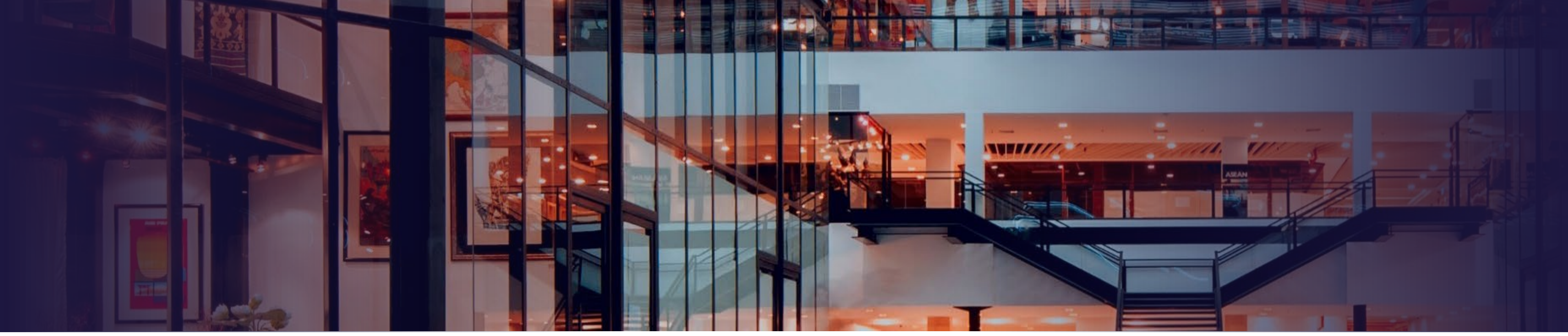
MARKETBEAT
LUXEMBOURG
RETAIL H2 2024



CUSHMAN & WAKEFIELD

MARKET FUNDAMENTALS

	YoY Chg	12-Month Forecast
17,940 sq m Take-up 2024	▼	▲
€145 /sq m/mo. Prime rent high street	=	=
€9.23 million Investment volume 2024	▼	▲

ECONOMIC INDICATORS

	YoY Chg	12-Month Forecast
0.41% GDP growth YoY 2024	▲	▲
2.04% Consumer price index 2024	▼	▼
5.73% Unemployment rate 2024	▲	▼

Sources: Moody's

MODEST ECONOMIC GROWTH FOLLOWING THE 2023 CONTRACTION

Luxembourg's economy is set to close 2024 with a modest GDP growth of 0.41% year-on-year, which is below the eurozone average of 0.76% but marking an improvement compared to the 1.1% contraction the country recorded last year. This growth is mainly driven by private spending and a trade surplus, with exports exceeding imports in the first half of the year. However, in the second half, private consumption slowed due to declining consumer confidence and weaker wage growth.

Looking ahead, GDP growth projections are optimistic, slightly outperforming the broader eurozone. Forecasts indicate an economic expansion of 1.46% in 2025 and 2.16% in 2026, driven by anticipated expansionary fiscal policies, two wage indexations, and a positive outlook for the housing market.

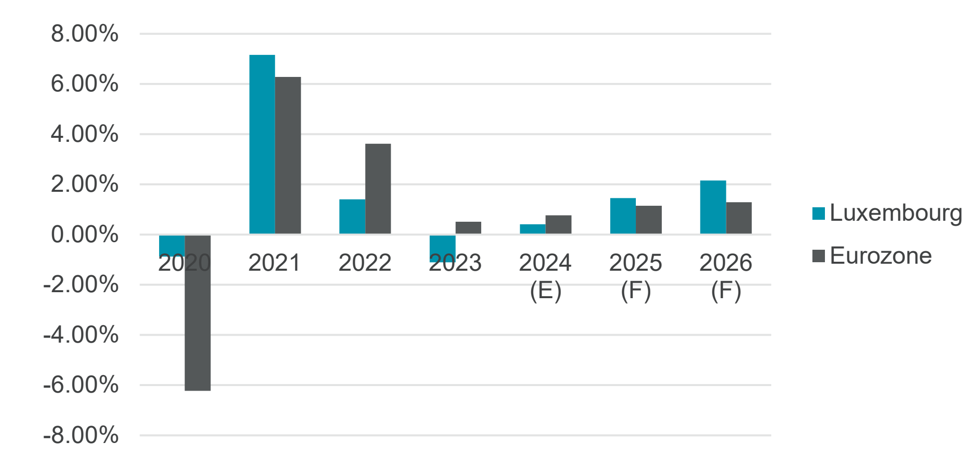
INFLATION BELOW EUROZONE AVERAGE

Inflation in Luxemburg is set to end 2024 with the consumer price index at 2.04%, which is lower than the eurozone average of 2.35%. This lower-than-expected inflation rate is largely due to declining prices for goods, particularly in energy and food. In 2025, inflation is projected to ease further to 1.60%, before experiencing a slight rebound to 2.09% in 2026.

