OVERVIEW


The Brussels office market ended 2016 on a positive note, with 454,000 sq m of take-up recorded, an increase of 50% compared to 2015.

As the level of speculative developments remains relatively low and as the office reconversions continue (though at a more limited pace), the vacancy rate continues its slow and continuous decrease and reached 9.2% at the end of the year, its lowest level since 2007. The vacancy rate could start to increase as from 2017 as important relocation processes are in the pipeline.

There are currently 70,000 sq m available in grade A buildings. As the speculative pipeline only amounts to 32,000 sq m for 2017, this level is expected to decrease in the coming months.

No changes are to mention regarding the prime rental levels which remain at €275/sq m/year in the Leopold district. Slight adaptations have been made during 2016 depending on the concerned districts. An increase of the prime rent is still expected in 2017.

The average rents witnessed a slight increase during the year 2016 and stand around €160/sq m/year at the end of Q4, compared to €150/sq m/year at the end of 2015. Further slight increases are forecasted in 2017.
ECONOMIC OVERVIEW

The Belgian economy grew moderately in 2016.

The economic growth continued at a moderate pace in 2016, posting a 1.2% increase, slightly below the level reached in 2015, as a consequence of the economic uncertainties (the consequences of the Brexit and the victory of Trump late November 2016) and terrorist threats.

Activity is expected to gradually pick up in the coming years, around 1.5% in 2017 (Figure 2). Looking ahead, high public debt levels continue to pose downside risks. A possible European downturn originating from a weakened Italian banking sector or more protectionist trade policies would weigh on Belgian exports and depress the economic outlook.

Confidence indices on the up since 2013.

Following a strong decrease in Q3, confidence indices are oriented upwards in Q4 and almost reached their highest levels since 2014 (Figure 3).

As far as consumers’ macroeconomic estimates are concerned, fears of a rise in unemployment over the coming twelve months have again subsided sharply while the outlook for the general economic situation remains unchanged. Households predict only minor changes in their situations.

Business confidence is also oriented upwards thanks to recoveries in the manufacturing, construction and business-related services sectors. By contrast, the economic outlook weakened in the trade sector, due to increasing protectionist threats.

Unemployment rate at its lowest since 2012 and further downward expected.

The unemployment rate continued to decrease in 2016 to reach 8.1%, its lowest level since 2012 (Figure 4). Recent reforms to reduce labour costs are feeding through to improved competitiveness and contributed to a decrease of unemployment.

Compared to the evolutions forecasted in the Eurozone or in the US, only further slight decreases of the unemployment are expected in Belgium in the coming years. In 2020, the unemployment rate could stand at 7.6%, while important disparities between regions should still exist.
ECONOMIC OVERVIEW


Job creations have been important in the Eurozone in 2016, with an employment growth just above 1%. In the US, job creation has also been the highest over these last years with a growth around 1.7% (Figure 5).

In Belgium, this increase is the strongest since 2011. Roughly, 50,000 jobs were created in the different sectors of the economy. In the services, globally 3,750,000 jobs are recorded (+ 40,000 compared to 2015).

Despite remaining positive, the employment growth is expected to decelerate in the coming years in Belgium as well as the Eurozone and the USA. In 2020, the employment growth should barely reach 0.5%.

Strong inflation increase at the end of 2016.

Compared to 2015 (0.6% on average), inflation in Belgium reached the 2% threshold in 2016. This is far higher than the low 0.3% observed at the Eurozone level, despite all the efforts done by the European Central Bank to promote an inflation close but just below the 2% threshold.

The strong rebound observed in the Eurozone during last quarter should last in the coming months. As a result, inflation should reach 1.5% in 2017 and gradually increase to stand around 2% in 2020. Belgium should roughly follow the same path between 2017 and 2020 (Figure 6).

ECB base rates to remain at 0% until 2020.

