The Austrian Real Estate Market –
ing on the cake

10/2013
Imprint:
Publisher and media owner: UniCredit Bank Austria AG
http://www.bankaustria.at
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Layout: www.horvath.co.at

Dated: 20. September 2013
A joint publication of Bank Austria Real Estate, Bank Austria Economics & Market Analysis Austria and Immobilien Rating GmbH (IRG)

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The market for commercial property in Austria is relatively small – according to CBRE, only € 430 million was invested in commercial real estate in Austria during the first two quarters of 2013, a year-on-year decline of some € 100 million. This is in contrast to the overall European trend. Total investment in Europe grew to € 60 billion, and as a result Austria’s share fell to below 1%. However, a string of positive indicators point to a brighter outlook for the second half of this and next year.

There has been a noticeable pick-up in demand for real estate loans. Bank Austria Real Estate reported over € 1 billion of new business in the first six months of 2013 – its strongest performance for several years. This was due inter alia to the ability to finance also big projects as well as to offer long term retention periods. The large number of projects still in the pipeline suggests that investment in property will grow in the second half of 2013 and next year, leading to an improvement in market performance.

The Austrian housing market has shown dynamic development in the last few years, with Vienna leading the way. The sharp increase in prices can be attributed partly to rising demand prompted by the global economic crisis, as money has flown into “gold standard” residential property investments. Last year prices rose by an average of 12% in Austria as a whole, and by almost 16% in Vienna. In the first half of 2013 the rise in prices slowed somewhat, which suggests that economic conditions are returning to normal. Despite the steep price increases of recent years, housing in Austria is still relatively cheap by international standards, partly as a result of government-subsidised residential construction.

The slightly downward trend in property yields continued into the first six months of 2013, with prime yields in the office segment falling below the 5% mark to around 4.8%. This compares to prime yields of around 5.5% in the shopping centre sector in mid-2013, and retail park prime yields around 1%-point higher. The scope for further reductions is limited, particularly as long-term yields on government bonds have risen slightly in recent months.

Investors are no longer just interested in prime real estate – properties in excellent locations and subject to favourable rental conditions – but are also on the lookout for projects with value-add potential.

Economic indicators are moving in the right direction again and the Austrian economy has returned to a more stable growth trajectory. Bank Austria’s economists expect the country to record slightly real growth in 2013, while growth forecast for 2014 was recently revised upwards to just under 2%. This indicates that Austria’s economy is in far better shape than those of other European countries.

All in all, and in spite of its small size, Austria’s real estate market is well positioned to maintain its reputation for positive performance and relative stability.

Karla Schestauber

*) Source: TU-Wien – Institut für Stadt- und Regionalforschung, OeNB
Austrian economy back on firmer ground

From stagnation ...

After a promising start to 2012 the Austrian economy ran out of steam in the middle of the year. The austerity measures aimed at resolving the EU sovereign debt crisis prompted an economic slowdown in many countries, and recession in others. The eurozone as a whole slipped back into recession, posing serious problems for Austrian exporters. Demand from the USA and the growth markets of Asia and South America failed to make up fully for collapsed demand in Europe. Uncertainty surrounding the future of the eurozone weighed on producer and consumer sentiment – Austrian businesses scaled back investment and private consumption faltered. The upshot of this was a period of stagnation from the second half of 2012 onwards. Nevertheless, full-year growth in Austria was 0.9% thanks to the solid performance in the first half of the year.

The situation deteriorated further in the first few months of 2013, dashing hopes of a spring rebound. Austria remained in the doldrums and the real economy shrank by 0.2% year on year. Demand for Austrian goods and services remained muted, whilst emerging markets and China in particular – which had been propping up the world economy – looked increasingly to be struggling. Nevertheless, foreign trade contributed slightly to Austrian GDP, with exports slowly growing and imports falling. The decline in imports was a reflection of significantly weaker domestic consumption. Although progress was made in tackling the EU debt crisis, with measures including a framework for a banking union, domestic manufacturers remained cautious about the prospects for an upturn in business. This led to a considerable decline in investment which the loose monetary policy pursued by the European Central Bank (ECB) and a cut in interest rates to an all-time low in the first half failed to reverse. Evidence of weaker private consumption came in the shape of a real decrease of over 1% in retail revenue. Consumers’ willingness to spend took another hit in the first half of 2013 as conditions on the labour market became bleaker. The growth in employment slowed drastically from 1.4% in 2012 to only 0.6% in the first six months of 2013, and unemployment increased. An average of 290,000 people were out of work, an increase of over 20,000 on the first half of 2012.

... to delayed recovery

In mid-2013 the Austrian economy appeared to have turned the corner, and there were growing indications of a recovery in the second half. Nevertheless, the economic outlook is mixed. Austrian industry is benefiting as the eurozone economy gradually picks up steam, but consumers are still rather tentative, mainly due to the gloomy situation on the labour market, which is likely to persist beyond the end of this year. Consumer uncertainty is putting the brakes on the recovery. We predict that unemployment will rise from 7% in 2012 to 7.6% this year, or 4.8% under the Eurostat method (2012: 4.3%). In other words, unemployment will be considerably higher than during the 2009 economic and financial crisis.

Overview of Austria’s economic data

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¹) Gross fixed capital formation / ²) excluding maternity leave, military service and training programme
Source: Bank Austria Economics & Market Analysis Austria
European demand for Austrian exports has started to improve, and exporters are receiving more new and follow-up orders. This wind of change from abroad is still more of a gentle breeze, but it will pick up in due course. Over the next few months exports will gradually become the driving force behind the Austrian economy. Thanks to its strong position on export markets, Austria will increasingly reap the benefits of the upturn in the European economy in the months ahead. Besides growing demand from Germany – Austria’s main trading partner and Europe’s economic powerhouse – Italy’s nascent emergence from recession will also give added impetus to export growth. This momentum from abroad should be reflected in a rise in gross domestic product (GDP) of around 0.4% in 2013.

