VIEWPOINT

Luxembourg offices

Luxembourg starts the new year on the right foot

CBRE

Luxembourg Office ViewPoint Q1 2016

Momentum, demand drive Luxembourg forward




Laurent Cooreman
Managing Director
Gérald Merveille
Managing Director
Kim Verdonck
Head of Research
Véronique Koch
Office Agency Senior Consultant

Luxembourg builds on the success of recent quarters to post a better-than-average take-up figure of 73,000 m² in Q1. European institutions were quiet, as banking and finance institutions were active, led by the BGL BNP Paribas move to Kirchberg. Vacancy registered a slight uptick to a still low 5.5%, though more limited development in 2016 should put downward pressure on this rate. CRE investment volume of €68.5 billion in early 2016 is a precursor to greater activity lined up for Q2.

Stock	Take-up	Vacancy	Prime rent	Prime yield
3,950,000 m²	73,000 m²	5.5%	46 €/m²/mo	4.6 %

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Economy

The Luxembourg economy performed well in the final quarter of 2015 to cap a very good year. Unemployment remained unchanged and inflation subdued, as Luxembourg begins 2016 on a relatively strong foot against the backdrop of wider European uncertainty.

The latest GDP growth figures from Q4 2015 show the economy grew by 1.1%, lower than the previous two quarters, but still robust. The annual rate of 4.8% is the highest since 2010 and well above the eurozone's 1.6%. Only Ireland (7.8%) and Malta (6.3%) of eurozone members had stronger economic growth. In 2016, however, wider economic forecasts are being revised lower amid financial uncertainty, low commodity prices and a slowing China.

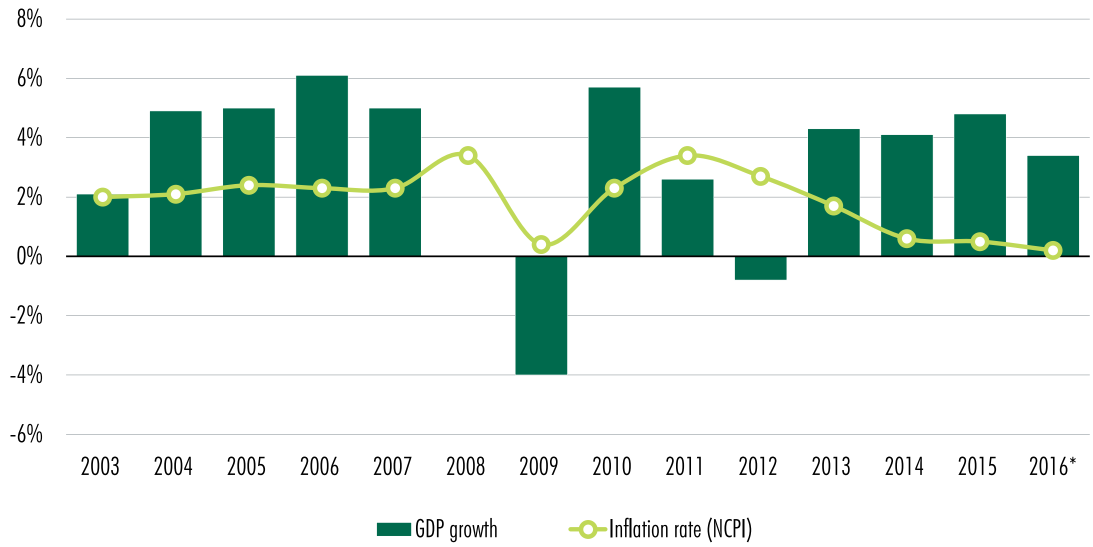
Despite these risks, Luxembourg households and businesses remain sanguine, and consumer confidence is at its highest level since 2007. Regarding permit applications, volumes for non-residential construction projects reached record highs in 2015.

Unemployment declined in December and has since been stable at 6.5%. Unemployment was 6.9% this time last year.

Consumer prices (NCPI) decreased each month this year in annual variation to go flat (0%) in March and average just 0.2% over the last three months.

