

Market Report

The Residential Real Estate Market in Luxembourg

REPORT

CBRE RESEARCH
May 2024



PRICES

Apartment prices have been on a strong, long-term upward trend in the Grand Duchy, particularly since 2019. Both new construction and second-hand properties have increased 56% and 81% from this period to their peak, respectively. Economic expansion, solid population growth, moderate development and favorable financing conditions helped fuel this growth.

The residential market environment began to shift notably at the onset of the European Central Bank's interest rate hike cycle in July 2022. Though price growth had already begun to moderate in 2021, the higher financing costs has since then weighed heavily on prices.

In annual terms, average apartment prices per square meter fell 6.3% year-over-year to 8,342 €/m² (2023 vs 2022). The decline was 7.3% for second-hand units (8,091 €/m²), though new construction units increased by 8.3% (10,119 €/m²). The increase in new construction apartment prices was supported by activity outside of Luxembourg City, as those units within the City continued to struggle.

In quarterly terms, the decline was more dramatic given the weakness in Q4 2023 activity. Overall, apartment prices fell 14.6% from Q4 2022 to Q4 2023. The decline was 13.8% for second-hand units and 5.1% for new construction.

Of the top ten largest municipalities (by population), Luxembourg records the highest asked prices of 12,915 €/m², while Petange is the lowest at 7,344 €/m². Nine of the ten municipalities saw lower asked prices in 2023 versus 2022, with Bettembourg seeing the only increase.

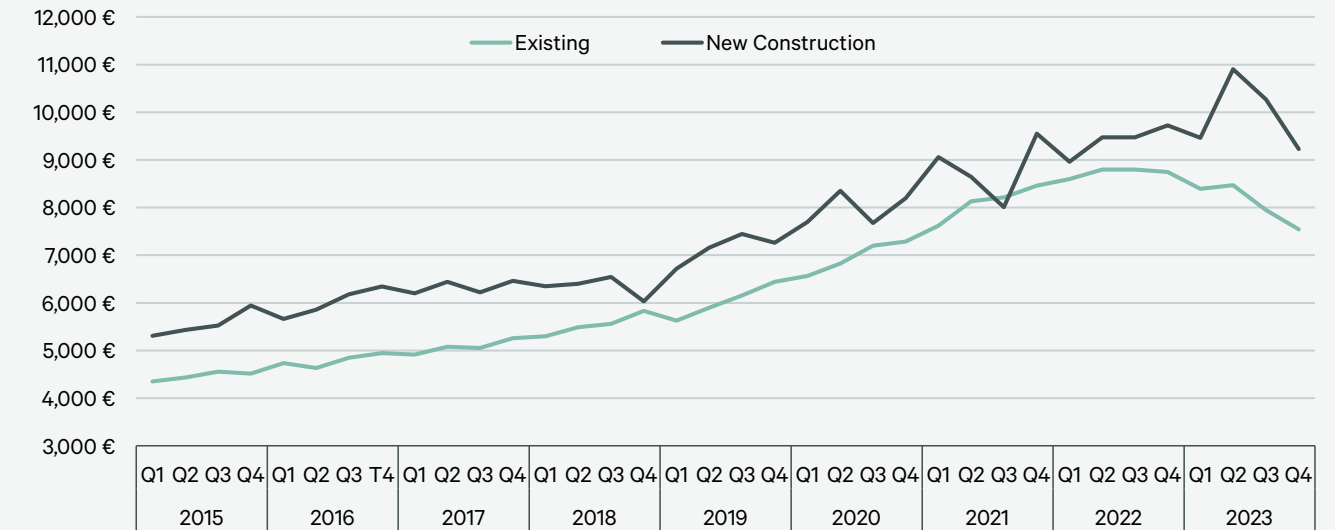
8,342 €/m²

Average apartment price sold in 2023, down 6.3% year-over-year

In annual terms, average apartment prices per square meter fell 6.3% year-over-year to 8,342 €/m² (2023 vs 2022)

