

Brussels Offices, Q1 2021

European Commission take-up boosts demand in Q1

▼ Stock
12,599,879 m²

▲ Take-up (Q1)
111,637 m²

▲ Vacancy
8.09%

▶ Prime rent
315 €/m²

▶ Prime yield
3.75 %

Arrows indicate changes from previous quarter

2021 Summary

111,637
m² in take-up

61,500
m² of pre-letted office space

45%
low corporate demand

77,700
m² of grade A voids

27,000
m² converted in 2021

500,000
m² committed projects planned
2021-2023

86
million € invested in Brussels
offices



ECONOMY

Under the impact of the restrictions imposed to stop the spread of the Covid-19 virus, the Belgian economy contracted by 6.3% in 2020.

In the first quarter of 2021, economic activity was still hampered due to the re-introduction of the lockdown measures since November. But with the start of the vaccination campaign, we see the first signs of improvement in the international economy and a return to normalcy is inching closer. This has resulted in a fairly positive economic outlook, supported by a forecasted growth of 4% in 2021 and 5% in 2022.

So far, structural damages seem to have been mainly avoided, however it is still unclear what is going to happen once the government support measures will be lifted.

THE OFFICE MARKET DURING COVID-19

AN UPDATE ON THE CURRENT SITUATION AND REFORMATION OF THE MARKET

Although by November 2020 there were glimpses of optimism linked to news around vaccine development, it was clear that - even if approved and distributed quickly and safely - it would not prevent the spread of a third wave of infections in the first quarter of 2021. This third wave led to the extension of the public health restrictions, impacting on the economy and public and social life.

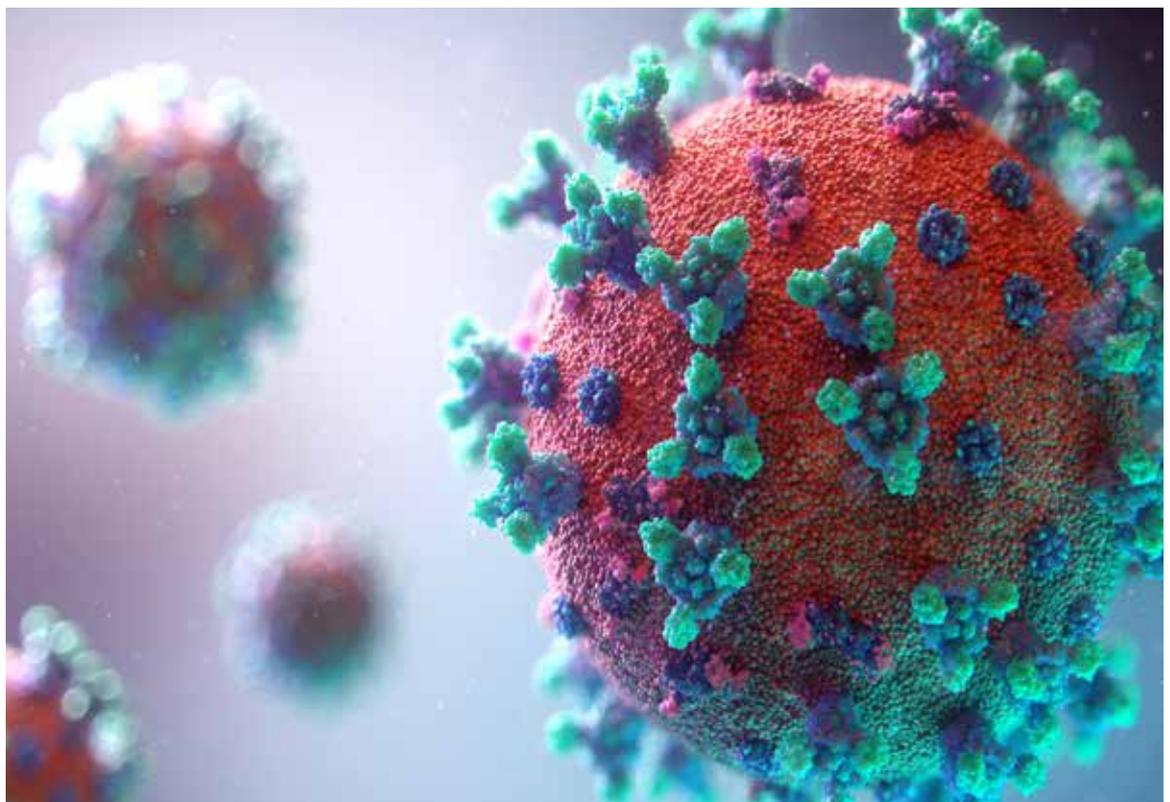
Demand in Q1, apart from the two major European Commission transactions, was relatively low. This can be explained by the fact that many corporate office tenants are still waiting for clarity on reopening, halting their decisions on determining their future office space needs.

