

# Diversity of geographic and sector activity a positive in an otherwise modest quarter



Note: Arrows indicate change from previous quarter

## HIGHLIGHTS

- Second quarter take-up was 24,200 m<sup>2</sup>, bringing the first half of 2024 to 49,102 m<sup>2</sup>.
- Several corporates are on the hunt for 5,000 m<sup>2</sup> to 10,000 m<sup>2</sup> that should provide a boost to take-up.
- Vacancy increased but remains very limited to a tight 3.5% in the general market.
- New completions totalled 11,000 m<sup>2</sup> in the second quarter, with just 12% of space still available. The pipeline over the next 18 months is more robust, but space continues to be pre-let.
- Prime office rent in Contern increased 20% this quarter after a large letting deal.
- Just one new office acquisition was recorded in Q2, bringing the YTD total to €202 million.



## 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. At the same time, business confidence and wages are improving. The construction sector and investment, however, remain weak. Overall, the economy is seeing more green than red.

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.

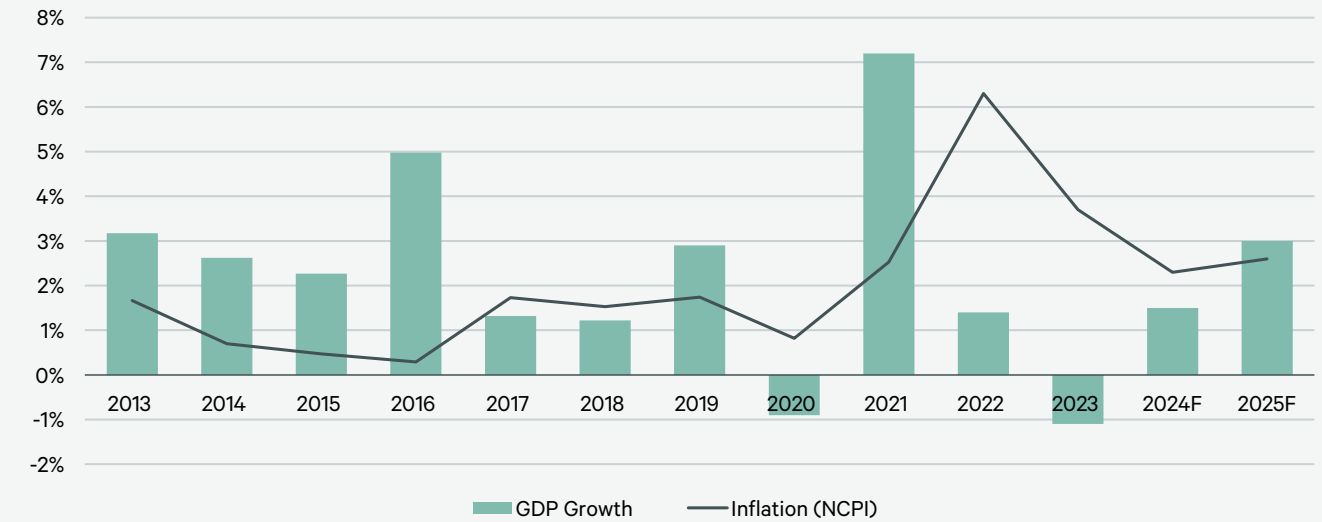
Finally, the biggest recent event was the ECB lowering three key interest rates on 12 June, 2024 by 25 bps each. The deposit facility, main refinancing rate and marginal lending rate are now 3.75%, 4.25% and 4.50%, respectively. The change of monetary action is a significant step in restoring confidence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

# 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



### DEMAND

Office letting and sales activity was again moderate in the second quarter at just 24,200 m<sup>2</sup> of take-up. This brings the first half total to 49,102 m<sup>2</sup> and an overall slow six months compared to recent years. The average deal size was 632 m<sup>2</sup> per transaction, which is low but well within the historical range.

We currently sit in a transition period with respect to occupier demand. On the one hand, Luxembourg is coming out of a small recession with an improved economic outlook for the year and beyond. Immediately available quality supply is limited for those wanting to take advantage of this positive dynamic. Several corporates are known to be on the lookout for 5,000 m<sup>2</sup> to 10,000 m<sup>2</sup> at this time. On the other, interest rates are still high despite the ECB cutting rates in June. Many occupiers are thus keen on renegotiating terms for their current space and evaluating the market once there is more certainty and new space provides more options.

