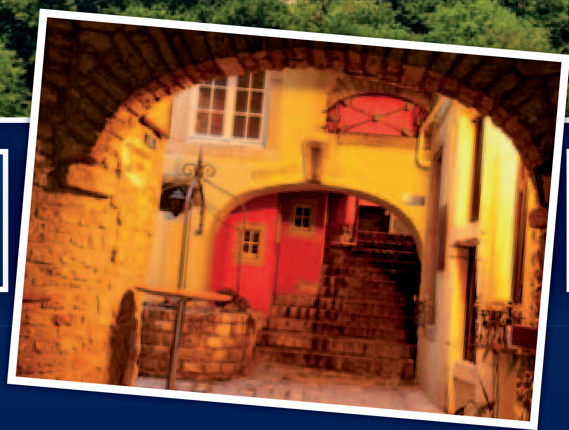
March 2013

# SPH newsletter special



LUXEMBOURG:
LOCATION ASPECTS IN DISCUSSION

# DEAR READERS!

For the second time we are offering a "Special Luxembourg". And we have good reasons for doing so. It is due to the location itself. To be honest: Many of us associate Luxembourg with so called "Luxembourg vehicles" such as SICAV, SICAR, FCP and FIS, and their tax advantages. But the country and Luxembourg City have much more to offer. Although the Grand Duchy is rather small by area, the real estate market is characterized by many facets. Currently these facets include larger and smaller development projects in all segments of the market, the great variety of existing property that partly shall be converted, and last but not least a range of real estate objects interesting for investors and users as well.

About the different market segments we have already reported in the first issue of the "Luxembourg Special" last autumn. That means for a not very long time ago. Therefore we decided to offer you, dear readers, this time a different format. We have kept records of a discussion about the location Luxembourg. For the discussion that took place at the end of January 2013, SPH Newsletter had invited market participants from Luxembourg and Germany. It were very lively talks covering many aspects of the Grand Duchy's economic development and the real estate market. We decided to list the admittedly quite long discussion because it is worth reading and you will hardly find something similar informative elsewhere.

The meeting took place in the headquarters of Agora, the development company of Belval, the largest urban development project in Luxembourg. These headquarters are located in Avenue du Rock'n Roll 3 in Belval. Therefore the first question was suggesting itself, if the property market in Luxembourg is rocking or does it sometimes also have the blues? But read yourself about the property market's mood and many other aspects of the location Luxembourg. And perhaps you acquire a taste for the small country and are also interested in the first issue of "Luxembourg Special" then you can order it free of charge at office@schillerpublishing.eu

Who will go to Mipim has still another possibility for information. This year the Luxembourg Chamber of Commerce (Chambre de Commerce) is representing again the Grand Duchy at the fair in Cannes. Agora and DSM Avocats à la Cour, who are present in this "Special Luxembourg", are among the exhibition partners. So you can meet at least two of our discussion participants. The booth number is LR4.09 in Hall Lerins. To give all non-Luxembourgers at least three words in "Letzebuergisch" to read, I close

"Mat beschte Greiss" (with best regards)

Yours,

Andreas Schiller

## content



## Luxembourg in Figures

| | | |
|---|---|---|
| *Area* | | *2,586 km²* |
| *Territorial dimensions* | | |
| *North-South* | | *82 km* |
| *East-West* | | *57 km* |
| *Length of the border* | | |
| *with France* | | *73 km* |
| *with Germany* | | *135 km* |
| *with Belgium* | | *148 km* |
| *Land use (in % of the total area)* | | |
| *Agricultural and wood* | | *85.5* |
| *Built-up area* | | *9.5* |
| *Road-net, railway network* | | *4.4* |
| *Water areas* | | *0.6* |
| *Population (2012; in 1,000)* | | |
| *Total population* | | *524.9* |
| *Luxembourgers* | | *295.0* |
| *Foreigners* | | *229,9* |
| *from:* | *Portugal* | *85.3* |
| | *France* | *33.1* |
| | *Italy* | *18.1* |
| | *Belgium* | *17.2* |
| | *Germany* | *12.3* |
| | *UK* | *5.6* |
| *Foreigners in %* | | *43.5* |

*Source: STATEC*

*Luxembourg is Europe's premier investment fund centre, and after the USA the second most important investment fund centre of the world.*

# ALFI: RECORD YEAR FOR LUXEMBOURG FUNDS

The Association of the Luxembourg Investment Fund Industry ALFI announced 2012 as a record year for the Luxembourg-domiciled investment funds in terms of assets under management and net sales.

By year-end assets under management had reached the record level of EUR 2,383 billion, an increase of 13.7 percent from the previous year and a figure that represents 30 percent of total assets under management in European funds. Net sales of Luxembourg funds rose to EUR 123 billion, representing one third of the total EUR 328 billion of European fund sales. With 3,841 investment funds and 13,420 sub-funds, Luxembourg remains Europe's premier investment fund centre, followed by France and Germany, and after the USA the second most important investment fund centre of the world. The Luxembourg investment fund industry currently employs more than 13,000 people, represents eight percent of gross domestic product and ten percent of the country's tax revenue.

# ORANGE LUXEMBOURG RECORDS TURNOVER GROWTH

Telecommunications company Orange Luxembourg has announced its results for 2012. Its turnover in 2012 was EUR 75.5 million, marking a progression of 14.9 percent from the year before (turnover 2011: EUR 65.5 million). As one of the reasons for the good results the company points to the increased sales of mobile phones. Compared to the previous year sales have doubled in 2012. During 2012, the number of active mobile clients in the Grand Duchy grew by 6.6 percent with Orange being the provider of choice of 105,805 clients. The average revenue per client was EUR 51.88 per month, compared with EUR 50.76 in 2011.

