

## MARKET FUNDAMENTALS

	YOY Chg	12-Month Forecast
<b>5.10%</b> Vacancy Rate	▲	▲
<b>106,000</b> Take-up (sq m)	▲	▬
<b>€54.00</b> Prime rent (per sq m)	▬	▲
<b>4.90%</b> Prime yield	▼	▼
<b>502,000</b> Under Construction (sq m)	▲	▬

Source: Cushman & Wakefield

## ECONOMIC INDICATORS

	YOY Chg	12-Month Forecast
<b>1.04%</b> GDP Growth YoY 2025 (F)	▲	▲
<b>2.40%</b> HICP Luxembourg June 2025	▲	▼
<b>5.77%</b> Unemployment Rate 2025 (F)	▲	▼

Source: Moody's Analytics, Eurostat

## RECOVERY GAINS GROUND AMID GLOBAL UNCERTAINTY

Luxembourg's economy ended 2024 with a **growth rate of 1.01%**, slightly above the Eurozone average of 0.84%. The main driver of this growth was **positive net exports**. In contrast, fixed capital investment weighed on performance, particularly due to a decline in both residential and non-residential construction projects.

Looking ahead, **forecasts predict continued moderate growth of 1.04% in 2025 and 2.16% in 2026**. Although global trade tensions, such as the recently negotiated 15% U.S. tariffs on the majority of the European exports, pose risks, investment activity and consumer confidence are expected to improve. Both contributors are supported by lowering interest rates and the 2.5% wage indexation of May this year, following a year without indexation in 2024.

## EUROZONE HITS INFLATION TARGET

In June 2025, Eurozone **inflation aligned precisely with the ECB's 2.00% target** and is expected to remain stable throughout the year. Following the recent phase of post-pandemic inflation, the ECB has announced a strategic shift, aiming to incorporate a wider range of risk scenarios into its policy framework. The ECB also notes that companies have become more agile in adjusting prices, enabling faster responses to potential global shocks and events.

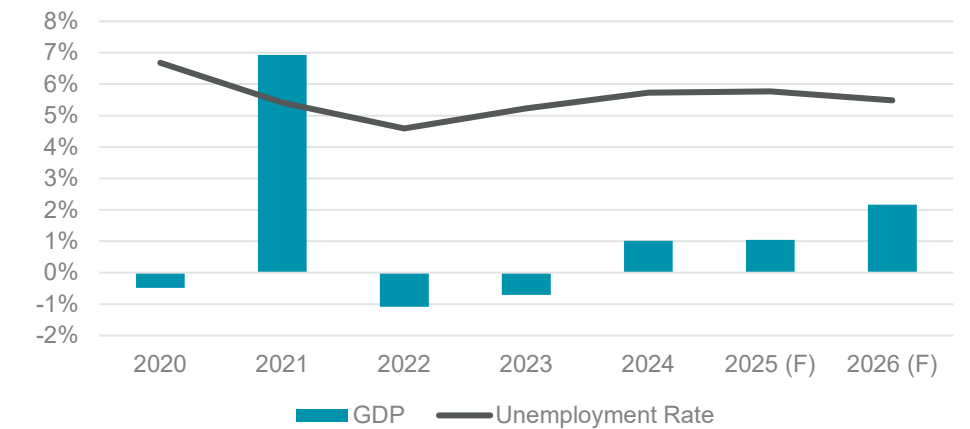
In contrast, **inflation in Luxembourg rose to 2.4% in June**, exceeding the Eurozone average. The main contributors were price increases in the alcohol and tobacco, and housing and utilities categories, while communication was the only category to exert a dampening effect.

## STABLE UNEMPLOYMENT WITH GROWTH IN PUBLIC AND SOCIAL SECTORS

Luxembourg's unemployment rate reached **5.73% in 2024** and is expected to stay at a similar level of 5.77% in 2025.

