MARKET REPORT 2024

stadimfocus

OFFICE MARKET BELGIUM

Belgium's economic recovery and investment climate expected to improve in 2025

The overall economic growth is projected to experience a modest increase, rising to 1.2% in 2025 after a decline to 1.0% in 2024 from 1.3% in 2023. Notably, Belgium's growth rate in 2024 surpassed the Eurozone average of 0.8% and is expected to align at 1.2% in 2025. This expansion is largely fueled by domestic demand. Looking ahead, a stable growth rate between 1.2% and 1.4% is anticipated for 2026 and 2027.

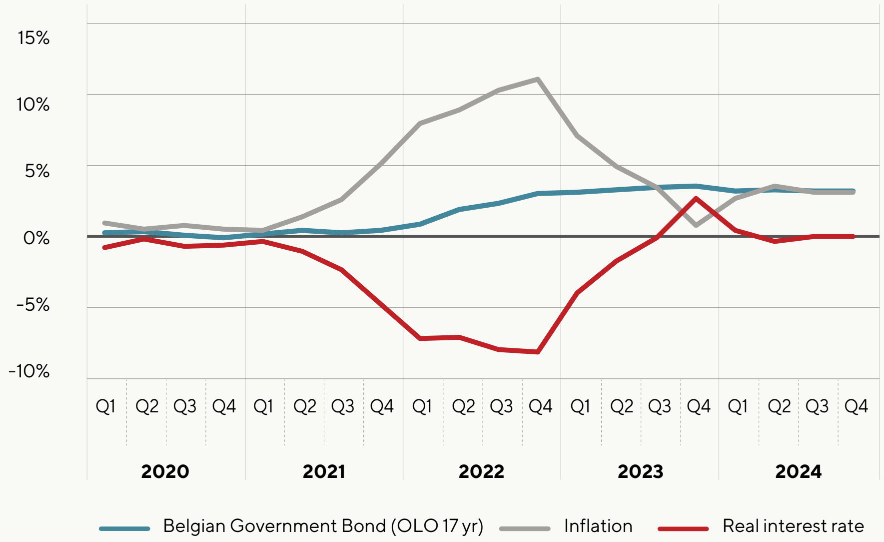
Inflation and long-term interest rates are pivotal in forecasting developments in Belgium's professional real estate sector. In 2024, inflation remained relatively stable, averaging 3.48% in Q4. Projections indicate an average inflation rate of 2.5% in 2025. From 2026 onward, the Federal Planning Bureau (FPB) anticipates a decline to 1.8%, with inflation stabilizing at this level through 2029.

The ECB rate primarily affects short-term borrowing costs, whereas the 17-year Linear Government Bond (OLO) serves as a barometer for long-term market expectations, particularly investor sentiment and risk appetite. Consequently, the OLO is a key determinant of real estate returns in Belgium. Throughout 2024, the 17-year OLO consistently fluctuated around the 3.25% mark. This rate is expected to remain relatively stable over the medium to long term, reflecting persistent investor concerns about economic growth, inflation and geopolitical risks.

Given the stability of both inflation and the 17-year OLO throughout 2024, the real interest rate - calculated as the difference with inflation - also remained relatively stable, averaging around 0% and ending the last quarter of the year at -0.24% on average.

As expected, the European Central Bank (ECB) is continuing its policy of gradual interest rate cuts. On March 6, the ECB decided to lower the deposit facility rate for the second time this year by 25 basis points to 2.50%, following stagnation in economic growth in the eurozone during the fourth quarter of 2024. This marks the sixth consecutive time the central bank has cut its policy rate since June last year. The rate is now at its lowest level in two years and the ECB is continuing to express the need for restrictive policy rates in 2025. Financial markets anticipate further cuts by the ECB to boost the economy and to achieve its 2% inflation target.

AVERAGE PER QUARTER (BELGIUM)



Office market Belgium

At the end of 2024, the Belgian **office real estate** market remains in transition, shaped by persistent challenges and shifting dynamics. Following an unprecedented 88% decline in **investment volume** in 2023, the sector continues to experience historically low activity especially in terms of core investment transactions, while cities such as Antwerp and Ghent witnessed a higher number of transactions. However in terms of investment volume, these were generally smaller in scale, reflecting a move toward localized and selective office demand. In contrast, a sector like logistics has shown relative stability, with sustained occupier interest. For **retail**, high-street is still rising while out-of-town is experiencing a setback.

