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REAL ESTATE

Austria's real estate market
"Safe as houses"

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Flight to real assets

“THERE ARE WINNERS IN EVERY CRISIS”

Shaken, not stirred!

Concrete is artificially produced stone, a mixture of cement, water, sand and gravel. So how can it be transformed into a chemical element, atomic number 79, symbol Au – gold? Well, mainly thanks to significant amounts of liquidity, which is essential for the modern-day art of creating gold-standard assets.

Injections of liquidity into the markets by the ECB, persistently low interest rates, an increasingly stable labor market and the resulting pressure to invest have not only been a fillip for Austria's real estate market. Until recently, low interest rates were seen as driving the flight to gilt-edged assets. Investors' classic motive – safeguarding wealth against inflation – had taken a back seat with inflation hovering around zero. But the real estate market is no longer being fueled solely by a desire for security – the fear of money losing its value is increasingly playing its part. Both of these aspects throttle supply and push prices up. However, demand will continue to climb because index linking serves as a safeguard against inflation. The effect of this is that asset classes which were hit particularly hard by the coronavirus crisis – such as city hotels – are now making a comeback. In the space of just a year, construction prices have risen by an average of 14% – a trend that is set to persist for some time, as builders set about turning the record number of planning permission approvals into concrete projects as quickly as possible. At the moment, asset classes that were not affected by the pandemic – and those that actually benefited from it – are booming, such as land, apartments, logistics and retailers catering to everyday needs. Core office properties are also in strong demand, with solid tenant structures and credit ratings, and stable earnings from offices in prime locations regarded as guarantees of security.

More and more investors are also turning their attention to alternative real estate investments, such as care homes and data centers. Investors in the Anglo-Saxon countries and Germany were the first to start moving in this direction, and now their Austrian counterparts are following suit. Due to the Covid-19 pandemic, health-related properties are playing a significant role, with investors even willing to accept reduced yields. Generally speaking, we have seen some shifts in the yield matrix: in the office and retail segments, clearer distinctions are now being made between properties on the basis of their locations, tenants' creditworthiness and the tenant mix. The slight increase in yields reflects the learning curve of the past year. Meanwhile, investors in residential real estate are signing options for forward deals solely on the promise of returns further down the line. Also in the residential sector, the cities of Graz and Linz are becoming magnets for foreign investors. However, it is just a matter of time until supply dries up, as short-term demand has been satisfied in all asset classes with the exception of the affordable living segment.

Vienna's office property market was subdued in 2021, both in terms of completions and demand from tenants. Renovations now account for a significant proportion of the new space coming onto the market. On the demand side, the capital's office market is still robust. The office markets in the capitals of Austria's provinces are highly demand-sensitive, meaning that new space construction is tailored to actual needs. Construction of privately financed apartments and student apartments is still the liveliest segment on the real estate market. The capital is in the middle of a historic boom in high-rises, which will continue until 2025 at least. And the question of affordability is always part of the equation, especially as the Financial Market Stability Board (FMSB) – part of the Oestereichische Nationalbank – has identified growing systemic risks in the real estate market and has warned against overly lax bank lending to private individuals. Higher prices are still possible for smaller residential units, but this strategy is also being pushed to its limits. Owner-occupied apartments are remaining on the market for longer, and the number of transactions has fallen slightly, although their value is up. Subsidized residential construction is in full swing in all the provincial capitals and is expected to fully satisfy housing needs in the medium term.

A minor amendment to the Viennese building regulations in 2021, which makes the construction of multi-story properties designated as Bauland Wohnen Bauklasse I (Development Land Residential Construction Category I) more difficult, will not necessarily put the brakes on the steadily rising prices for development land.

What we can do for you

We see ourselves as a dependable partner that is in tune with its customers' requirements and prepared to take reasonable risks. Speed and the ability to take quick decisions are particularly important. Our real estate customers have access to the full range of services offered by UniCredit – a highly successful pan-European commercial bank that combines in-depth local expertise with international reach. We would also like to show you the options at your disposal to hedge against interest rate risks for new and existing loans, which we think represent particularly good value given the currently low rates.

Real estate cycle – will gold eventually lose its luster?

The outlook for the Austrian real estate market remains positive. Institutional investors from Austria and abroad are carefully sifting through the range of available products. In spite of the signs of market saturation in most asset classes, as well as sharply higher prices for building materials, the construction industry is running at full steam in order to work off the large number of planning permission applications that have been approved. As the real estate sector becomes an increasingly significant ecological consideration in light of the stronger focus on environmental, social and governance (ESG) factors, the availability of affordable development land will be a prominent topic in all urban conurbations. Real estate cycles do not last for ever, but the current, generally upbeat market conditions seem set to support a continuing rally.

James Bond likes his Martini shaken, not stirred – and getting the mix just right certainly applies when it comes to working with concrete!

On that note, we wish you every success – and stay healthy!
The editorial team

Emerging from the pandemic

The global recession in 2020

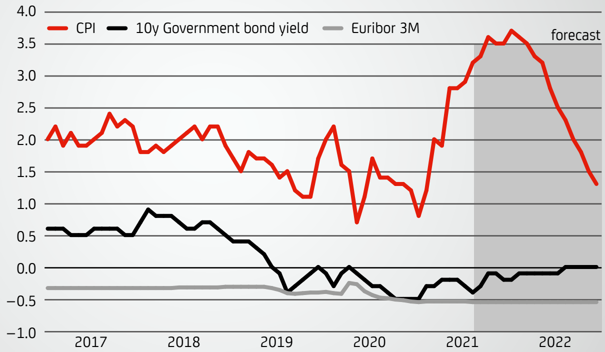
In 2020, the world economy was firmly in the grip of the SARS-CoV-2 pandemic. After the emergence of the virus in China, the rapid spread of viral infections and the threat of overburdened healthcare systems resulted in the imposition of wide-ranging restrictions on commercial life from the spring, firstly in Asia and then in Europe and the US. Production stoppages, business closures and lockdowns tipped both the USA and the European Union into deep recessions in the first half of the year. The economic restrictions imposed around the world were relaxed in the summer, leading to a strong recovery fueled by pent-up consumption. While most Asian countries succeeded in keeping the pandemic largely under control, there was a new wave of infections in the autumn, primarily in Europe, which required the reimposition of lockdowns and triggered another recession. Overall, the sharp fluctuations in economic growth caused by measures introduced to curb the pandemic resulted in a real decline in global output of over 3%. China was the only major economy to record growth in 2020, while real GDP in the US dropped by 3.5%, and the euro area was even harder hit due to the stricter lockdowns imposed, with real GDP down by 6.7%. The Austrian economy also suffered a sharp downturn of 6.3%, which reflects its strong focus on close-contact services such as tourism.

Burgeoning economic recovery in the first half of 2021

The global economic picture has brightened since the start of 2021, with China, large parts of Asia and the US leading the way. A strong recovery took hold following the lifting of economic restrictions after the third wave had been brought under control and vaccination rates increased, particularly in Europe. The US economy began to rebound earlier, in the first half of 2021, with growth picking up by more than 6% and surpassing pre-crisis levels, while the eurozone trailed behind pre-crisis levels with a roughly comparable growth rate. Due to the scale of the downturn in 2020, by mid-2021 European economic growth was still four percentage points down on the pre-crisis figure.

Thanks to the improved international economic environment, the export-driven sectors of the Austrian economy began to pick up again in early 2021. The construction sector also made a good start to the year, which reflected full order books boosted by public-sector contracts and rising demand for housing. However, the restrictions imposed on many service industries to stem the third wave of infections led to another fall in output in the first quarter, meaning that the economy was technically in recession throughout the winter. When these measures were lifted in spring, the retail, hospitality and many other service industries swiftly moved into recovery mode, making a hefty contribution to Austria's broad-based economic rebound on the back of significant pent-up demand and high consumer saving. As a result, Austria's economy grew by more than 3.5% year on year in the first half of 2021.

Inflation and interest rates



Sources: Refinitiv Datastream, Statistik Austria, UniCredit Research

In the course of the recovery, inflation picked up speed around the world during the first half, due to higher raw material prices and transport costs, supply chain difficulties and rising demand. This reflected the upturn in many sectors where prices went up, particularly consumer services, as well as the imbalance between the demand for and supply of certain products. In Austria, consumer price inflation rose from less than 1% at the start of the year to more than 3% in mid-2021.

In spite of the increase in inflation, the European Central Bank chose not to adjust its monetary policy stance. The base rate is still at 0%, with the deposit rate at -0.5%, and the non-standard monetary policy measures implemented in response to the pandemic have been left in place. In order to ensure that financing is available on favorable terms, the ECB has retained the liquidity measures introduced as part of its targeted long-term refinancing operations (TLTRO III), which are designed to support lending to small and medium-sized enterprises, as well as its asset purchase program, under which the bank makes net purchases valued at EUR 20 billion per month. The pandemic emergency purchase program (PEPP), which involves net monthly asset purchases of around EUR 80 billion, continued in the first half of 2021. These measures led to another slight decrease in the borrowing rates offered by Austrian commercial banks. The average interest rate on new home loans to private households fell from 1.34% in 2020 to about 1.2% in the first half of 2021.

Favorable lending conditions resulted in continued strong growth in home loans to households in the first six months of this year – lending volumes jumped 9% year on year in the first half. The significant increase in lending also prompted double-digit rises in real estate prices in the first half of 2021, following an average 7 percentage point gain in the residential property price index in 2020.

