MARKETBEAT
LUXEMBOURG
OFFICE Q1 2025

MARKET FUNDAMENTALS

	YOY Chg	12-Month Forecast
5.10% Vacancy Rate	▲	▲
45,000 Take-up (sq m)	▼	=
€54.00 Prime rent (per sq m)	=	▲
5.00% Prime yield	▼	▼
406,000 Under Construction (sq m)	=	=

Source: Cushman & Wakefield

ECONOMIC INDICATORS

	YOY Chg	12-Month Forecast
1.63% Luxembourg GDP Growth (e)	▲	▲
1.64% Luxembourg Consumer price index	▼	▼
5.54% Luxembourg Unemployment Rate	▲	▼

Source: Moody's Analytics, STATEC, Eurostat, April 2025

A PROMISING YEAR AHEAD DESPITE CHALLENGES

Luxembourg' economy is expected to grow by 1.63% in 2025, outpacing the Eurozone average of 0.77%. This solid performance is fueled by robust domestic demand and a steady recovery in financial services exports, a cornerstone of Luxembourg's economy.

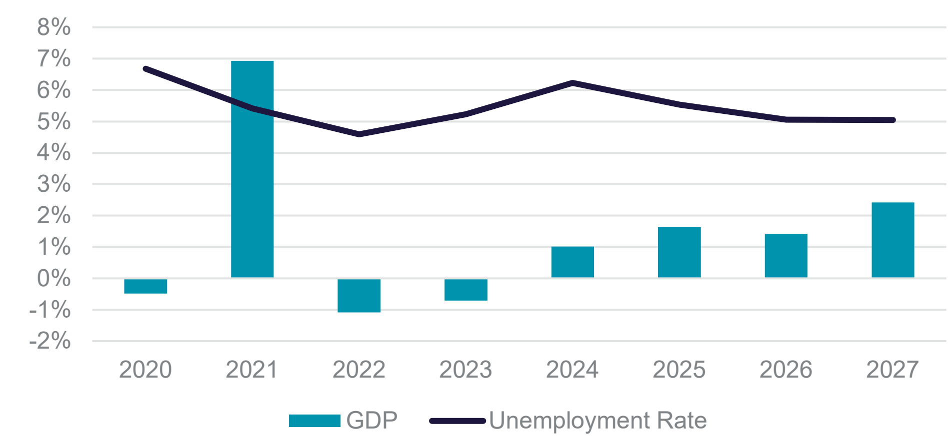
Inflation in Luxembourg is expected to remain moderate at 1.64%, well below the Eurozone average of 2.09%. This controlled inflation environment has created room for the European Central Bank to begin loosening monetary policy, with recent cuts in key interest rates aimed at supporting broader economic growth.

Luxembourg's labor market continues to show resilience, with the unemployment rate projected at a low 5.54%, compared to the Eurozone average of 6.38%. This reflects the country's ability to generate jobs even amidst global uncertainties.

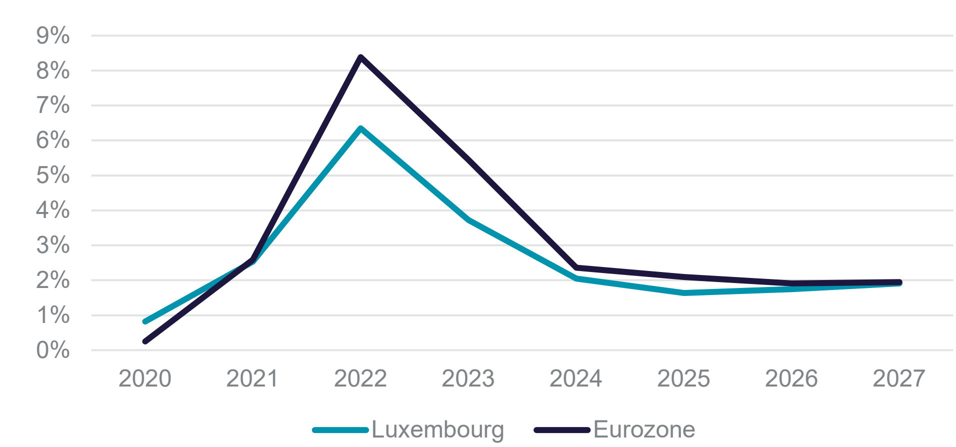
Despite these positive trends, Luxembourg faces several challenges. The ongoing conflict in Ukraine poses geopolitical and economic risks, disrupting supply chains and driving up energy prices. Additionally, U.S. tariffs could have significant consequences for Luxembourg. Although Luxembourg's direct exposure to U.S. tariffs is relatively minimal, the indirect effects could be more pronounced. As a key player in EU trade flows, Luxembourg could see its GDP impacted by up to 0.98%. This is due to its role in supplying intermediate goods and services to other EU nations that export to the U.S. For instance, German car manufacturers rely on financial services from Luxembourg, and any disruption in trade could affect these sectors.