A key factor behind the slowdown in the office market is the absence of **institutional investors**. Over the past year, these investors have largely withdrawn due to elevated **financing costs** and a persistent mismatch between buyer and seller price expectations. However, with yields expected to stabilize, a gradual return of institutional capital is anticipated. While financing remains expensive and construction costs stabilized over the past year, the European Central Bank's **interest rate cuts**, started in the summer of 2024, provided some relief and improved market liquidity.

Simultaneously, the office sector is undergoing a profound transformation, driven by increasing **sustainability requirements**. Government regulations, corporate ESG policies, and evolving employee expectations are accelerating the demand for high-quality, and adaptable office spaces. The shift toward **hybrid working models** has led to a reduction in overall take-up but has intensified demand for prime, sustainable offices. These assets command higher rents as they comply with ESG standards and offer flexible, future-proof workplaces.

ABSENCE OF INVESTORS

ELEVATED FINANCING COSTS

BUYER AND SELLER PRICE EXPECTATIONS

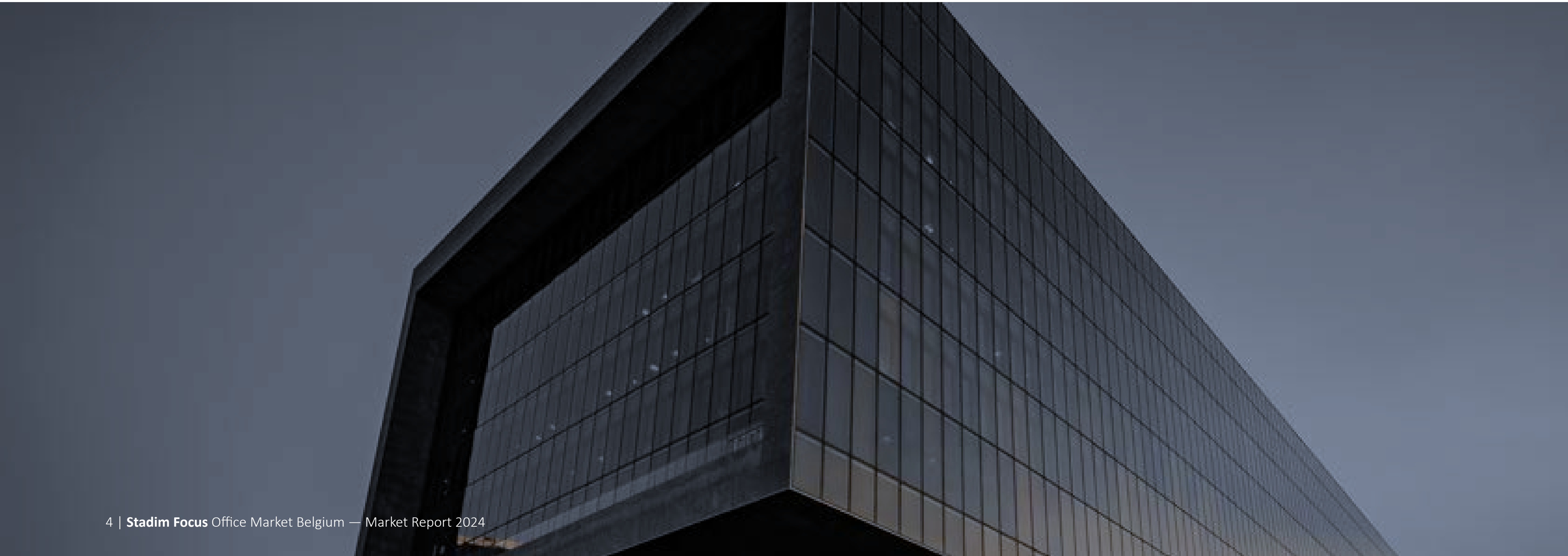
HYBRID WORKING MODELS

FLEXIBLE, FUTURE-PROOF WORKPLACES

This shift is clearly reflected in the evolution of prime rents. **Prime rents** have risen across Belgium, with Brussels reaching €400/m² for a **top-tier office building** up from €375/m² in 2023. In the Northern Quarter of Brussels rents climbed from €250 and more per m² in 2023 to €275 per m² in 2024, due to ongoing redevelopment and a stronger sustainability focus. Antwerp has also seen an increase, with rents reaching €190-195/m² by year-end, driven by growing demand for modern, sustainable spaces.

