

MAJOR REPORT

Luxembourg Consumer Survey 2019

How do people shop in Luxembourg?

CBRE

2019 | Research report

Consumers prefer the convenience of shopping centres

For the first time ever, CBRE conducted a survey of consumers in Luxembourg. During the Summer of 2019, more than 500 Luxembourg residents shared their shopping habits and preferences, revealing what makes them tick.

The respondents were diverse, spanning a broad spectrum of ages, family composition, income level, nationality, and region of residence, with males and females roughly evenly split.

Luxembourg retail market

The landscape today

Massive growth and accommodating policies have supported retail in Luxembourg. Road saturation and high development complicate the positive dynamics.

BACKDROP

The fundamentals of the economy and socio-economic status of its residents make Luxembourg a stand-out performer in Europe. GDP and population growth have consistently outperformed the eurozone for years, expanding 2.6% and 2.0% last year, respectively.

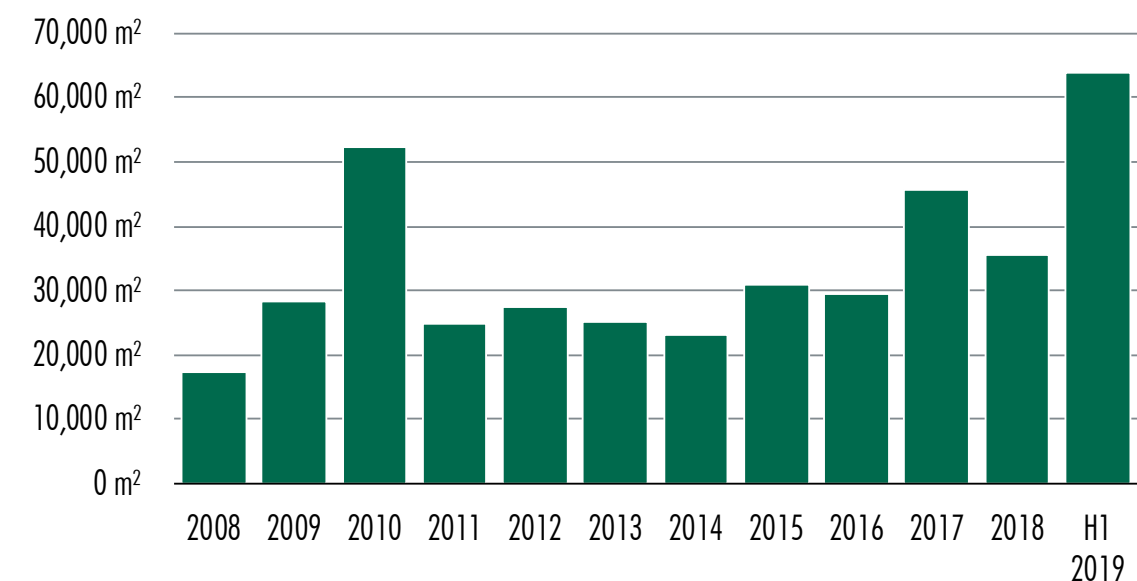
Luxembourg is the private banking hub of the

eurozone, number one for well-being in the eurozone, (Luxembourg City) the highest purchasing power in the eurozone, and many more superlatives. All of the commercial KPI boxes are ticked.

This success, however, has come at a cost. Namely, the cost of living has driven many out of Luxembourg City into the periphery. Combined with the 200,000 incoming daily cross-border commuters, mobility issues have resulted.

In terms of retail, this has led to the popularity of shopping centres, particularly around key

Retail take-up in Luxembourg through Q2 2019



Source: CBRE

traffic arteries and border crossings. Opkorn (2017) in Differdange and Borders (2017) in Remerschen are two recent examples.

A favorable regulatory environment has also supported retail in Luxembourg. Standard VAT is 17%, though some products, such as food, pharma, and childrens' clothes, are subject to a 3% VAT. This is a marked difference from neighbors' standard 19 to 21% rates. Also, (limited) grocery store Sunday opening hours further supports cross-border shopping.