However, because of the pandemic, tenants have started to reflect on their real-estate

strategy and are now paying attention to certain aspects that were less questioned before. This is particularly noticeable in the increased demand for flexibility, both for the building itself and for the type of lease.

Also the role of offices after Covid-19 is becoming increasingly clear. Despite the increase in working from home, which will partly continue, there will always be a need for a central hub to connect colleagues and install company culture. Inspiring, training and connecting employees is much harder when everyone is sitting at home, so the future is hybrid.

The number of square metres in offices will therefore not be reduced as drastically as was originally thought. Anyone who wants to attract and retain talent will have to invest an estimated 750 to 1,000 euros per square metre in high-quality offices that are easily accessible and have all modern facilities. More common areas will be needed, where a real experience is created.



DEMAND

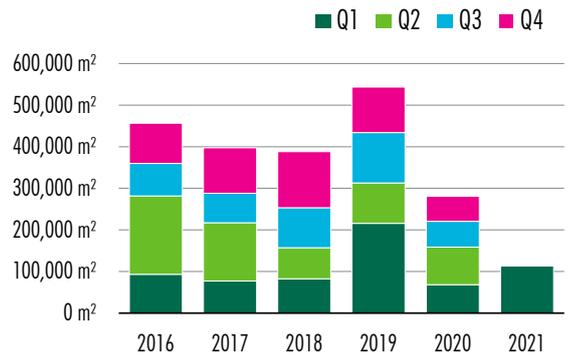
High demand from the public sector

Reaching a take-up of nearly 112,000 m², demand in the first quarter of 2021 was relatively high. However, this result was mainly generated by the European Commission taking 25,540 m² in the Realex project and almost 14,000 m² in the nearly completed Copernicus building, good for 35 % of the total demand.

Nevertheless, these deals have ensured an increase in take-up by 63%, compared to the previous quarter and a result that is in line with the average take-up between 2016 and 2020.

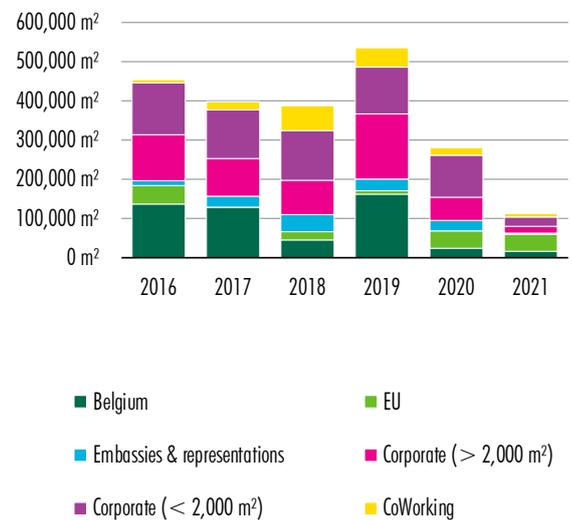
Looking at the rest of the take-up, demand remains subdued. But, there were some interesting transactions, such as WPP Group pre-letting 8,217 m² in Victoria and SECO Belgium securing 4,440 m² in the Park 7 project in Diegem. Another notable deal was the introduction of Befimmo's co-working brand 'Silversquare' in the project Esprit Courbevoie in Louvain-La-Neuve.

