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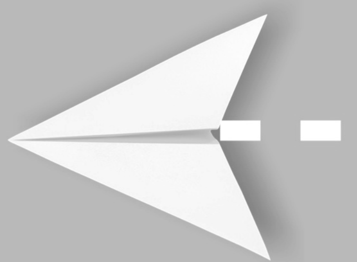
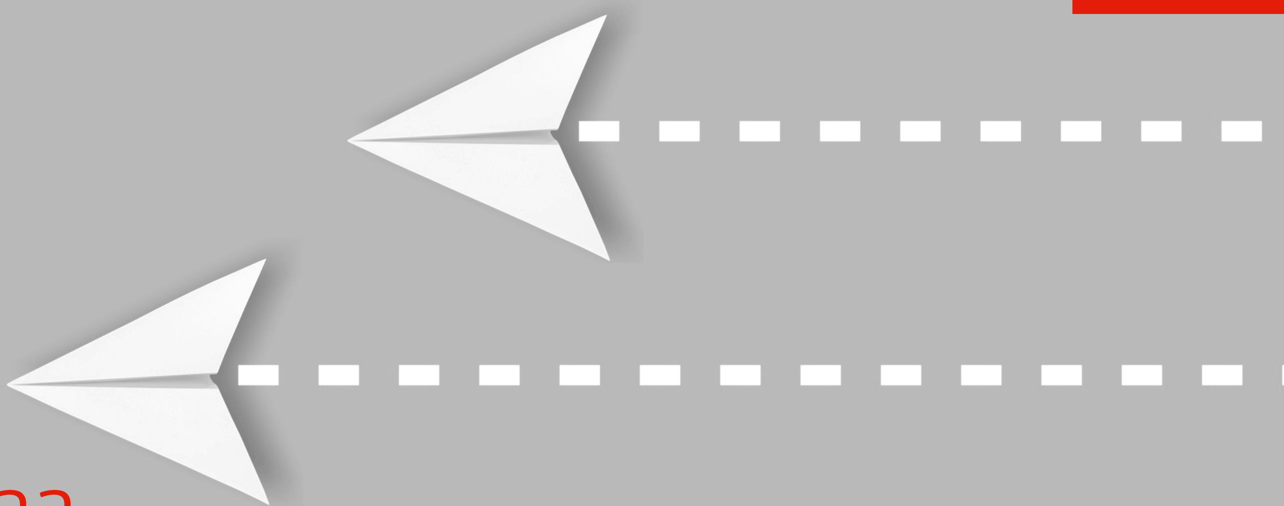
Austria's real estate market
„trend reversal"

Country Facts

REAL ESTATE





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Back to normal

"THE PARTY'S OVER"

Coronavirus? Not an issue anymore! Still a major concern a year ago, the pandemic ceased to be front-page news from one moment to the next on February 24 – the day when Russia started its war against Ukraine. Energy and food prices have soared, and the US and European central banks have responded by tightening monetary policy to a degree not seen for years. The foundations of Europe's real estate boom, which had seemed almost never-ending, have been gradually eroded ever since. Interest rates, inflation, ESG considerations, the energy transformation, and material and labor shortages are all simultaneously having an impact and shaking the 14-year real estate cycle to its core.

The share prices of listed real estate companies are sending an important signal to the market. Some companies' shares have plummeted by more than 50 % since the beginning of this year, and compared with book values, share prices are back at the levels seen at the onset of the financial crisis. A low-risk investment, government bonds have historically been a guide for property valuations. For years now, comparisons of the returns on offer have made investing in real estate an easy decision to take. And with the yield on 10-year Austrian government bonds up by around 230 basis points within the space of a year, investors' expectations have risen accordingly. Until recently, low interest rates were also seen as a decisive argument in favor of investing in the real estate market. By contrast, the classic motive for investors – safeguarding wealth against inflation – had taken a back seat with inflation hovering around zero.

