MARKETBEAT
LUXEMBOURG
Office

Q2
2024

CUSHMAN &
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LUXEMBOURG / Office Q2 2024

	YoY Chg	12-Mo. Forecast
49K Take-up (sq m)	▼	▲
4.54% Vacancy rate	▲	▼
54€ Prime rent (€/sq m/month)	▬	▬
5.00% Prime yield (3/6/9 lease)	▬	▼

Economic Indicators Q2 2024

	YoY Chg	12-Mo. Forecast
0.47% 2024 GDP Growth	▼	▲
5.37% 2024 Unemployment Rate	▲	▼
2.32% 2024 Consumer Price Index	▼	▼

Sources: Moody's Analytics, Statec Lux, Eurostat, June 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.

Navigating a cautious course

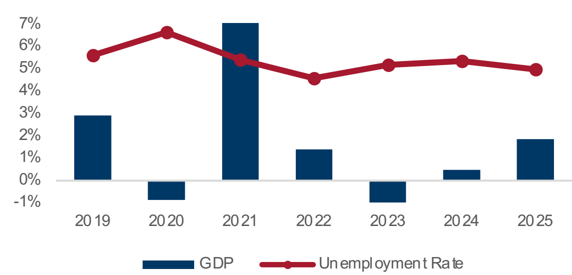
Luxembourg's economic landscape in Q2 2024 is marked by a mixture of cautious optimism and persistent hurdles. While the Grand Duchy avoids the heightened uncertainty of an election year, growth projections for 2024 have been revised downwards to 0.47%, which is below the trend in the eurozone. This revision reflects a more conservative outlook given the global and regional economic challenges. However, a slightly more optimistic forecast is expected for 2025, with growth projected to inch up to 1.85%, indicating a gradual recovery and stabilization.

Despite the modest growth projections, Luxembourg faces its own set of challenges. The unemployment rate, which stood at 5.2% in 2023, has risen to 5.37% in recent months. The difficult economic context observed over the last few years is weighing heavily on the unemployment rate, with a peak observed this year. However, improved economic conditions and policy measures are expected to support a reduction in the unemployment rate, with forecasts suggesting it will fall again from 2025 onwards.

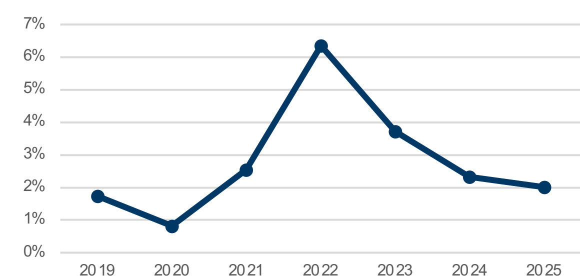
June 2024 marked a significant shift when the European Central Bank (ECB) reduced interest rates for the first time in nearly a year, responding to a deceleration in eurozone inflation. Despite this policy move, Luxembourg, similar to its neighbour countries, is grappling with a resurgence of inflation. The inflation rate in Luxembourg reached an estimated annual rate of 3.23% in the first half of 2024. This uptick complicates the ECB's task, as they must navigate broader eurozone trends while addressing specific inflationary pressures within Luxembourg.

The overall economic outlook for Luxembourg in Q2 2024 reflects a period of cautious progress, with inflation and unemployment acting as significant headwinds. The global economic slowdown, fuelled by various conflicts, including the ongoing conflict in Ukraine, and political uncertainties related to elections around the world, casts a shadow of uncertainty over the business environment. These factors impact business confidence and could potentially hinder future growth prospects. Nonetheless, with strategic policy measures and a focus on stabilizing key economic indicators, Luxembourg aims to navigate these challenges and achieve more robust growth in the coming years.

GDP Growth and unemployment rate



Inflation rate



Luxembourg office market faces continued slowdown

The Luxembourg occupational market began the year on a somber note, with a take-up of 25,000 sq m in Q1. This subdued demand continued into Q2, mirroring the first quarter with a take-up of 24,000 sq m. Consequently, the total take-up for the first half of the year amounted to just under 50,000 sq m. This figure highlights the sluggish dynamics that have characterized the Luxembourg market for several months, if not years. The stagnant market conditions are exacerbated by a challenging economic environment, with rising unemployment and near-zero GDP growth.

Looking ahead, there are significant concerns about the end-of-year outlook. An extrapolation of the current take-up trend suggests an annual demand of merely 100,000 sq m. This figure represents a nearly 50% decline from 2023, which was already a lackluster year for market activity. More alarmingly, it marks a 65% drop from the five-year average. This sharp decrease underscores the persistent struggles within the Luxembourg office market.

The public sector, typically a stabilising force with its robust transactions, has been notably silent this year. At mid-year, the public sector's take-up stands at just 14,000 sq m.