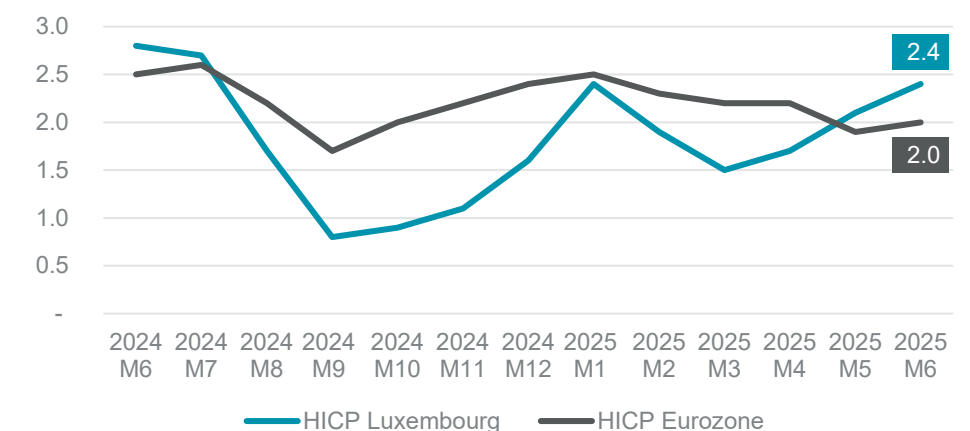
In the second quarter of 2025, **employment increased** in the **health and social services sector**, as well as in the **public sector**, including education. However, the **construction sector** continues to lose jobs, which has a negative impact on the overall employment situation.