**Stronger recovery in 2014**

After a modest start in the second half of 2013 following the improvement in economic conditions, the recovery in Europe will accelerate markedly in 2014, as fiscal consolidation is likely to be less of a drag on many countries’ economies. If the recovery takes root, domestic demand will make a stronger contribution to growth than other factors. Lower inflation and a turnaround on the employment market in 2014 should help to revitalize private consumption. The prospects for a rise in investment are also bright. Increased production, greater confidence in the likelihood of strong business performance, and relatively low financing costs as a result of the ECB’s decision to stick with its current monetary policy for an extended period will slowly encourage Austrian companies to invest in 2014.

Although weak growth in Europe has dampened demand for Austrian products, this will change in 2014, thanks in part to solid economic performance in the US. However, there is the risk of a sharper slowdown in growth in the emerging economies, especially China. Although the lack of progress in Europe in tackling the sovereign debt crisis and moving towards a banking union could stand in the way of Austria’s continuing upturn in 2014. But the country’s strong export sector will be the main contributor to the growth rate of 1.8% expected for 2013. Domestic investment and consumption will then play an increasingly important supporting role. Nevertheless, growth rates in excess of 2% will remain the exception in the medium term.
Vienna’s stable economy

The lively performance of the Viennese economy at the start of 2012 was in step with that of Austria. Expansion was driven by the manufacturing sector, which recorded above-average growth in the first half. Due to its strong focus on consumer goods and the domestic market, the Austrian capital’s manufacturing cycle lags behind that of the country as a whole. As the year went on, the Viennese economy increasingly suffered as the deterioration in international conditions left its mark. Manufacturing contracted, in part due to one-time effects, as company relocations. Energy companies and other utilities were instrumental in keeping the manufacturing sector on an even keel. The construction industry was the mainstay of economic growth in Vienna in 2012. Civil engineering contracts from the public sector played a significant role in the building sector’s strong performance, although this trailed off towards year-end. The service sector also lost its way in the course of 2012, owing to the challenging economic climate and its negative impact on the labour market. The slowdown in services was more moderate, and as a result the industry became an increasingly important pillar of regional growth as the year went on. Vienna’s economy paid a hefty price for the collapse in worldwide demand. According to the WIFO, growth slid from over 2% in 2011 to 0.3%, below the 0.9% recorded for Austria as a whole.

The outlook for the Viennese economy in 2013 is clouded by a number of factors. Viennese industry stuttered in the first six months of this year and owing to its strong domestic focus, the sector will only slowly respond to the rebound in global growth, leaving it unlikely to contribute to growth in the remainder of 2013. The construction business is not likely to repeat its strong performance of 2012. The mood in the sector is downbeat and order intake has declined, especially from the public sector. The service industry will remain the key driver of growth in the Viennese economy, but the sector faces difficult conditions owing to the unfavourable situation on the job market. After its decline at the start of 2013, the Viennese economy is seen as slowly returning to modest growth this year. As a result, economic performance for the year as a whole will remain stable. The prospects for growth in the Viennese economy should brighten in 2014 as foreign demand picks up and the shoots of domestic recovery appear.
Affordable living space: still an option for the majority of Austrians

The right to housing is codified under the United Nations Universal Declaration of Human Rights. It is a basic need and usually the largest single expense for private households. Living space has a fixed location and is utilised for very long periods, normally over generations – characteristics that justify significant public-sector involvement in residential construction.

In Austria, the provision of sufficient affordable housing of acceptable quality is enshrined in the Raumordnungsgesetz (Regional Planning Act) and the Wohnbauförderungsgesetz (Housing Subsidies Act). Until now, the subsidy and regulatory systems have proven effective in implementing the legislative provisions on residential construction. But changes in the housing market and in living costs in recent years are a sign that these systems need to be recalibrated.

Affordable housing in Austria
Regardless of the data source and segmentation criteria, international surveys show that housing in Austria is relatively cheap but has rapidly become more expensive in the past few years, and that there have been significant variations in the impacts on owner-occupiers and rentpayers.

Living expenses form a relatively small proportion of total household budgets, which reflects the effectiveness of Austrian government housing policies. 22% of the average Austrian household’s consumer spending goes on housing, compared with 24% in the EU-27 countries and 29% in Denmark.

The European Union Statistics on Income and Living Conditions (EU-SILC) underline the favourable housing situation in Austria. The proportion of the population that feels overburdened by housing costs is one of the lowest in Europe, irrespective of income group and the legal framework for residence. Around 19% of Austrian residents in the lowest income quintile, compared to the EU-27 average of 36% and some 11% of tenants in the fairly expensive private rental apartment segment claim to be overburdened while the EU average is 26%.

Two-speed development in rental and owner-occupier apartment prices
Private households in Austria spend a total € 36 billion on living costs each year, of which € 17 billion is accounted for by the imputed rent for property ownership, € 5.3 billion by actual rent (including subletting), around € 7 billion by service charges and maintenance, and € 6.6 billion by energy costs. (The relatively low share of actual rent is due to the fact that only about 40% of the population lives in rented accommodation, and that the imputed rent category also includes second and vacant apartments, garages and a proportion of maintenance costs.)

However, the encouraging situation on the Austrian housing market in comparison to other countries should not distract attention from the pressure of rising demand, the widening gap in supply and rapidly rising prices. For many years now, housing expenditure has increased more quickly than overall consumer spending – between 2007 and 2011, the former rose by a nominal 16%, compared with 13% for the latter. The jump in rental costs has been above average (25% since

Housing expenses in Europe
Percentage of total consumer spending, 2011

Source: Eurostat, Bank Austria Economics & Market Analysis Austria
2007), while imputed rent for property ownership went up by only 14% over the same period; maintenance and renovation costs, and energy bills increased by 12–15%.

Austrian microcensus results, which are available up to 2012, highlight the discrepancy between the housing cost burden for rental households and that for owner-occupiers. According to the figures, in the 2007–2012 period rents climbed by 17%, but spending on owner-occupier apartments actually fell by 10%. The drop in costs is explained by segmentation differences and may reflect the growing proportion of apartments for which only maintenance expenses are payable, as well as the increase in partly self-financed housing purchases, which is reflected in the reduction in repayments and annuities revealed in the microcensus (source: Statistics Austria).

