

Analyses

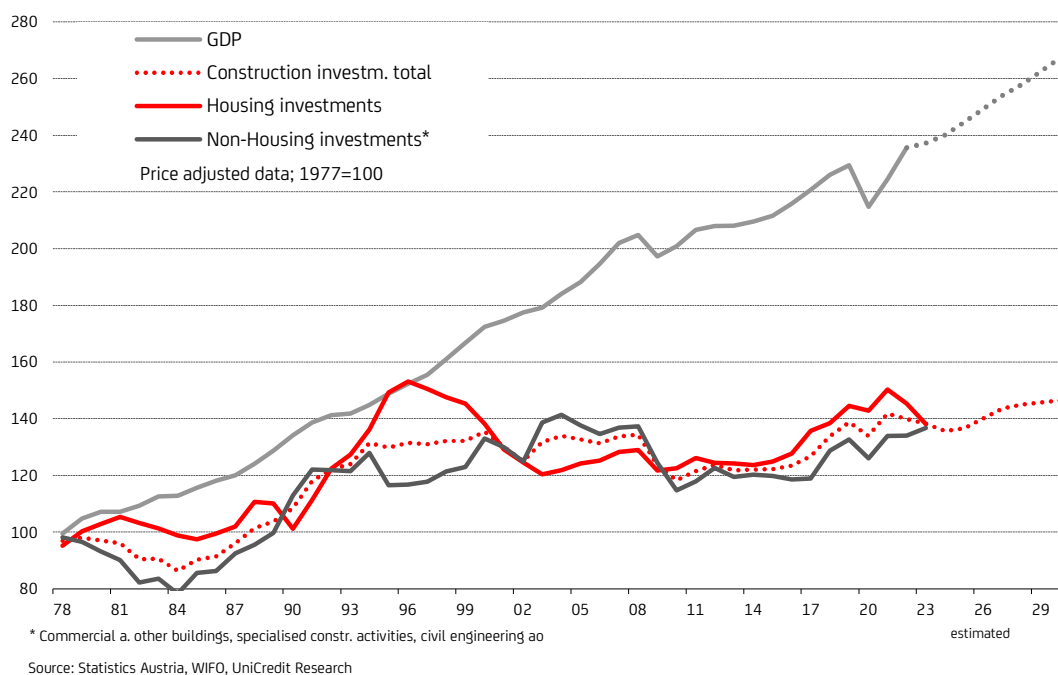
 **Bank Austria**
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AUGUST 2023

Prospects for the Austrian construction industry



PROSPECTS FOR THE AUSTRIAN CONSTRUCTION INDUSTRY



- Construction loses shares of economic output in the long term: price-adjusted construction investments have increased by 14% in the last thirty years, output by 67%.
- In the future, construction investments will flow more into refurbishment measures and less into new construction projects, in residential construction as well as in commercial and civil engineering.
- Household growth and the demand for housing will decrease: The number of newly established households is expected to fall from an average of 38,000 in the last ten years to 26,000 per year by 2030.
- After 2025, residential construction in Austria is expected to fall below 50,000 apartments per year.
- The decarbonization of the building stock requires a substantial increase in the renovation rate, which is prevented in the short term by high construction costs and the lack of skilled workers.
- A contribution to the conservation of resources in construction is the extension of the service life and the conversion of existing buildings, both measures that will slow down new construction.

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Imprint

Published by UniCredit Bank Austria AG
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as of August 2023

Construction investments are losing their macroeconomic importance

Investments in construction were already decoupled from economic growth in the 1990s. Adjusted for prices, construction investments in Austria have risen by 14% in the last thirty years, in residential construction by 19% and in commercial and civil engineering by 10%; at the same time, economic output increased by 67%. The sector's contribution to GDP has also fallen slightly in nominal terms, from around 8% to 7.6%.

In the long term, construction will become less important than other economic sectors in Austria. On the one hand, the large number of buildings with very good substance is slowing down the (new) construction demand. On the other hand, despite increasing automation and the use of prefabricated components, the sector, especially in the personnel-intensive segments, can only achieve small productivity gains in an overall economic comparison. For example, labor productivity in the construction industry, measured in terms of nominal value added per hour worked, is around 20% below the industry average.

Construction investment is expected to slowly pick up again from 2025, driven by the stronger recovery in economic growth and catch-up effects in residential and commercial construction. In the longer term, however, growth above that of the economy is not to be expected (chart 1).

Investments flow more into refurbishment measures and less into new construction projects

The demand for affordable housing and the necessary investments in adapting the building stock, the transport infrastructure and the energy supply to climate policy goals will continue to secure orders for the construction industry in the future.

By contrast, demand for new factories, retail stores and office buildings will remain subdued in the medium to long term. In the retail and office sectors in particular, the utilization concepts of the buildings are increasingly being called into question by online platforms and a new organization of work. In public building construction, the investment plans of the Bundesimmobiliengesellschaft indicate slight growth in new construction for schools and universities after 2023. However, building renovations are also a priority for public clients, who contribute around 20% to building construction production.