Despite the expected reduced sustainability reporting requirements under the **Corporate Sustainability Reporting Directive (CSRD)** and EU Taxonomy through the so-called Omnibus Simplification Package, the push for **sustainability and decarbonization** in the office market is set to continue. The expansion of the European **Emissions Trading System (ETS II)** in 2027 will impose higher costs on buildings with excessive CO_2 emissions, reinforcing the need for energy-efficient office spaces.

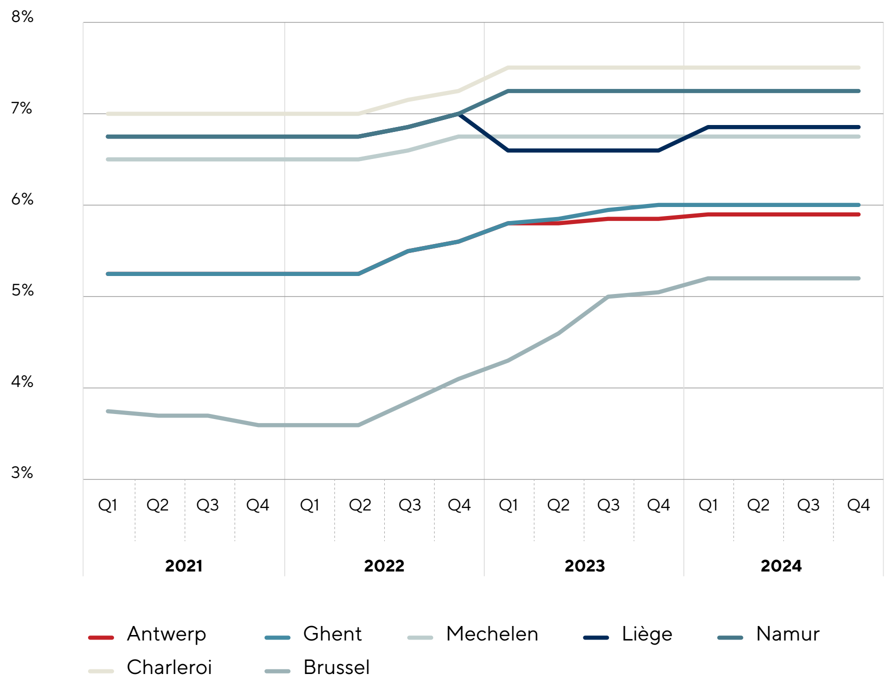
Buildings with an **Excellent or Outstanding BREEAM** score are already benefiting from a rental premium, currently estimated at around 8% on prime locations. **BREEAM** scores below Excellent, seem to lose the potential upscale in rental values. This trend is particularly evident in markets with strong **prime rent potential** and **ESG-conscious tenants**, further emphasizing the growing importance of ESG compliance. Investors and tenants increasingly recognize that non-compliant offices are at risk of becoming obsolete. For certain cities, where supply can't meet demand, the outdated stock is given another chance due to pure scarcity.