Improvements in fixtures and fittings, and the increased size of apartments explain part of the above-average growth in housing costs in the rental market. In 2012, around 92% of main-lease apartments in Austria were category A properties, up from 37% in the mid-1980s. The average size of apartments in this segment rose from 60 m² to 69 m² in the same period.

Although the rental apartment market is heavily regulated, increases in rents in Austria have been well above inflation for several years (and far higher than the rises seen in Germany, which is most likely the result of the modest price increases on the country’s property market). Of the 1.5 million main-lease properties in Austria, only 320,000 are rented by private individuals on the open market. Around 300,000 are subject to the benchmark rent value system, 280,000 are local authority apartments and some 600,000 are housing association properties with regulated prices. Rents went up by 4.4% in 2012, although inflation was only 2.6%. Prices are not expected to rise as quickly in 2013, although the increase in rents – forecast at 3% – will continue to outpace that of consumer prices, with inflation at 2%.

The Austrian rental apartment market: facts and figures

- The average rent for main-lease apartments in Austria was € 6.60/m² in 2012; monthly rent including service charges, related annuities and annuities to property managers was € 417.
- Rents in new main-lease apartments built after 2001 was € 7.20/m²; the lowest rents, € 6/m² on average, were charged for apartments built between 1919 and 1960.
- Tenants of newly let older apartments paid rent of € 8.30/m²; the average for newly let properties, which make up around 9% of all main-lease apartments subject to rental agreements of less than one year, was € 7.90/m². Monthly costs can be as low as € 5/m², depending on the duration of the rental agreement.
- The average rent under fixed-term tenancy agreements was € 8.40/m², compared with € 6.20/m² under open-ended agreements. Around 263,000 or 18% of rental agreements are currently for fixed terms, most of which (about 207,000) were concluded with private landlords.
- Newly built apartments subject to fixed-term agreements are the most expensive properties on the Austrian rental market, at € 10/m²; there are 26,000 such apartments in the country.
What factors are driving up rents?

There are several reasons behind the relatively sharp increase in rents, but the most important is the significant higher demand than supply for reasonably priced rental apartments. Since 2009 the number of subsidised residential development projects in Austria has dropped by nearly a quarter, as measured by the number of subsidy approvals. Grants have also been directed towards upgrades, leading to a shortfall in funds for new developments. The resulting boom in renovation projects has pushed up prices, especially in the rental apartment segment, and benchmark rents have risen as a result of the high and often illegal surcharges imposed on new letting (source: Austrian Chamber of Labour (2010), Praxis des Richtwertmietsystems). Housing prices have also surged as a consequence of investment-driven demand for residential properties, and rents have followed suit, at least in some parts of the market.

Austrian residential property prices have risen sharply in the last few years, bucking the European trend. Prices in the country as a whole have jumped by an average of 31% since 2007, with even heftier increases in the main urban centres and in certain luxury segments. During that time prices rose by 22% in the rest of the country (source: Centre of Regional Science, Vienna University of Technology). Although property in Austria has not generally been overvalued, and the rise in property prices will continue to run out of steam in 2013, the trends in recent years are an indication of market imbalances, in particular a shortfall in supply which cannot be bridged in the near term.

There are currently 3.7 million households in Austria, and with annual average growth of 0.5%, that figure is set to pass the four million mark by 2030. At the same time the number of single-person households is rising by 0.8% a year, resulting in considerable additional demand for new apartments. In view of demographic changes and the low level of new construction expected in the short term, the current undersupply may worsen – according to the WIFO (2013), the number of approvals for planning permission plummeted in 2012 and is likely to fall further in 2013. In the long run, demand will decline as the number of 25- to 44-year-olds – who are most likely to set up new households – falls. That means it will certainly be possible to satisfy the need for residential new builds, provided that Austria’s housing construction finance system, and in particular the system of subsidies, is not severely affected.

A major burden on low-income households

The statistics do not paint a complete picture of the urgent need for affordable living space. But they do show that more and more Austrian households are having trouble paying their housing costs.

The average Austrian rentpaying household spends 34% of its net income on rent, service charges and energy, while 25% of owner-occupiers’ household income goes on loan repayments and other housing expenses. In the lowest income quartile, the figure is 51% for rentpayers and 44% for owner-occupiers. So it comes as no surprise that in 2011, around 8% of rental households – over 100,000 – were in arrears at least once with their housing costs (source: Oesterreichische Nationalbank (2012), Wohnkostenbelastung der österreichischen Haushalte).

Expenses¹ for main-lease apartments
by building owner

![Graph showing sharp increase in property prices](chart.png)

Sources: OeNB, Statistics Austria and Bank Austria Economics & Market Analysis Austria

1) Data comparable from 2008 onwards

Austrian data available from 2000 only
The growing burden of housing costs is putting the most vulnerable families in an increasingly precarious situation, as is clearly shown in the EU-SILC findings for at-risk-of-poverty households. Such households earn less than 60% of the respective national average net income; for single-person households this is equivalent to less than €12,800 including all social security benefits and housing benefits. According to this definition, around 12% of the population or 1.1 million people are at risk of poverty. Of those, roughly one third — a figure which is rising — pay above-average rents on private apartments, compared to 15% in the other income groups. The main reasons for this are a lack of money to buy owner-occupier properties and the low level of construction of council housing in recent years. According to the EU-SILC definition, the proportion of at-risk-of-poverty households in Austria rises from 12% to about 26% after deduction of housing costs (2007: 24%).

The EU-SILC findings also reveal that housing costs place a particularly heavy burden on the incomes of 20- to 40-year-olds (many of whom are just entering the housing market) and single parents. In these two segments, 24% and 49% respectively claim to face an unreasonable burden, compared to a national average of 19%. The most urgent challenge facing Austria’s housing market is probably the correction of segment-specific and regional imbalances — doing so will ensure that those sections of the population threatened by poverty are not marginalised further.
Austrian commercial property market on the right track

Investment in commercial real estate in Austria fell to € 430 million in the first half of 2013 – a significant decrease on 2012 and in contrast to the overall trend in Europe, where total investment jumped from € 48 billion to € 60 billion over the same period. As a result, Austria accounts for less than 1% of European investment in real estate. But a pick-up in the demand for loans coupled with improving economic indicators point to more activity in the second half of this and next year.

