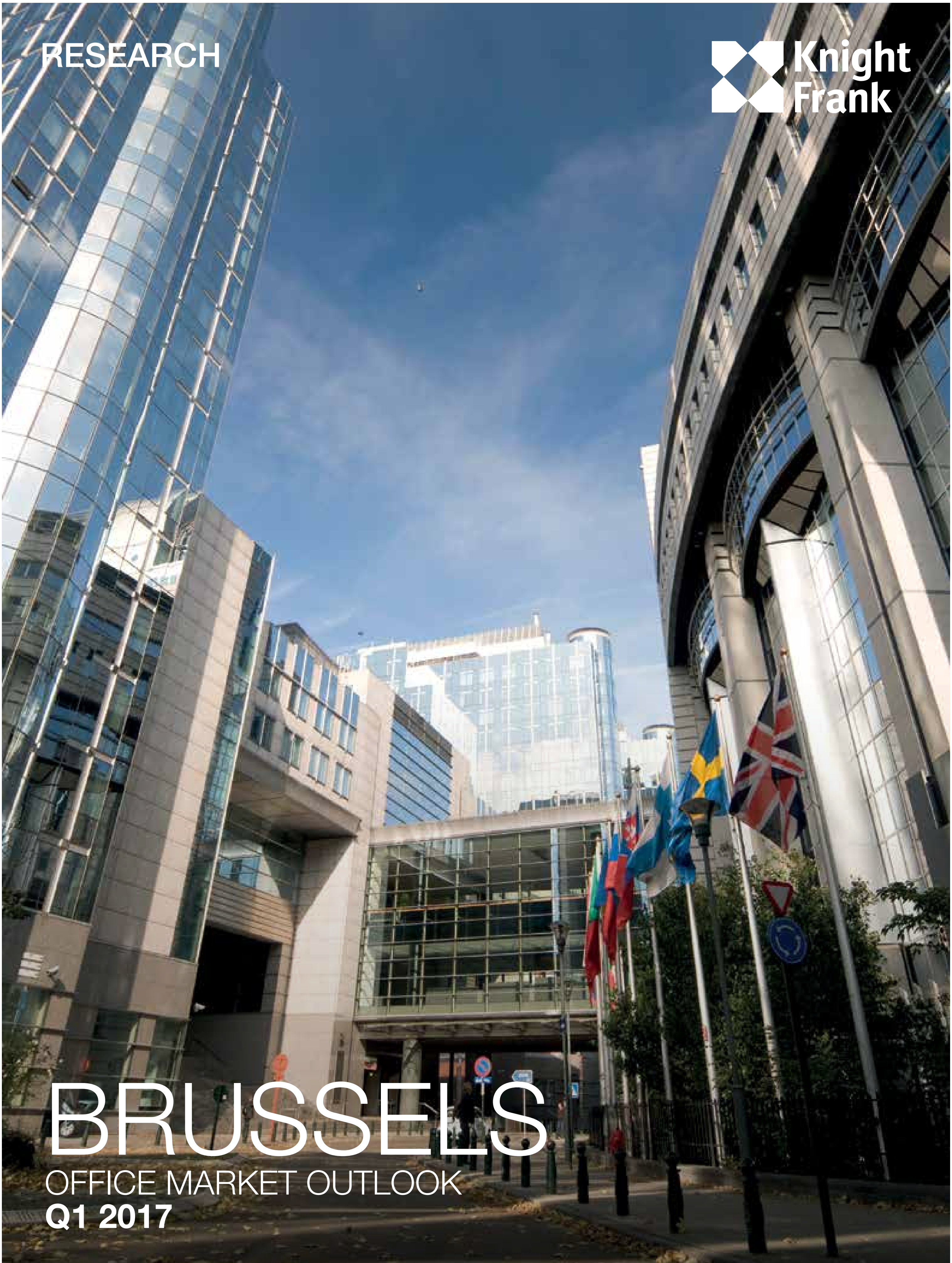


RESEARCH

BRUSSELS

OFFICE MARKET OUTLOOK
Q1 2017

OCCUPIER TRENDS | INVESTMENT TRENDS | MARKET OUTLOOK

KEY FINDINGS

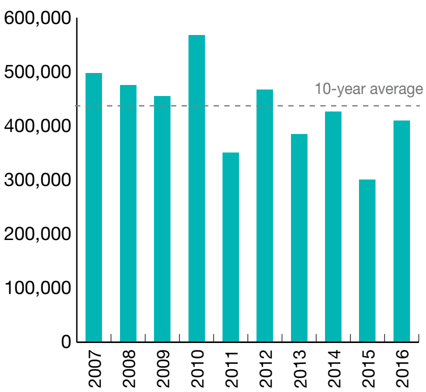
Office take-up in Brussels in 2016 was buoyant, surpassing the volumes achieved in 2015.

A combination of robust demand and limited supply led to the city-wide vacancy rate falling to 9.2%.

Prime CBD rents were unchanged in 2016 and are expected to remain at their current level in 2017.

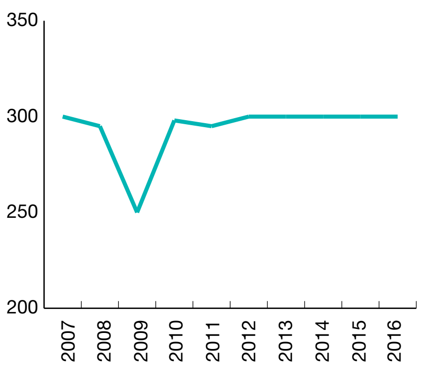
Cross-border investors continue to target Brussels due to its attractive yields, despite its limited prospects for rental growth.

FIGURE 1
Office take-up
sq m



Source: Knight Frank Research

FIGURE 2
Prime office rents
€ per sq m per annum



Source: Knight Frank Research

OCCUPIER MARKET

Occupier demand in Brussels was driven by an active public sector in the first three quarters of 2016 and a resurgence of corporate occupiers in the final quarter.

The occupational market in Brussels was buoyant during the course of 2016, contrasting the relatively muted conditions of 2015. Around 410,000 sq m of office space was leased, bringing take-up volumes 36% above the 2015 level and in line with the long-term average (Figure 1). The CBD and Decentralised districts witnessed exceptionally strong occupier activity in 2016. Both accounted for a 22% share of the total take-up, resulting in volumes exceeding the preceding year.

Occupier activity in the first three quarters of 2016 was driven by a dynamic public sector. City of Brussels and Federal State leased 30,500 sq m and 30,000 sq m of office space respectively, while the EU was also active, taking on two large leases at Merode (12,794 sq m) and Black Pearl (11,013 sq m). The final quarter, however, was marked by a shift in the demand dynamic towards lettings to corporate occupiers. Notable deals were signed by Danone, Heidelberg Cement Benelux and BNP Paribas Branch Management.