But now, inflation has made a comeback, hitting levels not seen in decades and putting pressure on yields. This is a problem for the real estate market because with rental yields currently low, even minor adverse changes in the data matrix have a noticeable impact on valuations. The cost of borrowing is on the up again, and lending conditions for private real estate purchases have also been tightened. This means that on the institutional side, neither buyers nor sellers are currently willing to take the plunge, which in turn makes pricing more difficult. Nevertheless, the market is making distinctions within the various asset classes, as illustrated by the expected spread on yields in the different utilization categories as compared with the 10-year Austrian government bond. A wait-and-see approach is now the order of the day in many quarters, as market participants allow first movers to take the lead in the hunt for higher yields.

Asset classes that proved their resilience during the Covid pandemic are still in demand. The same goes for logistics real estate, high-quality apartments, bricks and mortar retailers catering to everyday needs as well as core office properties – here, solid tenant structures, strong credit ratings and stable earnings from properties in prime locations are seen as guarantees of security. Price setting is taking somewhat longer – for reasons that are already well-known – which is clearly regarded as a long-overdue market adjustment.

In addition, more and more investors are turning their attention to alternative real estate investments, such as care homes and data centers. As a result of demographic factors, healthcare properties are playing a greater role, although investors are currently very sensitive when it comes to yields. We have seen noticeable shifts in the yield matrix in recent months. In the office and retail segments, clearer distinctions are now being drawn between properties in terms of their locations, tenants' creditworthiness and the tenant mix. The differing pace of the increases in yields in all asset classes is a reflection of the ever-changing cluster of issues that have shaped the year so far.

Construction of privately financed apartments and student apartments remains the most dynamic segment on the real estate market. The question of affordability is always part of the equation, especially since the Financial Market Authority recently took steps to nip potential overheating in the real estate market in the bud. A gradual price correction that will give rise to a buyer's market is now under way in the residential segment, and price adjustments are on the horizon in less sought-after residential locations, while prices look likely to keep on rising in prime locations. Overall, residential properties are staying on the market for longer. At present, we are seeing an unscheduled hiatus in construction of subsidized housing, as the funding guidelines will have to be adapted in line with the recent sharp increase in land and construction prices.

Vienna's office property market held steady in 2022, in terms of both completions and tenant demand. Renovations now account for a significant proportion of the new space coming onto the market. On the demand side, the capital's office market remains robust. Development of new space in the retail segment has come to an almost complete standstill; instead, the emphasis is on the refurbishment of existing sales space. The two largest market players are constantly investing, and a number of pilot projects where new developments will be built over vacant retail properties are now up and running. Apartments are already being constructed on top of existing infrastructure, partly to improve the environmental footprint of the sites concerned.

What we can do for you

We see ourselves as a dependable partner that is in tune with our customers' requirements and prepared to take risks. Speed and the ability to take quick decisions are particularly important. Our real estate customers have access to the full range of services offered by the UniCredit Group. We would also like to show you the options at your disposal to hedge against interest rate risks for new and existing loans, which we think represent particularly good value given that rates are still low.

The real estate cycle – movement on the markets

The prospects for the Austrian real estate market are still bright in spite of the challenges it is currently facing. Changing conditions will always produce winners and losers, but at the end of the day the real estate sector will regain its status as a preferred asset class.

On that note, stay positive!
The editorial team

New challenges facing the global economy

Economic upturn in the second year of the pandemic

The spread of new coronavirus variants prevented a full return to normality in 2021. Nevertheless, the second year of the Covid-19 pandemic did see a rebound in the world economy, although the pace of recovery slowed appreciably after a good start to the year. On top of measures taken from late autumn to combat a fourth wave of infections, the strong recovery also sparked problems due to breakdowns in global value chains. The resulting constraints on economic growth led to sharp price rises in many countries.

The decline of 3 % in global economic output in 2020 was followed by a robust turnaround in 2021 as a whole, with GDP up by 6 % on the back of a strong recovery in China, which posted growth in excess of 8 %, and a healthy upturn of 5.9 % in the USA. Despite lagging behind somewhat, the European economy also returned to growth, recording a sizeable gain of just over 5 %. However, this did not entirely make up for the fall-off in growth in 2020 – at the end of 2021, economic output in the eurozone was about 4 % down on the pre-pandemic level of 2019.