Graph 1

Economic activity & inflation (annual)



Source: STATEC

Office Market Trends

DEMAND

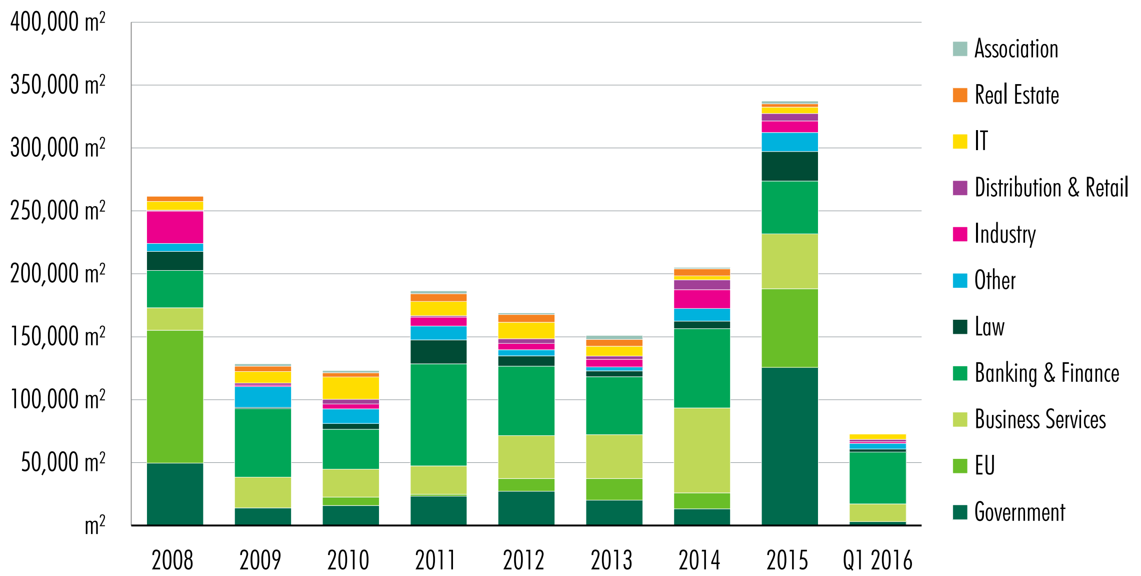
Momentum from the end of 2015 continues in Q1, with robust take-up of 73,000 m² for the quarter. BGL BNP Paribas was responsible for the quarter's largest transaction - the 28,300 m² occupation over six floors in oKsigen and eKinox in Kirchberg. Additional space remains available in their new facilities.

In addition to the French bank's mega deal, the banking and finance sector was active early in the year. EFG Bank Luxembourg let the entire facility of 56 Grand-Rue (4,134 m²) in the CBD. Furthermore, Globality Health let 2,627 m² in 1A Parc d'activités Syrdall in Munsbach, allowing the tenant to better accommodate employees commuting from Germany.

Kirchberg and CBD tallied almost 60% of all letting volume in 2016. Notable deals in these markets not yet mentioned include Vistra Luxembourg letting 4,475 m² in Espace Kennedy C and GSK Stockmann + Kollegen letting 1,112 m² in Axento.

Office take-up in 2016 is off to a good start with 73,000 m² in Q1

Graph 2
Office take-up (2008-Q1 2016)



Source: CBRE Research, Q1 2016

Q1 activity exemplifies the growth in fiduciaries following new rules strengthening the requirement for domiciliation in Luxembourg in addition to increased business. As a result, banking and finance take-up topped 41,000 m² for the quarter, business services 13,900 m² and government 3,200 m². The EU has been quiet thus far and is expected to remain relatively so in 2016.

Elsewhere, two corporate tenants selected Esch-Belval as the best location for their business. The IT division of Banque Pictet (1,461 m²) and TaDaweb (450 m²) will benefit from the tech cluster and university setting.

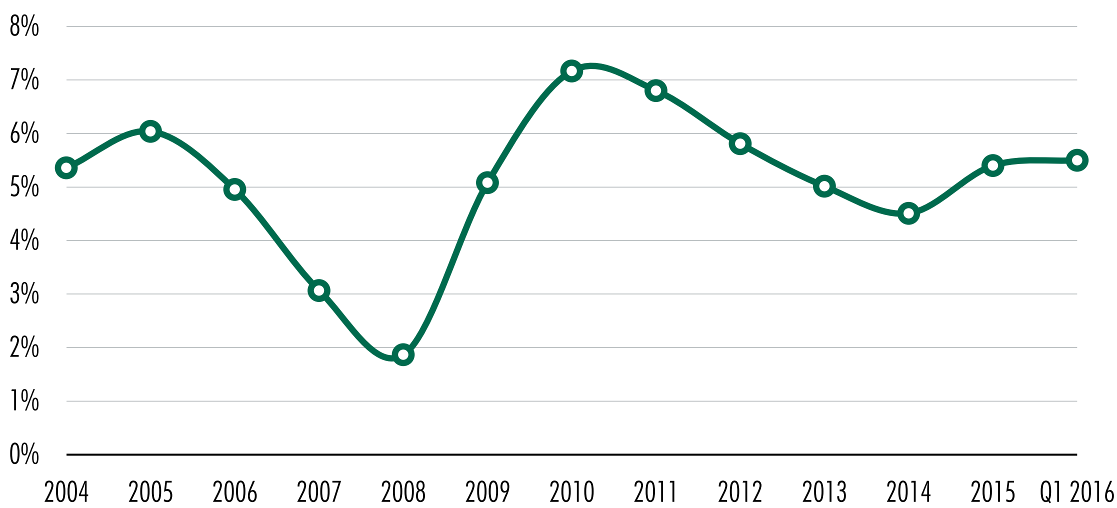
In terms of number of deals, Q1 is at the top of the range compared with recent quarters at 79 office transactions. CBD and Station claim the bulk of activity with 16 and 12 deals, respectively, followed by Kirchberg at 8. Hamm experienced better-than-average activity with 8 deals thanks to the pre-purchases of small spaces (around 100 m² each) in the new Les Brasseries de Neudorf expected to be completed by the end of the year.

