

Quick Stats

	Change since Q2 2009	Change since Q1 2010
Take-up	↗	↗
Availability	↗	↗
Prime Rents	→	→
Prime Yields	→	→

Hot Topics

- While total take-up remains quite subdued, more tenants have been concretely looking into the possibility to move since the start of 2010.
- Vacancy has continued to trend upward, but supply growth is expected to slowdown as developers delay projects.
- Prime rents seem to be stable, although pressure on rents persists.
- The investment market remains sluggish and particularly suffers from the inactivity of German open-ended funds.

OVERVIEW

After a quiet start, the second quarter of the year 2010 was more active with 33.200 m² of office space transacted. As a result, first-half year take-up totaled 53.200 m².

Approximately 38.600 m² of new office space was delivered onto the Luxembourg office market during the second quarter of 2010. Development completions are expected to gradually reduce from 2010 onwards as developers shelve some of their projects.

Vacancy has continued to increase in the second quarter as new office projects have come on stream. In addition, a higher amount of office space is being made available by users for subletting. Vacancy is currently estimated at 8.17%.

Although prime facial rents for high quality offices in the CBD hold firm at 40 euro/m²/month, rental values however remain under pressure, particularly in the office districts located in the periphery.

Investment activity in Luxembourg remains sluggish. A total value of less than 40 million euro was invested in the first half of 2010, including purchases for own occupation and land purchases.

Prime office properties are believed to trade at 6.00% in Luxembourg.

ECONOMY

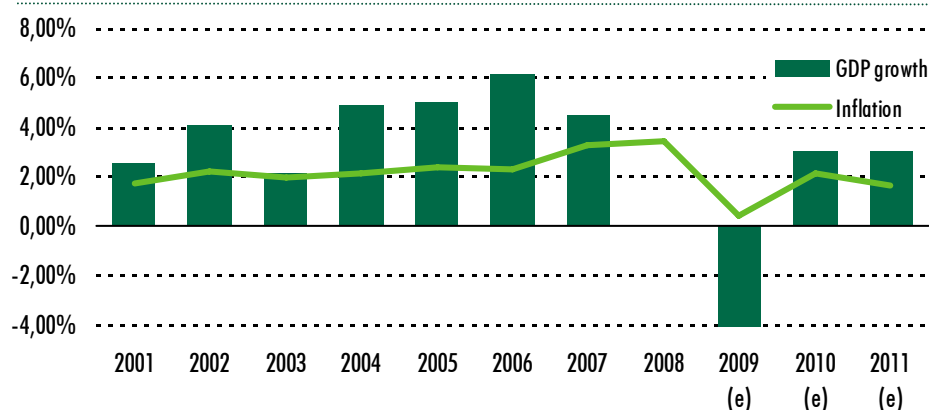
The economic recovery in Luxembourg is underway, with clear signs of improvement recently emerging in sectors such as manufacturing and business services.

Job creation also resumed in 2010. Employment is predicted to increase by 0.6% in 2010. Overall employment data remains quite mixed and it's likely that it will take some time yet until we see a discernable turnaround in labour market performances. The unemployment rate in Luxembourg however remains well contained at 6% and stays well below the Euro area average (10%).

While the economic picture has clearly got better since last year, the outlook still shows a slow and hesitant recovery. Reasons behind this are the challenges still faced by the Luxembourg financial and banking sector, in a context of renewed financial tension.

According to the STATEC, the economy should grow by 3% in 2010. Inflation is predicted up by 2.1%.

Luxembourg GDP annual growth and inflation (2001–2011e)



DEMAND

After a quiet start the second quarter of the year was more active with 33.200 m² of office space transacted. The take-up of the second quarter 2010 was also two times higher than the take-up realized in the same period last year. As a result, first-half year take-up totalled 53.200 m².

Activity continues to be dominated by a myriad of small deals (528 m² on average). This quarter there were few office transactions in excess of 1.000 m². The largest deal was closed by the European Commission, leasing 6.700 m² of offices in the Kowac-Drosbach complex in Gasperich. In the CBD, Skype signed for 2.300 m² at the Rives de Clausen office complex while DMM occupied 3.100 m² of their self-built premises in Capellen. Another deal was Cobelfret Novopar completing on approximately 1.900 m² at Rue Schiller, in the Station district.