Orange Luxembourg is active in the market since 2004 and operating in the segments mobile communications, fixed networks, and ASDL services.

# CLEARSTREAM JOBS AT RISK

Following a slump in profits at Deutsche Börse AG, some 250 jobs at Clearstream are at risk. The company headquarters in Eschborn, near Frankfurt, will bear the brunt of the cuts, but cuts are also expected at the Luxembourg subsidiary Clearstream in Kirchberg.

Deutsche Börse Group's business figures for 2012 revealed a net profit falling to EUR 660 million, down from EUR 848 million the year before. With publishing these business figures Deutsche Börse Group announced to cut down costs by EUR 70 million, EUR 30 million alone by the cut down of labour cost. The German stock exchange subsidiary Clearstream, with its 1,700 employees, is a clearing and settlement division, created in January 2000.

*StarGate office building, located on Boulevard de la Foire and developed by Pylos, will be the new head office of Axa Luxembourg.*

# CROSS DEAL BETWEEN AXA AND PYLOS/BELFIUS

Pylos and Belfius Bank have completed two transactions: the purchase of City Link from Axa Luxembourg and the sale of the office building StarGate to Axa.

City Link is Axa Luxembourg's former head office. Pylos and Belfius will be developing approximately 4,000 square metres of office space. The development of the project is to start in January 2013 and completion is scheduled by the end of 2013.

StarGate, located on Boulevard de la Foire in Luxembourg City, will be used as the new Axa Luxembourg head office. StarGate is a newly developed office building with a total surface area of 6,835 square metres. Axa Luxembourg will be sharing the building with FACTS Financial Accounting Tax Services.

# LEASINVEST ACQUIRES TOP LOCATION IN THE CITY CENTRE

Leasinvest Immo Lux SA, a 100-percent subsidiary of Leasinvest Real Estate SCA, located in Luxembourg, has acquired an existing building used as a hotel (known under the name Hotel Rix), with parking, at boulevard Royal in the city centre of Luxembourg. This transaction has been achieved through the intermediary of Hoche Partners and Property Partners.

After the demolition of the Hotel Rix (which has recently stopped its activities) a new office building of circa 5,000 square metres will be built at this location, subject to obtaining the necessary permits. Except for unexpected circumstances, the building should be operational by end-2014.

The architecture of the future office project will be designed by Christian de Portzamparc, architect and urban planner, who received the Pritzker Prize in 1994 and who realized the Luxembourg Philharmonic in Kirchberg in Luxembourg City.

# PYLOS PLANS NEW PROJECT IN THE STATION AREA

Pylos Luxemburg has purchased a property at Rue du Fort Wallis, located next to the office buildings of Arcelor Mittal, HSBC and others. At this location Pylos will develop a 4,000 square metres office building. The project will be delivered beginning 2015. The investment volume and the vendor of the property at Rue du Fort Wallis were not disclosed.

For Pylos it is the fourth project in the Luxembourg Station Area. It was preceded by "Gare 65", "City Station" and "Red Station".

# TO SHAPE A PROSPEROUS FUTURE

*Luxembourg's largest urban development: Belval in the south of the country*

**At the end of January a group of professionals from different segments of the real-estate business met in Belval to discuss Luxembourg as an investment location. Belval is an urban development project south of Luxembourg City.**

*We are here in Belval in the Avenue de Rock´n Roll. That name of course begs the question: does Belval rock—and for that matter the property market in Luxembourg as a whole—or are we talking more about the blues?*

**Jürgen Primm:** I cannot deny that we here in Belval, just like all the market players in Luxembourg, have had a touch of the blues. That was after the Lehman collapse, when suddenly, overnight, the world changed. And of course, when you take on a task like Belval, converting 120 hectares of industrial wasteland outside the actual centre of activity of Luxembourg City, you just have to be an optimist. Yet, thanks to a good concept and positive hard locational factors, we have succeeded in bringing continuity into this urban development project and placing the emphasis on quality. That is bearing fruit. Over the years we have built up a core of faithful customers who have always believed in the project, whom we can trust and with whom we are continuing to work in close partnership. What we have noticed now over the last three or four months, and what is also being confirmed in conversations with the big property agents, is that there is a certain willingness to look at risk again. For example, we are having more contacts with investors from outside Luxembourg, who are occasionally considering other things too, beyond their core properties.

**Ulrich Binninger:** I have a problem with the basic tendency towards 'more risk, away from core'. I see it from the investors´ side and can say that yes, certain investors would take this on board. I have a few family offices that are willing to take on risk—for them, however, Luxembourg is almost too conservative. But there are others who would shy away from higher risk because they want secure returns. I wouldn´t be able to attract them even with a core property. So it depends which angle you are looking at it from. In the last five, six years, we have found that there is no longer such a thing as a 'secure investment'. Maybe there never was a risk-free investment. And even property is definitely not without risk. The question is more one of: What risk am I willing to accept? This is the kind of discussion we are conducting today with our clients. It has meant that the range of investments people are interested in has broadened considerably. There are people who are happy with a two or three-percent return, while others are willing to accept a certain level of risk and invest in countries where higher returns are possible, for example, Turkey—but in these cases, the expectation is then for a return somewhere north of 15 to 20 percent. So, it all depends on the individual investor.

