MARKETBEAT
BELGIUM
Brussels Office

Q1 2024

CUSHMAN & WAKEFIELD

	YoY Chg	12-Mo. Forecast
60K Take-up (000s sq m)	▼	▲
7.84% Vacancy rate	▲	▲
375€ Prime rent (EUR/sq m/year)	—	▲
5.15% Prime yield (3/6/9 lease)	—	▼

Economic Indicators Q1 2024

	YoY Chg	12-Mo. Forecast
1.36% 2024 GDP Growth	▼	▲
6.21% 2024 Unemployment Rate	▲	▲
2.26% 2024 Consumer Price Index	▼	▼

Sources: Moody's Analytics, BNB, Eurostat, Federal Planning Bureau, March 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.

A tale of growth and challenges

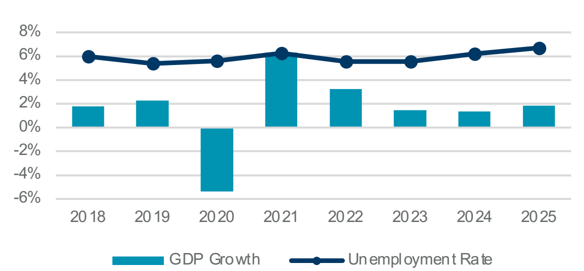
Belgium's economic story in early 2024 is one of cautious optimism. While the scars of the past few years remain, the Belgium economy is experiencing a slow and steady climb. Growth forecasts predict a moderate expansion of 1.4% for GDP in 2024 and 1.8% in 2025. However, there is a higher-than-anticipated public debt deficit in Belgium. While high inflation allowed for a reduction of the government debt ratio in 2022, at unchanged policy, government debt would increase over the next decade, reaching about 120% of GDP by 2030.

Inflation has become a prominent worry, exceeding the European Central Bank's (ECB) target of 2%. Early 2024 saw inflation hovering around 2.8%, and forecasts predict it could remain above 2.5% for all of 2024. The ECB is closely monitoring the inflation situation. While the bank kept rates unchanged in September 2023, some analysts believe a rate cut could be on the horizon later in 2024 – though likely more gradual than initially anticipated by financial markets – if inflation shows signs of persisting above target. This would be a delicate balancing act for the ECB, aiming to control inflation without stifling the fragile economic recovery.

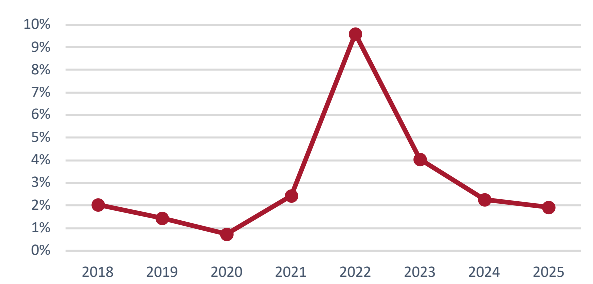
The job market also present a mixed picture. Unemployment, currently hovering around 6.2%, is expected to tick upwards in the coming months. The notable rise in bankruptcies, alongside reduced employment due to stricter financing terms and an uncertain economic landscape, is projected to contribute to an increase in the unemployment rate in the coming years.

The ongoing war in Ukraine adds another layer of complexity. This geopolitical crisis disrupts global supply chains and economic activity, impacting Belgium's heavily trade-reliant economy. Additionally, the pace of the global recovery will significantly influence Belgium's own economic trajectory.

GDP Growth and unemployment rate



Inflation rate



Continued subdued activity

Over the past two years, the Brussels occupier market has experienced a period of subdued activity, and this trend continues into 2024. In fact, the take-up is even lower than that of the first quarter of 2023, dropping by 13% to just under 60,000 sq m in 2024. Only in 2020, marked by lockdowns, did the market experience a worse start.

