

Analyses

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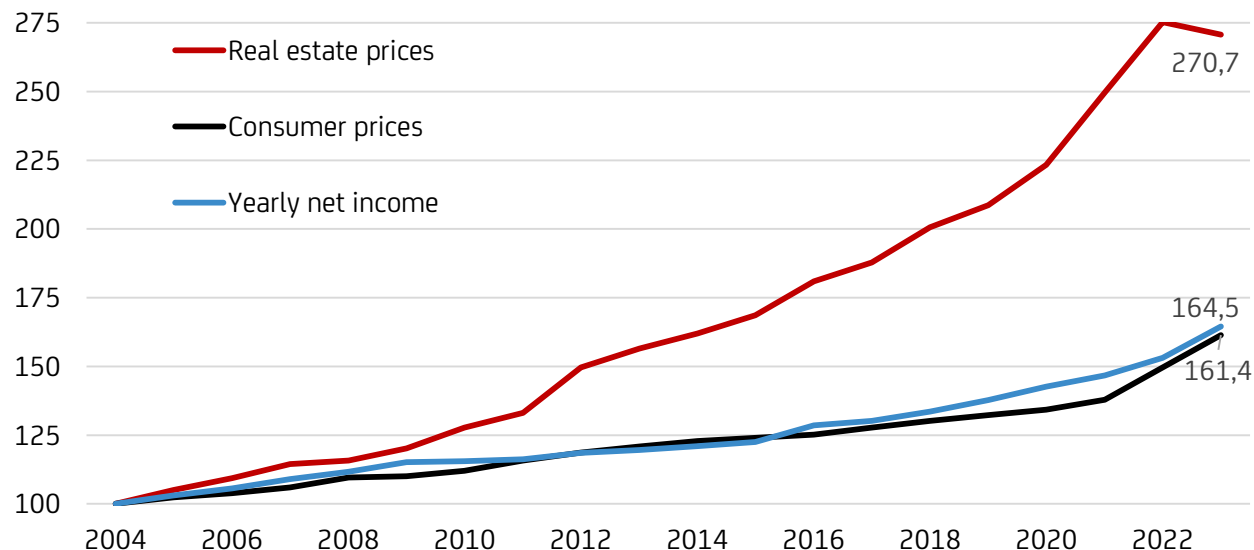
**A drop in the ocean: housing
became slightly cheaper
relative to income in 2023**



A DROP IN THE OCEAN

Development of real estate prices, consumer prices and income

(2004=100)



Source: Statistik Austria, OeNB, UniCredit Research

- Housing prices in Austria fell in 2023 for the first time since 2004. The decline of around 1.5 percent even improves the affordability of real estate, which has fallen over many years, by around 10 percentage points in relative terms in view of a sharp rise in incomes of almost 8 percent compared to the previous year.
- In view of the widening gap between housing price and income growth over the past 20 years, however, this is just a drop in the ocean. In addition, the majority of the Austrian population cannot benefit from this price decline due to the increase in the cost of loan financing as a result of the ECB's monetary policy and because borrowing is made more difficult by legal measures.
- The continued restrictive monetary policy with unchanged lending regulations for housing finance in Austria and the declining growth in housing demand point to another year of falling property prices, but only in the mid-single-digit range. In view of the further rise in construction prices, the sharp drop in building permits and the continued high demand for property investments, an overly strong price correction is not expected in 2024 either.

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As of February 2024

Residential real estate prices fall in 2023 for the first time since 2004

Decline in 2023 by no means outweighs the strong price increases before that

Affordability of housing in relation to income has improved in 2023, but is significantly worse than 20 years ago

Housing prices fall for the first time in almost 20 years in 2023

The rapid rise in property prices in Austria since the mid-2000s came to an end in 2023. The rise in interest rates for residential construction financing as a result of the tightening of monetary policy by the ECB, the new regulations for the granting of housing loans since August 2022 and the high momentum of construction prices led to a decline in property prices in Austria in 2023 for the first time since 2004. However, in view of the continued high demand for housing due to the growing population and the attractiveness of real estate as an investment property, there was no massive price correction. On average, property prices in Austria fell by 1.6 percent compared to 2022. While property prices fell slightly, consumer price inflation amounted to 7.8 percent in the previous year, meaning that property was more than 10 percent cheaper than the general price level.

