

Analyses

 **Bank Austria**
Member of  **UniCredit**

JANUARY 2022

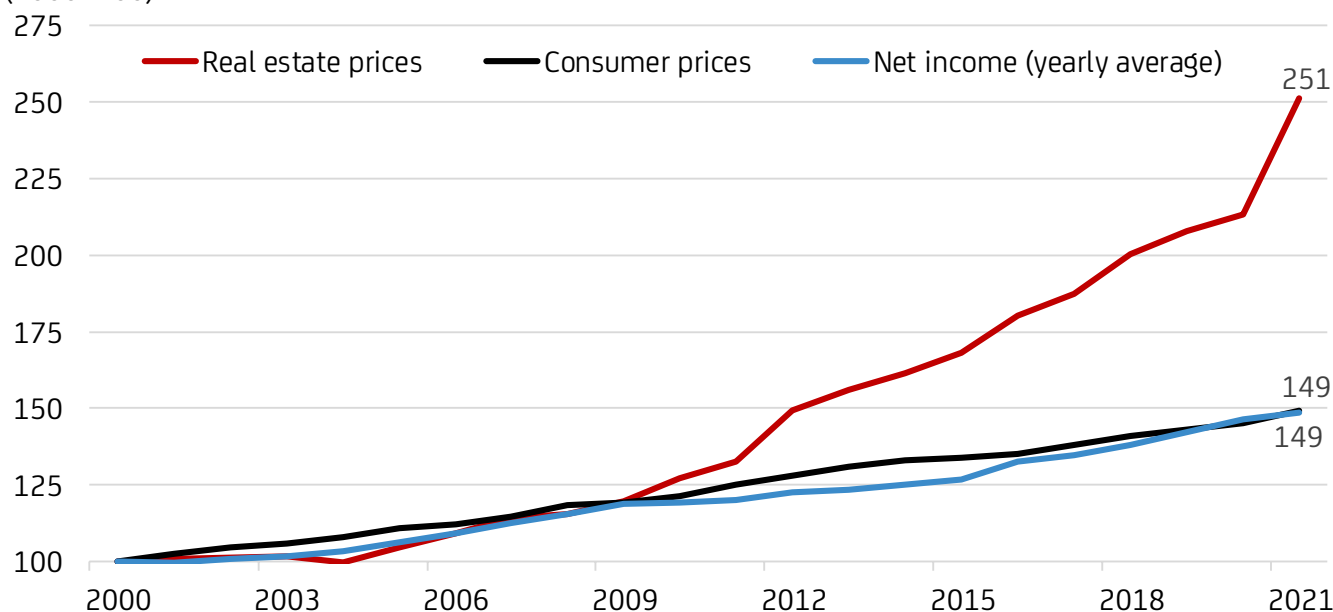
**Housing became significantly
more expensive relative to
income in 2021**



WHO SHOULD PAY THAT, WHO HAS SO MUCH MONEY?

Development of real estate prices, consumer prices and income

(2000=100)



Source: Statistik Austria, OeNB, UniCredit Research

- The Corona crisis has given an additional impetus to the high increase in residential property prices in Austria. After averaging 7 percent in 2020, real estate prices are expected to have risen by more than 10 percent in 2021.
- The strongest real estate price increase since 2012 was based on unabated high demand fueled by the high demand for housing and the increased desire for a change in the housing situation due to the pandemic as well as the increased investment in real assets.
- Housing has increased in price particularly sharply relative to income in 2021. On average, the value of an annual net income measured by housing prices has declined by 13 percent in real terms since the start of the pandemic.
- The housing rally is expected to continue in 2022, albeit at a slower pace. Favorable financing conditions and the trend toward investments in tangible assets are expected to keep the momentum of real estate prices above overall inflation. Housing prices in Austria will continue to rise relative to income in 2022, but not as strongly as in the first two years of the pandemic.

Author: Walter Pudschedl

Imprint

Published by UniCredit Bank Austria AG
Economics & Market Analysis Austria
Rothschildplatz 1
1020 Vienna
Telephone +43 (0)50505-41957
Fax +43 (0)50505-41050
e-Mail: ecomresearch.austria@unicreditgroup.at

as of January 2022

Residential property prices up almost 20 percent since pandemic began

The value of an Austrian annual net income measured in terms of real estate prices has declined by 13 percent since the start of the pandemic.

