

MARKET FUNDAMENTALS

	YOY Chg	12-Month Forecast
4.67% Vacancy Rate	▲	▬
91,000 Take-up (sq m)	▲	▬
€54.00 Prime rent (per sq m)	▬	▲
5.00% Prime yield	▼	▼
394,000 Under Construction (sq m)	▬	▬

Source: Cushman & Wakefield

ECONOMIC INDICATORS

	YOY Chg	12-Month Forecast
0.97% Luxembourg GDP Growth	▲	▲
2.24% Luxembourg Consumer price index	▼	▼
5.64% Luxembourg Unemployment Rate	▲	▼

Source: Moody's Analytics, STATEC, Eurostat, October 2024

LUXEMBOURG'S PATH TO RESILIENCE AND GROWTH

In the third quarter of 2024, Luxembourg's economy saw a modest growth of 0.6%, primarily fueled by strong private consumption and government expenditure. However, this growth was somewhat offset by a trade deficit, attributed to reduced demand from international partners. Looking ahead, the economy is projected to grow by 0.97% in 2024 and 1.69% in 2025, with private consumption remaining a key driver, supported by wage indexation and fiscal policies.

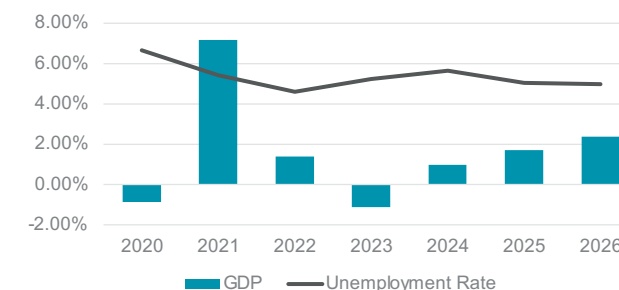
In the Eurozone, economic activity rebounded in H1 2024, with a growth rate of 0.6% in Q2. Overall, the ECB forecasts a 0.8% growth for the year, with southern countries (e.g., Spain, Malta) outpacing northwestern nations. Monetary policy tightening from 2021-2023 continues to weigh on growth, but recent interest rate cuts are expected to alleviate this impact gradually through 2025. However, the ECB is expected to proceed cautiously with future adjustments.

Inflation in Luxembourg hit 2.9% in August 2024, driven by rising costs in housing, food, and services. It is expected to 2.24% by the end of 2024 and further to 2.0% in 2025. Across the Eurozone, inflation is projected to steadily decline, reaching the ECB's target of 2% by late 2025.

Employment in Luxembourg faced challenges in 2024, with the unemployment rate rising to 5.64%, up from 5.23% in 2023. This increase is linked to the limited GDP growth in 2024, a lingering effect of the recession in 2023. Despite these challenges, the outlook for 2025 is more optimistic, with expectations of a lower unemployment rate as economic conditions improve. The government is focusing on various fiscal measures and investments to support employment.

Luxembourg continues to navigate its economic challenges with a focus on resilience and sustainable growth. The outlook for 2025 is optimistic, with expected improvements in trade and investment conditions.

