

Office market report Luxembourg

On Point

1st quarter 2016



Sharp return of banks

Take-up in Q1 came in at 72,000 sq.m., twice as much as a year ago and the best first quarter of the decade. Banks are back in the market with one mega deal (BGL BNP Paribas in Kirchberg), and a few mid-size transactions.

Vacancy rate increased to 4.59%, vs. 4.15% in Q4 2015 due to speculative completions in the CBD and Kirchberg. We expect further increase in the near term with more new deliveries.

Prime rents stabilised at € 45 / sq. m. / month (+ vat), unchanged on a quarterly basis and up vs. € 42 / sq.m. / month (+vat) a year ago. Another increase is expected in 2016 in the best buildings under construction on the Boulevard Royal.

The investment market was quiet in Q1, the volume is estimated at € 72 Mln. Several mid to large size transactions are in preparation, 2016 will probably be a good year again. Prime yields were unchanged at 5%, potentially compressing below in the near term.

Foreword

2016 starts with a squeal of tyres.

After an incredible year in 2015 (please read our last market report), the Luxembourg office market recorded an excellent start with 72,000 sq.m. taken up, twice as much as a year ago and the highest level of the decade.

But let's keep feet on the ground, as we never know what is around the corner.

Angélique Sabron
Head of Agency Luxembourg



Key figures

Letting Market	2013	2014	2015	Q1 2016
Take-up (cumulative) in '000 sq. m.	146	196 *	231	72
Stock in Mio. sq. m.	3.5	3.6	3.8	3.9
Completions (cumulative) in '000 sq. m.	71	104	116	26
Vacancy in '000 sq. m.	178	168	159	178
Vacancy Rate in %	5.1	4.7	4.2	4.6
Prime Rent in €/sq. m. /month	42	42	45	45
Capital Market				
Investment volume total in € Mio (**)	685	889	979	72
Prime Yield Band in % (typical 3/6/9)	5.75-6.50	5.50-6.50	5.00-6.25	5.00-6.25
		2016e	2017e	2018e
Future Supply, Speculative ('000 sq. m.)		65.7	41.1	4.4
Future Supply, Non Speculative ('000 sq. m.)		36.2	61.6	40.0
Total ('000 sq. m.)		101.9	102.7	44.4

(*) Restated

(**) Incl. owner occupation, development, and land sales

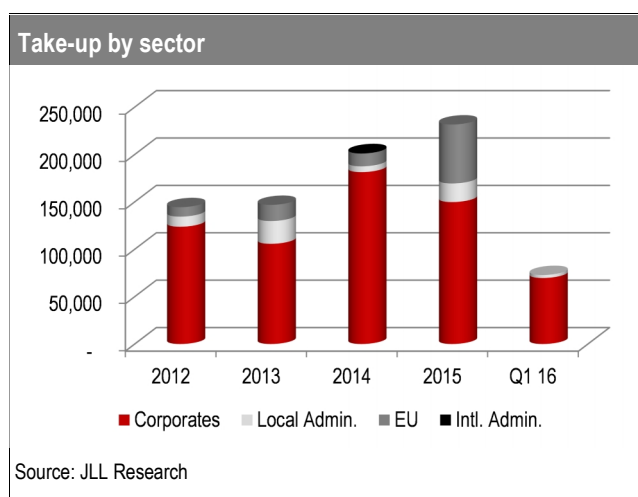
Letting market

The best first quarter of the decade

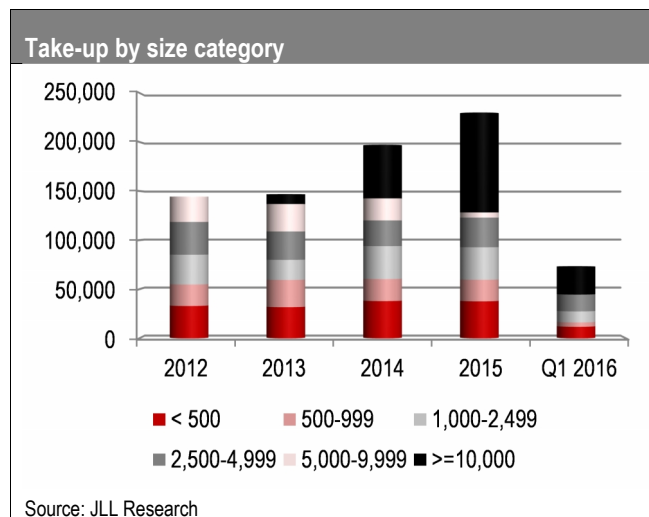
The Luxembourg office market recorded an excellent start with 72,000 sq.m. twice as much as a year ago and the highest level of the decade.