The Austrian economy capitalized on the more favorable conditions and rebounded strongly. The country's GDP grew by 4.6 % in 2021, compared with a fall of 6.5 % in the first year of the pandemic in 2020.

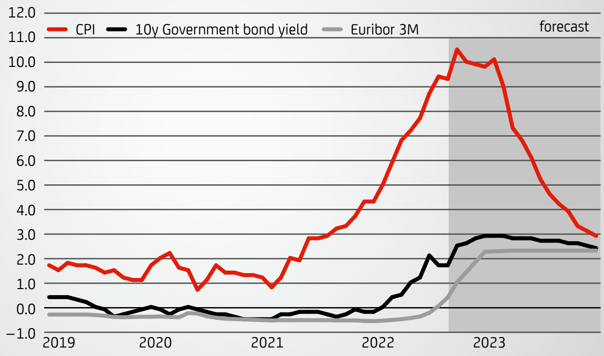
Slowing economy and sharp price increases in the first half of 2022

Last year's world economic recovery ran out of steam during the first three quarters of 2022. Growth was throttled by supply chain interruptions – a knock-on effect from the pandemic – which were exacerbated by the strict lockdowns imposed in parts of China in line with the country's zero-Covid policy, as well as the start of the war in Ukraine, with the effects of the conflict felt from March onwards. Surging raw material prices drove inflation, which weighed on consumer demand due to the resulting fall in real incomes, and also prompted many countries' central banks to tighten monetary policy.

The contrasting steps taken in various countries to bring the pandemic under control were reflected in significant differences in economic growth. US economic output dropped at the beginning of 2022, while Europe, starting from a lower base, posted strong growth. These national differences narrowed over time as growth levelled off in the face of a range of adverse influences. US economic growth stood at just over 2 % between January and September, trailing the eurozone, where GDP rose by close to 4 %.

While the global economy slowed in 2022, Austria made a very dynamic start to the year. The economy picked up speed in the first quarter, thanks to double-digit growth in industry and the construction sector, as well as the easing of restrictions aimed at stemming the pandemic, which gave a boost to the service industry. The economic environment changed abruptly, though, with the start of the war in Ukraine. Increasing problems with supply chains coupled with rapidly rising prices put the brakes on growth in the industrial and building sectors. The reopening of the economy had a particularly positive impact on the retail and hospitality sectors, but high inflation has increasingly limited consumers' purchasing power. The economy probably only stagnated in the third quarter, but due to a statistical overhang, Austrian GDP actually jumped by about 5.5 % year on year in the first three quarters of 2022.

Inflation and interest rates



Sources: Refinitiv Datastream, Statistik Austria, UniCredit Research

Due to the war in Ukraine, the rise in raw material prices continued into summer 2022 and eased only modestly afterwards. Energy prices have driven up inflation to its highest level in decades in many countries, reflecting a rise in oil prices from USD 80 a barrel at the start of the year to as much as USD 130, as well as a three-fold increase in the price of gas due to concerns surrounding supplies from Russia. Inflation averaged more than 8 % in the USA in the first three quarters of 2022. The USA was less badly affected than the eurozone by supply-side shocks, but hit harder by internal economic influences such as strong wage growth. Inflation in the euro area remained lower, at an average of 7.8 %. Accordingly, the US Federal Reserve tightened monetary policy more quickly than the ECB, which left interest rates unchanged in the first half of this year before announcing a 50 basis point increase – the first rise since 2011 – in July, followed by a further rise of 75 basis points in September. The deposit rate stood at 0.75 % at the end of September and the main refinancing rate at 1.25 %.