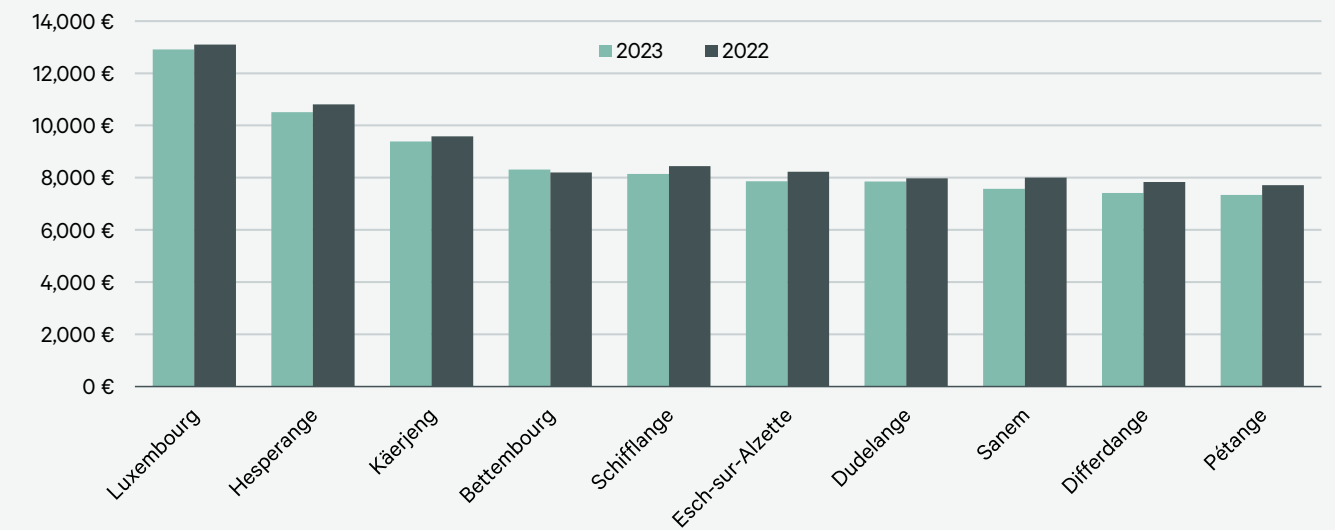
Average apartment prices in Luxembourg Grand Duchy

Source: Statec



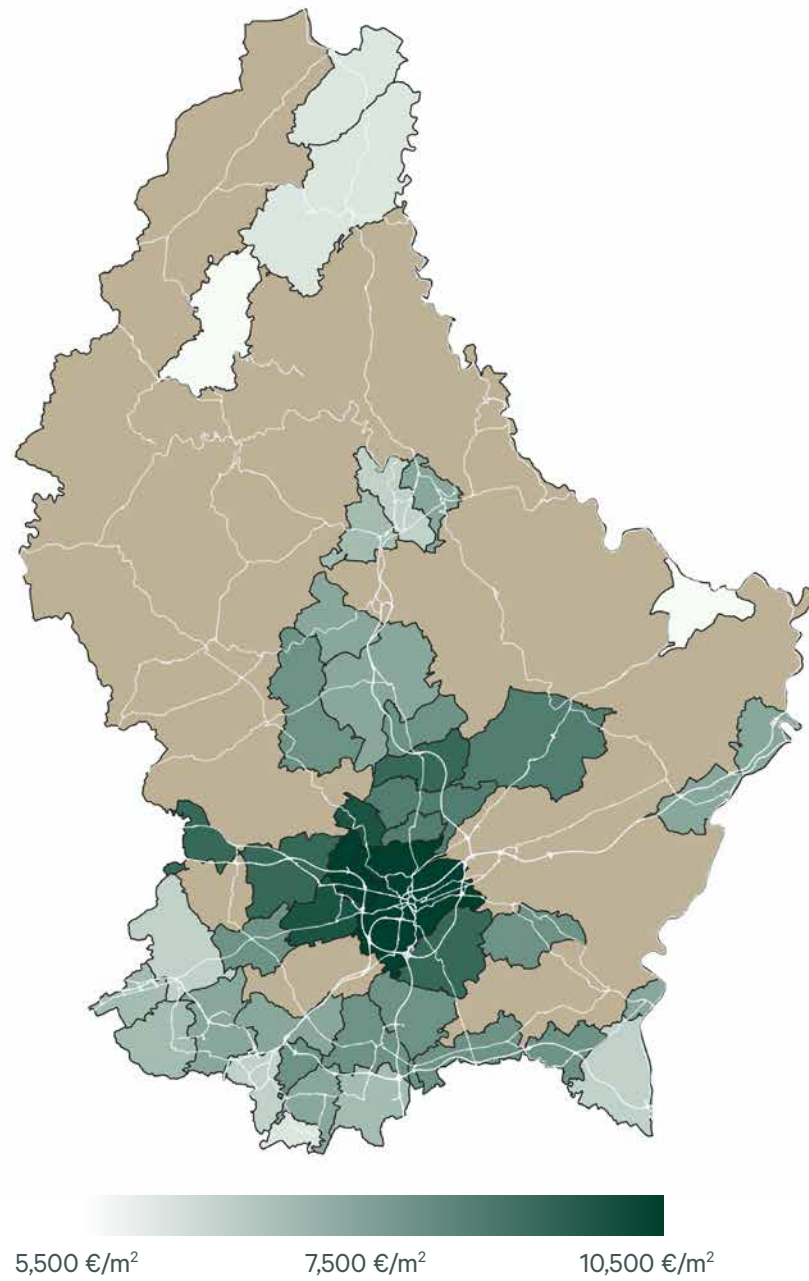
Average asked price per sqm for apartments in the 10 largest municipalities