Recovery expected to continue in the second half of 2021

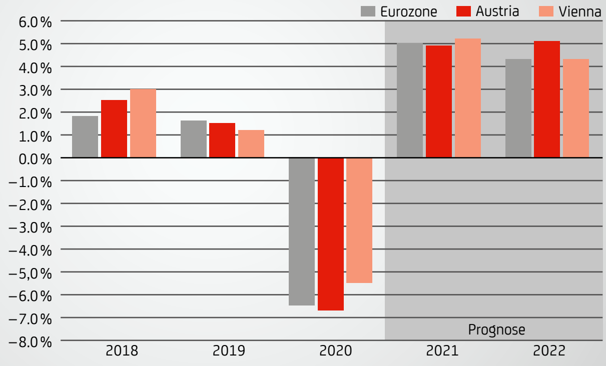
The economic recovery that started in Asia and the US spread to large parts of the global economy in the opening six months of 2021. Following the slump in global GDP of over 3% in 2020 due to the pandemic, we expect worldwide economic output to grow by 5.8% this year, in spite of the risk of a downturn in the second half should new variants of the virus emerge.

In the meantime, after a strong start, the upswing in some of the large emerging economies such as China is beginning to run out of steam. This is also due to the upcoming end of monetary and fiscal policy support packages. Nevertheless, the Chinese economy is set to grow by 8.5%, driving forward the global economic recovery. In many advanced economies, consumption has become a major driver of growth. The US economy is feeling the benefits of exceptionally strong growth of around 6.0%, thanks especially to a recovery plan containing additional fiscal stimulus measures. In the eurozone, the recovery took more time to gain traction, but GDP growth of around 5% is possible in 2021, thanks mainly to fiscal policy support from the EUR 750 billion Next Generation EU development program, which has been providing joint funding since the middle of this year, primarily to the economies that have been hit hardest by the pandemic.

The broad-based reopening of the Austrian economy, including the service industries, following the slowdown in coronavirus infections has lifted the mood in all sectors of the economy, which points to a continuation of the strong recovery that kicked in during the spring. However, the catch-up process may slow in the autumn, as the level of infections rises again. Nevertheless, we believe that the recovery will be sustainable. As a result, Austrian economic output, which was about 2.5% down on pre-crisis levels in the middle of this year, could reach this mark again by the end of 2021 thanks to growth of almost 5% for the year as a whole.

Economic growth

(real change of GDP in %)



Sources: Eurostat, Statistik Austria, UniCredit Research

Austrian inflation is expected to peak at above the 3% mark around the turn of the year, when year-on-year oil price differentials will also be at their highest. During 2022, the end of the supply shortages that have driven up prices should cause inflation to fall, so on the whole we do not anticipate the start of a wage-price spiral. We expect inflation to average 2.6% in 2021.

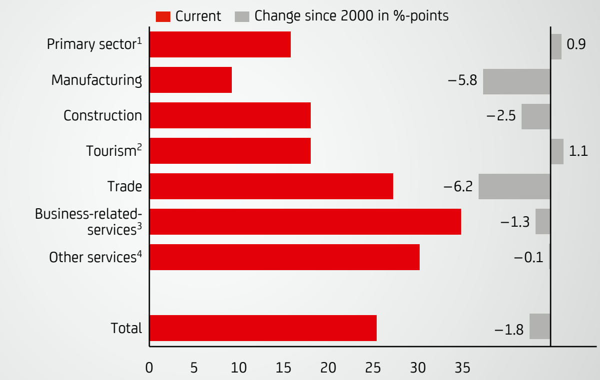
In spite of the strong economic rebound and rising inflation, euro area base rates will probably remain low in the second half of 2021. The ECB believes that the increase in inflation resulting from supply bottlenecks and higher oil prices is temporary and the bank will therefore sit tight during this period of rising inflation and leave interest rates unchanged. The ECB will take a decision on the future of the PEPP before the end of 2021; the program is scheduled to run until at least the end of March 2022.

Overview of Austria's economic data

	2015	2016	2017	2018	2019	2020	Forecast 2021	2022
Economic growth (real. year on year)	1.0	2.0	2.3	2.5	1.5	−6.7	4.9	5.1
Private consumption (real, year on year)	0.5	1.5	2.0	1.1	0.7	−8.5	3.9	5.5
Investment (real, year on year) [1]	2.3	4.3	4.2	4.4	4.8	−5.2	8.0	4.0
Exports (real, year on year)	3.0	3.0	4.9	5.1	3.4	−10.8	9.8	8.8
Imports (real, year on year)	3.6	3.7	5.3	5.3	2.0	−9.4	11.5	5.8
Current account balance (in % of GDP)	1.7	2.7	1.4	0.9	2.1	1.9	0.2	0.7
Inflation rate (CPI) (yearly average)	0.9	0.9	2.1	2.0	1.5	1.4	2.6	2.6
Unemployment rate (national criteria)	9.1	9.1	8.5	7.7	7.4	9.9	8.1	7.2
Unemployment rate (EU definition)	6.2	6.5	5.9	5.2	4.8	6.0	6.1	4.9
Employment (year on year, in %) [2]	0.9	1.5	1.9	2.4	1.5	−2.1	2.1	1.6
Budget balance (in % of GDP)	−1.0	−1.5	−0.8	0.2	0.6	−8.3	−5.5	−2.0
Public-sector debt (in % of GDP)	84.9	82.8	78.5	74.0	70.6	83.2	82.8	78.8

1) Gross fixed capital formation / 2) excluding maternity leave, military service and training programs
Sources: Statistik Austria, ÖNB, UniCredit Research

Vienna's share of Austrian added value (in %)



1) Agriculture and forestry, mining, energy and water supply
2) Hotels and restaurants
3) Business-related services in the broad sense: transport, banking and insurance, real estate
4) Public services, education and health, private services
Sources: Statistik Austria, UniCredit Research

However, some sectors such as city tourism were particularly hard hit. The capital was the only Austrian province where the industrial sector recorded an increase in value added in 2020. By contrast, Vienna's construction sector was the back marker among the federal provinces, with value added decreasing by 7 %.

After the slump brought about by the coronavirus pandemic in 2020, the Viennese economy is set to post steady growth of 3 % this year. However, 2021 will be another difficult year for the city's hotel industry. It has already been marked by continued weak demand from overseas guests and the loss of conference delegates, although the number of overnight stays in the capital in 2021 is expected to increase by 10 % compared with last year. But this still represents a drop of 70 % on 2019, before the pandemic struck. The reopening of the economy in May should be reflected in solid growth in Vienna's retail and transport sectors. Robust industrial growth, especially in the other goods category and in the chemicals industry, will continue in 2021 as international sentiment becomes more upbeat. Improved economic conditions will help to push down the unemployment rate to an average of 13 %, compared with 15.1 % last year.

Strong economic growth in 2022

Due to the significant statistical backlog, Austrian economic growth may even reach 5.1 % in 2022. This would be the biggest increase for around half a century. In view of the steady pace of the recovery, unemployment is expected to fall from an average of 8.1 % in 2021 to 7.2 % in 2022. Thanks to falling oil prices, inflation in Austria should again average 2.6 %.

Viennese economy in recovery mode

Information technology and the public sector account for a relatively high proportion of Viennese economic output, and in some ways both actually benefited from the measures imposed to combat the pandemic – through digitalization in particular. So the city was not so badly affected by the coronavirus as other parts of the country, with output falling by a below-average 5.5 % in 2020.

Viennese economic data

	2015	2016	2017	2018	2019	2020s	2021p	Average of federal provinces (or Austria total) 2021p
GDP per capita (EUR)	48,100	49,400	49,500	51,000	52,700	50,100	54,000	45,700
GDP per capita (as % of Austria)	120.6	120.9	117.6	116.8	116.9	117.9	118.3	100.0
GDP (real, %-chg.)	0.6	2.8	1.0	3.0	1.2	−5.5	5.2	4.9
Unemployment rate (average, %)	13.5	13.6	13.0	12.3	11.7	15.1	13.0	8.1
Employment (%-chg.)	0.7	1.4	1.9	2.4	1.8	−2.5	2.7	2.1
Exports (EUR mn)	18,642	17,847	19,497	19,069	20,663	19,428	21,000	159,000
Exports of goods (as % of Austrian exports)	14.2	13.6	13.7	12.7	13.5	13.7	13.2	100.0
Exports (in % of GDP)	21.4	19.5	21.0	19.8	20.5	21.2	20.7	39.8
Public debt per capita (EUR)	3,550	3,753	3,882	3,960	3,907	4,468	4,960	3,700

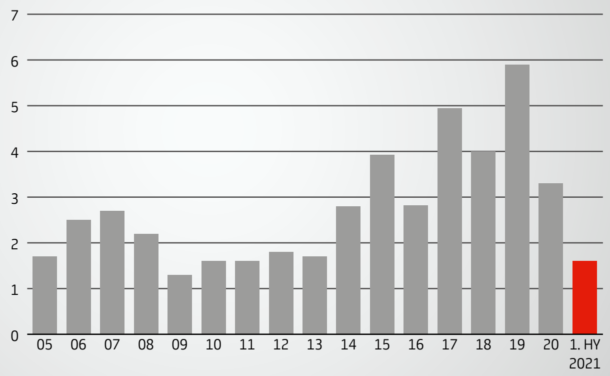
Sources: Statistik Austria, UniCredit Research

Commercial real estate investment volumes down last year, stable at mid-point of 2021

According to analysis recently published by CBRE, the investment market for commercial properties in Austria contracted last year before going on to stabilize in the first half of 2021, by which point it had almost closed in on the level of the same period a year earlier.