**Marco Sgreccia:** If you look at it from the perspective of the residential property market for a moment: The interest rate is currently lower than it has ever been. And that´s very interesting for an investor entering the market today by buying an apartment. However, the profile of the customers has altered greatly, because what we are seeing now is demand for small apartments in the 150,000 to 350,000 Euro price category. This demand did exist before of course, but it has risen considerably. In general, Luxembourg is an attractive residential location and high in demand. That´s true not only of the locals, but also of the 150,000 commuters who work here every day, some of whom over the years then at least partly take up residence here. The potential for residential projects is very high. But because of the economic situation, not only in Luxembourg but also in Europe as a whole, the developers are now much more cautious: they don´t dare to go to market with high entry prices, nor are they entering into risky projects. Before 2008 property projects relied on loan capital for up to 100 percent and even more of the costs. Today the banks are more cautious and require the developer to invest a high proportion of private equity in the project.

*Luxembourg City is expensive but attractive at all points.*

**Etienne Reuter:** If you take a broader view and look at the economic figures, then activity in the building industry is still buoyant. That is encouraging, because it shows that the order books are not looking too bad and that confidence is there on the part of the investors. There may be differences between individual segments in the market, but the construction sector is still making its contribution towards GDP and that´s very important.
The second point that was mentioned are the commuters—the ones who cross Luxembourg´s borders every day to come here and work. Each day they travel great distances and have to spend a lot of time getting to work. If only just a portion of these commuters into the country considered living here, then that would generate a demand that would continue for a long time. There is no government policy aimed at encouraging them to settle here, but you just have to stop for a moment and look at it from the commuters´ point of view, to realise that some at least would most certainly be interested in living closer to their place of work.

*How high is the proportion of cross-border commuters coming into Luxembourg?*

**Etienne Reuter:** According to figures from the Chamber of Trade, and from a statement by Michel Barnier, currently European Commissioner for Internal Market and Services, roughly one quarter of all cross-border commuters in the EU are found in this region.

**Jürgen Primm:** That refers to the wider region in this part of the world. Coming into Luxembourg alone each day are around 150,000 people, another 50,000 or so come into the Saarbrücken area. That of course spells potential for the property sector.

**Guy Entringer:** It is true that activity in the building industry has stayed almost at the same high level as in recent years. In Luxembourg we are building 4,000 to 4,500 apartments each year. And this volume is not going to decline, judging

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*Civil & Environmental Engineering at Paul Wurth, Luxembourg, one of the world´s largest manufacturers of engineering solutions for steel manufacturers with a project management division*

*Ralf Berweiler,*
*Managing Partner of Marktinvest International, Senningen, Luxembourg, a property-services provider with ten years experience of the market in the Grand Duchy*

by the number of planning applications and special development plans—PAPs (plans d'aménagement particulier)—that have been processed in the last two years. The reason is that the population is expanding each year by around 10,000 people, through immigration. At the same time household sizes are getting smaller. As a result demand for housing is tremendously high. The government wants to do something about it, by encouraging private investors, but also public ones, to build more residential accommodation.

**Etienne Reuter:** There have been and still are huge efforts under way to make more land available for residential projects and to persuade local authorities to develop more land ready for building. In 2008 a pact on residential building was agreed under which local authorities who sign an agreement with the housing ministry committing themselves to certain goals —including expanding their population over the next ten years—will receive a certain sum of money proportionate to that increase, to help them bear the financial burden these changes involve. But it will take some time before the impact of any of these measures begins to be felt. They might take longer to realise, or demand might be higher than anticipated, but in other urban conurbations, too, not everybody lives in the centre and many have to travel a certain distance to work. A special factor here, however, is that as soon as you´re out of the centre of Luxembourg City, then you´re almost over the border already.

**Dr. Knut Riesmeier:** This is quite a hot topic at the moment. To call it an 'urban conurbation' is a bit of an exaggeration. It isn´t really—the metropolitan area of Luxembourg City has only around 150,000 inhabitants. In Germany that would be on a par with towns like Ludwigsburg, places that have no relevance as an investment location or as an agglomeration. Luxembourg is a very special place, and a ridiculously expensive one at that: per capita GDP is more than double what it is in the rest of Europe, it is simply very expensive. That goes for the institutional or investment market as well, where cap rates are equivalent to those in cities ten or twenty times as big.

**Mario Di Stefano:** You can´t judge the importance of Luxembourg City on number of inhabitants alone. It is a capital city, the seat of European institutions and an international financial centre, one of the largest in Europe and around the world. The country of Luxembourg is also a net immigration country. The demand is there, prices are partly driven by demand but also by the comparatively lengthy processes for releasing building land. Projects in Luxembourg take a long time to complete. There are some efforts—for example to reduce plot prices by focusing more closely on the law as regards leaseholds, but these measures take time before they have an impact, and before mentalities change.

**Eveline Beck:** I can only agree with Mario Di Stefano: With our clients who want to develop various projects, we are seeing that one of the biggest problems is the long process involved in changing a PAP (special development plan) or a PAG (Plan d'aménagement général; general development plan). At the moment that is the biggest problem for investors in Luxembourg.

**Mario Di Stefano:** What doesn´t exactly make the whole thing any easier is that in Luxembourg there is no integrated procedure for obtaining building approvals. Which means that alongside the requirements of planning law—the PAG and PAP—there is a whole host of other approvals that have to be obtained from various specialist authorities before you can start building. In most cases you can do it—by working through each individual point carefully and consistently—but these processes don´t interlock with each other in a way that you would wish for rapid processing. You have to try and

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coordinate it all so that it all comes together afterwards. And that is one of the points where perhaps there would be room for improvement.