Source: Ministère du Logement



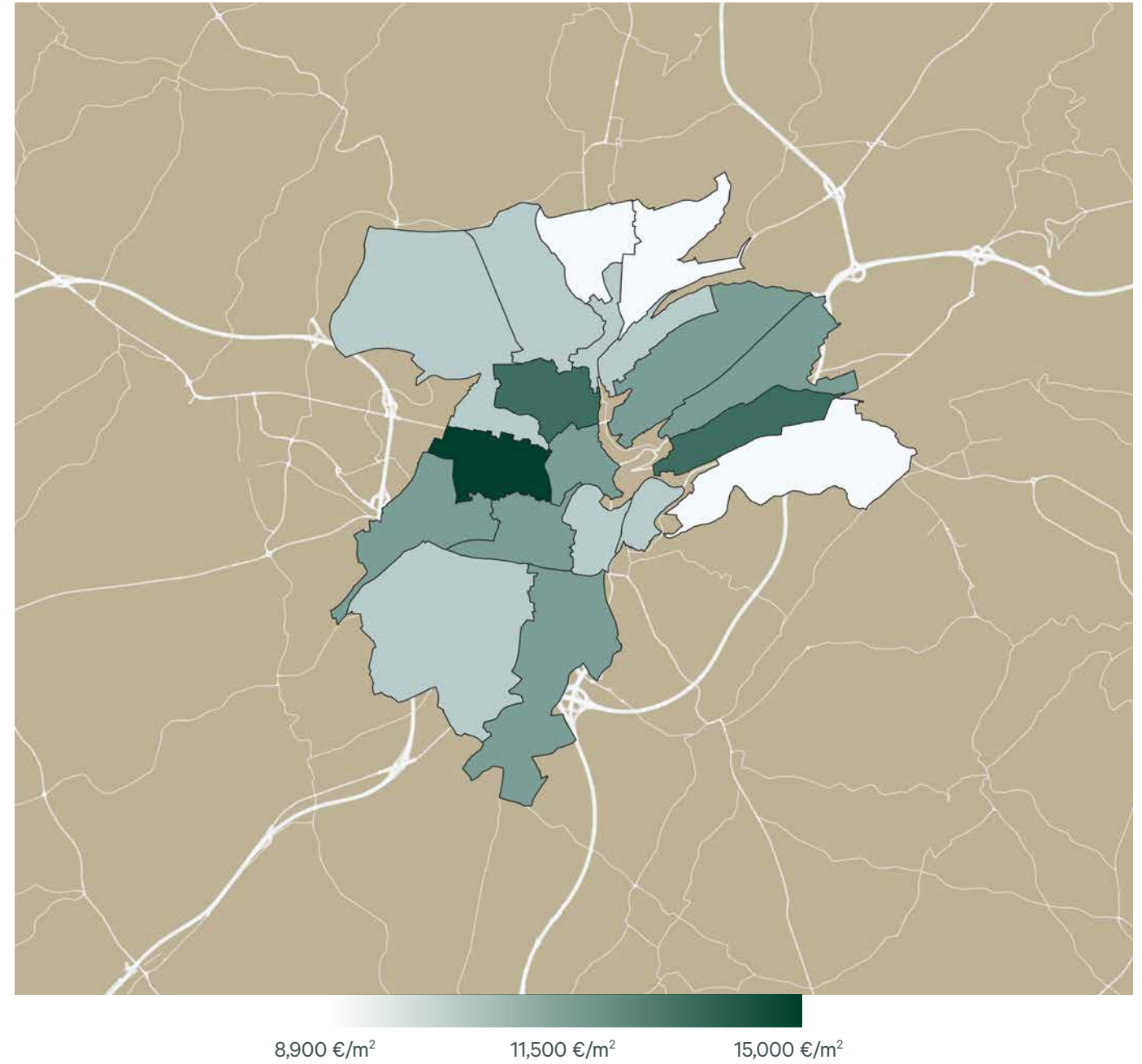
Luxembourg Grand Duchy second-hand apartment sales in 2023