## GDP GROWTH & UNEMPLOYMENT RATE



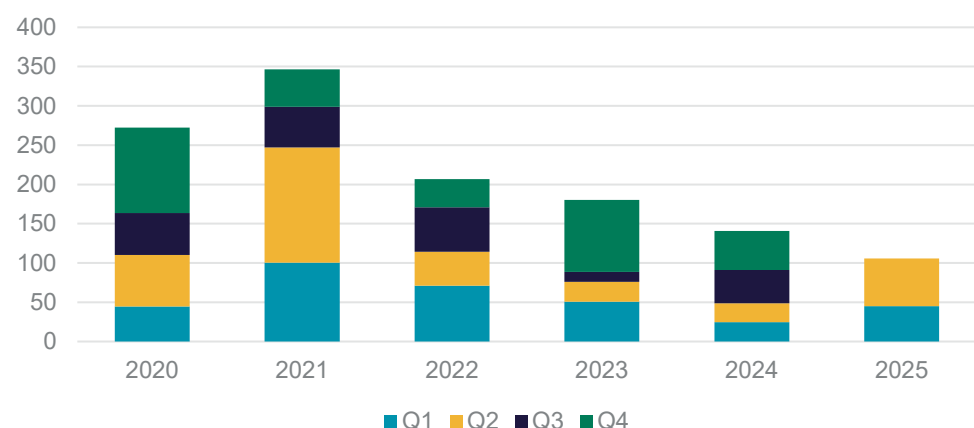
Source: Moody's Analytics, July 2025

## INFLATION RATE (HICP in % of change)

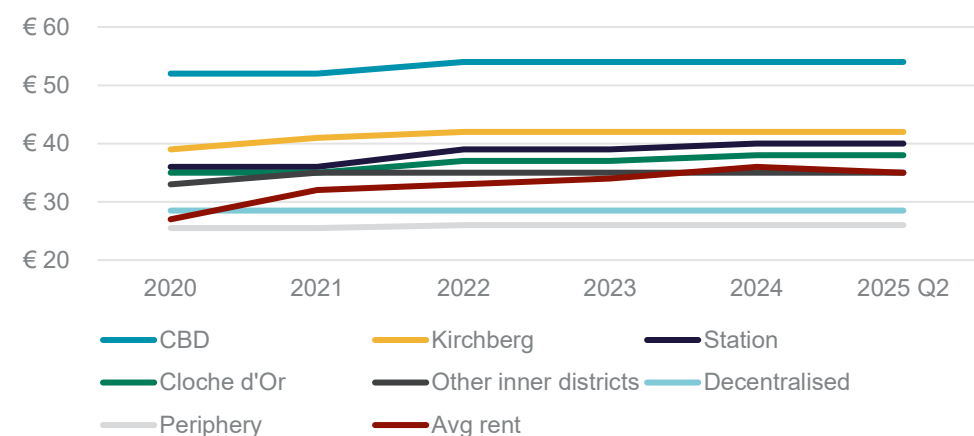


Source: Eurostat

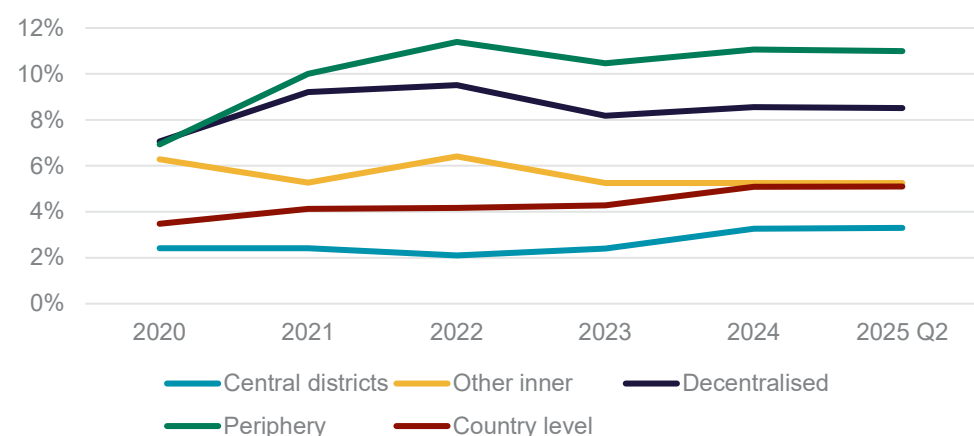
TAKE-UP BY QUARTER (000s SQ M)



PRIME RENTS (€/SQ M/MONTH)



VACANCY RATE



CORPORATE DEMAND DRIVES OFFICE MARKET RECOVERY

The Luxembourg office occupational market gained **momentum** in the second quarter of 2025, with **take-up reaching 60,975 sq m**, marking one of the strongest quarters since early 2023. This performance reflects a renewed confidence among occupiers, particularly within the **corporate sector**, which accounted for the majority of activity this quarter.

Three standout transactions defined the period. JP Morgan secured close to 14,000 sq m in *The Waves*, a newly delivered Grade A building, while PWC expanded its footprint with a 9,500 sq m lease in *Eosys*. Additionally, a leading international law firm pre-let 5,000 sq m in a redevelopment project in Kirchberg, further reinforcing the district's appeal among high-profile tenants.

All three deals were concluded in Grade A, ESG-compliant buildings, **underscoring a clear market preference for sustainable, future-proof office space**. These transactions highlight a growing trend: while uncertainty continues to shape broader market sentiment, large corporates remain committed to strategic relocations and expansions when the right product is available. The resilience of demand for high-quality assets suggests that the occupational market is entering a phase of selective recovery, driven by long-term business needs rather than short-term volatility.

CONFIDENCE RETURNS, BUT PRIME RENTS HOLD FOR NOW

On the rental side, **prime rents remained stable** across all submarkets this quarter, with the country-wide prime benchmark holding at **€54/sq m/month**. Despite the strong Grade A activity, these transactions have not yet translated into upward pressure on prime rents, suggesting the market is currently operating at a pricing threshold. However, prime rents are expected to climb in the near future, driven by indexation mechanisms and sustained demand for top-tier space.

Meanwhile, average rents have continued to rise, reaching €35/sq m/month across Luxembourg. This increase is partly influenced by pre-letting transactions in premium developments, which reflect growing business confidence and a willingness to commit to future-ready space.

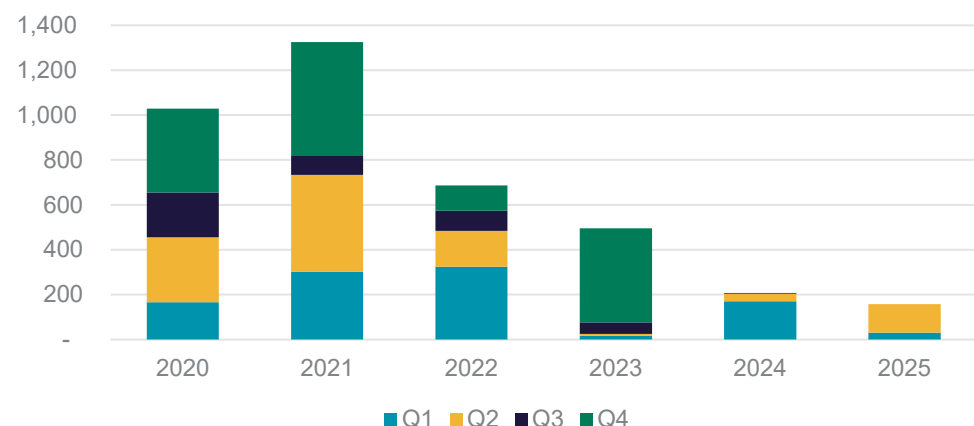
VACANCY HOLDS AS DEMAND REBOUND

**Vacancy**, which had been rising steadily over the past few years, **remained stable at 5.10%** for the first time in several quarters, signaling a potential turning point. This stabilization coincides with a notable uptick in demand this quarter, particularly from large corporates committing to future-ready space. The volume of pre-letting activity further supports this trend, indicating growing business confidence and a reduced level of concern regarding the large pipeline currently under construction.