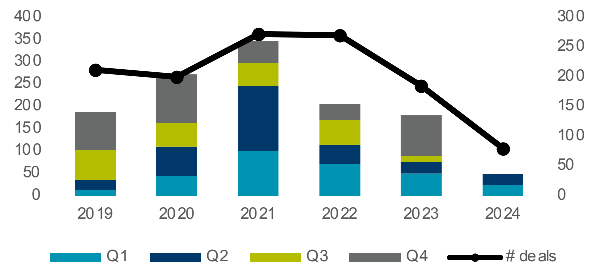
Only a quarter of the transactions recorded this quarter involved spaces larger than 500 sq m. The most significant deals included the leasing of 3,200 sq m in *LSC Contern II*, located in the Periphery district, by a confidential tenant, and the leasing of 2,900 sq m in *Carrefour*, situated in the CBD, by China Construction Bank (Europe) SA.

Rents under pressure in Luxembourg

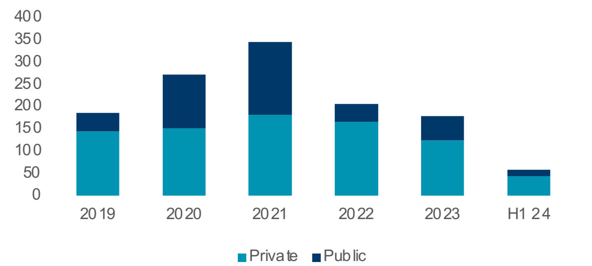
Rental rates have also been significantly impacted by the limited demand. Prime rents have remained stable for another quarter, with the CBD maintaining a prime rent of 54€/sq m/year. However, the average rental rates have seen a notable decline.

In 2023, the average rent was 34€/sq m/year, but this has now fallen to 26€/sq m/year, representing a substantial decrease of nearly 20%. This decline reflects the broader market conditions where limited demand pressures landlords to offer more competitive pricing to attract tenants.

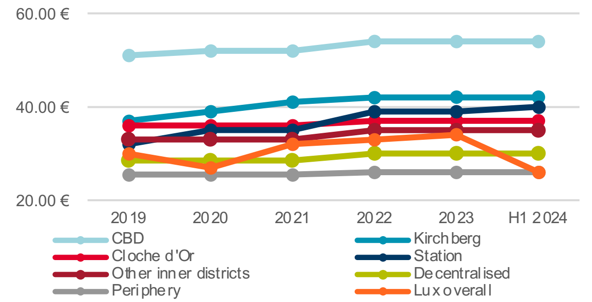
Take-up by quarter (000s sq m)



Public & private take-up (000s sq m)



Prime rents (€/sq m/month)



75% of new office space pre-leased: a sign of market strength?

As of mid-year 2024, approximately 35,000 sq m of new or redeveloped office space has been delivered to the Luxembourg market. This includes two deliveries totaling 12,000 sq m in this quarter alone, *Twist* in Belval and *Bark* in Bertrange.

However, the initial projection of around 150,000 sq m of new office space expected for this year has been revised downwards due to delays in several projects.

A notable addition in the second quarter was *Twist*, a 10,000 sq m development in Esch-Belval. This project was pre-let by the Luxembourg State, emphasizing the demand for new ESG-compliant office projects. The shift towards ESG-focused developments is further evidenced by the significant portion of the current construction pipeline that is already pre-let, approximately 75% of the ongoing projects have secured tenants ahead of their completion.

Rising vacancy rates across submarkets

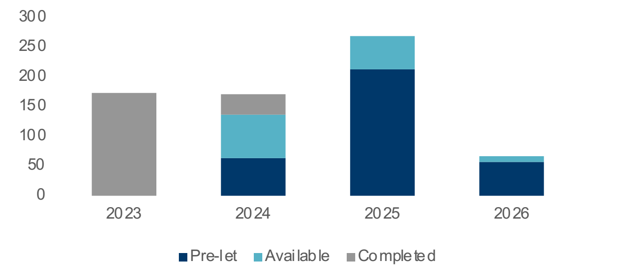
The vacancy rate continues to rise across all submarkets. The Central districts have seen their vacancy rate increase to 2.75%, while the Other Inner districts have reached 5.25%. The Decentralized districts are experiencing a higher vacancy rate of 8.35%, and the Periphery district is the most affected, with a vacancy rate of 10.26%. This brings the overall vacancy rate to 4.54% at mid-year 2024.

This rise in vacancies can be attributed to several factors. The primary driver is the subdued demand in the occupational market. The ongoing trend of weak market activity, combined with the recent partial deliveries of new projects, has led to an increase in unoccupied spaces. This accumulation of low demand and new, yet-to-be-filled office spaces has significantly impacted the overall vacancy rate.

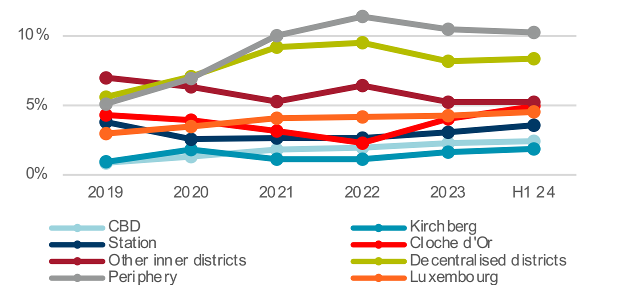
Anticipating stability

Nevertheless, the outlook for the Luxembourg office market is not entirely bleak. The high percentage of pre-let projects in the pipeline is expected to mitigate further increases in vacancy rates. It is anticipated that the vacancy rate will stabilize around 5% in the coming months, as the market adjusts to the influx of new, pre-leased spaces.

