

LUXEMBOURG Office Market Snapshot

Fourth Quarter | 2018



MARKET INDICATORS

Market Outlook

Prime Rents:	Prime rents remained stable in 2018. They could slightly increase in 2019.	▶
Prime Yields:	Prime yields reached historically low levels in Q4 and could slightly compress again in 2019.	▶
Supply:	Office stock reached close to 4 million sq m in 2018. Pipeline is still important, though the speculative projects remain very low.	▶
Demand:	Activity was impressive in 2018, helped by significant transactions. A robust economy and Brexit effects will have positive impacts in 2019.	▶

Prime Office rents – December 2018

LOCATION	€		US\$	GROWTH %	
	SQ.M MTH	SQ.M YR	SQ.FT YR	1YR	5YR CAGR
Luxembourg City (CBD)	50.00	600	63.6	0.0	2.1
Luxembourg City (Station)	36.00	432	45.8	0.0	2.4
Luxembourg City (Kirchberg)	38.00	456	48.3	0.0	2.9

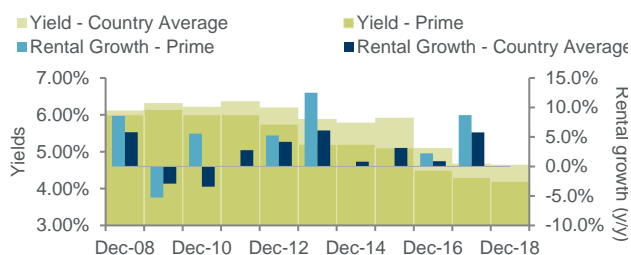
Prime Office yields – December 2018

LOCATION (FIGURES ARE NET, %)	CURRENT	LAST	LAST	10 YEAR	
	Q	Q	Y	HIGH	LOW
Luxembourg City (CBD)	4.00	4.20	4.30	6.15	4.20
Luxembourg City (Station)	4.50	4.50	4.50	5.20	4.50
Luxembourg City (Kirchberg)	4.25	4.50	4.50	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 economy is in rude health and resilient domestic demand offset the drag from slowing global trade. GDP growth posted a strong 3.6% this year and is expected to reach 4% in 2019. Employment growth remains robust, while the unemployment rate continues to decrease for the fifth consecutive year to reach 5% at the end of the year. Monetary policy normalization is expected to be very gradual given the concerns of the ECB to prevent shocks and should result in a strong confidence on the real estate markets in 2019.

Occupier focus

Activity posted an impressive 92,000 sq m of take-up in Q4 namely with the 30,000 sq m occupation in Deloitte and the 10,000 sqm occupation of Alter Domus in the Cloche d'Or. As a result, the take-up ended to 252,000 sq m in 2018, the second highest level ever recorded.

The vacancy rate remains one of the lowest at the European level, below 3.5% and is almost inexistent in the central districts such as the Kirchberg, the CBD or the Station while still above 10% in some peripheral locations.

Prime rents witnessed no changes, recorded at 50€/sq m/month in the CBD. They stand at 36€ in the Station, 35€ in the Kirchberg and stand at 24€/sq m/month in the Periphery.

Investment focus

A huge 905 MEUR were invested in Q4 with significant transactions such as the *K2 Allegro*, the *Dome* or the *Melius*. As a result of strong activity all over the year, office investment volumes recorded the second highest level ever with a total of EUR 1.8bn.

Prime yields recorded a new compression in Q4 to reach a historically low 4% in the CBD. Compression was also observed in the Kirchberg to 4.25%. They remain stable in the other districts.

Outlook

Letting activity will remain intense in the coming months, strongly linked to the robust economic performances of the country and the employment growth, even if the low level of speculative new supply could negatively impact the market.

On the investment market, activity will follow high levels observed since 2014 as real estate will remain attractive and Luxembourg is a strong alternative to other core European cities, though absolute volumes should be lower in 2019.

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LOCATION	BUILT STOCK (SQ.M)	AVAILABILITY (SQ.M)	VACANCY RATE (%)	TAKE-UP Q4 (SQ.M)	TAKE-UP 2018 (SQ.M)	UNDER CONSTRUCTION (SQ.M)
CBD	840,000	5,000	0.6%	19,888	36,273	21,300
Kirchberg	1,095,000	16,000	1.5%	562	18,720	210,600
Station	415,000	14,000	3.4%	5,289	21,718	24,600
Cloche d'Or	450,000	24,000	5.3%	46,177	75,365	30,500
Other inner districts	230,000	19,000	8.2%	7,881	15,880	0
Decentralised districts	410,000	33,000	8.1%	9,757	39,589	25,000
Periphery	510,000	24,000	4.7%	2,613	44,588	78,000
Luxembourg (Overall)	3,950,000	135,000	3.4%	92,167	252,133	390,000

Source: Cushman & Wakefield

Key Occupier Transactions

PROPERTY	SUBMARKET	TENANT	SIZE (SQ.M)	TRANSACTION TYPE
D Square	Cloche d'Or	Deloitte	30,000	Letting
Melius	Cloche d'Or	Alter Domus	10,600	Letting
Green Square	Hamm	Grant Thornton	5,900	Letting
Moonlight	Belair / Merl	CSSF	5,400	Letting
Moonlight	Belair / Merl	Ministère des Finances	4,200	Letting
Glacier	CBD	Welkin & Meraki	2,400	Letting

Source: Cushman & Wakefield

Key Investment Transactions

PROPERTY	SUBMARKET	SELLER / BUYER	YIELD	PRICE € MILLIONS
Le Dôme	Station	BlackStone / AXA IMRA	4.9%	195
K2 Allegro	Kirchberg	Banque Havilland / Fidelity Investment	4%	125
Melius	Cloche d'Or	Extensa – Promobe / Hannover Leasing	4.25%	85
Kubik	Kirchberg	Aberdeen Asset Management / Confidential	4.6%	75
Naos	Esch-Belval	Atenor / Ethias – Foyer	5.75%	72

Source: Cushman & Wakefield, Real Capital Analytics

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