Luxembourg Offices Q1 2020

Solid office activity amidst corona uncertainty

Stock	Take-up (Q1)	Vacancy	Prime rent	Prime yield
4,352,000 m²	45,000 m²	3.4%	52 €/m²/mo	3.50%

Arrows indicate changes from previous quarter

2020 Summary

45,000
m² in take-up

45%
Banking, finance & insurance demand

149,000
m² of vacant space

317,000
m² of new development expected in 2020

736
million € invested

MARKET OVERVIEW

Office lettings and sales in Q1 were buoyant, masking the threat from the corona crisis. This is partly due to a change in methodology, as we now count pre-lets in take-up contemporaneously and not at building completion. Three sizeable deals drove take-up that was better than average for first quarters. Vacancy was unmoved early in the year at a very low 3.4%. Prime rents, though, ticked upwards in the CBD and in Cloche d'Or to new highs. Investment counted €736 million of transaction activity, marked by diverse deals across a range of real estate sectors.

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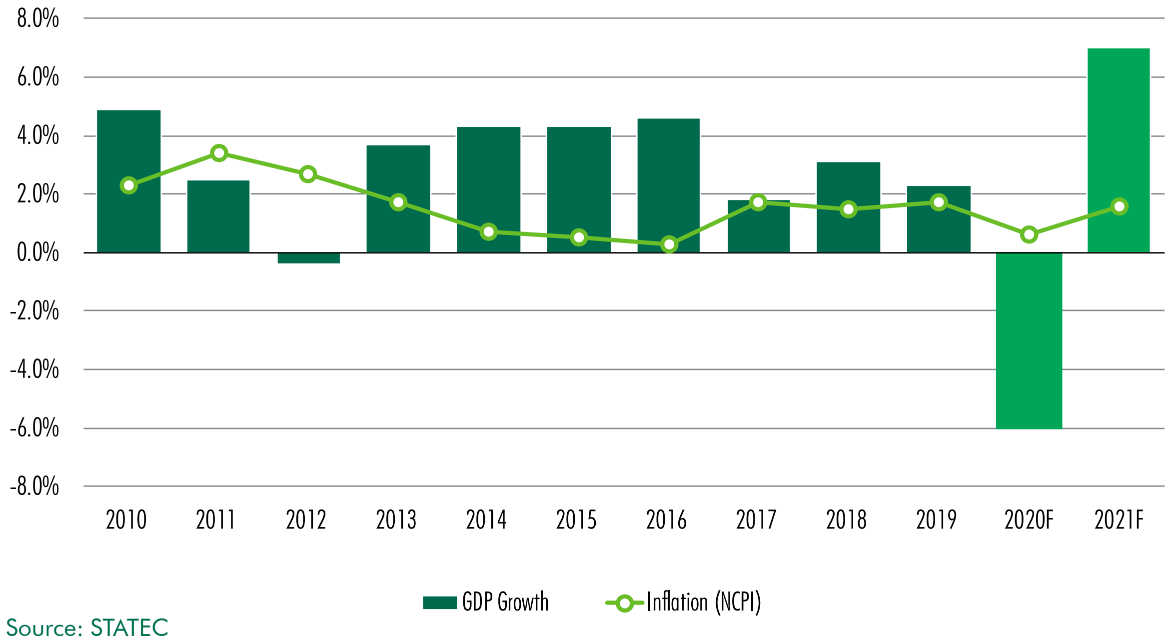
Graph 1

Economic activity & inflation (annual)



Source: STATEC

ECONOMY

Luxembourg was on a path of solid growth before the coronavirus (COVID-19) pandemic. The economy finished 2019 by expanding 2.3% over 2018.

The March 16th lockdown and subsequent closure of many businesses will weigh on growth considerably for 2020. In the height of the lockdown in March/April, value added has declined by 25%. This is more favorable than neighboring countries, though. The trough is expected in Q2 before growth returns in the latter part of the year.

This, of course, is heavily dependent on the extent of the lockdown measures. STATEC has estimated a 'limited confinement scenario' of -6% GDP in 2020 followed by strong 7% growth in 2021. A 'prolonged confinement scenario' would see the economy shrink by -12.4% in 2020 followed by growth of 1.8% in 2021. It is noted that the number of newly confirmed cases of COVID-19 has fallen very fast since the beginning of April.