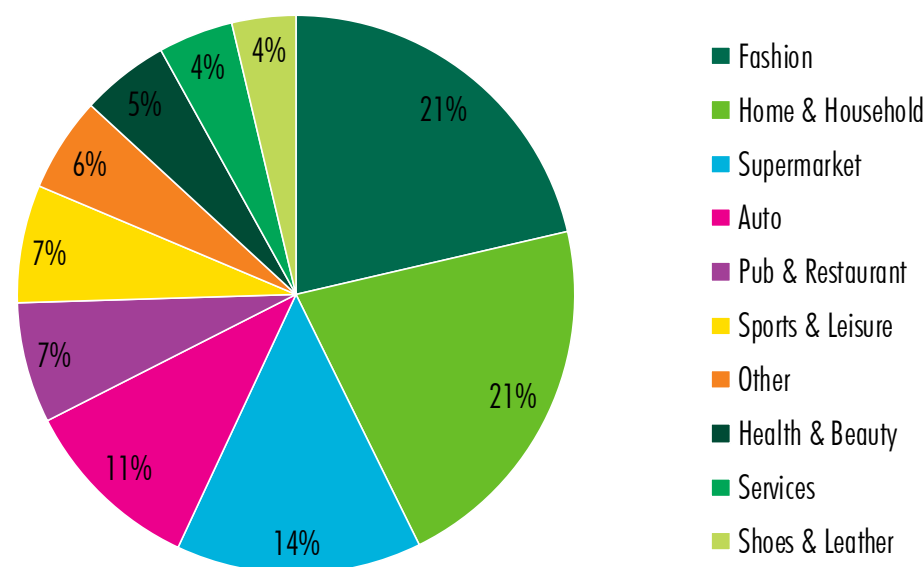
A very robust development pipeline since 2017 and the more widespread disruption of the

retail market has put occupiers in a unique position. On one hand they have an abundance of choice with the new developments, and on the other there is the uncertainty of change, leading to many retailers waiting to see how the dust settles before making big moves.

As in most major markets, retail dynamics have stressed high streets and city centres. Rents are generally under downward pressure and vacancy has risen, particularly along the mass market Avenue de la Gare. The introduction of the tram through the Kirchberg-centre-Cloche d'Or axis (and eventually beyond) should help facilitate mobility and inject more investment.

Numerous commuters and a favorable policy environment support cross-border retail

Distribution of retail letting and sales deal by sector m² (2015 to Q2 2019)



Source: CBRE

New retail developments in 2019



Auchan Cloche d'Or



Royal Hamilius



Infinity

MARKET ACTIVITY

Take-up in H1 2019 has seen record levels of activity, totalling 63,900 m², and already far outpacing the historical average of 33,000 m² annually.

The vast majority of this (78%) has been driven by the commercialisation of the new Auchan Cloche d'Or shopping centre. A 12,000 m² Auchan supermarket will anchor the centre, but fashion heavyweights H&M (3,950 m²) and Zara (3,800 m²) have also signed on.

Other major deals have also closed, including Traffic letting 1,876 m² in Belval Plaza, S-Cape letting 1,250 m² in Bertrange, and Action letting 1,093 m² in the Boomerang Shopping Centre. Along the high street, Louis Vuitton let 844 m² on Rue Philippe II and Tally Weijl let 720 m² on Grand Rue.

RENTS

After years of uninterrupted rental growth, rents have recently begun to correct. An

overextension of rental prices, changing consumer habits and substantial new development are all contributing factors.

In Luxembourg high streets, prime rent reached as high as 215 €/m²/month (2,580 €/m²/year) in 2017 and 2018 for the best located shops. In the second half of 2019 these have stabilised around 150 €/m²/month (1,800 €/m²/year).

NEW DEVELOPMENTS

2019 is an exciting year for Luxembourg retail. This summer, the highly-anticipated Cloche d'Or shopping centre opened its doors. Spread over 75,000 m², this centre boasts 130 stores and an Auchan pilot project that transforms the grocery store into a food experience.

Before the new year, two other major projects should be ready. The mixed-use Royal Hamilius (17,000 m² retail) will see its last brick laid almost a decade after Codic was chosen to realize a new vision for the downtown location. It will be anchored by a 9,000 m² Galeries Lafayette.

Immobel's mixed-use Infinity project (6,500 m² retail) will also welcome shoppers to its Kirchberg location. The largest office district in Luxembourg will benefit greatly from the 23 new shops.