Unlike the US FED, the ECB has decided to maintain its base interest rates unchanged at 0% in Q4 2016. More globally, the monetary policy of the European Central Bank should remain accommodating in the coming months, through the extension of its quantitative easing programs throughout 2017 (though at a decreased rate of € 60bn per month rather than € 80bn) and its willingness to maintain interest rates unchanged.

In the longer term, the base interest rates are forecasted to remain unchanged at 0% up to the beginning of 2020 while they are set to gradually increase in the USA (Figure 7).

The 10-year government bond yields are also expected to gradually increase as from 2017. However, they will remain below 2% up to 2019. As a result, further yield compressions are not excluded for prime assets and/or locations in Belgium in the coming months but the window of opportunity is slowly narrowing.
Solid take-up in 2016, although hiding fragile reality.

In Q4, 90,000 sq m of take-up were recorded on the Brussels office market. Thanks to significant transactions from the public sector, activity reached a strong 454,000 sq m globally in 2016. This is 50% more than in 2015 and the highest level observed since 2010 (Figure 8).

However the reality behind this solid take-up raises important questions on the future of the Brussels office market. Indeed, looking at Figure 3, we see that the strong increase recorded in 2016 is mainly due to the public sector which contributed to more than 160,000 sq m. If the public sector is an important actor on the letting market, its restructuration process is mostly achieved and the future moves will be only for relocation purposes (no net contribution to the take-up) in the coming years.

In the meantime, the private sector is globally on the downside since the crisis. Indeed, still looking at Figure 9, the average take-up over the last five years stands around 285,000 sq m compared to 400,000 sq m on average during the 2000-2010 period.

The new of way working, co-working, free-addressing and disruptions in technology have a strong impact on the needs for infrastructure and should contribute to further decrease of the take-up in the coming years.

Pre-lettings and built-to-suits boost the take-up in grade A buildings.

In 2016, more than 185,000 sq m of take-up (or 40% of the total) is located in grade A buildings, within 100,000 sq m are to be found in buildings which have still to be constructed (namely Mobius, De Ligne, Centre 58). However, this figure confirms our previous thoughts concerning the increasing willingness of occupiers to be located in recent and efficient office spaces (Figure 10).

Next to these significant transactions, the 6,700 sq m letting of Danone in Docks Bruxel or more recently the 3,500 sq m letting of Microsoft in the PassPort and the 6,000 sq m of CBR in the Genesis in Walloon Brabant also contributed to this strong rebound.

This was however not sufficient to fully absorb the vacant spaces in grade A buildings which stand still around 70,000 sq m at the end of 2016 compared to 75,000 sq m at the end of 2015 (see below).
The vacancy rate continued its decrease and reached its lowest level since 2007.

There are currently 1,240,000 sq m vacant on the Brussels office market, representing 9.2% of the total office stock (Figure 11). The vacancy rate has continuously, though slowly, decreased since the peak reached mid-2010, mainly thanks to the low level of speculative projects which entered the market in the last years and the office reconversions into nursing homes, schools or residential units.

The vacancy in grade A buildings is at its lowest, at 70,000 sq m at the end of 2016. However, compared to 2015, this level is broadly unchanged (75,000 sq m at the end of 2015). The largest vacant spaces are to be found in the Regent Park (7,300 sq m delivered in Q1 16), the Belliard 65 (5,200 sq m delivered in Q2 2016), in the Oxygen and the Atlantis.

240,000 sq m delivered in 2016, more scheduled in 2017.

The end of the year 2016 showed significant deliveries in the Brussels office market, namely the Astro Tower, the Résidence Palace and Gateway on the Brussels Airport.

Of the 240,000 sq m delivered in 2016, 86,000 sq m were launched without a tenant and 15,000 sq m remain currently empty.

If the pipeline for 2017 is significant (more than 250,000 sq m awaited), there is only 32,000 sq m launched on a speculative basis (Figure 12). In 2018, The One will add 30,000 sq m of office spaces in the Leopold district.