Luxembourg is poised for solid economic growth in 2025, characterized by moderate inflation and a low unemployment rate. However, it will be crucial to keep an eye on geopolitical tensions and protectionist trade policies that could pose significant challenges.

GDP GROWTH & UNEMPLOYMENT RATE



INFLATION RATE (HCIP in % of change)



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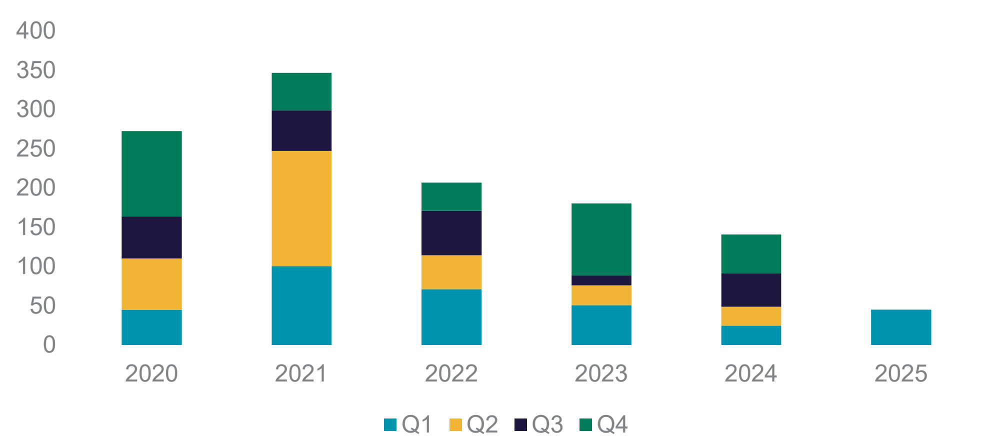
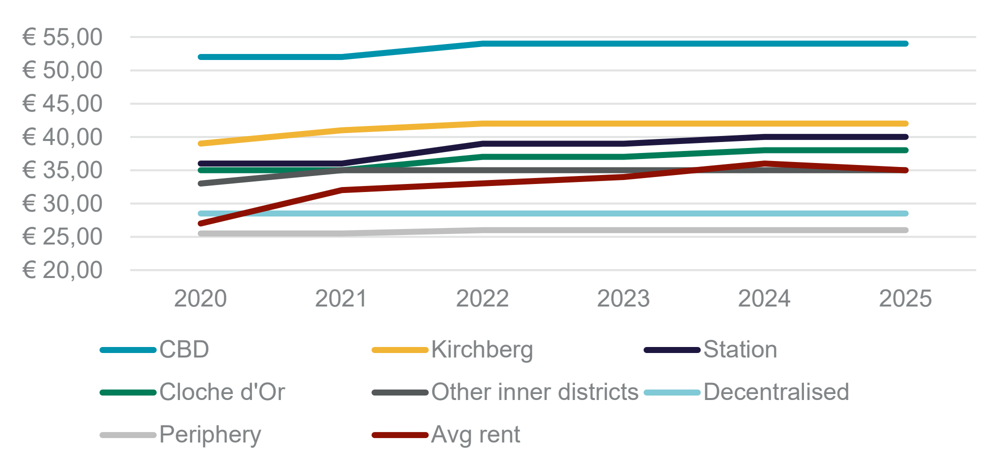
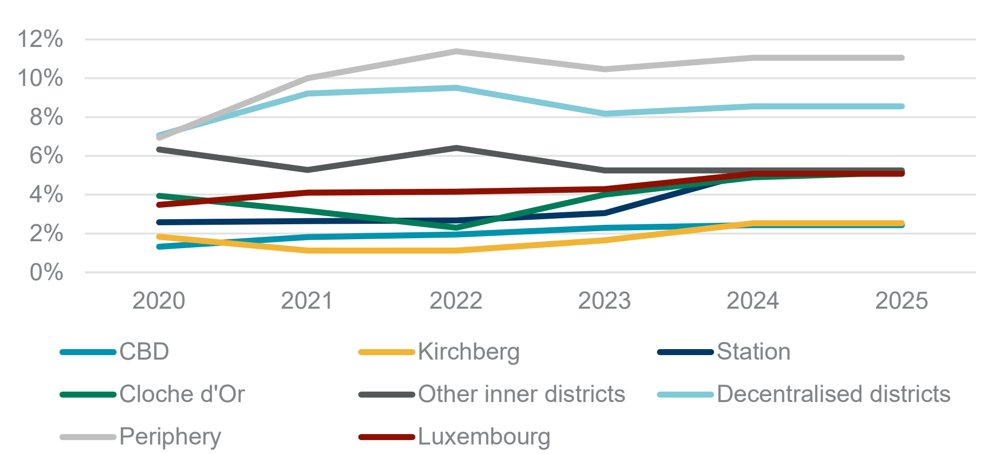
TAKE-UP BY QUARTER (000S SQ M)