Gasperich and the CBD accounted together for 46% of leased office space. The CBD and the Station district on the other hand saw the highest number of completed transactions. Those districts continue to attract companies seeking small to medium sized floor areas offering high visibility and accessibility by public transports.

The Bank, Finance and Insurance sector continues to drive activity and accounted for 28% of take-up this quarter, followed by the EU (20%). The IT sector ranked third, with a share of 12%.

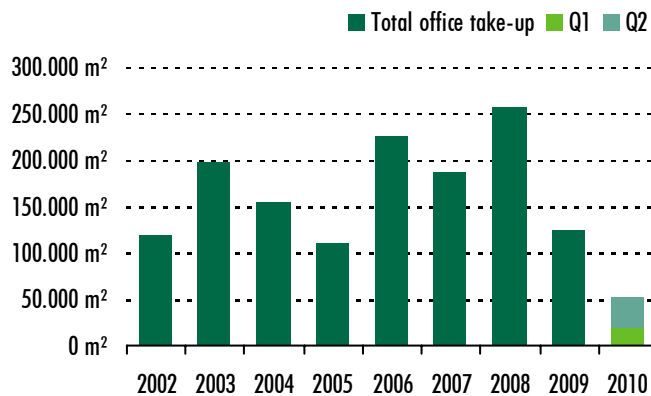
While leasing activity remains quite subdued overall, more tenants are now showing interest in moving, after most of them put real estate decisions on hold last year. This could lead to higher levels of activity in the coming months. For 2010 as a whole, take-up is predicted to reach a similar result as last year, around 120.000 m².

DEVELOPMENT

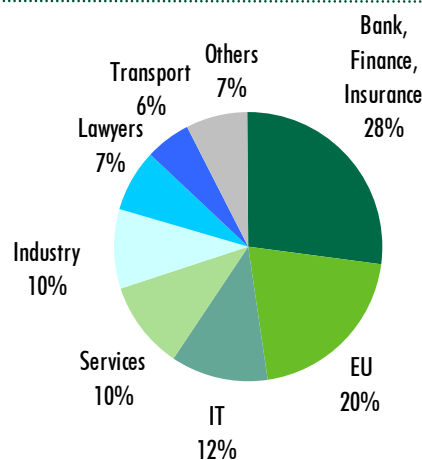
In Q2 2010, about 38.600 m² of new office space was delivered onto the Luxembourg office market. Vertigo (24.000 m²) in the Gasperich district, was the largest project coming online. The Bank of New York Mellon committed to ± 4.000 m² of offices in the building. New office schemes were also completed in Howald, Bertrange and the Station district. Only a little amount of space is due for completion for the remainder of the year.

Development completions are expected to gradually reduce from 2010 onwards as developers have frozen or mothballed some of their projects in response to the current reduced levels of demand and uncertain economic climate.

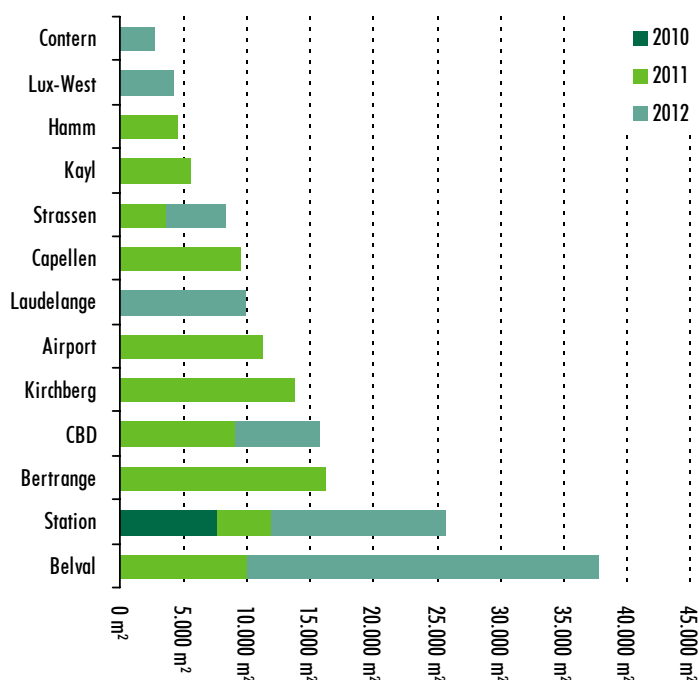
Gross office take-up (2002- Q2 2010)



