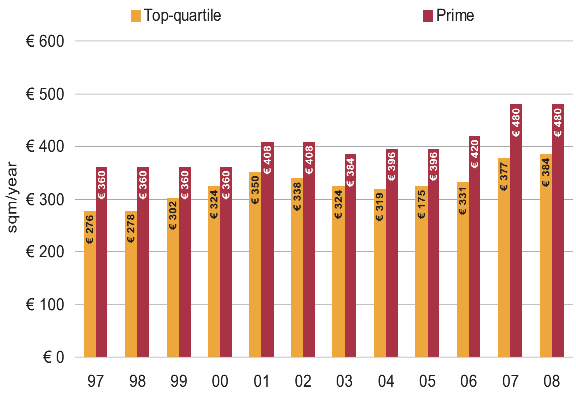
Luxembourg Office Market

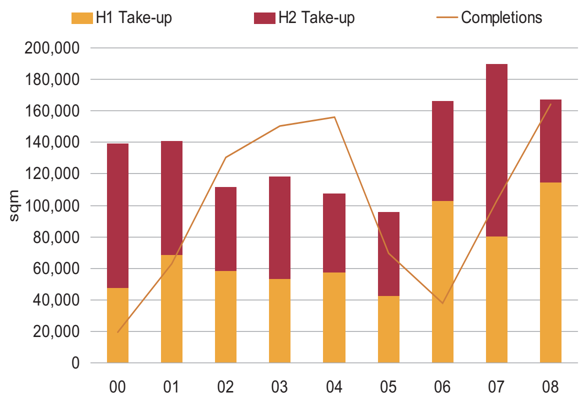
Q4 2008

Rental values



Source: Savills Research

Take-up / Completions



Source: Savills Research

"Take-up, which has been heavily dependant on the financial sector, will likely soften as the expansion of the financial groups declines.The future of the Luxembourg investment market will depend heavily on its main purchase group, the German funds."

Sheelam Chadha (Head of Research / Investment advisor)

- Take-up performed strongly during 2008 and reached 167,000 sqm, up 22% compared to the 5-year average yet down 11% compared to the highest year on record in 2007.
- Corporate tenants represented the majority of lettings (68%), followed by the European Institutions (30%) and the Luxembourg Administrations (2%). The financial sector represented the majority of corporate take-up.
- Today, around 59,000 sqm is available representing a vacancy rate of 2.05%, still one of the lowest in Europe today.
- Investment levels closed at €360 million, down significantly compared to the record 2007 where almost €3bn was invested.
- German investors took the lion's share of the Luxembourg market, totaling 52% of the investments recorded in 2008. Belgian investors come in second position with 35%, followed by UK (4%) and Luxembourg (2%) and the remaining others.
- The prime yield for a 3/6/9 year leases currently stands at 6% and for 9 year leases, 5.8%.

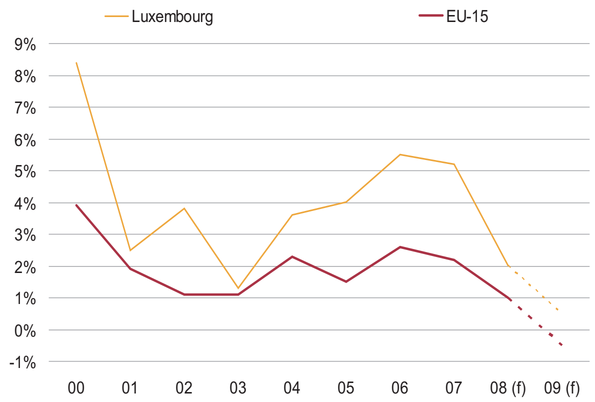
Economy and letting market

Economy

Activity during 2008 in Luxembourg experienced a slowdown yet not a sharp collapse as seen in other global financial markets. The banking results were affected by the global financial collapse, but administration and structuring of funds and tax structures in Luxembourg remained strong.