PRIME RENTS (€/SQ M/MONTH)



VACANCY RATE



TAKE-UP RISES – BUT ONE DEAL TELLS THE STORY

The Luxembourg office market recorded a total take-up of approximately 45,000 sq m during the first quarter of 2025, representing an increase compared to the same period in 2024. However, this figure remains nearly 20% below the 10-year quarterly average, highlighting that despite signs of activity, the market has yet to fully regain its pre-2022 momentum.

This apparent recovery must also be considered with nuance. The quarterly volume was heavily skewed by a single large pre-letting transaction of over 16,000 sq m, which, when removed from the equation, reduces the underlying take-up to a modest 29,000 sq m—a level that better reflects the current cautious mood in the occupier landscape.

The standout transaction of the quarter was the pre-letting of the *Lime House* project in Cloche d'Or by FM Global, a U.S.-based insurance group. This transaction stands out not only due to its size but also because of its timing—executed in a market still defined by cautious demand and delayed decision-making from many corporates. It underscores the growing strategic focus on modern, ESG-compliant buildings, particularly for large international occupiers seeking long-term sustainability and efficiency.

PRIME RENTS A THIRD YEAR OF STABILITY

Prime rents remained stable at €54/sq m/month, a level that has now held for more than two years. This continued stability mirrors the current balance between landlord expectations and tenant willingness to pay, and suggests the market has found a pricing plateau for the time being—especially for new, high-quality space.

HIGH PRE-COMMITMENTS OFFSET SUPPLY CONCERNS

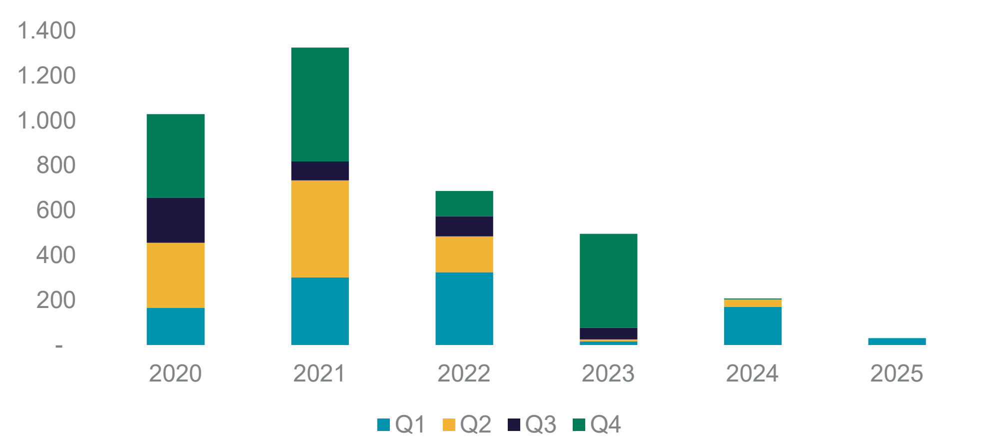
On the vacancy front, the market remained stable this quarter after several periods of gradual increase. This pause in the upward trend helps ease concerns over a potential imbalance between supply and demand, especially with nearly 400,000 sq m of office space currently under construction. However, the risk of oversupply is mitigated by a key factor: around 75% of this pipeline is already pre-let.

This high pre-letting rate reflects the ongoing flight-to-quality trend, with occupiers prioritising ESG-compliant, modern office buildings. It also highlights the strong demand for best-in-class space, even in a cautious economic environment. As a result, prime developments appear shielded from broader market softening, while older, less sustainable assets may continue to face challenges.