In the longer term, the pipeline is huge with potentially more than 450,000 sq m, though developers are mainly awaiting tenants to start the construction (WTC IV, Spectre, Silver Tower, Realex, Victor…). Most of these projects are located in the North district which is definitively the main issue for the Brussels office market in the coming years.


No changes of the prime rent were observed throughout 2016 in the Brussels office market. The prime rent is still to be found at €275/sq m/year in the Leopold district. A slight increase is still forecasted in 2017, although remaining limited (Figure 13).

The average rents witnessed a slight increase in 2016 and currently stands around €160/sq m/year. Further slight increases could happen in 2017.
## BRUSSELS OFFICE MARKET DASHBOARD

<table>
<thead>
<tr>
<th>District</th>
<th>Take-up 2016 (sq m)</th>
<th>Office stock Q4 16 (sq m)</th>
<th>Vacancy rate Q4 16 (%)</th>
<th>Prime rents (€/sq m/year)</th>
<th>Average rents (€/sq m/year)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leopold</td>
<td>86,000</td>
<td>3,320,000</td>
<td>5.3%</td>
<td>275</td>
<td>190</td>
</tr>
<tr>
<td>Centre</td>
<td>145,000</td>
<td>2,430,000</td>
<td>5.2%</td>
<td>235</td>
<td>175</td>
</tr>
<tr>
<td>North</td>
<td>36,000</td>
<td>1,555,000</td>
<td>7.3%</td>
<td>195</td>
<td>150</td>
</tr>
<tr>
<td>Louise</td>
<td>32,000</td>
<td>860,000</td>
<td>9.1%</td>
<td>235</td>
<td>155</td>
</tr>
<tr>
<td>Midi</td>
<td>0</td>
<td>575,000</td>
<td>7.5%</td>
<td>205</td>
<td>160</td>
</tr>
<tr>
<td>North-East</td>
<td>28,000</td>
<td>1,210,000</td>
<td>15.9%</td>
<td>145</td>
<td>130</td>
</tr>
<tr>
<td>South</td>
<td>38,000</td>
<td>1,150,000</td>
<td>10.9%</td>
<td>190</td>
<td>145</td>
</tr>
<tr>
<td>West</td>
<td>14,000</td>
<td>310,000</td>
<td>18.4%</td>
<td>175</td>
<td>140</td>
</tr>
<tr>
<td>Airport</td>
<td>31,000</td>
<td>1,140,000</td>
<td>18.7%</td>
<td>175</td>
<td>130</td>
</tr>
<tr>
<td>Ring</td>
<td>13,000</td>
<td>490,000</td>
<td>14.8%</td>
<td>140</td>
<td>105</td>
</tr>
<tr>
<td>Walloon Brabant</td>
<td>31,000</td>
<td>430,000</td>
<td>8.7%</td>
<td>150</td>
<td>135</td>
</tr>
</tbody>
</table>

**Legend**
- **CBD**
- **Decentralised**
- **Periphery**
BRUSSELS OFFICE MARKET
CENTRAL DISTRICTS

Highest take-up since 2016 thanks to the public sector.

Thanks to a fantastic Q2, take-up in the Central districts reached 300,000 sq m in 2016, its highest level since 2006. This strong activity is mostly due to some significant transactions carried out by the public sector (local police, municipality of Brussels, Brussels-Capital Region…).

However, activity is decreasing since the peak reached in Q2. In Q4, a low 39,000 sq m has been observed. The most important deals in Q4 are the 4,000 sq m of Publicis One Belgium in Tour & Taxis and the 3,500 sq m purchase of the VVSG in the Madou Centre (Figure 14).

Vacancy rate at 6%, the lowest level since 2007.