**Marco Sgreccia:** The comparison with Ludwigsburg touches on a raw nerve with the Luxembourgers. Let me put this in context: A few years ago there was a comparison of European cities according to the number of workplaces they offered. In this ranking Luxembourg came higher even than Strasbourg, a city with enormous economic strength.
And to come back on that argument about high prices: So far it has been presented mainly in a negative light. But you can look at this in a different way: Keeping with the residential market, those who bought a few years ago and want to sell now, will not have lost money. On the contrary: They will have gained. The negative aspect for people in my area is that plot owners are of course also seeing this rise in prices and plot prices are rising accordingly. It´s a kind of vicious circle. But from the point of view of investors in general, looking at the development of prices, has any one of you or your clients ever done a bad deal in Luxembourg?

**Ralf Berweiler:** No, most of them have done good business. I am currently advising three investors who haven´t invested in Luxembourg in the last few years, but are interested in coming back again. They are prepared to pay factors that you otherwise don´t see outside Germany's 'Big Five'—Berlin, Frankfurt, Munich, Hamburg and Düsseldorf. The difficulty is more that for institutional investors at the moment the right products just aren´t there. As I see it, the willingness to invest in Luxembourg has risen again considerably, following a period over the last two, three years when things were a bit quieter from German investors.

*When we speak of apartment prices, then it´s always the prices asked on the open market. But there is also subsidised housing in Luxembourg, is there not? What significance is attached to this specific area?*

**Guy Entringer:** In terms of the figures, subsidised housing is a very narrow area. Apartments in this category account for only around two percent of the entire market. But for people who don´t earn a lot of money, this is still very important. Unlike in Germany, construction of rental apartments is not a big factor; in Luxembourg around three-quarters of people who live here own their home. In the last 90 years our company has sold over 8,000 apartments—it doesn´t sound very much. But with subsidised housing we create affordable homes in a range of districts in the city of Luxembourg and help achieve a good social mix. In the last four years, our workforce has risen by 50 percent, and we have invested a lot of money in plots. We currently have 270 apartments under construction—for our small company that is a lot. In Kirchberg, for example, in a top location, we are building 128 apartments, and, to show that we also embrace new technologies, we are building them to the passive house standard. There has been nothing of this size so far in Luxembourg. However, we don´t only work in the city of Luxembourg, we are engaged in residential and other projects across the country. A part of our job we also see as helping local authorities who themselves aren´t in a position to take on the construction themselves. With our help the local authorities can be sure of getting quality residential space for a very affordable price. Our clients have to buy the apartments and live in them themselves.

## Luxembourg in Figures

*Employment*
*(annual average 2011; in 1,000)*

| | | |
|---|---|---|
| *Total domestic employment* | | *368.4* |
| *Wage-earners* | | *347.1* |
| *Net borderers* | | *143.4* |
| *Non-resident borderers* | | *154.9* |
| *of which from:* | *France* | *76.3* |
| | *Germany* | *38.9* |
| | *Belgium* | *38.9* |
| *Resident Borderers* | | *11.4* |
| *of which:* | *International agents and civil servants* | *10.3* |
| *Unemployed* | | *13.5* |
| *Unemployment rate in %* | | *7.4* |

*Domestic employment by branches*
*(annual average 2011; in 1,000))*

| | |
|---|---|
| *Agriculture* | *5.2* |
| *Industry* | *38.1* |
| *Construction* | *39.4* |
| *Trade* | *94.6* |
| *Financial, real estate, renting and business activities* | *105.1* |
| *Other service activities* | *86.1* |

*Source: STATEC*

**Etienne Reuter:** The apartments in the subsidised housing category are sold at prices that reflect the fact that the purchasers do not have full ownership of the plot. Instead the plot ownership question is regulated under hereditary leasehold legislation.

*150,000 commuters from outside the country coming into the city each day spells a lot of traffic. Reason enough to encourage them all to actually live here, would you say?*

**Ulrich Binninger:** I myself was born in Trier and now live in Luxembourg. And I am very happy that I don´t have to get tangled up in the commuter traffic

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*Mario Di Stefano,*
*Lawyer, DSM Di Stefano Moyse Avocats a la Cour, Luxembourg, a law firm with a special focus on property law, construction law and project development.*

mornings and evenings. Because every day there are accidents, on the road to France, on the road to Germany. And it's not just the travelling time itself, it's also the time you spend just sitting in traffic jams on the roads and motorways. So I am the first to encourage people who come here for work to seriously consider living here too, and not stay in Trier, Arlon or Thionville. Quality of life also has something to do with the amount of free time you have left at the end of the working day.

**Eveline Beck:** I live in Luxembourg and yet still it's a bit like it is for the international commuters, because for the last six months I have been living in Belval-Nord. I like living here, but you have the same problem as those cross-border commuters: there are always accidents on the way to and from Luxembourg City, the traffic is so dense that it's stop and go all the way in.