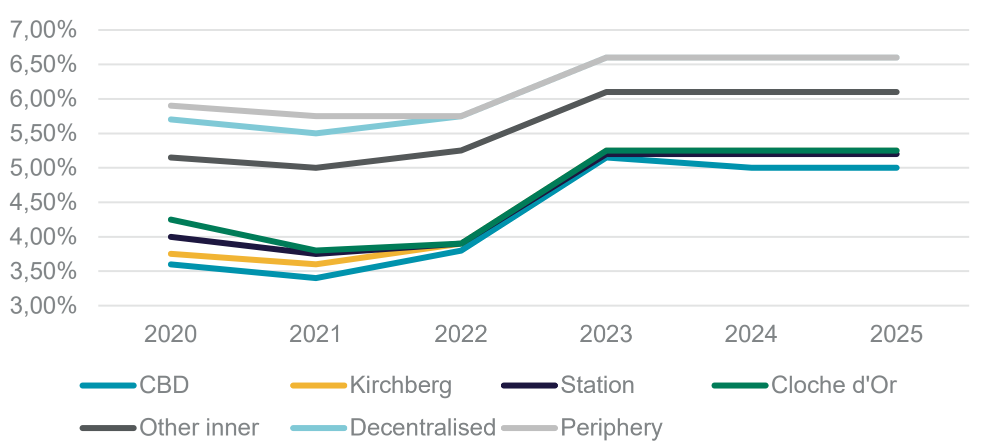
OUTLOOK

- Looking ahead, the outlook for the Luxembourg occupational market remains cautiously optimistic but hinges increasingly on private sector engagement. While recent take-up volumes have been buoyed by major public sector or government-backed transactions, future market resilience will depend on renewed momentum from corporate occupiers—especially within finance, legal, and tech sectors.
- Externally, global headwinds—such as lingering inflationary concerns, geopolitical instability, and the possible reintroduction of U.S. trade tariffs—continue to cast a shadow over corporate decision-making. These factors may delay office expansion strategies, particularly for international firms with global exposure.
- Overall, while the market is not expected to surge in the near term, stabilising economic indicators and a potential return of corporate confidence could gradually lift activity levels, provided that macro risks remain contained.

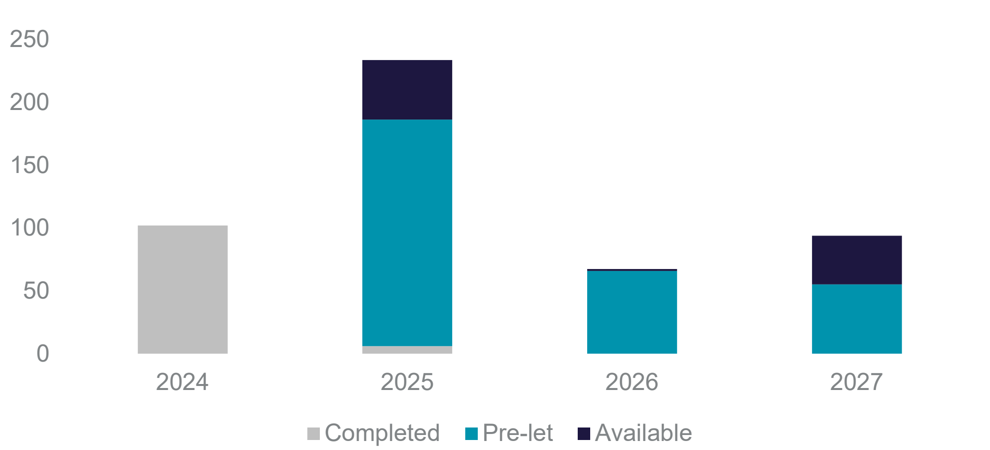
INVESTED VOLUMES (MILLION)



PRIME YIELDS



PIPELINE UNDER CONSTRUCTION (000S SQ M)



MUTED START OF THE YEAR FOR INVESTMENTS IN LUXEMBOURG

The Luxembourg office investment market kicked off 2025 with its weakest first quarter on record. Only two transactions were completed during the period, totalling just €31 million—an exceptionally low figure that starkly contrasts with the levels seen prior to the economic shift of 2022. This quarter marks the fourth consecutive year where Q1 results have reflected a distinct lack of momentum, underscoring the persistent uncertainty and cautious approach that continue to characterise investor sentiment.