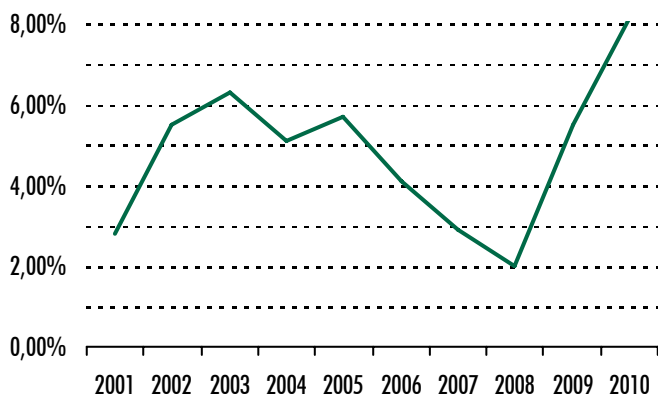
Take-up by occupier origin (Q2 2010)



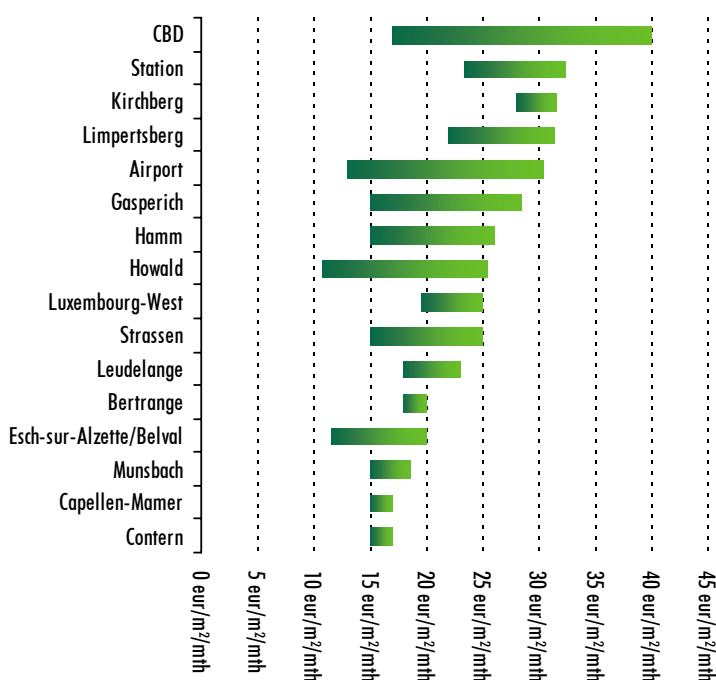
Office development pipeline 2010-2012



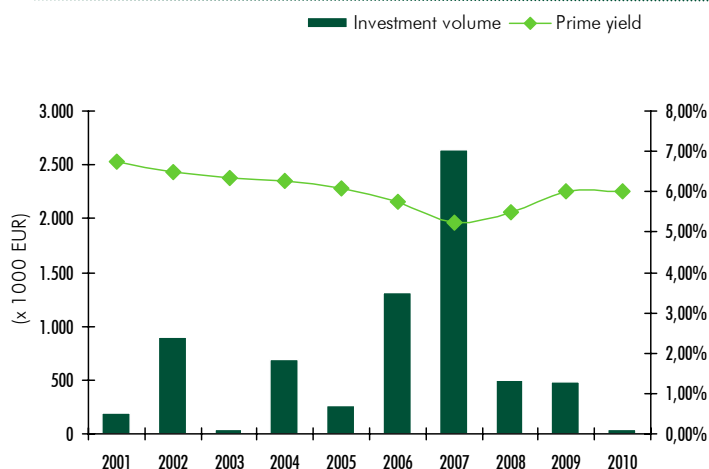
Office availability (2001-2010)



Office rents by district (2010)



Investment volume and yields



VACANCY

Vacancy has continued to increase in the second quarter as new office projects came on stream. In addition, a higher amount of office space is being made available by users for subletting. Vacancy is currently estimated at 8.17%.