Source: Ministère du Logement



Luxembourg City asked apartment sale prices 2023

Source: Ministère du Logement



TRANSACTIONS

Apartment transactions in the Grand Duchy had been relatively stable from 2015 through 2021, ranging from 6,269 to 7,545 units annually. The beginning of the ECB's interest rate hike cycle had an immediate and significant negative impact on sales.

In 2023, total sales counted 3,251, which was a 57% decline from the year before. Existing apartment sales counted 2,680, and new construction sales counted 571. This represents a year-over-year decline of 34% and 68%, respectively.

Building permits have also declined. 2023 saw the lowest numbers of residential buildings permits issued (houses and apartments) since 2015, at 4,246 versus 4,147, respectively. This marks a 29% decline from 2021's high of 5,952 residential building permits. Housing permits were the driver of the decline, however, while apartment permits (two or more dwellings per building) saw a 3.5% increase year-over-year from 3,084 to 3,192 in 2023.

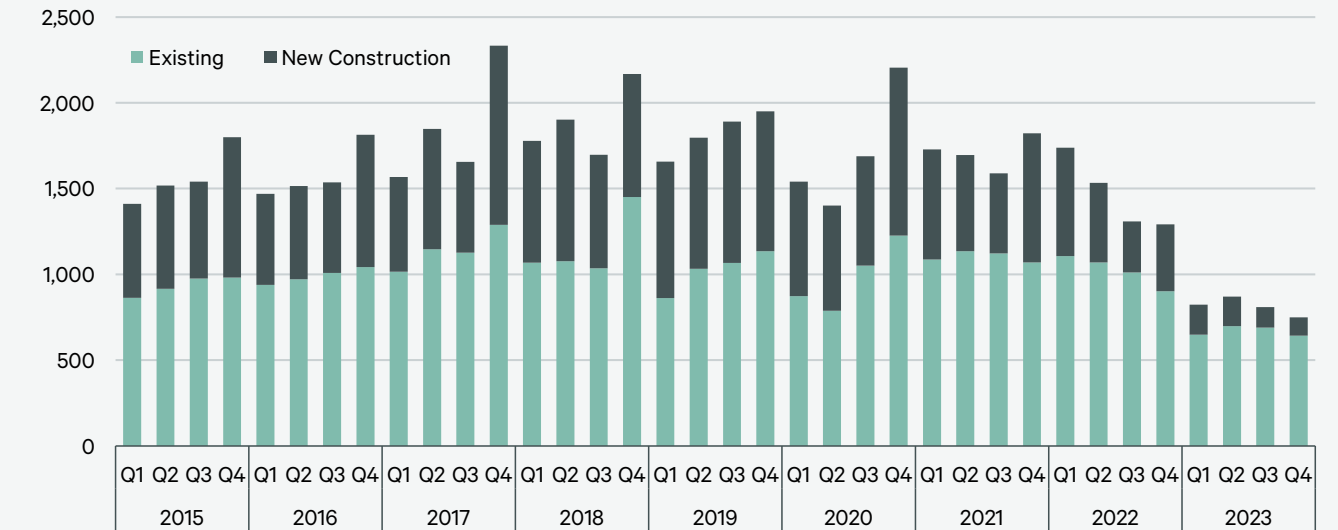
57%

decline in total apartment sales in 2023 versus 2022 in the Grand Duchy

The beginning of the ECB's interest rate hike cycle had an immediate and significant negative impact on sales