The public sector remains actively involved in supporting market activity by finalizing the two largest transactions of the quarter. ULB has officially agreed to a short-term lease for *Rue du Lombard 32*, ahead of its potential redevelopment by Eaglestone and ION. Additionally, IBPT has confirmed a leased for 5,600 sq m in *Allianz Tower*.

Potential transactions propel optimism

Despite the somewhat sluggish start to the year, some significant deals are in progress, potentially positioning the year to conclude at a level comparable to 2021 and notably surpassing the take-up of 2022 and 2023.

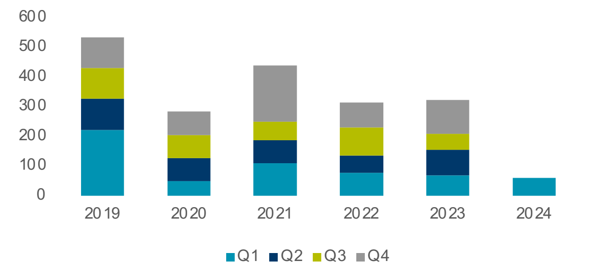
The OIB is actively seeking 125,000 sq m of sustainable office space for the period 2024-2028, while the market eagerly anticipates confirmation of *Pole Star* lease in the North district, paving the way for Engie's relocation to *OXY*. These two transactions alone could account for a total of 60,000 sq m.

A series of rises in prime rents

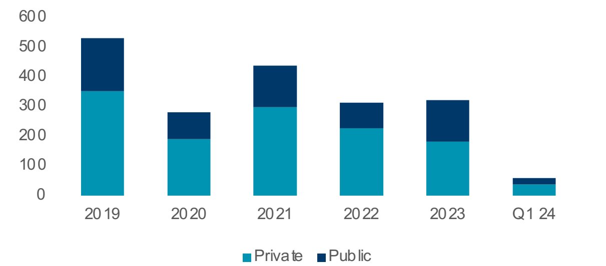
After witnessing rises in prime rents within the Leopold and Louise districts, the Centre district is now experiencing a surge in prime rents. Latham & Watkins' recent transaction in the newly developed *Chancelier* project has established the new prime rent for the district at 340 €/sq m/year. This project, recently completed, boasts not only green certifications but also a prime location merely a five-minute walk from Central Station.

The notable increases in prime rents within the Central districts highlight both occupiers' emphasis on ESG, and that the Brussels market is catching up in terms of with its neighbouring foreign markets, all of which are relatively more expensive.

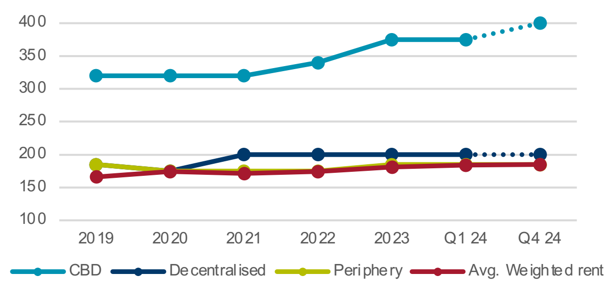
Take-up by quarter (000s sq m)



Take-up: Public and private split (000s sq m)



Prime rents (€/sq m/year)



Finally, prime yields stabilise

For the first time since June 2022, prime yields have remained stable throughout this quarter, largely due to the European Central Bank maintaining rates unchanged since September 2023. Prime yields stand at 5.15% for CBD, 7.35% for Decentralised and 6.85% for the Periphery, notably the Airport district.

Despite optimistic forecasts, central bankers remain cautious amid the volatile geopolitical landscape and the looming possibility of inflation resurgence, especially with core inflation persisting. Consequently, although central bank interest rates are projected to decrease in 2024, they are likely to do so at a more gradual pace than what financial markets are predicting. Similarly, prime yields are also expected to decline by the year's end.

Investment market off to worst start in history

Despite the stability of prime yields at the beginning of the year, this was not mirrored in investment volumes during this quarter. Only two transactions were registered on the Brussels investment market, amounting to a total of 15.5 MEUR.