Divergence between real estate prices on the one hand and general consumer prices and incomes on the other began in the financial crisis

Pandemic leads to strongest increase in real estate prices since 2012 a

The continued strong demand for housing, the increased attractiveness of investing in real assets and of real estate with open space or of the "house in the countryside" during the pandemic gave a further boost to real estate price developments in Austria in 2021. After the strong increase in residential real estate prices according to the OeNB's real estate price index by an average of 7 percent in the first Corona year 2020, prices even increased by more than 10 percent on an annual average in the second year of the pandemic. This means that the ongoing real estate price boom has reached a new high point. Real estate prices in Austria are currently almost 20 percent higher than at the start of the pandemic in the first quarter of 2020, while the overall price level measured in terms of consumer prices has risen by 5 percent over the same period. Real estate has thus become much more expensive relative to other goods or services.

According to Statistik Austria, the average price per square meter for condominiums in Austria is currently just under EUR 3,900 and for single-family homes just under EUR 1,900. This is an increase of over 500 euros and 350 euros respectively compared with the start of the pandemic. With an Austrian annual average net income of almost 25,000 euros, an employee in 2021 could thus buy about 6.5m² of a condominium or 13m² of a single-family house. Before the pandemic, an average annual net income could buy one square meter more of a condominium or even almost 2 square meters more of a single-family house. Or to put it another way: in 2021, an employee would have to invest more than 15 annual salaries for a 100m² condominium, and around 7.5 annual salaries for a 100m² house. Before the pandemic, the figure was one to 1.5 annual salaries less. On average, the value of an annual net income measured in terms of real estate prices has fallen by 13 percent in real terms since the start of the pandemic, i.e. in just two years. ¹

Housing prices have been rising in relation to income since the financial crisis

The marked divergence between housing prices and consumer prices began around the financial crisis of 2008/2009. As incomes have largely followed consumer price increases, the affordability of residential real estate relative to income has since declined significantly. Average net income has increased by around 28 percent since 2008, slightly outpacing the overall price increase of 26 percent. However, residential real estate prices more than doubled during this period. The real value of the average net income of an Austrian employee based on the real estate price index has declined by more than 40 percent since the

Chart 1: Prices and income in comparison (2021)

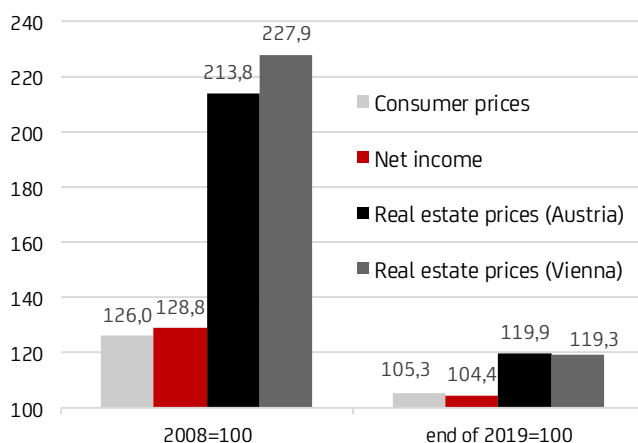
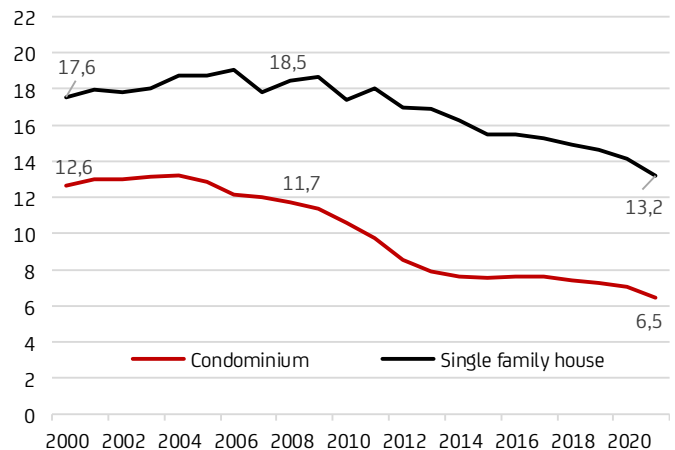


Chart 2: Housing for an average net annual income (in sqm)



Source: Statistik Austria, OeNB, UniCredit Research

¹ All calculations refer to average values and do not include differences according to condition, size and location of the properties. .

Real incomes in terms of real estate prices have fallen by 40 percent since the financial crisis.

More favorable financial conditions have reduced the rise in real estate prices by 45 percent since 2008 and by as much as 2 percent since the start of the pandemic.