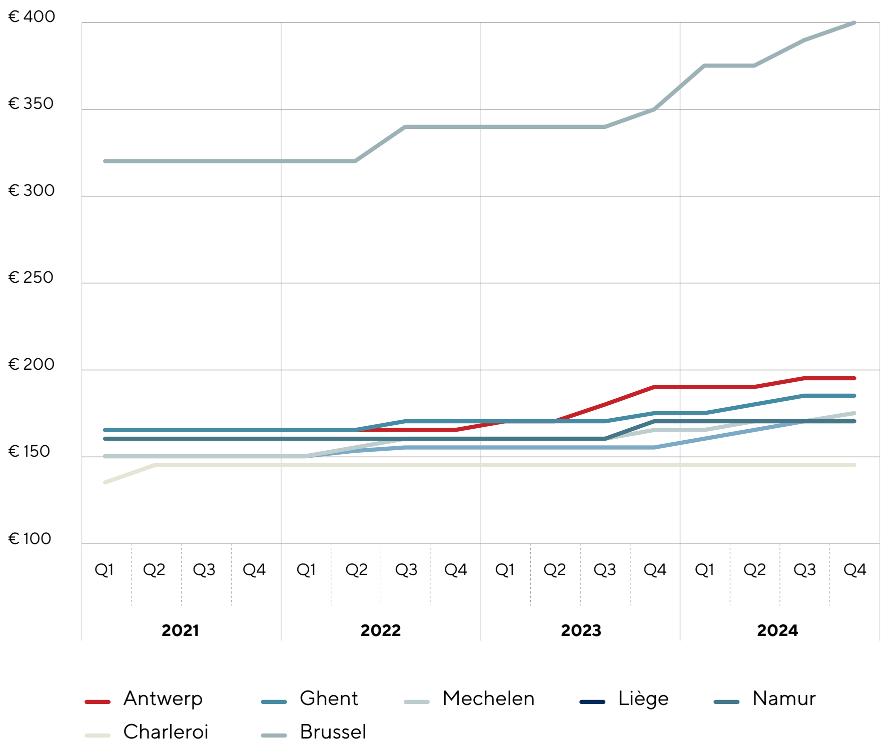
Looking ahead, **prime yields** for standard 6 and 9 year leases in the Belgian office market are expected to stabilize, with Brussels maintaining a rate of approximately **5.25%** and Antwerp and Ghent at **6.00%**.

In conclusion, while the Belgian office market faces continued **uncertainty**, it also presents new opportunities. With institutional investors poised for a cautious return, rising prime rents, and an increasing focus on sustainability, the sector is gradually adapting to evolving conditions. Owners and investors who prioritize sustainability and flexibility will be best positioned to navigate the shifting landscape and capitalize on emerging market trends.

PRIME YIELDS BELGIUM



PRIME RENTS BELGIUM



ESG – Case

Sustainability as value driver: how smart renovation strategies support long term value creation