With 30% of Luxembourg employees experiencing short-term unemployment and the general economy under duress, the government has stepped in with supportive measures. The package of support contains items such as direct payment to small businesses, loan moratoriums, capital loan repayment deferment for six months, early refunding of VAT, loan of up to €500,000 for companies experiencing a loss from the pandemic, and more. This should go a long way in supporting the unemployed and stressed sectors.

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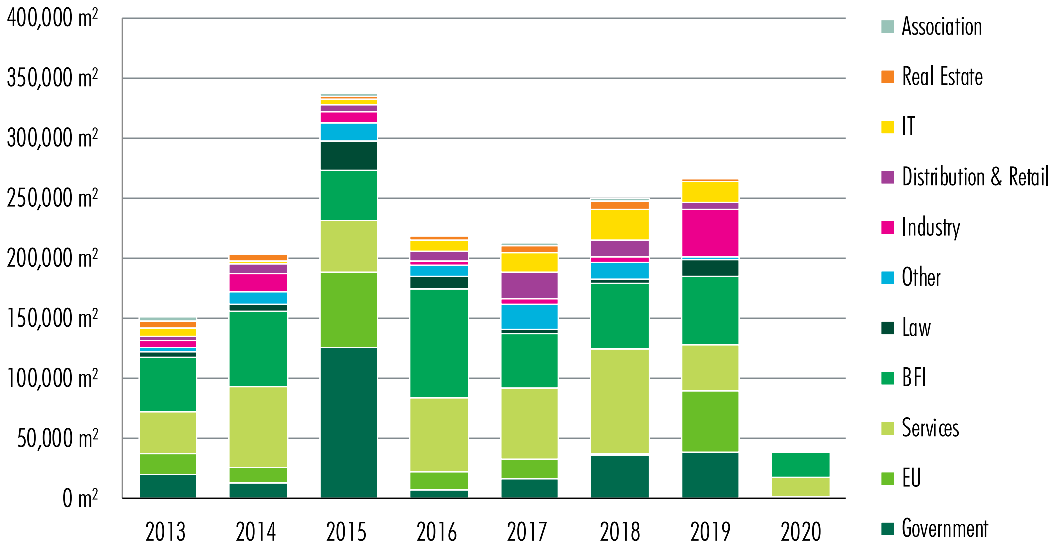
Graph 2

Office take-up (2013-Q1 2020)



Source: CBRE Research, Q1 2020

DEMAND

Take-up in the first quarter of the year counted a strong 45,000 m². This is higher than the Q1 of the previous two years and better than the long-term average. Deals continued as normal without much disruption from the corona crisis, but we expect activity to slow considerably in Q2 as further transactions are delayed.

Three large deals of more than 5,000 m² each drove take-up in Q1. These were the Baloise Assurance pre-letting of the Wooden project (9,600 m²), Arendt Services pre-letting of the Arendt 9 project (8,000 m²), and Northern Trust letting in Altitude (5,822 m²).

Unusually, Leudelange was the site of the most activity in Q1. Three of the top four deals were located here, as the peripheral market continues to grow just off the A4 and avoids the heavier traffic of the city.

The BFI and business services sectors dominated activity, accounting for almost half of take-up for the quarter and six of the seven largest deals. In addition to those already mentioned, Parfi-Group will occupy 2,592 m² in W4, Urban Office pre-let 1,300 m² in Southlane II, and Swiss Real Estate Europe

