



Brussels

Office Market

Research Report - Q4 2022

Introduction

Will sustainability save the Brussels office market?

The hot last days of December and the very early days of January demonstrated (was it really needed?) that climate change is a reality.

The transition to a decarbonised world requires a contribution from the real estate sector all asset classes combined.

This is a huge task in Brussels if we consider that the occupied office stock - currently estimated at 12 million sq.m. - consists of 55% of properties older than 20 years, ie potentially energy-inefficient. We could make the same analysis for residential, reminding for example that the housing stock in Brussels comprises more than 80% of buildings older than 50 years.

Large occupiers, being corporate or administrations, will have to «greenify» their assets which suggests new transactions as well as heavy refurbishments and reconstruction of existing assets. This is a heavy trend that supports the market for several years and the high energy prices make it even more urgent.

2022 was historically weak on the occupier side, in our view 2023 will be marked by a substantial recovery supported by sustainability, especially if as several economists predict the economic slow down is short and limited.

Good reading!

| | 2020 | 2021 | 2022 |
|---|-------|-------|------|
| Take-up (cumulative) ('000 sq.m.) | 317 | 472 | 295 |
| Take-up (cumulative) (# deals) | 312 | 324 | 338 |
| Stock (Mln sq.m.) | 13.0 | 13.0 | 13.1 |
| Completions (cumulative) ('000 sq.m.) | 243 | 369 | 154 |
| Vacancy ('000 sq.m.) | 978 | 1,095 | 967 |
| Vacancy Rate | 7.5% | 8.3% | 7.4% |
| Prime Rent (€ / sq.m./y) | 315 | 315 | 330 |
| Total Investment Volume BE (cumul, bn €) | 5.88 | 3.97 | 6.49 |
| Office Investment Volume BE (cumul, bn €) | 3.61 | 2.5 | 3.62 |
| Prime Yield | 3.90% | 3.35% | 4.0% |

Cover photo: Nor05 (North District)
Developer: Cores

Occupier Market

All-time low level of take-up

Average transaction size falls

Traditionally the last quarter is the strongest of the year; also in 2022, take-up came in at 82,914 sq.m. up 23% q-o-q. Compared to the same period last year it is a reduction of 56%.

Cumulative take-up over the year 2022 came in at a weak 295,000 sq.m. which is an unprecedented low. Compared to 2021, take-up declined by 37% and underperformed the 5-year average by 29%. The number of transactions, however, increased by 4% to 338 and is 1% above the 5-year average. The average transaction size subsequently dropped by 40% y-o-y to 874 sq.m. and is 30% short of the 5-year average.

What happened? None of the expected large size deals materialised before 31/12; most will be signed in Q1 2023. Just an agenda shift or a sign of deterioration? The reality is that the transaction process has rarely been so slow, partly because of economic uncertainties but also the lack of supply having a seriously fixed timing of completion. Brussels suffers from excessively long permit delivery process, which was exacerbated by the pandemic as well as by urban activism like the well-known «nimby» syndrom. The average timing to receive permits in Brussels is 30 months, according to the Architects professional association. For office projects it could be up to 60 months on average.

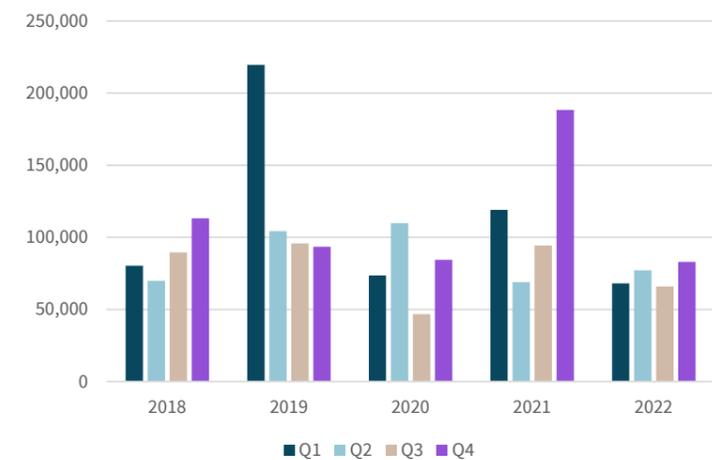
Analysing further into the details, Corporates were by far the most active with 71% of the yearly volume. Business services contributed to 25% of the corporate segment, followed by IT with 14%, Real Estate with 12% and Banking & Finance with 10%. Belgian administrations followed with 17%, International Administrations contributed to 11%. and European Institutions 1%.

The delayed transactions contributed to shrink the share of Grade A properties to 32% of total take-up, vs. 53% in 2021. Grade B represented 30% and Grade C 38%.