*Listening to that, it sounds as if people only travel by car in Luxembourg. What is public transport like?*

**Jürgen Primm:** One of the main focuses in the concept behind Belval, right from the start, was to plan for the future. And that begins with the subject of traffic and transport. In terms of the national average, we have a very ambitious modal split here, because the idea is for a much larger proportion of people to come here by public transport. And they have the opportunity to do just that because from the start there was already a railway halt here that has now been developed into a modern railway station. And that offering has been successively improved. But looking now at Luxembourg City—what we are hearing from other market players is that close by the railway station there is a lower vacancy rate and higher rental prices than in other locations where no railway station is planned over the next 15 years. That is an important point. You just have to imagine what would happen if there were no train connections any more for commuters from France. On the five or six occasions each year when SNCF strikes, you can see just how packed the already full motorway gets. That's also the problem for the commuters from Germany: There is currently no acceptable rail link from the Saarland, and there won't be one in twenty years either. A dozen or so transport ministers have already come to grief over the subject of a train link with Trier. It's just not acceptable in this day and age. What Luxembourg is doing, and rightly in my view, is to try and achieve binational agreements, including financial agreements, to solve the problem at its source, in the border region. Of course Luxembourg cannot be the paymaster for all the transport projects in the wider region, but I think on a day-to-day basis public transport is steadily gaining in significance. This is also being boosted by the fuel prices that are rising in Luxembourg, too, because we can't remain immune from market trends. The public transport offering has been massively expanded and it is of a remarkable quality.

**Etienne Reuter:** To add to that, I think this policy of encouraging local public transport is being expanded. Park & Ride facilities are being built to get people to take the train—for their onward journey into Luxembourg City or to wherever they are going. And you do have quite some measure of control, too, via the pricing policy for the car parks.

*From what you say, it sounds like the Luxembourgers really like their cars. How, then, will a car-free estate go down, such as is being planned for Luxembourg City?*

**Marco Sgreccia:** In 2011 we won the architectural competition held by the City of Luxembourg for a car-free housing project on Limpertsberg. Limpertsberg is a very sought-after district to live in and prices here are among the highest in Luxembourg—on the free market between 8,000 and 9,000 Euro per square metre, depending on exact location and

standard of finish. The project is intended to be a model project: the 80 apartments will be wood-framed, and they will be to passive house standard. The plots will be sold with a 99-year lease, as with SNHBM. The people whom we sell the apartments to, can have a car if they want, but do not receive a vignette from the City of Luxembourg allowing them to park free of charge on the streets. Instead the city has located a car-sharing scheme close by this project, and also there is a bus service to the city centre, every 15 minutes. The advantage of this whole thing is that the square-metre price for the accommodation is only around 4,000 Euro. The first part of the advertising campaign, conducted in cooperation with the City of Luxembourg, has already produced 300 people who have registered their interest in buying one of these 80 apartments. The reaction from most people has been: If I can manage to buy an apartment on Limpertsberg for the next 100 years, then I will be able to find a solution for the car. We are assuming that next year we can start marketing the project in earnest, and I am sure that we will be able to sell them.

Eveline Beck: I am sure this project will work, but this project and the transport problems in Luxembourg are for me two different things. If it takes the average Luxembourger just as much time on public transport to get to work as it does by car, then he'll take the car. He will only switch to public transport when it halves his journey time. Not before.

Etienne Reuter: Nevertheless, you can see with the cycling initiative that more people are now taking the bike than they did ten years ago. And the numbers are rising. It may perhaps also be that the new inhabitants in Luxembourg have a different mentality, and that can only be good for us.

Mario Di Stefano: It's also a matter of how you want to live you life. There are some people for whom the cycling idea works, because they live near to their place of work or are specifically looking for a home within walking or cycling distance to their work. But as soon as these people start to have a family, and want to live in greener surroundings, then you can't do that any more. You also have to ask yourself whether the attempts to limit traffic everywhere and at all times are always sensible or not. In Luxembourg there is a maximum number

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*Jürgen Primm,*
*Development Coordinator at Agora, the project development company for Belval*

*Etienne Reuter,*
*President of Agora, the development company for Belval and Premier Conseiller de Gouvernement in the Ministry of Finance, Luxembourg*

of parking spaces in relation to square metres of office space. That is a tried-and-tested method of limiting traffic in certain zones. But there are also some zones where that is problematical. For cross-border commuters who arrive by train and then have to travel from the station to these areas using public transport, the journey takes two to three times longer than by car. A project developer has to look at how he can market a project that only has a fixed number of parking spaces per square metre of office space. There are examples where this limitation is a problem in practice and where things have to be improved.

*Coming back to the subject of „international investment". How does a non-Luxembourger see this?*

Dr. Knut Riesmeier: I would like to pick up on what I said before: Luxembourg is quite an unusual place. In property investment, too, the prices being asked are very high and if you apply the list of criteria of an international investor, then much of it simply doesn´t fit together. It starts with the size of the location: Luxembourg is a relatively small market. And it continues with the liquidity of this market—much of the property stock is in firm hands, and it is hard even to get a chance at buying in. Also, there is a high correlation between the Luxembourg economy and the financial markets, so the economy is not as strongly diversified as for example in Paris, Barcelona and Madrid. That in turn means higher risks. If you put all this together in a model and look at what prices are being paid, what cap rates and yields you can expect, then, according to our models, you have to say: it doesn´t add up. Nevertheless you do want to be here, because it´s a very important location where there is only ever one direction: upwards—leaving aside the period from 2008 until recently of course. So it´s not easy, the location itself is a challenge. Investing here is not straightforward, whether you are talking about office or retail property.

