

LUXEMBOURG Office Market Snapshot

Third Quarter | 2017



MARKET INDICATORS

Market Outlook

- Prime Rents: Prime rents increased recently in the CBD. A stabilisation is rather expected in the coming months. ▶
- Prime Yields: Prime yields reached their historically low levels in 2017 and further slight compression are still expected before the end of the year. Yields should stabilise in 2018. ▲
- Supply: Important developments are in the pipeline for 2018 and 2019. However, the majority of them is pre-let, the speculative pipeline is thus limited. ▼
- Demand: Activity is expected to remain robust as Luxembourg economy posts strong performances and benefits from the Brexit. ▼

Prime Office rents – September 2017

LOCATION	€	€	US\$	GROWTH %	
	SQ.M MTH	SQ.M YR	SQ.FT YR	1YR	5YR CAGR
Luxembourg City (CBD)	50.00	600	66.2	11.1	4.6
Luxembourg City (Station)	36.00	432	47.6	2.9	n/a
Luxembourg City (Kirchberg)	35.00	420	46.3	0.0	1.2

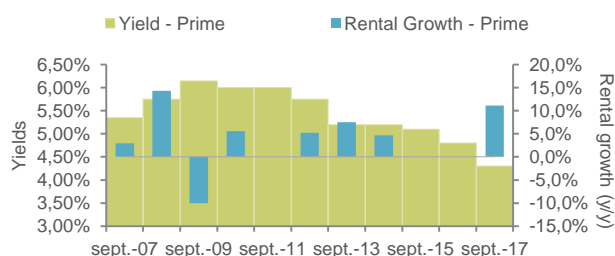
Prime Office yields – September 2017

LOCATION (FIGURES ARE NET, %)	CURRENT	LAST	LAST	10 YEAR	
	Q	Q	Y	HIGH	LOW
Luxembourg City (CBD)	4.30	4.30	4.80	6.15	4.30
Luxembourg City (Station)	4.50	4.50	5.00	5.20	4.50
Luxembourg City (Kirchberg)	4.80	4.80	5.40	6.50	4.80

NOTE: The above yields are for typical 3/6/9 leases but with almost no liquidity for such product; for 6/9 leases there is demand and yields approx. 30-40 bp sharper.

With respect to the yield data provided, in light of the changing nature of the market and the costs implicit in any transaction, such as financing, these are very much a guide only to indicate the approximate trend and direction of prime initial yield levels and should not be used as a comparable for any particular property or transaction without regard to the specifics of the property.

Recent performance



Overview

Economic fundamentals remain extremely robust in Luxembourg and the GDP growth is expected to reach a high 3.8% this year (compared to 3.3% in 2016). Unemployment rate continues to decrease to reach 6% recently, its lowest rate in five years. In the meantime, consumer confidence continues to increase and reached an all-time high so far in 2017.

Occupier focus

Activity is slightly down (32,000 sq m in Q3) compared to the strong start to the year beginning (142,000 sq m of take-up recorded in H1 2017). However, with 174,000 sq m year-to-date, total take-up in 2017 should overtake the level reached in 2016.

Vacancy rate decreases below 4%, amongst the lowest level in Europe and is expected to witness no changes in the coming months as the speculative pipeline is limited. This growing competition results in a new increase in the prime rental levels to reach 50€/sq m/month in the CBD, its highest level ever and further slight uptick are still expected for 2019.

Investment focus

The investment market witnessed a buoyant activity in Q3 with more than € 500mn invested in Luxembourg, mostly in the office sector (€ 478mn with significant transactions such as the *Vertigo*, € 178mn, and the *Lighthouse One*, € 120mn traded at a yield of 4.5% in the Kirchberg). Year-to-date, the total invested volumes in Luxembourg stand around € 950mn globally. The office sector represents 86% of the total invested volumes. Domestic and international investors are eager to invest in Luxembourg.

The prime yield is currently at 4.3%. The increasing competition for prime asset, combined with the accommodative policy of the ECB (no changes in interest rates awaited before 2020) and the growing importance of Luxembourg in the post-Brexit context could lead to further yield compression by the end of the year.

Outlook

Luxembourg will post strong economic fundamentals in the coming months and the growing interest in attracting companies headquartered in London should contribute to high performances in the coming months on the occupier market.

On the investment market, activity will also remain intense as Luxembourg offers strong alternatives to other core European cities. Significant transactions are still in the pipeline and will contribute to boost the invested volumes.

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LOCATION	BUILT STOCK (SQ.M)	AVAILABILITY (SQ.M)	VACANCY RATE (%)	TAKE-UP (SQ.M)	TAKE-UP YTD (SQ.M)	UNDER CONSTRUCTION (SQ.M)
CBD	839,000	8,000	1.0%	8,333	24,386	22,000
Kirchberg	1,095,000	19,500	1.8%	673	42,275	203,000
Station	403,000	17,500	4.3%	6,634	47,883	25,000
Cloche d'Or	398,000	18,000	4.5%	0	12,773	68,000
Other inner districts	219,000	17,800	8.1%	1,213	7,424	1,000
Decentralised districts	404,000	35,700	8.8%	972	17,450	25,000
Periphery	470,000	29,500	6.3%	14,083	19,957	39,000
Luxembourg (Overall)	3,828,000	146,000	3.8%	31,908	173,730	383,000

Source: Cushman & Wakefield

Key Occupier Transactions

PROPERTY	SUBMARKET	TENANT	SIZE (SQ.M)	TRANSACTION TYPE
Le Dôme	Station	House of Start-ups	4,741	Letting
Enop 3	Munsbach	Hauck & Aufhäuser privatbankiers	3,878	Letting
H2O	Periphery	PWC	2,727	Letting
Mercator	CBD	CSSF	1,923	Letting
Enop 2	Munsbach	Hauck & Aufhäuser privatbankiers	1,839	Letting
Southlane Tower	Esch-Belval	Ginkgo	1,041	Own occupation
n/a	Munsbach	Luxair	1,000	Letting

Source: Cushman & Wakefield

Key Investment Transactions

PROPERTY	SUBMARKET	SELLER / BUYER	YIELD	PRICE € MILLIONS
Vertigo	Cloche d'Or	Rynda / Allianz		178
Lighthouse One	Kirchberg	Giorgetti / La Lux	4.5%	120
Da Vinci	Airport	Union Investment / M&G Real Estate	5.8%	71
Impulse	Station	Besix / Swiss Life	4.5%	70
Centre Descartes	Merl / Belair	AG Real Estate / Blue Colibri	7.1%	39

Source: Cushman & Wakefield, Real Capital Analytics

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