We recorded another large size transaction early this year, as BGL BNP Paribas moved to its 28,300 sq.m. new headquarters in Kirchberg. Also in Kirchberg, Vistra Luxembourg took 4,475 sq.m. in the Espace Kennedy, while EFG Bank Luxembourg took 4,136 sq.m. in the former building of Credit Suisse located Grand'Rue 56 (CBD). Banks strongly supported occupier activity in Q1 with a share of 59% of the take-up, there were no additional deals by European institutions, and besides corporates that represented 96% of total take-up, local administrations realised 3,194 sq.m. in 2 transactions in Hamm.

Looking ahead, more large sized deals are on the horizon in Luxembourg. For example, RTL will take 24,000 sq.m. in Kirchberg, ING Luxembourg will take c. 12,000 sq.m. in the Station district and BDO will take 10,000 sq.m. in the Air building (Cloche d'Or). Equalling the same level of take-up of 2015 (231,000 sq.m.) this year is therefore possible.

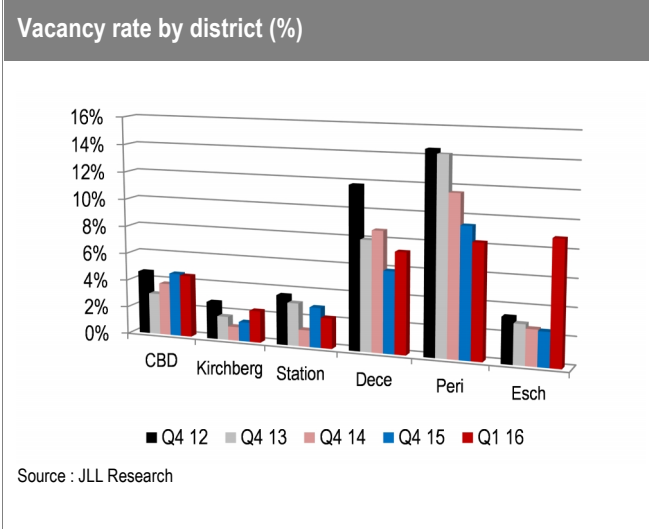


In Q1 2016 the Kirchberg district represented 48%, up vs. 44% a year ago, followed by the decentralised (primarily Cloche d'Or, Bertrange and Strassen) with 19% (down vs. 26% a year ago), the CBD with 14% (down vs. 22%), the Station with 7% (up vs. 5%), the periphery also with 7% (down vs. 25%), while Esch & Others represented 5% (up vs. 2%).



Immediate vacancy increases

Vacancy overall increased by 44 bps to 4.59%, due to speculative completions in Kirchberg (7,000 sq.m. in the Ekinox building, ie the speculative part of the new headquarters of BGL BNP Paribas) as well as 3,000 sq.m. in the One on One building (CBD). Vacancy in Kirchberg increased to 2.3% vs. 1.4%, while in the CBD it was roughly unchanged at 4.5%. In the Station district, vacancy narrowed by 70 bps to 2.2% and in the Decentralised it increased by 140 bps to 7.3% due to second hand buildings being left by their tenants. In the periphery, however, vacancy declined to 8.3% vs. 9.4% thanks to several lettings and no speculative delivery. Altogether, the vacant office stock increased by 18,000 sq.m. on a quarterly basis to 177,575 sq.m.