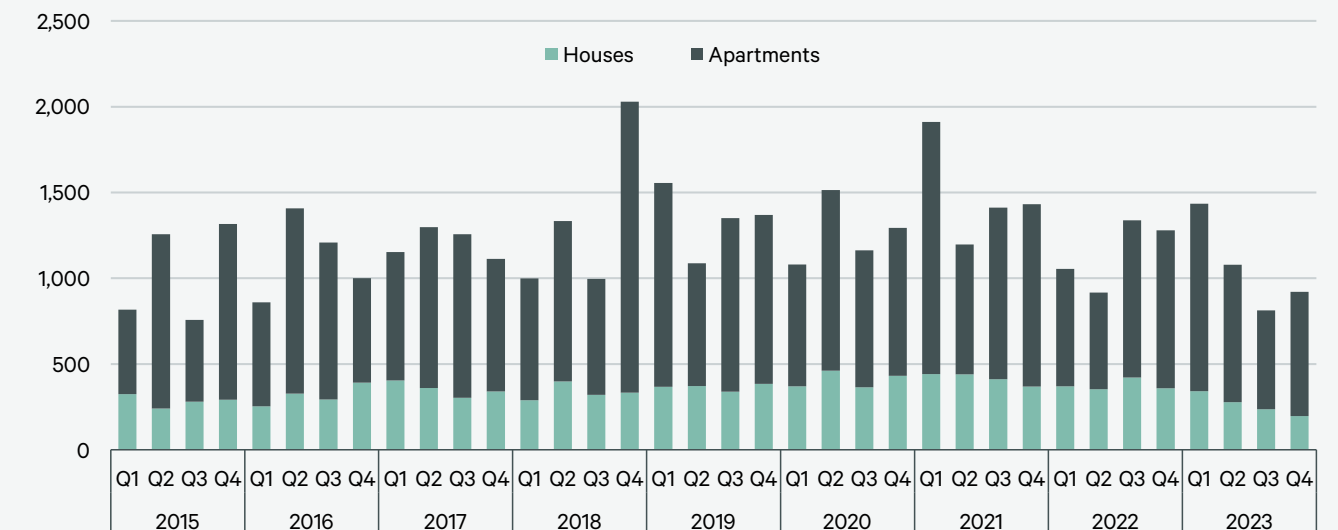
Apartment transactions in Luxembourg Grand Duchy

Source: Stated



Residential building permits in Luxembourg Grand Duchy

Source: Stated



RENTS

Apartment rental prices have also been increasing over the long-term, but at a slower rate compared to sale prices. This is particularly true since 2019 when very low interest rates helped drive apartment yields lower through higher sale prices.

In 2022, rental prices continued to increase as sale prices decreased, bringing yields more in line with the increasing financing costs from the ECB's interest rate hike cycle.

Given the increasing financing costs, still high sale prices and market uncertainty, many would-be buyers had to rely on the rental market for their housing needs, which further supported rental prices. Rents have been more stable for several months given that household income has not kept pace with the rises in prices.

Asked apartment rents in the Grand Duchy averaged 31.55 €/m²/month in 2023, or 1,797 €/month. They were 18% higher in Luxembourg City on a relative basis (37.26 €/m²/month), though 8% higher on an absolute basis (1,945 €/month) given the smaller average size of apartments in the capital city.