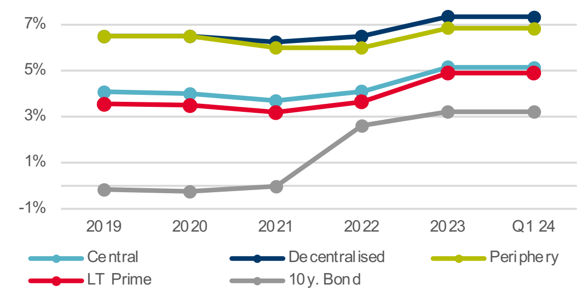
The market is still in a phase of adjustment, with the disparity between sellers' expectations and buyers' offers persistently affecting market dynamics. Nonetheless, a significant number of mandates are in progress, indicating the potential for more favourable transactions in the upcoming months. One notable example is the anticipated sale of EU portfolio.

Interest rates: Switzerland cuts, Japan hikes

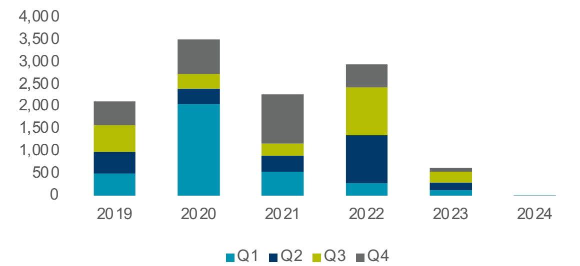
In March 2024, central banks implemented contrasting monetary policies, with Switzerland cutting rates while Japan raised them for the first time in 17 years. The Swiss National Bank reduced rates to address currency appreciation after successfully managing inflation. Conversely, the Bank of Japan aimed to tackle rising inflation after years of stagnation.

As for Belgium and the European Central Bank (ECB), they are expected to adopt a cautious stance, monitoring inflation closely without an immediate need for rate adjustments. Belgium, as a Eurozone member, would likely align with the ECB's approach. While rising inflation could prompt rate hikes later in 2024, economic uncertainties make rate cuts unlikely in the near term.

Prime yields



Investment volumes by quarter (MEUR)



Building momentum and environmental shifts

Following a bustling year for new office space deliveries in 2023, 2024 has commenced with equal vigor, as evidenced by the introduction of 84,000 sq m to the Brussels market. Notably, the largest project, *ZIN*, encompasses a 75,000 sq m complex situated in the North district, which is now home to the Flemish government.

Looking ahead, the remainder of the year holds similar promise, with an additional 210,000 sq m currently under construction.

With numerous projects underway, the market braces itself for new environmental standards, prompting occupiers to gravitate towards energy-efficient properties. This shift is apparent in the considerable portion of pre-lets slated for the end of 2024, accounting for nearly 50% of the pipeline. It's evident that the gap will swiftly close in the months following the completion of these projects.

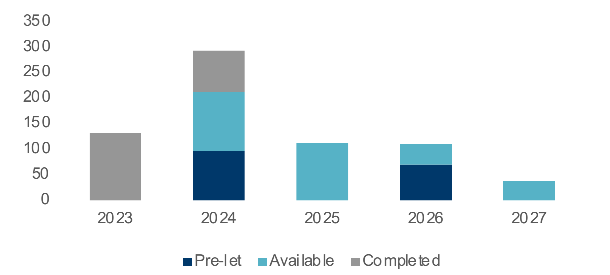
Rising vacancy rate in the Brussels market

The trend of increasing vacancies in the Brussels market, observed previously, persists into the first quarter of 2024. The ongoing weak demand, witnessed over several quarters, continues to exert pressure on the vacancy rate, which climbs from 7.40% at the close of 2023 to 7.84% in Q1 24.