Office pipeline (000s sq m)



Vacancy rate



Investment volumes fall short

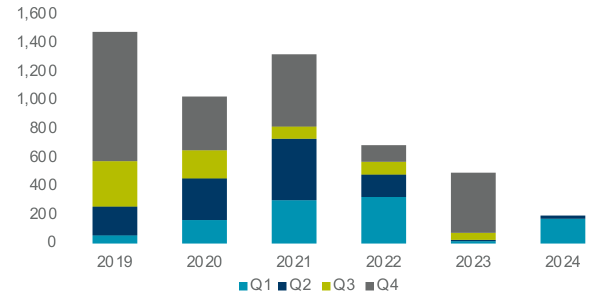
The Luxembourg office market started the year strong in terms of investment volumes, but the second quarter saw a significant slowdown, with only 23 MEUR invested. This brings the total investment volume for the first half of the year to just under 200 MEUR.

It is important to highlight that, while this mid-year investment volume surpasses the figures recorded in 2023, it remains significantly below the five-year annual average. This is a notable point of concern, especially considering that only two transactions have been recorded so far in 2024.

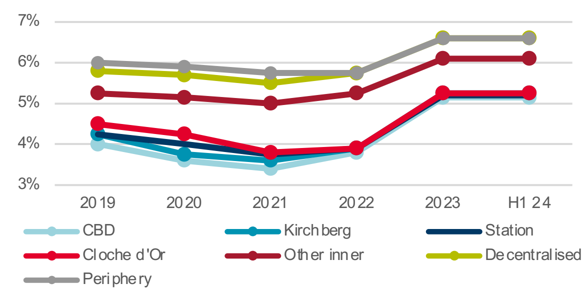
Following the significant Q1 transaction involving Pontegadea's acquisition of *Royal Park*, Q2 recorded just one notable sale. *Hygge*, a recently redeveloped property in the CBD, was acquired by a Luxembourg holding company from Nextensa for 23 MEUR. Despite the lower volume, this transaction is notable for its compressed yield of 4.5%, an exception in the current market context.

Looking ahead, there are several sales in the pipeline which are expected to boost investment volumes in the coming months.

Investment volumes by quarter (MEUR)



Prime yields



Signs pointing to lower prime yields in the coming months

In June, the ECB executed a rate cut of 25 basis points. While this adjustment could influence the broader investment landscape, it remains too recent to observe any significant impacts within the real estate sector.

In Q1, Pontegadea's acquisition of the 10,400 sq m Royal Park asset in the CBD for 170 MEUR at a 4.75% yield set a significant benchmark, underscoring investor interest in prime assets. In Q2, the newly renovated Hygge property in the CBD was acquired at a 4.5% yield. Despite these two transactions at lower yields, prime yields overall remain unchanged.

The market is not entirely stagnant, indicating some positive signals. However, it is still too early to declare a market recovery, as each transaction has its specific context. These deals potentially hint at a market recovery in the coming months, and a compression of yields is now a possibility.

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Market Statistics

SUBMARKET	STOCK (SQM)	AVAILABILITY (SQM)	VACANCY RATE	Q1 2024 TAKE-UP	2024 TAKE-UP	UNDER CONSTRUCTION (SQM)	PRIME RENT (€/sq m/mth)	PRIME YIELD
CBD	893,060	61,684	2.43%	4,942	6,240	3,836	€54	5.00%
Kirchberg	1,399,637	26,214	1.87%	538	3,464	254,112	€42	5.25%
Cloche d'Or	506,038	25,330	4.94%	2,484	5,678	24,968	€37	5.25%
Station	498,142	17,690	3.55%	2,228	5,779	13,695	€40	5.20%
Other inner districts	262,372	13,777	5.25%	1,157	2,921	17,136	€35	6.10%
Decentralised	479,132	40,022	8.35%	1,529	5,439	37,304	€30	6.60%
Periphery	674,441	69,204	10.26%	10,724	19,882	109,552	€26	6.60%
Luxembourg (Overall)	**4,712,822**	**213,921**	**4.54%**	**24,200**	**48,722**	**464,587**	**€54**	**5.00%**

Key Lease Transactions Q2 2024

PROPERTY	SUBMARKET	TENANT	SQ M	TYPE
LSC Contern II	Periphery	Confidential	3,202	Letting
Carrefour	CBD	China Construction Bank SA	2,939	Letting
Gravity	Periphery	Ministry of Education	2,580	Letting
Skypark	Decentralised	Jetfly	1,901	Pre-letting

Key Investment Transactions Q2 2024

PROPERTY	SUBMARKET	BUYER / SELLER	Volume (in MEUR)	Yield
Hygge	CBD	Luxembourg holding / Nextensa	23	4.50%

Benjamin DEVIE
Senior 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

cushmanwakefield.lu