How stable is the Austrian real estate market?
Too much liquidity in the market?

Extremely strong demand
The commercial real estate market in Europe is primarily driven by extremely low interest rates. Real estate has become much more important as an asset category for investors looking for yield. Traditional real estate investors now face competition from sovereign wealth and equity funds for whom Europe is an attractive market. As a relatively small market, Austria has still not really attracted the attention of new investors. However, the Austrian market for commercial real estate registered a significant increase in demand in the first six months of 2014. According to data from CBRE, the investment volume rose to EUR 1.33 billion from EUR 0.43 billion compared with the same period last year. Foreign investors accounted for a good 50% of this investment volume. There was still high demand for retail properties. The major transactions here included the sale of G3 in Gerasdorf and Shopping Center Nord. In the first six months of the year, offices accounted for just under 30%, followed by residential properties and hotels with around 7% each, and mixed-use properties with 2%. Unlike the impressive rise in demand for logistics properties in many parts of Europe, a market for this segment has not yet been created in Austria.

The outlook for the second half of 2014 is also excellent (e.g. sale of Millennium Tower/City). The Austrian market for commercial real estate is on the right track to achieve a new record volume in 2014.

Yields have not yet bottomed out
Prime yields are still decreasing. The prime yield in the office sector in Vienna has been well below 5% for some time. The prime yield for Austrian shopping centres according to CBRE is 5.25% and around 1% higher for retail parks. Thanks to continued strong demand, it is assumed that yields will decline still further. This decrease could be higher in the office sector since only a few new office buildings are coming to the market in Vienna as property developers remain cautious. This is ultimately due to the fact that tenants are also still showing caution. However, the predicted slight consolidation of the economy could provide positive momentum in this respect.

Ownership versus rent – which is going to adapt?
The substantial rise in housing prices in conurbations in Austria has already led to lively discussions concerning the affordability of residential property. Over the last five years, property prices in Vienna have increased annually by an average of 9.4% while rents in the non-subsidized sector have only risen by 5%. According to a study by the Austrian National Bank, the prices for owner-occupied homes and apartments in Vienna were therefore overvalued by more than 20%. It remains to be seen how the difference between ownership and rents will be reversed.

Full speed ahead for finance
Competition between banks in the Austrian real estate market has visibly intensified in the last few months. Although margins are already under pressure, the required financing parameters such as LTV/LTC are still more conservative than before the financial crisis in 2008. Consequently, there are good chances that the Austrian real estate market will continue to live up to its reputation as being relatively stable. If, however, interest rates remain at an extremely low level for a longer period of time, there will be a danger that the strong demand pressure will result in signs of overheating.

Yours sincerely,
Karla Schestauber
Economic recovery in Austria – patience required!

Rocky road out of the crisis...
Six years after the financial market crisis in 2007/2008 and after the government interventions, the serious recession in 2009/10 and the knock-on effect in the form of the peripheral sovereign debt crisis in 2011/12, 2013 was a year of stabilisation and transition to the anticipated moderate recovery scenario. Following a disappointing first half of the year, global production and world trade revived from summer 2013 onwards, albeit with strong heterogeneity between the individual regions. Economic growth in newly industrialising countries slowed down considerably although the growth rates still remained above average. By contrast, industrial nations were for the first time in more than four years the driving force behind the upturn in economic activity. The economy in the eurozone came out of recession in the middle of 2013 after 18 months of contraction. A slow, economic recovery based on (export-oriented) industry also started in Austria in the summer months and then actually became buoyant towards the end of the year. Due to the low starting position at the beginning of the year and the upswing that only set in later on, economic growth of 0.3% for 2013 as a whole still lagged well behind the result in the year before.

The conditions for a further revival of the economy were favourable at the start of 2014. However, the speed of recovery began to suffer due to a number of factors. Economic worries increased in newly industrialising countries, especially China. The American economy remained on course for recovery, but unusual weather conditions created uncertainties while the mild winter caused distortions in Europe. Against this background, the Austrian economy enjoyed a solid start to 2014 and continued on a moderate recovery path. Global demand promoted a slight recovery in export business and led to a bigger increase in investments in the first few months of the year. The investment backlog from previous years appeared to slowly dissolve. A wind of change in the retail trade strengthened private consumption in spring, supported in the meantime by the stabilisation of the labour market, although the latter was mainly due to the favourable weather conditions. The tangible economic recovery anticipated for the second quarter of 2014 in Austria failed to materialise. Economic growth increased slightly from 0.1% at the start of the year to 0.2% compared with the previous quarter. Foreign demand still did not pick up and gross fixed asset investments, in particular, actually declined again. In the first six months of 2014, the Austrian economy therefore only grew by a meagre 0.3% compared with the previous year. This very moderate growth path failed to improve the situation in the labour market. After stabilising during the mild winter, the unemployment rate in Austria has been rising since spring. The seasonally adjusted increase in employment has almost come to a standstill. In addition to the subdued level of economic activity, the growth in the labour supply that has triggered ‘crowding-out effects’ in the labour market is also responsible for the unfavourable development. In the first six months of 2014, the unemployment rate climbed to an average of 8.5% based on the national calculation method or to 5% according to Eurostat.

Overview of Austria’s economic data

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic growth (real. year on year)</td>
<td>–0.3</td>
<td>0.1</td>
<td>0.8</td>
<td>0.5</td>
<td>–0.2</td>
<td>0.4</td>
<td>0.5</td>
</tr>
<tr>
<td>Private consumption (real. year on year)</td>
<td>0.1</td>
<td>0.2</td>
<td>0.8</td>
<td>0.5</td>
<td>–0.2</td>
<td>0.4</td>
<td>0.5</td>
</tr>
<tr>
<td>Investment (real. year on year)</td>
<td>0.9</td>
<td>–1.4</td>
<td>8.5</td>
<td>1.6</td>
<td>–0.7</td>
<td>0.1</td>
<td>1.9</td>
</tr>
<tr>
<td>Exports (visible and invisible)</td>
<td>–15.6</td>
<td>9.4</td>
<td>6.6</td>
<td>1.2</td>
<td>2.7</td>
<td>1.4</td>
<td>2.2</td>
</tr>
<tr>
<td>Imports (visible and invisible)</td>
<td>–13.6</td>
<td>9.1</td>
<td>7.6</td>
<td>–0.3</td>
<td>0.5</td>
<td>2.6</td>
<td>3.2</td>
</tr>
<tr>
<td>Current account balance (in % of GDP)</td>
<td>2.7</td>
<td>3.4</td>
<td>1.6</td>
<td>2.4</td>
<td>2.7</td>
<td>2.7</td>
<td>2.8</td>
</tr>
<tr>
<td>Inflation rate (CPI) (real. year on year)</td>
<td>0.5</td>
<td>1.9</td>
<td>3.3</td>
<td>2.4</td>
<td>2.0</td>
<td>1.7</td>
<td>1.9</td>
</tr>
<tr>
<td>Unemployment rate (national criteria)²</td>
<td>7.2</td>
<td>6.9</td>
<td>6.7</td>
<td>7.0</td>
<td>7.6</td>
<td>8.5</td>
<td>8.4</td>
</tr>
<tr>
<td>Unemployment rate (Eurostat)</td>
<td>4.8</td>
<td>4.4</td>
<td>4.2</td>
<td>4.3</td>
<td>4.9</td>
<td>5.0</td>
<td>4.9</td>
</tr>
<tr>
<td>Employment (year on year, in %)</td>
<td>–1.1</td>
<td>0.6</td>
<td>1.8</td>
<td>1.3</td>
<td>0.5</td>
<td>0.8</td>
<td>1.1</td>
</tr>
<tr>
<td>Public-sector balance (in % of GDP)</td>
<td>–4.1</td>
<td>–4.5</td>
<td>–2.5</td>
<td>–2.6</td>
<td>–1.5</td>
<td>–2.8</td>
<td>–1.5</td>
</tr>
<tr>
<td>Public-sector debt (in % of GDP)</td>
<td>69.2</td>
<td>72.5</td>
<td>73.1</td>
<td>74.4</td>
<td>74.5</td>
<td>80.6</td>
<td>79.3</td>
</tr>
</tbody>
</table>

