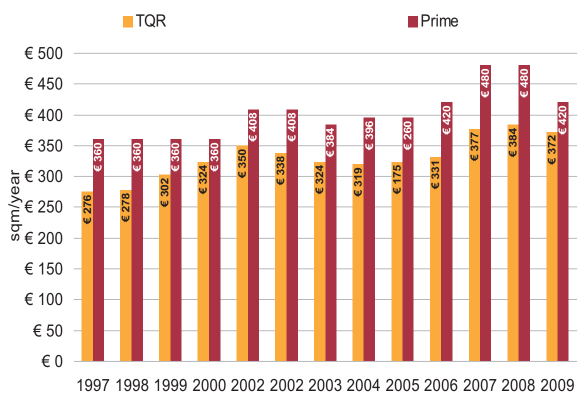
Luxembourg office market

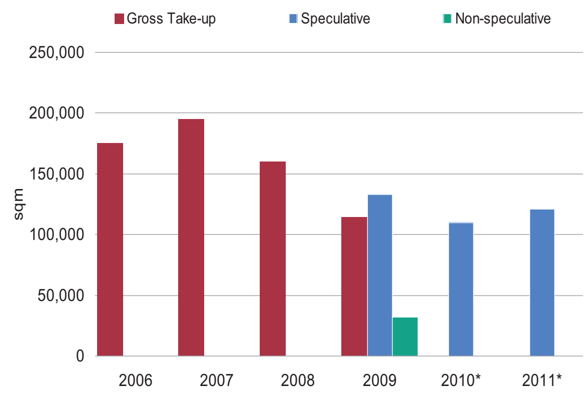
Q4 2009

Rental values



Source: Savills Research

Take-up / Development completions



Source: Savills Research / * Forecast

"The domestic recovery of the letting market will be key for Luxembourg in 2010, with signs of recovery in Europe clear. Nonetheless, the unwillingness of some owners to sell, coupled with buyer attention being focused on other core European cities points towards another difficult forthcoming year for the investment market. "

Sheelam Chadha (Head of Research / Investment advisor)

- Total take-up, including deals to occupiers, totalled 114,000 sqm, down 32% on 2008 and 14% compared to the five-year average.
- Rents overall have been much harder to analyse given the lack of letting transactions in the market. Based on transactions during 2009, prime rents now stand close to €420/sqm/year representing a decrease of 12.50% compared to the previous year.
- The vacancy rate has risen to 5.34%, up 3.29% over one year alone. It is forecast that vacancy rates, although the lowest in Europe, could reach 7.79% by end of 2010.
- During 2009, the investment market, including some deals sold to end-users totalled €442.2 million. However, deals in the institutional investment market less own-occupation amounted to €239.3 million, down 34% compared to 2008 and 80% compared to the five-year average.
- As the number of transactions is very small and limited, it remains very difficult to quote exact yields. Estimated yields have moved from 5.35% to 6.25-6.50% today for core product in top locations.

Savills Research

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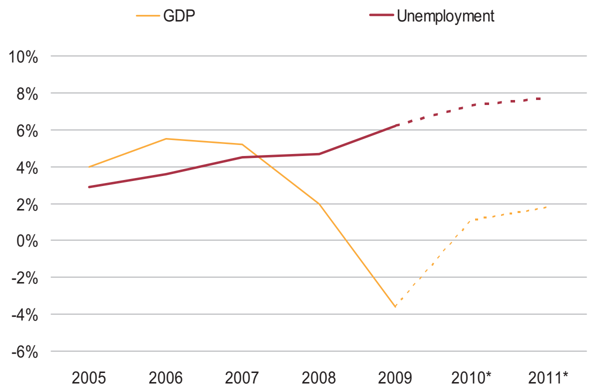
Economy and letting market

Economy

The outlook for 2009 going into 2010 year has been negative: private consumption has been weakened by the negative developments on the labour market and the general deterioration in the economic environment. However, it could be supported to some extent by the cuts in income tax enacted in 2008 and 2009, by the fall in inflation and by the recent decline in interest rates. A reduced inflow of funds and commuters widened the trade deficit by 20% to €5.4 billion in 2008. Overall, GDP is forecast to contract by about -3.6% by the end of 2009 rebounding in 2010 to 1.1%.