Three large deals each more than 5,000 m² drove take-up in Q1

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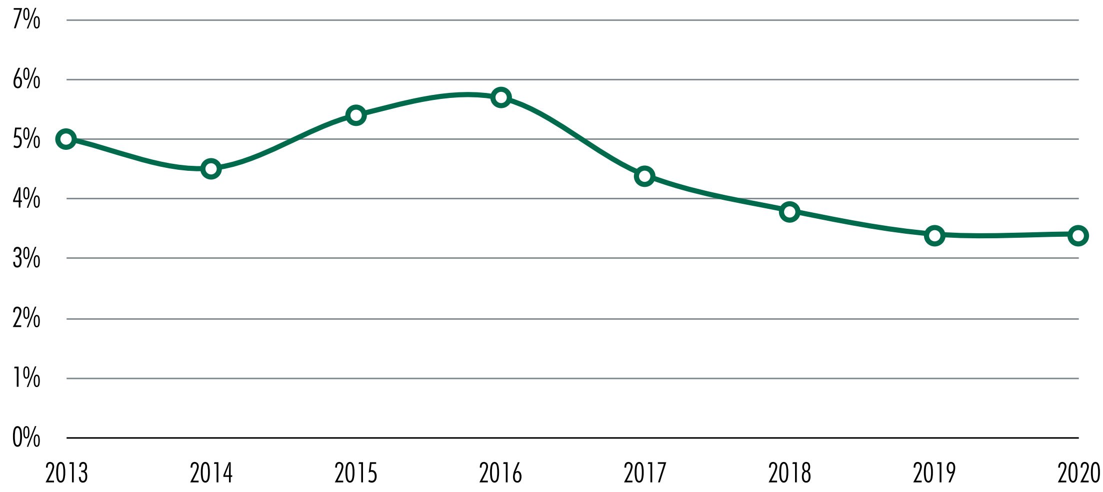
Graph 3
Vacancy rate (2013-Q1 2020)



Source: CBRE Research, Q1 2020

let 1,197 m² in the Oksigen building.

The public sector closed two deals good for a total of 1,231 m². One of the deals was in Le Cinq, in which they already had a presence, while the other was in the grade A Staccato.

VACANCY

Approximately 149,000 m² of office space is considered vacant out of a total stock of 4.35 million m². This is less than a year's worth of take-up, indicating a shortage of available space. The result is a very tight market with a vacancy rate of just 3.4%.

Major markets changed little over the previous quarter and maintain very limited availabilities. The CBD, Kirchberg, Strassen and Station markets count vacancy under 1.5%.

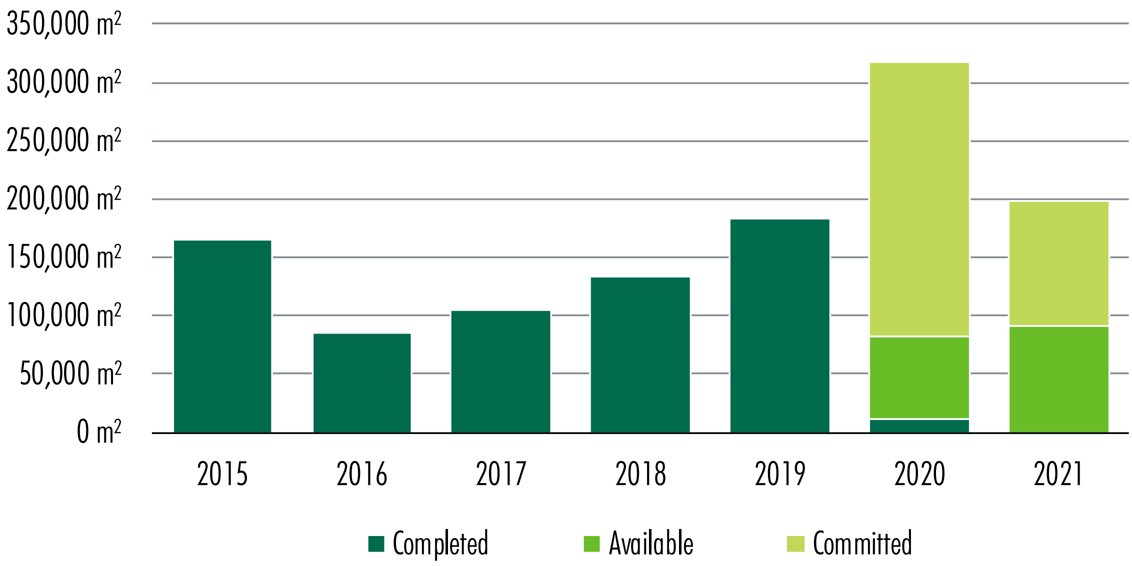
In Cloche d'Or, vacancy has fallen to just over 3% compared to more than 8% just three years ago. Recently, absorption of this rapidly expanding district has outpaced new supply.