¹ Gross fixed capital formation / ² Excluding maternity leave, military service and training programmes
Source: Bank Austria Economics & Market Analysis Austria
... additional problems are keeping the speed of recovery low in 2014

After the hitherto restrained pace of economic development, there are only few signs of an economic recovery in Austria at the start of the second half of the year. The mood among consumers in Austria is still cautious and domestic industry sceptical as to how business will develop during the rest of the year. The crisis in the Middle East and the Ukraine conflict with the subsequent EU sanctions against Russia and counter-sanctions are causing problems. These problems are untimely for the Austrian economy because the recovery in Europe, irrespective of this, is only making slow progress. In view of the changed general conditions and the resulting economic risks, it is not anticipated that the economy in Europe will recover to any great extent in the second half of 2014, although the economic recovery is gradually being consolidated. The American economy and the Asian growth markets will help and can therefore partly compensate for the subdued economic development in Europe. Investment activity will therefore pick up only slightly in the coming months despite the low interest environment in Austria (the ECB’s key interest rate has been at a historical low of 0.05% since September 2014), a situation that is highly unlikely to change by the end of the year. The conditions for a more dynamic increase in private consumption have not improved either. Firstly, inflation in Austria is quite high in view of the weak economy and is restricting real income gains. Whereas deflation worries are prevalent in the euro zone, Austria had the highest rate of inflation within the European Union for domestic reasons (tax increases, rising labour costs, thus more expensive services) accompanied by a 1.7% (HVPi) rise in consumer prices in the middle of the year. Secondly, the difficult situation in the labour market is being prolonged on account of the lack of economic stimulus. There is a tendency towards lower employment growth. Since there is no prospect of this trend being reversed for the time being, an unemployment rate of 8.5% or 5.0% (Eurostat) must be expected on average for 2014.

After a weak first half of the year, the level of economic activity in Austria is expected to increase only marginally before the end of the year.

Recovery with more momentum in 2015

2015 will therefore start from a slightly lower level. Nevertheless, the forecast 1.6% increase in GDP will be more dynamic than in 2014. However, the uncertainties are increasing and even assuming that there will be no further escalation in the Russia-Ukraine crisis, this will have reduced or will reduce growth in the Austrian economy by around 0.5%. The problem here is less the direct effects caused by disruptions to trade with Russia than the increased uncertainty. This will at the least curb investment activity for the time being, even if continuing low interest rates and high liquidity do generate greater momentum. The key rate should remain unchanged at its low level in 2015 while the targeted long-term refinancing operations (TLTROs) of EUR 400 billion, which were started by the ECB in autumn 2014 and whose individual volume is conditional on lending (and new lending in 2015 and 2016) by banks, will help. Furthermore the ECB is going to purchase a broad portfolio of simple and transparent asset-backed securities (ABS) and covered bonds. Private consumption will only increase moderately, at least in the first six months of 2015 on account of the continuing unfavourable trends in the labour market, which is only expected to stabilise later on in the year. In spite of the still low rate of inflation, incomes in 2015 will be able to stimulate consumption to a limited extent, as additional economic policy measures maybe introduced. Overall, past experience has shown that economic recovery from a recession caused by a financial crisis usually turns out to be a very prolonged process with only very moderate growth. Consequently, growth levels in Austria can be expected to remain below 2% in the next few years.
Economy in Vienna doing relatively well
In view of the stagnating global economy, which provided almost no momentum for the domestic economy in 2013, Vienna also showed signs of only moderate growth. Apart from weak foreign demand, the development of the production sector in Vienna in 2013 was hampered by restructuring at some companies while other enterprises relocated away from the city to surrounding areas. Overall, the production index dropped by almost 4% compared with 2012. Industry in Vienna, which only accounts for a relatively small share of 12% of value-added, therefore clearly had an adverse effect on macroeconomic development in Vienna in 2013. However, the construction industry and the service sector also only managed to stimulate growth to a slight extent in 2013. This challenging environment further exacerbated the situation in the labour market. Although employment increased by 0.6%, i.e. slightly higher than the average in Austria, manpower potential rose by 1.4%. The average unemployment rate over the year increased to the new peak of 10.2%, also the highest figure in Austria.

After a very difficult year in 2013 with tough general conditions, the prospects for the Viennese economy in 2014 are only slightly more favourable. This was also borne out by the weak first half of the year. In addition, foreign demand is only likely to boost the Viennese economy to a very slight extent in the next few months. The current geopolitical uncertainties are reinforcing existing reluctance to invest and the general conditions for a continuation of the slight recovery in private consumption are fragile. The economic prospects for the Viennese economy in 2014 as a whole are therefore extenuated by a number of factors. Although industry in Vienna improved slightly in the first six months of the year, the sector will only make a very small contribution – if at all – to overall growth in 2014. Due to scarce public budget funds, the construction industry is also faced with continuing challenges. This is reflected by a fall in production in the first half of 2014 and the downturn in orders on hand. The service sector therefore remains the ray of hope for higher growth in the Viennese economy. However, the situation in the labour market is unlikely to show any trend reversal in 2014 and will therefore represent a major impediment to growth. Overall, we estimate that the economy in Vienna will achieve moderate growth of 0.4% in 2014, i.e. below the average for Austria. The growth prospects for the Viennese economy will only become more favourable in 2015 due to higher foreign demand and burgeoning domestic momentum.