Cutbacks in production in the manufacturing industry were announced at the end of 2008 and so, unemployment is expected to rise. Estimated unemployment is forecast to reach 5.2% and 5.6% in 2009 and 2010 respectively. All sectors will be hit in Luxembourg with GDP growth in 2009 expected to be virtually stagnant at 0.5% against 2% in 2008 and inflation forecast at 0.9% against 4.9% in 2008.

GDP Growth



Source: Concensus Forecast

Letting Market

Take-up and demand

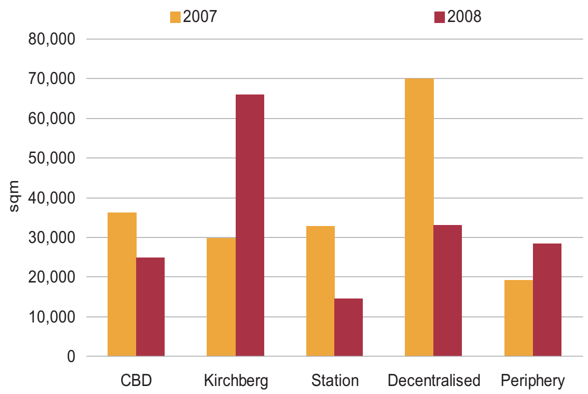
Take-up performed strongly during the year reaching 167,000 sqm, up 22% compared to the five-year average yet down 11% compared to the highest year during the record 2007. Some 70% of the lettings took place during H1 2008 which could point to a slowdown during the second half of the year.

Corporate tenants represented the majority of lettings (68%), followed by the European Institutions (30%) and the Luxembourg Administrations (2%). The financial sector represented the majority of corporate take-up (38%) followed by manufacturing (24%), legal (13%), business-related services (9%), I.T. (5%) and others (11%).

By district, the highest take-up was recorded in the Kirchberg district where a record level of 66,000 sqm was let- up more than twice the 2007 level. Size transactions were recorded with the most notable the EIB's extension (40,500 sqm). Additionally, the Président building was partly let (8,800 sqm) to the EU Parliament whilst Loyens & Loeff took space in the K Point (8,200 sqm).

The Decentralised district registered 33,000 sqm - down 24% compared to the five-year average. Major transactions included the lettings of ArcelorMittal (11,600 sqm) and Services Généraux de Gestion (5,600 sqm) in the Auf der Drosbach building as well as PriceWaterHouseCoopers in Laccolith (4,500 sqm).

Take-up by district



Source: Savills Research / Expertise

The Periphery saw take-up increase by 50% and totalled 28,400 sqm. Notable transactions included the letting of Ferrero in the Findel Office Park (16,000 sqm) and Bosch Siemens Hausgeräte in Munsbach (1,500 sqm).

The CBD and the Station district registered 25,000 sqm and 14,600 sqm respectively- down 10% and 27% compared to the five-year average. Key deals included HSBC Bank which let Dairy House (8,200 sqm) Landsbanki Luxembourg which let Royal Monterey (5,700 sqm) and Bonn, Smitt & Steichen which let Les Rives de Clausen (4,000 sqm).

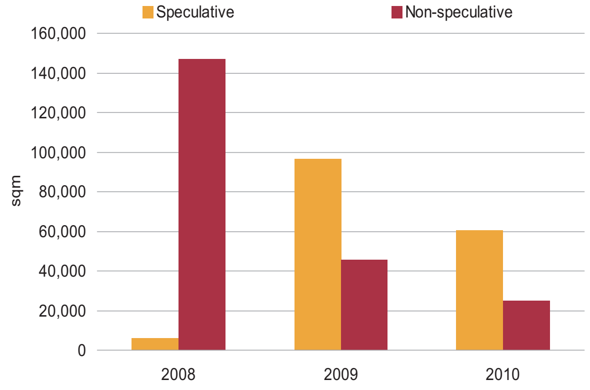
Vacancy rate and development pipeline

Today, only around 59,000 sqm is available representing a vacancy rate of 2.05%, still one of the lowest in Europe today. Nonetheless, with an expected decline in take-up for 2009, consolidation of the banking and finance sectors and a significant speculative pipeline coming onto the market in 2009 (100,000 sqm), there is a possibility that the vacancy rate could double by mid-2010.

