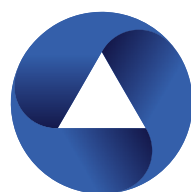




PUSHING THE BOUNDARIES

ANNUAL REPORT 2017



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MARKET ANALYSIS: LUXEMBOURG

I. OFFICE MARKET IN LUXEMBOURG

A. LUXEMBOURG CITY

2017 continued the trend of a strong office letting and investment market in Luxembourg. City districts outperformed recent years, as areas like the CBD, Gasperich and especially Kirchberg and Station, that remain attractive prospects for occupiers and investors.

B. PERIPHERY

Office markets outside of the city are relatively limited. Strassen area has seen an impressive absorption of vacant space, while Leudelange has limited availabilities. Esch-Belval has seen an impressive increase of the vacant space following RBC reducing its surfaces in the Terres Rouges building. Airport have been the target of a significant investment.

C. DEMAND

Take-up volume moderated in the final quarter of the year to 37,500 m². Though this is low compared with recent fourth quarters, the number of transactions is among the highest in the last decade, reflecting a market maintaining strong demand but lacking the large deals that drive take-up. Office take-up for the full year 2017 totals 213,000 m² and is almost identical to 2016.

Business and consumer services were the star performers in 2017 and maintained similar letting and sales activity as 2016 at 58,600 m². Banking and finance come right after and see a slight decrease compared to 2016 with 46,000 m². Government an EU activity was fairly quiet.

D. VACANCY

Approximately 180,000 m² of office space is considered vacant out of a total stock of 4.09 million m², putting the vacancy rate at a very low 4.4% at the end of Q4. City districts remain very tight: vacancy is less than 2% in the CBD, 2% in the Kirchberg area, and 2.9% in the Station district. The markets outside of the city vary significantly. The Airport and Munsbach maintain low availabilities while other select districts push upwards of 17%.

E. DEVELOPMENT

The total development for 2017 was 105,000 m², an increase of 24% over the previous year. In 2018, available space from new construction should total 84,500 m² out of a total pipeline of 197,000 m².

F. RENT

The strong letting market and supply and demand dynamics are such that rental values are well-supported. Given the high rents commanded by letting in the Royal Grace and buoyancy of the overall market, prime rents in Luxembourg increase to 50 €/m²/month in the CBD, excluding VAT. Average rents for the City districts are €36.8/m²/mo, while the peripheral average is €23.1/m²/mo.

G. INVESTMENT

Total CRE investment in Luxembourg was recorded at €1.19 billion, slightly under the €1.38 billion of 2016.

Office investment was the biggest driver at more than €1 billion.

Key stats: 4.4% vacancy; 50eur/sqm/mo prime rent; 4.00% prime yield

sources: CBE

II. RESIDENTIAL MARKET IN LUXEMBOURG

A. LUXEMBOURG CITY

Massive population growth from strong international immigration combined with a robust economy and high spending power has driven residential real estate in Luxembourg. Prices for new build apartments have been pushed above 7,000 €/m² within the city.

B. 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 6,000 €/m² are still commonplace.

C. POPULATION

Last year the Luxembourg population grew by 14,418 people (2.50%) to 590,667. Foreigners, already more than 47% of the population, made up 11,521 of this figure, while Luxembourgers added the remaining 2,897.

D. HOUSING STOCK

Apartment construction is on the rise: the undeniable quality of life in Luxembourg and the high level of salaries have helped attract many new residents to Luxembourg. As a result, apartments in urban centers in the center and south of the country have become very popular.

New stock increased by 2,523 units in 2015 (the latest figures). Of these, 1,329 (52.6%) were apartments.

New residential development has largely been concentrated in the most populous areas such as Luxembourg City (440 apartments in 2015), Esch (567 apartments), and Capellen (206 apartments).

E. PRICES

Residential real estate prices escalated further in 2017, as demand continues to outpace supply. The average sale price for all apartments in Luxembourg in 2016 was €413,765 or 5,262 €/m². For existing apartments, this was €402,827 or 5,078€/m². The latest figures through Q3 2017 show prices for all apartments at 5,394 €/m² and existing apartments at 5,054 €/m².