Viennese economic data

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014s</th>
<th>2014s</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP per capita (EUR)</td>
<td>43,039</td>
<td>44,321</td>
<td>45,617</td>
<td>46,029</td>
<td>46,270</td>
<td>47,015</td>
<td>37,837</td>
</tr>
<tr>
<td>GDP per capita (% of Austria)</td>
<td>130.0</td>
<td>130.0</td>
<td>127.9</td>
<td>126.5</td>
<td>125.1</td>
<td>124.5</td>
<td>100.0</td>
</tr>
<tr>
<td>GDP (real, year on year)</td>
<td>–3.2</td>
<td>2.2</td>
<td>1.6</td>
<td>0.3</td>
<td>0.4</td>
<td>0.4</td>
<td>0.6</td>
</tr>
<tr>
<td>Unemployment rate (%)</td>
<td>8.7</td>
<td>8.8</td>
<td>9.2</td>
<td>9.5</td>
<td>10.2</td>
<td>11.5</td>
<td>8.5</td>
</tr>
<tr>
<td>Employment (year on year)</td>
<td>–0.8</td>
<td>–2.3</td>
<td>1.7</td>
<td>1.2</td>
<td>0.6</td>
<td>0.9</td>
<td>0.9</td>
</tr>
<tr>
<td>Exports (EUR mn)</td>
<td>12,466</td>
<td>17,420</td>
<td>17,889</td>
<td>18,338</td>
<td>18,318</td>
<td>18,800</td>
<td>129,000</td>
</tr>
<tr>
<td>Exports (as % of Austrian exports)</td>
<td>13.3</td>
<td>15.9</td>
<td>14.7</td>
<td>14.8</td>
<td>14.6</td>
<td>14.5</td>
<td>100.0</td>
</tr>
<tr>
<td>Exports (as % of GDP)</td>
<td>18.4</td>
<td>23.2</td>
<td>23.0</td>
<td>23.1</td>
<td>22.6</td>
<td>21.9</td>
<td>40.4</td>
</tr>
<tr>
<td>Public debt per capita (EUR)</td>
<td>1,113</td>
<td>1,811</td>
<td>2,357</td>
<td>2,518</td>
<td>2,643</td>
<td>2,449</td>
<td>3,124</td>
</tr>
</tbody>
</table>

Source: Statistik Austria, Bank Austria Economics & Market Analysis Austria
Increasing demand for real estate in Austria

Commercial real estate market in Austria showing strength
The market for commercial real estate is benefiting not only from the forecast improvement in the economy, but above all from the extremely low interest rates. Investors looking for yield are driving the market. In the first six months of 2014, Austria registered a very substantial rise in the investment volume for commercial real estate. A good half of this demand came from abroad.

According to data from CBRE, the investment volume amounted to approx. EUR 1.33 billion, i.e. almost three times higher than the volume in the same period in 2013. The Austrian market therefore developed much more dynamically than the market in Europe as a whole which saw a rise in the investment volume in commercial real estate to EUR 84 billion from just under EUR 68 billion in the first six months of 2013. Austria’s market share therefore grew to around 1.6% from just under 1% in the corresponding period in the previous year.

A breakdown of the Austrian investment volume according to property types shows that there was relatively high demand for retail properties. This was strongly reflected in the sale of SC G3 in Gerasdorf to the German shopping centre manager ECE and the sale of the fifth largest shopping centre in Vienna, i.e. Shopping Center Nord. Offices had a share of just under 30%, followed by residential property and hotels with around 7% each. Mixed-use properties had a share of 2% while logistics properties – contrary to the European trend – did not play any role.

Lending practice relaxed by banks
In its quarterly “Euro area bank lending survey” dated July 2014, the ECB stated that lending standards to companies had been relaxed for the first time since the second quarter of 2007. The same same was true in regard to commercial real estate loans in Austria. Competition between banks in the Austrian property market has visibly intensified in the last few months. In spite of the additional burdens caused by Basel III and other regulations, margins are under pressure. The extremely relaxed monetary policy of the ECB is promoting this development. Not only was the refinancing rate reduced to 0.05% in September 2014, other liquidity-increasing measures were also announced.

A survey conducted by CBRE regarding the intentions of real estate investors in Europe confirms that only 4% now regard inadequate financing options as a threat to the European real estate market. In 2013 and 2012 the figures for real estate investors who believed financing options were inadequate were 14% and 28% respectively. According to the survey, the biggest threat now comes from the perception of excessive real estate prices (32%), followed by a tightening of monetary policy by the American Federal Reserve Bank, rising interest rates and/or inflation (16%).

Various crises and/or economic slowdown scenarios, followed by economic policy measures, are regarded as other potential threats to European real estate markets.

### Investment volume in commercial real estate

<table>
<thead>
<tr>
<th>Year</th>
<th>Europe</th>
<th>CEE</th>
<th>Germany</th>
<th>Italy</th>
<th>Austria</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>163.4</td>
<td>6.6</td>
<td>20.0</td>
<td>5.1</td>
<td>1.7</td>
</tr>
<tr>
<td>2006</td>
<td>241.4</td>
<td>12.6</td>
<td>51.5</td>
<td>8.7</td>
<td>2.5</td>
</tr>
<tr>
<td>2007</td>
<td>257.3</td>
<td>15.1</td>
<td>57.5</td>
<td>10.4</td>
<td>2.7</td>
</tr>
<tr>
<td>2008</td>
<td>123.1</td>
<td>9.9</td>
<td>19.7</td>
<td>8.0</td>
<td>2.2</td>
</tr>
<tr>
<td>2009</td>
<td>75.1</td>
<td>2.6</td>
<td>10.4</td>
<td>5.0</td>
<td>1.3</td>
</tr>
<tr>
<td>2010</td>
<td>113.0</td>
<td>5.6</td>
<td>19.1</td>
<td>4.9</td>
<td>1.6</td>
</tr>
<tr>
<td>2011</td>
<td>120.4</td>
<td>11.3</td>
<td>22.8</td>
<td>4.3</td>
<td>1.6</td>
</tr>
<tr>
<td>2012</td>
<td>127.2</td>
<td>7.7</td>
<td>24.7</td>
<td>2.6</td>
<td>1.8</td>
</tr>
<tr>
<td>2013</td>
<td>165.6</td>
<td>10.9</td>
<td>30.5</td>
<td>4.8</td>
<td>1.7</td>
</tr>
<tr>
<td>Q1 2013</td>
<td>33.2</td>
<td>3.8</td>
<td>6.8</td>
<td>0.6</td>
<td>0.2</td>
</tr>
<tr>
<td>Q2 2013</td>
<td>34.6</td>
<td>1.9</td>
<td>5.9</td>
<td>1.4</td>
<td>0.2</td>
</tr>
<tr>
<td>Q3 2013</td>
<td>36.9</td>
<td>1.9</td>
<td>6.5</td>
<td>0.9</td>
<td>0.5</td>
</tr>
<tr>
<td>Q4 2013</td>
<td>60.9</td>
<td>3.3</td>
<td>11.3</td>
<td>1.9</td>
<td>0.8</td>
</tr>
<tr>
<td>Q1 2014</td>
<td>40.2</td>
<td>2.1</td>
<td>9.9</td>
<td>0.7</td>
<td>0.7</td>
</tr>
<tr>
<td>Q2 2014</td>
<td>44.0</td>
<td>1.9</td>
<td>7.0</td>
<td>0.9</td>
<td>0.7</td>
</tr>
</tbody>
</table>

Source: Immobilien Rating, CBRE
As long as the interest rates are not visibly corrected upwards, the demand for real estate will remain high. New lows for real estate yields are therefore on the horizon.