A breakdown of investment by property type reveals that retail space remains in relatively high demand. So far, online retailing which is also experiencing strong growth in Austria, did not have any negative impact on investment in bricks-and-mortar retail property. However, online retailing is intensifying competition on what is already a hotly contested market. As a result, shopping centres which are unable to offer an appealing brand mix or an attractive location are increasingly coming under pressure.

Dedicated office properties accounted for a surprisingly small share of the total market in the first six months of this year, while the proportion of mixed-use properties jumped. Although the growing importance of online retailing could make logistics space a more attractive investment in the medium term, no transactions for this type of property were concluded in the first half of 2013.

Customer feedback confirms that Austrian real-estate investors and developers are generally satisfied with bank lending policies. Some even welcome the more restrictive conditions than before the crisis as protection against market overheating. A CBRE survey shows that European investors largely share these sentiments. Only 14% of those questioned saw restrictive lending policies as the main threat to the recovery in the European property market. Almost 50% thought that recession was the greatest danger. Improvements in the latest economic indicators in both Austria and the rest of Europe are fuelling hopes of an upturn in confidence.

Investment in commercial property
(H1 2013)

Source: CBRE

Which of the following poses the greatest threat to the European property market recovery?

Source: CBRE

Investment in commercial property
(in € billion)

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Sources: IRG, CBRE
Austrian banks’ liquidity costs remain elevated, although they are well off their peak. Extremely low key ECB rates have helped to keep customers’ interest burdens relatively low.

**Prime property yields have declined**

Prime yields in the office and retail segments are relatively low. In the office market they have fallen below the 5% mark to 4.8%, compared with about 5.5% for shopping centres and some 6.5% for retail parks. Consequently Austrian property yields are among the lowest in Central Europe.

The increase in yields on European government bonds amid concerns about an end to the USA’s exceptionally loose monetary policy, inter alia reduces scope for further reductions in real-estate yields. Nevertheless the positive spread between the two yields still makes property an attractive proposition. Properties with strong development potential which hold the promise of higher returns should become more desirable to investors.

**Stable performance on the Austrian property market**

The IPD Austria Annual Property Index tracks the performance of a portfolio of office, retail, industrial/logistic, residential and other properties. In 2012 the total return on the portfolio was 6.2%, of which capital growth accounted for 1.2% and income returns 4.9%. The average annual total return stood at 6.1% over three years, 5.2% over five years, and 5.5% over nine years.

A year-by-year analysis reveals that income returns in Austria have grown steadily at around 5% a year over the last nine years. In other words, Austria has lived up to its reputation as a stable location for real-estate investors. And the improving economic outlook for 2014 bodes well for continued solid performance.
Viennese office property market: gradual pick-up in take-up

Moderate vacancy rates
Vienna’s office property market is still one of the most stable in Europe. In contrast to other European cities, vacancy rates in the Austrian capital have remained modest. There are growing indications that the Viennese office market has shaken off most of the negative effects of the global economic and financial crisis, and that 2013 will bring an end to the trend of sluggish increases in take-up seen in recent years.

The upturn in demand for space in the premium price segment is a clear sign that new letting is on the rise. This is confirmed by data from EHL, which show that new rentals jumped by nearly a quarter year on year in the first half of 2013. Construction of new space is stagnant and is down slightly on the like period of 2012. This should help to hold vacancy rates – which had increased slightly – in check.

The stock of office space in Vienna is currently around 10.7 million m². In terms of office space per capita, Vienna is close to the average for West European capital cities and has retained its significant lead over the capitals in the eastern half of the continent.

Modest rise in construction of new office space in 2012
In 2012 the construction of new office space in Vienna increased slightly year on year, to around 215,000 m² (2011: 180,000 m²). The figure for 2013 is put at 205,000 m², although it remains to be seen how many projects will be completed by the end of this year, and how many will be postponed until 2014.

Although the proportion of new office space attributable to renovations and conversions has fallen compared to last year, refurbishments, redevelopments and extensions still account for a significant proportion of new space creation.

Stagnation in lettings apparently over
The take-up of office space has been weak in recent years, and reached about 260,000 m² in 2012 – a massive decline compared to new lettings in the boom years before the global financial meltdown. A slight increase is anticipated this year, and in the first six months lettings of new space had reached somewhere in the region of 110,000 m² according to EHL. Experience shows that new lettings tend to pick up in the second half, giving cause for optimism that 2013 will see the end of the barren spell of recent years.

In addition, demand for larger spaces is gradually picking up momentum, and a number of agreements for spaces of 5,000 m² or more were concluded in the first half of this year. However, large-scale new rentals remain the exception, and relocations, space optimisation and the knocking together of smaller units still account for a substantial proportion of new lettings.

Wien Mitte station: the largest office construction project of 2012
The largest single addition to Vienna’s stock of office space in 2012 was the 60,000 m² Wien Mitte project in the city’s third district. The development also includes a shopping centre, The Mall. In Vienna’s second district, the Green Worx office complex added another 20,000 m², while work on the Raiffeisen Holding office tower on Obere Donaustraße was also completed.
This year’s biggest office project – DC Tower 1
The DC Tower 1 project in the Donau City area will account for the single largest addition to Vienna’s stock of office space in 2013. The plans for the building came from top French architect Dominique Perrault. The property includes a hotel and some 44,000 m² of office space. DC Tower 1 has 60 floors – the hotel occupies the lower floors, with offices extending the floors above, and the very top floors are taken up by a bar and restaurant, and an observation deck. A second skyscraper, DC Tower 2, is due to be built nearby and is currently in the planning stage.