Significant recovery in 2023

What is on the agenda? The European Commission has confirmed it will take 33,000 sq.m. in one of the Engie Towers in the North which has significantly reduced vacancy in the district. Proximus is about to sign a new long lease in one of its former towers that it sold to Immoel earlier in the year (c. 42,000 sq.m.). Last but not least, the US Embassy has finalised the acquisition of the Cours Saint Michel at the edge of the European district. The asset currently comprises 80,000 sq.m. but the volume the US Embassy will redevelop on the site will only be known in the coming months. These three mega deals will considerably boost take-up in 2023. Hidden from the straight figures, the SNCB / NMBS has received its final permits to build a new headquarters of 72,000 sq.m. on top of the South Station; developers in charge are Immoel, BPI and Besix.

Take-Up by Quarter (Sq.m.)



Representative transactions Q4 2022

| District | Building | Age Class | Surface | Operation | Occupier |
|-------------|---------------|------------------|-------------|-----------|----------------------|
| City Center | Aria | Under renovation | 4,800 sq.m. | Letting | Partena Professional |
| North | Allianz Tower | New | 3,630 sq.m. | Letting | ONDRAF - NIRAS |
| Periphery | Onyx | New | 3,000 sq.m. | Letting | SAP Belgium |
| North | Phoenix | New | 2,800 sq.m. | Letting | Equans |
| North | Quatuor | New | 2,148 sq.m. | Letting | Triodos Bank |

Vacancy down close to pre-pandemic levels

Key completions in the closing quarter among others comprise the Commerce 46 building (14,200 sq.m.), developed by Immobel and sold to Allianz. It contributed to increase vacancy to 2.8% vs. 2.5% previously. Main movements recorded in vacancy were in the North district (from 7.0% to 4.9%) and the Periphery (from 19.3% to 18.1%) as a result of leasing activity.

At the close of the year, vacancy overall consequently went down to 7.4% vs. 7.7% and vs. 8.3% a year ago. As such, it is close to the pre-pandemic level of 7.2%. The decline is primarily attributable to non-CBD locations that recorded their lowest levels of the last two decades at 13.3% vs. 15.1% in 2021. The success of the recent completions explains the decline in the Periphery while in the Decentralised, again reconversions play a role in addition to the transaction flow. In the CBD, however, vacancy hardly changed at 3.9% vs. 4.1% 3 months ago and 4.4% a year ago.

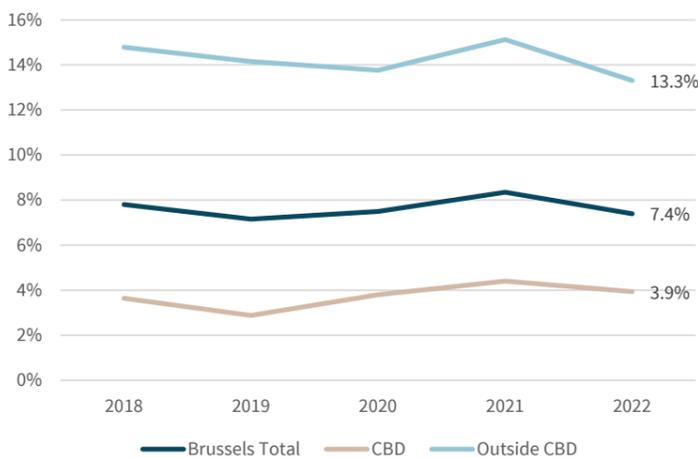
Vacancy will likely remain low in 2023 and even decrease due to the low level of speculative completions, which are estimated at 48,000 sq.m. ie 42% less than in 2022. Despite more tricky financing for risky projects, the flow of reconversions is continuing. After the Colonel Bourg and Marcel Thiry axis, now the Rue de Genève, the Boulevard du Souverain and the Boulevard de la Woluwe are on target for residential redevelopments of office assets facing vacancy risks due to the competition of new and sustainable assets.

Further rental increase in 2023

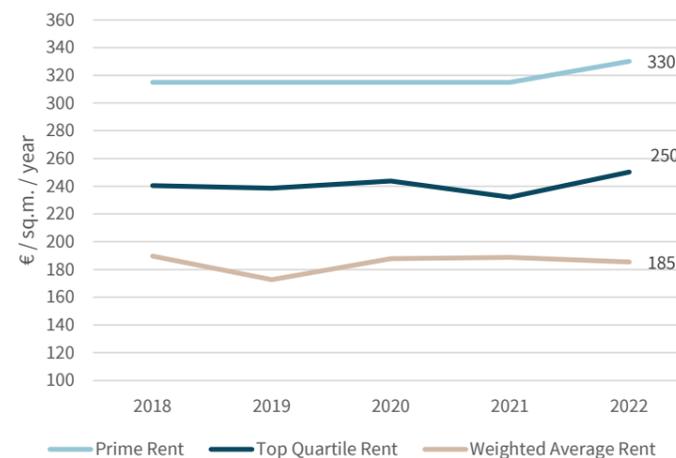
Prime rents did not change in Q4 compared to Q3 at €330 / sq.m./y applicable in the EU district. Given the low immediate and future supply and focused demand on sustainable assets, further increase is expected in 2023. We also see rents in the Louise and City Center districts converge close to those of the European District vs. €275 currently. Rents in the North should however grow slower due to its sizeable development pipeline post 2023. No change is anticipated in the Periphery and Decentralised at respectively €185 and €200 / sq.m. / y. Looking at top quartile rents at city level, they have increased by 7.8% to €250.3 / sq.m. / y and weighted average rents have declined by 1.8% y-o-y to €185.4 / sq.m. / y. Finally average rents increased by 6.5% to €173.8 / sq.m. / y.