However, real estate prices in Austria are currently still almost three times as high as they were before the real estate price rally began in the mid-2000s. The general price level measured in terms of consumer prices has "only" risen by 60 percent in the same period. Over the past 20 years, real estate in Austria has become significantly more expensive relative to other goods or services, which has by no means been offset by the one-off counter-movement in 2023.

Based on data from Statistics Austria and the OeNB, we estimate that the average price per square meter for condominiums in Austria will fall to just over EUR 4,300 in 2023 and to around EUR 2,850 for single-family homes. Although this represents a decrease of not quite EUR 100 in each case compared to the previous year, prices are over EUR 3,000 higher for apartments and around EUR 1,700 higher for single-family homes compared to around 20 years ago. With an Austrian average annual net income of just over EUR 28,000, a dependent employee could therefore mathematically buy around 6.5m² of a condominium or 10m² of a detached house in 2023. This is a gain of half a square meter for apartments and even almost a square meter for single-family homes within a year, mainly thanks to the high wage dynamics. Before the real estate rally began, however, an average annual net income could buy almost seven square meters more of a condominium or almost 5.5 square meters more of a single-family home. Or to put it another way: in 2023, an employee had to invest over 15 annual salaries for a 100m² condominium and around 10 annual salaries for a 100m² house. In 2022, it was one annual salary more for a condominium and even around

Chart 1: Prices and income in comparison (2023)

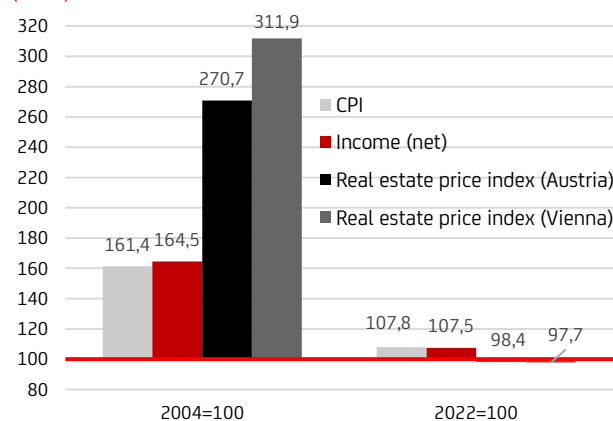
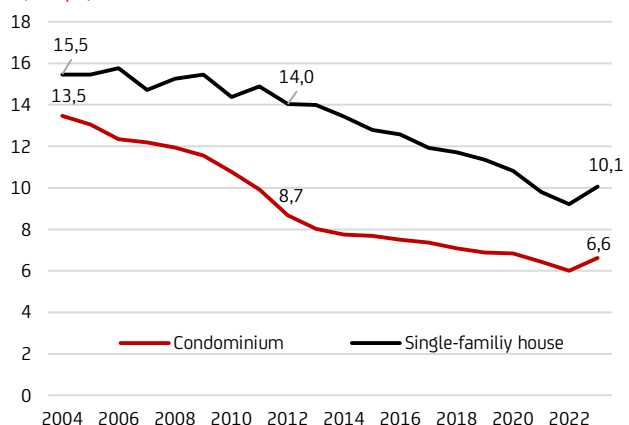


Chart 2: Housing for an average net annual income (in sqm)



Source: Statistik Austria, OeNB, UniCredit Research

1.5 annual salaries more for a detached house.

Despite easing in 2023: Housing affordability to fall sharply in the longer term

With the start of the property price rally almost 20 years ago, residential property prices rose significantly faster than general consumer prices up to and including 2022. As incomes largely followed the rise in consumer prices, the affordability of residential property has fallen significantly since then, despite the development in the previous year. Average net income has risen by more than 64 percent since 2004, slightly outstripping the general price increase of 61 percent. However, residential property prices have more than doubled during this period. The real value of the average net income of an employee working in Austria has fallen by more than 45 percent since the start of the real estate rally, based on the real estate price index. Instead of around 14m² in 2004, an annual income in 2023 was only sufficient to finance around 7.5m² of living space (weighted average of owner-occupied home and condominium).

