Treurenberg

2015 : Annus horibilis for the letting market

Following the signs of recovery seen in the figures of 2014, in 2015 take-up was at one of its lowest levels since the crisis first broke out back in 2008. With a volume of around 370,000 m² (including lease renewals and purchases for own occupation), take-up was some 20% down on the previous year, and substantially lower (-18%) than the average since the start of the crisis in 2008.

By contrast with 2014, the public sector was virtually absent from the market, accounting for only 20% of total volume (some 80,000 m²), despite real demand from the public authorities and institutions. Calls for tender launched by the European institutions, which are looking for 27,000 m² for the Commission and 12,000 m² for the European Parliament, were not able to be satisfied despite interest having been shown in **Black Pearl** (the passive building of around 11,000 m² developed by Immobel) and **Merode** (around 13,000 m² located at Avenue de Tervueren 41 and renovated by P&V). The reasons for this are to be found in the appeal lodged with the European Court of Justice by Banimmo (whose proposition was not selected), obliging the European Union to state the reasons for its choices. In the end, the Office for Infrastructure and Logistics confirmed in late 2015 that it had opted for these buildings, and the lease contracts should be finalised during 2016.

Anticipation of demand from the public authorities and institutions

In total, the future needs of the European Commission amount to some 150,000 m² between now and 2020/21, as current lease contracts come to an end and following the restructuring of its real estate holdings.[1] This expectation only involves the Commission and the executive agencies, and therefore takes no account of possible requirements from other institutions and or bodies of the European Union.

The Brussels Capital Region has launched two calls for tender of around 4,000 m² each for its services, and discussions are underway on the one hand with LCEBE-JCX-Immo, owner of a building located at **59, Rue de Namur**, and on the other with Breevast for **C. de Ligne.** These are well on the way to being finalised during 2016.

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The City of Brussels has definitively signalled its agreement to locate its new administrative centre – **Brucity** – on the site of the current *Parking 58* (Rue de la Vierge Noire), owned by AG Real Estate. Works on the new administrative centre of 37,500 m² are set to start in 2017, with a view to the 1,500 civil servants moving in during 2021. The transaction involves a 30 year lease with purchase option.

The Belgian State Buildings Agency has also confirmed its selection of the **Pacheco** building (approx. 30,000 m²), a historic building belonging to Belfius. These potential future transactions can only augur well in terms of more positive figures for 2016, with an active public sector.

Drastic reduction in take-up

In parallel with a lack of activity from the public sector, large size transactions (>10,000 m²) were also virtually inexistent in 2015. The few large scale transactions which did take place involved the acquisition by the City of Brussels of the **De Ligne** building in the centre of Brussels (approx. 31,000 m² of offices), in view of future occupation by the metropolitan police,

(1) Read also about the subject the interview of Alain Hutchinson, new Commissioner of the Brussels Capital Region in charge of welcoming international bodies, including the EU Commission. Acting as a single point of contact, part of his mission is to shorten the time needed between expressing of the needs of official bodies and responding to them. This is change has been made following the sixth reform of the State, Alain Hutchinson is so a political representative of the Brussels Governement and not anymore an ambassador connected to the Foreign Ministry. Download this article "European District and PUL on the move" via www.pro-realestate.be/library

the letting of some 13,000 m² by KPMG in **Passport** – a building developed by Codic at the airport and just alongside the **Gateway** project developed by Immobel for Deloitte. Along with these come the letting by the Schaerbeek social security agency (CPAS) of some 10,350 m² in the **Silver Building** on the Boulevard Reyers, the take-up by the Single Resolution Board of **Treurenberg**, the new 9,800 m² passive building by AXA, one of the rare transactions of any size by the European institutions in 2015.