GDP Growth and Unemployement



Source: Consensus Forecast / * Forecast

Letting Market

Take-up and demand

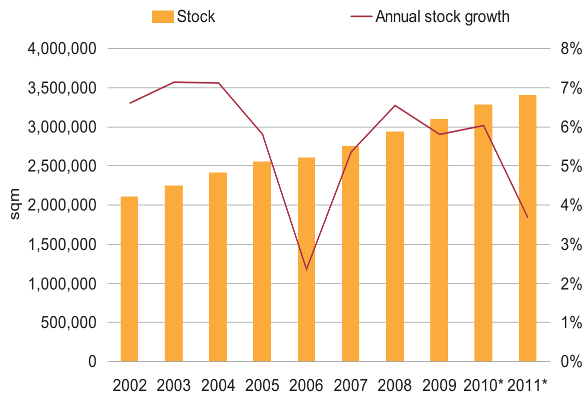
Total take-up during 2009 in Luxembourg was fairly weak and reached approximately 114,000 sqm. This includes deals sold to occupiers and in the Luxembourg hinterland of Belval. Despite some headline transactions, Luxembourg witnessed one of the weakest drops in activity in all of Europe. Compared to 2008, take-up fell 32% and 14% compared to the five-year average. The market dynamics are less buoyant than in its heydays with supply and demand imbalances at the moment. The largest drops of activity, in order and compared to 2008 were noticeable in the Kirchberg (-70%), CBD (-66%), Station (-57%) whilst activity increased in the Periphery (+47%) and the Decentralised (+14%). These outer-CBD increases in take-up could be linked to the fact that availability, and therefore negotiating power for tenants, is higher which in turn could be linked to tenants looking for cheaper office space as a short-to-medium term challenge in the weak economy.

One of the main driver's in the last few year's has been the Banking and Financial tenants which have helped push historic take-up levels to record highs. Banking and Financial tenants have represented an average of 20% of the total market from 2005 onwards, dropping significantly in 2008 to 9%. Nonetheless, some positive signs are on the horizon for this group as Banking and Financial saw its market share increase to 25% during 2009 (21 deals, 29,000 sqm). Some key lettings included ERI Bancaire which let 4,475 sqm in Espace Kennedy C (Kirchberg) and an American Bank which pre-let 4,081 sqm in a new development located in the Cloche D'Or (Decentralised). The remainder types of tenants were Business Services (15.6%), Real Estate (12%) and Public Administrations (10%) with the rest mixed.

Stock and vacancy

Total stock as the end of 2009 amounted to approximately 3.1 million sqm in Luxembourg. In 2009, new deliveries, of which 80% were speculative, totalled almost 166,000 sqm and were located in the Periphery (66,500 sqm), Kirchberg (40,600 sqm), Decentralised (37,600 sqm) and the CBD (21,200 sqm). Due to the rising stock growth in Luxembourg, the vacancy rate has risen from 2.05% at the end of 2008 to 5.34%

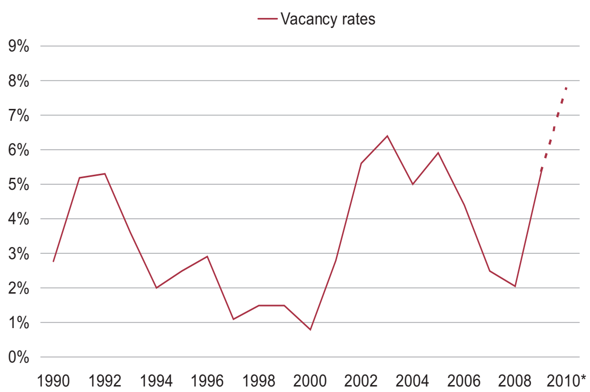
Stock and stock growth



Source: Savills Research / * Forecast

For 2010 and 2011, another 302,000 sqm should be delivered of which most is not yet pre-let. This stock growth is a large concern for the Luxembourg market as demand remains weaker than average and supply at an all-time high.

