

Luxembourg Office Market

Office Q2 2020

	YoY Chg	12-Mo. Forecast
117,000 Take-Up sq m	▲	▲
€51 Prime Rent, (€/sq m/Month)	▲	▲
3.75% Prime Yield (3/6/9 Lease)	▼	■

ECONOMIC INDICATORS Q2 2020

	YoY Chg	12-Mo. Forecast
6.8% Unemployment Rate 2020	▲	▼
-6.2% GDP Growth for 2020	▼	▲
0.18 Consumer Price Index	▼	▲

Source: Oxford Economics

Please note the economic data can vary significantly from one source to the other. Therefore, the figures provided should merely be used as an indication or trend.

Economic Overview

After solid economic growth in 2019, when GDP grew 2.3%, Luxembourg's economy will contract this year due to the impact of the coronavirus pandemic and the containment measures. The combined supply, demand and financial shock of the crisis has led to a revised economic growth forecast of -6.2% for 2020. Moreover, the risks remain on the downside, linked to the effectiveness of the containment measures in Luxembourg (as well as in other countries) and the long-term consequences of disruption to the economy. Unemployment is expected to rise to 6.8% in 2020 and decrease again in 2021. Oxford Economics sees inflation averaging around zero this year, which could help developments in real incomes.

Occupier Focus

The health crisis has had limited effect on the on letting activity. The second quarter of the year recorded 72,000 sq m of take-up and 40 letting transactions (including pre-lettings). This brings the total letting activity for the first half of 2020 to a total take-up of 117,000 sq m (slightly below the 3-year average of 120,000 sq m) and 88 transactions. Around 85% of the take-up YTD came from the private sector, boosted by the banking & finance sector (31%) and service firms (20%). The most notable transaction of the year so far was the letting of 16,700 sq m in the Ikaros (Airport) by the Ministry of Finance, followed by Intesa Sanpaolo's relocation in their new HQ in the Cloche d'Or (10,500 sq m). Despite the pandemic and the arrival of new office buildings, the vacancy rate for the overall Luxembourg office market saw a slight decrease to 3.22%. Prime rents remain stable at 51€/sq m/month in the CBD, 31€/sq m/month in the Cloche d'Or, 28.5 €/sq m/month in the Decentralised region and 25.50€/sq m/month in the periphery. Prime rents in the Kirchberg area increased to 38 €/sq m/month.

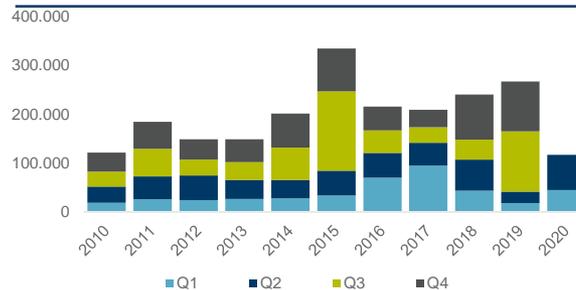
Investment Focus

The second quarter of the year recorded approximately 262 MEUR (five transactions). Three deals above 50 MEUR have been registered with the most notable being the sale of the Altitude in Leudelange for around 93 MEUR and the acquisition of the Aire (CBD) for 72 MEUR. As such, the investment activity during the first half of 2020 was more or less in line with the H1-yearly average. Indeed, most of the transactions in 2020 were already planned before the outbreak, putting some pressure on the investment activity for the following quarters. Although the effects of the COVID-19 pandemic on the office market are not fully measurable yet, they seem to be relatively moderate and investment demand remains clearly present. Prime yields remained stable following a compression in most submarkets in Q1 (which reflected the high demand and strong activity before the outbreak), but could potentially increase again due to unfavourable financing conditions.

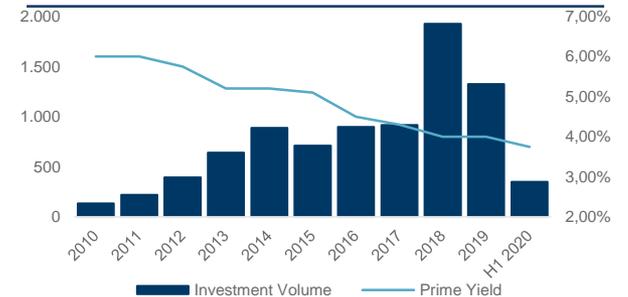
Outlook

Some notable letting transactions are still expected this year. On the other hand, the health crisis could lead to some deals being postponed. Furthermore, the low level of availability in the market could also hinder further activity. Rental levels should remain stable in most submarkets. Investment activity is expected to decrease in the following months and prime yields could see a slight uptick. This is due to the uncertainty surrounding the pandemic and the fact that banks are being more prudent with loans which could lead to a higher cost and lower LTV. On the other hand, full equity players might take advantage of their position and look for opportunities in the market.

TAKE-UP PER QUARTER



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





MARKET STATISTICS

SUBMARKET	INVENTORY (SQM)	AVAILABILITY (SQM)	VACANCY RATE	Q2 2020 TAKE-UP	YTD TAKE-UP	CURRENTLY UNDER CONSTRUCTION (SQM)	PRIME RENT (€/sq m/month)	PRIME YIELD
CBD	862,000	14,000	1.6%	17,600	21,500	32,000	€51	3.75%
Kirchberg	1,135,000	15,000	1.1%	6,300	8,500	194,000	€38	4.00%
Station	421,000	9,000	2.0%	2,500	4,400	28,000	€36	4.00%
Cloche d'Or	465,000	23,000	4.9%	19,800	21,400	38,000	€32	4.25%
Other inner districts	249,000	17,000	6.9%	500	9,800	34,000	€33	5.15%
Decentralised districts	438,000	33,000	7.6%	18,000	23,600	48,000	€28.5	5.70%
Periphery	572,000	29,000	5.11%	7,400	27,900	137,000	€25.5	5.90%
Luxembourg (Overall)	4,357,000	140,000	3.22%	72,100	117,100	511,000	€51	3.75%

KEY LEASE TRANSACTIONS Q2 2020

PROPERTY	SUBMARKET	TENANT	SIZE (SQ.M)	TRANSACTION TYPE
Ikaros	Airport	Ministère des Finances	16,700	Letting
Intesa Sanpaolo HQ	Cloche d'Or	Intesa Sanpaolo	10,500	Owner Occupier
Schroeder & Associés HQ	Cloche d'Or	Schroeder & Associés	8,000	Owner Occupier
OBH	Kirchberg	Pictet & Cie	6,200	Letting
Zenith	CBD	Bank of China	5,500	Letting

*Renewals not included in leasing statistics

KEY INVESTMENT TRANSACTIONS Q2 2020

PROPERTY	SUBMARKET	SELLER / BUYER	YIELD	PRICE € MILLIONS
Altitude	Leudelange	Codic & Tralux / Confidential	5.30%	93
Aire	CBD	AXA REIM / Patrizia	3.80	72
Espace Kennedy B	Kirchberg	Alides / LaSalle IM	-	70

KEY CONSTRUCTION COMPLETIONS YTD 2020

PROPERTY	SUBMARKET	MAJOR TENANT	SQM
KAD Project	Kirchberg	EU	160,000
Altitude – La Paz	Leudelange	Northern Trust	8,000
Bijou	Cloche d'or	Antin Infrastructure	6,000

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