The main transaction of the quarter was the sale of a wing of the *KB2* building, located in the Kirchberg district. The asset was acquired by Baltisse for €24 million, following the announcement that StateStreet—formerly occupying the space—would relocate to its new Luxembourg headquarters. The deal was driven by a value-add strategy, with the buyer planning a full refurbishment of the vacant wing to reposition the property in line with evolving occupier expectations and ESG standards.

The second transaction concerned the sale of the villa at Rue Aspelt 5 to a private investor for €7 million. The reported yield on the transaction was 4.50%, but given the modest volume and unique characteristics of the asset, this figure is not considered representative of wider market pricing or sufficient to establish a new benchmark.

YIELD STABILITY REFLECTS CAUTION, NOT CONFIDENCE

Overall, prime yields have remained unchanged across asset classes this quarter. In the absence of institutional-scale transactions and reference deals, pricing remains largely theoretical and driven more by sentiment than evidence. The market continues to wait for new signals that could prompt repricing—either upward or downward—but for now, yields are expected to hold steady.

The stability in yields persists despite a series of interest rate cuts by the European Central Bank, intended to revitalise credit conditions and stimulate investment. However, the impact on the real estate sector has so far been limited, particularly in a market as tight and sensitive as Luxembourg's, where the prevalence of fixed-rate financing dampens the immediate effects of monetary easing. While inflation in Luxembourg remains under control — below the 2% benchmark — broader global uncertainties, including geopolitical tensions and the potential reintroduction of trade tariffs in the U.S., continue to fuel investor caution. That said, not all investors have retreated entirely. Some developers and private investors—less dependent on bank financing and with higher risk tolerance—are actively scouting for opportunities, especially where potential for repositioning exists.

OUTLOOK

- As we look ahead, the Luxembourg investment market is likely to remain cautious in the short term, although signs of renewed activity are emerging. Early indications of monetary easing by the European Central Bank—aimed at improving credit conditions—have yet to significantly stimulate commercial real estate. However, the second quarter has already seen notable transactions, including The Edge and The Charlotte, suggesting a gradual reawakening of investor interest.
- With prime yields still largely theoretical due to the scarcity of reference transactions, the closing of The Charlotte—a core asset deal—could serve as a key benchmark for reassessing prime yields in the upcoming quarter. Meanwhile, broader global risks, such as geopolitical tensions and potential U.S. tariffs, continue to weigh on sentiment, leading core investors to prioritise capital preservation over aggressive deployment.

MARKET STATISTICS Q1 2025

SUBMARKET	INVENTORY (SQ M)	AVAILABILITY (SQ M)	VACANCY RATE	Q1 2025 TAKE-UP	2024 TAKE-UP	UNDER CONSTRUCTION (SQ M)	PRIME RENT (€/sq m/month)	PRIME YIELD
Luxembourg (Overall)	**4,782,334**	**244,294**	**5.10%**	**44,939**	**140,930**	**405,769**	**€54**	**5.00%**
CBD	893,060	21,684	2.43%	3,352	14,638	4,124	€54	5.00%
Kirchberg	1,399,637	35,374	2.53%	3,439	7,201	254,112	€42	5.25%
Cloche d'Or	516,288	26,530	5.14%	21,394	36,763	34,147	€38	5.25%
Station	498,142	25,687	5.16%	396	12,443	16,036	€40	5.20%
Other inner districts	262,372	13,777	5.25%	6,511	4,717	17,136	€35	6.10%
Decentralised	515,853	44,134	8.56%	2,096	27,051	23,718	€30	6.60%
Periphery	696,982	77,108	11.06%	7,751	38,117	56,496	€26	6.60%

KEY LEASE TRANSACTIONS Q1 2025

SUBMARKET	PROPERTY	TENANT	SQ M	TYPE
Cloche d'Or	Lime House	FM Global	16,434	Pre-letting
Other inner districts	HDB	ONA	6,024	Letting
Periphery	Bliss	Confidential	4,065	Letting
Cloche d'Or	Vertigo	Business Office Services	3,524	Letting
Kirchberg	The Stage	ArcelorMittal	2,339	Letting

KEY INVESTMENT TRANSACTIONS Q1 2025

SUBMARKET	PROPERTY	BUYER / SELLER	PRICE (MEUR)	SURFACE	YIELD
Kirchberg	KB2	Baltisse / KBC Real Estate	24	4,800	-
CBD	ASPELT 5	Private / Wendel	7	504	4.50%

Source: Cushman & Wakefield

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