Vacancy rate



Source: Savills Research / * Forecast

Investment and outlook

Rents

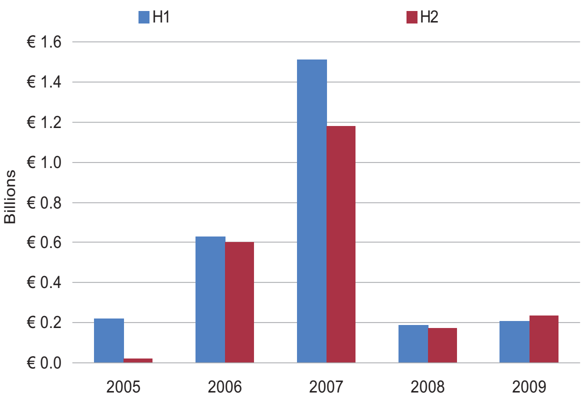
Rents overall have been much harder to analyze given the fewer letting transactions in the market. Based on transactions during 2009, prime rents now stand closer to €420/sqm/year representing a decrease of 12.50% compared to a year previous. Top rents are still achieved in the CBD and compared to 2008 fell 12.50%. Elsewhere in Luxembourg, prime rents in the Kirchberg now top €360/sqm/year (-6.25%); Station €336/sqm/year (-20%); Decentralised €330/sqm/year (-8.33%) and Periphery €287/sqm/year (-14.58%).

Investment

During 2009, the all-asset investment market, including some deals sold to end-users, totalled €442.2 million. However, deals in the institutional investment market less own-occupation amounted to €239.3 million, down 34% compared to 2008 and 80% compared to the five-year average.

The largest office investment transaction was the acquisition of the F7 building in the Findel Golf Office Park in the Airport district for €50 million by Nord LB Bank, which will however occupy a part of the building for its own activities. Ariane, located in the Cloche D'Or sub district of the Decentralised Area and let to PWC on a short lease, was sold from IVG to a developer for around €49 million. Furthermore, Pylos acquired the Pedus headquarters at the Place de l'Étoile for €18 million from La Luxembourgeoise and HSBC sold its former offices, after having moved from the CBD to the Airport district, at the corner of the Boulevard Royal and the Avenue Marie-Thérèse to Schuler for around €10 million. Remaining office acquisitions are own-occupied by the buyer, by such companies as P&T and the City of Luxembourg and Siemens.

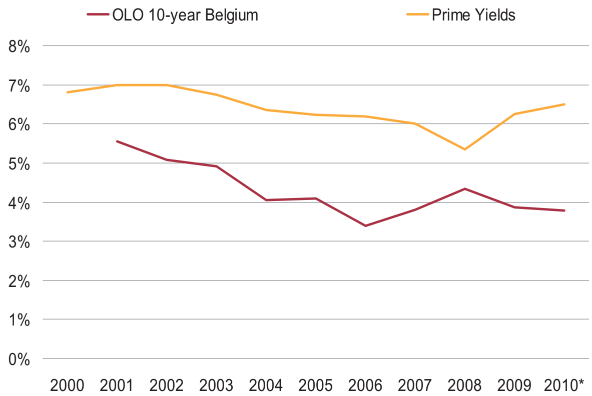
Investment volume



Source: Savills Research

The Luxembourg office market is clearly suffering the lack of buyers, in particular the German open-end funds, which represented 80% of the investments made in Luxembourg. Most of them have reopened with some looking to buy again but most have altered their criterion which is proving difficult to find today. The purchase groups in Luxembourg have shrunk enormously since the peak when every product had 5 buyers. As of today, we believe that at least 1-2 buyers can successfully bid on assets and most likely will be of Belgian, German or domestic origin. Germans, mostly originating from the open-ended fund groups, over-allocated themselves in recent years and are looking elsewhere in Europe for the moment.

Prime yield - OLO



Source: Savills Research / *Forecast

As the number of transactions is very small and limited, it remains very difficult to quote exact yields. Estimated yields have moved from 5.35% to 6-6.5% today for core, long-let product in top locations. Since the peak in 2008, capital values in Luxembourg have decreased by 45% and now stand at €6.092/sqm today.

