MARKETBEAT
LUXEMBOURG
Retail

H1
2024

CUSHMAN & WAKEFIELD

LUXEMBOURG / Retail H1 2024

	YoY Chg	12-Mo. Forecast
33 # deals	▼	▲
8,326 Take-up (sq m)	▼	▲
145 Prime rent (EUR/sq m/m.)	—	▲
4.15% Prime yield (3/6/9 lease)	—	▼

Economic Indicators H1 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

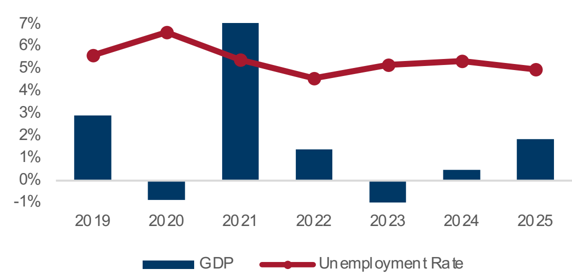
Luxembourg's economic landscape in Q2 2024 is marked by a mixture of cautious optimism and persistent hurdles. While the Grand Duchy avoids the heightened uncertainty of an election year, growth projections for 2024 have been revised downwards to 0.47%, which is below the trend in the eurozone. This 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.

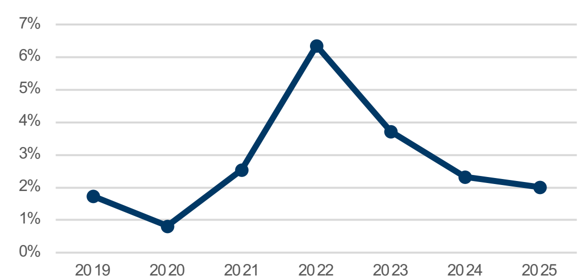
June 2024 marked a significant shift when the European Central Bank (ECB) reduced interest rates for the first time in nearly a year, responding to a deceleration in eurozone inflation. Despite this policy move, Luxembourg, similar to its neighbour countries, is grappling with a resurgence of inflation. 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 / Retail H1 2024

Retail market slump

The first half of 2024 has been marked by a rather bleak performance in Luxembourg's retail occupational market, mirroring the sluggishness seen in the office sector.

Over the past six months, the retail market witnessed a take-up of just 8,326 sq m spread across 33 transactions, averaging a little over 1,000 sq m per month. Notably, only one transaction this semester exceeded 1,000 sq m—the leasing of space by Sportsdirect in the *Belval Plaza*.

This subdued activity is evident across all retail segments. The Main Streets segment saw a take-up of 3,149 sq m, accounting for 38% of the total. Shopping Centres and Out-of-Town Retail followed closely, representing 34% and 28% of the total take-up, respectively.

Stable yet poised for growth

Prime rents have remained stable throughout the semester, maintaining the levels seen since 2022.

Main Streets continue to command a prime rent of 145€/sq m/month. Similarly, Shopping Centres and Out-of-Town Retail maintain their prime rents at 90€/sq m/month 24€/sq m/month, respectively.

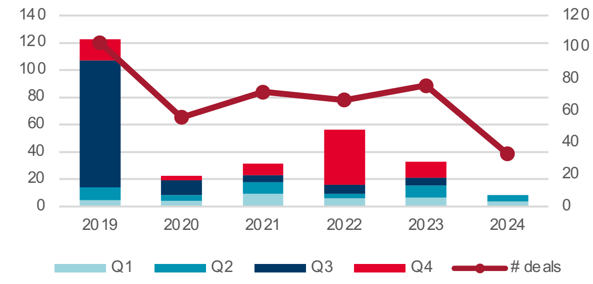
Despite previous forecasts suggesting an increase in prime rents, these projections may now be delayed to 2025, given the ongoing economic uncertainty which continues to limit market activity and rental growth.

Looking ahead to 2025, there is cautious optimism that prime rents may finally see the anticipated growth. Forecasts suggest that prime rents could rise to €148 per square meter per month for Main Streets, €94 per square meter per month for Shopping Centres, and €28 per square meter per month for Out-of-Town retail. This potential increase is contingent on improved economic conditions and a subsequent uptick in market activity.

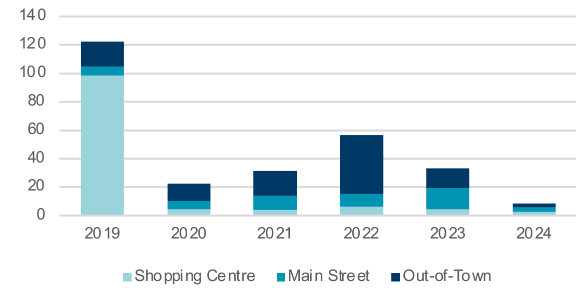
Cautious consumer, quiet market

In the first half of 2024, consumer confidence in Luxembourg remained tepid, reflecting ongoing economic uncertainties. This cautious sentiment among consumers has directly impacted the retail occupation market, leading to subdued retail activity and lower transaction volumes. With consumers wary of spending, retailers have been hesitant to expand or invest in new spaces.