Austrian real estate market scores highly thanks to its relative stability...

IPD prepares an Austrian Property Index based on a portfolio of office, retail, industrial/logistics, residential and other properties. In 2013 as a whole, the total return of the Austrian portfolio included in the survey amounted to 5.7% (0.8% change in capital growth and 4.9% income return). IPD calculated the average annual total return over three years as 6.1%, over five years as 5.7% and over ten years as 5.6%.

The annual time series shows that the income return in Austria has increased relatively stably by 5% in Austria over the last ten years. The Austrian market has therefore lived up to its reputation of being relatively stable.

The decrease in yields in the real estate market is supported by the extremely low interest rates in Europe. The foreseeable end of the extremely relaxed monetary policy in the USA is still being negated. European government bond yields reached new lows after the ECB announced that it was also considering purchasing bonds directly. It remains to be seen whether Europe will be able to avoid an interest rate rise expected to emanate from the USA.
... and transparency
Every two years JLL evaluates the transparency of real estate markets throughout the world. The results are published in a ranking ranging from “Highly Transparent”, “Transparent”, “Semi-Transparent” and “Low Transparency” through to “Opaque”. Since the Austrian real estate market, like the German real estate market for example, is classified as “Transparent”, it has maintained its position among the highly developed European markets for years.

JLL Transparency Index 2014

<table>
<thead>
<tr>
<th>Transparency-Level</th>
<th>Ranking</th>
<th>Market</th>
</tr>
</thead>
<tbody>
<tr>
<td>Highly Transparent</td>
<td>1</td>
<td>UK</td>
</tr>
<tr>
<td>Transparent</td>
<td>5</td>
<td>France</td>
</tr>
<tr>
<td>7</td>
<td>Netherlands</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Ireland</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Finland</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>Switzerland</td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>Sweden</td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>Germany</td>
<td></td>
</tr>
<tr>
<td>15</td>
<td>Belgium</td>
<td></td>
</tr>
<tr>
<td>16</td>
<td>Denmark</td>
<td></td>
</tr>
<tr>
<td>17</td>
<td>Poland</td>
<td></td>
</tr>
<tr>
<td>18</td>
<td>Spain</td>
<td></td>
</tr>
<tr>
<td>19</td>
<td>Norway</td>
<td></td>
</tr>
<tr>
<td>21</td>
<td>Austria</td>
<td></td>
</tr>
<tr>
<td>22</td>
<td>Italy</td>
<td></td>
</tr>
<tr>
<td>23</td>
<td>Portugal</td>
<td></td>
</tr>
<tr>
<td>24</td>
<td>Czech Republic</td>
<td></td>
</tr>
<tr>
<td>25</td>
<td>Hungary</td>
<td></td>
</tr>
</tbody>
</table>

Source: JLL
A functioning housing market is always caught between free market forces and far-reaching regulations. This is because housing is not only a fundamental human right, but also normally represents the biggest financial burden for private households. Austrian households use more than one fifth of their consumer spending for housing, for purchasing housing space, maintenance and housing-related energy costs. This expenditure has almost traditionally increased more quickly than other consumer spending.

The amount at which housing costs permanently reduce people’s quality of life can only be assessed at an individual level. However, it is likely that this limit has long been exceeded in some segments of the Austrian housing market. This market is in a precarious situation, especially in conurbations. In the last five years, property prices in Vienna have risen annually by 9.4%. The average monthly housing expenditure for main lease apartments has increased annually by 3.7% whereas net household incomes in the city have only risen by 2.4%.

Imbalances, overvaluation, but no “bubble formation” in the residential real estate market in Vienna

Rising real estate prices and a relatively high price level due to limited land resources are more or less unavoidable in expanding conurbations. According to the EU-SILC definition, another reason is that the cost of housing as a percentage of net income of private households amounts to 19% in "densely" populated areas of Austria and only 12% in "sparsely" populated areas. As a rapidly growing city with over 1 million inhabitants, Vienna also places other demands on housing construction since it is necessary to cover demand in both privately financed, very expensive segments as well as in social housing.

Demand for housing has risen in nearly every segment in the last few years. However, double-digit price increases primarily affected those parts of the market where demand was augmented by above-average capital inflows as a result of low yields from alternative investment opportunities and crisis-induced uncertainties in capital markets. The high proportion of fixed-price apartments in Vienna also has a price-dampening effect. The majority of these apartments, just under 40% of the total housing stock or 374,000 out of 984,000 apartments, is located in buildings owned by the city of Vienna or non-profit building associations.

According to information from the Austrian National Bank, the prices for owner-occupied apartments and homes in Vienna at the end of 2013 were overvalued by 21% based on a fundamental price indicator while real estate prices in Austria as a whole were undervalued by 8% (the fundamental prices include a number of factors such as the ratio of housing construction investments to GDP or the ratio of real estate prices to building costs and the rent level, as well as the affordability of housing measured in terms of the ratio between prices and a hypothetical credit volume which depends on household income and the interest rate).

In spite of the overvalued price level, a sudden price correction is not expected in the real estate market in Vienna. The relaxed estimate is due to the fact that the rapid rise in housing prices since the middle of the noughties was preceded by a longer phase of stagnating prices and the price increase since the middle of 2013 has declined again. In addition, a large number of property purchases are also financed by the buyers’ own capital resources, thus considerably reducing the risk of instabilities in housing markets in Austria. Since the peak in 2010, growth in the volume of outstanding real estate loans in euro has slowed, while the volume of foreign currency loans has actually fallen slightly in the last two years (by EUR 2.5 billion to EUR 109 billion by the end of 2013). The indebtedness of the household sector has also been falling for years in relation to GDP (Eurostat: Ø 2013 in Austria 53 %, euro zone 64 %).

Finally, Vienna has not only been able to maintain its outstanding position in the international Mercer city rankings in the last few years, but has even bettered it, measured in terms of a comparison of the costs of living of foreign employees of large enterprises compared to 2007. In the Mercer Quality of Living Ranking, Vienna is still the city with the best quality of life worldwide.
Below average increase in housing rents
The massive price rise in the market for owner-occupied apartments in Vienna has only been partly transferred to the rented apartment segment. Although rents for privately rented apartments in Vienna rose annually by an average of 5% between 2008 and 2013, i.e. faster than the average for Austria or much faster than consumer prices, the increase in rents in the segment in the same period is decreasing annually by an average of 2.4% after adjustment for improvements in housing quality and location enhancements.

Slower growth in housing requirements in Vienna
According to the latest population projection, the city will grow by an annual average of 0.7 % in the next twenty years, after 0.9 % in the last decade (and will reach 2 million inhabitants in about 2030). Caused by changes in population structures the number of inhabitants will increase slightly faster than the number of households. Subsequently, the demand pressure in the housing market should ease again. The background of the trend is an increasing average household size with the growing birth surplus and falling numbers of immigrants. Around 120,000 new households will be established in Vienna up to 2032. In the long term this will produce additional housing demand amounting to an annual average of 6,500 units.