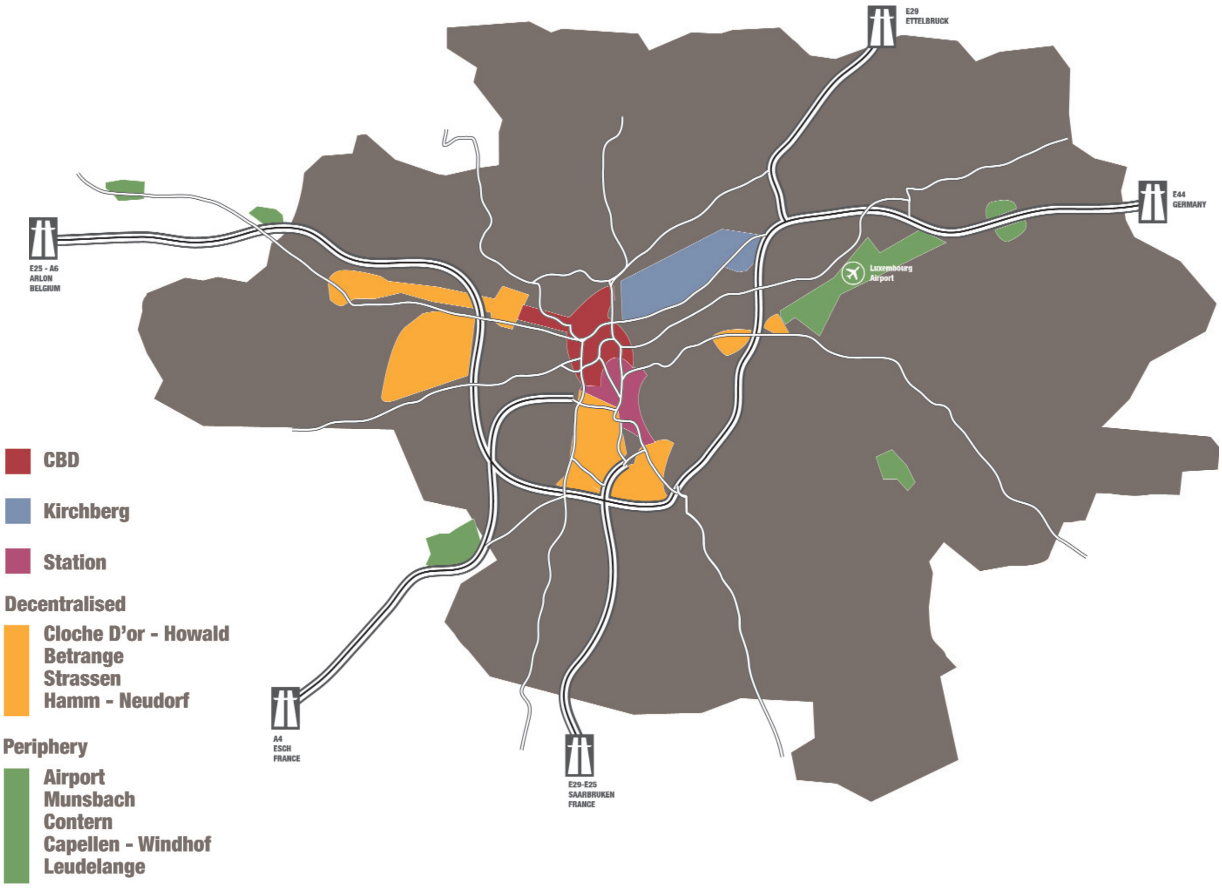
Outlook

In early 2010, the Grand Duchy took its first steps into developing Islamic financial capital markets. The double tax treaties signed with United Arab Emirates, Qatar, Kuwait and Bahrain could boost Islamic finance credentials and could help link the Middle East to Europe. Nonetheless, the letting market will still be tough in 2010 but should not be worse than 2009. We forecast that take-up will surpass 2009 and reach around 135.000 sqm. However, the largest concern remains in the vacancy rate which is likely to reach 7.8% by end of 2010. Rents will certainly continue to decrease.

Much of the direction of the investment market hangs on the domestic recovery of the letting market, which elsewhere in Europe is showing some signs of recovery. However, the unwillingness of some owners to sell, coupled with buyer attention being focused on other core European cities where yields are compressing fast, is not helping the current situation. On this basis, we forecast that around €500 million could be invested by the end of 2010.

Luxembourg office market

Survey map



For further information please contact

John Defauw
Managing Director
+32 2 542 40 55
jdefauw@savills.be

Gregory Martin
Managing Director
+32 2 542 40 52
gmartin@savills.be

Sheelam Chadha
Head of Research
+32 2 542 40 57
schadha@savills.be

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