"The absorption of current and scheduled supply, estimated at 2,530,000 m², would require 5 years in view of average take-up of 455,000 m²/year"

Differing activity per district

The central districts saw a decrease in activity compared to the previous year. Their proportion of total take-up only amounted to around 35% in 2015, whereas the previous year they accounted for almost half of take-up in Brussels and the periphery. The Pentagon and airport districts recorded the highest increases, with 47% and 114% higher take-up respectively, than 2014. This is nevertheless, principally as a result of a few large transactions, such as the letting of **Passport** (approx. 13,000 m²) by KPMG in the airport district, and the acquisition for own occupation of **De Ligne** (approx. 31,000 m²) by the City of Brussels in the city centre.

Over recent years, the European / Leopold district had dominated the market in terms of take-up in Brussels. But in 2015 it was overtaken by the decentralised districts, which accounted for around 26.5% of all take-up, against just 13% for the Leopold district, which thus trails the Periphery (18%), the Pentagon (17%) and the zone around the airport (14%).

Business districts of the centre less in demand compared to previous year

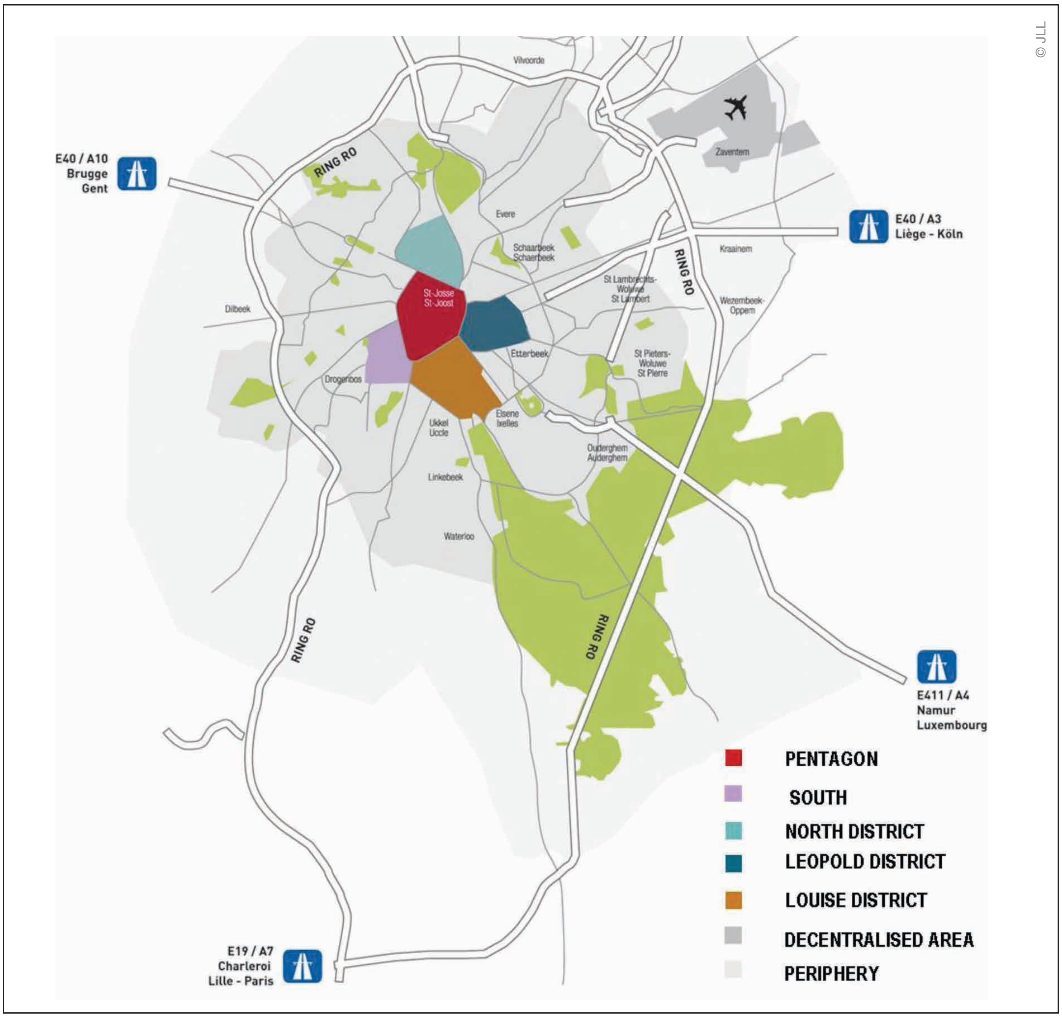
There are a number of factors which play a part in the loss of speed experienced by the business districts of the centre: the feeling of insecurity caused by the terrorist attacks, the consequences of the reduction in parking spaces in office buildings within the framework of the COBRACE climate code, the growing problems of mobility (the closure of certain tunnels has certainly not helped in this), the slow-down in development activity leading to a scarcity of supply in buildings responding to current energy criteria…