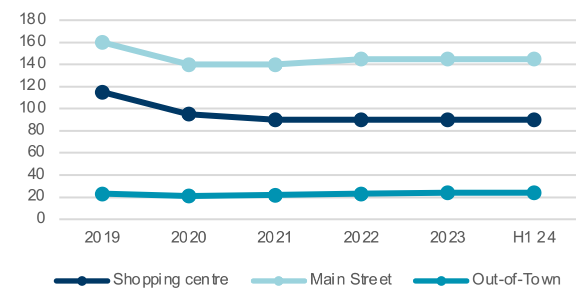
Take-up by quarter (000s sq m, LHS) and # deals (RHS)



Distribution of take-up by market segment (000s sq m)



Prime rents by segment (EUR/sq m/month)



Stagnation continues and challenges persist

The Luxembourg retail investment market has faced significant challenges throughout 2023 and into the first half of 2024. In 2023, the market was virtually at a standstill with only one transaction recorded. Unfortunately, this trend has persisted into the first semester of 2024. By mid-year, there has been just a single transaction: the sale of a retail unit in the Retail Park on Rue du Brill by Nextensa to a private investor for 9.23 MEUR.

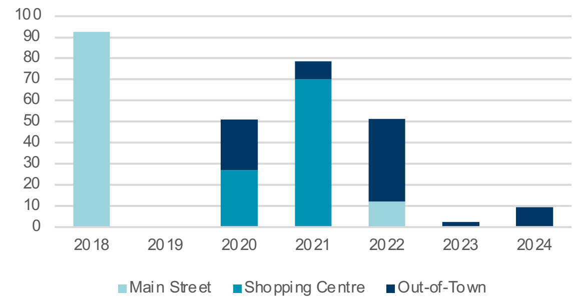
This continued sluggishness in the retail investment market is undoubtedly linked to ongoing difficult economic conditions that have prevailed for several years. One key issue is the compressed spread between government bond yields and investment returns, which currently remains too narrow to attract significant investor interest.

Steady yields, future optimism

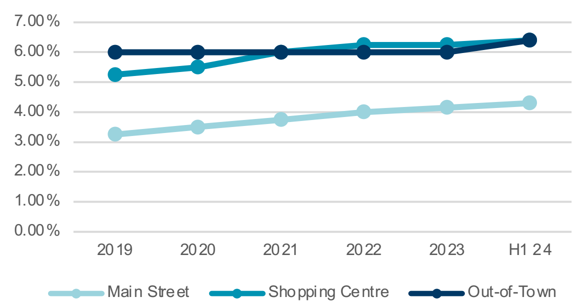
Despite a reduction in the European Central Bank's interest rates in June, yields have remained stable across all retail segments. This stability is primarily due to a lack of comparable transactions that could provide a basis for adjustments. As of the end of H1 2024, yields stand at 4.30% for prime high street locations and 6.40% for shopping centers and out-of-town retail properties.

Looking ahead, there is hope that the yield shift observed in the office market during the first half of 2024 will extend to the retail segment. Such a shift could potentially rejuvenate investment activity in the latter half of 2024 and into 2025. An increase in yield attractiveness might encourage investors to re-enter the market, driving a much-needed recovery.

Retail investment volumes (in MEUR)



Prime yield by segment (in %)



Market Statistics

SEGMENT	TAKE-UP H1 2024 (SQM)	PRIME RENTS (EUR/SQ M/M.)	INVESTMENT VOLUMES (MEUR)	PRIME YIELD (%)
Main Street	2,837	145	-	4.15%
Shopping Centre	3,149	90	-	6.25%
Out-of-Town	2,340	23	9.23	6.00%
Luxembourg (Overall)	**8,326**	**-**	**9.23**	**-**

Key Lease Transactions H1 2024

PROPERTY	SEGMENT	TENANT	SQ M	TYPE
Belval Plaza	Shopping Centre	Sportsdirect	1,238	Letting
The Butler	Out-of-Town	Babilou Family	668	Pre-letting
Vega	Main Street	Ceruzzi	662	Letting
Retail Park Strassen	Out-of-Town	Maniet	583	Letting
Porte Neuve 26	Main Street	F(Utile)	417	Letting

Key Investment Transactions H1 2024

PROPERTY	SEGMENT	CITY	PURCHASER	SELLER	VOLUME (MEUR)
Rue du Brill 11	Out-of-Town	Foetz	Private	Nextensa	9.23

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