LARGEST SPECULATIVE PROJECTS 2016-2017

DISTRICT	BUILDING	AREA	PLANNING
KIRCHBERG	LIGHTHOUSE ONE	14,500	Q4 2016
CBD	CARREFOUR	13,000	Q4 2016
LEUDELANGE	ALTITUDE	11,000	Q4 2017
CLOCHE D'OR	DYAPASON	13,000	Q4 2017
LEUDELANGE	TRIOLOGIE	5,000	Q3 2017
STATION	FORT WALLIS	4,100	Q2 2016
CBD	ROYAL20	2,600	Q2 2016
CBD	ROYAL GRACE	1,600	Q4 2016

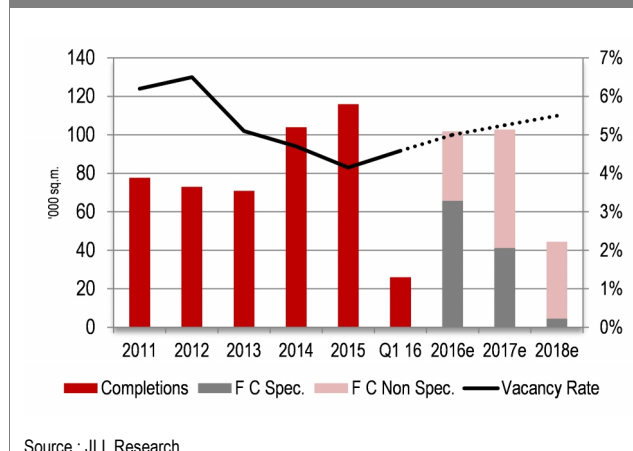
102,000 sq.m. will be delivered in 2016

The occupier market being very hot in Luxembourg, developers have launched new mid-to-large size projects. In the coming 3 quarters to year-end, 102,000 sq.m. will be delivered, of which 66,000 sq.m. is speculative. In the CBD, this comprises the refurbished Carrefour (13,000 sq.m.), the Royal20 (3,462 sq.m. offered in sub-letting) and the Royal Grace (1,600 sq.m.). In the Station district, there are two speculative projects to be completed this year, the Kons Building (remain 2,500 sq.m. to let next to ING Luxembourg's new HQ) and the Fort Wallis (4,100 sq.m.). In Kirchberg, the Lighthouse One (14,500 sq.m., next to RTL Tower) will be completed by year-end. These completions, as well as the second hand buildings vacated by tenants moving to new premises, will contribute to progressively lift the vacancy rate to 5%-5.5% within 18 months.



Kons Building (Station): 2,500 sq.m. only available

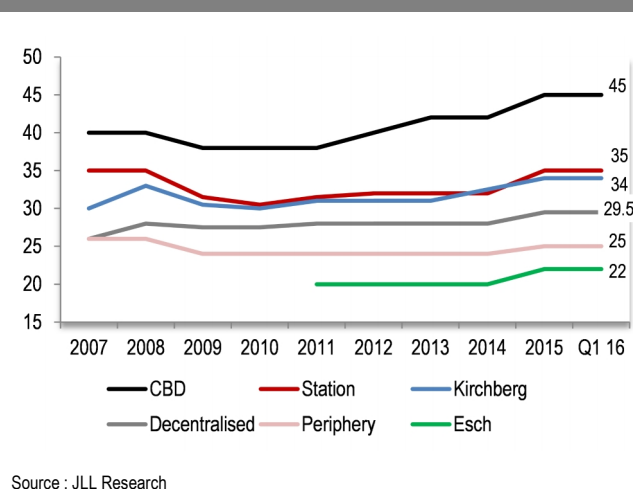
Completions, Pipeline and Vacancy

**Prime rents stabilised in all districts**

Rents in Luxembourg increased in 2014 and 2015 due to restricted vacancy and continuous demand, and Luxembourg became the eighth most expensive city in Western Europe for offices.

Now rents seems to have stabilised, though several projects trade at rents above current standards, especially in the CBD. In the CBD, prime rents are € 45 / sq.m. / month (+vat), in the Kirchberg, prime rents are at €34 / sq.m. / month (+vat), while in the Station district prime rents are € 35 / sq.m. / month (+vat). In Cloche d'Or (Decentralised), the best products trade at € 29.5 / sq.m. / month (+vat). Finally prime rents in the Periphery, and more specifically the Airport, are unchanged at € 25 / sq.m. / year (+vat).. In Leudelange, new projects trade at € 23-24 / sq.m. / year (+vat).