Irrespective of the method for recording housing prices and rents, a roof over one’s head is becoming increasingly more difficult to finance, especially for households with low incomes: according to EU-SiLc 2012, housing costs were a “major” financial burden for 23% of residents of Vienna compared with 18 % in 2008. In no other Austrian federal state has the proportion increased to such a similarly high extent during the same period. In three federal states, i.e. Burgenland, Salzburg and Tyrol, the proportion has actually decreased and remained unchanged at 16 % on average for Austria as a whole.

The high financial burden imposed on households by housing costs and the fact that living space cannot be substituted and is often used over generations justify extensive involvement by the public sector in housing construction. In the long term Austria’s support and regulatory system has also proved to be very effective when one considers that the housing supply has been continuously expanded and strong excess demand with a distorting effect on the market and high price increases have been avoided. The reductions in subsidies for construction and greater use of subsidies for refurbishments in the last few years have had a direct impact in the form of fewer building permits and a decline in housing construction. Between 2009 and 2012, subsidies for new housing construction in Vienna slumped by more than 40% (still just under 15% in Austria as a whole).

The housing construction offensive, which started in 2011, will definitely take account in the short term of the increasing need for new housing in Vienna (also with regard to housing withdrawals from the market due to demolition, changes of use or mergers of around 2,000 to 3,000 apartments per annum). The goal of 7,000 additionally subsidised apartments per annum between 2014 and 2015 was reflected in the number of building permits. Even without permits for extensions and conversions, for which no data are available in Vienna, permits for just under 7,000 new apartments were issued in 2012. The corresponding figure for 2013 was more than 12,000 units. The probable figure for 2014 will be 11,000 units (projection based on the results from the first quarter).

In order to satisfy the long-term demand for new construction of a “suitably” high quality in Vienna, a continuous supply of at least “average standard” new housing must be ensured.

The need here for a sustainable housing construction financing system is shown by the recent decline in figures for new construction as a result of a lack of subsidies in the social and rent-supported apartment sector.
Office market in Vienna distinguished by stability
The office market in Vienna is still one of the most stable office markets in Europe and has persistently moderate vacancy rates compared with other European cities. One of the reasons for this stable development is the low rate of production of new office space with comparatively constant new letting.

Although the after-effects of the international financial and economic crisis have now been largely overcome, the subject of reuse of old and vacant offices is becoming more important since these areas are being placed in an increasingly difficult position on account of the high availability of competing modern offices with optimised operating costs. Vienna currently has a stock of around 10.85 million m² of office space. However, old stock is still not recorded precisely.

A comparison of office space per capita in different European capitals, shows that Vienna is still in mid-table with around 6.3 m² per inhabitant. In relation to Eastern European capitals, however, Vienna still has a clear lead. Bratislava, the leader in CEE, does not even have half the amount of office space per inhabitant of the Austrian capital.

Office market in Vienna – new construction activity at a low level
Drop in the production of new office space compared with the previous year
Compared with 2012, the production of new office space in Vienna in 2013 dropped from 215,000 m² to approx. 150,000 m². The new construction volume could reach a similarly low volume in 2014 and a new record low in 2015.

A significant part of new office space production still comes from refurbishment measures, conversions, additions and extensions. Attempts are often made in this respect to attain a certification or at least a reduction in the operating costs.

Take-up volume in 2014 expected to be similar to that in 2013
The take-up of office space has stabilised in the last few years at a similar level each time, and amounted to around 270,000 m² in 2013. This represents a substantial decrease compared with new rentals in the boom years prior to the economic crisis, but is comparable to the new rental volumes before the great real estate hype. Although the take-up of new office space was below average in the first six months of 2014, a rental volume at a level similar to 2013 is expected again by the end of this year. According to information from large estate agencies, some larger transactions are in the pipeline and should be successfully completed by the end of the year.
Large new lettings on a scale of 5,000 m² and more continue to be rather exceptional. A large proportion of the rental volume is still generated from relocations, office space consolidations and/or office space optimisations.

**DC Tower: the largest project in 2013 with 44,000 m² of office space**
In 2013 DC Tower 1 in Vienna Donau-City represented the biggest increase in office space. This building was designed by the French star architect Dominique Perrault. In addition to 44,000 m² of office space, this office tower (250 metres high including the antenna) contains a hotel, a restaurant and a lookout platform. The tower covers an area of more than 70,000 m².

**Headquarters of Austrian Federal Railways (ÖBB) at the new main railway station almost completed**
With an overall useful area of 46,000 m², of which 31,000 m² are allocated as office space, the new headquarters of Austrian Federal Railways now being constructed will be one of the largest office projects in 2014. The building, which will only be rented by Austrian Federal Railways, will be finished in summer. The company will move there by the end of the year. The headquarters of another company, i.e. Erste Bank, are currently being constructed on the site of the main railway station.

<table>
<thead>
<tr>
<th>Office project</th>
<th>Effective office area in m²</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Erste Campus</td>
<td>117,000</td>
<td>Under construction</td>
</tr>
<tr>
<td>ORBI TOWER</td>
<td>17,000</td>
<td>Being planned</td>
</tr>
<tr>
<td>Vienna Biotechnology Park, WHITE SPACE section</td>
<td>10,500</td>
<td>Being planned</td>
</tr>
<tr>
<td>Source: Immobilien Rating</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Slight rise in prime rents for offices in Vienna in 2014**
The prime rents for offices in Vienna largely remained stable in 2013. There were only slight price increases at times in the high-end segment. Prime rents for Class A offices in a good location reached around EUR 25/m²/month in the middle of 2014. Prime rents above this figure are also possible for special offices in individual top buildings, such as the upper floors of office towers or for extraordinarily prestigious offices. Rents in the premium segment could rise slightly again by the end of 2014, but they will generally remain largely stable.

There is still demand for offices in the city centre and in central office locations. City-centre offices occasionally become vacant as a result of departmental mergers or the relocation of companies and authorities to often more decentralised locations. Some of these offices then come back on the market after general refurbishment. These offices in the First District of Vienna are often found in the high-price segment.

The level of interest in offices in the mid-price segment is still high. Demand can largely be satisfied thanks to the comparatively high availability of modern offices at moderate rents. Space efficiency and low operating costs are now some of the most important criteria for tenants. The rent amount is no longer the sole criterion, the total monthly or annual costs determine the decision for or against an office location.

However, offices with a low occupancy rate, old offices and offices in below-average locations away from current office sites are increasingly coming under pressure. Since the negative trend has been continuing for some time, this is leading to rent decreases and/or vacancies. It is often necessary to find a suitable alternative reuse of these hard-to-let offices if this is economically possible.

**Vacancy rate largely stable in the office sector**
Vienna still has a very low vacancy rate and is at the lower end of the scale when compared with other European cities.

In the middle of 2014, the vacancy rate in the office sector in Vienna amounted to around 6.5% to 7% and will probably remain unchanged or even decline slightly this year as a result of the moderate new construction of office space and a take-up comparable to 2013. It is noticeable that the vacancy rate in older, less central offices is higher than that for centrally located and established offices.

