

LUXEMBOURG Office Market Snapshot

Second Quarter | 2018



MARKET INDICATORS

Market Outlook

Prime Rents:	Prime rents increased in 2017. They could slightly increase in the coming months.	▶
Prime Yields:	Prime yields reached historically low levels recently and should now stabilise up to 2019.	▶
Supply:	Limited speculative pipeline awaited up to the end of 2019 as majority of the developments are committed.	▶
Demand:	Activity will remain at high level, benefiting from a robust economy and Brexit effects.	▶

Prime Office rents – June 2018

LOCATION	€	€	US\$	GROWTH %	
	SQ.M MTH	SQ.M YR	SQ.FT YR	1YR	5YR CAGR
Luxembourg City (CBD)	50.00	600	65.3	6.4	4.0
Luxembourg City (Station)	36.00	432	47.0	0.0	n/a
Luxembourg City (Kirchberg)	38.00	456	49.6	8.6	2.9

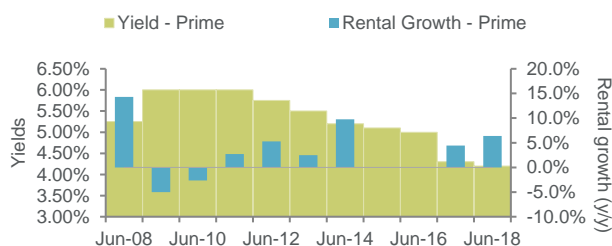
Prime Office yields – June 2018

LOCATION (FIGURES ARE NET, %)	CURRENT	LAST	LAST	10 YEAR	
	Q	Q	Y	HIGH	LOW
Luxembourg City (CBD)	4.20	4.20	4.30	6.15	4.20
Luxembourg City (Station)	4.50	4.50	4.50	5.20	4.50
Luxembourg City (Kirchberg)	4.50	4.50	4.80	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

Luxembourg recorded strong performances in 2017, helped by a strong external demand, a favourable investment environment, robust consumer sentiment and the Eurozone posting its strongest growth in a decade. 2018 and 2019 should follow the same path with a GDP growth estimated around 3.5% per year. A robust employment growth of around 2.7% is expected in 2018 while skills mismatches and unemployment traps are likely to keep the jobless rate around 5.4% in the medium term.

Occupier focus

Activity posted a solid 57,000 sq. m of take-up in Q2, bringing the total since the start of the year to 102,000 sq. m. Despite slightly lower than 2016 and 2017 in terms of surfaces, the number of deals observed stands at a record 156 transactions since January.

As a result of steady performances and a very limited speculative pipeline, the vacancy rate is still to be found around 3.3%, amongst the lowest rate in Europe. Important disparities exist between districts, with a vacancy rate around 1% in the CBD and close to 20% in some peripheral locations.

Prime rents increased from €46 to €50 /sq. m / month in 2017 in the CBD and they should remain stable in the coming months.

Investment focus

Invested volumes stand to a high 723 MEUR since the start of the year, mainly helped by a buoyant Q2 and transactions such as the acquisition of the *Deloitte HQ* in the Cloche d'Or, the *Aerogolf Center* in the Airport or the *Espace Kennedy B* in the Kirchberg.

Prime yields currently stand at a historically low 4.2% in the CBD and the trend is on the stabilisation for the coming months.

Outlook

Activity should remain steady in the coming months as Luxembourg will benefit from strong economic performances. Employment perspectives will benefit to the letting market with growing corporates and newcomers, namely thanks to the Brexit, on the market.

On the investment market, activity is also forecasted to remain intense as strong alternatives to other core European cities exist in Luxembourg, and appetite from foreign investors is growing.

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LOCATION	BUILT STOCK (SQ.M)	AVAILABILITY (SQ.M)	VACANCY RATE (%)	TAKE-UP Q2 (SQ.M)	TAKE-UP YTD (SQ.M)	UNDER CONSTRUCTION (SQ.M)
CBD	840,000	5,000	0.6%	7,381	11,030	21,300
Kirchberg	1,095,000	16,000	1.5%	8,458	11,515	210,600
Station	403,000	14,000	3.5%	8,340	12,189	24,600
Cloche d'Or	418,000	21,000	5.0%	11,257	13,572	60,500
Other inner districts	219,000	17,300	7.9%	4,537	6,185	9,500
Decentralised districts	404,000	30,500	7.5%	5,176	16,663	25,000
Periphery	493,000	23,500	4.8%	18,219	35,370	78,000
Luxembourg (Overall)	3,873,000	127,300	3.3%	63,368	106,524	429,500

Source: Cushman & Wakefield

Key Occupier Transactions

PROPERTY	SUBMARKET	TENANT	SIZE (SQ.M)	TRANSACTION TYPE
Yris	Cloche d'Or	Etat du Luxembourg	7,758	Letting
Enop 1	Munsbach	M Warburg	5,330	Letting
Terres Rouges, bloc D	Esch-Belval	Deloitte	3,968	Letting
oKisgen	Kirchberg	VP Bank	3,850	Letting
IEE	Contern / Sandweiler	SIGI	3,224	Letting
oKisgen	Kirchberg	Avega	2,665	Letting
	Station	SilverSquare	2,300	Letting

Source: Cushman & Wakefield

Key Investment Transactions

PROPERTY	SUBMARKET	SELLER / BUYER	YIELD	PRICE € MILLIONS
Deloitte HQ	Cloche d'Or	Extensa / Intégrale – Ethias	4.5%	200
Aerogolf Center	Airport	Unknown / Fidelity Investment		100
Espace Kennedy B	Kirchberg	ABN Amro / Alides		55
Liberté 80	Station	Unknown / Eaglestone		45
WestSide Village D-E-F	Capellen / Mamer	Fortress Investment / Trium Holding	6.8%	44
Quatuor	Cloche d'Or	Besix RED / Manceau Assurances	4.6%	35

Source: Cushman & Wakefield, Real Capital Analytics

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