Prime rents evolution (€ / sq.m. / month)



Investment market

Slow start after strong trading in 2015

In terms of volume, the investment market was comparatively quiet with € 72 Mln being recorded, down vs. the record high Q1 2015 (€ 296 Mln). The largest transaction was the sale by HSBC Trinkhaus of the Business Center Glacis A (CBD) to BNP Paribas REIM, for € 31.4 Mln.

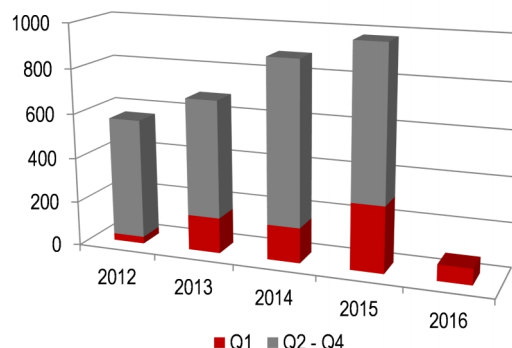
Larger size transactions are in early stage of negotiations, there is a growing appetite from family offices and private investors for property investments. Early Q2, ADIA announced it acquired the land at the Place de l'Etoile (CBD) with the intention to develop mixed use residential, retail and offices.

The investors profile in Q1 is more traditional than last year, France contributed to 43% of the volume, Belgium 32% and Luxembourg 25%.

Yields to compress further

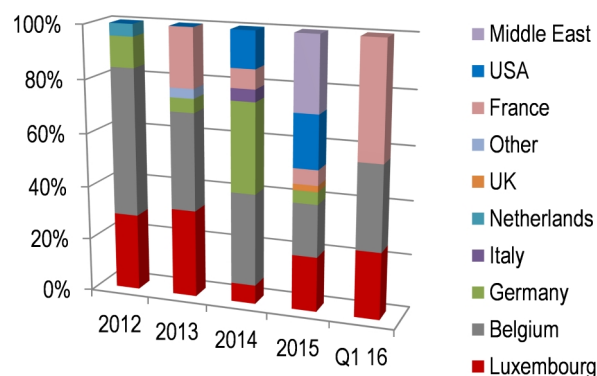
Yields for properties with traditional lease terms stabilised at 5%, there is however further compression potential in the short term as demand is high and new opportunities are limited.

Investment Volume by 2012 – Q1 2016 (€ Mio)



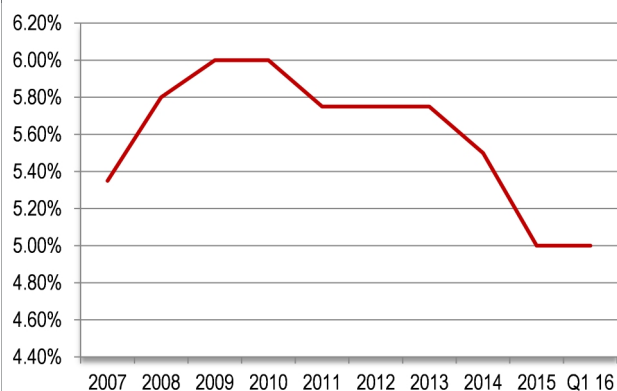
Source: JLL Research

Investment Volume by origin of money (%)



Source: JLL Research

Prime Yield evolution (6/9yr lease)



Source: JLL Research

JLL Research Advisory Services

JLL time series for quarterly and submarket data are available on request, as well as rental analysis (top quartile and weighted average rents). This is a fee-based service.

Our Research & Advisory service also prepares micro-location studies for landlords and investors with a focus on rental analysis, existing and future competition analysis with GIS mapping, transaction analysis and SWOT.