Elsewhere, the picture is mixed. Esch-Belval is still low at around 5%, while Lux West is somewhat higher at 7%. The Mercator-Haus here still counts notable vacancy (5,410 m²) despite being well-located along Route d'Arlon.

Other large vacancies include Ikaros in the Airport market (15,090 m²) following the Deloitte departure to their new HQ in Cloche d'Or. ABP Vitrum in Bertrange still counts 5,541 m² available.

Graph 4

Development pipeline (2015-2021)



Source: CBRE Research, Q1 2020

PROJECT DEVELOPMENT

Just two new deliveries were celebrated in Q1. These were the Altitude La Paz (7,000 m²) and W4 Offices (4,000 m²), both in Leudelange. Both were also delivered fully let, adding no new availabilities to the market. Additionally, the old Jean Monnet building was demolished, accounting for the decrease in total stock early in 2020.

The pipeline for the remainder of the year is very robust, counting more than 317,000 m² of projects. Half of this amount, however, is concentrated in one phase of the Parliament building in Kirchberg.

Of the 317,000 m² planned for 2020, roughly 77% is already committed, leaving just 72,000 m² available. Major projects with availabilities planned for a completion later this year include Bijou (6,000 m²) in Cloche d'Or and Connection (23,000 m²) in Hamm.

For 2021, the pipeline is estimated at 200,000 m², of which 92,000 m² (46%) is available.

RENTAL VALUES

The overall strong letting market and supply and demand dynamics are such that rental values are well-supported. This has led to an increase in prime rent to a record 52 €/m²/mo (excl VAT) in the CBD, despite the uncertainty surrounding the COVID-19 pandemic.

Elsewhere, Cloche d'Or has also experienced a strong increase in prime rent to 34 €/m²/mo (excl VAT). All other major markets remain unchanged early in the year.

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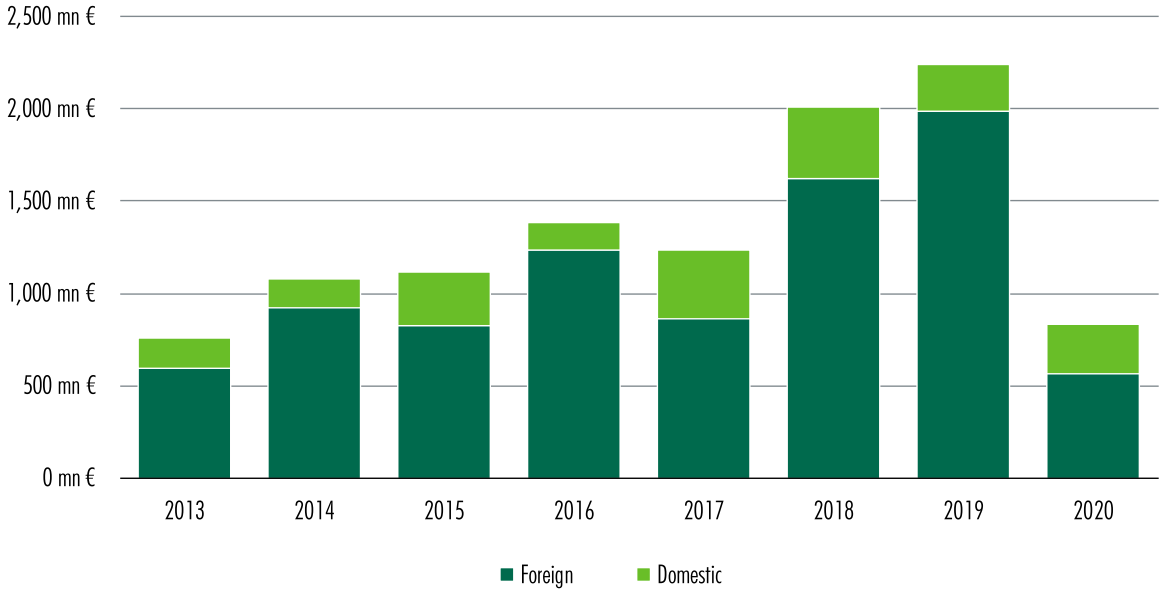
Graph 5

CRE investor origin by volume (2013-Q1 2020)



Source: CBRE Research, Q1 2020

INVESTMENT VOLUME

Investment activity continued with vigor in Q1, tallying some €736 million in deals. The diversity of transacted sectors stands out this quarter, demonstrating there is more to the Luxembourg investment market than offices.