Vacancy rate



Rental analysis



Capital Markets Belgium

2022 sets a new record-high volume

French OCPIs expand in Belgium

The closing quarter of the year returned another set of large size transactions, lifting investment volume to an unprecedented high of €6.5 bn all asset classes combined. For office only the transaction volume equals the record of 2020 at €3.6bn, of which €3.0 bn in Brussels.

After the Korean wave the French OCPIs are on the rise and no longer target small volumes only. In Q4 Corum Asset Management acquired the Hendrik Conscience building from AXA for €180 Mln. The asset is let to the Flemish Community and received a BREEAM Excellent after its recent renovation. Similarly, Perial Asset Management acquired the Onyx in the Periphery for €70 Mln. The property, certified a BREEAM Excellent and completed earlier this year, is fully let to several big tech names like CapGemini and SAP.

Looking at investment style, 53% of the office investment volume was Core. It is followed by value-add transactions that recorded a strong volume of €852 Mln (24%). Among the recent transactions Cofinimmo has continued to dispose of non-core assets to developers. These include the West-End in Groot Bijgaarden, the Omega Court and the Souverain 280. Core+ transactions represented 24%, for example Alides and Whitewood acquired the IT Tower from AG.

In 2023 volume will fall back to more normal levels. Demand will be driven by ESG constraints and mobility. Obsolescence of office properties will lead to more reconversions due to aged stock in the Decentralised and other districts.

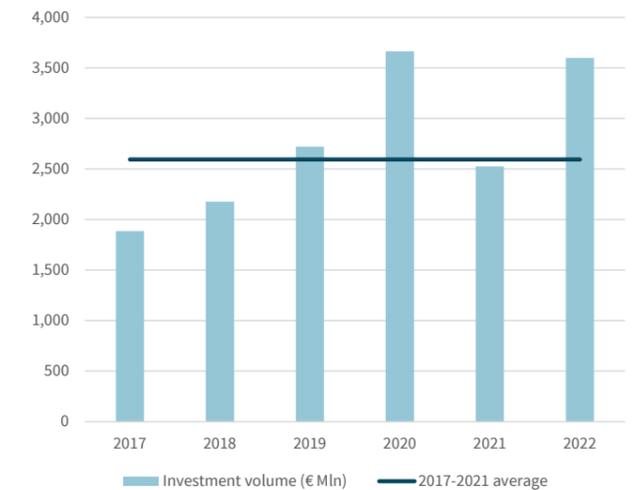
Additional yield shift in Q4

Yields in the CBD rose again, now standing at 4.0% vs. 3.9% in Q3 and 3.35% a year ago. In Non-CBD locations prime yields are currently 5.75% vs. 5.50% previously. Looking at long-term leases, yields have decompressed by 20 bps sequentially to 3.6%, vs. 3.15% a year ago.

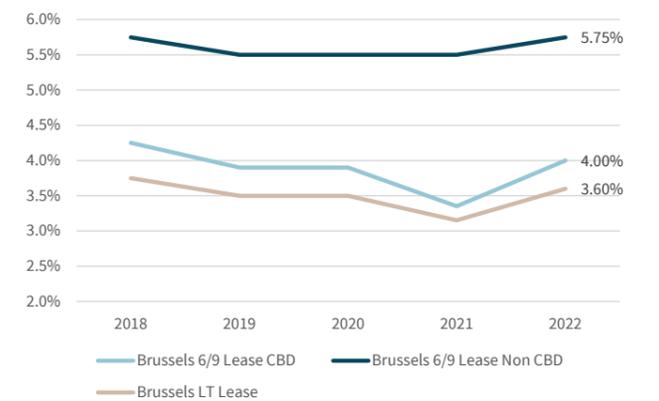
Representative office transactions Q4 2022

| District | Building | Sq.m. | Price (€ Mln) | Seller | Buyer |
|---------------|--------------------|--------|---------------|----------------|-------------------------|
| North | Hendrik Conscience | 52,878 | 180 | AXA | Corum Asset Management |
| Louise | IT Tower | 19,256 | 71 | AG Real Estate | Alides / Whitewood |
| Periphery | Onyx | 15,987 | 70 | Immogra | Perial Asset Management |
| Decentralised | Silver Building | 25,000 | 39 | Allianz | Urbicoon |
| Decentralised | Omega Court | 16,472 | 28 | Cofinimmo | Global Asset Capital |

Office Investment volume (€ Mln)



Office yields



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(*) Saga bv

(**) Repsak bv/srl

(***) Allres bv