Figure 1: Quarterly take-up (2016 - Q1 2021)



Source: CBRE Research, Q1 2021

Figure 2: Take-up per occupant type (2016 - Q1 2021)



Source: CBRE Research, Q1 2021

Figure 3: Notable letting & sale transactions in Q1 2021

Source: CBRE Research, Q1 2021



European Commission
Realex



European Commission
Copernicus



WPP Group
Victoria

VACANCY

Vacancy

At the end of Q1 2021, the vacancy rate in the Brussels office market rose to 8.06% vs. 7.57% the previous quarter. Though, the overall rate has slightly increased, there has been a very good absorption of grade A-buildings. Demand for top-quality office space is high, resulting in Grade A vacancy dropping quarter to quarter from 0.88% at the end of Q4 to 0.62% at the end of Q1.

On the other hand, the increased demand for more equipped buildings and smaller surface areas with more room for collaboration, will increase the pressure on older buildings. In addition, with the continued homeworking, office subleasing is expected to increase from businesses looking to manage the costs of unused office space. This can result in an increase in ‘shadow vacancy’, activity not captured in take-up, and a decrease in market transparency.

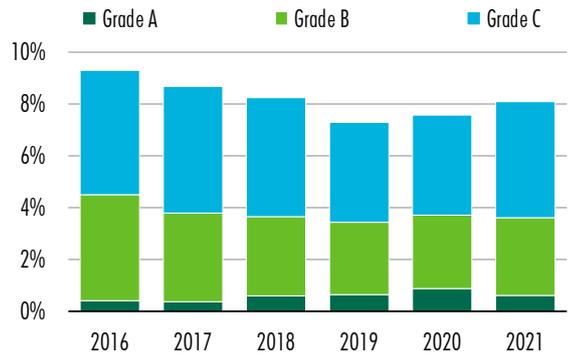
Reconversion

Some 27,000 m² has been marked for conversion at the end of the first quarter of 2021. All projects are located in the Brussels decentralised area and are planned to be reconverted into apartments and a little bit of retail.

The largest project is the reconversion of the abandoned office building on the Colonel Bourglaan 149-155 in Evere to 141 apartments. On the Woluwedal 56 in Sint-Lambrechts-Woluwe, the public investigation has started for the demolition of the office building on the plot and to use the space for the construction of 26 flats, covering an area of more than 4,000 m² and 500 m² of retail.

Lastly, the project to redevelop the former factory premises on the Neerstalsesteenweg 150 between Bemtpark and the abbey of Vorst into a hundred social housing units with collective facilities and garden is currently in the planning phase.

Figure 4: Vacancy evolution (2016 - Q1 2021)



Source: CBRE Research, Q1 2021

Figure 5: Conversion (2016 - Q1 2021)



Source: CBRE Research, Q1 2021

DEVELOPMENT

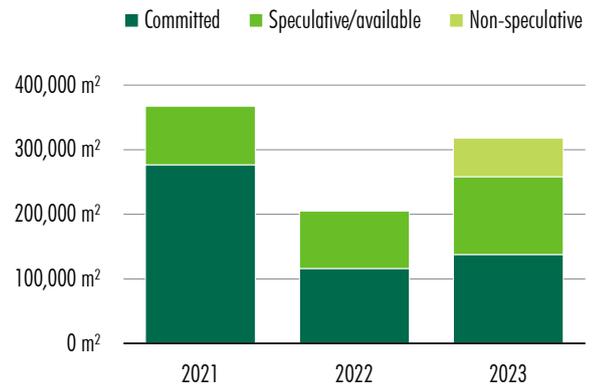
The development pipeline in the Brussels office market is robust, with some 370,000 m² of new space coming to the market through 2021. As a result of the several lockdowns in the past year, some construction works have been delayed, with the 6,000 m² in the Axis Park New Tech being the only project that has been completed so far this year.

But some large projects are currently in the final phase, of which 75 % of the space coming to the market in 2021 that is already committed. The largest new offices that are planned to be completed in Q2 with still some availability are Quatuor and Tweed. In Quatuor, 23,000 m² of 60,000 m² is still open for rent on the market and in Tweed, 1,400 m² of 15,000 m² is still available.

