

Diverse food and beverage concepts continue to lead retail activity



Note: Arrows indicate change from H2 2023

HIGHLIGHTS

- Luxembourg has turned out of the recession and is projected to achieve robust growth next year.
- Retail take-up was on the low side through the first half of the year, but activity is limited by few quality availabilities and new development, particularly in the periphery.
- AAA locations experience almost no vacancies, while secondary and tertiary locations count some availabilities.
- High street prime rents have slightly moderated to 1,800 €/m²/year (excl VAT).
- Investment is still subdued in the Grand Duchy, with one retail deal recorded this deal - a private investor acquiring an out-of-town property from Nextensa.



ECONOMY

The European and Luxembourgish economic story is coming into view with each new datapoint release. Inflation is falling, and the ECB has cut interest rates (main refinancing operations) for the first time since December 2015. The eurozone outlook for 2024 and 2025 is positive at 0.8% and 1.9% GDP growth following solid numbers in Q1 given the circumstances.

Luxembourg is also on the road to recovery, with GDP growth of 1.5% and 3.0% forecasted for 2024 and 2025 (STATEC 06/2024). 2024 was revised downwards since the last publication from Q1 2024, but 2025 is now showing more robust expansion.

Inflation (NCPI) continued to moderate in Luxembourg through Q2 and is now below the 3.0% level, as well as stickier core inflation. STATEC foresees further moderation of NCPI to 2.3% in 2024, following a very slight upward revision.

The labour market is facing challenges. Domestic employment growth has slowed, contributing to upward pressure on unemployment. Domestic employment should grow around 1.3% in 2024 and 1.7% in 2025, while the unemployment rate could increase to 5.8% and 5.9% over the same period, respectively. This is still below the euro area average.

Finally, the biggest recent event was the ECB lowering three key interest rates on 12 June, 2024 by 25 bps each. The deposit facility, main refinancing rate and marginal lending rate are now 3.75%, 4.25% and 4.50%, respectively. The change of monetary action is a significant step in restoring confidence to businesses and investors and will help support the real estate industry.

CONSUMER CONFIDENCE & RETAIL SALES

Consumer confidence picked up notably since the end of last year and has continued to strengthen through the first half of 2024. Consumers see a better financial situation over the next 12 months and better economic outlook over the next 12 months. Unemployment does remain a concern, however.

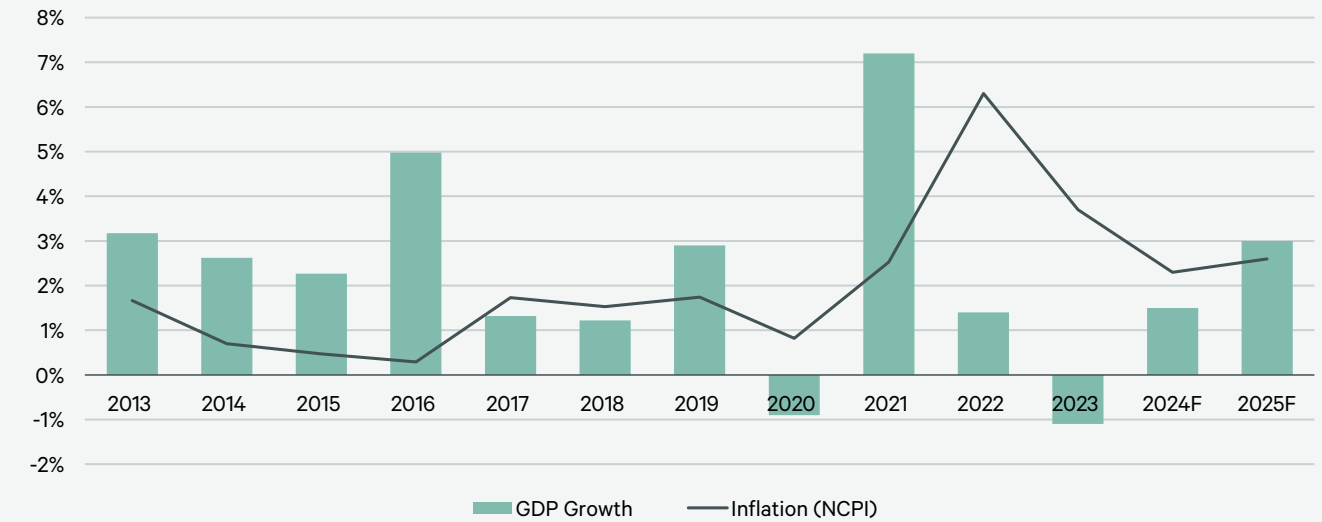
Retail sales data is behind, but other indicators show a positive evolution. Since the beginning of the year, optimism around making major purchases has been the highest in the last two years.