Three of the top ten municipalities (by population) experienced declines in asked rents, year-over-year. These were Differdange, Esch-sur-Alzette and Luxembourg City, ranging from 3 to 19%. The other seven municipalities experienced rental growth up to 18% year-over-year. On a total monthly basis, however, nine of the top ten municipalities recorded higher asked rents in 2023, except for Sanem, which was unchanged year-over-year. These rents are not corrected for the types of units offered.

37.3 €/m²

monthly asked rent for apartments in Luxembourg City

Rents have been overall more stable than sale prices, as yields adjust to be more in line with the financing costs from the ECB's interest rate hike cycle

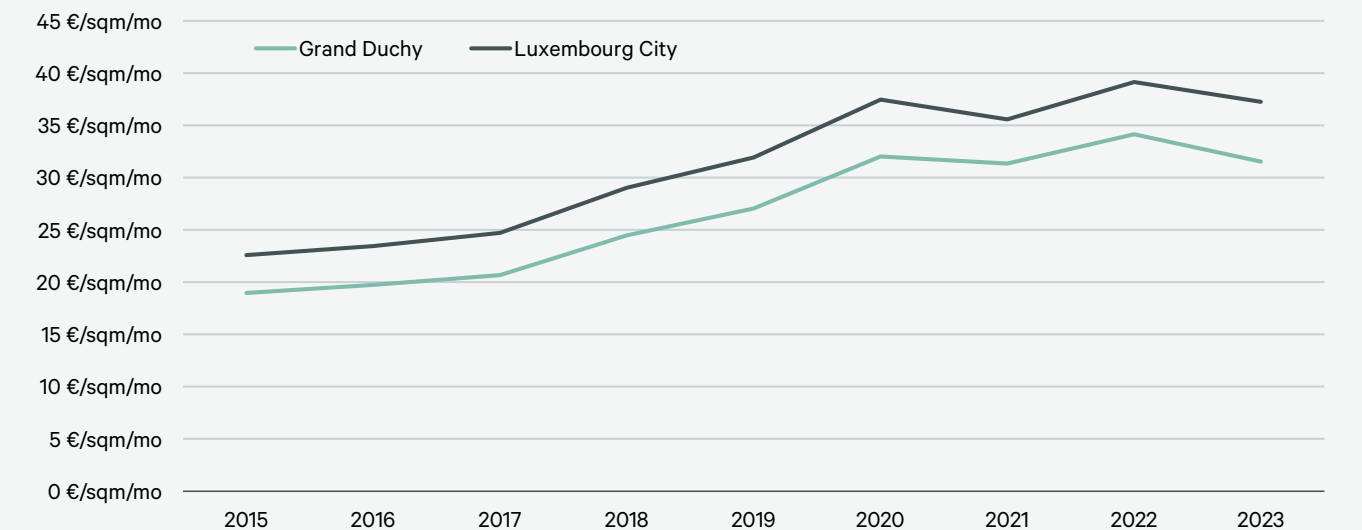
Average asked apartment rents in the 10 largest municipalities