CBRE reports a transaction volume of around EUR 3.3 billion for 2020, which represents a significant decline on the record-breaking total of approx. EUR 5.9 billion set in 2019. In addition to apartments and office properties, interest in warehousing and logistic investments was particularly pronounced last year. More than two thirds of all investors came from abroad in 2020, with Germany particularly well represented.

Investment in commercial real estate in Austria (in EUR bn.)



Source: CBRE

First-half investment volumes at previous year's level

In the first half of 2021, investment activity picked up, reaching approx. EUR 1.6 billion to approach the total reported in the same period a year earlier, according to CBRE. This development clearly confirms the Austrian investment market's stable and crisis-proof reputation, despite the restrictions imposed by the coronavirus pandemic. Almost 60 % of investors in the first six months of 2021 were from outside Austria, which is a further indication of the attractiveness of the nation's investment market. CBRE's analysts see total investment reaching about EUR 4.0 billion as at year end, meaning that activity in the second half will significantly outperform that of the first two quarters. According to CBRE, the lion's share of total first-half transactions in 2021 was accounted for by apartments and commercial and office properties. The largest share of retail investment transactions in the first half of 2021 was attributable to the partial sale of SCS in Vösendorf, with major French bank Crédit Agricole Assurances acquiring a 45 % interest in the shopping center to the south of Vienna from former sole proprietor Unibail-Rodamco-Westfield.

Office construction activity has been up and down in recent years. After several strong years, 2019 was stagnant, with only approximately 40,000m² of newly-built space. Last year around 130,000m² of new office space was added, with new construction for 2021 set to introduce around 100,000m² to the market.

Investors will be under pressure despite, or perhaps because of, Covid-19 to continue finding suitable properties for the ample investment capital at their disposal, which suggests Vienna's stable office property market will remain firmly in investors' sights.

Prime yields mixed

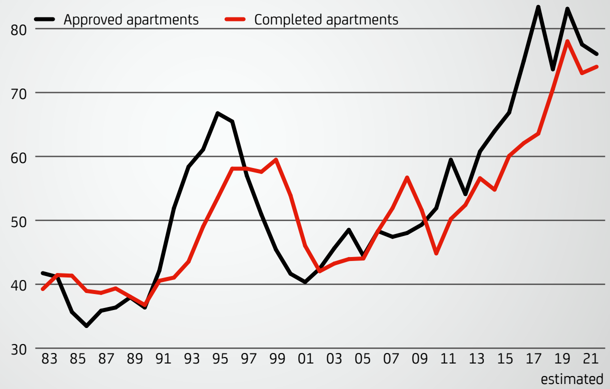
This situation has also had an impact on yields. In the office category, top yields had already slipped to just under 3.4 % by the end of 2020, while those for shopping centers increased slightly compared with year-end 2020, to around 4.5 % on June 30, 2021. Overall, the yield curve in the office sector is increasingly leveling off, with top yields for offices in mid-2021 coming in at around 3.35 %, meaning that a slight downward trend still cannot be completely ruled out.

Housing construction in Austria – economic crisis triggers shift in housing demand

Housing construction remains high after record totals in 2019

In recent years, housing construction in Austria has largely kept pace with the strong rise in demand for residential space. Driven by significant ongoing pent-up demand, huge price increases in many segments and the ready availability of highly attractive financing, an average of 61,000 new apartments were constructed in Austria each year between 2011 and 2019. By comparison, the average for the three preceding decades was 47,000 units per year.

Housing construction in Austria
Permits and completions, 1,000 apartments



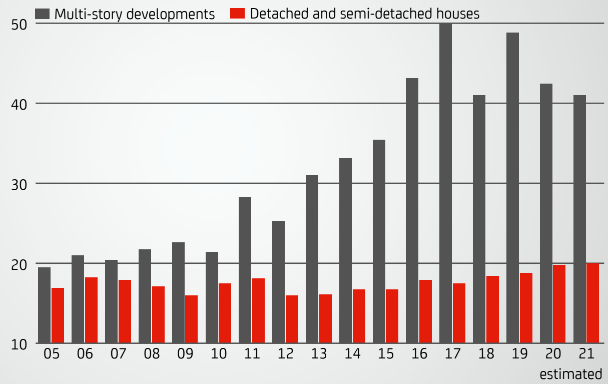
Source: Statistik Austria, UniCredit Research

After a record total for new builds in 2019 that saw around 78,000 units completed, construction activity (and housing construction in particular) waned slightly in 2020. Still, some 73,000 apartments were completed during the year, a remarkable achievement against the backdrop of the worst economic crisis for decades. As reflected in the number of new permits granted over the past three years, fewer new apartments were completed in multi-story dwellings in 2020, while the totals for detached and semi-detached properties probably held firm at 2019 levels.

Construction activity unlikely to cool off until 2021

In 2021, new construction activity in Austria is seen as at least reaching the same level as 2020, if not slightly exceeding it. In the first half year, the production value of the apartment building and housing development segment was up by around 13 % in real terms, in spite of the heavy losses sustained owing to the lockdowns. In addition, forecasts from the civil engineering sector in September were still significantly above the long-term averages, and as such point towards additional gains in the fourth quarter.

Building permits in Austria
in 1,000 apartments*



*) without apartments created by adding, building or converting existing buildings
Source: Statistik Austria, WIFO, UniCredit Reseearch

Various indicators suggest growth in residential construction in 2021, not least the high number of permits for new builds granted in 2019 and 2020 and the above-average number of projects under construction registered by housing associations at the start of 2021 (34,900 units compared to the GBV ten-year average of 16,000).

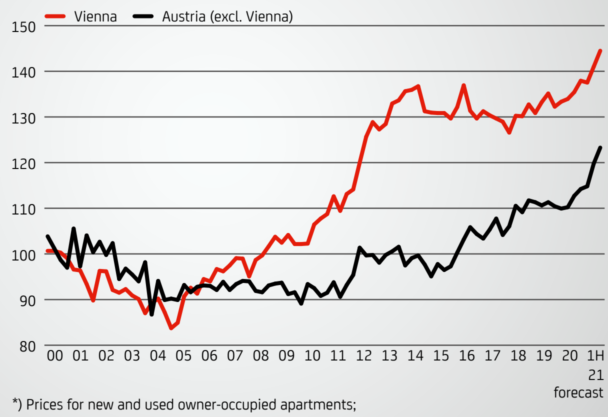
Austria's housing construction industry was one of Europe's fastest-growing sectors in 2020, with output estimated at around seven units per 1,000 inhabitants, compared with an average of just under four for all 19 Euroconstruct countries.

It is expected that comparatively fewer apartments will be built in Austria over the course of the next few years. Firstly, demand for new housing is shrinking – based on the assumption that there are no material changes in household sizes. While the number of single-person households in Austria has increased by about 1.6 % per year since 2013, the growth rate is expected to fall below 1 % in future.

And secondly, high property prices will also lose their function as the driving force behind new construction, as falling rental yields offset the positive effects of rising property values. Since 2005, the price of apartments in Austria has risen by an average of 6.5 %, and by 5 % in Vienna, with rents only going up by 3.5 % during the period. Although rent price increases have accelerated in recent years, they have not significantly outpaced property prices – meaning that yields in the housing sector have, on average, not made up any lost ground. The price of apartments and houses jumped once again in the second half of 2020 (even if the comparison of the data is problematic due to delimitation issues and the fact that the data only reflects market averages, the development of the property price / rent index at least serves as an indicator for possible yields in the residential property sector).

Real estate price – rental price index*

Changes in prices for owner-occupied apartments in relation to changes in rents I Ø 2,000 = 100



*) Prices for new and used owner-occupied apartments; apartment rental prices according to consumer price index
Quelle: OeNB, Statistik Austria; UniCredit Research

According to CBRE's analysis, top yields for institutional investors for new housing developments in Vienna have declined continuously since 2015. Once again in 2020, the drop in yields continued across the board due to persistently high demand for residential property and significant price increases.

Demand for housing yet to be fully met

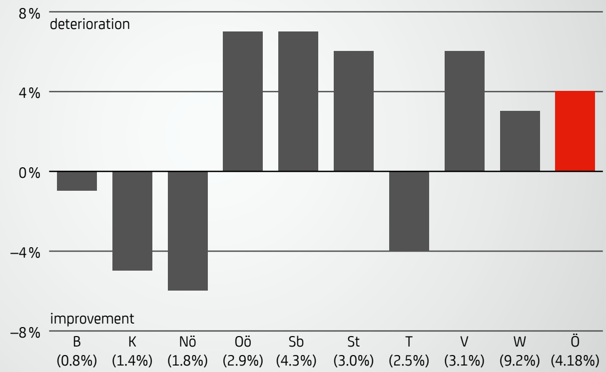
The residential construction boom of recent years helped to reduce the excess demand on the Austrian housing market. Even so, there is still a shortfall as the recent increase in overcrowding reveals.

In principle, overcrowding is an indicator of insufficient space availability, as well as of precarious housing situations. If the rate increases, it points towards a lack of availability of sufficient housing, which has a knock-on effect on supply and indirectly on affordability.

Nationwide, the rate for 2019 and 2020 rose slightly in comparison with the period from 2013–2018, to 4.1 %. (This means that in 2020, of the approximately four million households in Austria, an average of 163,000 apartments or 4.1 % were overcrowded as measured by the ratio of the number of persons in the household to living space.