The low level of speculative developments, combined to the increasing concentration of the occupiers in the Central districts has a positive effect on the vacancy rate which witnessed a continuous decrease since 2010. As a result, the vacancy rate currently stands at 6% (Figure 15). The best performers are the Centre and Leopold district, respectively at 5.25% and 5.35%.

The Louise district recorded a strong decrease of the vacancy during 2016, mainly thanks to office recommissions along the rue de Stassart or along the rue de la Cambre. This district continues its renewal towards a more mixed-use area thanks to the reconversion of obsolete office schemes into a high-end residential development such as the Quadrian.

The North district currently concentrates the attention. Standing at 7.5%, the vacancy could possibly explode in the coming months and raises the need of a global redevelopment of the area and the introduction of the mixed-use into the heart of the district. We have strong ideas about the future of the North district and we are convinced that this district could attract private occupiers next to the different public bodies already present in the area.


No changes are to mention regarding the rental levels which remained perfectly stable all over 2016. A slight increase is still to happen in 2017 (Figure 16).

The average rents are on a slight upward movement and stand close to 190€/sq m/year at the end of 2016, mostly boosted by the Leopold district.
Stable activity all over the year brings the take-up to its highest since 2010.

Four consecutive strong quarters were observed in the Decentralised districts. In Q4, 24,000 sq m of take-up were recorded, the highest level of the year, mainly thanks to the 8,000 sq m purchase of the Dubrucq building by the Federation Wallonie-Bruxelles, the 2,600 sq m letting of Sopra Steria in the Triumph Building and the 2,500 sq m letting of Edenred in the Souverain Plaza (Figure 17).

As a result of four dynamic quarters, activity reached a high 80,000 sq m in 2016, its highest level since 2010. Activity should remain dynamic in 2017, namely thanks to the likely redevelopment of the Herrmann-Debroux building owned by AXA and the ongoing redevelopment of the area surrounding the CHIREC in Delta.

Vacancy rate on the decrease, though remaining at a high 15%.

As observed in the Central districts, the vacancy rate witnessed a continuous but slow decrease since mid-2011 and currently stands around 14% (Figure 18).

The South district records the best performances with a vacancy rate at 11% and on the decrease thanks to recent transactions in the Souverain Plaza and in the Glaverbel Building. The continuous downward movement of the vacancy, combined with the increasing willingness of the occupiers for location close to public transportation undoubtedly contributed to the likely redevelopment of the Herrmann-Debroux building in the coming months.

The trend is broadly the same in the North-East area which benefited from office reconversions in the last months (Leopold III Tower, Woluwe 56…). The vacancy rate currently stands just above 15%, its lowest level since mid-2008. The downward movement could however come to a halt with the future move of the NATO headquarters which will vacate important office spaces along the Boulevard Léopold III.


Compared to Q3, no changes are to mention regarding the prime rental levels. The South district is the most expensive at €190/sq m/year while the North-East district is the cheapest (Figure 19).

The average rents are more volatile than those observed in the Central districts, mostly due to the wider diversity of the office stock and currently stand around €140/sq m/year.
The Periphery posted its lowest activity of the last six years in 2016.

The strong upsurge of activity witnessed in Q4 with 28,000 sq m of take-up recorded was not sufficient to counterbalance the relatively low level witnessed in the beginning of the year. Globally in 2016, 75,000 sq m of take-up was observed in the Periphery (Figure 20).

The most significant transactions of the last quarter are mainly the 3,500 sq m of Microsoft in the PassPort building, which confirms the attractiveness of the Airport as an office destination and the 6,000 sq m letting of CBR in the Genesis which confirms the interest of occupiers for qualitative and efficient office schemes. As it is the case since the end of 2014, the Ring district struggles to attract and even maintain occupiers on its territory, occupiers which rather opt for the accessibility and the visibility of the Airport area.

Vacancy rate still above 15% globally in the Periphery.

No significant changes are to mention regarding the vacancy rate in the Periphery as it witnessed barely no changes in the last two years. Indeed, the vacancy rate currently stands at 15.7%, coming from 16.5% two years ago (Figure 21).