RENTS

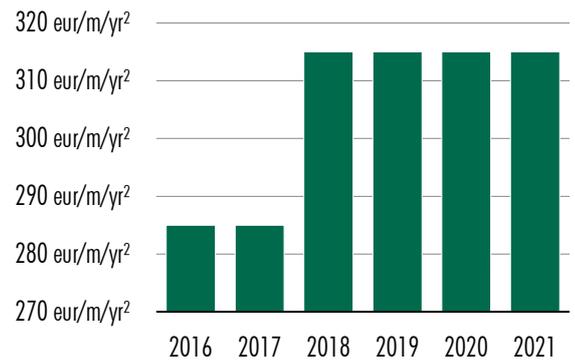
Prime office rental rates for the Brussels market remain unchanged in Q1 2021 at 315 €/m²/yr. The high demand for top-quality grade A office space has continued to keep prices at the same level. On the other hand, competition for Grade B office space is likely to increase. As a result of the pandemic, several companies may decide to shrink their surfaces, but instead invest in more quality and amenities in a newer building, at a higher price.

Figure 6: Development (2021 - 2023)



Source: CBRE Research, Q1 2021

Figure 7: Rents (2016 - Q1 2021)



Source: CBRE Research, Q1 2021

Figure 8: Largest developments planned to be completed in 2021



Montagne Du Parc
New HQ BNP-Own occupation



Quatuor
40% let to Touring, Beobank,...



Brucity
Fully let to the city of Brussels

Source: CBRE Research, Q1 2021

INVESTMENT

During the first quarter of 2021, a total of €462 million of transactional activity was recorded in the Belgian investment market. Brussels offices accounted for almost 20 % of this amount. The total volume as well as the share for offices is very low compared to record year 2020 and to the 5-year average.

This lower volume can be mainly explained by the fact that the country is still in the midst of a lockdown with stringent travel restrictions, hampering transactional activity.

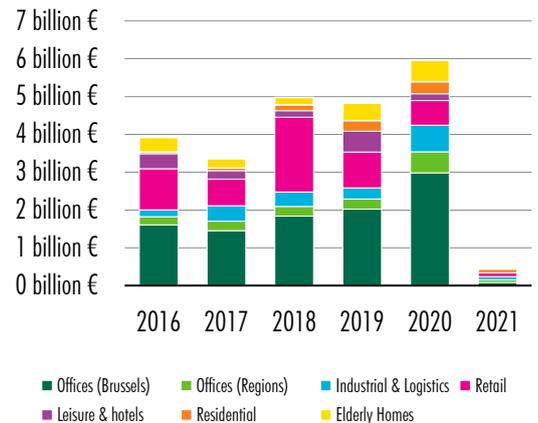
Despite this lower activity, the market is healthy and demand for core assets has remained strong during the opening months of the year.

This has put prime office yields under downward pressure, especially for core assets with long term contracts. Office yields for 15/18 y contracts are currently at 3.25% and trending downwards. Yields for 6/9 y contracts are stable at 3.75%.

The largest transaction of the quarter was the sale of Aramis in the Corporate Village A in Zaventem. The building, with 20,000 m² of offices and 329 parking spaces, was sold by Apollo Real Estate to Suprema office Invest for €27 million. The other stand-out transaction this quarter was the acquisition of Hermeslaan 7 (4,200 m²) in Diegem by Perial Asset Management for €20 million. This build-to-suit was delivered at the end of 2020 and is fully let to 3M for 10 years.

Despite some uncertainty about the “future of the office”, offices remain the most important investment choice for institutional investors in Belgium. Investment appetite is high, with most institutional investors continuing to focus on securing core and core-plus opportunities.