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Largest Letting Transactions in Luxembourg last 6 months

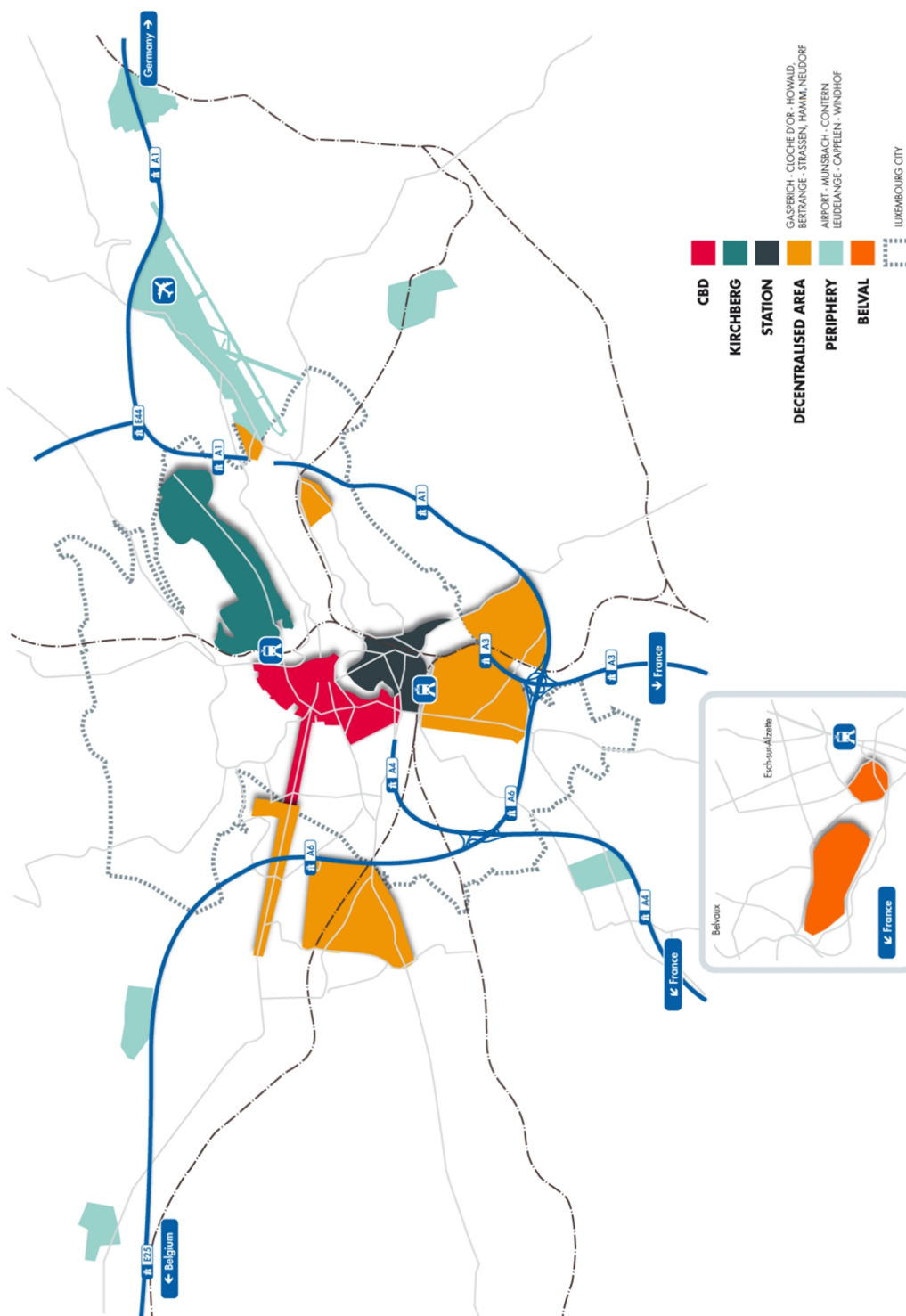
YEAR	QTR	SUBDISTRICT	OPERATION	BUILDING	AGE	AREA (sq.m)	TENANT
2016	1	KIRCHBERG	Owner occupier	OXSIGEN	New	28,300	BGL BNP PARIBAS
2015	4	KIRCHBERG	Letting	IAK	UC	21,400	EUROPEAN INVESTMENT BANK
2015	4	KIRCHBERG	Owner occupier	KPC	New	15,262	EY
2015	4	CBD	Owner occupier	ARLON-AUBEPINES	New	14,000	CSSF
2015	4	KIRCHBERG	Owner occupier	OXSIGEN & EKINOX	New	5,200	BGL BNP PARIBAS
2016	1	KIRCHBERG	Letting	ESPACE KENNEDY C	Modern	4,475	VISTRA LUXEMBOURG
2016	1	CBD	Letting	GRAND RUE, 56	New	4,136	EFG BANK LUXEMBOURG
2015	4	KIRCHBERG	Letting	ERASME	Modern	3,450	CHAMBRE DE COMMERCE
2016	1	HOWALD	Letting	H2O	Modern	3,200	PwC
2016	1	CLOCHE D'OR	Letting	YRIS	Modern	2,731	ERI BANCAIRE