In addition, there are no new large-scale road construction projects in sight and a decline in infrastructure investments by ÖBB is to be expected. According to the 2023 budget report, expenditure will fall from €3.2 billion to €3.1 billion by 2028, mainly because the main construction phase for the major tunnel projects has already passed. However, the continuing increase in passenger and freight traffic makes it necessary to expand and modernize the rail network and further road renovations.

Chart 1: Construction has decoupled from GDP
(Price adjusted data; 1977=100)

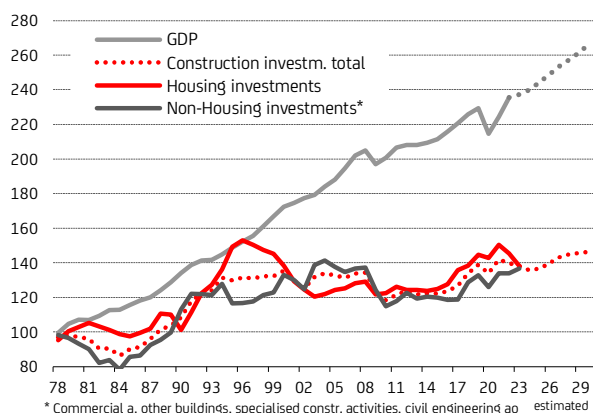
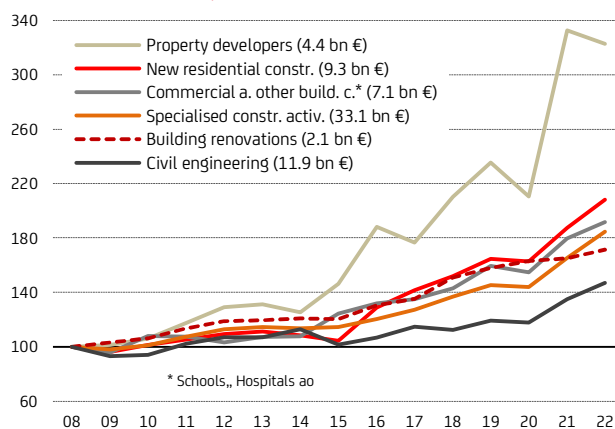


Chart 2: Production values of the construction divisions
(2008=100, nominally, in brackets 2022, total 67,9 bn. €)



Source: Statistics Austria, WIFO, UniCredit Research

Growth in the number of households and the need for new living space are becoming weaker

The above-average residential construction activity in recent years, which ended in a record completion of almost 75,000 apartments in 2021, even led to a national average housing oversupply of around 30,000 units in 2022 (Q.: OeNB). In this respect, the sharp rise in demand for housing was considered. The housing boom of recent years was primarily registered in multi-storey buildings. The particularly strong increase in investments in buildings with three or more apartments is also documented by the doubling of the production value of the property developers in building construction since 2015 (Chart 2).

In 2023 and 2024, residential construction in Austria will shrink considerably, slowed down above all by the uncertain development of real estate prices and the high construction (financing) costs. By 2025, the number of residential completions in Austria is expected to fall to around 50,000 units (Q.: Euroconstruct, June 2023).

The high construction prices are currently dampening not only the demand for home ownership, but also the effect of public support measures in the field of building renovation. Order cancellations in the building renovation segment have risen from an average of 1% of the order volume before 2022, to 5% in the previous year and to 14% by April 2023.

The oversupply on the housing market will quickly decrease because of the decline in new construction and the sharp rise in household numbers caused by the flight from Ukraine in 2022. This means that the need for new living space will also increase again, although the latest household forecasts do not indicate any stronger growth in demand for housing in the next few years. The number of newly established households, which has risen from an average of 29,000 per year in the period 2003 to 2012 to an average of 38,000 from 2012 to 2022, is expected to decrease to 26,000 households per year by 2030. At the same time, the number of residential completions, from an average of 49,000 per year between 2003 and 2012 and 66,000 units from 2012 to 2022, is likely to fall below 50,000 units again from 2025 (Chart 3).

This should largely cover the demand for new living space in terms of quantity. It remains to be seen whether the expected level of new construction will also meet demand in all segments, and above all whether there is a sufficiently high supply of affordable living space.

Chart 3: Housing and Household Numbers
(Completed dw.. in 1,000, annual chg. of households, in 1,000)

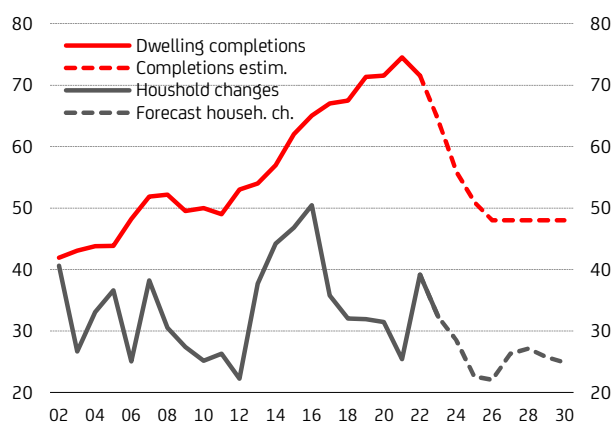
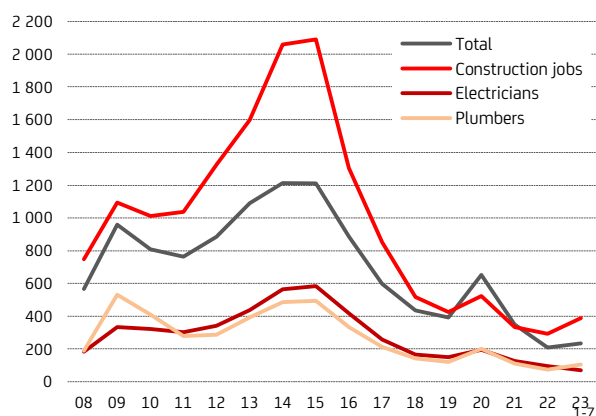