Loans granted slumped due to rise in interest rates and KIM-directive

In addition to the long-term deterioration in the ratio of property prices to income, the change in monetary policy by the European Central Bank and the introduction of the so-called KIM-directive (Kreditinstitute-Immobilienfinanzierungsmaßnahmen-Verordnung) from mid-2022 has further reduced the individual affordability of housing in Austria. As a result of the rapid increase in key interest rates by the ECB, interest rates for residential real estate loans have risen, leading to a noticeable increase in the cost of financing real estate. According to OeNB statistics, the interest rate for new housing loans rose from an average of 1.20 percent in 2021 to almost 3 percent at the end of 2022 and further to over 4 percent at the end of 2023. As a result, the monthly burden for a loan of EUR 100,000 with a term of 20 years has risen from EUR 470 to EUR 620 today (capital repayment and interest), which is around 30 percent higher than just under two years ago. With a monthly loan installment of 620 euros, a loan amount of over 130,000 euros could still have been serviced in 2021.

A longer-term comparison shows that the affordability of housing loans in relation to average net income is still higher today than it was 20 years ago, despite the recent rise in interest rates. For a financing volume of EUR 100,000, borrowing costs (capital repayment and interest) of around 14 percent of income were necessary in 2004; in 2023, this figure was only 9 percent due to rising incomes.

The value of a net income in relation to the real estate price index has fallen by over 45% since the real estate rally began around 20 years ago

Improvement in affordability due to fall in property prices could not be used by the majority of Austrians due to rise in interest rates and tighter regulations

Chart 3: Housing loan volume and interest rate
(New business in EUR bn resp. in percent)

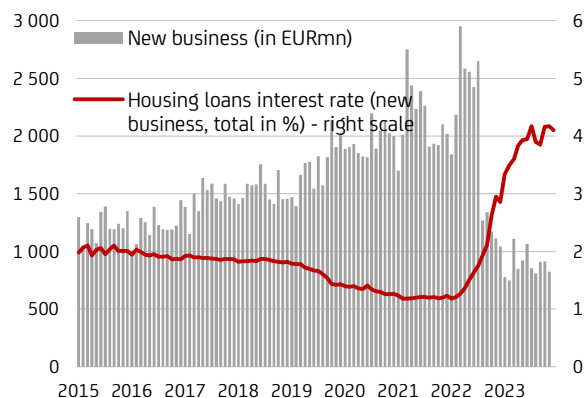
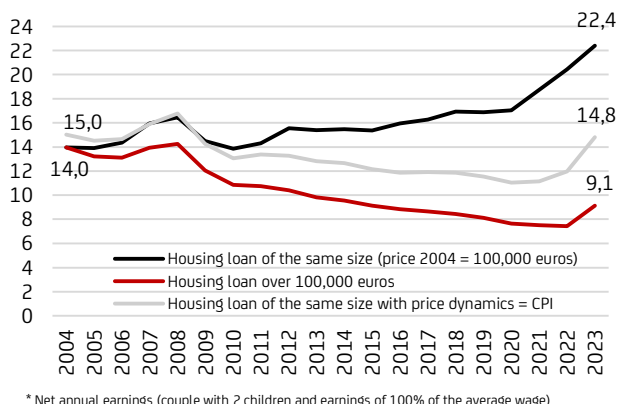


Chart 4: Affordability of housing loans in Austria
(Credit costs as percent of net income)



Source: Statistik Austria, OeNB, UniCredit Research

Massive slump in new property loan business

However, due to the sharp rise in property prices, a significantly higher financing volume would be required in 2023 to purchase a property of the same size as 20 years ago. Accordingly, borrowing costs have risen from 14 percent to over 22 percent of income in 2023. However, if property prices had only risen at the same rate as consumer prices during this period, the affordability of housing loans would have remained high. A longer-term comparison therefore shows that the cost of housing finance was driven by the property price rally and not by the interest rate trend. The latter only contributed to the increase in costs in the short term.

