

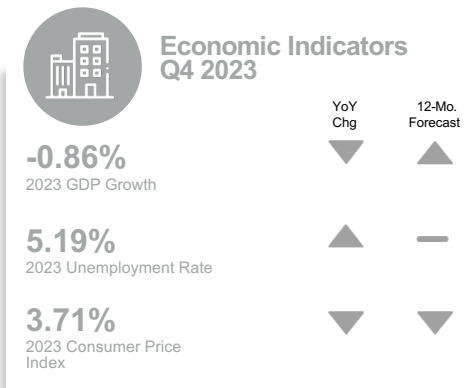
MARKETBEAT

LUXEMBOURG

Office

Q4
2023





Luxembourg's economy sluggish in 2023

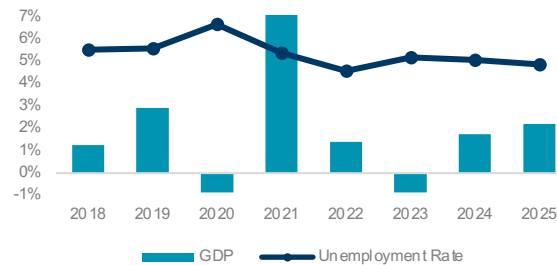
The global economic climate has had a significant impact on Luxembourg's economy, causing it to fall notably below the Eurozone average. Recent forecasts from Moody's Analytics reveal that Luxembourg's economy shrank by 0.1% on a quarterly basis in the last quarter, leading to an annual contraction of -0.86% for 2023.

However, the outlook for Luxembourg's economy is positive, with expectations of a gradual expansion. The GDP growth is projected to be around 1.7% in 2024 and is anticipated to exceed 2.2% in 2025. The economic growth in the coming years will be primarily driven by robust domestic demand, bolstered by private consumption and investment.

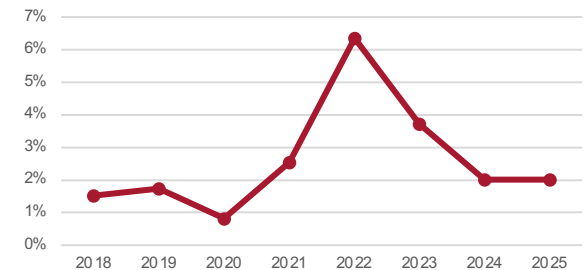
In terms of inflation, the current rate is approximately 3%, a significant decrease from the 7.2% recorded in June 2022. This suggests that the inflation experienced was temporary. However, the risk of a potential inflation rebound remains a concern. Furthermore, core inflation, which excludes the volatile food and energy prices, continues to persist. Consequently, while central bank interest rates are projected to decline in 2024, the pace may be slower than financial markets anticipate due to the expected persistence of structural inflation.

Turning to employment statistics, recent data from Moody's Analytics show a consistent rise in the employment rate over the year, increasing to 5.19% from 5.09% in the third quarter. The labour market has been slowing down due to economic factors. However, recent trends suggest a minor reduction in Luxembourg's unemployment rate, a trend that is projected to continue until 2025.

GDP Growth and unemployment rate



Inflation rate



Sources: Moody's Analytics, Statec Lux, Eurostat, January 2024

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.

A remarkable quarter, yet insufficient to redeem the year

In the fourth and final quarter of 2023, no less than 95,000 sq m of take-up was recorded in the Luxembourg office market. This relatively active quarter in terms of demand, unlike the other quarters of the year, has brought the overall take-up to nearly 193,000 sq m. It is noteworthy that despite an exceptional Q4, the take-up is still 7% lower than the level achieved last year. This underlines the impact of the broader market dynamics on the annual performance.

In essence, the recently recorded level of take-up has become the yearly standard. Undoubtedly, a sense of hesitation is observed in occupier demand amid this challenging economic environment. It is important to note that the letting process is becoming increasingly protracted. This elongation reflects the complexities and deliberations involved in the current market conditions.