Overcrowding Rate*

Change 2019/20 in relation to 2013/18



*) Share of overcrowded main residences, rates in brackets
QSource: Statistik Austria Microzensus; UniCredit Research

At a regional level, overcrowding increased in Upper Austria, Salzburg, Styria, Vorarlberg and Vienna during the year. A look at changes in household sizes and apartment numbers since 2013 shows that demand has increased most sharply in the western provinces of Salzburg, Tyrol and Vorarlberg. Here, the number of single-person households increased by 1.7 %, 2 % and 2.2 % respectively over the seven-year period, as against the nationwide figure of 1.4 %. At the same time, more apartments than average were built in Tyrol and Vorarlberg, to the extent that in Tyrol at least the additional demand was met (calculated using data from the micro-census and the overcrowding rates). One reason for the increased overcrowding in Upper Austria, Salzburg and, to a lesser extent, Styria is the decline in the number of subsidized apartments.

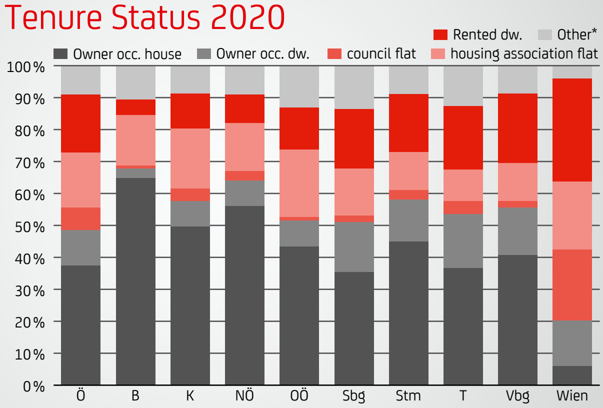
Note on Vienna: the high overcrowding rate of 9.2 % is chiefly attributable to structural peculiarities on the Viennese housing market – owner-occupied apartments, where there is barely any overcrowding, account for around 20 % of the market (compared to 49 % nationwide), whereas privately rented apartments and local authority apartments, which represent a particularly high proportion of the total, are the segments with the greatest overcrowding rates.

To some extent, the defining features of the Viennese housing market map onto other major urban centers. The national average for regions with a population of more than 100,000 has risen sharply since 2013, to 6.4 %, while in smaller communities the number fell slightly to 3.4 % (the ratio is lower still in communities with fewer than 10,000 inhabitants, at 1.4 %). Accordingly, the rising overcrowding rates in Styria and Upper Austria mainly relate to the greater Graz and Linz areas.

Lack of affordable rental apartments

Given the sharp fall in incomes in 2020, it is safe to assume that the proportion of low-income households in the apartment market, and in turn the demand for affordable housing, has increased significantly. In real terms, household income fell by 3 % – due to rising joblessness, and in spite of increased transfer payments – which was a steeper decline than at any point in the three decades before. Incomes are not expected to return to pre-crisis levels before 2022 at the very earliest.

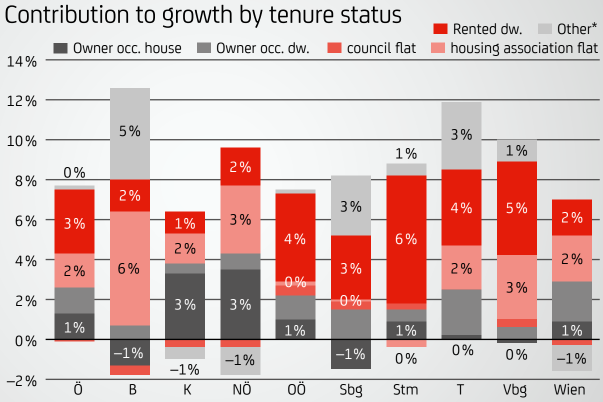
Main Residences by Tenure Status 2020



*) Other: free apartments (8 %), official residences (1 %), subtenancies (1 %) a.o.
Source: Statistik Austria; UniCredit Research

Main Residences 2013–2020

Contribution to growth by tenure status



*) Other: free apartments., official residences, subtenancies a.o.
Source: Statistik Austria Microzensus, UniCredit Research

At the same time, housing costs have risen even faster than in previous years. In 2020 rent prices in Austria went up by 3.8 % per square meter, compared with an average of 3.1 % since 2013. In the most expensive segment – limited-term rental apartments in Vienna – the square-meter price rose by 6 % last year (compared to an inflation of 1.4 %) according to the Statistics Austria Microcensus

There have been some gaps in new housing construction in Austria in 2020, particularly in the provision of affordable housing in major urban centers. That said, significantly more subsidized apartments than usual came on to the market during the year. With 19,100 completions (over 80 % of which were rental apartments), 2020 was the year the housing associations reported the highest output since the mid-90s. However, barriers to entry for low-income households are still high due to the one-time expenses incurred at the start of a tenancy. The number of local authority apartments, which is the segment with the lowest prices, dropped once again in 2020 in a continuation of the trend seen in previous years.

Viennese office segment confounds Covid-19: market prevails and adapts to the new normal

After a year and a half there are still no signs of a let-up in the global Covid-19 pandemic. But Vienna's office property market has benefited from its solid and – still – exceptionally stable fundamentals, with a flexible and unflustered response to changing market conditions that have left office markets in Austria, and around the world, facing new challenges. The undiminished interest from investors this year also reflects the continuing attractiveness of the Austrian capital's office market.

Over the past few years, new rentals have generally outpaced the increase in new space, which forms the basis for the stability of Vienna's office market. In addition, relatively little office space came onto the market in 2016 and 2019, and the figures for new builds in 2020 were fairly modest, as is the forecast for 2021. This suggests that last year's decline in new rentals has not yet had a discernible effect on the overall market situation. It remains to be seen how new rentals will pan out for 2021 as a whole.

However, against the backdrop of current market conditions, it is likely that the persistent pressure on offices outside the established prime locations will increase further. On top of that, outdated spaces that no longer satisfy the increasing demands resulting from changing forms of use will become uncompetitive, due to the sufficient and in some cases rapidly available supply of high-quality office space. In recent years, these older, uncompetitive sites have been taken off the market, replaced by new builds or refurbished as part of larger developments. Where possible, the owners of these spaces are looking to reuse or convert them. In some cases, though, such projects are not feasible from a financial point of view, meaning that more suitable alternatives need to be found.

In view of the strong demand for residential space, efforts have frequently been made to convert former offices into apartments, provided they are suitable from a structural point of view, although it has often been necessary to demolish certain structures or parts of them. Another approach has involved integrating parts of existing buildings that are worthy of preservation into a new build.

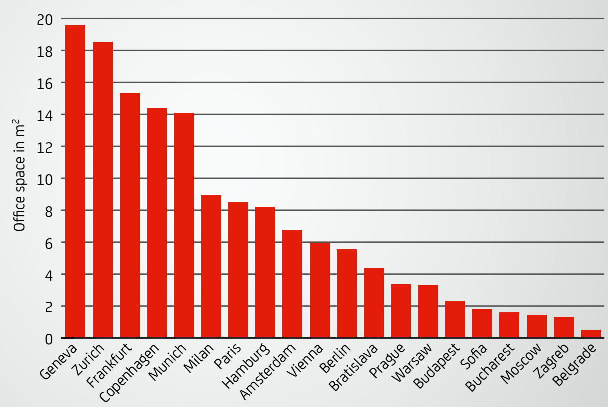
Alongside reuse as residential space, in the past few years, concepts that involve converting former offices into hotels, student accommodation or serviced apartments have grown in popularity. Many new builds originally intended as office space have been repurposed in this way. But in future, and not only in light of the impact of the coronavirus pandemic, the question of how many such concepts the market can absorb in the medium-to-long term will have to be considered more carefully, as certain segments in the hotel market have been seriously affected by the pandemic – city hotels in particular are expected to take longer to recover than holiday hotels.

The pandemic could also put a damper on the coworking and shared office sectors. Life has become more difficult for such properties owing to compulsory distancing regulations and hygiene requirements, while the disappearance of international users (at least for a time) could lead to a redefinition of this recent office market megatrend in terms of groups and space design.

Generally speaking, it is conceivable that the lessons learned so far from the Covid-19 pandemic will bring about a realignment of the primary focus of available office space and a rethink of common office concepts that place an emphasis on open-plan designs, with more sustainable, modern and flexible design options taking center stage.

Vienna currently has around 11.4 million m² of office space. This includes older locations and space that no longer fully satisfies modern office standards, as well as small offices, and spaces in schools and at universities.

Office space in m² per capita 2021



Source: Bank Austria

Construction of new space picking up speed

New office construction in Vienna fell to an all-time low of less than 40,000 m² in 2019. By contrast, there was a sharp rise in the volume of new space built in 2020, to around 130,000 m². Forecasts for this year put the figure at about 100,000 m².

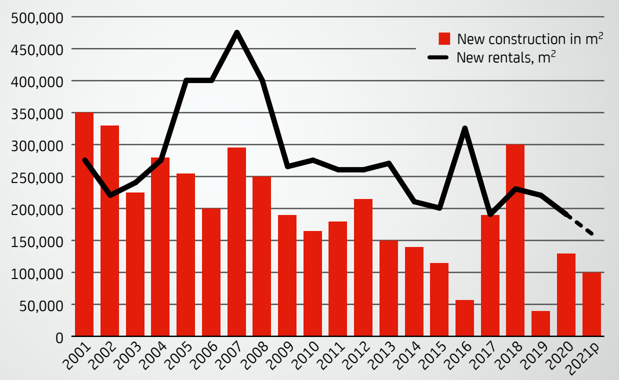
However, such estimates always depend on whether projects currently under construction are actually completed this year, are potentially pushed back to next year, or whether projects scheduled for completion next year can be brought to a conclusion sooner. New builds account for a large proportion of the office space due for completion this year, with only a small volume attributable to conversions and renovations.