The 90,000 m² Campus WU, the new home of the Vienna University of Economics and Business which includes around 35,000 m² of office space, is completed. The 1,500 or so staff began relocating to the new site in mid-August. At EURO PLAZA the latest extension – construction phase 5 – will add a further 35,000 m² of office space. Work is scheduled for completion by the end of this year, but could yet be delayed until the middle of 2014.

Top rents for Viennese offices up slightly in 2012
Premium office rents in the Austrian capital rose moderately in 2012, and were around € 25/m² per month in mid-2013. However, rental costs can be higher for exclusive premises in certain premium-quality properties, such as former mansion houses or the top floors of office blocks. Rents in the premium segment may increase again slightly by the end of this year, but are expected to remain fairly stable on the whole.

Demand remains high for space in the city centre and other key office locations. Office space is being freed up as businesses and government authorities relocate, often to sites outside central Vienna. After refurbishment measures this space becomes available again on the market. Premium rents are often charged for such spaces in the city’s first district.

Relocations and optimisation of space still account for the majority of new rentals, so demand for space in the mid-price segment has remained robust. Effective use of floor space and low operating costs are among the key decision-making criteria for prospective tenants. Total monthly or annual costs now play a far more decisive role in selecting office locations than the rental price alone.

The recent trend of weak demand has continued for office buildings with low occupancy rates, old properties in need of renovation, as well as office space in average locations and outside the most popular office sites. This has resulted in falling rents and rising vacancy rates, as well as a growing need to find alternative uses for these spaces.

Erste Campus and UniCredit Bank Austria Campus: innovative office projects
In the next few years Erste Group and UniCredit Bank Austria will both bring together employees from various locations across the city in new head offices. The new premises are better suited to contemporary employment models, and reflect the experience of new office spaces that are specifically designed with the needs of tomorrow’s workers in mind. Austria Campus on the area of the former Nordbahnhof is expected to be completed in 2017. Work on the Erste Campus is currently under way on the site of the former Südbahnhof railway station and is scheduled for completion in 2016. The new Austrian Federal Railways (ÖBB) headquarters, with some 46,000 m² of office space, is also taking shape at Vienna’s Hauptbahnhof station. Completion is scheduled for 2014. The 34,000 m² Gate 2 office complex, situated opposite the Gasometer towers and the underground station of the same name in the third district, is also due for completion next year.

Office vacancy rates largely stable
Vacancy rates in Vienna are still among the lowest in Europe. They are on a par with those in London, which remains one of the world’s leading financial centres, and in the up-and-coming city of Istanbul.

In mid-2013 vacancy rates in the Viennese office market were around 6.5–7%, and they are likely to remain virtually unchanged owing to the modest increase in new office construction and the upturn in new lettings. On the whole, vacancies are higher at older properties – with modern office space easily available at attractive prices, tenants are becoming increasingly hard to find for locations that do not meet the latest requirements. As a result such spaces are often taken off the market altogether before being converted for other uses.
Slight fall in prime office yields
Top yields in Vienna’s prime segment are according to figures from CBRE trending slightly downwards and stood at around 4.8% in mid-2013. No significant changes are expected until the end of this year.

Office properties in need of renovation, offices outside the sought-after areas in moderate or poor locations and office buildings with low occupancy rates will remain subject to market pressures. For these properties, a further decline in value remains a distinct possibility, with the result that yields on class B office space outside central Vienna may increase.

Vienna’s office hot-spots
Central Vienna and the neighbouring districts remain particularly popular office locations. Offices and retail spaces dominate the city centre, and the number of residential properties has fallen gradually in recent years. However, there has also been a trend towards converting former offices into apartments, in response to the strong demand for high-quality flats and luxury living space in the centre of Vienna. The creation of expansive living spaces is a particularly attractive option for historic buildings dating back to the Gründerzeit in the mid to late 19th century.

The districts bordering the city centre, inside the Gürtel outer ring road, are home to numerous office properties, mainly as a result of their location and ease of access.

Further away from central Vienna, Donau City has become a popular office location. The skyline is shaped by several office towers, including the tallest in Vienna, the DC Tower 1, which is currently under construction. This project will further enhance the standing of the Donauplatte area.

New office blocks have sprung up in the areas around Handelskai and the Messe Wien exhibition centre, and close to the site of the former Nordbahnhof and Nordwestbahnhof stations. The area around Praterstern is still one of Vienna’s largest development zones.

New office developments such as Marxbox, Maximum and Town-Town have turned the Erdberg, St Marx and Gasometer areas into key office locations. The gradual expansion of TownTown will continue over the next few years with the addition of the 80 meter high ORBI Tower.

Wienerberg in southern Vienna is now a well established office location. Extensions to existing properties at the site are under consideration, including at EURO PLAZA, where phase 5 of construction will see the creation of an additional 35,000 m² of office space.

Shorter life cycles: effective reuse of older office space
Over the coming years, Vienna’s office market will be influenced by a number of factors, including changes in employment levels and, on a wider scale, by fundamental shifts in the use and design of office space. This raises the question of how old office spaces, many of which have been vacant for some time, can be put to more effective use, especially in light of the ready availability of high-quality office properties. There is no single solution, and a detailed analysis of each individual property will be required before decisions are taken on the continued utilisation of space after the end of the life cycle. Due to the evolving demands placed on office properties, life cycles are becoming shorter and the topic of reuse will gain in importance in the next few years.
There are a number of options for upgrading and converting offices. Fully renovated city-centre properties can be let as premium office space in prime locations, usually on excellent conditions. Conversion into luxury apartments is another alternative, in spite of the significant investment involved – such properties are in high demand and can fetch prices partially above to € 10,000/m². Developers in the prime segment often have a choice of several options.

The reuse of space in less attractive locations, and of properties where the number of options is limited on account of the building fabric, poses a more difficult challenge. In the case of buildings dating back to the 1960s, 70s or 80s, structural design limitations may mean that renovation or conversion into apartments or hotel accommodation is either unfeasible or in some cases simply impossible. Low ceilings and the load-bearing requirements for modern office properties frequently cause problems. Many of these properties were designed purely with functionality in mind, and as a result they are unable meet the requirements of modern-day offices for flexible layouts. If these factors apply, also in combination with escalating costs, refurbishment may not be an option. In such cases, the most sensible alternative could be demolition and redevelopment, coupled with the necessary authorisation for rezoning.