A focus on Grade A buildings

Two of the largest transactions of 2023 were in Grade A buildings. In the fourth quarter, the European Parliament took delivery and occupation of the 30,000 sq m *KAD II Ouest* building located in Kirchberg. Earlier in the year, Intertrust secured a pre-lease for nearly 8,300 sq m in *The Emerald*, delivered in the fourth quarter of 2023, and *The White House*, set to be delivered in the first quarter of 2024.

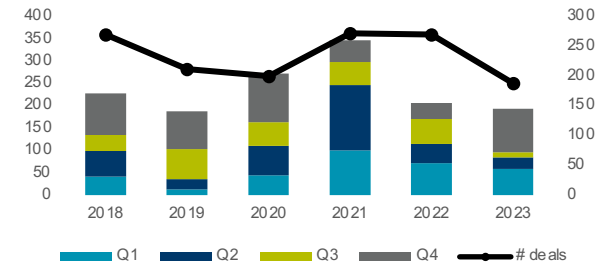
Concluding the year, the most significant transaction was by KPMG, which acquired the former BNP headquarters, and plans to transform the acquired property into its future ESG-proof headquarters, named *Kronos*, which is expected to be completed by 2028.

Anticipated sustained increase in rents

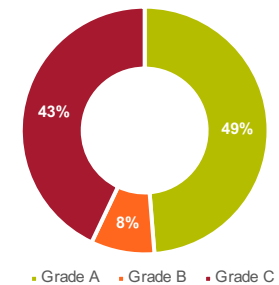
Prime rents across different districts remained unchanged in the final quarter of 2023 and overall remained stable for the entire year.

Although the private sector represents a decreasing share of annual activity, it remains the driving force behind the recorded increase in average rents in recent months. Average rents continue on an upward trajectory due to the sheer weight of Grade A take-up: close to 50% this year.

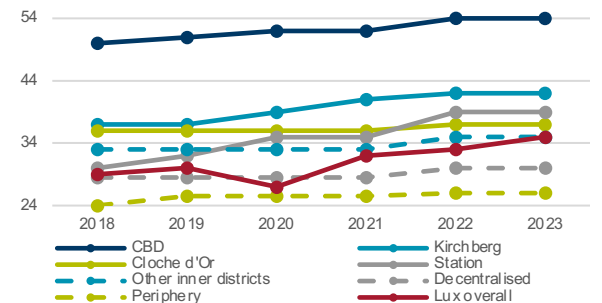
Take-up by quarter (000s sq m)



Share of take-up by grade



Prime rents (€/sq m/month)



Healthy pipeline can make the recovery sustainable

The transactions mentioned previously underscore the ongoing high demand for spacious and well-located Grade A properties in Luxembourg. This heightened demand is contributing to a growing pipeline of buildings set to join the market in coming years. While many of these spaces have already secured future occupants, maintaining a healthy number of available spaces is crucial for sustaining market turnover in the medium term.

Despite an annual addition of over 200,000 sq m, which nearly equals the average annual take-up in previous years, there is no indication of the market veering off course, as nearly 70% of the forthcoming supply has already been pre-leased.

A polarised vacancy

Despite a dip in demand, the vacancy rate experienced a minor increase over the year, culminating at 4.28% in the final quarter of 2023.

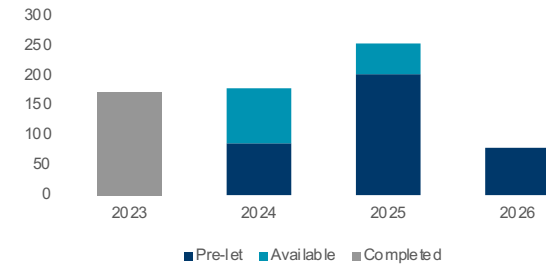
Even with the expected significant wave of projects entering the available market, the vacancy rate is projected to retain its equilibrium. However, this equilibrium is not anticipated to be consistent across the market. The high-end segment (Grade A) is likely to remain stable, while an increase in vacancy rates may be observed in Grade B and especially in Grade C. This is attributed to tenants moving from older offices to more modern workspaces.