These robust conditions led to a fall in the overall vacancy rate to 9.2%, with a decline noted in all precincts with the exception of the periphery. Indeed, both the Centre and Leopold districts in the CBD had a reduction in vacancy, with availability standing at just at 3.4% and 4.5% respectively. As the appetite is toward modern and high quality premises, availability in prime grade space subsequently continues to diminish. Yet despite the shortages and the downward pressure on vacancy, the development pipeline is unlikely to bare any significant impact on the occupational market fundamentals in 2017. Around 50,000 sq m of speculative development is planned for completion in 2017. The two main schemes include Belliard 40 (17,500 sq m) in the Leopold District and Spectrum in the City Centre (17,000 sq m). In 2018 and 2019 however, a significant volume of speculative development (approximately 300,000 sq m) is scheduled for completion, which will be in favour of tenants.

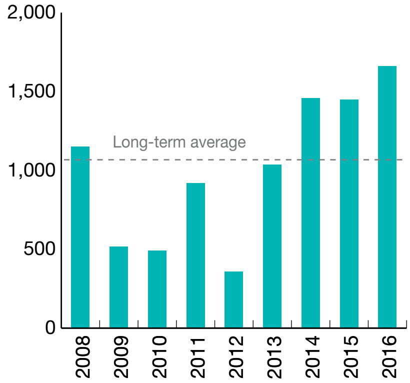
Historically, prime CBD rents have remained stable (Figure 2). Incentives are still prevalent and have included rent-free periods totalling three months for a 3-year lease. Rental growth prospects will remain limited, although some precincts may see an uptick in rents due to increased occupier activity and supply shortages in prime grade space. Over the past year, there has been evidence of rental growth in some of the Decentralised districts, with Avenue de Tervueren achieving €250 for prime properties.