Decisions regarding the upgrade of older office properties must be taken on a case-by-case basis. The increasing shortage of residential space in booming urban centres, soaring rental costs, and an undersupply of new residential properties all represent an opportunity to breathe new life into old and commercially non-viable office locations.
Vienna’s retail market – online trade intensifies competition

Vienna: a saturated retail market
The Austrian capital and its environs had more than 1.7 million m² of sales space in mid-2013. Of this amount, about 730,000 m² was accounted for by shopping centres, 690,000 m² by specialist retail parks and around 340,000 m² by Vienna’s shopping streets.

Vienna has four large-scale shopping centres with more than 50,000 m² of lettable space: SCS, Donau Zentrum, G3 and Millennium City. In total 16 shopping centres, or just over half of all shopping centres in Vienna, have less than 20,000 m² of lettable space.

Vienna’s shopping centres are within 30 minutes’ travelling time for some two million people. The extended catchment area comprises large areas of Lower Austria, as well as parts of Slovakia.

The largest amount of new space to come onto the market in 2012 was accounted for by the opening of the G3 Shoppingresort Gerasdorf just outside Vienna, with the combined shopping centre and retail park contributing an additional 70,000 m². Half of the total shopping centre space at the new The Mall development (about 15,000 m²), part of the Wien Mitte project in Vienna’s third district, opened to the public in 2012. The remainder opened in spring 2013.

High concentration of shopping centres in Vienna
Approximately 40% of all retail space in Austria is in Vienna and the surrounding area. In mid-2013 Vienna had 31 shopping centres with a total lettable space of 940,000 m², of which about 730,000 m² was dedicated sale space. These totals include Austria’s largest shopping centre, Shopping City Süd (SCS), which is located to the south of the capital. Vienna offers 545 m² of shopping centre space for every 1,000 inhabitants. In a European comparison Austria has the eighth-highest density with about 333 m² per 1,000 inhabitants. Nevertheless, Austrians’ purchasing power of € 36,400 calculated at gross domestic product per capita puts the nation in the European elite, ahead of Germany, which according to Eurostat has GDP per capita of € 32,600.

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Vienna’s new Hauptbahnhof central railway station development also includes a shopping centre project which is currently under construction. Upon completion in 2014 the new centre will add a further 20,000 m² of retail space.

As the Viennese market is already saturated, each new development intensifies cut-throat competition in the city, and older, less well situated shopping centres have the most to lose. An analysis of the relative ages of the city’s shopping centres clearly shows that a number of facilities will require refurbishment or modernisation in order to remain competitive. The intervals between modernisation projects are also shortening as retailers attempt to keep pace with shoppers’ rapidly changing requirements. Shopping centres with a well-established presence (such as SCS) are at a distinct competitive advantage, as are those that are easily reachable by public transport. Shopping centres need to differentiate themselves in the market – a conventional tenant mix is no longer sufficient. Operators have to provide customers with a pleasant atmosphere where they will want to spend time. More and more recreational spaces and leisure facilities are being added to the mix, and food halls are constantly growing to accommodate high-end restaurants in addition to the fast food outlets traditionally associated with shopping centres.

Shopping Centre rental prices

<table>
<thead>
<tr>
<th>Range (€/m²/month)</th>
<th>Anchor tenants</th>
<th>Shops (according to size and location)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Source: Immobilien Rating GmbH (IRG)</td>
<td></td>
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</tr>
</tbody>
</table>

Nevertheless, rental prices in less successful shopping centres – particularly those which have failed to invest in keeping pace with changing consumer behaviour and have less favourable transport links – are increasingly coming under pressure.

The prime yield for shopping centres was according to CBRE about 5.5% in mid-2013. They are not expected to change in the short term.

Sufficient supply of retail parks

The majority of retail parks and retail park agglomerations are located on the outskirts of the Vienna. According to Standort+Markt this segment of the market accounts for about 475,000 m² of sales space in the Austrian capital, with the figure rising to over 690,000 m² once the retail park in nearby Vösendorf (Lower Austria) is added to the equation. Retailers in this sector primarily offer goods in the lower and mid-range price categories. Due to the lower rents, retail parks attract a higher proportion of discounters. According to Standort+Markt, Hofer, Kik, dm, Takko and Vögele Mode are the brands most commonly found in retail park agglomerations.

Following rapid growth in this segment over the past ten years, the market for retail parks is now saturated and virtually no new projects are planned. In some instances the rapid pace of expansion has had a detrimental effect on the quality of properties. Many of these retail parks fall short of the standards made possible by contemporary building technology and are unable to meet the needs of discerning contemporary consumers. As a result, existing facilities will have to expand or modernise in order to remain competitive.
Vienna’s 22nd district is home to an extended large-scale retail park zone: in addition to the StadtLau development close to Breitenleer Straße, other options in the immediate vicinity include Rautenweg Ost, Rautenweg West and Hirschstetten. According to Standort+Markt the wider locality offers a total of almost 260,000 m² of retail park space.

Rental costs for retail park units range from € 6–15/m² of sales space per month.

No sign of crisis for the “Golden U”
Vienna’s top shopping streets include Graben, Kärntner Straße and Kohlmarkt (known locally as the Golden U), as well as Mariahilfer Straße. These prestigious locations are targeted by international retail chains looking to enter the Viennese market. Large units are in particularly strong demand as a location for flagship stores. But due to the paucity of options, such locations are in short supply. The Goldenes Quartier development added 11,500 m² of luxury retail space to the Viennese market when it opened in late 2012. Stretching between Graben and Tuchlauben, this new development contains premium luxury brands such as Louis Vuitton, Prada, Armani, Miu Miu, Roberto Cavalli and Bottega Veneta.