UNEMPLOYMENT RATE PEAKS BEFORE GRADUAL DECLINE

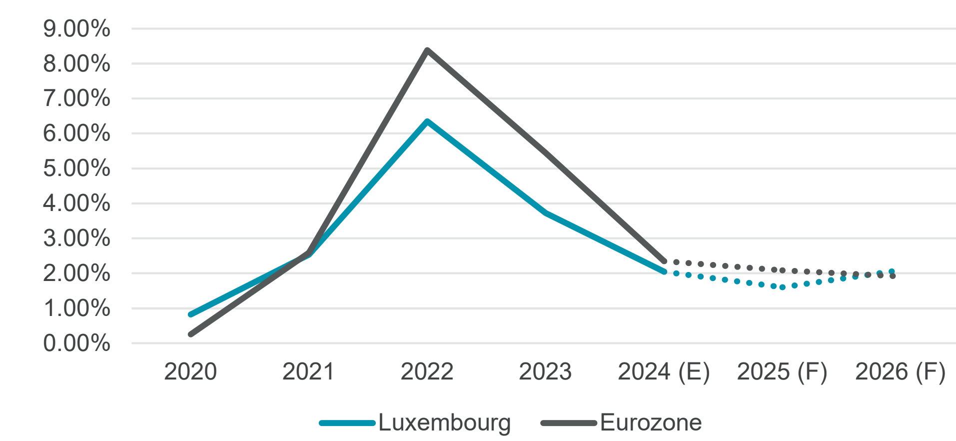
The labor market experienced challenges in 2024, after the economic contraction of 2023. The unemployment rate increased to 5.73% in 2024, up from 5.22% recorded in the previous year. However, conditions are expected to gradually improve, with unemployment projected to decline to 5.53% in 2025 and 5.46% in 2026 as the economy strengthens.

GDP GROWTH (in % of change YoY)



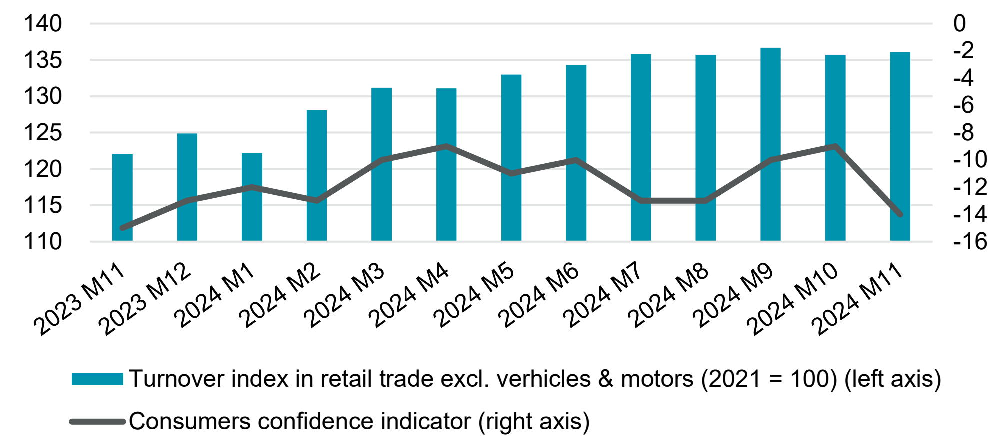
Source: Moody's

CONSUMER PRICE INDEX (% of change YoY)



