RESEARCH

Knight Frank

BRUSSELS

OFFICE MARKET OUTLOOK

Q1 2016

OCCUPIER TRENDS | INVESTMENT TRENDS | MARKET OUTLOOK

KEY FINDINGS

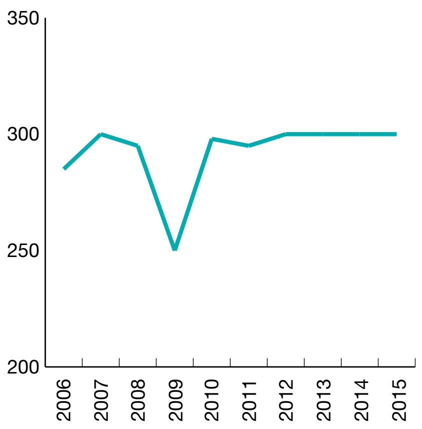
Take-up in Brussels in 2015 reached its lowest point in over twenty years, primarily because of an absence of large-scale deals and slow occupier demand.

The city-wide vacancy rate fell below 10% as office development remained limited.

Office transactions dominated the investment market in Brussels, taking a 77% share of commercial volumes in the city.

Prime yields hardened across all sectors in 2015, as investment product remained scarce.

FIGURE 1
Prime office rents
€ per sq m per annum



Source: Knight Frank Research

OCCUPIER MARKET

Leasing activity in Brussels fell to 305,000 sq m in 2015, the lowest point in over two decades.

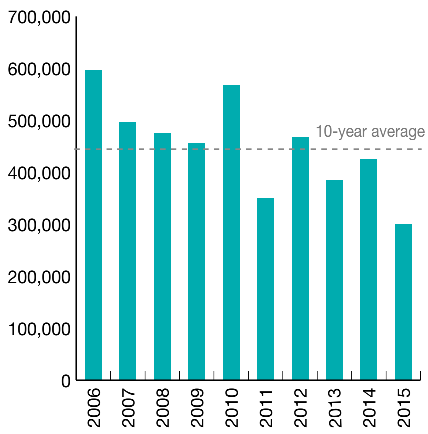
Take-up fell by 29% year-on-year, primarily due to the absence of large-scale deals throughout 2015. Only two deals over 10,000 sq m concluded during the year – KPMG were at the top of the transaction table, pre-leasing 13,000 sq m in the new Passport building in the airport district, scheduled to complete in late 2017.

Historically, the final quarter of the year is usually the strongest, however 2015 witnessed a significant decline predominantly because a handful of large deals, originally scheduled to close in Q4, were delayed until early 2016. Such deals include the Belgium Federal State's leasing of 30,000 sq m in the Pacheco building and the European Parliament looking to sign 13,000 sq m in the Belmont building.

Despite the reduced take-up activity, low levels of office completions in 2015 caused the city-wide vacancy rate to fall 50 basis points to 9.6% at the end of the year – the first time the rate has fallen below the 10% threshold since 2008. Approximately 94,000 sq m entered the market in 2015, of which 56,000 sq m was previously pre-leased by the European Council for their new headquarters. Another 57,000 sq m of speculative and approximately 200,000 sq m of non-speculative space is scheduled for completion in 2016 – the new 135,000 sq m office for NATO remains a major non-speculative project due in 2016, and could be postponed further as construction problems continue to delay the project.

Prime CBD rents remain unchanged at €280-€300 per sq m per annum, due to subdued demand and low levels of availability, particularly in the CBD. However, modest increases were noted in the Decentralised locations, where rents reached €200, as the vacancy rate fell to a 10-year low and development remained restricted.

FIGURE 2
Office take-up
sq m



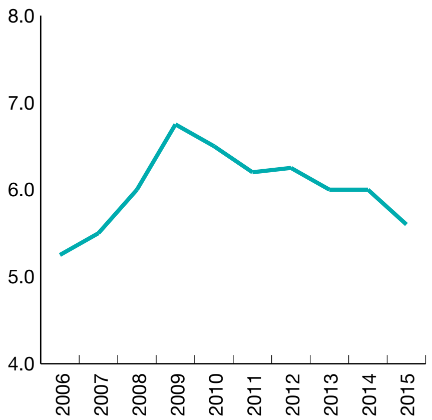
Source: Knight Frank Research

Key office leasing transactions in 2015

District	Address	Tenant	Size (sq m)
Airport	Passport building	KPMG	13,000
Decentralised	Silver building	CPAS de Schaerbeek	10,350
City Centre	Royal Treurenberg	Single Resolution Board	9,812
City Centre	Brouckère Tower	Solidaris	6,900
Decentralised	Rue Colonel Bourg	Betiad	5,550
South	Boulavard Poincaré	Région de Bruxelles-Capitale	5,000
Periphery	Everest Business Park	ISS	4,300