Source: Ministère du Logement



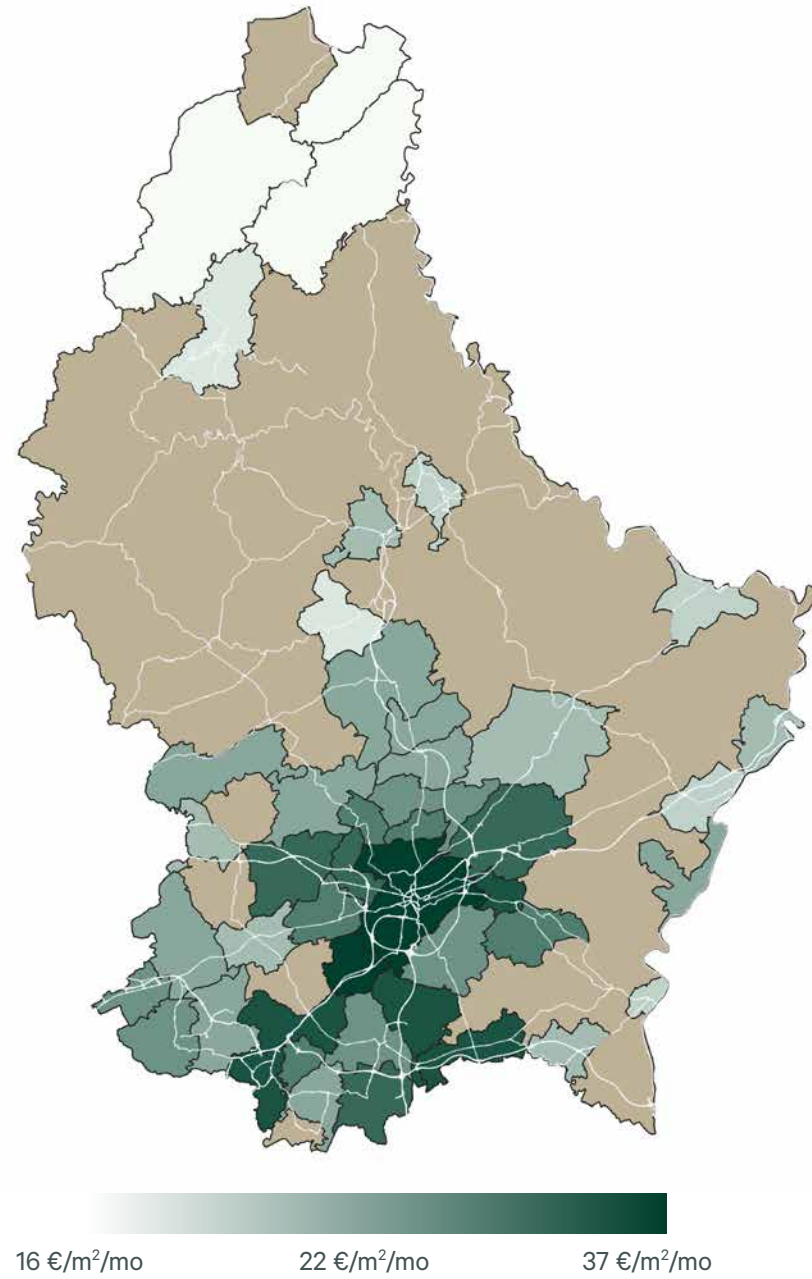
Average apartment rents in Luxembourg (current prices)