The average net rent for category 1A locations is € 170/m² per month. Rents for smaller units in Kärntner Straße, Graben and Kohlmarkt can peak at about € 370/m² per month.

International stores account for a particularly high proportion of the tenant mix in luxury locations. These companies have greater financial resources than local retailers, and are prepared to pay larger compensation packages and higher rents to acquire prestige locations such as these. As a result, they are continuing to drive rental prices up, making it difficult for small and medium-sized retailers to survive. This ongoing process has seen international chain stores proliferate in Vienna’s shopping streets.

Demand from international chains for suitable properties in prestigious shopping streets could fuel further rent increases. Prime yield was about 4–4.25% in mid-2013.

The focus on 1A locations is continuing to ratchet up the pressure on category B and C locations in the Austrian capital, such as Meidlinger Hauptstraße, Favoritenstraße and Landstraße Hauptstraße. Steps are currently being taken to identify alternative and creative uses for empty high-street properties. In addition to art projects, short-term projects such as pop-up stores, and bike garages, a new hotel concept has also emerged whereby the operator lets out empty retail spaces as hotel rooms. Although promising, it should be noted that these kinds of approaches are only suitable for individual units rather than entire shopping streets.

Increased competition to separate the wheat from the chaff
The Viennese market is well served with shopping centres. Inauguration of the shopping facilities at the Hauptbahnhof development in 2014 is seen as marking an end to the proliferation of retail space in the Austrian capital for the time being. Less successful shopping centres have been particularly hard hit by the intensely competitive market environment.

Virtually no new space is being added in the retail park sector. A number of existing parks have been obliged to refurbish or modernise in order to keep pace with the demands of modern consumers.

Demand for retail space is extremely high in shopping streets in 1A locations such as Kärntner Straße, Graben, Kohlmarkt and Mariahilfer Straße. However, vacancy rates in shopping streets in B and C locations remain high.
Rental apartment buildings – still an attractive prospect

No sign of price corrections on the horizon
Demand for rental apartment buildings in Vienna continues to run at a high level, outstripping supply by a considerable margin as most potential sellers are adopting a wait-and-see approach due to a lack of attractive investment alternatives. The market is continuing to dry up, and as the supply is finite these premium properties are becoming increasingly scarce. When making purchasing decisions, buyers are for example increasingly being forced to compromise in terms of location or tenant structures.

The average square metre price for a rental apartment building in Vienna reached € 2,000 at the end of 2012, a year-on-year increase of around 3%.

There are no signs of a drop in prices, owing to the present imbalances on the market, even though rises are expected to plateau at some point in the future. While rental apartment buildings are not necessarily going to make anyone rich, they do safeguard investors’ assets, so in these times of inflationary worries and political and economic insecurity, many potential buyers can scarcely wait for a reversal in the price trend so that they can extract their capital from the financial markets and invest it in real estate instead.

2012 was a strong year for the rental apartment building market
Total investment in rental apartment buildings (whole buildings and parts of buildings) was up 10.9% year on year, reaching about € 1.2 billion. This was the highest annual total for this segment of the real-estate market since Immounited started collecting electronic sales price data in 2007. The main drivers behind the increase are not higher sales prices per se, but higher square-metre prices. The average transaction volume per rental apartment building sale advanced from € 1.5 billion to € 1.8 billion, a jump of about 23%.

Adjusted for whole rental apartment building sales only, the numbers reflect a spike of around 22%, taking the total transaction volume to € 986 million. Meanwhile, sales of shares in rental apartment buildings declined by 20% to € 221 million.

In terms of total value, the largest rental apartment building sale during the year was that of Palais Schottenring 18 in the first district. The vendor, Erste Bank, disposed of the property to a consortium led by the investor Leopold Spann for around € 51 million. Another two properties, both sold to banks – at Rosa-Jochmann-Ring 46–54 (eleventh district) and Babenbergerstraße 7 (first district) – exceeded the € 20 million mark.

A clear distinction between sales of whole buildings and shares in buildings should be made when monitoring the number of transactions made in the Austrian capital in 2012. While sales of rental apartment buildings were up by almost 15% to 432 transactions in 2012, the number of transactions involving shares of rental apartment buildings declined by 32%, with just 243 new entries made.
in the property register during the year. This development was chiefly attributable to the fact that the proportion of all transactions accounted for by sales of shares in buildings returned to the long-term average of 30–40% after reaching an exceptional 50% of the total a year earlier. The number of transactions recorded in 2012 slipped by about 10% year on year to 675.

Broken down by price category, sales of rental apartment buildings in 2012 reflect a clear shift towards higher priced properties compared with the previous year. Around 15 transactions exceeded the €10 million mark, while every second disposal was in the €1–3 million bracket. In 2011 this second category accounted for 38% of the total for the year.

Two thirds of sales inside the Gürtel outer ring road

In terms of location, in 2012 there was a slight year-on-year decline in the proportion of total sales accounted for by properties in the first district (Region 1). Total transactions for Region 1 were down by about 5% from €233 million in 2011 to €193 million in 2012. This development was primarily driven by a decline in the number of transactions involving shares in rental apartment buildings, while scarcity of supply and the slightly smaller number of major transactions worth more than €20 million also played a significant role. The groups of investors that purchased properties in the first district in 2012 were primarily composed of institutional investors and companies with close connections to the real-estate sector (such as property developers, investors, brokers and consultants).

In terms of its proportion of total value, Region 2 remained virtually unchanged in 2012, accounting for about 50%. This was due to the 5.4% decline in the number of individual transactions in 2012 and the rise in prices in central districts. The largest year-on-year gains in Region 2 were delivered by the second, third and seventh districts, which saw a combined year-on-year increase in investment of €120 million. Taken together, districts inside the Gürtel outer ring road accounted for about two thirds of all sales of rental apartment buildings. Transactions for Region 3 amounted to about €404 million in 2012, a year-on-year increase of some 5%, which clearly shows how prices are rising in apparently less desirable locations outside the Gürtel.

Recovery for locations outside the Gürtel

Average sales prices were up year on year across all three regions. In the first district, the average price of a rental apartment building climbed to €12 million, around 4% more than in 2011.