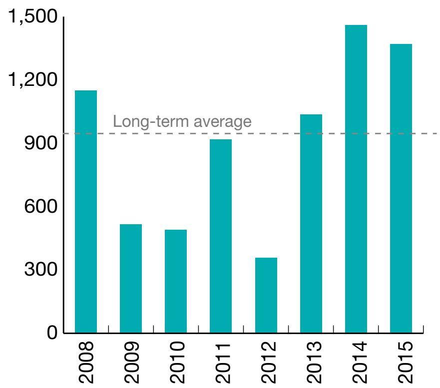
Source: Knight Frank Research

FIGURE 2
Prime office yields
%



Source: Knight Frank Research

FIGURE 3
Brussels office investment volumes
€ million



Source: Knight Frank Research / Real Capital Analytics

The Ellipse building, purchased by Fubon Financial in December 2015

INVESTMENT MARKET

Total commercial investment in Brussels in 2015 was up 11% on 2014 to total €1.8 billion. Office transactions were again the most dominant, totalling €1.37 billion, slightly below volumes seen in 2014.

Excellent performance was noted in the final three months of the year, with quarterly record of €716 million recorded, supported by several large deals including three in excess of €100 million – the sale of the Ellipse, Covent Garden North and Entrepôt Royal buildings. The quantity of transactions during the year also increased from 51 to 63 deals, indicating positive demand for office buildings across the city. Cross-border capital flow was also a noticeable factor, increasing by 8 percentage points annually to 86% in 2015. Fubon Financial's acquisition of the Ellipse building, for example, illustrates the high volume of Asian capital entering the market relative to 2014.

As investor demand remains high, and with investment volumes increasing, prime yields have hardened over the last four quarters. Prime office yields for buildings with standard lease lengths fell by 40 basis points annually to 5.6% in Q4 2015, while the industrial and high-street retail sectors saw prime yields decline to 6.5% and 3.75% respectively. In the Leopold district and periphery areas, office yields below 5% were achieved by the Gateway and Livingstone II deals, although both were for longer-term lease agreements.

Key office investment transactions in 2015

Property	Seller	Buyer	Approximate price (€)
Ellipse building	AG Real Estate	Fubon Financial	215,100,000
Covent Garden North	Hannover Leasing	Ilmarinen (50% stake)	150,000,000
CBRE GI office portfolio 2015	CBRE GI	Apollo Global Management	145,000,000
Gateway building	Codic	Befimmo	140,000,000
Bastion Tower	CBRE GI / Investa Office Fund	Schröders plc	110,000,000
Entrepôt Royal	Extensa Group	Leasinvest Real Estate	108,000,000

Source: Knight Frank Research / Real Capital Analytics

KNIGHT FRANK VIEW

A slight recovery in the occupational market is forecast for the first half of 2016, with several large deals, originally due to close in late 2015, deferred to H1 2016. Upon closing, these deals are expected to push the city-wide vacancy rate further down – the CBD region in particular, could see rates fall below 4%. With development remaining at low levels, the shortage of high-quality office product will leave the market very favourable to landlords, particularly in the CBD. This is unlikely to affect prime rents however, with occupiers continuing to look towards the periphery markets and other Belgium cities for larger units of space.

Although commercial investment in Brussels was strong in 2015, this is unlikely to be replicated this year, not because of a slowdown in demand, but primarily because of a reduction in the number of opportunities in all sectors, making acquisitions extremely difficult. As a result, the strong investor demand is likely to drive yields further down. By mid-2016, prime office yields could approach 5.25%, reaching the level of the last market peak seen in 2006.

EUROPEAN RESEARCH

Matthew Colbourne, Associate
International Research
+44 20 7629 8171
matthew.colbourne@knightfrank.com

Vivienne Bolla, Senior Analyst
International Research
+44 20 7629 8171
vivienne.bolla@knightfrank.com

BRUSSELS

Filip Derijck
Managing Director
+32 2 548 05 55
filip.derijck@be.knightfrank.com

John van Paassen
Investments
+32 2 548 05 57
john.vanpaassen@be.knightfrank.com

Christophe Volckaert
Analyst
+32 2 548 05 54
christophe.volckaert@be.knightfrank.com

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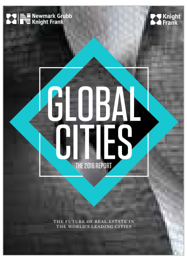

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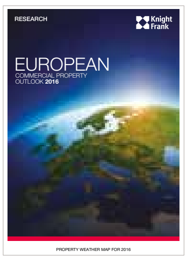

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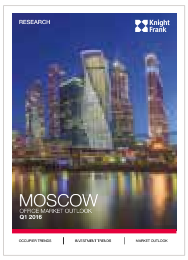

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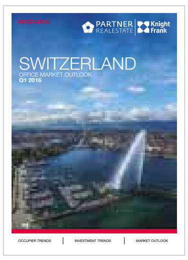

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