3.0%

Forecast for 2025
Luxembourg GDP
growth by STATEC (as
of June 19)

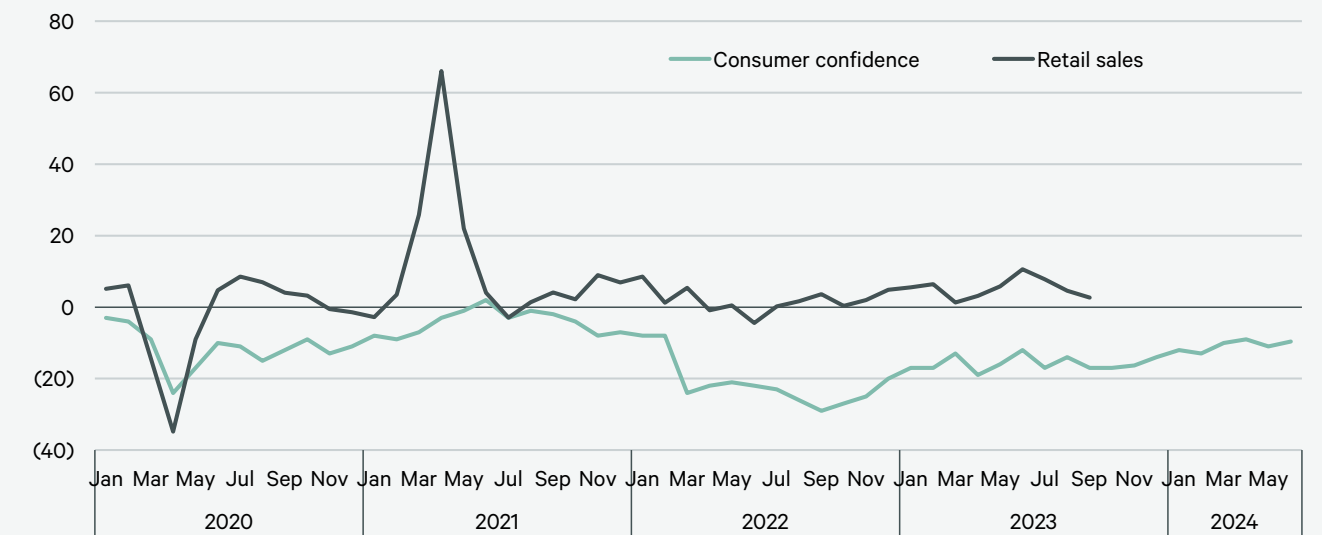
Luxembourg economic growth and inflation as of Q2 2024 (June 19 update)

Source: STATEC



Luxembourg consumer confidence and retail sales (monthly changes)

Source: BCL



DEMAND

Retail letting in Luxembourg moderated in the first half of 2024 after a strong finish to the end of last year. Take-up was limited to just 8,326 m² through Q2. No large deals were signed, but the quantity of deals was in line with recent years. Despite the lower take-up, demand is considered strong for retail space in Luxembourg. AAA high street locations and the best positioned shopping centre spaces are in high demand, but there is effectively no available space to meet these requests. Out-of-town offers are also extremely limited, with sufficient parking being a hurdle. Behind this dynamic, retailers are more discerning than ever, requiring the right store volume, dimensions and location before closing a deal, resulting in longer due diligence.

By sector, *food & beverage* continues to be a strong performer, accounting for 25% of take-up volume in the first half of 2024. Fast casual restaurants are expanding, and new entrants are opening in the Grand Duchy. New deals in this sector include O'Tacos on Avenue Monterey, Paul in Esch-sur-Alzette, Thai Station on Rue Notre Dame and Taberna Londrina on Avenue John F. Kennedy.