**Erste Campus and UniCredit Bank Austria Campus: future office projects**
Larger office projects are in the pipeline again in the next few years. Erste Campus will probably be completed during 2015. The new headquarters of Erste Bank are currently being constructed on the site of the main railway station in Vienna. With an area of around 117,000 m², the building will bring together all the company’s employees under one roof. UniCredit Bank Austria is also planning a new group head office on the site of the former north station. Modern offices will be constructed here in several buildings by the end of 2018/start of 2019. Some of these offices will be used by the company itself, but it is also intended to rent out other offices in these buildings. Shops and a hotel are also planned.
Fall in prime yields
The prime yields in the office sector have now fallen well below 5%, and another decrease is conceivable.

The situation still remains tense in the case of office buildings in need of refurbishment and office properties situated outside office axes that are in demand. Another reduction in value is possible here while a rise in yields from Class B offices outside central locations can therefore not be excluded.

Office axes in Vienna
The most popular office locations in Vienna are still the city centre and the districts inside the Gürtel Road. Demand remains high here. Generally speaking, the inner city is characterised by offices and a large number of commercial properties whereas residential use has increasingly been driven back over decades. The last few years, however, have again seen increasing reconversion of former offices into housing due to high demand for large apartments or high-quality luxury residences in the city centre. Buildings from the the late nineteenth-century and the turn of the century are very popular, since their spacious storeys satisfy demand from wealthy clients for large and luxurious residences.

The extended city centre is very attractive primarily on account of its location and accessibility, even though new buildings are very rarely constructed here.

In addition to the city centre, Donau City (VIENNA DC) has developed into one of the most important office locations. The area is dominated by several large office towers. Vienna’s largest office tower, DC Tower 1, was also constructed there, which has also enhanced this area again.

New office zones have been created in the last few years in the Handelskai and Wiener Messe areas, as well as in the area around the former north and northwest railway station. The site around Praterstern is also still one of the major city development areas in Vienna.

New office buildings in the last few years, for example Marxbox, Maximum or the TownTown Project, which is being extended in stages, are characteristic of the Erdberg/St. Marx/Gasometer office location. The TownTown office complex will probably be extended once again in the next few years by the ORBI Tower which is currently being planned.

A new attractive office location is being created at the new main railway station in Vienna. In addition to Austrian Federal Railways’ new headquarters, which will be completed this year, the new headquarters of Erste Bank are also being built on this site. In the so-called Belvedere Quarter, one of the top city development areas in Vienna, the site around the main railway station is being used to construct offices along with a varied mixture of apartments, shops and hotels, but also restaurants, schools and health centres.

Another office axis has been created on Wienerberg in the southern part of Vienna. The EURO PLAZA located there has been extended once again with the fifth construction phase containing an additional 35,000 m² of office space.

Minor embellishments are not sufficient
Renovations are also becoming more important in Vienna. The acute sensitivity for operating costs means that energy efficiency has become an important criterion for rental decisions, alongside location and facilities. A large number of older buildings win no prizes, especially for high energy efficiency, while low rents are not a good sales argument against the background of high operating costs.

When long-term rented offices become available, it is therefore important to carefully consider how the property can be reused for a suitable purpose. Especially in the city centre, it is also worth considering whether a change of use to residential accommodation is feasible and practical. Hotels may also represent an alternative, but must be examined closely due to the high level of competition in the hotel market in Vienna.
If, however, a decision is taken to continue with offices, a specific revitalisation concept must be carefully considered. Purely cosmetic improvements are often not sufficient since office utilisation habits and the life cycle of offices have changed significantly in the last few years. The requirements relating to room concepts have become much more discerning.

Developers therefore opt in many cases for an extensive renovation of older office buildings. Often only the basic structure is retained here while the rooms are, so to speak, rebuilt. In addition to flexible room redesign, attempts are also made to increase the energy efficiency of the building through modern thermal insulation and other measures. Efforts are also frequently made to obtain certifications which have a positive effect on marketing opportunities.

However, these measures are not always possible or cannot be implemented in an economically viable way. Complete demolition must also be considered in these cases. If a change of use is possible, a new building containing apartments is an attractive alternative in our modern age which is characterised by a housing shortage. Even if the location makes office use difficult, the same location may be quite attractive for use as housing. The demand for homes will definitely remain high on account of continued inward migration to Vienna and predictions regarding the city’s demographic development in the next few years and decades.
Retail sector in Vienna – trend towards extensions and refurbishments

Slight drop in the area density of shopping centres in Vienna - but level still remains high
As of 1 January 2014 there were around 125 shopping centres in Austria with a sales area of approximately 2.1 million m². Around 35% of these shopping centres are located in Vienna and the surrounding area. Including the renovation (completed in 2013) of Shopping City Süd, the largest shopping centre in Austria, and the new G3 Shopping Resort Gerasdorf opened in 2012, Vienna had a total of 29 shopping centres with a leasable area of around 931,000 m² at the end of the first six months of 2014. The SC density per 1,000 inhabitants was around 528 m² in the middle of 2014, i.e. a slight reduction compared with the same period last year because of a standstill in area growth combined with an increase in the number of residents in Vienna. In Austria the leasable area per 1,000 inhabitants was much lower at 315 m². Nevertheless, Austria ranks among the top 10 countries and is well above the EU average of around 268 m² of leasable space per 1,000 inhabitants.

Increasing predatory competition regarding shopping centres – demands becoming more diverse
There were no significant movements in regard to shopping centres in Vienna last year or in the first half of 2014. The last opening of a new shopping centre was the complete opening of “The Mall” in the centre of Vienna in April 2013. At the end of 2013, negative headlines were made with the closures of the local shopping centre “Am Spitz” in Vienna-Floridsdorf with a leasable area of around 9,000 m² and the department store “La Stafa” in Mariahilfer Straße.

In the middle of 2014, more than 1.7 million m² of shopping space were available to shoppers in Vienna and the surrounding area. Out of this figure, 723,500 m² were accounted for by shopping centres (41.5%), 690,000 m² by retail park agglomerations (39.6%) and approximately 330,000 m² (18.9%) by the most important shopping streets in Vienna.

With the SCS, Donau Centre, G3 Shopping Resort Gerasdorf and Millennium City, Vienna has four large shopping centres containing more than 50,000 m² of leasable space each. The Huma Shopping Park in Vienna-Simmering, which is operated by SES Spar European Shopping Centers GmbH, and the Auhof Centre are two other shopping centres which could soon reach this magnitude through extensions.

Number of shopping centres according to size categories

<table>
<thead>
<tr>
<th>Number</th>
<th>Gross leasable area (GLA) in m²</th>
</tr>
</thead>
<tbody>
<tr>
<td>14</td>
<td>Up to 20,000</td>
</tr>
<tr>
<td>11</td>
<td>20,000 – 50,000</td>
</tr>
<tr>
<td>4</td>
<td>More than 50,000</td>
</tr>
</tbody>
</table>

Source: RegioPlan, Standort+Markt

Around 14 shopping centres, i.e. slightly less than half of all the shopping centres in Vienna, are smaller centres with less than 20,000 m² of leasable space.