The energy transition comes with a price tag

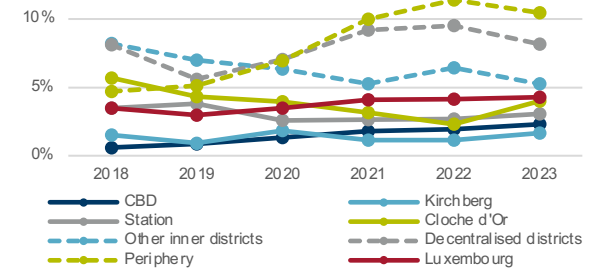
As public authorities set new net-zero goals for the real estate sector, environmental policies and socially responsible investment movements have led to an increase in prices of environmentally friendly products and services, a phenomenon known as 'greenflation'. The green transition is likely to create additional pressures on structural inflation over the next decade due to factors such as 'greenflation'.

This transition will involve significant investments in decarbonization technologies and renewable energy sources, as well as the introduction of carbon taxes. All of this will leave a significant mark on medium-term inflation.

Office pipeline (000s sq m)



Vacancy rate



The upper threshold of yields reached (?)

While inflation continued to decline in the last quarter of the year, the real estate investment market, on the other hand, continued to slow down. Corrections in yields always have a lag period with financial markets, which is why prime yields were revised upwards again at the end of 2023, and they stand at a theoretical level of 5.15% for standard leases in Q4.

However, despite encouraging forecasts for the near future, central bankers are still concerned about a possible resurgence of inflation, especially since underlying inflation remains persistent. Therefore, even though central bank interest rates are expected to decrease in 2024, they are unlikely to decrease as quickly as financial markets expect, and certainly not as quickly as they increased in 2023.

Following the recent changes in the ECB's monetary policy and new forecasts, we have decided to rerun our [yield forecasting model](#), which now shows a theoretical yield of 5.15% in Q4 2023 and anticipates a slow decline in yields starting from the second half of 2024 to a new prime yield of 5.00% by the end of 2024.

A volume comparable to post-2008 financial crisis levels

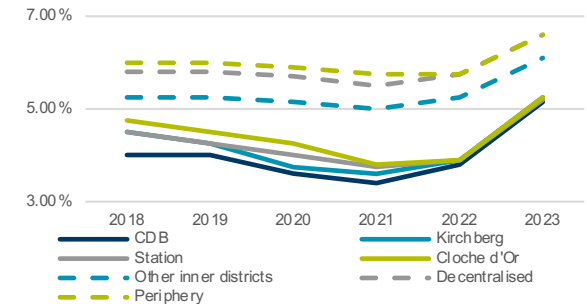
The investment market experienced a resurgence in trading volumes in the fourth quarter, with over €415 million invested during this period. This contributed to an annual total of nearly €500 million, reaching a level comparable to those observed in the aftermath of the 2008 financial crisis.

Investment outlook

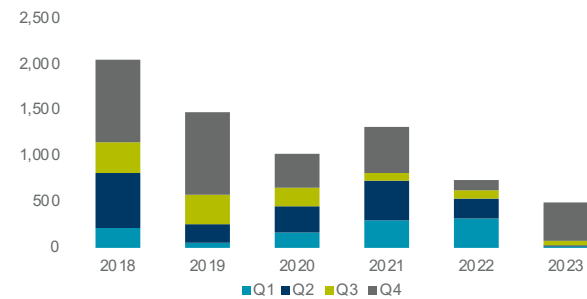
The Luxembourg office market is expected to be slow in 2024 too, as it is currently in a value discovery phase. As more liquidity is injected into the market, a very slight increase in trading activity is expected.

However, the number of office investment transactions in 2024 could increase. This projection stems from the financial conditions that are obliging property owners, especially developers burdened with high leverage, to either refinance or divest. This will inevitably lead to portfolio optimisations. Nonetheless, we predict that the volume of trades will stay low, as the disposal is more probable for smaller assets.