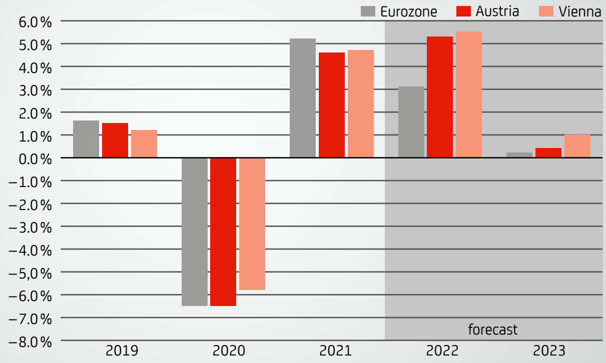
Expectations of higher inflation together with the shift in the ECB's monetary policy have resulted in an increase in market interest rates since the beginning of 2022. Austrian banks' lending rates have also risen, making real estate financing pricier. The average interest rate on new home loans to private households jumped from 1.2 % on average in 2021 to almost 3 % in autumn 2022.

Although lending conditions deteriorated, the volume of housing construction loans extended to households rose strongly once again in the first nine months of this year, by an average of about 7 % year on year. The significant increase in lending also explains the double-digit rises in real estate prices, following an average gain of nearly 12 % in the residential property price index in 2021.

Economy losing steam more quickly, inflation to remain high for the time being

The headwinds caused by the Russia-Ukraine conflict, in tandem with the Covid-19 lockdowns imposed in China, have led to further increases in inflation and subdued economic activity. Energy prices have remained stubbornly high and supply chain problems are only slowly being resolved. High inflation is also weighing on real incomes, financing conditions have been tightened, and consumer confidence has dropped to record lows in both Europe and the USA. Until now, business confidence has been more resilient, but it is currently showing signs of weakness. Sectors of the economy that are more sensitive to interest rates, including residential construction and corporate investment, are seeing a slowdown. UniCredit's lead indicator has fallen further and suggests that global trade has contracted since the start of the third quarter. As a result, we expect a marked slowdown in the world economy towards the end of this year, with growth for 2022 coming in at 2.7 % – well down on the 6 % recorded in 2021. There are also significant downside risks, including a halt to Russian energy supplies, which would tip most European countries into recession. Our baseline scenario assumes that gas deliveries will continue, but even in this case the European economy is still expected to experience a mild recession during the winter. Nevertheless, after the healthy start to the year, we see economic growth for 2022 as a whole reaching 3 %. Due to continued geopolitical difficulties, the economic mood in Austria will deteriorate further. Persistent supply chain problems due to the war in Ukraine and sharp energy price increases have already brought Austria's economic recovery to an end. Construction and industry are no longer propping up economic growth, and the services sector is also increasingly unable to hold its own. In spite of the recession which is taking hold as the year draws to a close, full-year economic growth will come in at a very strong 5 % in 2022.

Economic growth
(real change of GDP in %)



Sources: Eurostat, Statistik Austria, UniCredit Research

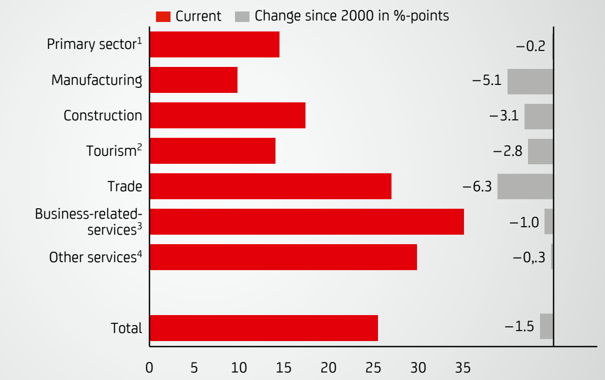
Inflationary pressures resulting from rising energy prices are escalating and core inflation is on the rise. Inflation may still not have peaked yet in the eurozone countries, Austria included. But the easing of supply bottlenecks, shifts in expenditure away from goods, slower economic growth and lower oil prices should help to put the brakes on inflation after the turn of this year. The European Central Bank responded to higher inflation across Europe by taking steps to tighten monetary policy, starting in July. Following that initial base rate hike and the subsequent 75 basis point increase in September, we expect