Despite the drastic decrease in take-up, vacancy remains around the 10% mark for the Brussels market as a whole, in particular due to the decrease in speculative office real estate developments (only 20% of buildings currently under construction and set to be delivered within two years are speculative), and to the conversion to other use activity, which is growing from year to year. Without any great surprise, it is still the peripheral and decentralised zones which record the highest vacancy levels with around 22.5% and 13.5% respectively.

Can demand absorb supply …?

The limited number of new projects has led to stability in the vacancy level. Despite this, it will in theory require several years before there is equilibrium between supply and demand, because it is estimated that for the current supply (rental vacancy plus speculative projects) to be totally absorbed by demand, will take five years, taking into account current availability of some 2,530,000 m² (made up of around 1,540,000 m² vacant plus 990,000 m² of speculative development), and of average annual take-up of 455,000 m² since the crisis of 2008.

This situation varies greatly according to districts. It is observed that despite the presence of many obsolete buildings, the absorption rate in the Louise district is short, just 1.7 years, thanks to the policy of the city which is favouring the conversion of these office buildings into residential use. New office projects here are virtually non-existent. The longest absorption rates are to be found in the decentralised and peripheral districts, where vacancy levels are high. These figures have to be treated cautiously, however, as they do not reflect other movements to come.



Dashboard of the Brussels office market in 2015: 14,851,000 m²

KEY FIGURES	Centre	Midi	Leopold	North	Louise	Decentralised	Periphery (airport)	Periphery (excl. airport)	Total BCR
Stock	2.449.000	577.000	3.238.000	1.670.000	801.000	3.227.000	1.504.000	1.385.000	14.851.000
Percentage of total stock	16%	4%	22%	11%	5%	22%	10%	9%	
Proportion of second hand buildings	46%	20%	28%	19%	56%	42%	18%	26%	
Vacancy level**	**5,3%**	**3,8%**	**5,9%**	**2,7%**	**7,0%**	**13,5%**	**22,5%**		
under construction (non-speculative)	0	0	118.000	0	0	200.000	15.000	15.000	348.000
under construction (speculative)	4.000	0	69.000	0	0	7.000	0	12.000	92.000
Total Under Construction	**4.000**	**0**	**187.000**	**0**	**0**	**207.000**	**15.000**	**27.000**	**440.000**
Projects (non-speculative)	95.000	0	66.000	292.000	0	118.000	49.000	6.000	626.000
Projects (speculative)	183.000	67.000	95.000	65.000	0	216.000	30.000	242.000	898.000
Total projects	**278.000**	**67.000**	**161.000**	**357.000**	**0**	**334.000**	**79.000**	**248.000**	**1.524.000**
Take up (2015)	62.500	13.000	47.500	12.500	18.500	99.000	52.000	68.000	373.000
Average take up (2008-2015)	62.500	11.500	99.500	45.500	33.500	81.500	50.500	71.000	455.500
Number of years to absorb take up	5,1	7,7	3,6	2,4	**1,7**	8,1	7,8		5,5
Prime rents (€/m²/year)	220	210	265	195	220	195	150		
Strong and week points of the various districts of the Brussels Capital Region									
Advantageous fiscal regime	-	-	-	--	-	-	++	++	
Acces by public transport	++	++	+	++	=	-	--	--	
Quality of stock	=	++	+	+	-	=	+	+	
Presence of facilities	++	++	++	++	++	+	+	+	
Presence of green areas	-	--	-	-	=	+	++	++	