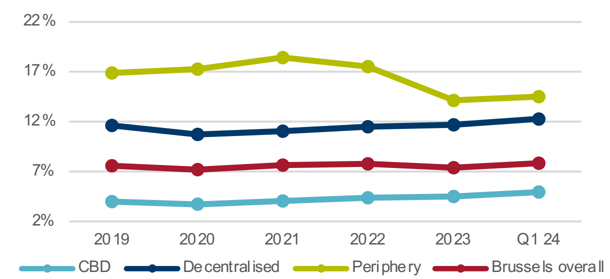
While vacancy rates decline in the Periphery, all markets experience a rise in vacancies at the year's onset. The overall vacancy rate in the CBD is slightly below 5%, whereas in the Decentralised and Periphery, it stands at 12.3% and 14.5%, respectively.

Additionally, across all grades, vacancy rates are on the rise. Despite Grade A buildings typically being in high demand due to ESG requirements, vacancy rates are also rising in newly built buildings, some of which have come onto the market partially unoccupied, with sluggish activity hindering their occupancy.

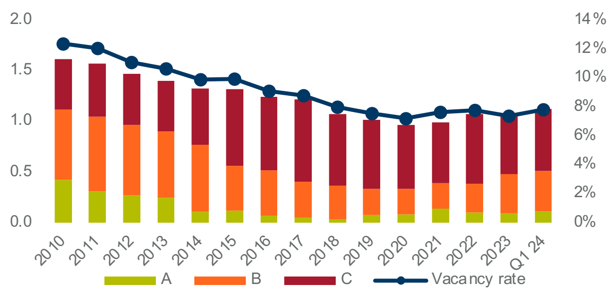
Office pipeline (000s sq m)



Vacancy rate by districts



Vacancy by grade (M sq m)



Market Statistics

SUBMARKET	STOCK (SQ M)	AVAILABILITY (SQ M)	VACANCY RATE	Q1 2024 TAKE-UP	2024 TAKE-UP	UNDER CONSTRUCTION (SQ M)	PRIME RENT (€/sq m/year)	PRIME YIELD
Leopold	3,405,841	112,981	3.32%	5,176	5,176	29,757	€375	5.15%
Centre	2,510,223	133,501	5.32%	17,771	17,771	130,813	€340	5.25%
North	1,552,992	133,110	8.57%	5,902	5,902	5,286	€270	5.80%
Louise	842,508	43,988	5.22%	6,099	6,099	49,939	€340	5.30%
Midi	618,538	17,515	2.83%	150	150	-	€195	6.00%
Decentralised	2,463,474	302,751	12.29%	12,924	12,924	130,000*	€200	7.35%
Periphery	2,241,190	325,405	14.52%	11,735	11,735	127,631	€185	6.85%
Brussels (Overall)	**13,634,266**	**1,069,293**	**7.84%**	**59,757**	**59,757**	**473,326**	**€375**	**5.15%**

* Including new HQs for RTBF and VRT

Key Lease Transactions Q1 2024

PROPERTY	SUBMARKET	TENANT	SQ M	TYPE
Core	Centre	ULB	9,250	Letting
Allianz Tower	North	BIPT – IBPT	5,652	Letting
Chancelier	Centre	Latham & Watkins	4,144	Letting
Bosquet 19-24	Periphery	Zoetis	3,172	Purchase

Key Investment Transactions Q1 2024

PROPERTY	SUBMARKET	BUYER / SELLER	VOLUME (in MEUR)	YIELD
Chaussee de Gand 1434	Decentralised	LIVe / Partena	12.5	-
Science 10	Leopold	Groep Bowen / Private	3	-

Benjamin DEVIE
Senior Research Analyst | Belgium & Luxembourg
+32 492 11 35 10
benjamin.devie@cushwake.com

Maximilien MANDART
Head of Occupier Services | Belgium
+32 478 24 08 02
maximilien.mandart@cushwake.com

Michael DESPIEGELAERE
Head of Capital Markets | Belgium & Luxembourg
+32 476 82 08 59
michael.despiegelaere@cushwake.com

cushmanwakefield.com

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