Overview of Austria's economic data

	2016	2017	2018	2019	2020	2021	Forecast 2022	Forecast 2023
Economic growth (real. year on year)	2.0	2.3	2.4	1.5	−6.5	4.6	5.3	0.4
Private consumption (real, year on year)	1.5	2.0	1.1	0.5	−8.0	3.6	4.7	0.2
Investment (real, year on year) [1]	4.3	4.2	4.4	4.5	−5.3	8.7	−1.0	0.0
Exports (real, year on year)	3.0	4.9	5.2	4.0	−10.7	9.6	16.2	5.3
Imports (real, year on year)	3.7	5.3	5.3	2.1	−9.2	13.7	9.3	4.4
Current account balance (in % of GDP)	2.7	1.4	0.9	2.1	1.9	−0.5	−1.3	−1.1
Inflation rate (CPI) (yearly average)	0.9	2.1	2.0	1.5	1.4	2.8	8.3	5.5
Unemployment rate (national criteria)	9.1	8.5	7.7	7.4	9.9	8.0	6.3	6.3
Unemployment rate (EU definition)	6.5	5.9	5.2	4.8	6.0	6.2	4.5	4.5
Employment (year on year, in %) [2]	1.5	1.9	2.4	1.5	−2.1	2.4	2.7	0.9
Budget balance (in % of GDP)	−1.5	−0.8	0.2	0.6	−8.0	−5.9	−2.9	−2.5
Public-sector debt (in % of GDP)	82.8	78.5	74.1	70.6	82.9	82.3	76.9	76.2

1) Gross fixed capital formation / 2) excluding maternity leave, military service and training programs
Sources: Statistik Austria, ÖNB, UniCredit Research

Vienna's share of Austrian added value (in %)



1) Agriculture and forestry, mining, energy and water supply
2) Hotels and restaurants
3) Business-related services in the broad sense: transport, banking and insurance, real estate
4) Public services, education and health, private services
Sources: Statistik Austria, UniCredit Research

the ECB to announce further rises in the months up to March 2023, bringing the refinancing rate to 2.75%. As the economic window for normalization of monetary policy could close more quickly than previously anticipated, the ECB will pick up the pace of interest rate increases at the end of 2022.

Weaker growth coupled with greater risks in 2023

The rebound in the global economy will slow in 2023, as the after-effects of the coronavirus crisis, the war in Ukraine, continuing supply chain difficulties, high inflation and the about-turn in monetary policy take their toll. More lethargic economic performance worldwide will hit the Austrian economy by way of exports, with the heavily export-dependent industrial sector particularly affected. Although financing conditions will remain favorable, investment will continue to be impacted by worsening economic prospects and sharp increases in raw and base material costs. The effects on investment in equipment will be particularly pronounced. Major challenges are also around the corner for private consumption – the second key component of domestic demand – in 2023. The loss in purchasing power due to high inflation will have a negative impact. With inflation only set to decelerate slowly before moving in the direction of the ECB's target rate, a modest improvement in economic growth can be assumed, but full-year GDP growth in Austria is put at only 0.4% in 2023, reflecting a weak start to the year. In view of the poor growth outlook, unemployment is expected to stabilize at 6.3% next year in the best-case scenario.

Viennese economy slowing

After a sharp downturn in 2020, Vienna's economy returned to growth in 2021, recording a 4.7% increase in economic output. The services sector made a decisive contribution to this performance, with the health sector and business services playing a key role in the recovery. In spite of further lockdowns in spring and autumn 2021, the retail sector posted strong growth, while the accommodation and hospitality sectors at least managed to avoid further losses. The growth contributions of the city's construction and industrial sectors in 2021 were lower than the national average.

We expect the Viennese economy to grow by more than 5% in 2022. In view of the fall in industrial growth due to the war in Ukraine, the sector's low share of the capital's total output is an advantage, relatively speaking. Over the coming months, the sharp upward trend in costs may result in a significant slowdown in the construction sector, particularly in building construction, but in comparative terms Vienna's construction industry seems to be more resistant to negative factors, thanks to the number of public-sector contracts and a high order backlog. First and foremost the services sector promises to remain a major driver of growth as the impact of the pandemic tails off, which will also be a boon for city tourism.