The Station district was relatively quiet in terms of new deals. Just after the quarter, though, SportsDirect signed for new space. Negotiations are ongoing for notable retailers that could provide a boost here.

On the other side of Pont Adolphe, the CBD and main high streets have recorded significant new deals in the first half of the year, totalling more than 1,900 m². Grand Rue welcomes Finsbury Shoes, Rue Philippe II welcomes Rob-Carrérouge and Rue de la Poste will see a new Zegna in the same building as Louis Vuitton and Messika. Concept store (f)Utile is opening two stores in the city centre.

VACANCY

Vacancy remains polarized in the Luxembourg market. Primary shopping streets and AAA locations face almost no vacancies on account of limited supply and high demand. In the CBD, Grand Rue and Rue Philippe II continue to perform well.

Vacancy is instead concentrated in secondary and tertiary locations, with transitioning markets experiencing stubbornly high availabilities. Avenue de la Gare in the Station district is one prominent example, though redevelopments and ongoing negotiations are expected to revitalize this area.

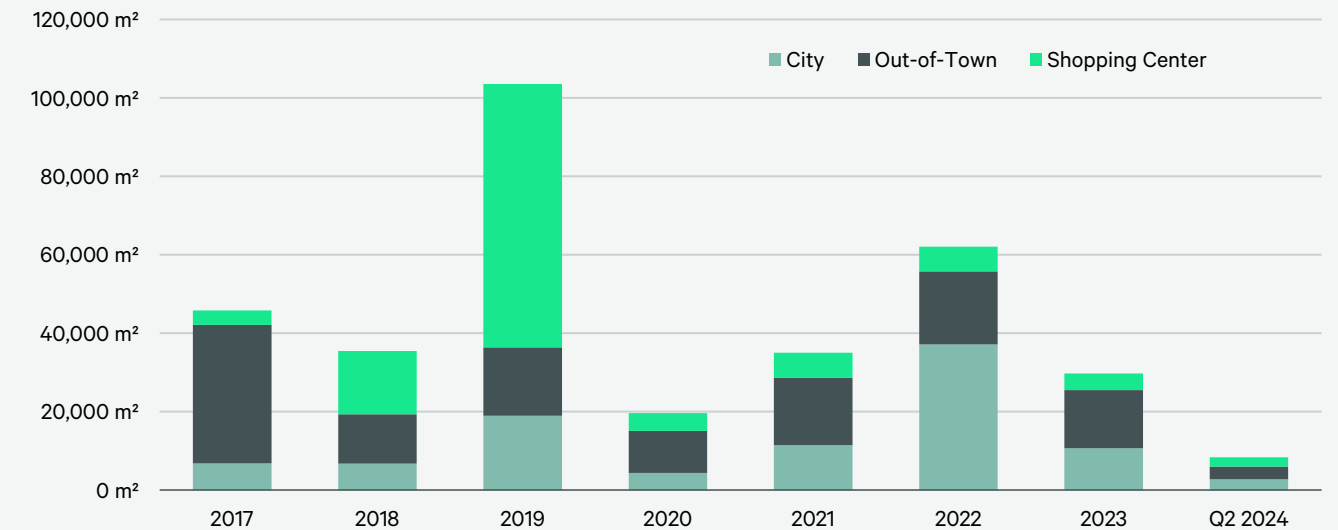
Occupancy is holding up very well in shopping centres and out-of-town locations. The best locations have even noted inquiries despite being 100% let.