Top 10 Office Investment Transactions in Luxembourg 2015 + Q1 2016

YEAR	QTR	DISTRICT	BUILDING	SURFACE	PRICE (€ Mio)	SELLER	BUYER
2015	1	CBD	Royal Hamilius	35,000	Conf.	Codic	ADIA
2015	3	Cloche d'Or	Vertigo	24,000	120	Irish Life	Starwood / Rynda
2015	2	Kirchberg	Deutsche Bank	11,000	72	Triuva	Moor Park Capital
2014	4	Kirchberg	LB LUX	10,500	70	LB Lux	AG Real Estate
2015	3	CBD	White Pearl	8,453	55	Sogimme	French investor
2015	3	Periphery	Airport Center	17,000	50	AIG	Giorgetti
2015	3	Station	M2	6,600	45	Mavin Project	Triuva
2015	2	CBD	Royal 30	4,600	35	Landesbank Berlin	Private
2016	1	CBD	Glacis A	4,800	31	HSBC Trinkaus	BNPP REIM
2015	4	Munsbach	E-Building	10,700	25	Rynda	Tristan Capital

Source: JLL Research, based on publicly available data

Map of the Luxembourg Office Market



Definitions

Take-up

Take-Up – New: Represents take-up of floorspace in new or substantially refurbished buildings of less than five years since completion.

Take-Up – Modern: Represents take-up of floorspace built or renovated between 5-15 years ago.

Take-up – Old: Represents take-up of floorspace built more than 15 years ago and not renovated.

Rent

Prime Office Rent represents the top open-market rent that could be expected for a notional office unit of the highest quality and specification in the best location in a market, as at the survey date (normally at the end of each quarter period). The rent quoted normally reflects prime units of over 500 sq. m. of lettable floorspace, which excludes rents that represent a premium level paid for a small quantity of space.

Top Quartile Office Rent represents the average mean value of the top (25 %) quartile of all known face rents achieved on leasing transactions completed within a market during the survey period (normally calculated annually, or quarterly on a 12 monthly rolling basis). It excludes any unrepresentative deals.

Weighted Average Rent represents the average mean value of all known face rents achieved on leasing transactions completed within a market during the survey period weighted with the floorspace (normally calculated annually, or quarterly on a 12 month rolling basis). It excludes any unrepresentative deals.

Prime Yield

Represents the best (i.e. lowest) “rack-rented” yield estimated to be achievable for a notional office property of the highest quality and specification in the best location in a market, as at the survey date (normally at the end of each quarter period).

The property should be let at the prevailing market rent to a first class tenant with an occupational lease that is standard for the local market. The prime initial net yield is quoted, i.e., the initial net income at the date of purchase, expressed as a percentage of the total purchase price, which includes acquisition costs and transfer taxes.

Vacancy

Vacancy represents completed floorspace offered on the open market for leasing or sale, vacant for immediate occupation on the survey date (normally at the end of each quarter period), within a market. It includes all vacant accommodation irrespective of the quality of office space or the terms on which it is offered.

Vacancy excludes “obsolete” or “mothballed” office property, i.e. floorspace held vacant and not being offered for letting, usually pending redevelopment or major refurbishment.

Vacancy Rate

The Vacancy Rate represents immediately vacant office floorspace in all completed buildings within a market as at the survey date (normally at the end of each quarter period), expressed as a percentage of the total stock.

Stock

Stock represents the total amount of completed office space in buildings mainly used for office purposes within a market that is capable of occupation regardless of the type of ownership or type of building quality, as at the survey (normally at the end of each quarter period).

Completions

Completions represent floor-space completed during the survey period (normally annually). Completions include new development and refurbished accommodation, speculative developments, pre-let floor space and space for owner-occupation..



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