New rentals down slightly in 2020

The take-up of office space stood at 190,000m² last year, a decrease of about 15 % on 2019. Approximately 60,000 m² was newly let in the first half of 2021, which was in line with the subdued figures for the same period a year earlier. That said, experts believe that strong performance up to year-end could offset the downbeat showing in the first two quarters – which was also the case last year. However, in light of the continuing effects of the Covid-19 crisis, it remains to be seen how new rentals will actually progress over the remainder of this year. Given the current level of uncertainty, it is difficult to make precise forecasts, but estimates put the total for 2021 at around 160,000 m².

New construction and take-up

Office space in Vienna 2001–2021f



Sources: Bank Austria, CBRE, EHL, OTTO Immobilien

Rental of new space is generally characterized by a shift away from older offices to more modern ones, and consolidation of several branches at a single location. On the whole, the introduction of desk sharing has led to a gradual fall in the amount of office space per employee over the years. Now, though, there are signs of an about-turn on the part of tenants, as the lack of spatial distancing options has proved to be an obstacle to smooth office operations during the pandemic.

Austro Tower – eye-catching office property next to the three TRIIIPLE high-rises

Situated next to the equally striking TRIIIPLE towers, the Austro Tower – a distinctive glazed office development on Schnirchgasse in Vienna's third district – is one of this year's stand-out new builds. Built by property development specialists SORAVIA, the Austro Tower will be one of the largest office projects completed this year, with 28,000 m² of office space. The tenants include Austro Control, which will have its head office at the site.

The construction projects already completed this year include the Canettistrasse Tower with around 17,000 m² of office space, which is part of the mixed-use Bel & Main project at the Hauptbahnhof station. Construction work has also been completed at Haus am Schottentor, a conversion project that has created around 14,500 m² of office space at the former Bank Austria headquarters in a high-profile location in the first district.

Projected new office space in 2020 (selected developments)

Project	Total usable office space (m²)	Status
Austro Control Tower	28,000	under construction
University of Vienna Biology Building	19,000	completion phase
Tower Canettistraße	17,000	under construction
Haus am Schottentor	14,500	completed

Source: Bank Austria, as of August 2021

VIENNA TWENTYTWO – Donaustadt's new office hub

A joint SIGNA and ARE project, the first buildings in the prominent mixed-use VIENNA TWENTYTWO development in Kagran in Vienna's 22nd district are currently taking shape. Offices are also part of the project, with an initial 8,000 m² due for completion in the first phase in 2022.

The refurbishment of various former office locations, including the Bank Austria site on Lassallestrasse which is also slated for completion next year, will add a further 70,000 m² to the city's stock of office space.

Alongside the properties currently under construction, there are also a number of projects in the pipeline, but the timeframes for several developments are still up in the air, and the start of building work on many projects has been postponed repeatedly, even though completion dates had previously been announced. These include Seeparkcampus Ost – according to media reports, the project may be scaled down once again owing to the current high availability of office space in Vienna's Seestadt Aspern area.

Forecast new space, 2021ff (selected developments)

Project	Total usable office space (m²)	Status
Quartier Lassalle	70,000	under construction
Seeparkcampus Ost	9,000	planning stage
silo next	9,000	planning stage
VIENNA TWENTYTWO phase 1	8,000	under construction
Doppio Due	5,500	under construction

Source: Bank Austria, as of August 2021

Top rents generally stable on Vienna's office property market

Office rents in the Austrian capital largely held steady in the first half of 2021. Top rents for class A office space in attractive locations were around EUR 26 / m² / month in mid-2021.

However, rental costs can be higher for certain spaces in premium properties, such as the top floors of office blocks, and for exclusive premises with custom amenities, fixtures and fittings – although such prices are the exception. Top rents are expected to remain stable until the end of the year.

There is still strong demand for office space in the first district, in central office locations and at popular office clusters. These attractive sites include the area around the Hauptbahnhof, which is now firmly established as a sought-after office location.

Interest in space in the mid-price category also remains high – besides location, accessibility and rental costs, the most important criteria for prospective tenants when choosing a site primarily include energy efficiency and the lowest possible operating expenses. It is difficult to predict just how the demands placed on office space will change and evolve against the backdrop of the coronavirus pandemic.

This includes various questions related to the ways in which offices can be designed in order to make them welcoming, safe and attractive for employees. Changes to and variations on previously widespread office concepts can be expected, for instance the adaptation of open-plan solutions without structural elements separating the various areas – these were mainly popular with employers, but less well received by many of their staff, and such set-ups have caused major problems during the pandemic.

Office buildings with low occupancy rates, old spaces in need of renovation, and premises in unattractive areas outside the most popular office sites, without suitable amenities and links to the public transport network, are still under considerable pressure. When it comes to older office blocks in popular locations, developers often take steps to ensure they remain attractive for prospective tenants by implementing refurbishment programs and adapting usage concepts in line with today's significantly more flexible requirements, or by fully converting the property for alternative uses.

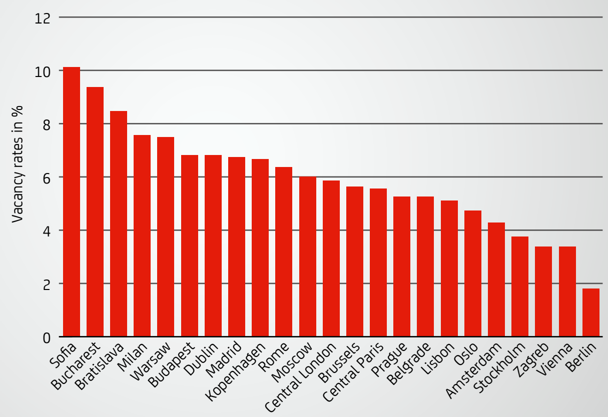
Office vacancy rates down slightly

Traditionally, vacancy rates in Vienna have been among the lowest in Europe. Vacancies in the Austrian capital fell slightly once again last year and stood at about 4.5 % for modern office spaces at the midway point of 2021. The rate is expected to remain largely stable until year-end.

But it is hard to predict how vacancies on the city's office market will evolve. This will depend on how new rentals progress between now and the end of the year; new construction is ticking over steadily and the project pipeline should also be taken into account, in spite of the uncertainty surrounding the completion of particular developments.

Compared with sought-after offices in central locations, vacancies at older properties are higher and have been rising for many years. Vacancy rates have often been above average at some office towers, especially at older developments.

Office vacancy rates in Europe in % 2021

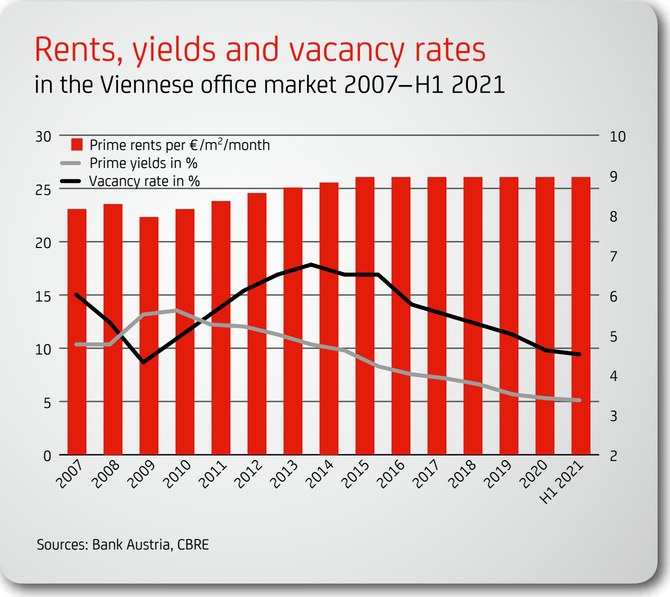


Sources: Bank Austria, BNP

Another small drop in prime yields

Prime yields in the Viennese office sector fell slightly once again during 2020, followed by another marginal drop in the first six months of 2021. At the halfway point of this year they stood at about 3.35 % for top-of-the-range properties in premium locations.

No significant movements in yields are expected for the rest of this year. Sustained investor demand for top-quality real estate means that a further minimal decline in prime yields in Vienna's premium office segment cannot be ruled out. In general, we can expect office yields to largely stabilize, while yields for suboptimal properties could rise.



Vienna's office hotspots

City center

Central Vienna and the city's inner districts remain the most popular office locations, and demand there is still strong. The city center is dominated by offices and numerous retail spaces, while the large number of residential properties has fallen steadily over the past few decades.

In recent years, though, the strong demand for large apartments and luxury residential space has led to former offices in some parts of the city center being reconverted into apartments. Former offices in city center properties dating back to the Gründerzeit era in the mid-to-late 19th century are particularly popular for reconversion into residential space with generously proportioned floor layouts, as they cater to the demands of wealthier clients for expansive, luxury living.

The area around the former headquarters of Österreichische Post AG on Postgasse in the first district is currently being remodeled. Fully renovated under a project titled "Das lebendige Haus" ("The Living Building"), the property is set to include around 9,000 m² of office space, as well as apartments and a hotel. A refurbishment project involving the consolidation of two locations on Peregringasse close to Schottentor and the Stock Exchange building will create around 5,500 m² of fully upgraded office space.