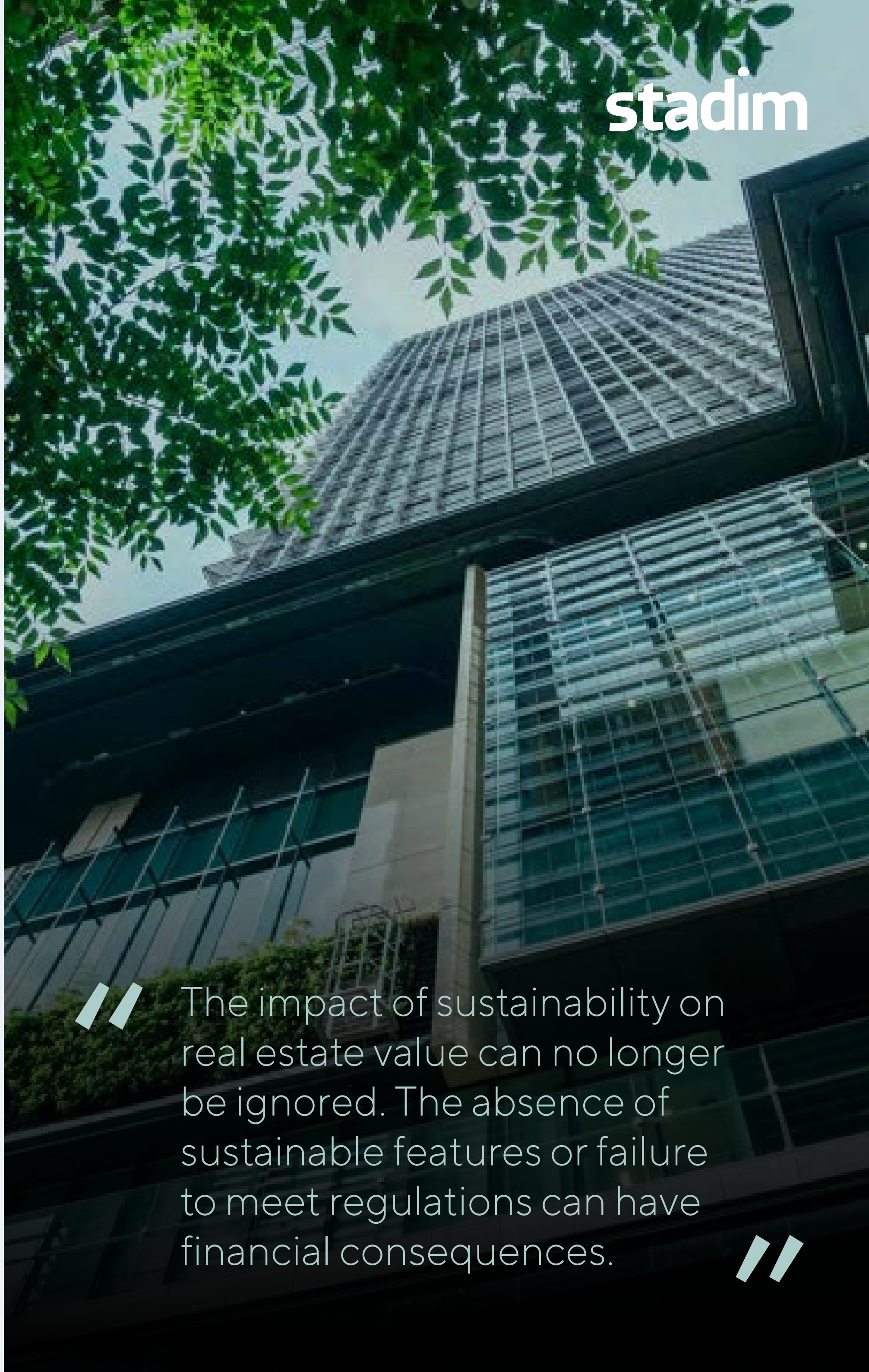
A recent study by Stadim of an outdated office building in the Brussels periphery highlights the importance of sustainability for real estate value. A light renovation allows for temporary value preservation until 2030. However, a full renovation rendering the building carbon neutral not only results in an immediate 82% value increase, it is also ready for the future avoiding brown discounts.

The impact of sustainability on real estate value can no longer be ignored. The absence of sustainable features or failure to meet regulations can have financial consequences. This is often referred to as "brown" discount, meaning a decrease in value due to a lack of "green" features.

This trend has been visible for some time in the office market. Buildings with sustainability certifications, such as BREEAM, particularly at ambitious levels like Excellent or Outstanding, are significantly more attractive to both tenants and investors. For tenants, sustainable building certificates indicate a lower operational cost and also improve their compliance level regarding ESG standards. On the other hand, these certificates enable investors to demand a rental premium while also mitigating the long term stranding risk of the asset.

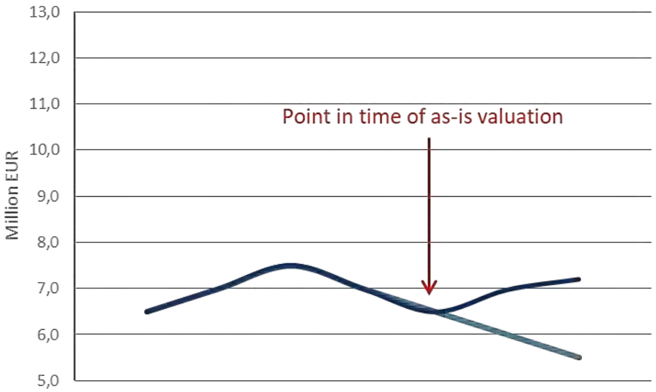
In a recent client engagement, Stadim assessed the financial impact of sustainability on an office building from 1992 in the Brussels periphery. Using the Carbon Risk Real Estate Monitor (CRREM), it was found that this building was already stranding in 2026, meaning the building will no longer be meeting European CO_2 reduction targets due to excessive fossil energy consumption.