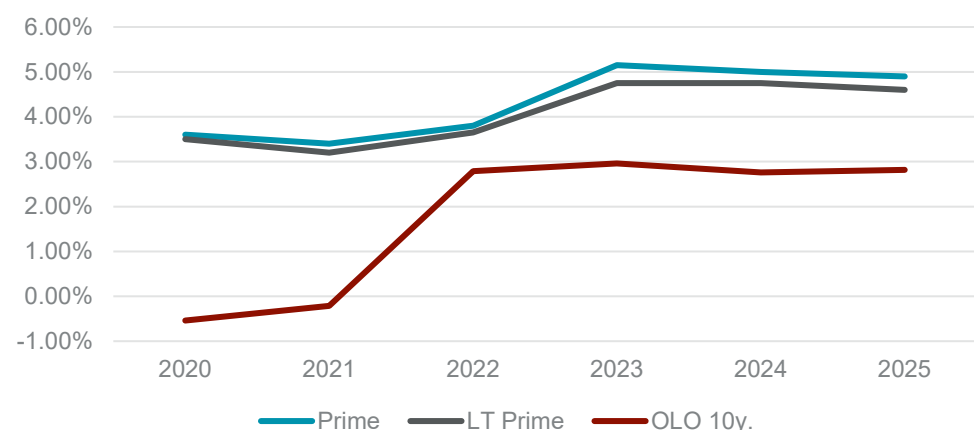
OUTLOOK

- Looking ahead, the Luxembourg office market is expected to remain active, but the next few quarters will be pivotal in determining whether the recent uptick signals a lasting recovery or a temporary rebound. Sustained momentum will depend on broader market participation beyond large corporate occupiers.
- On the rental side, prime rents are likely to rise, supported by indexation and continued demand for high-quality, ESG-compliant space. Average rents are already trending upward, driven by pre-letting in premium developments.
- Vacancy is currently stable, but this may be short-lived. As tenants relocate to modern, future-proof buildings, a significant volume of outdated office stock is expected to be vacated. This could lead to renewed upward pressure on vacancy, particularly in less central locations.

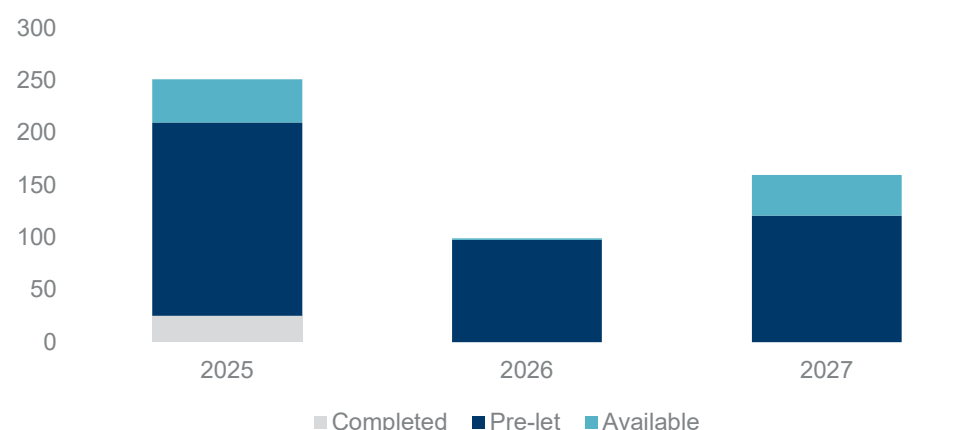
INVESTED VOLUMES (MILLION)



PRIME YIELDS



PIPELINE UNDER CONSTRUCTION (000s SQ M)



LOW VOLUMES, HIGH INTENT: STRATEGIC CAPITAL SHAPES INVESTMENT LANDSCAPE

The Luxembourg office investment market recorded a modest recovery in the second quarter of 2025, with total transaction volumes reaching €127 million. This brings the cumulative investment for the first half of the year to €158 million, a figure that remains significantly below the five-year H1 average of €380 million. The subdued performance reflects a market still navigating a cautious and selective investment climate, shaped by persistent macroeconomic uncertainty, elevated financing costs, and a continued repricing of risk.