The vacancy rate is expected to stabilize in the months to come. The future lower level of construction starts will allow a gradual reduction in supply as soon as demand picks up again.

RENTS

Prime facial rents for high quality offices in the CBD hold firm at 40 euro/m²/month. In addition, a number of transactions involving smaller floor areas have been recently agreed at rents around 45 euro/m²/month.

Rental values however remain under pressure due to rising vacancy and subsequent higher competition amongst landlords. Presented with a larger choice of office accommodations, tenants are using their increased bargain power to negotiate favourable lease terms with their landlords. As a result, incentives and rent-free periods being granted remain substantial.

Downward pressure on rents tends to be more pronounced in the more cyclical suburban office districts, while rental values are proving more resilient in the CBD.

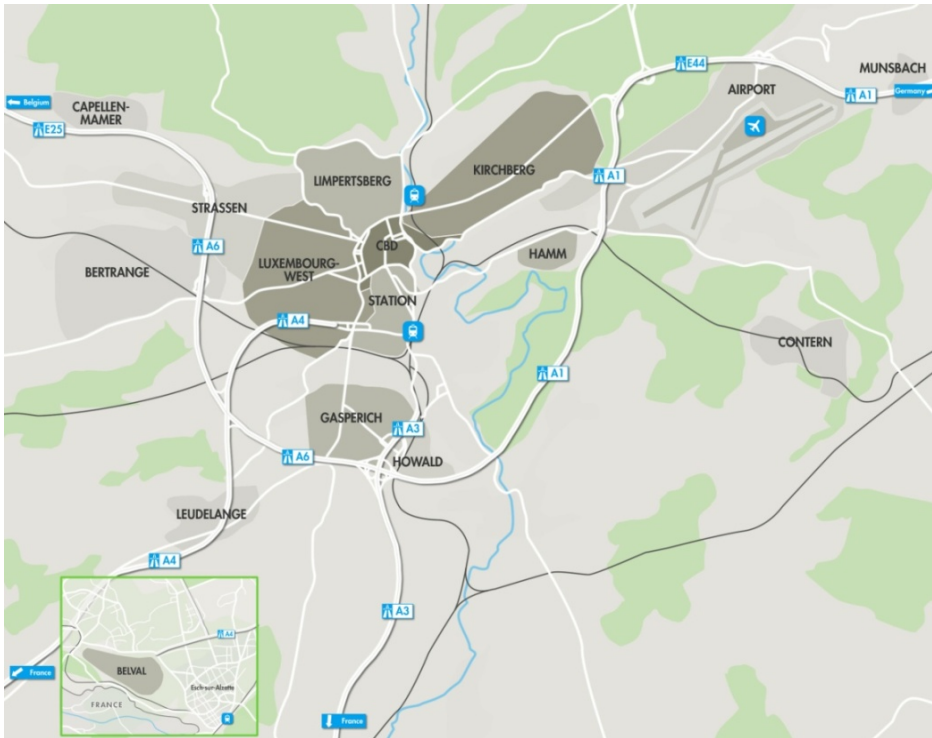
INVESTMENT

Investment activity in Luxembourg remains sluggish. A total value of less than 40 million euro was invested during the first-half of 2010, including purchases for own occupation and land purchases.

Prominent buyers in the past years such as the German open-ended funds remain nearly inactive after they reported massive withdrawals in recent months. The uncertainty over the New German Investment Act proposals is not helping the GOEFs sector, which face in consequence difficulties in implementing short-term strategies.

On the supply side, the lack of those products sought by investors e.g. prime properties, well let with long leases, is also constraining investment.

The fact that investment yields have increased less than in more cyclical markets, prompted investors to seek investment opportunities abroad. Prime office properties are believed to trade at 6.00% in Luxembourg.



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