Three of these deals closed with 9-figure price tags. The biggest was the Primonial acquisition of Laccolith in Cloche d'Or. The neighboring Yris also closed, acquired by AM Alpha.

Acquired for development, Tralux/Besix/ICN Development purchased the 36,000 m² Villeroy & Boch site (via its interest in Rollingergrund) in the CBD. The site will become a residential-focused mixed-use development.

Speaking to the other sectors, Firce Capital acquired the Belval Plaza shopping centre in Esch-Belval for €75 million. It was built in 2008 and counts 6.5 million visitors annually.

Eaglestone recorded two large residential sales this quarter to a Belgian investor. These were the Shades (2,566 m² + 664 m² retail) and New Yorker (2,500 m²) buildings in Station.

Note: Total investment figures include all property types inclusive of commercial land, projects and purchases for own occupation.

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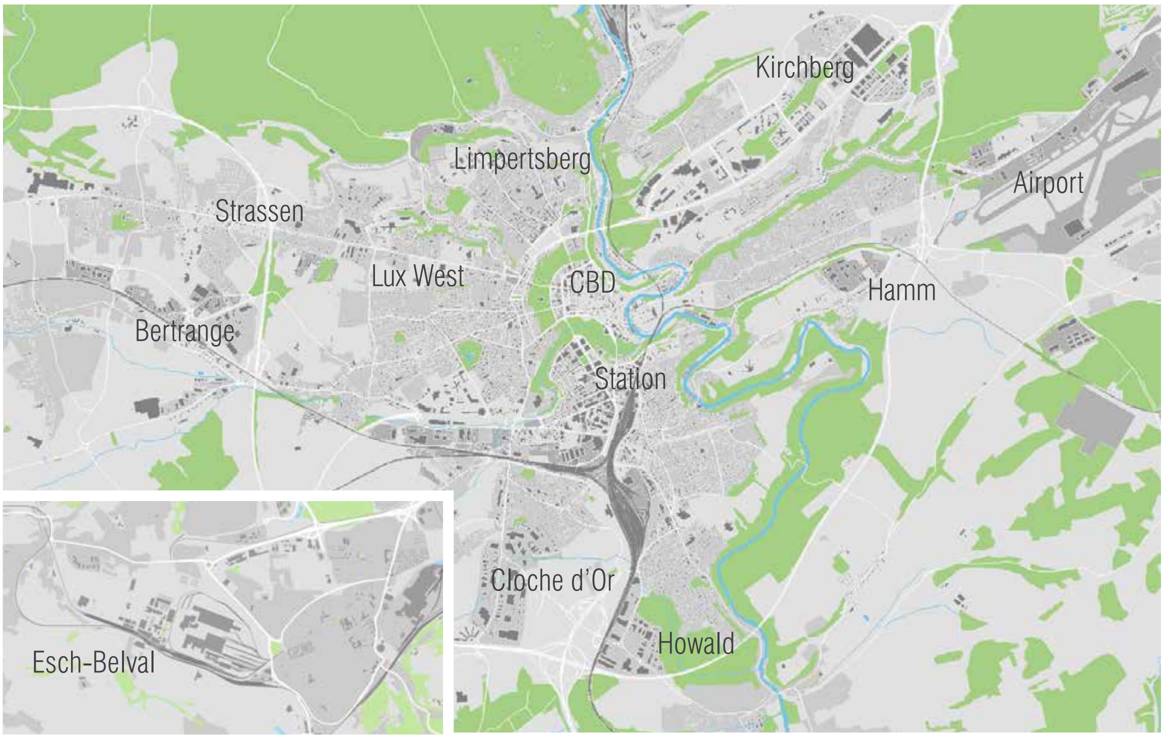
Luxembourg main submarkets



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