Despite the overall softness in volumes, Q2 was not devoid of activity. The quarter was marked by a limited number of transactions, with Pontegadea continuing to assert itself as the most active investor in the Luxembourg office market. Building on its acquisitions in Q1, the investor further expanded its footprint with the purchase of *Charlotte 10*, a prime asset located in the Central Business District, for €64.6 million at an estimated yield of 4.50%. In parallel, it secured *Vertbois* in Kirchberg for €62.5 million, reflecting an estimated yield of 4.85%. These acquisitions underscore Pontegadea’s strategic focus on core, income-generating assets in established submarkets, and its willingness to transact at pricing levels that reflect long-term confidence in the fundamentals of the Luxembourg office sector.

In addition to Pontegadea’s activity, the quarter also saw a private investor complete the acquisition of *Urbaterre Bloc B* in Leudelange. While this confirms that other capital sources remain present in the market, their activity remains sporadic and highly selective.

CORE CONFIDENCE DRIVES YIELD ADJUSTMENT

Recent transactional evidence points to pricing below the prevailing benchmark yield. However, given the limited number of active investors and the concentration of deals in select segments, these transactions are not fully reflective of broader market conditions. Accordingly, a technical adjustment has been applied, revising the **theoretical prime yield to 4.90%**. This marks a renewed compression since the moderate tightening observed in 2024 and signals a cautiously improving sentiment, particularly for core assets that meet stringent ESG criteria.

This recalibration is consistent with the broader yield trajectory observed over recent years. Following a peak at 5.15% in 2023, prime yields moderated to 5.00% in 2024 and have now edged lower in 2025. The relative stability of both long-term prime yields and the 10-year OLO rate reinforces the view that the market is undergoing a gradual normalization. While investor sentiment remains prudent, the sustained presence of institutional capital in prime submarkets suggests a potential inflection point.

OUTLOOK

- Looking ahead, the Luxembourg office investment market is expected to remain selective but gradually more active in the second half of 2025. Several transactions are currently in the pipeline, indicating that investor interest, particularly for core, ESG-compliant assets, remains intact despite the subdued volumes recorded in the first half of the year.
- While the market continues to be shaped by cautious underwriting and a limited buyer pool, the presence of institutional capital and improving financing conditions suggest that a broader reactivation may be on the horizon. In this context, trends observed in Q2, particularly around pricing, are likely to materialize further. The theoretical prime yield, currently set at 4.90%, may see additional compression in the coming quarters, provided that transactional evidence becomes more diversified and market sentiment continues to improve.

MARKET STATISTICS Q2 2025

SUBMARKET	INVENTORY (SQ M)	AVAILABILITY (SQ M)	VACANCY RATE	Q2 2025 TAKE-UP	2025 TAKE-UP	UNDER CONSTRUCTION (SQ M)	PRIME RENT (€/sq m/month)	PRIME YIELD
<b>Luxembourg (Overall)</b>	<b>4,801,721</b>	<b>244,295</b>	<b>5.10%</b>	<b>60,976</b>	<b>105,915</b>	<b>501,804</b>	<b>€54</b>	<b>4.90%</b>
CBD	897,184	21,684	2.42%	3,786	7,318	-	€54	4.90%
Kirchberg	1,399,637	35,374	2.53%	23,757	27,196	272,612	€42	5.15%
Cloche d'Or	516,288	26,530	5.14%	14,282	35,676	93,926	€38	5.15%
Station	499,586	25,687	5.14%	12,184	12,580	14,591	€40	5.10%
Other inner districts	262,372	13,777	5.25%	419	6,930	17,136	€35	6.00%
Decentralised	525,688	44,734	8.51%	2,750	4,846	50,816	€30	6.50%
Periphery	700,966	77,109	11.00%	3,798	11,549	52,723	€26	6.50%

KEY LEASE TRANSACTIONS Q2 2025

SUBMARKET	PROPERTY	TENANT	SQ M	TYPE
Kirchberg	The Waves	JP Morgan	13,975	Letting
Cloche d'Or	Eosys	PWC	9,500	Pre-letting
Kirchberg	L'Unico	Confidential	4,314	Letting
Station	The Bridge	Luxembourg State	4,000	Purchase
Cloche d'Or	Ekxo	Baker & McKenzie	2,640	Pre-letting

KEY INVESTMENT TRANSACTIONS Q2 2025

SUBMARKET	PROPERTY	BUYER / SELLER	PRICE (MEUR)	SURFACE	YIELD
CBD	Charlotte 10	Pontegadea / Manova Partners	64.6	4,810	est. 4.50%
Kirchberg	Vertbois	Pontegadea / Baltisse	62.5	4,500	est. 4.85%
Periphery	Urbaterre Bloc B	Private / Promobe	-	4,400	-

Source: Cushman & Wakefield

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