Importance of individual segments as measured by sales space

Shopping centre space in Europe
Leasable area in m² per 1,000 inhabitants

Source: C&W European SC Development Report April 2014

Norway Luxembourg Slovenia Netherlands Switzerland Austria EU-27-average Croatia France Poland Italy Slovakia Czech Republic Germany Hungary Romania Turkey Bulgaria
Generally speaking, the trend among shopping temples in Vienna is towards modernisation and extension. For example, a major relaunch, including an extension of around 4,000 m², is planned for the Huma Einkaufspark (built in 1987) during ongoing operations (provisional opening date: autumn 2016). Shopping City Süd was also redesigned in several stages. It opened at the end of 2013 with a new design and new international chains (e.g. Primark, Hollister, Superdry, George Gina & Lucy, Lego, etc.). According to Tristan Capital Partners, the new owner of SCN Shopping City Nord with a leasable area of around 32,000 m², plans have been drawn up to renovate and extend this shopping centre over the next two years. These plans should be completed by 2016. Another extension is currently taking place in the Auhof Center in Vienna-Penzing. The third construction section of the Auhof Center has been demolished. It will be rebuilt by the end of the year with a bigger leasable area of around 11,000 m² and the full leasable area in the shopping centre (including the entertainment section) will be increased to approximately 48,000 m². Lt. RegioPlan is also planning to increase the size of the Stadion Center.

Around 50,000 m² of new shopping centre space to be created in Vienna by the middle of 2015

The provisional final shopping centre projects now under construction in Vienna are “ÖBB BahnhofCity” at the new Vienna main railway station with around 20,000 m² of leasable space (scheduled to open in October 2014) and the Citygate shopping mall in Vienna-Floridsdorf, also with about 20,000 m² of leasable space (planned completion date: 1st quarter of 2015). Due to their medium size, both shopping centres have a regional character. By virtue of its integration in a railway station (keyword: footfall) and its resulting functionality, the first shopping centre will automatically attract a large number of visitors.

The total increase in shopping centre space in Vienna will amount to around 50,000 m² by the middle of 2015. Predatory competition has therefore become more intense and the gap has widened between top shopping centres with easy accessibility, good functionality and a balanced mix of shops and shopping centres in B locations and/or an investment backlog.

In addition to its own competitors, the pressure on the stationary retail sector is increasing as a result of the Internet. Shop owners are therefore faced with new challenges and must demonstrate a high degree of flexibility and willingness to invest. Just being a shopping centre is now no longer a distinguishing feature. In addition to a wide range of goods, it is also important, for example, to develop a unique identity with associated quality standards (e.g. fresh air, optimal signposting, natural lighting, a good atmosphere, safety, child-friendliness, etc.). It is also important to offer value-added services which bind customers to the shopping centre and provide them with arguments to actually go there.

These services include, for example, an increasing range of entertainment, leisure and recreation areas in individual shopping centres. Catering facilities are also becoming more and more important. Attention must be paid to other aspects such as child care facilities, events, quiet areas, various courses, customer cards with discount and bonus systems, lockers, W-LAN, click-&-collect and delivery services, etc. The result is to make shopping centres more communicative and turn them into meeting places.

Online retailing exerting pressure on the area productivity of the stationary retail trade

In 2013, the online retail sector in Austria recorded sales of around EUR 5.5 billion. It therefore accounted for approximately 10% of total retail sales in Austria and is continuing to grow at a rapid pace.

Experts agree that there will be a natural boundary to online retailing due to reasons such as experience and social aspects (e.g. “touch and feel”, women shopping with their best friend) of shopping and logistic restrictions (keyword: “last mile” to the customer, very expensive return rates). At present, however, nobody can seriously say how high this natural boundary is.

Shop operators are increasingly trying to counter the new challenges by adopting multi-channel strategies or the advanced cross-channel approach. In an ideal scenario it is all about combining online, offline and mobile shopping. It does not matter which sales channel customers use to shop, they must always have the same brand experience (different messages in different sales channels may quickly lead to dissatisfaction among customers).

One current example of this implementation method is the opening of the Hervis Future Store with around 1,000 m² of sales space in “The Mall” in “Wien-Mitte”. Customers can try on their purchase on the spot in the traditional manner or order their desired article...
directly at terminals in the store and have it delivered to their door ("order in store") — or conversely place an order online at home and then collect it at the store ("click & collect"), including the option of exchange. Purchases can also be made online in the store in the order zone and paid for there directly as normal by means of a cash card or in cash ("pay in store"). QR codes and NFC chips integrated in stickers also enable customers to obtain information and offers regarding the corresponding theme world via a smartphone or a tablet. The vision room shows that changing rooms need not only be cramped and sparsely designed. It recognises the product range from which customers are trying on clothing items and supplies suitable images (e.g. beach and sea for a bikini). In spite of all the modern options, “traditional” personal advice and a suitable range of products for “selection and touching” is also not ignored.

As the example shows, modern shops are therefore becoming presentation, advice, order and collection zones as required. Despite all the efforts by the stationary retail trade to remain attractive, online sales will exert pressure on the floor space productivity of shopping centres. In 2013 the gross turnover per m² of leasable floor space was EUR 3,500/m². This is primarily affecting retailers of books, electronics, shoes and clothing.
There will still be demand in areas in 1A shopping centres and no reductions in rents are expected. In some cases, slight increases may even occur. In the first six months of 2014, rents in shopping centres in Vienna, depending on the size of the shop, were between EUR 8 and 90/m²/month.

**Top 5 retail park agglomerations in Vienna and the surrounding area**

<table>
<thead>
<tr>
<th>Name</th>
<th>Sales space of the RPA in m²</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vösendorf Nord/Brunn am Gebirge</td>
<td>216,000</td>
</tr>
<tr>
<td>Rautenweg West&amp;B Ost – Vienna 1210/1220</td>
<td>94,400</td>
</tr>
<tr>
<td>Stadlau – Vienna 1220</td>
<td>98,000</td>
</tr>
<tr>
<td>Brünner Straße Vienna 1210</td>
<td>58,200</td>
</tr>
<tr>
<td>Hadikgasse – Vienna 1130/1140</td>
<td>37,500</td>
</tr>
</tbody>
</table>

A further large RPA is located in Vienna-Donaustadt along the main A23 “Südостangenten” road out of town with others on the northern edge of Vienna on the S2 highway. These include the Stadlau RPA in the area of Breitenleer Straße and, in the wider surroundings, Rautenweg Ost, Rautenweg West and Hirschstetten. According to Standort+Markt, the total amount of retail space in these agglomerations is more than 200,000 m².

At the end of June 2014, the density of SCRA in Vienna was already very high at 390 m² per 1,000 inhabitants. Practically no other new projects are being planned. The last opening was in autumn 2012 with the retail park in the G3 Shopping Resort Gerasdorf with a retail space of around 12,000 m². No substantial increase in retail space is expected up to the end of 2014.