In spite of the expected effects on the capital's jobs market as a consequence of the war in Ukraine, after a strong showing in the first half of this year unemployment is expected to average 10.5% in 2022, down from 12.7% last year.

Viennese economic data

	2016	2017	2018	2019	2020	2021s	2022p	Average of federal provinces (or Austria total) 2022p
GDP per capita (EUR)	49,600	49,450	51,350	52,600	50,400	53,300	60,000	49,500
GDP per capita (as % of Austria)	121.3	117.8	117.8	117.5	118.6	118.7	121.2	100.0
GDP (real, %-chg.)	2.8	0.3	3.4	1.2	−5.8	4.7	5.5	5.3
Unemployment rate (average, %)	13.6	13.0	12.3	11.7	15.1	12.7	10.5	6.3
Employment (%-chg.)	1.4	1.9	2.4	1.8	−2.5	3.1	3.2	2.9
Exports (EUR mn)	17,847	19,497	19,069	20,663	19,819	22,699	27,500	197,000
Exports of goods (as % of Austrian exports)	13.6	13.7	12.7	13.5	13.9	13.7	14.0	100.0
Exports (in % of GDP)	19.4	21.0	19.6	20.6	20.5	22.7	23.6	42.9
Public debt per capita (EUR)	3,753	3,882	3,960	3,903	4,436	5,093	5,900	3,900

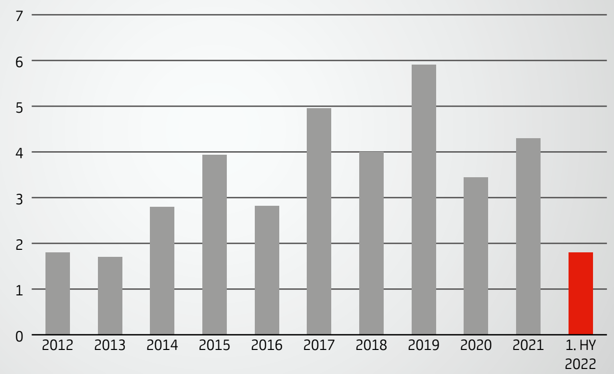
Sources: Statistik Austria, UniCredit Research

Commercial real estate investment volumes up last year, performance still strong at midpoint of 2022

According to the CBRE data, the investment market for commercial real estate in Austria grew significantly in 2021 compared with the previous year. Real estate investment activity remained buoyant in the first half of 2022, with total investment roughly in line with the same period a year earlier.

CBRE reports a transaction volume of around EUR 4.3 billion for 2021, which represents a jump of around 25% on the total recorded in 2020. Like residential and office property, demand was also surprisingly high in the retail segment last year. It should be noted, however, that the strong performance of the retail sector was largely attributable to just two major transactions. Foreign investors' share of the total volume dropped to around 50% in 2021; in 2020, more than two-thirds of investors were from outside Austria.

Investment in commercial real estate in Austria (in EUR bn.)



Source: CBRE

First-half investment volumes on a par with last year

Investment activity continued to pick up speed in the first half of 2022. Put at approximately EUR 1.8 billion by CBRE, the total for the first six months of the year was comparable to the same period a year earlier. These figures underline the robustness of the investment market in Austria and its ability to withstand adverse influences such as Covid-19 and the war in Ukraine, although they also reveal that the total achievable investment volume is, according to CBRE, likely to fall below the previous year's level by the end of the year. The forecast transaction volume of around EUR 3.5 billion is roughly in line with the average annual investment total for the past 10 years.

Office construction activity has been up and down in Vienna in the past; after a number of stronger years where new construction held at a consistently high level, new space production stagnated in 2019 and fell below 40,000 m^2. Last year around 100,000 m^2 of new office space was added, with new construction for 2022 set to come in at just under 130,000 m^2.