Key office leasing transactions in 2016

District	Address	Tenant	Size (sq m)
Centre	De Ligne	City of Brussels	30,500
Centre	Pacheco	Federal State	30,000
Airport	Passport building	KPMG	13,000
Decentralised	Merode	EU Commission	12,794
Leopold	Black Pearl	EU Commission	11,013
Leopold	Belmont Court	European Parliament	11,000

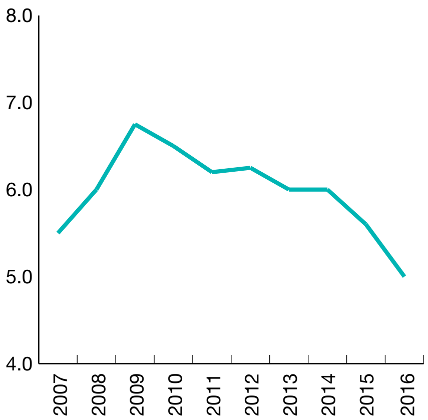
Source: Knight Frank Research

FIGURE 3
Brussels office investment volumes
€ million



Source: Knight Frank Research / Real Capital Analytics

FIGURE 4
Prime office yields
%



Source: Knight Frank Research

Berlaymont Building, headquarters of the European Commission

INVESTMENT MARKET

In view of its strong public administration base, Brussels is a stable market and is not exposed to cyclical fluctuations. Subsequently, total commercial investment volumes in Brussels have been fairly steady over the past three years. During 2016, total commercial investment in Brussels reached €2.2 billion, only marginally up on 2015 (7%, Figure 3).

Office transactions continue to dominate the investment volume and totalled €1.8 billion last year. Consistent with previous trends, cross-border activity represented a significant share at over 70% of the office investment volume. Pension funds from South Korea, fund managers from Switzerland and institutional investors from Germany were the primary protagonists during 2016. Cross-border investors will continue to target Brussels in view of its inherent value.

Over the past year, prime office yields for buildings with standard lease lengths compressed by 50 basis points to 5.0% (Figure 4). While rental growth prospects in Brussels are limited due to the nature of the occupier market, compared to many other western European markets, property yields are attractive and this has given impetus for investors to deploy capital in Brussels. Hence, a combination of strong investor appetite and shortages in core assets is likely to result in further yield compression in 2017.

Key office investment transactions in 2016

Property	Seller	Buyer	Approximate price (€)
De Meander	Extensa	Baloise/Korea Post	215,000,000
Meeûs 8	Kanam Grund	Korea Investment & Securities	205,000,000
Astro Tower	Luresa	Daewoo	167,500,000
Möbius	Immobel	Allianz	85,000,000
South City	Intégrale	Real IS	75,000,000
IT Tower	Bank of Ireland	AGRE	70,000,000
Neo	JP Morgan	Swiss Life REIM	65,000,000
Black Pearl	Immobel	Real IS	60,000,000
RAC2	Breevast	Real IS	59,000,000

Source: Knight Frank Research / Real Capital Analytics

KNIGHT FRANK VIEW

Transport infrastructure in Brussels has not kept a pace with population growth and this has resulted in congestion issues, significantly impacting on business activity in Brussels. The government has vowed to invest €5.2 billion in the city region's infrastructure to 2025, which will come as a welcome relief to occupiers and will ultimately enhance mobility and ease of conducting business.

Corporate restructuring will impact the real estate market. During 2017 occupier demand may be motivated by M&A activity, while in the public sector European institutions will continue to look at optimising their space.

Despite bond yields moving upwards over the last six months, property yields remain attractive in Brussels. Accordingly, a diversified origin of buyers will continue to target Brussels.

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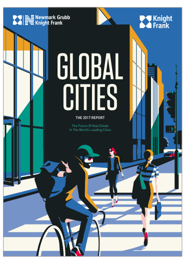

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