++ Excellent *+ Good* *= Average* *- Bad* *-- Very bad*

** Prime rent : best rent obtained* *** Vacancy level : % of office space immediately available*

Sources: de Crombrugghe & Partners / Expertise News

Quatuor

Mobius Towers

Major stakes in the North district

The North district is at the centre of attention. Despite its advantages (proximity to the city centre and to the international railway station), this business district finds it hard to attract occupants, even though it has many quality projects available to let.

Many movements are expected here. The centralisation of the services of the Flemish authorities in 2018 into the Meander project (now re-named **Herman Teirlinck**) on the Tour & Taxis site, and of the services of BNP Paribas Fortis into its new headquarters under construction on the Rue Montagne du Parc scheduled for 2021, will result in several buildings which have now become obsolete (Noord Building, Graaf de Ferraris, Boreal, Manhattan Center), gradually being vacated. This future vacancy, coupled with numerous projects-in-waiting (**Silver Tower** (approx. 35,000 m²), **WTC IV** (approx. 55,000 m²), **Möbius** (formerly known as Brussels Tower, (approx. 59,000 m²), **Quatuor** (approx. 60,000 m²), leads to an expectation of a substantial increase in vacancy over the coming five years (around 500,000 m² by 2020 is being spoken of). And on top of this, the European institutions are not keen on installing here, because it seems to them to be not near enough to their nerve centre.

There is a glimmer of light, however, as it is rumoured that Allianz, which is looking for a new headquarters, may have shown an interest in one of the two towers of Immobel's *Möbius project* (i.e. 30,000 m²).

Increasing speed in converting obsolete office buildings

The activity in converting unsuitable second generation buildings continued in 2015, as the volume of office space taken off the market each year has now exceeded an annual average of some 50,000 m² over the past 18 year. A few large buildings perfectly demonstrate this trend. Among these are the **Leopold Tower** of some 16,600 m² (Rue de Genève), to be renamed *Leopold Views* and converted to 201 residential units by Matexi, the 22,500 m² of the **Green Island** building (Avenue du Port 12-14) belonging to KBC and recently acquired by the Cavens group with a view to converting it into apartments. Boulevard de la Woluwe 60, currently 40% let is also representative of these obsolete office buildings of the 80's, and is to be converted into 60 apartments by Eaglestone.[(2)]

This conversion activity is certainly going to speed up in light of the new decree of February 4th 2016 from the Brussels government, with the objective of granting subsidies to public service property companies, communes and social services organisations (CPAS), for converting unused office or other buildings into social or low rent housing. This is designed to decrease rental vacancy and create 3,000 extra social housing units and an extra 1,000 units for the middle classes.

Two speed rental market

Despite a decrease in rental vacancy, rents are tending to stabilise and concessions granted by owners remain very substantial, due in particular to the high level of competition, especially from first generation buildings which meet current energy norms. It may be expected that the gap between obsolete buildings and new buildings responding to energy consumption norms (PEB), will widen over time. The increasing demands of these norms, along with the slow-down in new projects, risks leading to a scarcity of buildings which meet the norms, and a corresponding increase in rents for this type of building, to the detriment of second generation buildings.

Energy performance is a criterion which has become determining in the choice of installation for major occupants such as the European institutions and public authorities, and it is taking on more weight with other players on the market. Large users are obliged to carry out energy audits and to set out their plans for reducing their carbon emissions. The take-up figures confirm this trend, as new buildings, those under construction or in project form, represent almost 30% of take-up, despite the low level of take-up by the major institutions and public bodies.

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(2) Also read the article Office conversion continues unabated published on pages 20-22 of this edition