VACANCY

Approximately 217,000 m² of office space is considered vacant out of a total stock of 3.95 million m², putting the vacancy rate at 5.5% at the end of Q1. This is somewhat higher than 2014's relative low of 4.5% and a slight increase over last quarter's 5.4%. Robust new development in the last 24 months has attracted occupiers like BGL BNP Paribas and CSSF. Vacated buildings such as Mercator and H20 still represent attractive letting options, and indeed PWC has taken part of the space left by BGL BNL Paribas in H20. Combined

Graph 3

Vacancy rate (2004-Q1 2016)



Source: CBRE Research, Q1 2016

with a smaller pipeline for 2016, absorption of current space should see vacancy fall gradually through 2016.

Vacancy in central markets continues to be under downward pressure. Kirchberg fell to 3.1%, while the CBD fell to a very low 1.8%. Other declines were recorded in Station (3.2%), Hamm (1.3%) and Limpertsberg (4.4%). While Esch-Belval remained unchanged (4.2%), Leudelange has seen remarkable absorption to knock vacancy from a high of almost 24% in 2013 to 7.5% today.

PROJECT DEVELOPMENT

Coming off of solid new development in 2015 of 165,000 m², approximately 28,000 m² of new space was added in Q1 in what promises to be a slower year for new construction before significant deliveries in 2017. Developments completed in 2016 include Phase 2 of Capellen Hireknopf (3,706 m²) and One on One in Lux West (2,935 m²). The most significant development, though, is the IAK development (21,400 m²) in Kirchberg. This four-building project facing the European district has been chosen by the European Investment Bank.

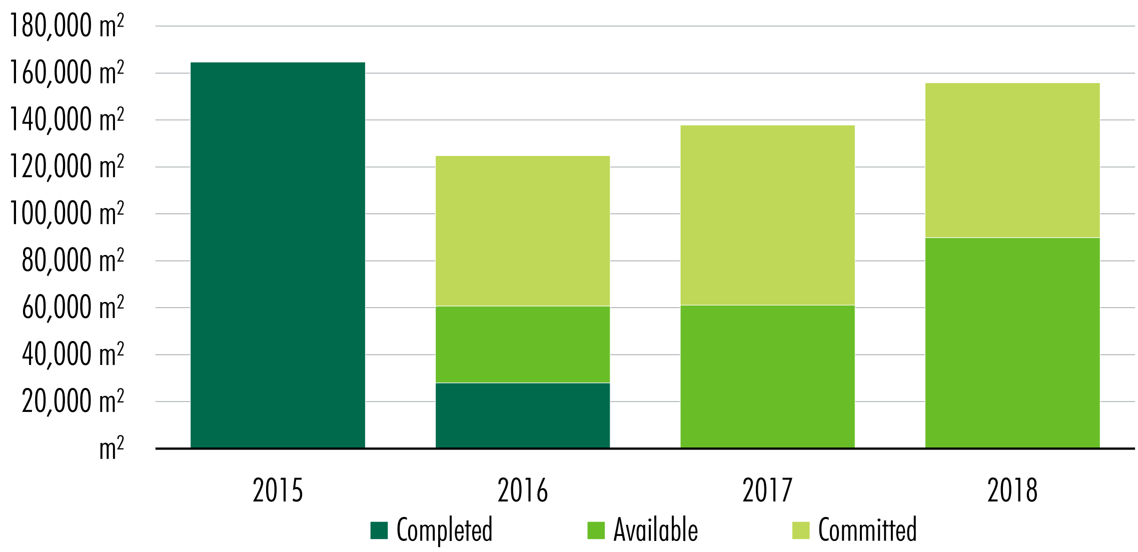
The development pipeline for 2016 is limited compared with recent years, with 33,000 m² available out of a total 97,000 m² planned. For 2017, that figure jumps to 61,000 m² of new available office space out of a total 138,000 m². In 2018, available space increases to 90,000 m² out of a total pipeline of 156,000 m².