Ullrich Binninger: I like to describe myself as a Luxembourger by choice, so I have two comments: Years ago the Luxembourg government recognised that it is problematical if you only, as it were, refinance yourself through the financial industry. In recent years as one wave has died down Luxembourg has always succeeded in building up a new one. First the emphasis was on private banking—which today no longer plays such a big role—then came the funds business, which closed this gap arising from the reduction in the number of banks. And today, too, talks are being held with the various players in an attempt to identify what the future can be like for Luxembourg. Lessons have been learned, but more than this, they are doing it better than other governments, because they are listening, talking to the market participants and they move faster here than elsewhere. For this reason, I don´t see the high correlation with the financial markets as such a problem, also because Luxembourg is set up somewhat differently to the other major financial centres such as London, New York and Tokyo. That´s the first point.
The second picks up on what Marco Sgreccia said in connection with residential investments. It´s mad really—we know that if we had invested in land or property ten years ago, we would have

*One of the new clusters in Luxembourg are science and research related services.*

made a good profit, because of the rise in prices. Yet for an investor it is hard to understand why that rise has been so steep. Mr. Riesmeier, I agree with you: Luxembourg is a market you can´t really pin down. For investors it is hard to say that you are going to take on the risk involved with Luxembourg, perhaps because of this correlation between time and prices. Nor is it the case that we have a range of property that would make it easy for an investor. Normally he would take a look at A, B and C and opt for one of them. Here you might only have one choice. That makes the whole thing so difficult in my view and it´s the reason why investors are more cautious as regards Luxembourg as a place in which to invest.

**Mario Di Stefano:** One thing we are seeing in our discussions with clients and at trade shows such as Mipim and Expo Real, is that there is a certain reticence as regards investing in Luxembourg, but that this is based on a lack of knowledge. For Germany, France or any other country, Luxembourg is a foreign market. Only when they get to know it and fully realise that it is a European country with a straightforward legal system, with legal certainty and security for investments, does it suddenly become highly attractive to them.

The reason why foreign investment in Luxembourg was so high for a time, was that the foreign investors were under pressure to invest, and they were finding no suitable properties any more in their own home countries. In Luxembourg they found investment opportunities that were interesting to them. The amount of money invested here in Luxembourg in 2006/2007 was crazy, before things calmed down in 2008. Now investment has stabilised at a very respectable level. I think therefore that Luxembourg presents no greater risks for a foreign investor than comparable locations in other countries.

**Ralf Berweiler:** I agree. But I would add that many of the investors are already familiar with the market—they have already gone through that process of overcoming their reservations, and have gathered experience with one or a number of investments in Luxembourg. The new investors are very cautious about coming here to invest, and it is of course their right to be so, because it is their duty to assess all the risks properly and thoroughly. But those who have already invested in Luxembourg—and there are some big names among them—are willing, even at the current time, to get involved again, given the right products.

**Jürgen Primm:** Two more thoughts on that: The pressure to invest that was mentioned, which brought many investors to Luxembourg, can come back again like a boomerang. Some of the German open-ended funds are in liquidation. Here very large properties, which are in actual fact not tradeable, are coming onto the market, and that will possibly lead to values being written down. It will be interesting to see how the investment community reacts to this, because that will be a first and it will certainly also impact on the investment climate. A second point is the composition of the tenant structure. In the end the investor is buying cash flow, which the tenant, the rental contract, must generate. In the beginning we had the vision that Belval would be a secondary location for the financial sector. And it started well with Dexia and RBC Investor Services but after that, for whatever reason, we did not succeed in attracting more of these players in that market. So we had to look for alternatives. We looked around the market for other user profiles and have now found good demand from creatives and the service sector. There is a very, very high level of good medium-sized engineering offices, architectural practices, consultants in all segments, from which there is solid demand in the office sector. No, they don´t take up 5,000 or 10,000 square metres of space, but they do provide a mix that can only be positive for an investor.

**Mario Di Stefano:** The average take-up is around 560 square metres.

**Jürgen Primm:** That tallies quite well with our experience. Since our new website went online, complete with contact form, we are receiving inquiries, almost on a weekly basis, from small and medium-sized enterprises looking for 150 or 200 square metres of space. That´s a tick under the average size, but even this is interest-

*Dr. Knut Riesmeier,*
*Managing Partner of Riesmeier Capital, Munich and Hamburg, an investment advisory company*

*Marco Sgreccia,*
*Owner and CEO of Tracol Immobilier Groupe Getral, Luxembourg, a project developer active mainly in residential construction*

ing for an investor. Because when a big tenant like Citibank, for example, goes bust, then not even a ten-year rental contract is a guarantee against vacancies.

Ralf Berweiler: Investors have only been thinking like this since 2008. In the years before that they just wanted things to be easy: one tenant, big space, long rental contract. Since 2008 we know that when a ten-year contract has run for nine years, we might soon be without a tenant. A mixed-use property—shops at ground floor, offices above and at the top apartments—was unimaginable as an investment profile before 2008. What investors today regard as a good mix was, back then, seen as a muddle. A big advantage of mixed-use is of course when one tenant moves out, it doesn´t cause any great upheaval in your yield. But this realisation has only set in over the last three to four years.

Mario Di Stefano: As for the 'boomerang' mentioned by Jürgen Primm: Yes, that can happen, but that problem is not specific to Luxembourg, it´s a European or even global problem that certain funds have the opposite of investment pressure. Many transactions and investments located elsewhere in Europe or further afield are structured via Luxembourg. But what we are also seeing is that it affected other countries much earlier and that Luxembourg by comparison is not doing so badly.