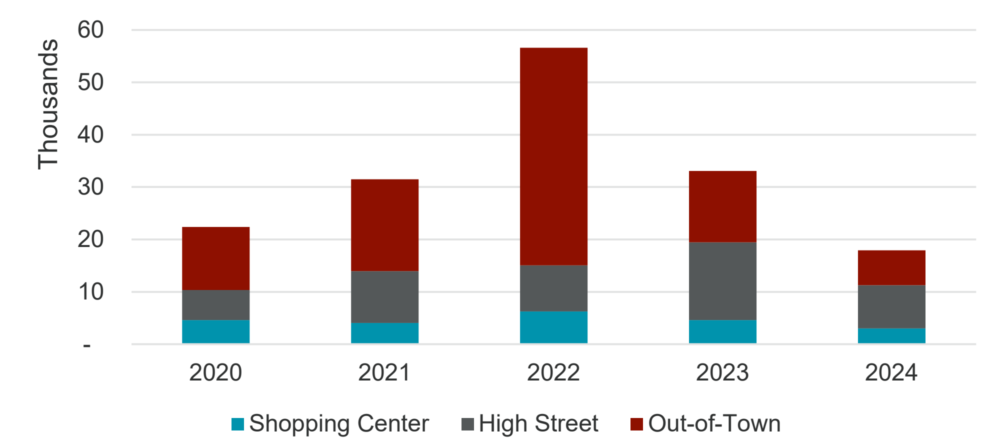
Source: Moody's

SALES VOLUME & CONSUMERS CONFIDENCE

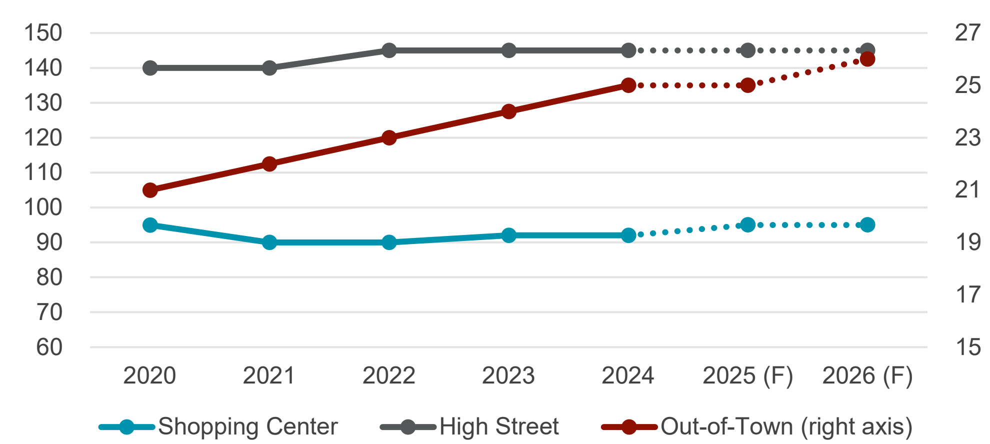


Source: Statec and BCL

TAKE-UP BY SECTOR (SQ M)



PRIME RENTS BY SECTOR (EUR/SQ M/MONTH)



INTEREST RATE CUTS SET STAGE FOR REAL ESTATE REBOUND

Stock markets have performed strongly over the past year, with the S&P 500 up 33% and the Euro Stoxx 50 gaining 8.3% since the start of 2024, but real estate as an investment product has yet to regain widespread investor interest. The ECB reduced interest rates twice in Q4 2024 and is expected lower them further in 2025, depending on inflation and without pre-commitment. Further interest rate cuts would benefit the leveraging effect on real estate investments.

OVERALL GROWTH IN RETAIL SALES, DESPITE DECLINING CONFIDENCE

Despite a low consumer confidence, the retail trade sector (excluding motor vehicles and motorcycles) maintained a stable yet gradual increase throughout 2024. The sector's resilience suggests that consumer spending remained steady, particularly in essential goods such as food and staple non-food products. While discretionary spending faced some fluctuations, the overall retail market continued to grow, indicating that household consumption remained a key driver of economic activity despite economic uncertainty.

TAKE-UP SLOW WITH SMALLER STORE FORMATS

As of 2024, the total take-up volume stands at 17,940 sq m, which is just over half of the 2023 volume. However, the decline in the number of transactions has been less pronounced, with 65 deals recorded, compared to 76 last year.

Across all three retail segments, the average take-up per deal has decreased, with the most significant drop observed in out-of-town retail. This suggests that while activity persists, retailers are exercising greater caution, shifting towards smaller store formats—potentially a result of ongoing omni-channel strategies. However, this trend requires further monitoring to confirm whether it reflects a structural shift in retailer strategies or a temporary response to current market conditions.

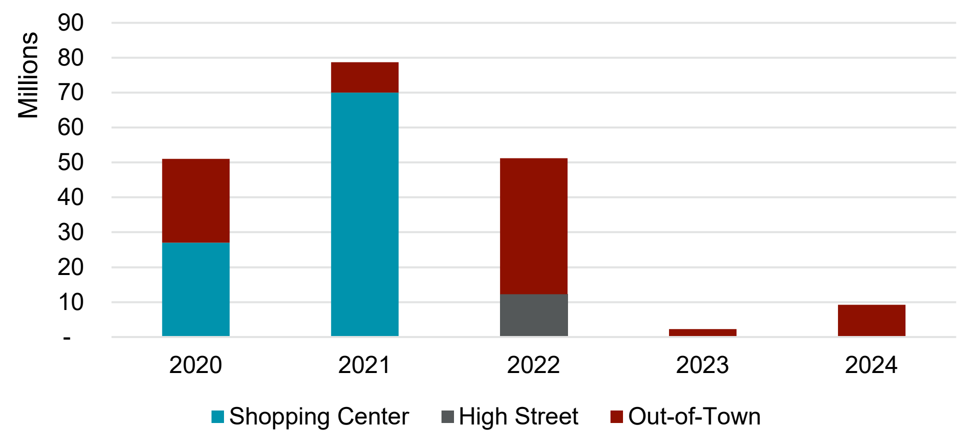
PRIME RENTS STABLE AMID MARKET CAUTION

In response to market conditions, prime high street rents remain stable at €145/sq m/month. Shopping centers have seen a slight up, now at €92/sq m/month (from €90 in H1 2024), just as out-of-town with a prime rent of €25/sq m/month (from €23 in H1 2024).

