,489,162	110,625	3.17%	40,623	44,752	41,683	€375	5.15%
Centre	2,510,223	127,614	5.08%	33,725	51,886	130,813	€340	5.25%
North	1,621,727	180,783	11.15%	2,241	8,143	5,286	€270	5.80%
Louise	875,761	64,991	7.42%	3,242	9,341	9,600	€340	5.30%
Midi	618,538	17,515	2.83%	-	150	-	€195	6.00%
Decentralised	2,426,547	295,754	12.19%	24,086	38,147	130,000*	€200	7.35%
Periphery	2,258,086	359,343	15.91%	14,341	27,029	112,275	€185	6.85%
Brussels (Overall)	**13,800,044**	**1,156,624**	**8.38%**	**118,258**	**179,448**	**429,657**	**€375**	**5.15%**

* Including new HQs for RTBF and VRT

Key Lease Transactions Q2 2024

PROPERTY	SUBMARKET	TENANT	SQ M	TYPE
OXY	Centre	Engie	28,000	Pre-letting
Montgomery Square	Leopold	European Commission	20,645	Pre-letting
Bluepoint	Decentralised	IHECS	19,800	Purchase
Montoyer 34	Leopold	European Commission	14,262	Pre-letting

Key Investment Transactions Q2 2024

PROPERTY	SUBMARKET	BUYER / SELLER	VOLUME (in MEUR)	YIELD
EU Portfolio	Leopold – Decentralised	Cityforward / EU Commission	910	-
Science 11	Leopold	Alides / Cityforward	20	-
Beaulieu 25 & Beaulieu 29-33	Decentralised	Matexi & Vicinity / Cityforward	20	-

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