Chart 4: Labor Shortages
(Registered unemployed persons per 100 vacancies)



Source: Statistics Austria, Ministry of Labor a. Economy, UniCredit Research

Climate protection with positive and negative effects for the construction industry

In total, the production of building materials, the construction and operation of buildings and infrastructure are responsible for about a quarter of Austria's greenhouse gas emissions (not including fuel consumption in the sector; in 2021 that was about 19 of 78 million tons of CO₂ equivalents). Almost two thirds of this are used for the operation and heating, cooling and hot water preparation in the buildings and the rest to produce building materials.

The climate protection measures in the building sector are essentially aimed at the thermal renovation of the existing building. The aim is to increase the renovation rate for residential buildings from the current 0.7% to 2% per year by 2030 or, according to the government program, to 3% by 2040. In the short term, the high construction costs and the high shortage of skilled workers prevent a substantial increase in renovation services. While the employment bottleneck in construction trades in the narrower sense is even below the level of the economy, there has been a shortage of electricians and plumbers for years (Chart 4). As recently as July 2023, almost 40% of companies in the finishing trades rated the lack of employees as the greatest obstacle to production (Chart 5). A quick solution to the shortage of skilled workers is not in sight. In addition, the increase in construction costs has slowed down. However, the energy-intensive building materials have remained expensive (in mid-2023, material costs in residential construction were still an average of 30% above the 2019 level). In addition, the climate protection measures result in persistently high energy prices and expected increases in CO₂ certificate prices.

To achieve the long-term refurbishment goals, there is a need for an increase in funding (measured against the expenditure for residential refurbishment in 2019 from around €500 million to at least €1.5 billion per year by 2030, at prices of 2019).

Savings in resource consumption will dampen demand for new construction

Construction is one of the largest resource consumers of all sectors and causes almost two thirds of the waste generated in Austria. An essential contribution to the conservation of resources in the construction industry will be the extension of the service life and the conversion of existing buildings.

Another aspect that is likely to lead to a reduction in the volume of new construction is the fact that the construction contributes significantly to the sealing of the land. It is true that the containment of land use in Austria from around 10 hectares per day to 2.5 hectares by 2030, the target in the current government program, will still need time. However, the pressure to implement is growing and will dampen the demand for new building construction and civil engineering.

Chart 5: Labor Shortage in Construction
(as a major production obstacle for .. percent of companies)

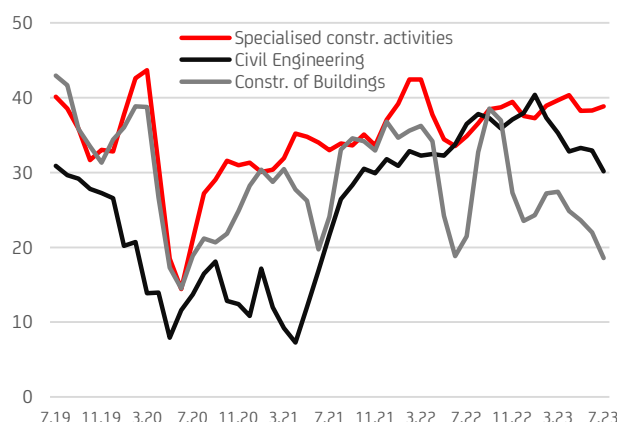
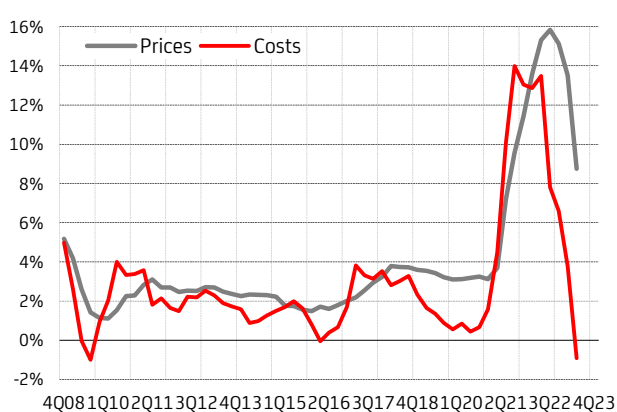


Chart 6: Record rise in construction costs and prices cools
(Annual changes in housing costs and prices)



Source: Eurostat, Statistics Austria, UniCredit Research

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