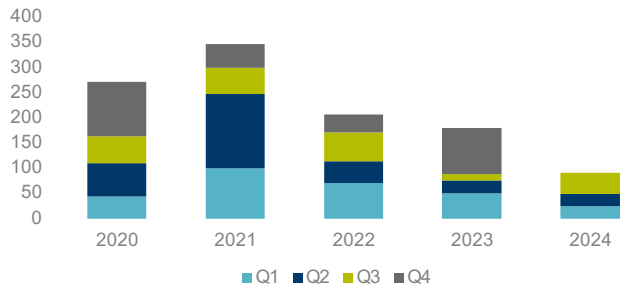
GDP GROWTH & UNEMPLOYMENT RATE



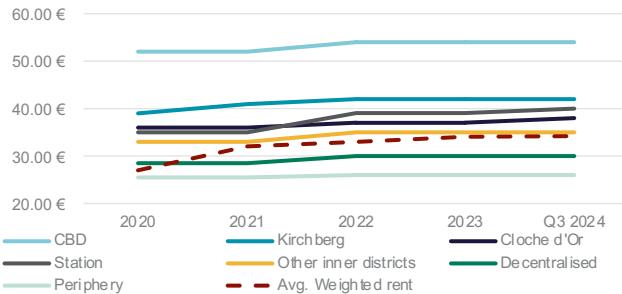
INFLATION RATE



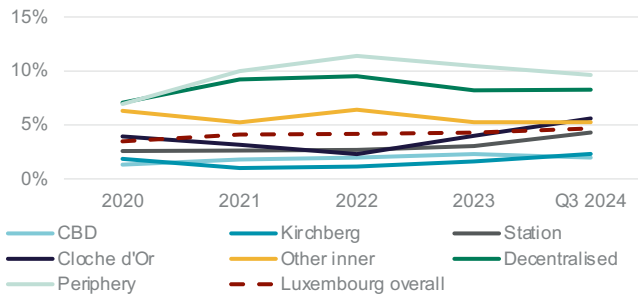
TAKE-UP BY QUARTER (000S SQ M)



PRIME RENTS (€/SQ M/MONTH)



VACANCY RATE



LEASING SURGE IN Q3 AMID PUBLIC SECTOR SILENCE

Q3 2024 was an active quarter for Luxembourg’s office leasing market, with over 42,000 sq m of take-up recorded. This marks a significant increase of 75% compared to the average take-up seen in Q1 and Q2. Year-to-date, take-up has reached over 91,000 sq m for the period Q1-Q3, aligning with demand levels seen in 2023 but falling well short of the five-year average of 180,000 sq m.

One of the main drivers behind the sluggish overall performance is the limited activity from the public sector, which typically plays a pivotal role in office demand in Luxembourg. This year, the public sector has accounted for less than 20% of total take-up – a notable decline from over 30% in 2023 – and its share fell to just 7% in Q3 2024. The muted activity from this key segment has been a significant factor in the market’s relatively weak momentum.

LUXEMBOURG’S MARKET SET FOR GROWTH

Despite the increase in leasing activity this quarter, prime rents remained stable across all submarkets. In the CBD, prime rent continues to hold at €54/sq m/month. However, the predominance of transactions in Grade A buildings has heightened pressure on average rents, which have continued to rise throughout the year. The average rent in Luxembourg now stands at €34/sq m/month.

Looking ahead, prime rents are expected to increase, particularly in secondary locations (Other Inner & Decentralised). Notably, a pre-letting transaction in the *Skypark Business Center* was recorded at €31.5/sq m/month, above the current prime rent in these areas, signaling potential future increases.

STRONG PIPELINE AND RESILIENT VACANCY

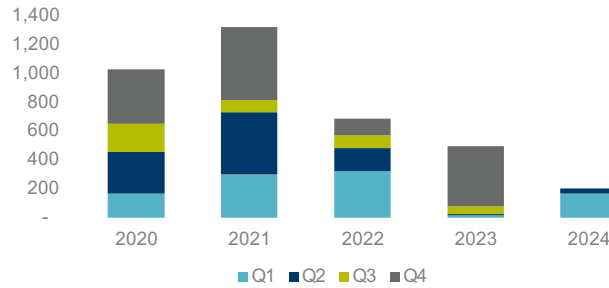
Vacancy rates in Luxembourg continued to rise in Q3 2024, albeit at a slower pace, despite the uptick in leasing activity. The vacancy rate now stands at 4.67%, which, while higher than at the start of the year, remains among the lowest in Europe.

Q3 was also an active quarter in terms of office deliveries, with over 52,000 sq m of new space coming to market. The most significant project delivered was *Skypark Business Center - Phase I*, adding 30,000 sq m of office space in the Airport district. This project has already recorded leases at record-breaking rental levels, highlighting the strong demand for high-quality Grade A offices.

OUTLOOK

- Looking ahead, the Luxembourg office market is projected to reach around 130,000 sq m of take-up by the end of 2024, based on current trends. While this reflects a modest level of activity, projected take-up would still fall 28% below 2023 levels, making 2024 one of the weakest years on record for the market.
- The development pipeline remains robust, with nearly 395,000 sq m of office space currently under construction, 80% of which has already been pre-let. As a result, while the overall stock is set to increase, vacancy rates are expected to remain stable due to the high level of pre-letting activity.