The 13,000 m² Shopping Park Bettembourg will also open by the end of the year. This 14-unit retail park is fully pre-let and features major brands such as HiFi International, Casa, Heytens, Delhaize, BasicFit, JBC, and more.

Overall, these new projects have commercialised very well.

INVESTMENT

Given the high spending power, strong economic and population growth, and favorable market conditions, retail continues to be an attractive investment option.

The last decade has seen almost €800 million of retail transactions in Luxembourg. Recent investors have almost exclusively originated from Luxembourg and neighboring countries Belgium, France, and Germany.

Private investors and small funds have found high street assets along Grande Rue and Avenue de la Gare attractive propositions. Small units of less than 200 m² have traded upwards of €10 million recently. Recent deals of notable high street locations include the GLL Real Estate acquisition of Rosenstiel for €81.6 million and the private acquisition of Grande Rue 13-17 for €12 million. High demand and limited opportunities have pushed prime yields to 3.25% for the best properties.

Still, in many ways, Luxembourg remains a local market. The infrequent trading of out-of-town and shopping centre assets is a testament to this, as local and often private investors are content to hold and manage their facilities, often expanding them over many years.

Institutional and international investors have increased their presence in Luxembourg, often through development. By the end of 2020, several large cap deals are expected to close, including the Belval Plaza Shopping Centre.