*The motto of Luxembourg is: 'We want to stay what we are'. Yet even retaining that status quo involves change. What are the most important changes that Luxembourg is intending to make or has already made?*

Etienne Reuter: Yes, our motto is indeed 'We want to stay what we are', but we also want to maintain our prosperity. That means creating the conditions under which that prosperity can continue. As a result Luxembourg is making great efforts to diversify its economy: in the financial sector—and here the funds business has been progressing well—in the industrial sector, but also in the areas of logistics, bio-medicine and environmental technology, all in line for further development. Here in Belval, too, for example, new activities are to be developed out of the research activities at or in the context of the university. We have already taken the first steps in this direction with the Incubateur d'Entreprise and the Biotech Building, but another important area is everything to do with computing centres and e-commerce. To advance Luxembourg to the forefront here, a great deal of money has been invested in the technological infrastructure to ensure companies can carry out their activities safely and securely here. The legal framework has also been created to protect intellectual property and copyright. I am confident that we will succeed in advancing these areas even though progress might be faster in some than in others. Nevertheless the framework is being laid down that will enable new things to emerge. E-commerce has in recent years brought a great deal to Luxembourg, and that´s not only because of our lower rate of value-added tax.

Marco Sgreccia: After graduating, I started my career in the civil service, during which I worked for four years in economic development committees. I had the opportunity to travel a lot and gained a good insight into what is happening in other countries. The interplay of the private economy and the state in opening up new market segments and in exploiting niches works better in Luxembourg than in the larger countries. The accusation that the Luxembourg economy is too monolithic and too dependent on the banks, simply ignores, for example, the fact that decades ago we encouraged the birth of private radio and TV stations, via the TVWF (television without frontiers) directive and state concessions for private companies to use satellites. Or the directive on VAT, under which VAT is levied in the country in which a product is sold from—this created a niche for e-commerce that Luxembourg was able to profit. Companies like Amazon, iTunes, Paypal and others are all here, and their presence attracts other companies of this area as well as the respective service providers and then a cluster forms. Certainly one is concerned when one sees how much the banking landscape is changing, but I am nevertheless confident, because we have always had the ability to adapt ourselves to new conditions and to find something that can carry us through into the future.

*We are talking about new clusters that will compensate for possible job losses in the financial services sector. What kind of figures are involved?*

**Jürgen Primm:** In total there are around 360,000 workplaces in Luxembourg as a whole and in the financial services sector there are around 40,000 …

**Ralf Berweiler:** … and as many again in the suppliers to these companies.

**Guy Entringer:** To come back to that motto of 'We want to stay what we are': If you look at population trends in Luxembourg, then you can hardly have a more international spread. The proportion of foreigners is around 44 percent—just among the people who live here, not including those who commute from neighbouring countries.

**Etienne Reuter:** If you say 'We want to stay what we are', then hopefully we will remain an economically strong country with a triple-A rating. If we achieve this, then we will have done much towards ensuring things stay as they are.

**Ullrich Binninger:** Saying 'We want to stay what we are' is much too defensive, I think. It sounds like we've achieved something, and now all we want to do is sit here and wait. But in fact the opposite is true: In Luxembourg we are capable of building something up very quickly, not least because the processes involved are so much simpler and faster here. We like to see ourselves as a speedboat, able to change direction much faster than a big tanker. And even if the number of employees in the new areas is still relatively small—it is just the beginning, and we have managed to attract well-known companies to set up in Luxembourg. More companies will follow—those that provide services to these first-movers—and I see that as positive. We can achieve something.

**Ralf Berweiler:** The comparison with a speedboat is very good. Because it is this manoeuvrability that has been such a characteristic of Luxembourg in the last 30 years. And we are seeing that again now. Luxembourg is simply very innovative. A large nation can't move so fast. This a competitive advantage for Luxembourg.

*Almost half the population comes from outside Luxembourg. What does that mean? Where are these people coming from?*

**Guy Entringer:** The Italians were the first who immigrate into Luxembourg, then came the Portuguese—who now form the largest group—and later lots of Yugoslavs. The Portuguese are now in the second generation here, the Italians in the third. Things have changed a lot—often you can't even tell from the names whether someone is from Luxembourg or from outside.

**Marco Sgreccia:** We have to realise of course that statistics is a world of its own. On paper Mario Di Stefano, for example, is a Luxembourger!

**Mario Di Stefano:** I do think that the opportunity of obtaining dual citizenship has been one reason why many foreigners have decided to become Luxembourgers. People who have lived in Luxembourg for many years, perhaps their whole lives, but who for reasons of nostalgia or so as not to upset the family, have retained their old passport, were now able to say: If I can keep my old passport, then I will be happy to take on the Luxembourg one, because in fact this is my home. That possibility alone has given rise to a few thousand 'Luxembourgers on paper'. But it's more than that. Because, by taking this step, those

*The old and the new combined: the blast furnace of Belval will be conserved as a monument of the site's history, but around it a new town is emerging.*

*High value is set on quality architecture and design in Luxembourg to improve the attractiveness of the urban environment.*

people have also shown a certain emotional allegiance too.

*Coming back again to Belval, an old steelworks which just had to be made use of. Now redevelopment of this site has been progressing for a good ten years. So how much has been achieved in that time and what are the aims for Belval in the next one or two years?*

**Etienne Reuter:** You say it was imperative to do something in Belval. Yes, but there was the choice of doing something completely different or doing nothing and just letting it stay as it was and invest the money instead in the City of Luxembourg. It was a conscious political decision: to build up another focal point, alongside the City of Luxembourg, in the south of the country where over one third of the population lives. A third centre is also being planned in the north, near the towns of Diekirch and Ettelbruck. That was an important goal in urban planning for the whole country. The second goal was to relieve pressure on Luxembourg City. Even back then prices in the city were too high, demand was strong and transport, too, was already a big problem.