RENTAL VALUES

The strong letting market and supply and demand dynamics are such that rental values are well-supported. Prime rents in Luxembourg remain stable from the previous quarter at 46 €/m²/month in the CBD, and 35 €/m²/month in Kirchberg and Station, excluding VAT.

Graph 4

Development pipeline (2015-2018)



Source: CBRE Research, Q1 2016

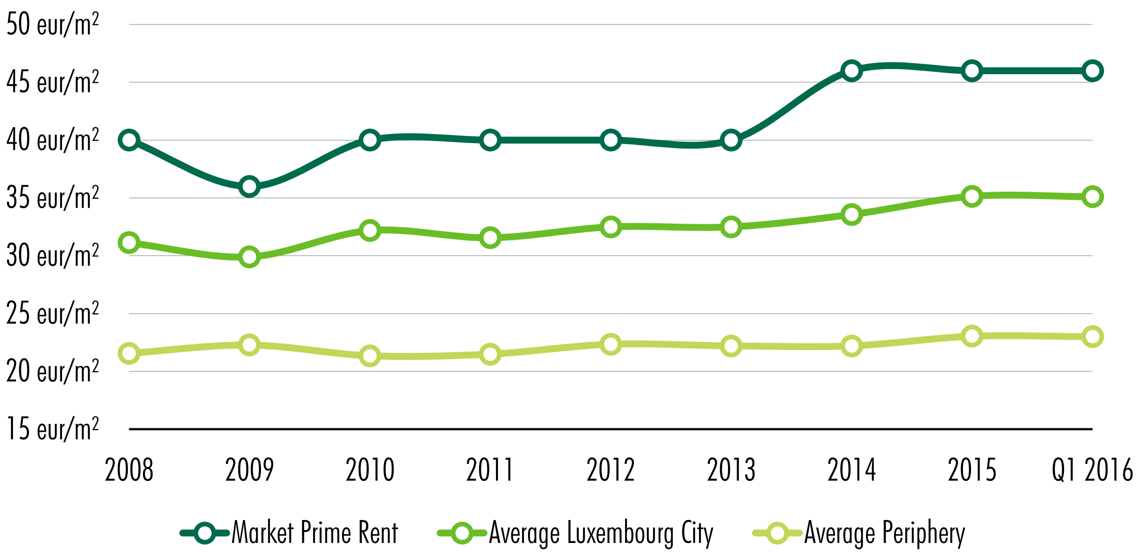
INVESTMENT VOLUME

Coming off of annual CRE investment of €1.16 billion in 2015, Q1 was subdued in comparison. Three deals took place totaling €68.5 million. Two of the transactions were investment deals, including BNP Reim acquiring Glacis Bloc A (4,700 m²) for €34.5 million and Allfin acquiring Etoile (3,440 m²) for €23 million.

The third deal was the Regus acquisition of Château de Schengen (5,100 m²) for €11 million for the purpose of owner occupancy. Financing rates remain low, helping to fuel demand for prime real estate assets and boost transaction volumes in Q2. Prime yields have been compressing, but are unchanged from the previous quarter at 4.6%.

Graph 5

Prime rent evolution (2008-Q1 2016)



