

Luxembourg Office Market

Office Q1 2020

45,000
Take-Up sq m

YoY Chg ▲ 12-Mo. Forecast ▲

€51
Prime Rent, (€/sq m/Month)

▲ ▲

3.75%
Prime Yield (3/6/9 Lease)

▼ ▲

ECONOMIC INDICATORS Q1 2020

-0.25%
Bond Yields

YoY Chg ▼ 12-Mo. Forecast ▲

-0.38%
GDP Growth for 2020

▼ ▲

0.21%
Consumer Price Index

▼ ▲

Source: Oxford Economics *

* The above economic data is from Oxford Economics. As the current economic data vary significantly between the different sources, we refrained from using specific figures in our economic overview and recommend to examine other available sources.

Economic Overview

The spread of coronavirus in Europe and the containment measures imposed in Luxembourg should result in a severe decline in GDP growth for the first half of the year. Little economic data since the outbreak is available yet, so assessing the impact of the lockdown remains very challenging. Its consequences on the labour market, however, is considerable (but includes mainly economic unemployment due to the virus). Furthermore, both consumer and business confidence are down. The negative economic outlook is expected to be sharp but short.

Occupier Focus

Letting activity during Q1 was relatively good as take-up level reached 45,000 sq m with 48 letting transactions. The activity continued its momentum from last year stimulated by the effects of Brexit and the arrival of pre-let transactions into the market. Almost all transactions were from the corporate sector with the highest activity in the Insurance sector (30%) and the Banking & Finance sector (27%). The most notable transaction was the pre-letting of Baloise Assurances in the *Wooden* (9,600 sq m), followed by the purchase of Arendt Services' new HQ (8,000 sq m). The vacancy rate for the overall Luxembourg office market saw a slight increase to 3.35%. Prime rents remain stable at 51€/sq m/month in the CBD, 37€/sq m/month in Kirchberg, 28.5€/sq m/month in the Decentralised region and 25.50€/sq m/month in the periphery.

Investment Focus

The investment market had a decent start of the year when compared to previous first quarters, especially considering the effects of the outbreak on the industry. Investment volumes reached around 90 MEUR (six transactions) with the most notable deal being the acquisition of the *Kockelscheuer* by BNP REIM for 40 MEUR. Prime yields did see a compression in most districts, but again, this was reflecting the high demand and strong activity before COVID-19. Despite the uncertainty around the outbreak, investment activity is still present on the market, albeit at a slower pace. Private investors and developers looking for opportunistic deals, for instance, are expected to remain active. The situation is much more uncertain for large institutional investors (especially those heavily financed by debt) as most could put their investment decisions on hold. Most deals in the pipeline are being postponed or come with a certain 'COVID-clause' allowing for a longer due diligence period, or in some cases a re-pricing.

Outlook

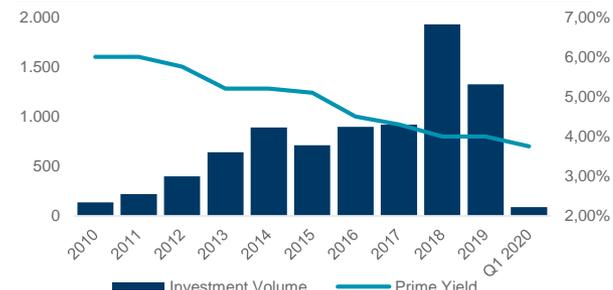
Some notable letting transactions are still expected this year, perhaps boosting the take-up figures. On the other hand, smaller deals are expected to decrease as some tenants tend to postpone their move or even cancel their plans altogether. Rental levels should remain stable in most submarkets. The vacancy rate, however, could see a slight uptick. Investment activity is without a doubt going to decrease in the following months. This is partly explained by the fact that meetings, visits and other technical aspects of the job are on hold or moving at a very slow pace. Furthermore, banks are going to be more prudent with loans, causing potential financing issues. On the other hand, equity players might take advantage of their position and look for opportunities in the market.

It should be noted that there is a lot of uncertainty and the effects of the outbreak on the market is difficult to estimate as it depends on the duration of the crisis and the rate at which the economy will recover. Therefore, it is that important that the outlook is interpreted with care.

TAKE-UP PER QUARTER



INVESTMENT VOLUME (MEUR, LHS) & PRIME YIELDS (% , RHS)





MARKET STATISTICS

SUBMARKET	INVENTORY (SQM)	AVAILABILITY (SQM)	VACANCY RATE	Q1 2020 TAKE-UP	YTD TAKE-UP	CURRENTLY UNDER CONSTRUCTION (SQM)	PRIME RENT (€/sq m/month)	PRIME YIELD
CBD	862,000	8,000	0.9%	3,900	3,900	-	€51	3.75%
Kirchberg	1,190,000	15,000	1.3%	2,200	2,200	355,000	€37	4.00%
Station	421,000	11,000	2.6%	1,900	1,900	28,000	€36	4.00%
Cloche d'Or	452,000	10,000	2.2%	1,600	1,600	33,000	€32	4.25%
Other inner districts	249,000	17,000	6.8%	9,300	9,300	36,000	€33	5.15%
Decentralised districts	437,000	47,000	10.7%	5,600	5,600	47,000	€28.5	5.70%
Periphery	551,000	31,000	5.6%	20,500	20,500	89,000	€25.5	5.90%
Luxembourg (Overall)	4,162,000	139,000	3.35%	45,000	45,000	588,000	€51	3.75%

KEY LEASE TRANSACTIONS Q1 2020

PROPERTY	SUBMARKET	TENANT	SIZE (SQ.M)	TRANSACTION TYPE
Wooden	Leudelange	Baloise	9,600	Pre-Letting
Arendt 9	Hamm	Arendt Services	8,000	Purchase
Altitude	Leudelange	Northern Trust	5,800	Letting
W4	Leudelange	Parfi-Group	2,600	Purchase
ABP Emporium	Bertrange	IBM	1,400	Letting
Southlane Tower II	Esch-Belval	Urban Office	1,300	Letting

*Renewals not included in leasing statistics

KEY INVESTMENT TRANSACTIONS Q1 2020

PROPERTY	SUBMARKET	SELLER / BUYER	YIELD	PRICE € MILLIONS
Kockelscheuer	Cloche d'Or	Extensa / BNP REIM	3.75%	40
Route d'Esch 48	CBD	CFL / Panhard Development	-	20.5
43 Kennedy	Kirchberg	MEAG / Ceetrus	-	12.6

KEY CONSTRUCTION COMPLETIONS YTD 2020

PROPERTY	SUBMARKET	MAJOR TENANT	SQM
Altitude	Leudelange	Northern Trust	8,300
Southlane Tower II	Esch-Belval	Urban Office	6,900

CÉDRIC VAN MEERBEECK

Head of Research Belgium & Luxembourg
+32 477 98 11 83

cedric.vanmeerbeek@cushwake.com

SEBASTIEN BEQUET

Head of Luxembourg

+352 27 21 33 07

sebastien.bequet@cushwake.com

cushmanwakefield.com

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