8,326 m²

YTD Q2 2024 retail take-up in Luxembourg

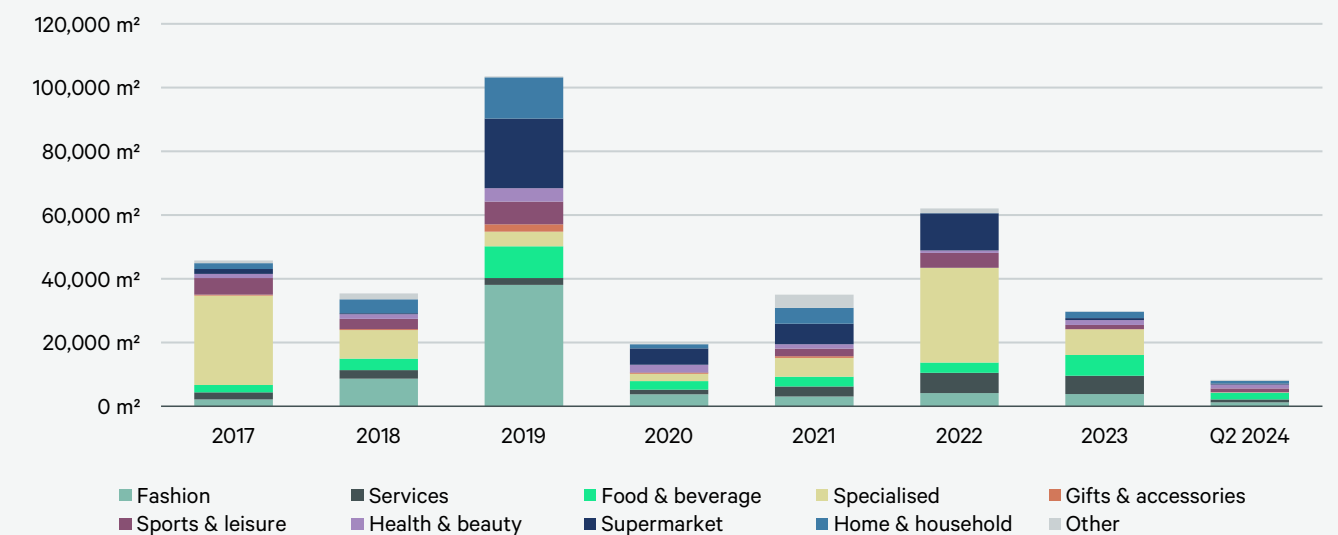
Luxembourg retail take-up by format

Source: CBRE Research



Luxembourg retail take-up by sector

Source: CBRE Research



DEVELOPMENT

Recent retail development in Luxembourg has typically taken the form of ground floor space in mixed-use developments with some exceptions in peripheral areas. This was the case in 2023 when 11,600 m² of space was delivered such as the Arc (670 m²) and Connex Plaza Gare (1,200 m²), both in the Station district.

In 2024, approximately 11,000 m² of new and refreshed space will come to market. The majority of this will be in Esch-Belval, as the new town continues to develop. To the northeast of the city, the first phase of LuxAirport's Airport City project will add around 3,000 m² of shopping floor space this year. 2025, however, will see several landmark developments open their doors. One is the Grid X in Wickrange (22,000 m² retail), and a second is the Cactus (58,385 m²) in Lallange. Additionally, the highly anticipated Hôtel des Postes (3,000 m²) in Luxembourg centre will be open for guests and include a hotel, restaurant and boutiques.

Overall, new retail development is modest in Luxembourg. There is demand from retailers for more retail park-style options including from discounters, supermarkets and leisure. But with a requisite for plentiful parking and moderate rents, new prospects are very limited, particularly given the administrative challenges in developing these products and high land prices throughout the Grand Duchy.

RENTS

Demand for well-located retail properties is strong, but the recent economic uncertainty and current dynamics has caused some frictions in the market. Prime rent on the Grand Rue is believed to have moderated this year to 150 €/m²/month (1,800 €/m²/year) and just off of their highs. For the Station market, prime rents are estimated at 52 €/m²/month (625 €/m²/year), which remains off the cyclical highs.

Retail rents across the other major formats - shopping centre and out-of-town - are mostly stable with some movement. Prime shopping centre rents are estimated at 108 €/m²/month (1,300 €/m²/year), and out-of-town prime rents are estimated at 25 €/m²/month (300 €/m²/year).

3,000 m²

Hôtel des Postes mixed-use project in the Luxembourg centre to open in 2025

1,800 €/m²

Estimated annual prime high street rent in Luxembourg

Upcoming retail developments

Source: CBRE Research, architect/developer websites



INVESTMENT

Finalized deals in the investment market through the second quarter were limited to just three totalling €202 million. One of these deals was for a retail asset - the private investor acquisition of the out-of-town retail development at Rue du Brill 11 from Nextensa.