Inside the Gürtel outer ring road

A large number of office properties are situated in this area of the city. Location and ease of access are the main factors behind the popularity of the districts bordering the city center. However, new developments are rare due to the high concentration of buildings in these areas – new space only occasionally comes onto the market as a result of conversions and refurbishments. The only project currently taking shape in this part of the city is located on Siebenbrunnengasse in the Margareten district and involves a combination of demolition, new construction, conversions and refurbishments. While the development will mainly comprise residential space, a small amount of office space is also planned.

Donau City

The Donau City area (Vienna DC) has become one of the capital's key office locations, alongside the city center. A number of imposing office blocks dominate the skyline, including the tallest office tower in Vienna, DC Tower 1, which has further enhanced the standing of the Donauplatte area. A slightly smaller second tower – DC Tower 2 – is still at the planning stage. The planned DC Tower 3 will be built before Tower 2. Construction work has already started, but the property will not include any office space; instead, the 20,000m2 of usable space will feature about 830 student apartments.

Prater / Messe / Handelskai

In the past few years, new office hotspots have sprung up in the areas around Handelskai and Messe Wien, and close to the site of the former Nordbahnhof and Nordwestbahnhof stations. The area around Praterstern, the site of the Austria Campus, is still one of the capital's biggest urban development zones.

Construction work has also resumed at Viertel Zwei. The heritage-listed former stands at the Trabrennverein harness racing track are being fully refurbished for conversion into office space, and a modern extension will also be added. Further projects are planned at the location. Formerly the site of a rail freight terminal, the Nordwestbahnhof has been earmarked as an urban development zone and will be transformed over the coming years into a new, green district adapted to a range of uses.

Erdberg / St Marx / Gasometer

Over the last few years, new office properties such as Marxbox, Marximum and the multi-phase TownTown project have shaped the Erdberg, St Marx and Gasometer office location. The TownTown complex was completed in 2017 with the construction of Orbi Tower. Construction work on the large-scale, primarily residential, TrIIIple project on Schnirchgasse is now in its closing stages; office space is planned as part of a future development phase. The Austro Tower is also nearing completion – Austro Control and ASFINAG will both have offices in the property.

Wienerberg

Wienerberg in southern Vienna is another firmly established office location. Several extensions at the Euro Plaza site have created more and more office space, which increased further with the expansion of the Inno Center and construction of the Inno Plaza. Mixed-use project The Brick, which houses Wienerberger's new head office as well as additional office space, a hotel, commercial space, bars and restaurants, has now been completed at the Wienerberg site.

North Vienna / Heiligenstadt / Muthgasse

A number of office properties have been built on Muthgasse close to Heiligenstadt station in the 19th district in recent years. These include the existing space2move office block and the two-unit Square Plus. The first phase of the development, Square One, was completed in 2017. However, the second phase will not be an additional office block as originally planned, but intelligently furnished units aimed at students, labeled “Smartments”, which were handed over this summer.

Western Vienna

The west of Vienna is one of the city’s less developed office locations. The most recent major increase in office space in the area came several years ago with completion of the Forum Schönbrunn project. No large-scale developments are planned in this area at present.

Seestadt Aspern

Aspern IQ (Technology Centre Seestadt) was the first office property built in the new Seestadt Aspern urban development zone; the site was expanded with the completion of phase two. Additional office space has been built at HoHo – a spectacular, predominantly timber high-rise – and at the Mischa and Seehub projects, while smaller office properties have been developed as part of the Separq and Sirius projects. Construction of Seeparkcampus Ost has been delayed, so the temporary Hofer supermarket – a reusable, predominantly timber structure – will remain in place for the time being. Under the plans, the Hofer branch will be located in the Seeparkcampus Ost property.

Hauptbahnhof

Vienna’s newest office location has gradually taken shape at the Hauptbahnhof station in recent years. The new headquarters of Austrian Federal Railways (ÖBB) and Erste Bank, as well as The Icon Vienna, a striking ensemble of three office blocks of different heights, are located there. The area around the Hauptbahnhof has undergone extensive development. A number of projects have been completed at the site, including QBC 1 and 2 at Quartier Belvedere, as well as Signa Holding’s mixed-use Bel & Main project.

The Hauptbahnhof has rapidly become one of Vienna’s most sought-after office locations, and once completed it will offer a diverse mix of offices, apartments, shops, hotels, bars, restaurants, service providers and health facilities.

Covid-19 and its impact on the Viennese office market – where do we go from here?

After close to a year and a half, we still cannot categorically declare an end to the Covid-19 pandemic. Although more and more people in Austria are fully or partly vaccinated, new developments such as the emergence of the Delta variant mean that the situation remains uncertain, and many people are filled with trepidation as we head into autumn and winter.

With this in mind, it still seems too early to give a comprehensive assessment of future developments on the office property market, or to even try to make accurate predictions. But one thing is indisputable: the coronavirus has left its mark, even though the office segment has been affected in different ways and possibly hit less hard in comparison with other asset classes, such as the hotel sector.

Now that homeworking has become more widespread and far more firmly established than was the case when it was initially introduced by companies before the pandemic, it has to be asked what impact will it have on the office market. According to media reports, companies are moving in different directions. Many businesses told their people to come back to the office as soon as this was possible. Others stuck to the previous regulations, while some want to give their staff a more comprehensive range of options for working from home.

As many companies are returning to pre-pandemic ways of working, office blocks are starting to come back to life. But in other cases, the number of employees working on site remains far lower than before the emergence of the coronavirus. Firms have implemented their own, sharply contrasting precautionary measures such as maximum occupancy levels and distancing rules. Many employers are now looking to adopt solutions that will increase the volume of space they use, while some are continuing to reduce the amount of space per employee, citing the willingness of employees to work remotely or requiring them to work from home.

How do things currently stand in terms of new letting? In mid-2021, office market experts adopted a wait-and-see approach in their reports on new letting. Although we can expect new rentals to fall compared with previous years, this has not been classed as a threat in itself, and in any case we will have to wait until the end of the year before taking stock. If the forecasts are accurate, new letting is expected to be significantly higher by year-end in comparison with the first half of 2021.

The current situation is being shaped by a host of unknowns and the resulting uncertainty. In view of the contrasting approaches taken by companies in an effort to tackle their current difficulties, the most important task for all market participants at present is to closely monitor the developments and tendencies that are now emerging, until future trends become fully apparent.

Retail sector under intense scrutiny – trends towards mixed-use properties, as well as shopping closer to city centers

Shopping centers in Austria: Slight increase in space coming onto the market – revival for city center department stores and town centers

At present, Austria has 122 shopping centers with a combined gross lettable area of about 2.9 million m². Compared with a year earlier, two new shopping centers have been completed. Shopping center density stood at approximately 325 m² per 1,000 inhabitants at the mid point of 2021.

Even before the Coronavirus pandemic broke, precious little new space was coming on to the market owing to a range of prevailing factors including fierce competition, spatial planning restrictions and planning application processes. Additional complications during the pandemic have brought added uncertainty, leading many market participants to adopt a wait-and-see approach.

Austria | selected SC openings 2020/H1 2021

Shopping center	Gross lettable area (GLA), m²	Opened
Inntalcenter Telfs (modernization and expansion)	approx. 10,000	H2 2020
City Point Steyr (renovation/modernization)	approx. 7,000	H1 2020
Linzerie Relaunch	approx. 8,000	H1 2021
Stadtparkquartier Weiz	approx. 5,000	H1 2021
BHF-City Wr. Neustadt (Mixed-Use)	approx. 2,500	H1 2021

Sources: UniCredit Bank Austria and Standort+Markt

The local retailer property segment is currently proving to be especially systemically-important, crisis-proof and sustainable. So it comes as little surprise that the latest round of shopping center openings in 2020/2021 chiefly involved revitalizing city center department stores and town center developments.

One such example, the 8,000 m² Linzerie, opened in the heart of Linz in spring 2021. This involved a complete re-imagination of the old Arkade Linz from its original guise as a traditional shopping arcade to create an all-new, state-of-the-art, city-center shopping center with a high proportion of hospitality tenants.

In Weiz in eastern Styria, the newly built, 5,000 m² Stadtparkquartier Weiz (SPQ) is helping to enhance the attractiveness of the town center. Located a short distance from the station, it features a greened rooftop and cinema. The new mixed-use 2,500 m² BHF-City Wr. Neustadt is also taking its cue from the trend towards city-center developments, offering office and service space on the bottom two floors. Completed last year, the EKZ City Point in Steyr was repositioned and converted into a city center department store featuring a local supermarket and hotel.

No larger-scale shopping center projects under construction outside Vienna

At present, there are no larger-scale shopping center projects under construction outside Vienna. Many of the projects that had previously been announced ended up being postponed due to the pandemic, put on hold or reassessed in terms of their financial viability.

Austria (excl. Vienna) | Selected SC projects

Shopping center	Gross lettable area (GLA), m²	Scheduled opening
Shopping Quartier Lienz	approx. 13,000	Project
Outdoor Center Parndorf	approx. 12,000	Project
Kampcenter Zwettl	approx. 10,000	Project
EKZ Mattighofen	approx. 10,000	Project
Europapark Salzburg (expansion)	approx. 8,500	Project
Arkade Liezen (relaunch and modernization)	approx. 8,000	Project
„Das Salzamt" Klagenfurt (renovation)	approx. 5,000	Project
EZE Eisenstadt (expansion)	approx. 4,500	Project

Sources: UniCredit Bank Austria and Standort+Markt

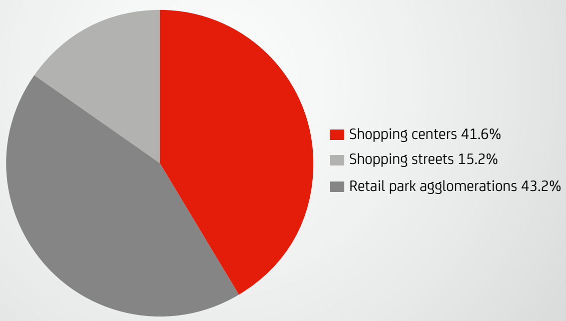
An example of this is the construction of approximately 12,000 m² of additional space at the Outdoor Center Parndorf, which was originally slated for 2020. The outdoor center will specialize in leisure and sports shopping (e.g. horse riding, diving, angling, golf, hunting etc.) and feature zones for events and trying out specialist equipment. As things currently stand, the prospective opening date has been put back to 2023. The schedules for the Mattighofen shopping center and Shopping Quartier in Lienz projects have also experienced further delays.