Notable investment deals since 2017



GLL Real Estate Partners
Rosenstiel

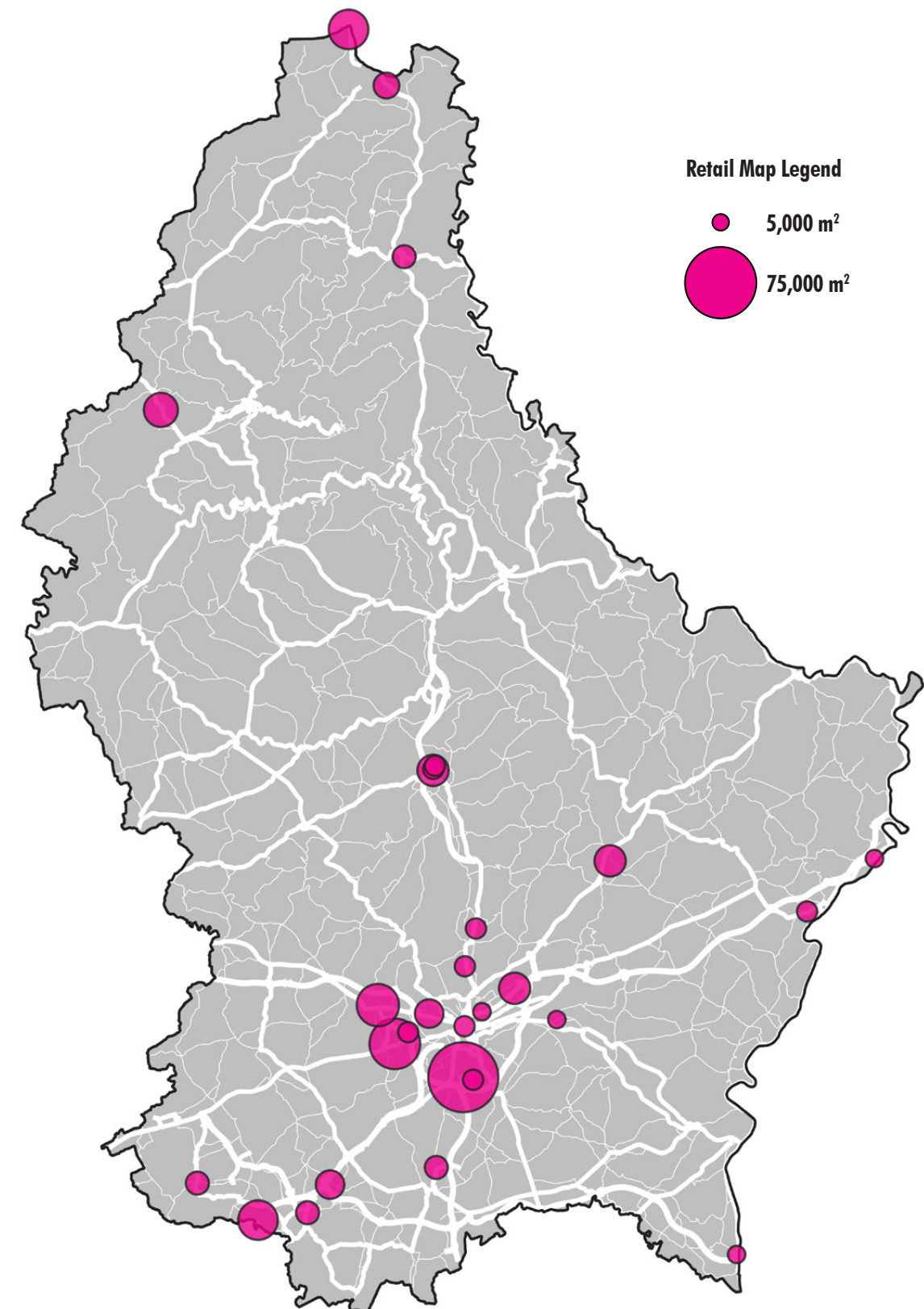


Private acquisition
13-17 Grand Rue



Schulerimmo
Autopolis Bertrange

Major shopping centre and retail parks



Consumer survey

How Luxembourgers shop

The Luxembourg consumer survey was conducted in the Summer of 2019 and included 504 residents in Luxembourg. The numerous cross-border commuters were not included in the sample.

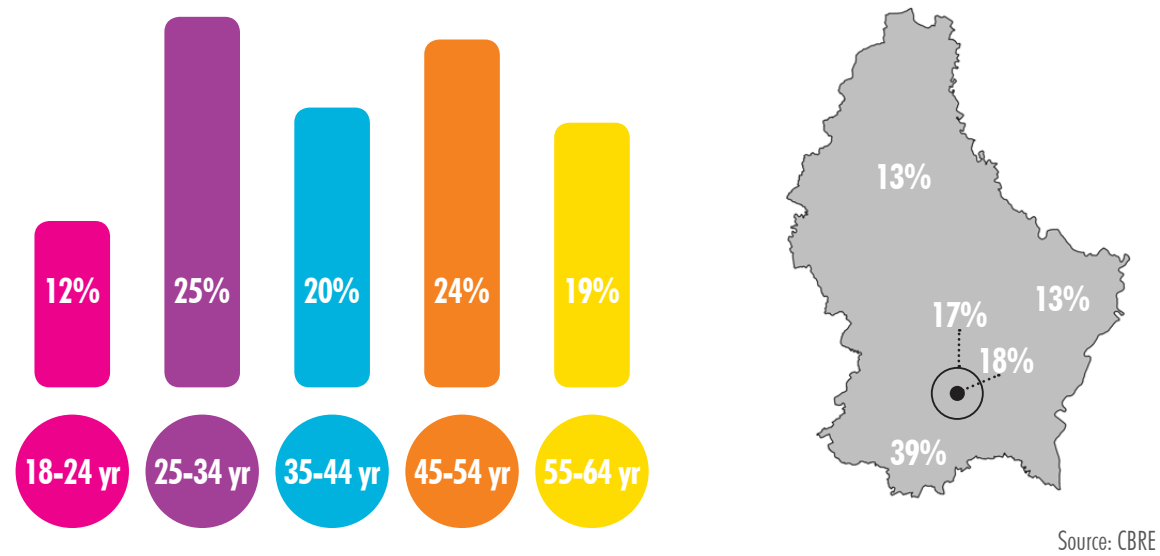
RETAIL FORMAT

Luxembourgers have a strongly preferred retail format - the shopping centre. Almost half of respondents visit a shopping centre at least once every two weeks, and almost three-quarters visit at least once per month. This is far more frequent than high streets (58%) and retail parks (14%), the latter of which features surprisingly little in shoppers' minds.

On the surface, these habits are reflective of the retail landscape. Given the small, and low density nature of Luxembourgish towns, the high street is not well-developed outside of Luxembourg City. The group that favors high street the most, do indeed live in the capital city, though shopping centres are still the most frequented. Reinforcing this point, Luxembourg has a very high ratio of shopping centre floor space relative to the population (0.78), though this does moderate during the day given the influx of cross-border commuters.