However, this only reduces the price increase since 2008 to around 70 percent, and that since the start of the pandemic to 12 percent.

beginning of the financial crisis. Instead of around 14m² in 2008, an annual income in 2021 was only enough to finance around 8m² of living space (weighted average of single family houses and condominiums).

Compensation effect due to drop in interest rates

Due to the sharp decline in interest rates in recent years, the cost of loan financing for real estate has decreased noticeably. According to OeNB statistics, the interest rate for a housing loan with a fixed interest rate for 10 years or more fell from an average of 5.6 percent in 2008 to 1.55 percent before the pandemic and was only 1.33 percent at the end of 2021. As a result, the monthly burden for a loan of EUR 100,000 over 20 years has fallen from around EUR 700 to only EUR 475 today, which is around 30 percent lower. A monthly loan installment of 700 euros enabled a loan amount of 142,800 euros taken out just before the pandemic and currently an amount of 145,650 euros. The more favorable financing conditions have thus increased the affordability of real estate by 45 percent since 2008. Due to the slowdown of the interest rate reduction trend, the positive effect has been reduced over the past years. Since the beginning of the pandemic, it has been just over 1 percent.

The falling cost of debt financing, which is usually the case when purchasing real estate for personal use, was thus able to at least partially offset the rise in real estate prices. The price increase since 2008 has thus been reduced to not quite 70 percent, while that since the beginning of the pandemic has been 12 percent.

Rents have also risen significantly, but less so than real estate prices

Since 2008, rents have risen by around 60 percent overall. This corresponds to an average annual increase of 3.7 percent. This is not only well above overall inflation of 1.8 percent, but also above nominal income growth over this period, which averaged almost 2 percent per year. Rents have also increased in relation to income since the financial crisis.

By contrast, since real estate prices more than doubled due to an average annual increase of 6.2 percent over the same period, rents increased less relative to the purchase of real estate. In only four of the thirteen years did rents rise more than real estate prices.

Even though the comparison of the data is problematic due to delimitation and the data only represent market averages, the trend points to an acceleration of the gap between rent and property price dynamics in 2021 due to the continued strong demand for residential properties and the very strong increase in prices.

Chart 3: „Compensation effect“ of lower interest rates
(2008=100)

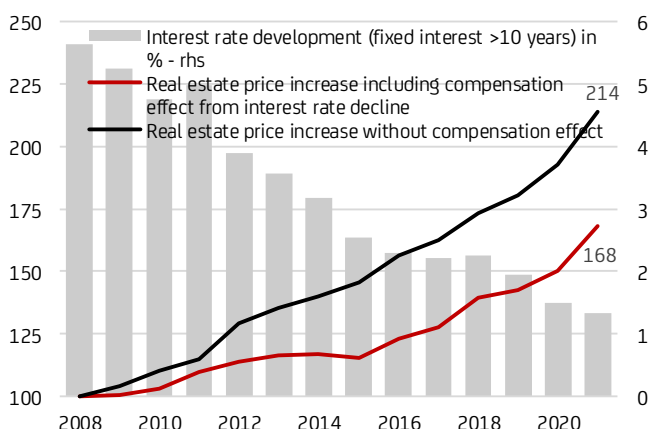
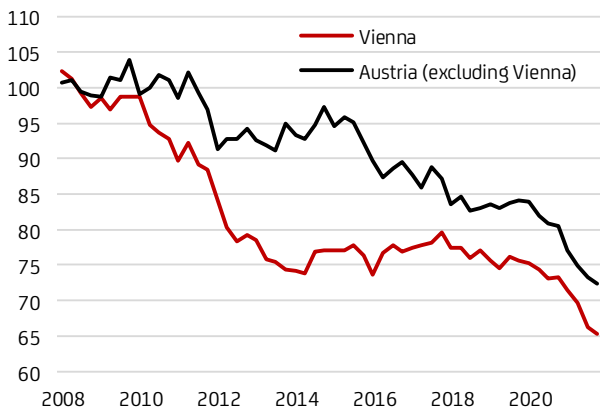


Chart 4: Real estate price – Rent Index*
(Rent change in relation to price change for condominiums, 2008=100)



* Prices for new and used condominiums, residential rents according to CPI

Source: OeNB, UniCredit Research

Rents have risen by a total of 60 percent since 2008, but real estate prices have doubled

Summary and outlook

Residential real estate prices in Austria have been showing very strong upward momentum for more than a decade. Since the financial crisis in 2008, real estate prices in Austria have more than doubled. During the pandemic, the upward trend even accelerated. As the development of incomes has not kept pace with that of prices, housing in Austria has become massively more expensive not only in absolute terms but also in relative terms. The real value of an average Austrian net income in terms of the real estate price index has declined by more than 40 percent since the beginning of the financial crisis and by around 13 percent since the start of the pandemic alone. The decline in interest rates for housing loans in recent years has only been able to absorb a small part of these losses.