Due to the lack of comfort and the lack of sustainable investments, the building has become unattractive to potential tenants. Furthermore, high energy costs and the risk of additional levies, such as carbon taxes under the expansion of the European Emission Trading System (ETS II) starting in 2027, further contribute to the declining value. The study assessed two renovation scenarios to evaluate their impact on real estate value, which goes beyond just relying on return-on-investment as a basis for decision-making.



Scenario 1: Light renovation for immediate letting

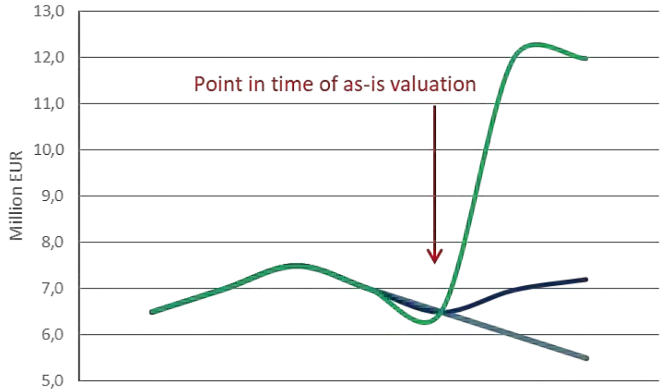
A minimal investment of €1.7 million (or 26% of the current value) was proposed to carry out essential improvements, making the building rentable in the short term. This resulted in a slight improvement in energy performance, delaying the stranding point until 2030. While this avoided an immediate brown discount, the real estate value increased only by 5%, and expected rental income increased by 4% in the first year after renovation. However, this approach offers only temporary relief; by 2030, a thorough renovation would be required to prevent further depreciation.



Graph for illustration: potential value change with light renovation that avoids brown discount.

Scenario 2: Comprehensive sustainable renovation

A more ambitious strategy involved a major sustainability-focused renovation aimed at achieving a BREEAM Excellent certification, with an investment of €7 million (108% of the current value). This included a significant reduction in energy consumption and a shift to fossil-free heating systems. As a result, the building was no longer exposed to stranding risks. While initially there is some value loss due to partial demolition of the existing structure and finishes, the total real estate value increases by 82% after renovation. Improved future resilience for investors and tenants, lower operating costs, and increased tenant comfort and well-being contributed to a 27% rise in rental income in the first year after renovation. Although the investment surpasses the immediate increase in value, it is important to recognize that sustainable investments offer long-term benefits. As demand and expectations rise, rental income may increase, while other assets risk becoming stranded.



Graph for illustration: potential value change with extensive renovation focused on sustainability.

The research shows that for office buildings at risk of becoming stranded assets in the next few years, a full renovation is often a strategically better choice than a limited renovation. The latter offers insufficient medium- and long-term benefits. Moreover, extensive renovations not only help increase the real estate value over time but also preserve future market competitiveness. For offices with a later stranding risk, which may only occur after 2032-2035, a phased investment strategy could extend rental viability and maintain short-term value.

As sustainability is a real estate value driver, a scenario-based approach to optimize CAPEX plans with potential valuation impacts is becoming an essential capability for anyone involved in real estate strategy and management. Investing in sustainability is no longer just an environmentally conscious choice, but it is becoming a compelling economic necessity also from a financing perspective.

Stadim is happy to assist you in analyzing various simulations to assess the impact of sustainable investments on your real estate portfolio. With our expertise in valuation research and sustainability, we provide strategic insights that make your real estate future-proof. Contact us for more information.