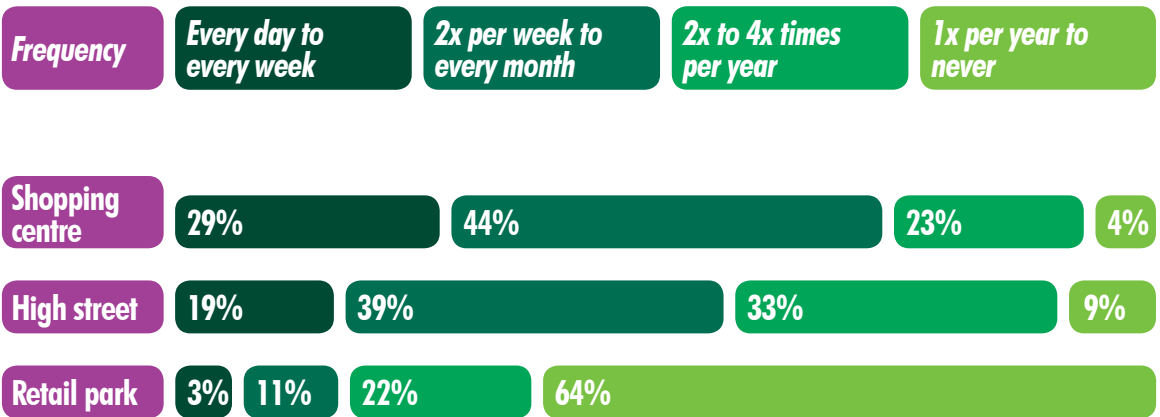
Diving deeper, shopping centres are more frequently visited by older people (55-64 yrs), couples over singles, and those with foreign nationalities.

Age distribution and region of residence of those surveyed



Source: CBRE

Frequency of visits by retail format



Source: CBRE

The high street is more frequently visited by younger people (18-34 yrs) and those without children. Retail parks are not very popular among those surveyed. Almost half of people never visit one, and another quarter go less than twice per year. Given the out-of-town nature of these developments, they could be more focused on serving cross-border commuters.

Based on the responses, the most important factor when choosing where to shop (responded as extremely or very important) is the cleanliness of the facilities. At 73%, this is by far the most influential factor.

Continuing with the most popular responses, the price of the products is the next most important feature (64%), followed by parking facilities (63%), security (62%), and the convenience/ease of access (62%).

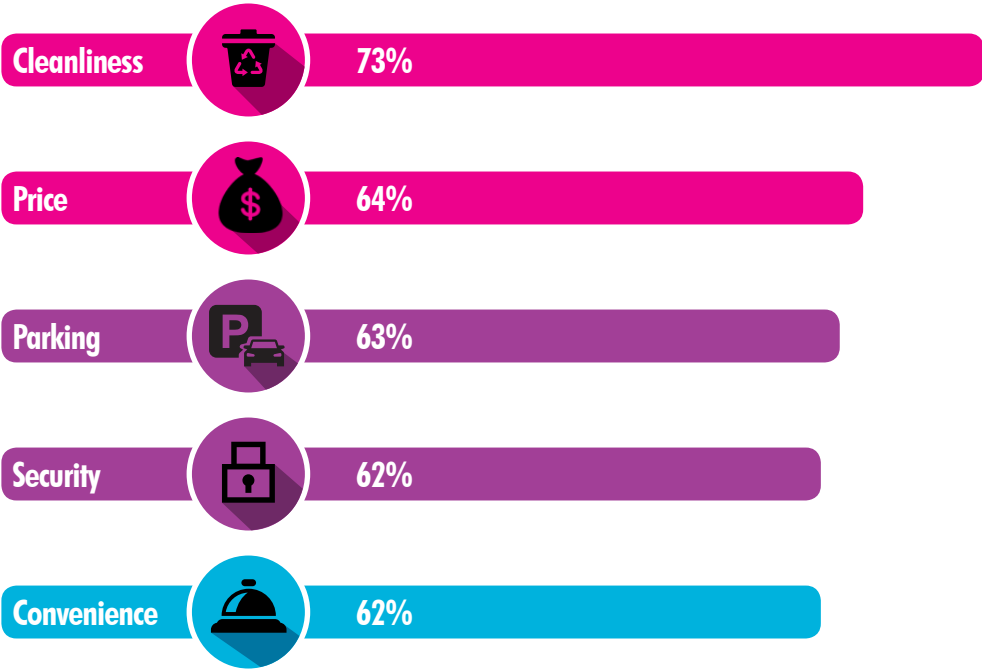
The stand-out finding is that the most important factors in determining where to shop are largely concerned with the facilities themselves and not necessarily the retail offer.