Apart from the increase in the cost of loan financing over the past two years, the tightening of lending guidelines by the KIM-directive, which was introduced at practically the same time as the interest rate increases, had a massive impact on the demand for residential property financed by loans, as the KIM-directive stipulates that housing loans may no longer run for more than 35 years, the equity share must be at least 20 percent and the repayment installment may not exceed 40 percent of net disposable income. In combination with higher interest rates, this led to a sharp decline in loan financing in Austria from fall 2022. The average monthly lending volume fell from almost EUR 2.5 billion in the first half of 2022 to an annual average of around EUR 900 million in 2023, with new residential construction financing business in Austria falling by around 55 percent on average in 2023.

Rising costs and the difficulty of obtaining debt financing, which is usually the norm when buying property for personal use, were the main reasons for the decline in the number of property purchases in Austria. In the first half of 2023, the number and value of bookings fell by over 20 percent compared to the previous year.

Significantly fewer property sales in Austria in 2023

Rising construction prices put the brakes on residential construction

In addition to the rise in financing costs and the tightening of lending regulations, demand for residential real estate in 2023 was also dampened by the further significant rise in construction prices. While construction costs only rose by 1.1 percent on average in 2023 compared to 2022 due to falling material costs despite higher labor costs, we estimate that construction prices rose by around 7.5 percent.

Chart 5: Construction prices and construction costs
(Change against previous year in percent)

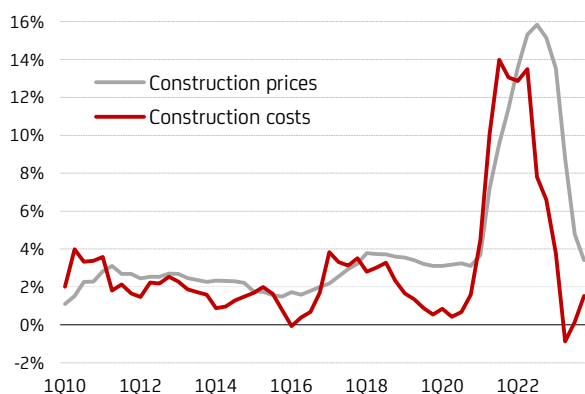
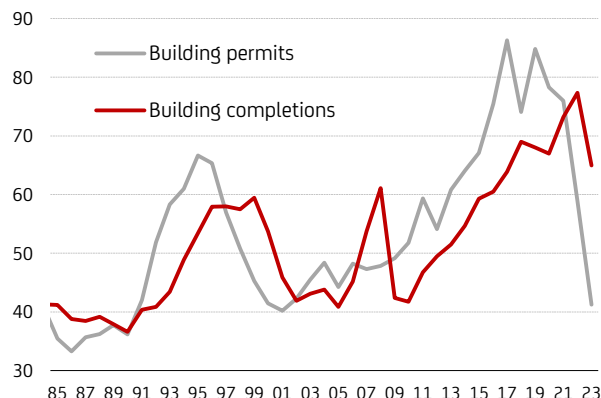


Chart 6: Housing in Austria
(Building permits and completions in 1,000)



Source: Statistik Austria, UniCredit Research

Falling supply and rise in construction prices dampened fall in real estate prices in 2023

As capacity utilization was still quite good, the slowdown in construction costs was only passed on to customers to a limited extent in favour of the profit margin.

This development was also reflected in the different property price trends for used and newly built properties. While overall property prices fell 1.6 percent in 2023, prices for newly built condominiums continued to rise by around 3 percent year-on-year.

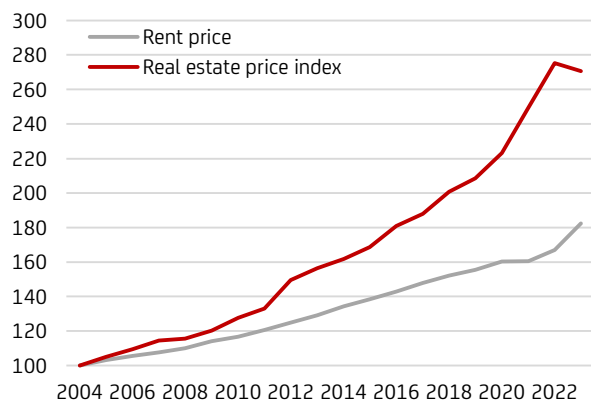
Following the decline in building permits for residential buildings in 2022, the changed market conditions led to an even sharper drop of around 30 percent to just over 40,000 building permits last year. In the previous five years, an average of around 80,000 building permits had been issued. As a result of the massive decline in building permits, the number of residential building completions already slowed significantly in 2023 and is also expected to be significantly lower than before in 2024/25. The reduced availability of new housing, i.e. a declining supply, is another reason for the relatively moderate fall in property prices in 2023 under the current conditions.