In Region 2, average prices ranged from €1.2 million to €2.7 million, with the seventh district proving the exception. A number of major transactions in the district saw the average price rise sharply year on year to more than €4 million in 2012.

Average transaction size by district in € thsd.

<table>
<thead>
<tr>
<th>Region</th>
<th>2012 (€ thsd.)</th>
<th>2011 (€ thsd.)</th>
<th>Change 11/12 (€ thsd.)</th>
<th>Change 11/12 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Region 1</td>
<td>12,088</td>
<td>11,651</td>
<td>438</td>
<td>3.8</td>
</tr>
<tr>
<td>Region 2</td>
<td>2,064</td>
<td>1,872</td>
<td>192</td>
<td>10.3</td>
</tr>
<tr>
<td>Region 3</td>
<td>1,352</td>
<td>735</td>
<td>617</td>
<td>84.0</td>
</tr>
<tr>
<td>Vienna</td>
<td>1,788</td>
<td>1,449</td>
<td>339</td>
<td>23.4</td>
</tr>
</tbody>
</table>

Key: Region 1: 1st district; Region 2: 2nd–9th, 18th and 19th districts; Region 3: 10th–17th and 20th–23rd districts. Sources: Immounited and Immobilien Rating GmbH calculations
Changes in the average price per transaction for Region 3 highlighted some interesting developments. Average prices in 2012 almost doubled year on year from € 735,000 in 2011 to around € 1.3 million, meaning that the region significantly closed the gap on city centre locations.

**Private investors concede market share while corporate investors gain ground**

Private investors continued to account for the lion’s share of transactions despite conceding market share in 2012. Of the 675 sales of rental apartment buildings completed last year, 304 were to private investors. This represented a year-on-year decline of around 20%, causing the share of this particular group of investors to fall below the 50% mark for the first time in four years. Transactions involving private-sector buyers accounted for an average volume of about € 1.2 million – € 200,000 more than in 2011. In terms of total value, their share edged back to about 30% in light of the lower number of total transactions.

There were clear signs that institutional investors and real-estate companies (such as real estate agents, developers, sales agents and investors) were particularly active in the market as early as 2011, and the trend continued unbroken into the following year. However, the total number of transactions in 2012 remained virtually unchanged at 233. In value terms, the total for the year was up by about 22% thanks to the higher average transaction volume in 2012 (€ 2.2 million per sale). With a 43% share of total sales, this segment extended its lead over all other investor groups.

Demand from foundations dropped slightly during the year under review. With an average purchase price of € 2.6 million in 2012, this investor group accounted for a 5.6% share of the total in value terms. The decline in major transactions in the financial sector despite increased demand led to a reduction in this group’s share of 2.2 percentage points, taking the total to 7.1%.

The steady rise in demand from the ‘other transaction participants’ sector is particularly worthy of mention. This investor group includes individuals and groups with no links to the real-estate industry, regional and local governments, religious organisations, and associations. Its share of the total transaction volume in 2012 jumped by about 60% to € 170 million, accounting for 14.3% of total value.

**Lower price limit increasing for rental apartment buildings**

As mentioned above, there is an imbalance between supply and demand in the Viennese rental apartment building market, and no signs of prices coming down over the short term. 2012 was characterised by significant increases in the lower price limit for租赁公寓楼.
rental apartment buildings. However, it should be noted that maximum prices remained stable in many regions during the year. Yields of between 1.4% and 6.1% were achievable in the first half of 2013.

The first district operates according to its own rules, with no rental apartment buildings available for less than € 3,350/m², and a peak price of € 5,510/m². Yields have dropped by 0.3 percentage points to 1.4% in the space of a year.

Broken down by district, locations inside the Gürtel – not including the first district – generate yields of 2.4–4.6%. Outside the Gürtel, 90% of all transactions generate yields of between 4% and 6.1%.

Summary and outlook for 2013

Rental apartment buildings continued to represent an attractive investment and safeguard against inflation in 2012. Strong demand was offset by significantly lower supply during the year, with fully developed properties in premium locations particularly hard to come by.

The total volume of sales involving rental apartment buildings reached around € 1.2 billion – the highest level in the past five years. A key driver behind this development could be statutory amendments and changes to the tax code brought about with the entry into force on 1 April 2012 of the Stabilitätsgesetz (Austrian Stability Act), which abolished speculation tax on real estate, replacing it with a flat-rate capital gains tax of 25% on disposals carried out within ten years.

Private investors still accounted for the lion’s share of transactions despite conceding market share in 2012. In value terms, institutional and real-estate-related investors led the way, noticeably stepping up their activities in the rental apartment building market during the year. Some of them are no longer interested in the properties for the rental yields, but are instead looking at the returns to be made on subdivision and the sale of individual apartments. There was a significant spike in demand from groups with no direct links to the real-estate industry such as societies, associations and organisations.

Prices rose across all districts, with yields falling slightly. 2012 was characterised by the fact that the lower price limit for rental apartment buildings increased significantly across all regions – include locations outside the Gürtel.

As this report went to press, it was still too early to make any meaningful forecasts or statements about transactions in 2013, since there is a significant time lag between the transactions themselves and entry into the property register, with delays of more than half a year not uncommon. According to the latest data from Immounter, transactions amounting to just € 105 million were concluded in the first quarter of 2013. By way of comparison, the figure for the previous year – including transactions added retroactively – reached € 325 million, which is equivalent to a decline of about 60%, or a transaction volume of between € 400 million and € 700 million when extrapolated to the full year. This development could be accounted for by the fact that many potential sellers are holding on to their properties and prospective buyers are adopting a more circumspect approach, meaning that transactions are taking longer to complete. It remains to be seen whether the market will contract significantly in 2013. However, it can be assumed that demand for rental apartment buildings will remain strong due to a lack of suitable alternatives.

2) The yields quoted below are indicative of possible performance over the period. The values of most properties are affected by a variety of factors such as location, condition, rental costs, vacancies, upgrade and conversion potential, length of tenancies and subdivision.
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