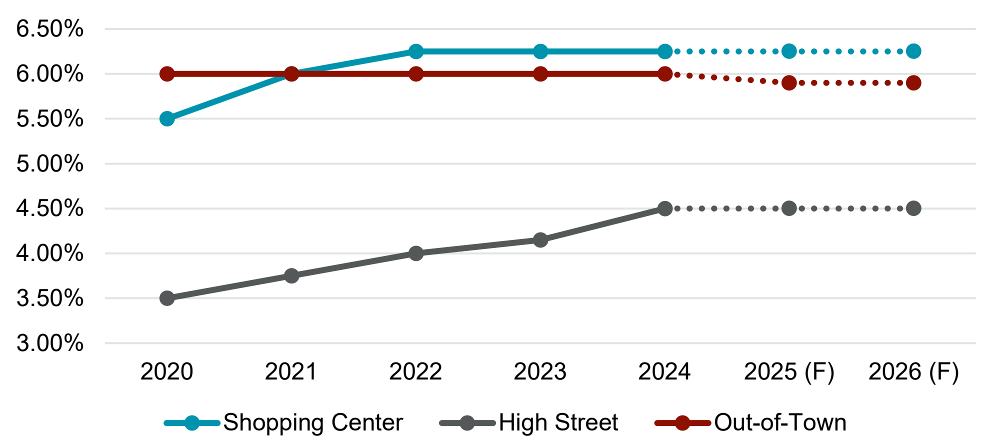
OUTLOOK

- Luxembourg GDP growth to increase slightly to 1.46% in 2025 and 2.16% in 2026.
- ECB rate cuts in throughout 2024, with additional cuts expected in 2025, to boost borrowing conditions.
- Consumer confidence is expected to remain low in early 2025, with potential recovery depending on economic stabilization.
- Rising operational costs (rent, wages, energy) will continue to pressure retailers (even well-performing and luxury brands).
- Retail take-up is expected to remain below historical levels, with retailers prioritizing smaller store formats as part of cost optimization and omni-channel strategies. While activity persists, expansion decisions will likely be more selective and cautious.
- Prime rents are expected to remain stable overall, after the corrections in H2 2024.

INVESTMENT VOLUME BY SECTOR (EUR)



PRIME YIELDS BY SECTOR



INVESTMENT VOLUME STALLS IN H2 2024

The retail investment market has remained inactive throughout the second half of the year, with the only recorded transaction being Nextensa's out-of-town deal in Q1 2024. So far, there are no signs of market recovery, and further investment activity is not anticipated in the near term.
That said, the ECB's expected interest rate cuts in 2024, along with a potential continuation in 2025, offer some hope for renewed investor confidence. Early indications suggest that transactional activity may pick up in the first half of 2025.

PRIME YIELDS ADJUSTED AMIDST LIMITED TRANSACTIONAL EVIDENCE

With no significant transactions to serve as a basis for yield adjustments, prime retail yields have been largely maintained, with only prime high street yields revised upward to 4.50% based on market sentiment. Out-of-town retail and shopping center yields remain stable for now. We maintain the following prime yields:

- High streets: 4.50%
- Out-of-town retail: 6.00%
- Shopping centers: 6.25%

Looking ahead, with the ECB expected to lower interest rates further, we anticipate increased market activity in the second half of 2025, with out-of-town retail yields potentially softening just below 6% as investor confidence returns.

- The outlook remains cautious, but the ECB's expected rate cuts could gradually restore investor confidence, with early signs of renewed activity potentially emerging in the first half of 2025.
- Prime yields are expected to remain stable in the near term, with potential compression once investment activity picks up following the ECB's interest rate cuts.

KEY LEASE TRANSACTIONS H2 2024*

PROPERTY	SUBMARKET	TENANT	GLA (SQ M)	TYPE
Av. De la Gare 42-44	High street	Sports Direct	1,012	Letting
Grand-Rue 81	High street	Jimmy Fairly	466	Letting
Belval Plaza	Shopping center	Rituals	213	Letting

KEY INVESTMENT TRANSACTIONS 2024*

PROPERTY	SUBMARKET	SELLER / BUYER	GLA (SQ M)	PRICE (MEUR)
Rue du Brill 11, Foetz	Out-of-Town	Nextensa / Private	4,200	9.23

**Transactions in the table include key sales transactions in the market, and are not necessarily closed by Cushman & Wakefield.*

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