If you can't buy, you have to rent

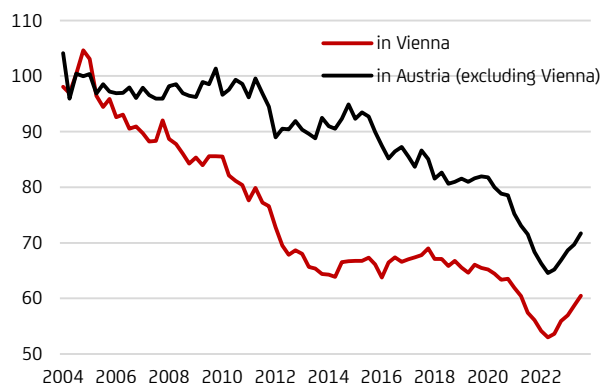
The difficulties in creating residential property due to the ECB's monetary policy and the legal changes to lending have led to increased demand for rental accommodation as the need for housing remains high among a growing population. In combination with the automatic indexation of rents, this led to an increase in rents in Austria of over 9 percent in 2023. This is not only above the general inflation rate of 7.8 percent, but also above the nominal income growth of around 7.5 percent on average. This is merely a continuation of a trend that has already been observed over the past 20 years, albeit at a slightly faster pace. However, while the increase in rents was lower on average than that of property prices until 2022, the trend reversed in 2023. Even if the comparison of the data is problematic due to the delimitation and the data only shows market averages, the development for 2023 indicates a narrowing of the gap between rental and property price dynamics and suggests increased rental yields.

Rents rose sharply

Chart 7: Real estate prices and rents in comparison
(2004=100)



Grafik 8: Real estate price-rent index *
(Rent in relation to price changes for condominiums, 2004=100)



* Prices for new and used condominiums; rents according to CPI

Source: OeNB, Statistik Austria, UniCredit Research

Summary and outlook

Due to the slight decline in property prices of 1.6 percent and the simultaneous rise in consumer prices of 7.8 percent and net incomes of almost 8 percent, the affordability of residential property has increased both in absolute and relative terms in 2023. The trend of declining affordability over the past 20 years has thus been reversed for the first time. However, in view of rising key interest rates and stricter lending guidelines, only those who were able to draw on equity capital when buying property were able to benefit from this price advantage.

Residential real estate prices
are also expected to fall in
2024 - but only moderately

For the vast majority of the Austrian population, on the other hand, the dream of home ownership became even more distant. The resulting increase in demand on the rental market further fueled the already high price momentum for new rentals due to automatic inflation adjustments. On average, rents rose by around 9.5 percent in 2023. With property prices falling at the same time, the property price rental index rose rapidly in 2023.

The continued restrictive monetary policy for the time being with unchanged lending regulations for housing finance in Austria and the declining growth in housing demand suggest another year of falling property prices in Austria. However, an overly strong price correction is not to be expected in 2024 either, given the continued rise in construction prices, the sharp drop in building permits, which will be reflected in an even more significant decline in completions in 2024, and the continued high demand for investments in real estate to protect against high inflation. In addition to the desire for security, this will keep demand for residential real estate quite high for the time being and only allow a moderate single-digit decline in the price of residential real estate. As the fall in property prices will be accompanied by a further sharp rise in incomes in Austria, the gap between property price and income growth that has widened over the long term is expected to narrow again. The affordability of housing will therefore improve again slightly on average in 2024. In addition, the prospect of the ECB beginning a cycle of lowering its key interest rates and, as a result, a further reduction in the cost of residential construction financing should gradually give potential house builders in Austria some tailwind again.

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