Vienna's SC market: construction of the landmark KaDeWe project on Mariahilferstrasse starts on schedule

The total amount of retail space in Vienna and the surrounding areas fell slightly, to around 1.8 million m². Sales space at retail parks continued to account for the lion's share of the total at 43.2%, ahead of shopping centers with 41.6%. The losers include high streets (15.2% of sales space), which in some cases are facing reductions in retail space.

Importance of individual segments in Vienna

as measured by sales space



Sources: UniCredit Bank Austria, Standort+Markt, EHL

In mid-2021, the Austrian capital had 30 shopping centers with a combined lettable space of almost 1 million m². Total space has remained largely unchanged since 2018 when the Auhof Center was expanded. Shopping center density per 1,000 inhabitants has fallen slightly to around 515 m², mainly due to the 9% increase in the population since 2015.

The shopping center pipeline for the Viennese market has a small amount of new space in store, which will not become available until the end of 2023 at the earliest. By a considerable distance, the largest landmark project is the ongoing conversion of the former Leiner site on Mariahilfer Strasse into an eight-story, 25,000 m² department store with hotel and F&B spaces in the mold of Berlin's KaDeWe. Demolition and excavation work commenced way in mid-May, with the new building due to open in 2024.

Wien
Selected SC projects under construction

Shopping center	Gross lettable area (GLA), m²	Scheduled opening
Vio Plaza / Kometgründe site	approx. 12,000	H2 2023
KaDeWe (Leiner building)	approx. 25,000	H1 2024

Sources: UniCredit Bank Austria, Standort+Markt

The second project under construction is the mixed-use Vio-Plaza development on the former Kometgründe site, which comprises hotel, office and retail spaces (unit A) and apartments (unit B). Covering some 12,000 m², the shopping center is due for completion in 2023.

New shopping parades are mainly to be found in development projects or individual quarters. After Seestadt Aspern (e.g. Maria-Tusch-Strasse and the Seeparkquartier), the Nordbahnviertel (e.g. Bruno-Marek-Allee) represents the second attempt to identify the right tenant mix for local requirements by means of centrally managed shopping streets with a view to minimizing the risk of vacancies in ground floor locations.

Rebranding of Shopping City Süd (SCS) and Donauzentrum (DZ) as Westfield Destinations

In all, six malls in the Austrian capital have more than 50,000 m² of lettable space. Together they account for about 57% of all shopping center space in Vienna. Among the key points that they have in common is that they were all extensively modernized, expanded, relaunched or built within the past five years. There are also 14 smaller shopping centers of less than 20,000 m². The average shopping center size is just over 30,000 m².

Number of shopping centers in Vienna and the surrounding area by size

Number	Gross lettable area (GLA), m²
14	< 20,000
10	20,000–50,000
6	more than 50,000

Sources: UniCredit Bank Austria, Standort+Markt

Top six shopping centers in Vienna and the surrounding area

Name	Gross lettable area (GLA), m²
SCS Shopping City Süd (SCS)	approx. 173,000
Donau Zentrum (DZ)	approx. 130,000
Auhof Center	approx. 59,000
G3 Shopping Resort Gerasdorf*	approx. 58,000
Millennium City	approx. 51,000
Huma Eleven	approx. 50,000

*) excl. retail park

Source: UniCredit Bank Austria, Standort+Markt

A short time ago the Shopping City Süd (SCS) and Donauzentrum (DZ) mega malls were rebranded under a separate international brand, Westfield Destinations. The move is designed to enhance their attractiveness for global brands, and the centers are now among Unibail-Rodamco-Westfield's flagship European lifestyle and experiential shopping locations.

Winds of change picking up in the retail sector with trends originally forecast for 2030 now expected to hit by 2025

Lockdown, restart, partial lockdown, muted consumer activity and plenty of uncertainty: since the outbreak of the coronavirus pandemic, constantly changing restrictions and shifting consumer behavior have severely tested the retail sector. In the meantime, a highly varied picture has emerged, confronting the industry with unique challenges.

Supermarkets and other essential providers posted significant revenue gains last year due to blanket closures throughout the hospitality sector, as well as the changeover to working from home due to office shutdowns. The broader trend towards cocooning at home and new leisure-time focuses were also a boon for DIY stores, garden centers and furniture stores, followed at a distance by the sports and consumer electronics sectors. On the flip side, footwear and fashion stores reported a significant decline in revenues that saw sales drop to levels not seen since the turn of the millennium. Service providers and hospitality and leisure companies were particularly hard hit by the uncertain trading environment during the pandemic and it is expected that they will undergo a period of consolidation in the near future.

Online retailers were among the clear winners to come out of the health crisis. With above-average growth across the board, they reported sales of around EUR 9 billion in Austria in 2020, which is equivalent to about 14% of all consumer spending in the country. However, bricks-and-mortar retailers have also ratcheted up their digitalization activities.

The results of these developments are reflected in their significant impact on the different asset classes: while retail parks with grocery-sector anchor tenants were characterized by a high degree of stability, city center locations and shopping centers had to contend with an anemic fashion retail environment and the effects of the weakened service and entertainment industries. Going forward, the mix of tenants (e.g. the proportion of fashion retail, entertainment and F&B) will be subject to extremely close scrutiny. In addition, effective management will become an increasingly important element of a successful retail concept. A high degree of flexibility and the ability to respond to changes rapidly will be in particularly high demand.

Generally speaking, any attempt to definitively analyze the impact of the coronavirus pandemic on the retail sector will be beset by considerable uncertainty, given its dependence on how developments progress. That said, the winds of change in the retail sector are picking up, and trends originally forecast for 2030 could now hit as early as 2025. This development likewise calls for detailed analysis and assessment of the quality of both locations and individual properties. Increased vacancies caused by coronavirus-related closures and/or a higher churn rate will first compel properties in class B and C locations to re-examine their models.

Slight increase in top yields – rents currently stable or down slightly

Monthly rents at shopping centers in Vienna in mid-2021 ranged from EUR 8-110/m^2, depending on store size and sector. When it comes to changes in rents, a more detailed analysis is required. The effects of the coronavirus pandemic were least palpable in the premium segment of established top centers. Rents for these properties are forecast to remain largely stable, albeit with a renegotiation of terms still a possibility in isolated cases depending on how badly the relevant industries have been affected.

Due to oversaturation, B and C locations were already under pressure before the pandemic hit, and the situation has only been compounded to date. Finding occupants for vacant premises is usually difficult and often only possible with the help of considerable discounts. Downward rent corrections will not be a rarity, even among existing tenants. As a result, it is to be expected that locations in these categories will be characterized by a tendency towards lower rents.

Shopping center rents

	Range (EUR/m^2/month)
Anchor tenants	8–15
Shops (depending on size and location)	15–120

Source: UniCredit Bank Austria

Top yields for high-end shopping center properties in prime locations are currently about 4.5%. Compared with the previous year, this represents only a slight increase of 0.35 percentage points due to ongoing uncertainity surrounding developments in this asset class. No major changes are forecast before the end of the year.

In 2022, the progress towards returning to a new normal and long-term rent trends at shopping centers will play a major role in shaping investor sentiment and risk assessment as regards this particular asset class.

Retail parks in Austria: increased interest from investors and retailers due to the pandemic

In mid-2021, Austria had about 115 retail parks with a total of around 1.2 million m^2 of retail space and retail park agglomerations with approx. 4.3 million m^2 of space. The market for retail parks can be classed as saturated, given that density has now reached an extremely high 615 m^2 per 1,000 inhabitants.

Before the crisis, investors and retailers alike had shown increased interest in the retail parks asset class. During the coronavirus pandemic, this trend gained further momentum given their superior performance to that of the shopping center segment. In some cases, the tenant mix prioritizes supermarkets and day-to-day essentials (e.g. food, drugstore goods, pharmaceuticals, pet food and accessories, etc.) – all of which were exempt from lockdown restrictions and as such less prone to the effects of falling retail sales.

The general retail environment and customer expectations, particularly of a quick and convenient shopping experience, have changed due to the pandemic. The new criteria for meeting basic needs now extend to areas such as an enhanced sense of personal health and safety (through stricter hygiene measures and higher standards in terms of ventilation etc.), as well as reduced contact with other visitors. This is an area where retail parks could gain the upper hand as access to the individual shops is outdoors via the parking lot, as per the overarching definition of the segment, and larger concentrations of people such as those found in communal mall spaces can be avoided.

1) Retail parks: let and managed by a central body; planning is uniform.
2) Retail park agglomeration: retail park locations that have grown organically and are not managed by a single operator.

On top of this, small and medium-sized retail properties in particular – which are frequently found in retail parks – close to people's homes have enjoyed a surge in popularity. Around two thirds of retail parks in Austria have less than 10,000 m² of lettable space, although this amount represents the national average.