Office take-up this quarter originated from diverse sectors. Of the top 8 largest transactions, just two were from the same sector (BFI), though one deal was confidential. The grade A Albert building in Contern is now fully let (3,202 m<sup>2</sup>). The China Construction Bank leased 2,939 m<sup>2</sup> in the Carrefour office building in the CBD and the National Education Ministry leased 2,580 m<sup>2</sup> in the grade A Gravity building in the periphery to round out the top three. Elsewhere, the Skypark project expected later this year (phase 1) signed Jetfly 1,901 m<sup>2</sup> as a new tenant.

24,200 m<sup>2</sup>

Q1 office take-up in Luxembourg

### VACANCY

Approximately 171,500 m<sup>2</sup> of office space is considered vacant out of a total stock of 4.9 million m<sup>2</sup>, resulting in a very tight market of just 3.5%. This is again a slight increase over the previous quarter, but availabilities remain very limited. One newly completed building added 1,300 m<sup>2</sup> to the market, and an office in Bertrange experienced a large vacancy, all contributing to the uptick in vacancy.

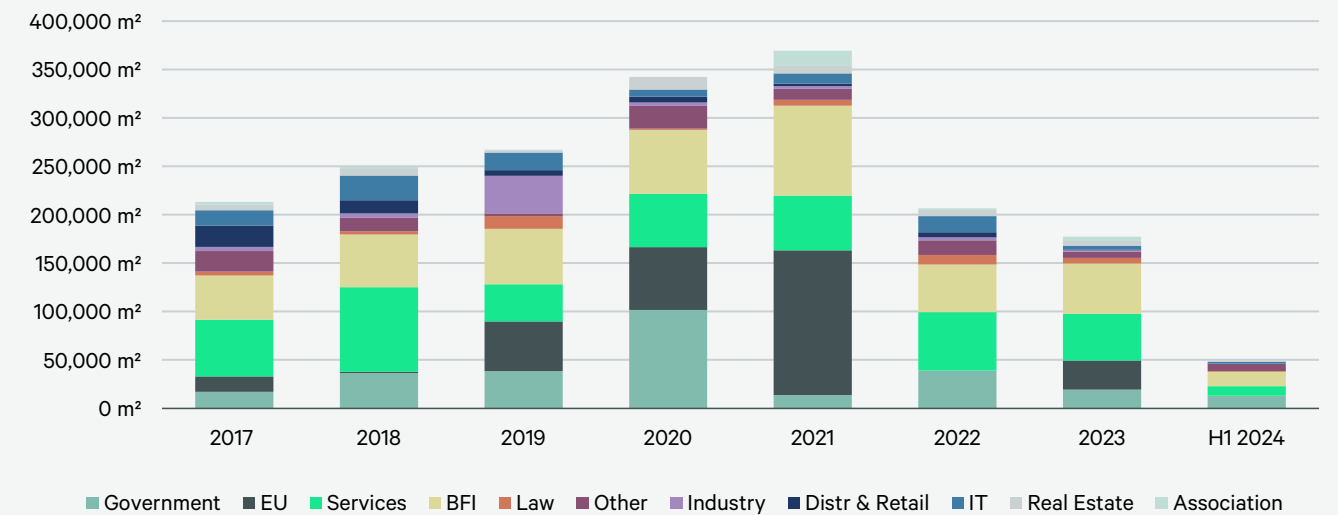
Major markets continue to see very limited availabilities, including the CBD (2.5%), Station (2.0%) and Kirchberg (1.6%), with Cloche d'Or marginally higher. Vacant grade A space totals just 43,700 m<sup>2</sup>.