SHOPPING DESTINATION PREFERENCES

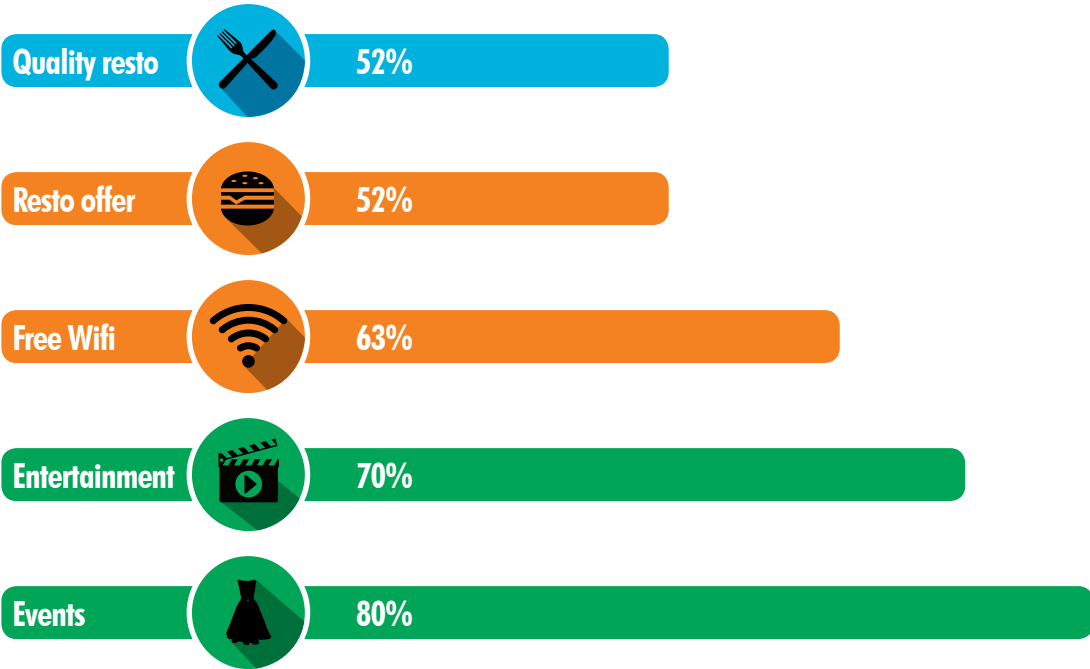
Luxembourgish shoppers hold strong opinions about their preferred shopping destinations.

Clean and well-managed facilities can be the most important factors for luring shoppers

'Extremely' or 'very' important factors when deciding where to shop



'Not very' or 'not' important factors when deciding where to shop



Source: CBRE

The one exception is the price of the retail offer. Otherwise, factors such as cleanliness, security, parking, and convenience are solely the responsibility of the developer and management. These are things that are (largely) not fixed and can be improved upon through strategic planning in any shopping facility.