1

ESG-DEMAND IS ONLY ANSWERED IN BRUSSELS

2

WORKPLACE DESIGN & STRATEGY

3

CENTRAL LOCATIONS: TERRIBLE BY CAR, GREAT BY TRAIN

4

WORK-FROM-HOME MERGES INTO HYBRID ROTATION

5

THE MOMENTUM OF THE NORTHERN QUARTER

Market trends

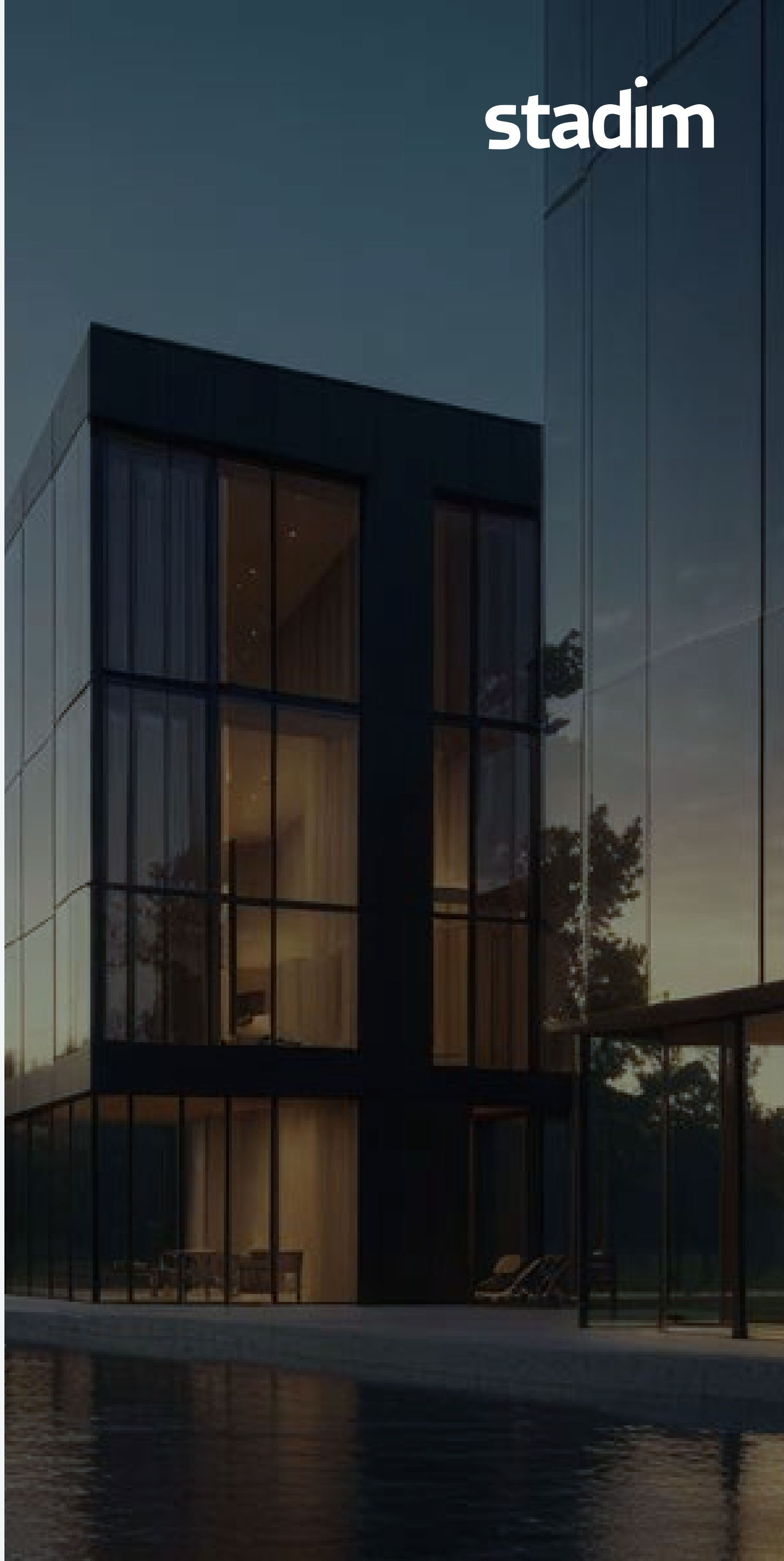
1. **ESG demand met only in Brussels**
   The demand for **sustainable office spaces** is currently being met almost exclusively by the **Brussels office market**. In **Antwerp and Ghent**, there is an insufficient supply of sustainable office buildings to match the rising demand, resulting in high occupancy rates even in **non-sustainable properties**. However, once the development pipeline in these cities delivers more sustainable office projects, **vacancy rates** in non-sustainable stock are expected to rise significantly.
   Reconversion of non-sustainable office buildings seems to partially tighten the gap between demand and supply. However the urban planning regulations of certain Belgian office cities, do not fully facilitate this reconversion trend.