Source: CBRE Research, Q1 2016

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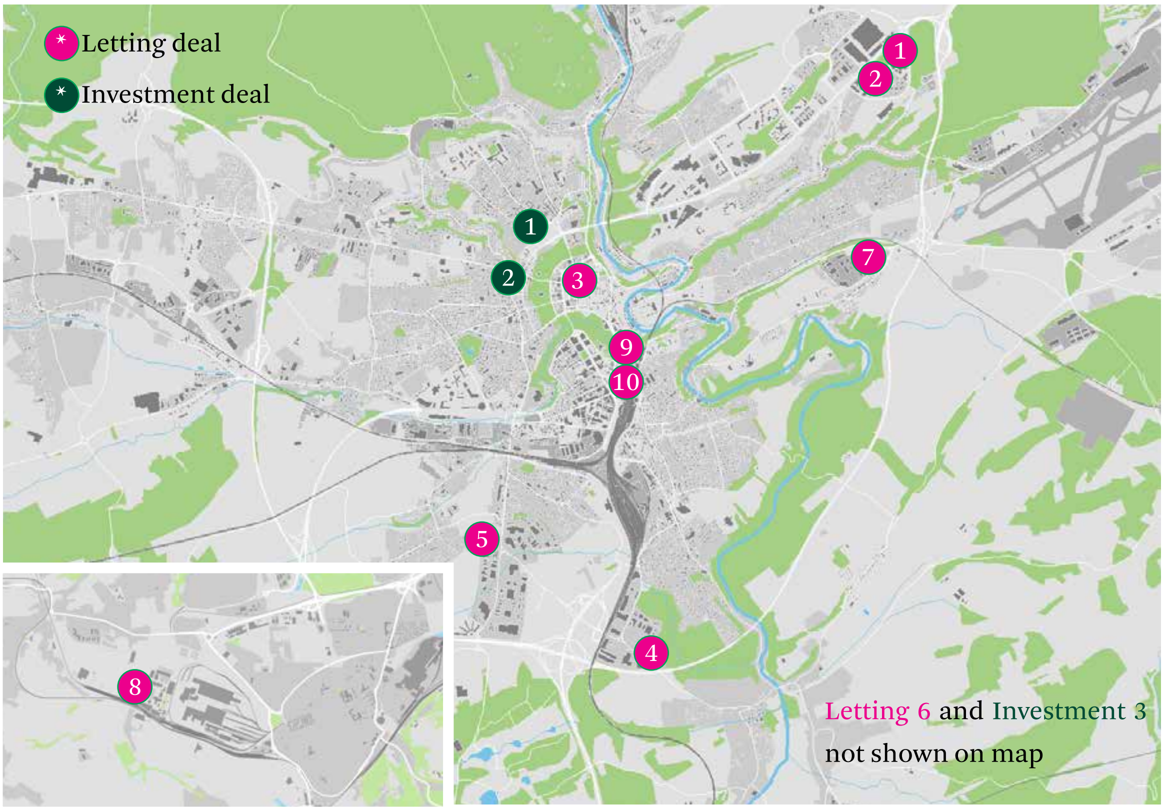
Map/Table 1

Notable letting and investment transactions in Q1 2016



Letting

NUMBER	TYPE OF TRANSACTION	BUILDING NAME	DISTRICT	FLOOR SIZE	COMPANY NAME
1	Letting/Own occupation	oKsigen & eKinox	KIRCHBERG	28,300 m²	BGL BNP Paribas
2	Letting	Espace Kennedy C	KIRCHBERG	4,475 m²	Vistra Luxembourg
3	Letting	56 Grand-Rue	CBD	4,134 m²	EFG Bank Luxembourg
4	Letting	H2O	HOWALD	3,200 m²	PWC
5	Letting	YRIS	GASPERICH	2,731 m²	Eri Bancaire
6	Letting	1A Parc d'activités Syrdall	MUNSBACH	2,627 m²	Globality Health
7	Letting	20 Rue de Bitbourg	HAMM	2,452 m²	Ministère de la Santé
8	Letting	Les Terres Rouges Tour E	ESCH/BELVAL	1,461 m²	Banque Pictet
9	Letting	LE DÔME	STATION	1,375 m²	Banque Carnegie Luxembourg
10	Letting	LE DÔME	STATION	1,290 m²	Gazprom Bank

Investment

NUMBER	INVESTOR	BUILDING NAME	DISTRICT	PRICE	SELLER
1	BNP Reim	Glacis Bloc A	LIMPERTSBERG	€34.5 million	HSBC Trinkaus
2	Allfin Lux SA	Etoile	CBD	€23 million	Axa IM
3	Regus	Château de Schengen	OTHER	€11 million	Congrégation des Sœurs

Source: CBRE Research, Q1 2016

Research Luxembourg

This report was prepared by the CBRE Research Luxembourg & Brussels team. For more information about our services, please contact us using the details below.

Contact

CBRE Luxembourg
12, Impasse Drosbach, Building D
L-1882 Luxembourg
T +352 26 26 12
F +352 26 26 12 26
www.cbre.lu

Gérald Merveille
Managing Director
t: +352 26 26 12 20
gerald.merveille@cbre.com

Laurent Cooreman
Managing Director
t: +352 26 26 12 21
laurent.cooreman@cbre.com

Véronique Koch
Research & Marketing
Office Agency Senior Consultant
t: +352 26 26 12 23
veronique.koch@cbre.com

Kim Verdonck
Head of Research
t: +32 2 643 33 34
kim.verdonck@cbre.com

Drew Misner
Research Analyst
t: +32 2 643 33 34
drew.misner@cbre.com

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