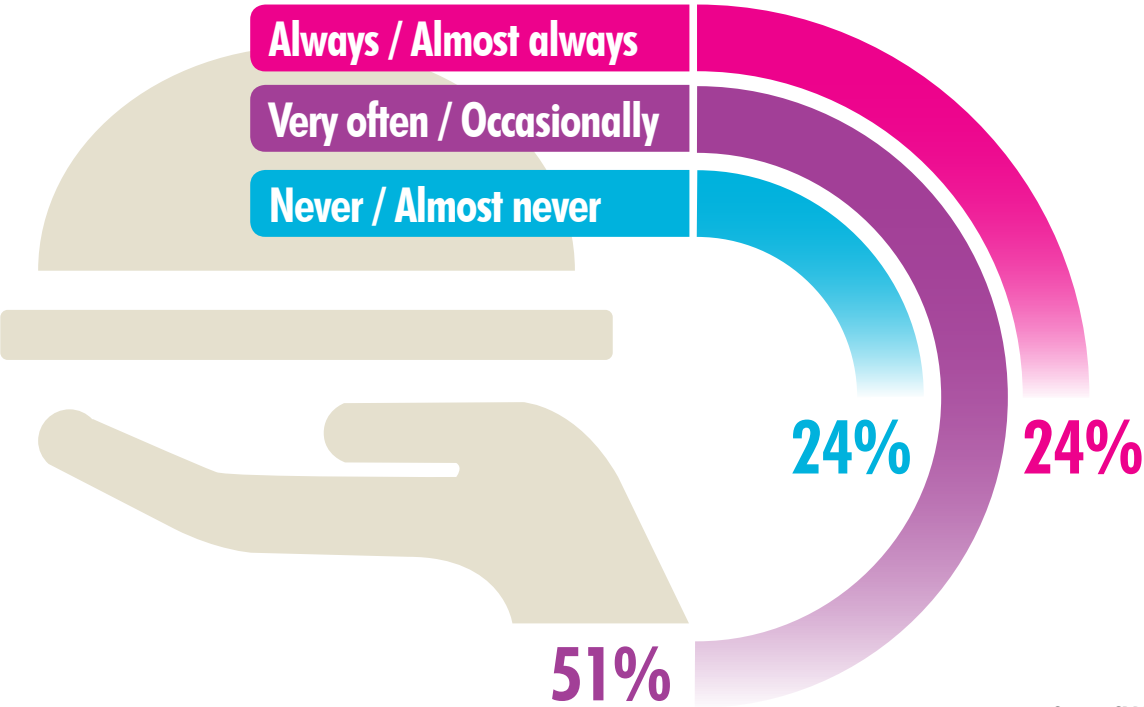
Respondents also indicated the least important factors when choosing where to shop. The survey is clear - events such as fashion shows or avant garde film premieres do little to entice

shoppers. Almost 80% of those surveyed indicated this was not important or not very important in their decision making process.

Similarly, other entertainment options such as bowling hold little sway over shoppers, with responses of 69%. With people more connected then ever, free wifi is not as important as it used to be, say 63% of respondents. In fourth and fifth place are services (52%) and quality restaurants (52%).

Three-quarters of shoppers consider dining part of the shopping experience

Frequency of dining out while shopping



Source: CBRE

AGE AND SHOPPING

Perhaps unsurprisingly, shopping destination preferences differ somewhat across age groups. The top three most influential factors when considering where to shop for the youngest groups (18 to 34 yrs) are price of retail offer, shop variety, and accessibility. For the two oldest groups (45 to 64 yrs) they are cleanliness, parking facilities, and security.

The three least influential factors remain the same across all age groups, providing a clear message to retail managers.