Where are we today, eleven years after the redevelopment company was founded and almost 15 years after the last blast furnace was closed down? When I compare it to other industrial sites that were shut down at around the same time elsewhere in Europe, then we are not looking so bad. What we have here is not only a museum, an industrial monument that would have become a ruin—we tried instead to bring new hope to this area. In 1996 and 1997 the south was a region that only made negative headlines: The steel industry was on its knees, and almost all the talk was about closures.

We succeeded here in presenting a vision that was widely discussed, very courageous decisions were taken, investments were implemented for structural reasons in Belval, in order to build up something new here. Now a number of those tasks have been completed: The master plan of 2001 envisaged the creation of 1.5 million square metres of new space here. The master plan was and is very important, and one key reason why back then we opted for Joe Coenen´s master plan was the way it addressed the question of susceptibility to future crises. In 2008 we had the big banking crisis, then in 2011 another smaller banking crisis, yet we are still able to stick with the master plan. We might need more time than originally planned, but that´s not so serious. We have succeeded in creating 3,500 new workplaces in Belval—that´s not workplaces that were moved from Luxembourg City to Belval, the majority are new. And they span a range of sectors, which means we have broad diversification here, which makes the location more crisis-resistant than in the past when there was only one sector here—the steel industry. We have around 500 new inhabitants—and that is just a fraction of the total of 6,000 that we are aiming at. In terms of jobs, the aim is for a total of 20,000. But we are on the right track and we are not now going to get jittery, even though the economy and the general economic situation is not as strong as it was when the Belval regeneration project started. However because the economic segments that we are developing here are the same segments that are being developed generally in Luxembourg, I am confident that we will be able to successfully implement the cluster idea that we are pursuing, with mutual benefit for the participants in those clusters.

**Jürgen Primm:** If you go through it segment by segment, we have created almost 90,000 square metres of office space so far. Since 2006 when the first office building for Dexia went up, that amounts to over eleven percent of the figures for the Luxembourg market as a whole—and we did it in an old industrial site in the south of the country. As a result we are now one of the largest peripheral locations—only Luxembourg airport is a bit bigger, but we will overtake it, in two years at the most, when further projects are completed. Still in

the pipeline are a further 80,000 square metres, including public buildings and part of the university, these being ready by 2015. The vacancy rate is virtually zero. That, too, incidentally is a small problem in itself and one of the late consequences of the Lehman collapse, because after that speculative developments were simply not possible any more.
In the residential sector 500 units have been completed and sold, and almost all of them are now occupied. A further 400 units are in the pipeline—some of them are already under construction, some are awaiting approval and some are in project planning. In the next ten to fifteen years we want to complete around 180 units per year. We don´t do the construction ourselves, we just sell the plots so that the developers and funds can prepare themselves for tenders and the products that are to come.
There is also still potential in the retail and services sector, but before that can happen the location has to put on a bit more weight, as it were, and generate more local demand.
But with every cubic metre of concrete that is poured into the building of the university building, the whole process becomes irreversible. That does not mean of course that we can sit back already, nor do we want to. Each newly negotiated square metre, each new project, each new plot is still hard work. And even though in some parts it looks finished, there is still much that is not finished. We are in contact with many other development companies and we know from many discussions that such large-scale urban development projects can still fail even after ten or twelve years. So we all have to watch out. But here the prospect of it succeeding is significantly greater than in other regions, because the basic level of incomes, of plot prices is higher. For a project like this costs a lot of money and it cannot be realised at the kind of price levels you find in places like Saarbrücken or Bochum.

*If Belval has a market share of eleven percent of all new office space, what does that mean for the city of Luxembourg?*

Jürgen Primm: The eleven percent is brought into context when you compare it with the CBD of Luxembourg City: The CBD is the largest single location for office space in the city, accounting for 22 percent of the total. To put this in context: The average turnover in office space was in the region of 150,000 square metres per year, over the last three or four years. That is a relatively stable level. Most demand comes from the financial sector, but increasingly the inquiries are coming from consultancies, some of which are connected with the financial market, but who are involved in entirely new themes such as gaming or research services. And we have many company headquarters in Luxembourg. A few years ago Ferrero rented a huge space at the airport, of around 6,000 square metres. That doesn´t exactly fit into the classic picture of a Luxembourg-based company, but this is also the reality.

Mario Di Stefano: You also have to realise that European institutions take up around 25 percent of all the available office space. That, too, is a factor.

*What are you looking for exactly for Belval at international fairs like Mipim and Expo Real? Project developers to get in-volved here, or investors?*

Jürgen Primm: The way we see it, an investor is a project developer who buys a plot. These are—with the exception of Belval Plaza—all people from the region. There is, however, also a Luxembourg-Alsace joint venture, but I would categorise that, too, as part of the wider region. That has perhaps not so much to do with the economic climate. Belval has been a presence on the market for ten years. People are watching its development, but now we are gradually reaching a level of maturity where the one or the other developer, or the one or other investor, thinks it now fits into their risk profile, and because we can offer a product pipeline, where others might then find something they like. Of course an international trade show is an excellent opportunity to make contacts and to then follow up on them. Here in this region there are some very competent developers and powerful investors, but we are always interested in 'new blood', other approaches, in the experience others can bring. We try to attract a healthy mix of international developers and investors, and we recommend them to work closely together with players who know the Luxembourg market, if only to smooth the passage through the often mentioned approval procedures.


## imprint

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