Total office stock in Luxembourg now stands at 2.86 million sqm.

Rent, investment and outlook

Development pipeline

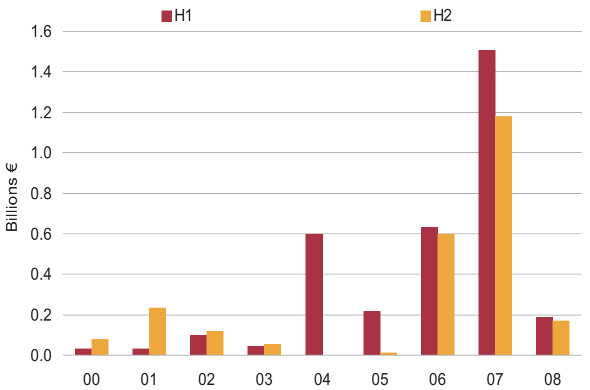


Source: Savills Research / Expertise

Rents

The prime rent remains unchanged compared to 2007 at €480/sqm/year. By districts however, there have been some notable upward revisions over the year: The Kirchberg district increase 5% to €378/sqm/year and the Decentralised increased 4.8% to €327/sqm/year. The top-quartile rent also increased by 2% to €384/sqm/year over 2008 in Luxembourg.

Investment volume



Source: Savills Research

Investment

Investment levels in Luxembourg at the end of H1 2008 were down significantly at around €200 million - but attributed mostly to the lack of product as the super-funds and institutions aggressively out-bid one another during the rush in 2007. The second half saw a change in mood, as investors grew weary. This ripple effect has spread to Luxembourg's commercial property sector and today, where core, prime product is available, the frozen nature of Luxembourg's main purchase group- the German funds- has seen investment levels close at a very low €360 million.

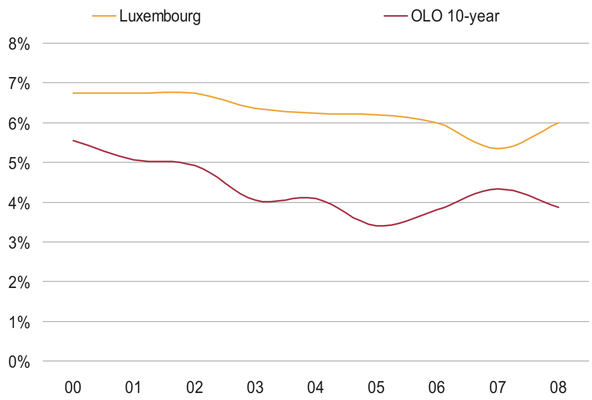
Nonetheless, excluding the record 2006 and 2007, 2001-2005 averaged around €290 million turnover, which represents an increase of 24%.

German investors took the lion's share of the Luxembourg investment market, totalling 52% during 2008. Belgian investors came in second position with 35%, followed by UK (4%) and Luxembourg (2%) and the remaining "Others". The majority of the investment comes from third party fund manager (48%), Institutional Investors (33%) and Belgian SICAFI (16%) and the remaining "Others".

Main investments in 2008 included the acquisition of Espace Strassen by AXA Reim for €70 million, Findel Golf Office Park F8 by HSBC Trinkaus for €64 million and the Strassen Office Park by Fidentia for €60 million.

The prime yield for a 3/6/9 lease term currently stands at 6% and 5.8% for a 9-year firm lease.