INVESTED VOLUMES (MEUR)



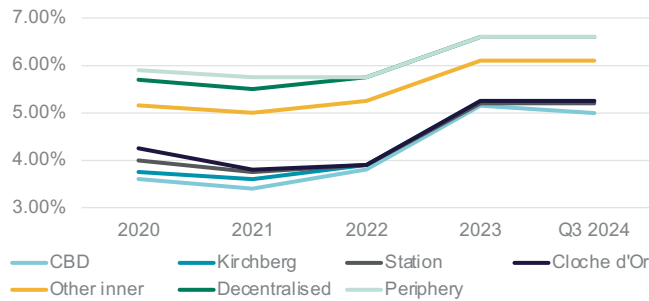
NO INVESTMENT ACTIVITY IN Q3 2024

In Q3 2024, no investment transactions were recorded in Luxembourg's office market, continuing the subdued activity seen throughout the year. Cumulatively, only 203 MEUR has been invested across just three transactions in 2024, underscoring the ongoing stagnation in the market. This lack of activity contrasts sharply with the economic backdrop. Following the European Central Bank's interest rate cut in June 2024, office yields in Luxembourg fell to 5% in Q2 2024, which would typically stimulate investment. However, despite this more favorable financial environment, investors have remained on the sidelines, possibly reflecting broader uncertainty in the market. A notable transaction during the quarter was the sale of *The Stairs*, a project by Nextensa located in Cloche d'Or, to State Street for 107 MEUR. However, this deal was not a typical investment transaction, as the acquisition was for owner-occupation rather than for investment purposes.

OUTLOOK

- The Fed and the ECB have already cut rates several times in 2024, sparking optimism that this trend will continue into 2025. These moves have the potential to reinvigorate the investment market and contribute to further yield compression.

PRIME YIELDS



PRIME YIELDS STEADY AS GEOPOLITICAL CHALLENGES LOOM

Prime yields appear to have stabilized in Q3. In the absence of further market activity, there has been no evidence to suggest any additional movement. Prime yields in Luxembourg City's CBD are still at 5%. For other inner districts, yields have held steady at 6.1%, while in the Periphery and Decentralised areas, yields are at 6.6%. These stable levels suggest that the market is in a holding pattern, awaiting stronger signals from investors to spur further movement.

ECB RATES DECISIONS SHAPE THE LUXEMBOURG MARKET

As the ECB signals a potential shift towards rate cuts in the near future, the Luxembourg investment market stands to benefit significantly. Lower interest rates typically result in reduced financing costs, making it more feasible for investors to embark on new projects and acquisitions. This anticipated easing of monetary policy could invigorate demand, as more capital becomes accessible for investment, thereby enhancing overall market liquidity. In Luxembourg, where prime office yields have shown resilience, the prospect of lower borrowing costs may entice investors back into the market, potentially increasing transaction volumes. Institutional investors, in particular, are likely to seize this opportunity, aiming to acquire high-quality assets before any potential yield compression occurs. As borrowing costs decrease, the attractiveness of financing new investments rises, leading to a more dynamic and active market environment.

INVESTMENT VOLUMES VS ECB RATES



MARKET STATISTICS Q3 2024

SUBMARKET	INVENTORY (SQ M)	AVAILABILITY (SQ M)	VACANCY RATE	Q3 2024 TAKE-UP	2024 TAKE-UP	UNDER CONSTRUCTION (SQ M)	PRIME RENT (€/sq m/month)	PRIME YIELD
Luxembourg (Overall)	4,765,363	222,752	4.67%	42,309	91,117	394,105	€54	5.00%
CBD	893,060	17,548	1.96%	5,651	11,010	3,836	€54	5.00%
Kirchberg	1,399,637	32,374	2.31%	1,213	4,963	254,112	€42	5.25%
Cloche d'Or	506,038	28,341	5.60%	19,664	25,342	24,968	€38	5.25%
Station	498,142	21,397	4.30%	3,913	9,692	16,035	€40	5.00%
Other inner districts	262,372	13,777	5.25%	724	3,645	17,136	€35	6.10%
Decentralised	509,132	42,159	8.28%	6,273	11,712	21,552	€30	6.60%
Periphery	696,982	67,156	9.64%	4,871	24,753	52,512	€26	6.60%

KEY LEASE TRANSACTIONS Q3 2024

SUBMARKET	PROPERTY	TENANT	SQ M	TYPE
Cloche d'Or	Stairs	State Street Bank	9,700	Purchase
Cloche d'Or	Mazars	Technopolis	4,987	Letting
Station	Connex Plaza	Lux Development	2,712	Pre-letting
Cloche d'Or	Printzipal	Eri Bancaire	2,253	Letting

KEY INVESTMENT TRANSACTIONS Q3 2024

SUBMARKET	PROPERTY	BUYER / SELLER	PRICE (MEUR)	YIELD
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