171,500 m<sup>2</sup>

A slight increase to 3.5% office vacancy in Q2 2024

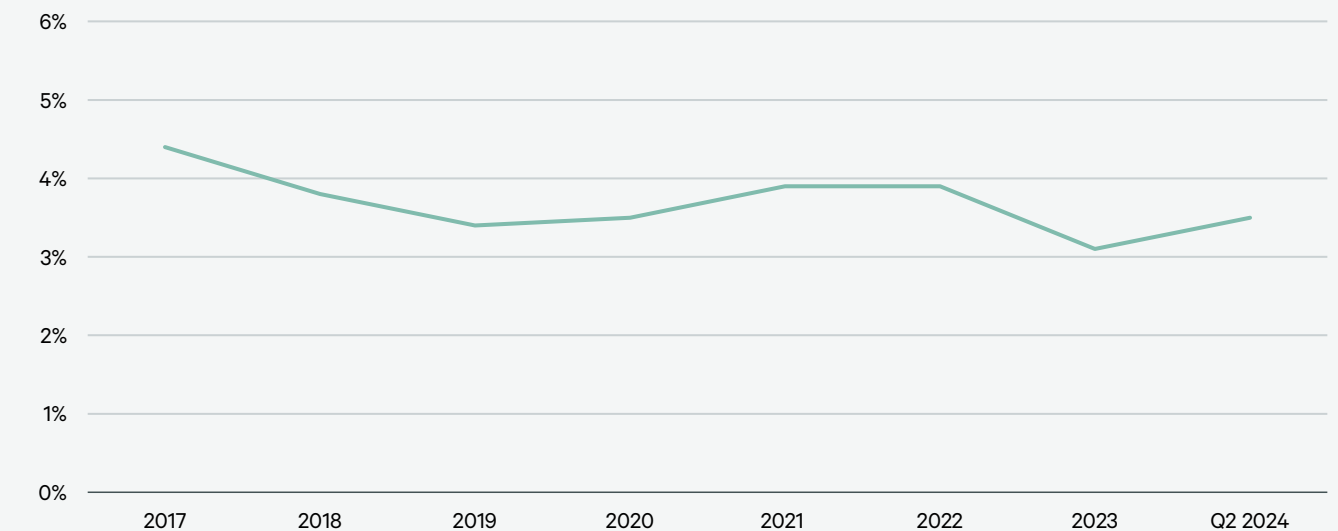
Luxembourg office take-up (Q2 2024)

Source: CBRE Research



Luxembourg office vacancy (Q2 2024)

Source: CBRE Research



## DEVELOPMENT

Two projects totalling 11,000 m<sup>2</sup> were completed in the second quarter. These include the Twist in Belval and Bark in Bertrange. Of these completions, just Bark had space available (1,260 m<sup>2</sup>). The completed pipeline through the first half of the year totals 45,077 m<sup>2</sup> after this quarter. Of this amount, less than 6,000 m<sup>2</sup> remain available today.

For the remainder of 2024, the pipeline totals 42,600 m<sup>2</sup>, of which 23,600 m<sup>2</sup> (55%) is available. Looking even further ahead, the 2025 pipeline has grown to 328,000 m<sup>2</sup>, though Jean Monnet 2 is a significant portion of this overall pipeline. Of this amount, just 107,500 m<sup>2</sup> (33%) remains available for lease. The pipeline over the next 18 months is situated in diverse geographies, though available space is limited in key markets. In the CBD, just 7,250 m<sup>2</sup> remains available, and in Cloche d'Or it is less than 4,000 m<sup>2</sup>. Therefore, the anticipated pipeline is unlikely to provide sufficient quality space for these markets.

11,000 m<sup>2</sup>

Office projects delivered in Luxembourg in Q2 2024

## RENTS

Overall, prime rent remains under upward pressure. Modern demands for ESG-compliant spaces and recent inflation in construction prices in the face of very little available space are driving forces. This quarter, Contern saw a large prime rent increase of 20% to 23.5 €/m<sup>2</sup>/mo (excl VAT).

The overall prime rent for Luxembourg holds in Q2 at 54 €/m<sup>2</sup>/mo (excl VAT) in the CBD. This market commands a premium over the next highest Kirchberg at 42 €/m<sup>2</sup>/mo (excl VAT) and Limpertsberg and Station at 40 €/m<sup>2</sup>/mo (excl VAT).

Average achieved rents from the last 12 months were 32.3 €/m<sup>2</sup>/mo (excl VAT). The general market has seen slightly declining average rents in the short term (rolling four quarters), though, rents have been increasing over the medium and long term.