The best performances are observed in the Walloon Brabant which continues to position itself as a strong alternative for corporate occupiers with a Walloon workforce. Furthermore, the development of the CBTC by Chinese investors should act as a catalyst for the area though the size of this project (total of 90,000 sq m) raises some question regarding the size of the market.

The Airport district has still to deal with the highest vacancy rate of the Brussels office market at 18.7%. The situation remains ambiguous regarding the future of this area as key locations such as the Airport attracts occupiers such as Deloitte, KPMG and Microsoft while the Brussels Airport Company is sketching impressive plans for the future of the Airport.

The Airport district at €185/sq m/year, the most expensive rent in the Periphery.

Growing interest for core locations at Brussels Airport contributed to push the prime rents on the upside in 2016. They currently stand at €185/sq m/year and further increase are forecasted in the coming months (Figure 22).

Conversely, the lack of activity in the Ring district and the decreasing quality of the office stock has led to a decrease of the rental levels in the course of the year to €145/sq m/year.
### BRUSSELS OFFICE MARKET

#### DEFINITIONS

<table>
<thead>
<tr>
<th>Term</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Availability:</td>
<td>Represents the total floor space in existing properties, which are physically vacant, ready for occupation and being actively marketed as known on the last day of the quarter (with a margin of error of 5%). The vacancy rate represents the total vacant floor space divided by the total stock at the survey date.</td>
</tr>
<tr>
<td>Building grade:</td>
<td>Grade A: newly developed or comprehensively refurbished to new standard, including sublet space in new/refurbished buildings not previously occupied. Grade B: buildings of good specification, floor plate efficiency and image usually but not exclusively ten years old or less. Grade C: remaining poorer quality stock.</td>
</tr>
<tr>
<td>New supply:</td>
<td>Represents the total amount of floor space that has reached practical completion as known on the last day of the quarter (including major refurbishments) regardless whether the space is occupied or still available on the market.</td>
</tr>
<tr>
<td>Prime rent:</td>
<td>Represents the attainable average prime rent that could be expected for an office unit (min. 500 sq m) commensurate with demand in each location, highest quality and specification in the best location in a market at the survey date. The rent is given as a base rent, i.e. no service charge or tax is included.</td>
</tr>
<tr>
<td>Square meters:</td>
<td>Unless stated otherwise, the square meters used in this publication refer to the Gross Leasable Area definition for Brussels. For more information, see our DTZ insight: Office Lease Area Comparison.</td>
</tr>
<tr>
<td>Stock:</td>
<td>The office property stock is the sum of office properties which are in use and office properties standing empty at the time of analysis. The office property stock is not a static amount. Due to new-build or totally refurbished operations it increases (new supply), due to demolition, change of use or even larger refurbishments that make the space not usable for a significant amount of time, it decreases.</td>
</tr>
<tr>
<td>Take-up:</td>
<td>Represents the total office floor space known to have been either let, pre-let or developed for tenants as well as sold or pre-sold to owner-occupiers as known on the last day of the quarter. Pure contract renewals, sales and leasebacks and sub-lettings are not included.</td>
</tr>
<tr>
<td>Effective take-up:</td>
<td>Represents the difference between the office space let or purchased by an occupier and the office space known to have been released by the same occupier in building(s) previously located in the considered office market. Space reduction by other tenants within their current office is not included in the calculation.</td>
</tr>
<tr>
<td>Turnover ratio:</td>
<td>The turnover ratio is defined as the 12-months take-up moving average as a proportion of the stock size. It indicates where real growth continues to develop.</td>
</tr>
<tr>
<td>Net absorption:</td>
<td>Is equal to the stock occupied at the end of a period minus the stock occupied at the beginning of a period and takes into consideration space vacated or vacant space delivered during the period.</td>
</tr>
</tbody>
</table>
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