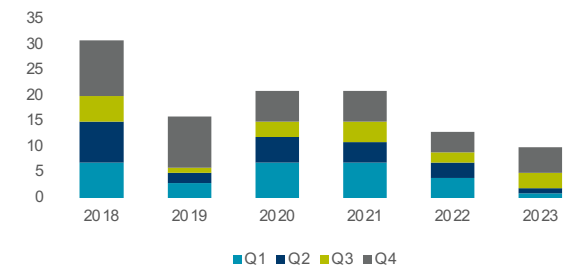
Prime yields



Investment volumes by quarter (MEUR)



No. of investment transactions by quarter



Market Statistics

| SUBMARKET | STOCK (SQM) | AVAILABILITY (SQM) | VACANCY RATE | Q4 2023 TAKE-UP | 2023 TAKE-UP | UNDER CONSTRUCTION (SQM) | PRIME RENT (€/sq m/mth) | PRIME YIELD |
|------------------------------|------------------|--------------------|--------------|-----------------|----------------|--------------------------|-------------------------|--------------|
| CBD | 878,877 | 20,219 | 2.30% | 6,486 | 17,208 | 18,019 | €54 | 5.15% |
| Kirchberg | 1,399,637 | 23,034 | 1.65% | 63,730 | 73,851 | 254,112 | €42 | 5.25% |
| Cloche d'Or | 499,559 | 20,029 | 4.01% | 9,432 | 36,366 | 22,602 | €37 | 5.20% |
| Station | 498,142 | 15,201 | 3.05% | 4,675 | 15,079 | 13,695 | €39 | 5.25% |
| Other inner districts | 262,372 | 13,777 | 5.25% | 3,292 | 7,013 | 17,136 | €35 | 6.10% |
| Decentralised | 477,091 | 39,033 | 8.18% | 4,042 | 18,016 | 38,563 | €30 | 6.60% |
| Periphery | 657,676 | 68,866 | 10.47% | 5,057 | 25,927 | 114,906 | €26 | 6.60% |
| Luxembourg (Overall) | 4,673,354 | 200,159 | 4.28% | 96,714 | 193,461 | 479,033 | €54 | 5.15% |

Key Lease Transactions Q4 2023

| PROPERTY | SUBMARKET | TENANT | SQ M | TYPE |
|--------------------|-----------------------|----------------------|--------|-------------|
| Kronos | Kirchberg | KPMG | 31,000 | Purchase |
| KAD 2 Ouest | Kirchberg | European Parliament | 30,000 | Development |
| Darwin II | Cloche d'Or | Department of Health | 5,000 | Purchase |
| Prism | Cloche d'Or | CBRE Luxembourg | 3,140 | Letting |
| LSBC | Other inner districts | Croix-Rouge | 1,859 | Letting |

Key Investment Transactions Q4 2023

| PROPERTY | SUBMARKET | BUYER / SELLER | Volume (in MEUR) | Yield |
|--------------------------|--------------|------------------------------|------------------|-------|
| Kronos | Kirchberg | KPMG & BPI / BGL BNP Paribas | 350 | - |
| Goldbell | Cloche d'Or | Strabag / POST Luxembourg | 35 | - |
| Roosevelt 14 | CBD | Maison Worms / Allianz | 27 | - |
| Allee Scheffer 51 | Limpertsberg | Private / Private | 2.5 | - |
| Foire 32 | CBD | Private / Private | 1.6 | - |



Benjamin DEVIE

Research Analyst | Belgium & Luxembourg

+32 492 11 35 10

benjamin.devie@cushwake.com

Sebastien BEQUET

International Partner | Head of Luxembourg

+352 661 36 47 12

sebastien.bequet@cushwake.com

Michael DESPIEGELAERE

Head of Capital Markets | Belgium & Luxembourg

+32 476 82 08 59

michael.despiegelaere@cushwake.com

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION

©2024 Cushman & Wakefield. All rights reserved.
The information contained within this report is gathered from multiple sources believed to be reliable. The information may contain errors or omissions and is presented without any warranty or representations as to its accuracy.

cushmanwakefield.lu