Renting also became significantly more expensive due to the high momentum in new rentals as a result of high property price increases. However, the increase in rents was at least lower than the increase in property prices. Rents have thus become less expensive on average than real estate purchases.

The marked increase in the price of housing, also in relation to income, the imminent turnaround in interest rates and a declining demand for housing suggest that the rally on the Austrian residential real estate market is abating. The peak of price dynamics seems to have been passed, but the existing investment pressure continues to provide support. The classic investor motive of hedging assets against inflation by fleeing into tangible assets is coming to the fore with the burgeoning fear of increasing inflation. Alongside the desire for security, this will continue to drive demand for residential real estate for the time being, fueling prices and making housing more expensive, but at least less so than in 2021.

We invite you to visit the economic analyses on Bank Austria's website: www.bankaustria.at under "Direct access – Markets & Research - Analyses & Research" in the section "Economic Research Austria" or directly at <http://www.bankaustria.at/en/about-us-publications-economic-research-austria.jsp>.

If you would like to receive information on our most recent publications by e-mail, please subscribe to the newsletter Bank Austria Economic News by sending an email to econresearch.austria@unicreditgroup.at

If you have further questions, please send an e-mail to econresearch.austria@unicreditgroup.at

Disclaimer of liability:

This publication is neither a marketing communication nor a financial analysis. It contains information on general economic data. Despite careful research and the use of reliable sources, we cannot assume any responsibility for the completeness, correctness, up-to-dateness and accuracy of information contained in this publication.

The opinions of the authors do not necessarily reflect those of Bank Austria and those of the companies which have engaged the services of the authors. The information contained in this publication is not to be interpreted as an offer or invitation for the sale or purchase of securities of any kind. We reserve the right to modify the views expressed in this publication at any time without prior notification. This information should not be interpreted as a recommendation to buy or sell financial instruments, or as a solicitation of an offer to buy or sell financial instruments. This publication serves information purposes only and does not replace specific advice taking into account the investor's individual personal circumstances (e.g. risk tolerance, knowledge and experience, investment objectives and financial circumstances). Past performance is not a guide to future performance.

The information in this publication contains assessments of short-term market developments. We have obtained value data and other information from sources which we deem reliable. Our information and assessments may change without notice."

Imprint

Disclosure according to Sections 24 and 25 of the Austrian Media Act (Mediengesetz - MedienG):

Published by:

UniCredit Bank Austria AG
1020 Vienna, Rothschildplatz 1,
which is also the media owner.

Business objective: credit institution pursuant to Section 1 (1) of the Austrian Banking Act (Bankwesengesetz)

Persons authorised to act on behalf of the media owner (Management Board):

Robert Zadrazil, Daniela Barco, Gregor Hofstätter-Pobst, Georgiana Lazar, Wolfgang Schilk, Günter Schubert

Supervisory Board of the media owner:

Gianfranco Bisagni, Ranieri De Marchis, Livia Aliberti Amidani, Richard Burton, Adolf Lehner, Aurelio Maccario, Herbert Pichler, Mario Pramendorfer, Eveline Steinberger-Kern, Judith Maro, Roman Zeller

Interests held in the media owner pursuant to Section 25 of the Austrian Media Act:

UniCredit S.p.A. holds 99.996 percent of the shares in the media owner (key details of the shareholder structure of UniCredit S.p.A. are available at <https://www.unicreditgroup.eu/en/governance/shareholder-structure.html>).

"Betriebsratsfonds des Betriebsrats der Angestellten der UniCredit Bank Austria AG, Region Wien" (the Employees' Council Fund of the Employees' Council of employees of UniCredit Bank Austria AG in the Vienna area) and "Privatstiftung zur Verwaltung von Anteilsrechten" (a private foundation under Austrian law; founder: Anteilsverwaltung-Zentralsparkasse; beneficiary: WWTF – Wiener Wissenschafts-, Forschungs- und Technologiefonds) have a combined interest of 0.004 percent in the media owner.