F. NEW BUILDS

Exit prices for new apartments in Luxembourg averaged €464,501 in 2016, a 2.0% increase. This translates to a relative price of €6,051/m². In Q3 2017 this was €514,333 or 6,219 €/m².

Zooming in, Strassen claims the highest average transaction prices for new apartments at 8,018 €/m² through Q3 2016 and ranging from 6,822 to 9,550 €/m².

New building permits count 2,287 through June 2016, approximately 8% down from same period in 2016.

Key stats: 514,333 EUR avg apartment prices for new builds through Q3 2016; 2,287 residential permits through June 2016; 47.7% foreigners residing in Luxembourg as of Jan 1, 2017

sources: Statec, LISER

III. RETAIL MARKET IN LUXEMBOURG

A. ECONOMICS

The Luxembourg economy found its feet again in the middle of the year after negative growth in Q1 with 0.7% (q/q) expansion in Q2 and 1.7% (q/q) in Q3. The buoyant European economic climate is helping to strengthen momentum in Luxembourg. Growth forecasts for 2017 and 2018 are 3.4% and 4.4%, respectively, and well above the euro average.

The Central Bank of Luxembourg indicates through a press release an historical new record of the consumer confidence index in January 2018 (20) in comparison to January 2017 (11).

Household net wealth and average earnings are the highest in the OECD (respectively, around 790 000 USD in 2014, the latest available year, and 62 600 USD in 2016).

In 2017, Luxembourg occupies the 4th position in the ranking of European purchasing power with €30,499 per inhabitant available for spending and saving, just after Liechtenstein, Switzerland and Iceland.

The Luxembourg healthy economy combined to an exceptional consumer confidence index, high income and purchasing power levels will certainly contribute to galvanizing the retail sector.

B. POPULATION

The population of Luxembourg has reached 590667 in 2017, recording an increase of 2.5% yoy. This stands slightly higher than the average population growth during the five last years (2.4%).

C. HOUSING STOCK

The five year average of the residential completions stands at 2,370 units per year.

D. DEMAND

Take-up volume amounted to 30,000 m² at the end of 2017, almost identical to 2016. H1 2017 saw a dynamic activity with 70% of the yearly total volume (20,000 m²) especially thanks to an 8,000 m² lease by the Arnold Kontz Group.

Out-of town was clearly the main location for retail space with 20,000 m² occupied in 2017. Shopping Centers come right after with a 3,300 m². High street retail (CBD, Avenue de la Gare and Avenue de la Liberté) follows with 2,000 m².

E. DEVELOPMENT

The total development for 2017 was 66,500 m² through 3 shopping centers: Opkorn in Differdange (33,000 m²), Shopping Center Massen in the north of the Grand Duchy (27,000 m²) and Borders in Schengen (6,500 m²).

3 other projects are highly expected in 2019: Royal Hamilius in the CBD (16,000 m²) that will officially welcome the French and iconic Galeries Lafayette, Infinity in Kirchberg (6,500 m²) part of a mixed-used project developed by Immobel, and Auchan Cloche d'Or (75,000 m²), centre piece of the new urban development in the south of Luxembourg-city and conducted by Grossfeld PAP.

2018 will see a 5,000 m² extension of the City Concorde Shopping Center in Bertrange.

F. RENT

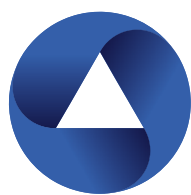
As for the office market, the strong retail market and supply and demand dynamics are such that rental values are well-supported, especially for high street surfaces where available space is extremely limited. Consequently, prime rent amounts to 215€/m²/month in Grand Rue. Avenue de la Gare in the Station district sees a lower rental level at 100€/m²/month. As for Shopping Centers, Auchan Kirchberg demonstrates a rent at 119€/m²/month while out-of-town amounts to 21€/m²/month.

G. INVESTMENT

Total Retail investment in Luxembourg was recorded at €110 million. Most of transactions locate in the CBD (Rue Philippe II and Grand Rue), that is to say 6 transactions for a total amount of €55 million.

Key stats: 215eur/sqm/mo prime rent; 3.5% prime yield High Street, 102,500 m² pipeline development

sources: CBRE, Statec, OCDE



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