Prime yield - OLO



Source: Savills Research / Expertise

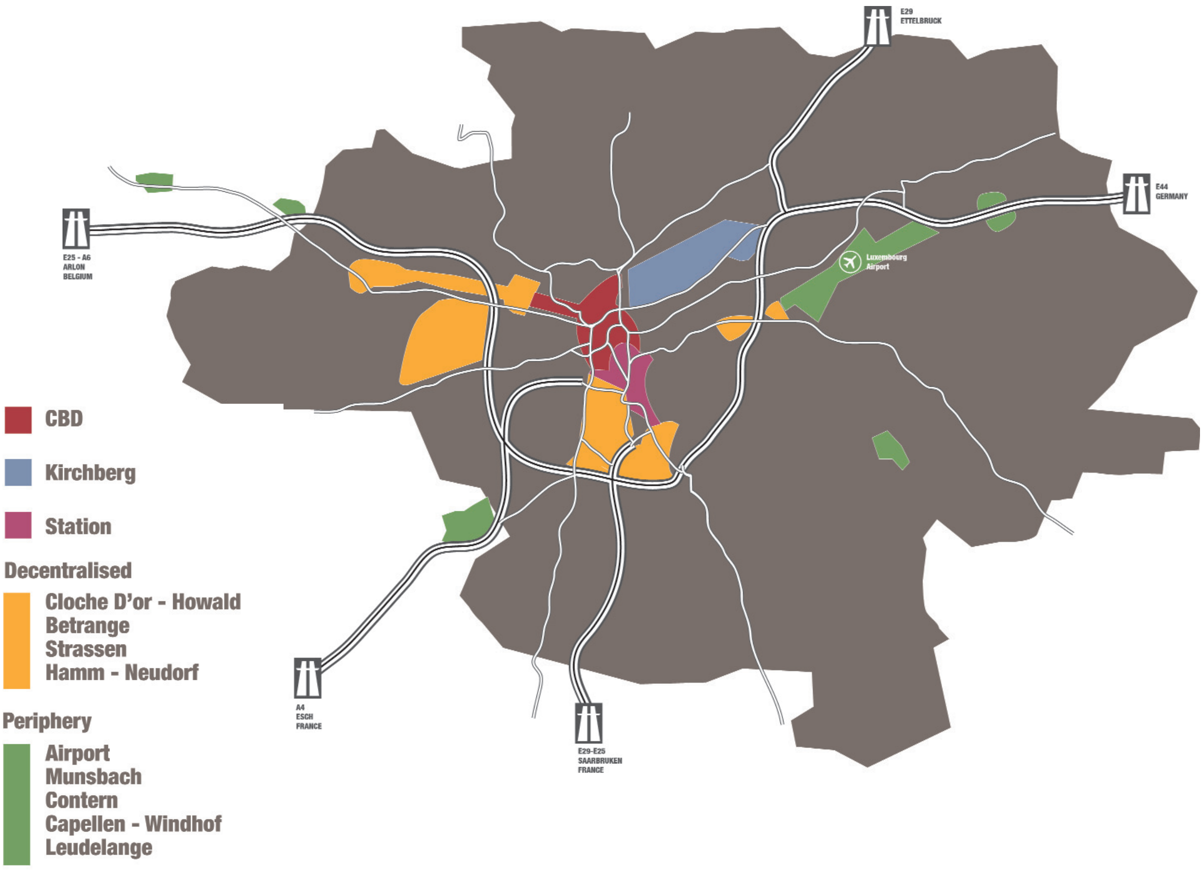
Outlook

Take-up, which has been heavily dependant on the financial sector, will likely soften as the expansion of the financial groups declines. The once landlord-favoured market may slowly head towards the tenant and incentives could increase. The significant speculative supply in due to come online during 2009 and 2010 will most likely have a knock-on effect on the letting market and the vacancy rate is forecast to increase.

2009 will be a tough year for the investment market in Luxembourg. With a lack of debt and a real potential absence of the country's main enthusiast, the German funds, Luxembourg investment turnover is estimated to reach around €400million based on potential forced sales and non-strategic disposals.

Luxembourg Office Market

Survey map



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