Few deals have closed in what has clearly been a challenging first six months to 2024. Though Luxembourg is out of the recession, questions about the short-term outlook remain, particularly around interest rates, financing and liquidity. The ECB finally lowered short-term interest rates in June in what appears to be a slow-paced normalisation process. Bid-ask spreads are still wide, and cash-rich private investors will continue to lead the market until enough certainty returns for institutional buyers.

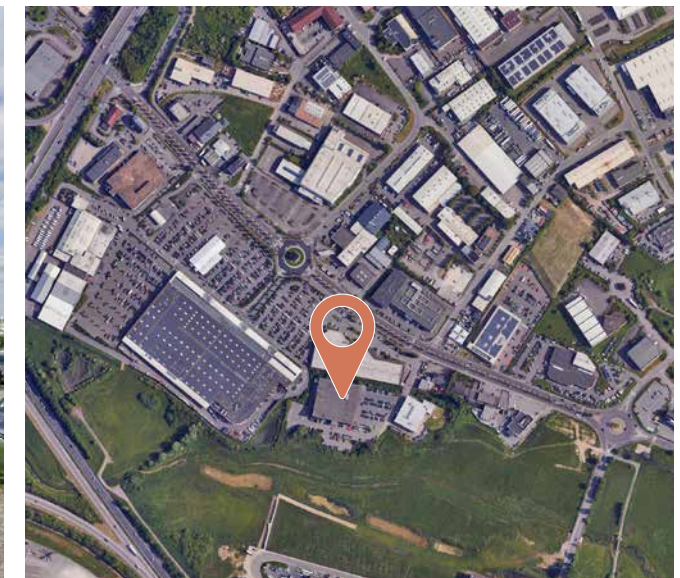
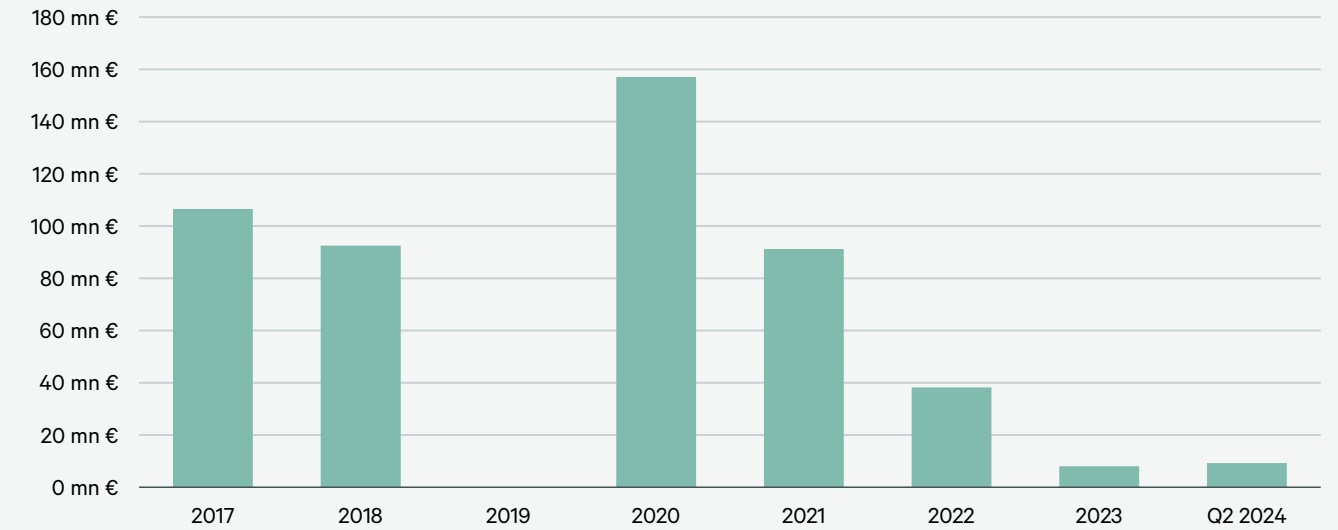
Prime retail investment yields are believed to have increased over the first half of the year. Overall, the solid fundamentals and positive outlook for Luxembourg as an economy and office market still hold over the longer term.

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

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Retail investment in Luxembourg

Source: CBRE Research



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