54 €/m<sup>2</sup>

Prime office rent recorded in Luxembourg

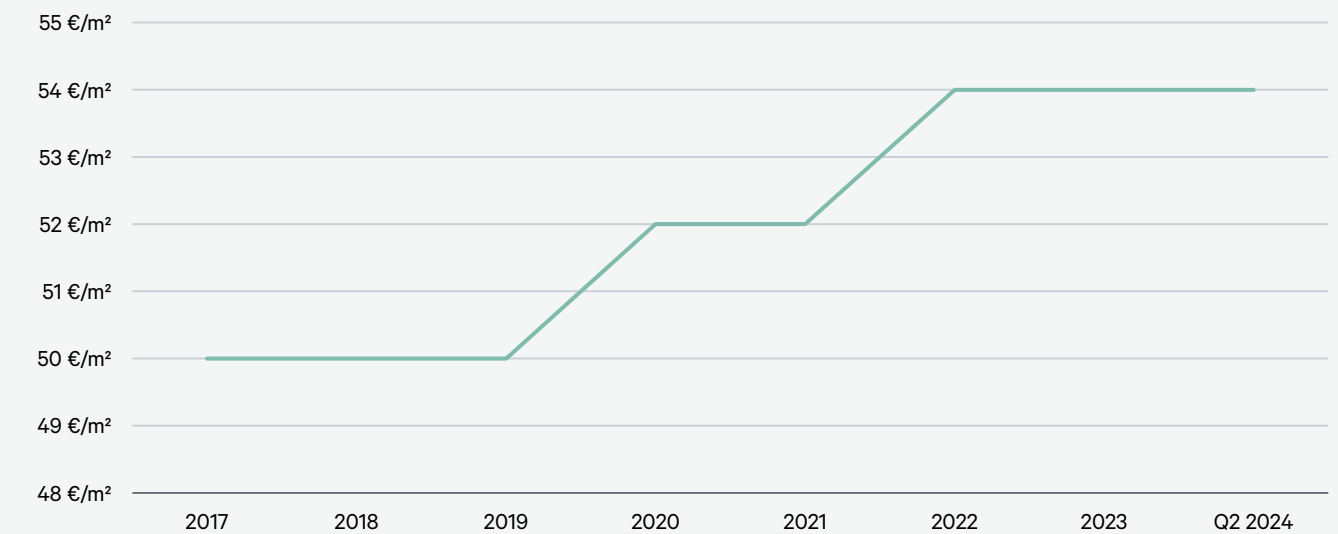
Luxembourg office development pipeline (Q2 2024)

Source: CBRE Research



Luxembourg prime office rent (Q2 2024)

Source: CBRE Research



## INVESTMENT

Finalized deals in the investment market were limited to just one in the second quarter - the Hygge office in the CBD. The 1,634 m<sup>2</sup> office was acquired by a Belgian family office from developer Nextensa. This brings total CRE investment through the first half of the year to €202 million.

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 office investment yields are believed stable from the previous quarter. 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.*

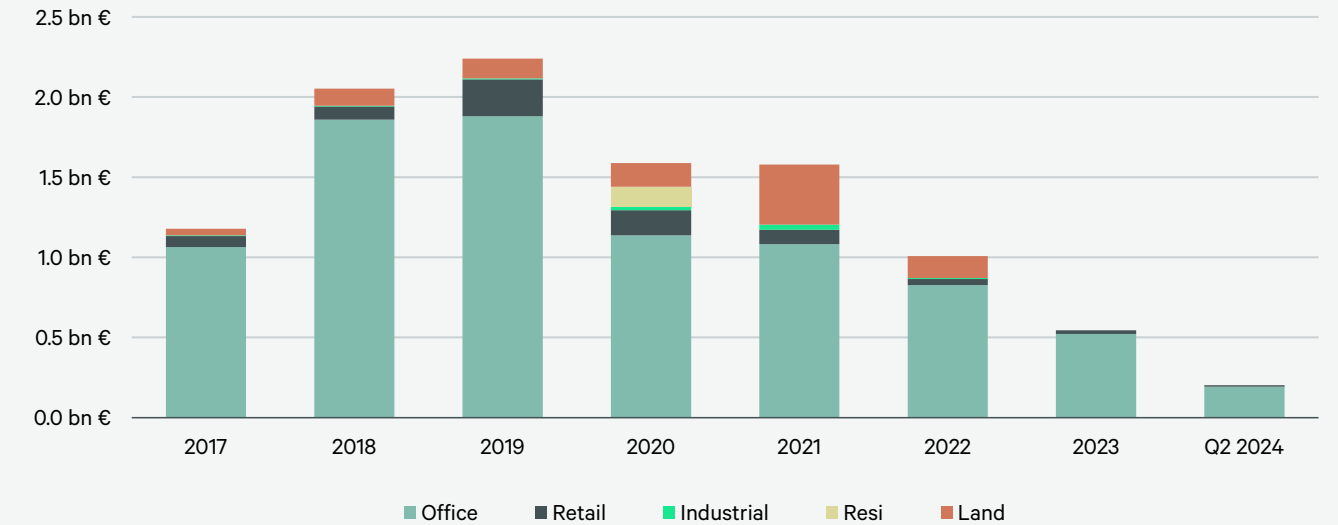
€202 mn

*CRE deals closed in Luxembourg in H1 2024*

**Cash-rich private investors will continue to lead the market until enough certainty returns for institutional buyers**

CRE investment in Luxembourg (Q2 2024)

Source: CBRE Research



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