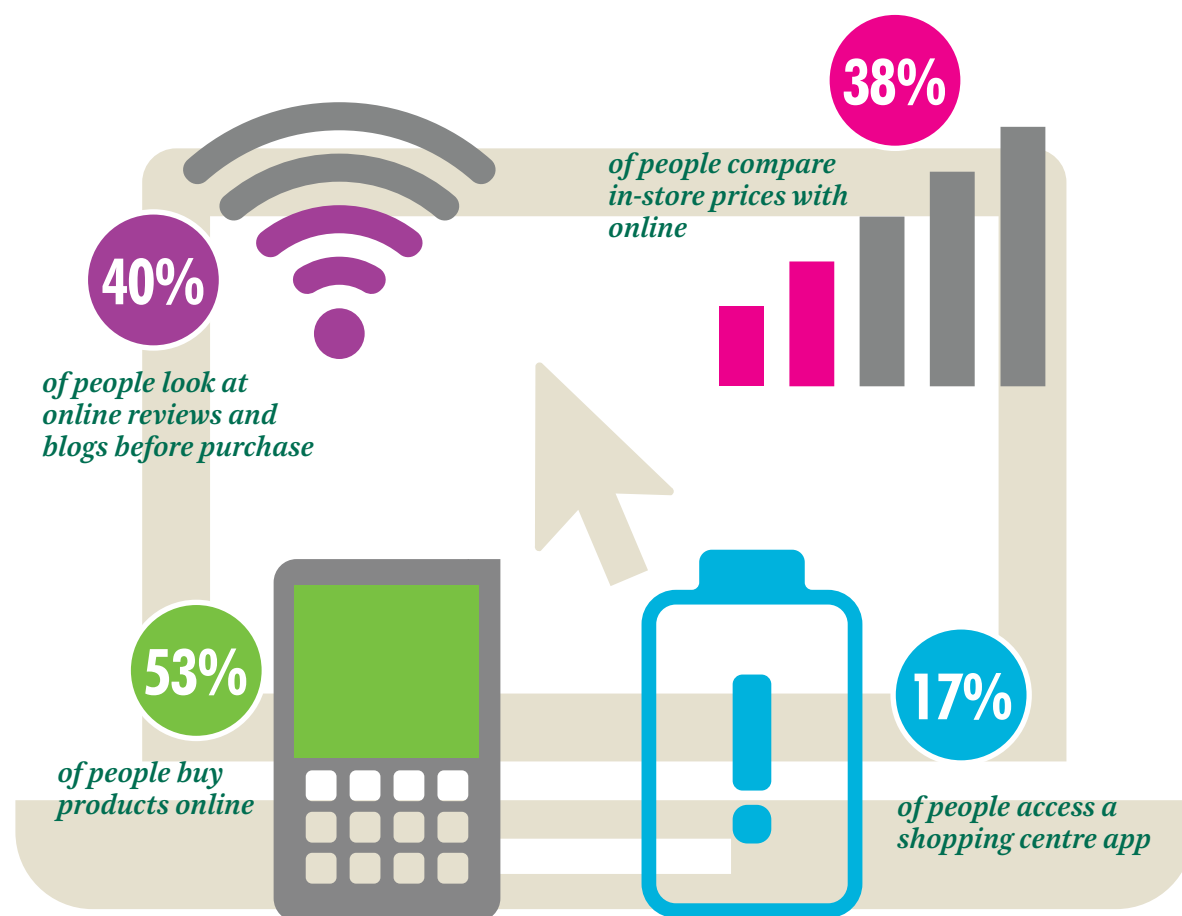
FOOD AND DINING

Despite not being a deciding factor when choosing where to shop, food remains an important part of the shopping experience.

More than 42% of those surveyed very often or always eat while shopping. Including occasional diners expands this group to 75%. So, just one-quarter of people do not consider dining as part of the shopping experience.

Of those who pause for a meal or break, independent establishments are by far the

Ecommerce and mobile behavior (at least once per month)



Source: CBRE

preferred stop, mentioned by about twice as many (54%) as the next most popular choice, fast food (23%). Age, however, is closely tied to this response. Older people more strongly prefer independent restaurants (up to 70%), though young people hold fast food in almost equal regard (43% vs 42%).

Food and dining may not pull customers from one shopping destination to another, but it is vital in keeping them happy and, likely, staying longer.

ECOMMERCE AND MOBILE

Luxembourgers also shared their habits pertaining to ecommerce and mobile shopping.

More than 60% of respondents visit an online shop at least once per month. Unexpectedly, the youngest cohort (18 to 24 yr) are the least likely to do this (46%). Overall, people are frequenting physical stores more often (70%), highlighting that brick-and-mortar shops are still dominant despite the growing popularity of ecommerce.

Browsing through webshops usually, but not always, results in a sale. One-quarter of those surveyed buy products online two or three times per month. Decreasing the frequency to buying online at least once per month increases the pool to more than half of the respondents (53%).

The way retailers can interact with customers and the way the internet is being used in shopping continues to expand beyond 'traditional' online orders. Omnichannel strategies have been integrated into retail markets, and Luxembourgers are adapting quickly. Some 42 to 45% of people have ordered online and picked up in-store, bought another item while picking up an online order, or have used a mobile shopping app.

Consumers have also taken to online experienced and opinions as a buyer's guide. 67% and 73% have compared prices with a smartphone while shopping in-store or have checked online reviews from social media sites, respectively.

The frequency with which consumers use these features shows a notable divergence. Using the internet as a product reference for price and reviews is all but routine for shoppers, as 38 to 40% do this at least once per month. Using a mobile shopping app, on the other hand, is less popular at 17%. Though, young adults are far more likely to use them.

Luxembourgers still more frequently visit shops than buy products online



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