Figure 9: Total CRE investment volume in Belgium (2016 - Q1 2021)



Source: CBRE Research, Q1 2021

Figure 10: Notable investments in Q1 2021



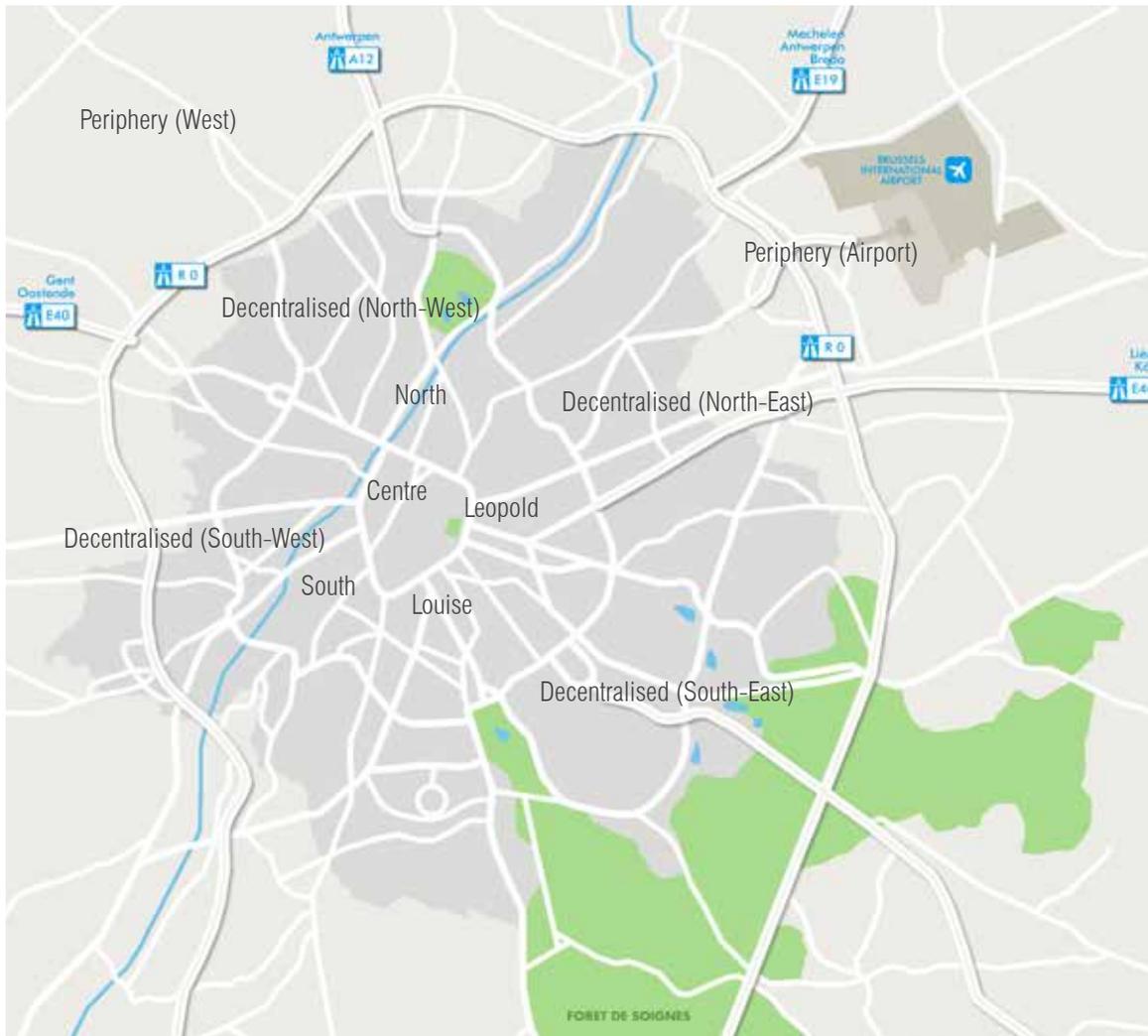
Aramis - Corporate Village A
Suprema Office Invest



Hermeslaan 7
Perial Asset Management

Source: CBRE Research, Q1 2021

SUBMARKETS



ACCESS TO (SUB)MARKET DATA



CBRE Data for the Brussels office market and its submarkets is available through a paid subscription service.

CBRE Belgium provides access to the Quarterly Brussels Office Market Data Matrix, including:

- quarterly statistics per submarket, including: take-up, vacancy, development, stock, rent and yields
- the 10 largest letting transactions,
- the 10 largest office voids,
- the 10 largest upcoming office projects

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