

LUXEMBOURG Office Market Snapshot

First Quarter | 2018



MARKET INDICATORS

Market Outlook

- Prime Rents: Prime rents increased in 2017. Expected to be stable in the coming months. ▶
- Prime Yields: Prime yields reached historically low levels recently. Forecast to remain stable in the coming months. ▶
- Supply: Important developments are in the pipeline for 2018 and 2019. However, the majority are pre-let, the speculative pipeline is thus limited. ▼
- Demand: Activity is expected to remain robust as Luxembourg economy posts strong performances and should benefit from the Brexit in 2018. ▶

Prime Office rents – March 2018

LOCATION	€	€	US\$	GROWTH %	
	SQ.M MTH	SQ.M YR	SQ.FT YR	1YR	5YR CAGR
Luxembourg City (CBD)	50.00	600	69.7	6.4	4.0
Luxembourg City (Station)	36.00	432	50.2	0.0	n/a
Luxembourg City (Kirchberg)	38.00	456	52.9	8.6	2.9

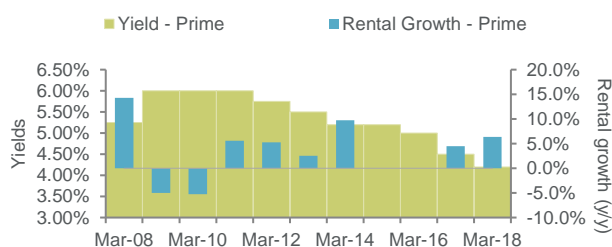
Prime Office yields – March 2018

LOCATION (FIGURES ARE NET, %)	CURRENT	LAST	LAST	10 YEAR	
	Q	Q	Y	HIGH	LOW
Luxembourg City (CBD)	4.20	4.30	4.50	6.15	4.20
Luxembourg City (Station)	4.50	4.50	5.00	5.20	4.50
Luxembourg City (Kirchberg)	4.50	4.50	5.25	6.50	4.50

NOTE: The above yields are for typical 6/9 leases.

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

GDP growth reached 3.3% in 2017 and the current climate gives cause for optimism with strong external demand, a favourable investment environment and robust consumer fundamentals. Growth should reach 3.6% in 2018 and remain above 3.5% p.a. up to 2021. Unemployment is stable around 5.7%. Furthermore, the monetary policy remains accommodative, contributing to a positive investment sentiment.

Occupier focus

Close to 45,000 sq m of take-up have been recorded in Q1 2018, a solid start to the year despite being lower than Q1 2017. The Luxembourg office market continues to benefit from a robust economy and a growing interest from both existing occupiers and newcomers.

The vacancy rate is still on the decrease and stands around 3.3%, amongst the lowest in Europe, and is expected to stay at this level in the coming months as most of the speculative developments should be filled thanks to the imbalance between demand and supply, the strong economy and the positive Brexit effect.

Prime rents increased from €46 to €50/sq m/month in 2017 in the CBD. They are expected to remain stable during 2018 in the CBD, though in the longer term, the prime rents should continue to slightly increase.

Investment focus

Following the high €920m invested in 2017, around €135m has been recorded in Q1 18 in the Luxembourg office market. Activity remains stable. The most significant transactions of the quarter are the purchase of the KBL site in Strassen for €50m and the acquisition of the E-Building in Munsbach for €39m.

Prime yields currently stand at 4.2% in the CBD and no changes are expected in the coming months.

Outlook

Letting activity is expected to remain at a high level in 2018 as Luxembourg benefits from solid macroeconomic fundamentals and a positive Brexit effect. Around 200,000 sq m of take-up should be reached for the whole year.

On the investment market, activity is forecasted to remain intense as well as Luxembourg offers strong alternatives to other core European cities. Moreover, significant transactions are still in the pipeline and could boost the investment market during the year.

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LOCATION	BUILT STOCK (SQ.M)	AVAILABILITY (SQ.M)	VACANCY RATE (%)	TAKE-UP Q1 (SQ.M)	TAKE-UP YTD (SQ.M)	UNDER CONSTRUCTION (SQ.M)
CBD	840,000	5,000	0.6%	3,649	3,649	21,300
Kirchberg	1,095,000	16,000	1.5%	3,057	3,057	210,600
Station	403,000	14,000	3.5%	3,849	3,849	24,600
Cloche d'Or	418,000	21,000	5.0%	2,315	2,315	60,500
Other inner districts	219,000	17,300	7.9%	1,648	1,648	9,500
Decentralised districts	404,000	30,500	7.5%	11,487	11,487	25,000
Periphery	489,000	23,500	4.8%	17,151	17,151	83,000
Luxembourg (Overall)	3,868,000	127,300	3.3%	43,155	43,155	434,500

Source: Cushman & Wakefield

Key Occupier Transactions

PROPERTY	SUBMARKET	TENANT	SIZE (SQ.M)	TRANSACTION TYPE
Southlane Tower	Esch-Belval	Tada Web	3,975	Letting
Edison 7	Strassen	Etat du Grand-Duché du Luxembourg	3,660	Letting
Foyer	Leudelange	Foyer	3,620	Own occupation
Daidalos	Airport	Aztec	2,940	Letting
Kubik	Kirchberg	European Stability Mechanism	1,395	Letting
Vertigo	Cloche d'Or	Confidential	1,360	Letting
	Station	Ginkgo Solutions Facilities	1,120	Letting

Source: Cushman & Wakefield

Key Investment Transactions

PROPERTY	SUBMARKET	SELLER / BUYER	YIELD	PRICE € MILLIONS
KBL	Strassen	KBL / Royal Properties		50
E-Building	Munsbach	Tristan Capital Partners / Maple Knoll		39
Robert Stumper 7	Cloche d'Or	Groupe Saint-Paul / REVest		20
Rue de la Grève 6	Station	Private / Eaglestone		13

Source: Cushman & Wakefield, Real Capital Analytics

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