Retail park projects hampered by coronavirus-related delays

Since last year, around 50,000 m² of lettable space has come on to the retail park market, the majority of which was already under construction before the pandemic started.

Selected retail park openings 2020/H1 2021

Retail park	Gross lettable area (GLA), m²	Opened
K2 Shopping Kittsee (expansion of K1)	approx. 10,000	H1 2020
Taborland Steyr (demolition and new build)	approx. 12,500	H1 2020
Pado Galerien Parndorf (expansion)	approx. 11,000	H2 2020
Frunpark Parndorf (phase I)	approx. 6,000	H2 2020
Triestingpark Münchendorf (mixed-use)	approx. 7,000	H1 2021

Sources: UniCredit Bank Austria and Standort+Markt

The latest batch of openings are centered on the shopping hub in Parndorf in Burgenland. 2020 brought the expansion of the Pado Galerien Parndorf with an additional 11,000 m² of space, and completion of phase I at Frunpark Parndorf, which contributed another 6,000 m². Also in Burgenland, close to the border with Slovakia, the Shopping Kittsee retail park added a further 10,000 m², taking the total there to 25,000 m². Rebuilt from scratch and fully remodeled on its previous location, the Taborland retail park in Steyr brought 12,500 m² on to the market.

Selected retail parks under construction and projects

Shopping center	Gross lettable area (GLA), m²	Scheduled opening
Oberwart (under construction)	approx, 13,500	H1 2021
Arena Mattersburg (expansion in construction)	approx, 7,500	H1 2022
Frunpark Parndorf (phase II)	approx, 14,000	Project
Thayapark (expansion)	approx, 7,500	Project
Einkaufspark Perg	approx, 5,000	Project
Grieskirchen retail park	approx, 5,000	Project
Schwechat retail park	approx, 5,000	Project
Kulmax Spittal/Drau retail park	approx, 4,000	Project

Sources: UniCredit Bank Austria, Standort+Markt

At present, the only retail park currently under construction is an approx. 13,500 m² development in Oberwart, right next door to the EO shopping center. In many instances, projects have been hampered by delays or weak demand from tenants as a result of the coronavirus pandemic. Plans to expand Arena Mattersberg – following a partial opening – have been put on ice for the time due to insufficient pre-letting to prospective tenants. The original plans for the Frunpark project in Parndorf foresaw a facility of around 20,000 m²; however, just 6,000 m² have been realized thus far under phase I. According to the latest information, phase II is due to start as soon as possible.

Otherwise, the project pipeline largely consists of smaller-scale retail park developments of less than 10,000 m², the majority of which have no definite plans for realization in place.

Top 5 retail park agglomerations incl. FOC in Austria

Name	Gross lettable area (GLA), m²
Vösendorf Nord/Brunn am Gebirge	approx. 239,000
Rautenweg West & Ost – 1210/1220 Vienna	approx. 155,000
Klagenfurt Ost – Carinthia	approx. 154,000
Parndorf – Burgenland*	approx. 100,000
Graz – Webling	approx. 83,000

*) incl. Designer Outlet Parndof, Fashion Outlet Parndorf, PADO Shopping Park, Pannonia Shopping Park, XXX-Lutz
Sources: UniCredit Bank Austria, Standort+Markt

According to Standort+Markt, the market share of retail park agglomerations including FOC in Austria is just under 25%. Such developments in Vienna are chiefly located in outlying districts, with the largest retail park agglomerations springing up around Shopping City Süd (SCS) and Rautenweg. The largest increase in space among the top five retail agglomerations is currently expected to come at the Parndorf site, which would see the area advance to become the second-largest agglomeration in the country.

Rents stable for very good and good locations

Retail parks have proved themselves to be particularly crisis-resistant during the coronavirus pandemic and have seen their profile rise as critical local infrastructure providers. Retail park rents ranged from EUR 7-16/m²/month as at the end of June 2021.

Demand for rental space at retail parks in good and very good locations is strong, with rental prices expected to remain stable as a result.

Retail park rents

	Range (EUR/m²/month)
Shops (depending on size and location)	7–16

Sources: UniCredit Bank Austria

Shopping centers Vienna and the surrounding area

Legend

Existing SC

1 Arcade Meidling
2 Auhofcenter
3 BahnhofCity Wien West
4 BZ Meiselmarkt
5 Columbus Center
6 Donau Zentrum
7 Ekazent Grossfeldzentrum
8 G3 Shopping Resort Gerasdorf
9 Galleria
10 Gasometer City
11 Gerngross City Center
12 Hanssonzentrum
13 Huma Eleven
14 Interspar EKZ Ottakring
15 Kaufhaus Steffl
16 Kaufpark Alt Erlaa
17 Lugner City
18 Millennium City
19 Q19
20 Ringstrassen-Galerien
21 Riverside
22 SCS Shopping City Süd
23 Shopping Center Nord
24 Stadion Center
25 The Mall-Wien Mitte
26 Trillerpark
27 Zentrum Simmering
28 Einkausmall Citygate
29 ÖBB BahnhofCity
30 Post am Rochus (Mixed Use)

SC, in construction

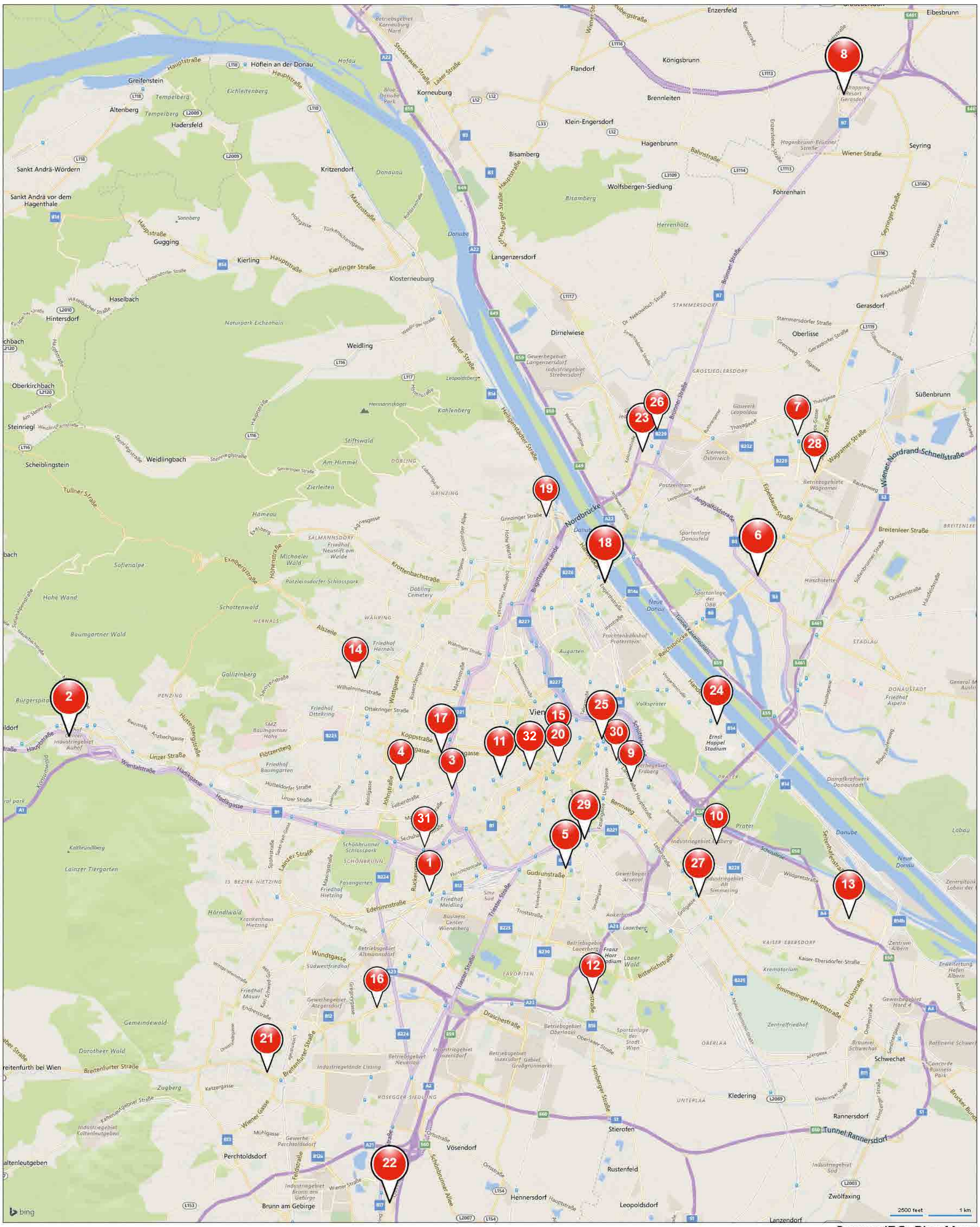
31 Vio Plaza
32 „KaDeWe"

Leasable space in m²

> 45,000 m^2

20,000 - 45,000 m^2

< 20,000 m^2



Source: IRG, Bing Maps

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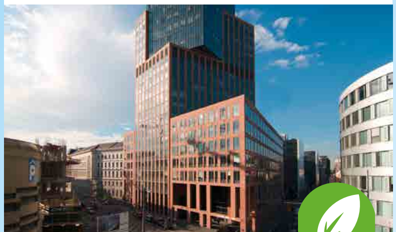

City Tower Vienna
Green investment loan
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April 2021

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