Just like shopping centres, retail parks are in need of modernisation and have potential for expansion at established locations. One trend among RPA is towards higher mixed use in which consumer-related diversity is becoming increasingly more important. In particular, the proportion of restaurants and entertainment has increased considerably in the last two years. However, new tenants such as CCC Shoes or TK Maxx ensure stable demand.

The business model of retail parks is mostly based on the low to medium price segment with discount-oriented shops – in addition to food retailers – dominating the market. According to a study conducted by Standort+Markt, the top 10 chains in RPA include, for example, Hofer, Kik, Takko, Deichmann, Pagro Diskont and Charles Vögele.

RPA are also geared towards daily and periodical requirements. They remain an attractive one-stop shopping address even as the use of online retailing increases.

Consequently, the strong demand for rental space and the attractiveness of RPA for consumers are leading to stable rents which were between EUR 6 and 15/m²/month for RPA in the middle of 2014.

**International luxury “gilding” the city centre – redesign of Mariahilfer Straße with an uncertain outcome**

In 2013, two topics dominated the headlines regarding shopping streets in Vienna: the “Golden Quarter” and the redesign of Mariahilfer Straße as a meeting area.

In the past, Vienna city centre only contained the “Golden U” comprising Kärntnerstraße, Graben and Kohlmarkt. The opening of the “Goldenes Quartier” as an extension of Kohlmarkt at the end of 2012 produced around 11,500 m² of new luxury retail space which brought prestigious flagship stores and international designer labels into the city centre. To date, luxury brands such as Prada, Saint Laurent, Bottega Veneta, Emporio Armani, Louis Vuitton, Valentino, Miu Miu, Roberto Cavalli, Brioni, Mulberry, Etro, Pomellato, Brunello Cucinelli, Church’s, Vivienne Westwood and 7 for all mankind have gradually rented retail space in these areas.

The settlement of international haute couture in the Goldenes Quartier is also enhancing existing locations in the Golden U. The bad news here is that the increasing number of international retailers is leading to a rise in the average rent level along the luxury miles and long-standing small and medium-sized companies are therefore coming under pressure.

In addition to the Goldenes Quartier, Mariahilfer Straße is facing a difficult challenge with an uncertain outcome, although it has been one of the shopping streets in Europe with the highest number of visitors. After lengthy discussions, including a public survey, this popular shopping mile for Vienna residents and tourists is now

**Practically no movement among retail parks**

The importance of retail parks (RP) has increased in the last few years both among investors and retailers. According to Lt. Standort+Markt, retail park agglomerations (RPA), including retail parks, have a market share of 23.1% in Austria. Shoppers in Vienna have access to a total of approx. 475,000 m² of sales space, and if the Vösendorf retail park agglomeration (Lower Austria) is included, the figure rises to around 690,000 m². This corresponds to a market share of approximately 14.6%. The locations in Vienna are mainly found on the outskirts of the city. The largest retail park agglomeration has developed around SCS Shopping City Süd.

It is becoming more difficult for B and C locations because whereas chains rented as much space as possible in the past, they now only occupy the space they actually require. In the medium term, this may lead to floor space reductions and/or closures as part of site optimisations of the branch networks. In such cases, further negotiations will be held with centre managers regarding rent reductions in the near future.

**Range in EUR/m²/month**

<table>
<thead>
<tr>
<th>Anchor tenant</th>
<th>8 – 15</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shops (Depending on their size and location)</td>
<td>15 – 90</td>
</tr>
</tbody>
</table>

Source: Immobilien Rating

- **Range in EUR/m²/month**
  - Anchor tenant: 8 – 15
  - Shops (Depending on their size and location): 15 – 90

Source: Immobilien Rating

- **Anchor tenant**
  - 8 – 15
- **Shops (Depending on their size and location)**
  - 15 – 90

Source: Immobilien Rating
being redesigned and is being gradually turned into a traffic-calmed pedestrian and meeting zone. The planned completion date is August 2015. Up until then, the street must endure building noise and restricted shopping enjoyment. The shopping street will also still have great potential after the redesign. There is now a need for quick and clear decisions regarding its design and for a traffic solution that will satisfy residents, retailers and customers alike and which will be accepted by them. This is the only way in which to make up the lower visitor frequencies of up to 15% estimated by EHL.

In general, there is good and stable demand in the top locations in shopping streets in Vienna. In the so-called 1A locations average net rents of EUR 175/m²/month are paid. Prime rents of up to EUR 370/m²/month are possible for small shops in the so called “Goldenes U” (Kärntner Straße, Graben and Kohlmarkt), including the Golden Quarter. The prime yield in the high street segment was around 3.9 – 4.2% in the middle of 2014.

However, demand for retail space in the shopping streets in B and C locations still remains low. These shopping centres are faced with increasing pressure and higher vacancy rates. In very many cases, vacant premises are being taken over by tenants with, at times, a less attractive image. This subsequently leads to further declines in customer footfall. Large projects such as the redesign of Vienna-Mitte railway station (Landstraßer Hauptstraße) or the new main railway station (Favoritenstraße) may provide positive impetus for smaller shopping streets.
Contacts:

**Bank Austria**

**International Real Estate Finance**
Anton Höller  
Tel: +43 (0)50505 – 55980  
anton.hoeller@unicreditgroup.at

Waltraud König  
Tel: +43 (0)50505 – 54941  
waltraud.koenig@unicreditgroup.at

**Subsidised and SME Real Estate**
Günter Neuwirth  
Tel: +43 (0)50505 – 52363  
guenther.neuwirth@unicreditgroup.at

Günter Moser  
Tel: +43 (0)50505 – 52376  
guenter.moser@unicreditgroup.at

**Commercial Real Estate**
Werner Zimmel  
Tel: +43 (0)50505 – 62600  
werner.zimmel@unicreditgroup.at

Karl Mayerhofer  
Tel: +43 (0)50505 – 55305  
karl.mayerhofer@unicreditgroup.at

**Real Estate Research**
Karla Schestauber  
Tel: +43 (0)50505 – 54784  
karla.schestauber@unicreditgroup.at

**Economics & Market Analysis**
Walter Pudschedl  
Tel: +43 (0)50505 – 41957  
walter.pudschedl@unicreditgroup.at

Günter Wolf  
Tel: +43 (0)50505 – 41954  
guenter.wolf@unicreditgroup.at

**Immobilien Rating GmbH (IRG)**

**Market Research**
Helmuth Schneider  
Tel: +43 (0)50601 – 51863  
helmuth.schneider@immobilienrating.at

Alexander Stögbauer  
Tel: +43 (0)50601 – 51904  
alexander.stoegbauer@immobilienrating.at

Authors:

**Bank Austria**

**Real Estate Research**
Karla Schestauber  
Tel: +43 (0)50505 – 54784  
karla.schestauber@unicreditgroup.at

**Economics & Market Analysis**
Walter Pudschedl  
Tel: +43 (0)50505 – 41957  
walter.pudschedl@unicreditgroup.at

Günter Wolf  
Tel: +43 (0)50505 – 41954  
guenter.wolf@unicreditgroup.at