

LUXEMBOURG

I. Residential market in Luxembourg

A. Population

Luxembourg continues to be one of the fastest growing countries in Europe. As of January 1, 2020, the population of the Grand Duchy was 626,108, which is a 2.0% increase over the previous year. This is in line with the average of the last five years of 2.15%. Foreigners make up a substantial portion of the population at 47.4%, though this has declined slightly over the last two years.

B. Market overview

The Luxembourg residential market continues to perform well, supported by high population growth, a robust economy, and continued low interest rates. Supply struggles to keep pace with the expanding population, though, pushing up prices and more moderate earners to the periphery of the city. Average apartment prices in Q3 2020 were €583,072, which is a 10.2% increase y-o-y. In relative terms this is 7,363 €/sqm, a 10.6% increase y-o-y. The number of transactions declined through the first three quarters of the year from lockdown and travel restrictions. Apartment transactions totalled 4,624 over this time, which is 13.5% less than the same period the previous year. The total value of transactions increased, however.

C. Luxembourg City

Luxembourg City grew 2.6% to a population of 122,273 as of January 1, 2020. Demand for residential properties is high, supported by the strong population growth, being the centre of the Duchy's economy, and overall continued low interest rates. Average transaction prices for existing apartments are 9,900 €/sqm, while the highest tier of apartments can be over 13,000 €/sqm. New build apartments average 11,500 €/sqm, with the highest tier achieving 14,000 €/sqm.

D. Regions

As the city becomes expensive and crowded, people are increasingly looking towards decentralised and peripheral areas for more accommodating values. Luxury developments are underway for those still wanting comfort, though prices of 5,000 to 7,000 €/sqm are still commonplace. New projects can commercialise for prices more than 8,000 €/sqm.

E. Leasing

New lease regulations are presently being debated in parliament to strengthen tenants' rights, particularly for the lower- and middle- income earners who are most financially burdened by the high residential costs. At the same time, rents continue to increase. For the year leading to Q2 2020, the average asked rent in Luxembourg is 1,550 €/month, or 29.4 €/sqm. On a relative basis, Luxembourg City has the highest asking rents at 34.5 €/sqm, followed by Leudelange (33.7 €/sqm) and Mamer (30.5 €/sqm).

F. New builds

Recent new build apartment transaction prices in Luxembourg are on average about 15% higher than existing units, achieving 7,900 €/sqm or prices of €628,400. Zooming in, Bertrange recorded the highest average transaction prices for new apartments at 11,001 €/sqm for the period October 2019 to September 2020 and ranging from 8,600 to 15,300 €/sqm. New apartment building permits declined 8.8% y-o-y through the first six months of the year. Not all areas experienced an equal evolution of permits. Luxembourg City saw a 72% increase, while Cantons of the North and West saw a decline of almost 34%.

Key stats: €583,072 average apartment price in Q3 2020; 72% increase in multi-unit residential permits in Luxembourg city in H1 2020; highest tier of apartments in Luxembourg City can achieve 13,000 €/sqm.

sources: Statec, LISER, Observatoire de l'Habitat

II. Office market in Luxembourg

A. Luxembourg City

Despite high anxiety and a lot of questions, 2020 remains a very good year for the office market. Two city districts in particular clearly outperformed in terms of take up – Kirchberg and Station - as they experienced significant activity from governmental and European institutions, with the pre-letting of the third extension of the European Bank of Investment (65,000 sqm) in Kirchberg and the Caisse Nationale de Santé (50,000 sqm) in the Station district.

The Cloche d'or district is also seeing high and diverse activity, whether in letting or investment transactions, especially in the new Extensa Cloche d'Or development area, with the Bijou, Kocklescheuer and Darwin II buildings fully pre-let within the year.

B. Periphery

Leudelange and Belval were the centres of much activity in 2020. Leudelange has seen high letting activity in newly delivered buildings such as W4, and Altitude where Northern Trust took additional space (6,600 sqm). Pre-letting activity was also noted in the Wooden IKO/BPI co-development project (Baloise) and one block of the Urbaterre Promobe project (Bonn Steichen Partners). Belval has seen two large transactions, with Deloitte occupying 10,000 sqm in the Terres Rouges building, and the Luxembourg state pre-letting 10,000 sqm in the Twist project.

Districts such as Airport and Hamm, have seen good absorption of vacant space, with the Luxembourg state taking 16,000 sqm in the Ikaros building in the Airport district. Elsewhere, Bertrange saw an increase of activity in 2020, mostly due to letting transactions closed in the Atrium Business Park complex.

Overall, the Luxembourg State was very active in the peripheral districts such as Belval, Leudelange and Strassen.

C. Demand

Despite the sudden shutdown of transactional activity during the first lockdown, a higher number of transactions closed totalling almost 350,000 sqm this year. More than half represents pre-letting transactions, such as for example the new CNS headquarters in the Station district for 50,000 sqm or the last extension of the EIB with 65,000 sqm, which were previously counted upon building completion.

This year has seen a rebalance of interest between Luxembourg City and the periphery. While activity in Luxembourg City has been hindered due to a lack of available space, the peripheral markets are gaining credibility with occupants as they continue to develop. Providing an attractive working environment for its employees will become essential, not only in terms of mobility but also in terms of well-being and services.

Government and European Institutions were the star performers in 2020 and recorded 101,000 sqm and 82,000 sqm of take-up, respectively.

D. Vacancy

Approximately 140,000 m² of office space was considered vacant in Q3 (latest data available) out of a total stock of 4.40 million m², putting the vacancy rate at a very low 3.2% at the end of Q3. City districts remain very tight: vacancy is less than 2% in the CBD, Kirchberg and the Station district. Some markets outside of the city saw significant decreases, such as Bertrange going from 18% in 2019 to 8% in 2020, or Hamm from 19% to 6%, and Belval decreasing even lower from 4% to 1%. For the first time ever, vacancy rates in all districts are below 10%.

E. Development

The pandemic did not significantly delay construction projects, as 92,000 m² of offices were delivered in 2020. Dependent on the European Parliament's KAD 2 extension, the 2021 pipeline will vary between 125,000 sqm and 295,000 sqm. Overall, projects are diverse in both size and markets.

F. Rent

The strong letting market and supply and demand dynamics are such that rental values are well-supported. Given the buoyancy of the overall market, prime rents in Luxembourg have increased from 50 € to 52 €/sqm/month in the CBD (excluding VAT), from 30 € to 35 €/sqm/mo in the Cloche d'Or and from 39 € to 42 €/sqm/mo in the Kirchberg district. Average rents for the City districts are 38 €/sqm/mo, while the peripheral average is 23 €/sqm/mo.

G. Investment

With an investment volume of just over €1.6 billion and the arrival of new institutional investors, Luxembourg confirms its status as an attractive market for institutional investors. Investment volume was exceptional in Q1 and picked up in Q4 after two weaker quarters.

The Cloche d'Or district, currently still in full development, focused on its own 1/3 of the volume invested, or 500m euros. It is now considered part of the institutional districts along with the CBD, the Station district and the Kirchberg district.

Key stats: 3.4% vacancy in Q3 2020; 52 €/sqm/mo prime rent; 3.40% prime investment yield,

sources: CBRE