Source: Ministère du Logement



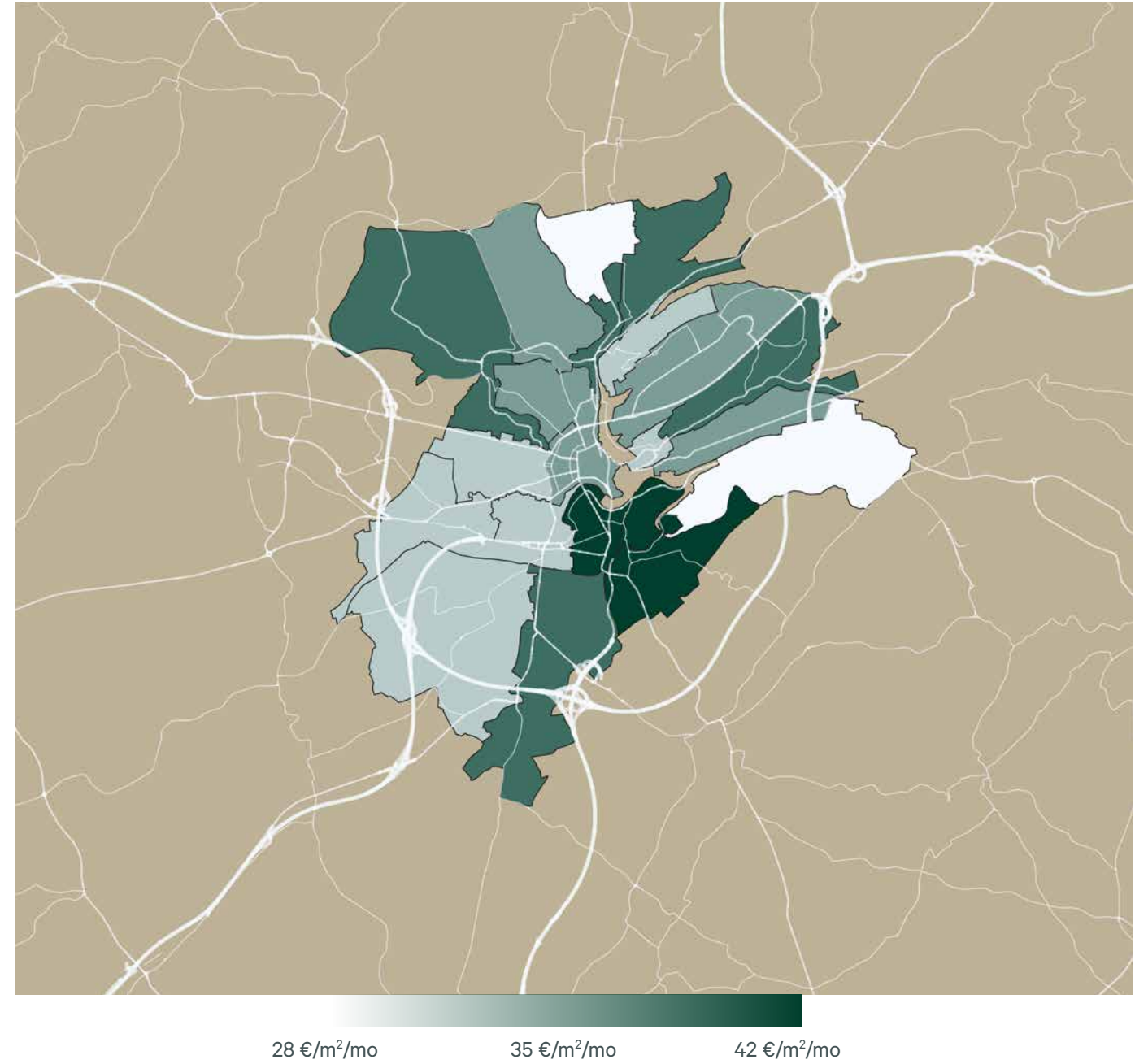
Luxembourg Grand Duchy asked apartment rents in 2023

Source: Ministère du Logement



Luxembourg City asked apartment rents 2023

Source: Ministère du Logement



OUTLOOK

2023 was a challenging year for the residential sector across the Grand Duchy. Financing costs continued to increase, and the economy experienced a recession. Given the latest forecasts, however, market experts see a return to growth in 2024 with metrics still very-well supported over the long-term.

Additionally, the government announced measures to support the construction sector and broad residential market in 2024. Buyers for own use (and investors in many cases) can benefit from incentives such as an expanded tax credit on notarial deeds and deductible interest expense, capital gains tax and depreciation reform. Renters may be eligible for an increased subsidy, especially those with children. For the construction sector, the measures will strengthen the program of new construction acquisition for the state's affordable housing stock and expand the creation of new affordable housing.

Since the beginning of 2024, there have been signs of a timid recovery in the residential sector. Demand for goods for sale across all categories is returning. We also note a strong interest in new properties at a more or less advanced stage of construction where the delivery date is known.

This recovery demonstrates that buyers have now become aware of the new reality of the market and that they are gradually regaining confidence in its various players. The year 2024 will be marked by a gradual recovery with a more significant return to growth expected in 2025.

Signs of recovery in early 2024 demonstrate that buyers are aware of the new reality of the market and are gradually regaining confidence



Contacts

Lead

Micheal Taelman

City Leader
+352 621 614 075
michael.taelman@cbre.com

Frank Rosenbaum

Head of Business Development
+352 621 310 300
frank.rosenbaum@cbre.com

Residential Investment

Barbara Streibel

Senior Consultant
+352 26 26 12 03
barbara.streibel@cbre.com

Valuation

Pieter Paepen

Head of Valuation Services
+32 2 643 32 26
pieter.paepen@cbre.com

Research

Kim Verdonck

Head of Research & Marketing
+32 2 643 33 34
kim.verdonck@cbre.com

Drew Misner

Senior Research Analyst
+32 2 643 33 66
drew.misner@cbre.com

Pierre Acke

Research Analyst
+32 468 21 64 30
pierre.acke@cbre.com

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