2. **Workplace strategy & design**
   The office market is showing a clear trend: **lower take-up in volume** but **higher rental prices** per square meter, reflecting an increasing focus on **quality**. This shift is not only about premium office spaces but also about **employee well-being** and intelligent office layouts. Office design is evolving beyond aesthetics, incorporating strategies to **enhance collaboration** and foster a **sense of community** within companies.

3. **Central locations: poor by car, excellent by train**
   The emphasis on **sustainable commuting** is making office locations that are only accessible by car increasingly less attractive. This trend is accelerating, with tenants willing to pay **premium rents** for offices near **train stations**, even if these locations are difficult to access by car.

4. **Work-from-home shifts to hybrid rotation**
   The **return to the office** is increasingly structured around mandatory **in-office days**, introduced by a growing number of companies, including **industry leaders**. While employees have embraced **remote work** since the pandemic, employers are now enforcing hybrid models. This approach seeks to strike a **balance** between **in-person collaboration** and **reducing unnecessary daily commutes**.

5. **The momentum of the Northern Quarter**
   Following a period of negative market sentiment, the Brussels Northern Quarter is bringing **renewed optimism** to the Belgian office market. This submarket is experiencing positive momentum due to a **combination of sustainable office projects and large letting deals**. Additionally, the Brussels government is premising a **mixed-use development approach**, integrating **office, retail, and residential functions**. This multifunctional strategy has the potential to create an ecosystem that strengthens and spreads the area's positive market dynamics.



EVA – Network

Stadim, as a part of the EVA network, provides an overview of the current market trends across different prime European cities as well. Stadim is able, together with our partners of the EVA network, to gather an overview of the **Prime Rents and Yields** of the following cities in Europe:

- Amsterdam
- Rotterdam
- Paris
- London
- Zurich
- Luxembourg

The European office market continues to evolve, with premium locations in major cities showing resilience despite economic uncertainties. A recent analysis highlights that the highest prime rents are recorded in **London's West End**, rents are recorded at around **1.595 EUR/m²/year**, while the **City of London** sees rents fluctuating around **1.490 EUR/m²/year**.

In **Zurich**, rental prices have reached **1,182 EUR/m²/year. Paris** also remains a strong market, with prime rents standing at **1,075 EUR/m²/year**.

The Dutch market remains competitive, with **Amsterdam** leading the charge with rents between **600 and 650 EUR/m²/year**, followed by **Rotterdam** with prime rents ranging from **300 to 350 EUR/m²/year**.

Luxembourg's prime rent stands at **660 EUR/m²/year** in the **Central Business District (CBD)**, with the average rent at **516 EUR/m²/year**.

Despite regional differences, demand for high-quality office space in central locations remains stable, with sustainability and accessibility becoming increasingly crucial in the valuation of office properties. Factors such as energy efficiency, green certifications, and ease of transport to and from the office are not only shaping demand but also influencing rental prices. The market is also seeing a growing trend towards flexible workspaces and hybrid office models, which further impact traditional office rental demand. As businesses continue to adapt to the post-pandemic world, the focus is shifting towards spaces that promote employee well-being, collaboration, and innovation.

In addition, technology is playing a larger role in the office market, with smart buildings and advanced digital infrastructure becoming a key feature for tenants looking to future-proof their operations.

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Stadim brings you well over 25 years of experience as a trend-setting and independent real estate consultancy. Seasoned in all types of properties, we offer you analyses, valuations and advice relating to all kinds of real estate in the Benelux at all stages of the real estate cycle. Regardless of whether it concerns a private house or an international real estate portfolio, we can always guarantee that you will receive well-founded advice in the most discreet way possible.

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