The pressure on investors to find suitable properties continues unabated in times of crisis, which strongly suggests that Vienna's stable office property market will remain firmly in investors' sights. Even so, investors are currently somewhat more circumspect when it comes to selecting their investment properties, and banks have also tightened their control mechanisms. Nevertheless, investors continue to regard the Austrian real estate market as a safe haven.

Yield trends looking up

Prime office real estate yields continued to decline in 2021, falling again slightly to around 3% by the midpoint of 2022. In the SC sector, by contrast, there were no significant changes in prime yields (approx. 4.5%) at the end of the first half of 2022 compared with the end of 2021. CBRE expects yields in all asset categories to rise by the end of this year – a realistic prospect given the backdrop of the changed interest rate environment and high inflation.

Housing construction in Austria – demand covered

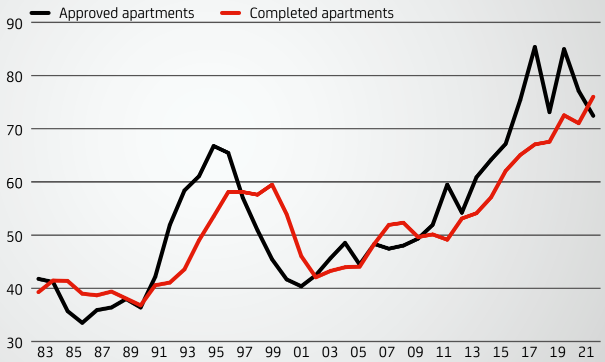
Housing demand and new building activity to start tapering off in 2023

In recent years, housing construction in Austria has largely kept pace with the strong rise in demand for residential space. Driven by significant pent-up demand, huge price increases in many segments and the ready availability of highly attractive financing, an average of 61,000 new apartments were constructed in Austria each year between 2011 and 2019. By comparison, the average for the three preceding decades was 47,000 units per year.

Apartment building activity was halted only temporarily in 2020, a remarkable achievement against the backdrop of the worst economic crisis for decades. Residential construction appears to have reached its peak in 2021, with around 75,000 new units added. (With some data still outstanding it was only possible to estimate completions based on the high number of permits granted in recent years and growth in building construction value.)

Housing construction in Austria

Permits and completions, 1,000 apartments



*) Completions estimated in part
Source: Statistik Austria, UniCredit Research

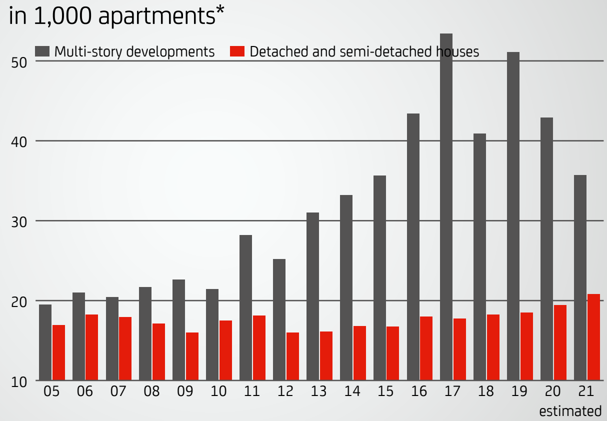
Completions are expected to rise (slightly) once again in 2022. This is supported by the fact that the number of new building permits was still high at the end of 2021, in spite of an average annual decline of 8 % over the past two years. However, the focus of residential construction in 2022 will continue to shift toward single-family homes. The decline in the number of new construction permits issued over the past two years was entirely attributable to multi-story construction projects. Meanwhile, housing cooperatives – which build almost half of all apartments in multi-story buildings – had already reported a decline in their completion figures in 2021 (by around 3,000 units to 16,500 apartments). The number of ongoing construction projects by non-profit organizations also fell year on year towards the end of 2021. In addition to these factors, single family homes outside Vienna had already recorded the strongest price growth compared to all other residential real estate segments in Austria in the previous year, rising by as much as 16.1 % in the first quarter of 2022 (source: OeNB).

From 2023, new residential construction activity in Austria is seen as losing significant momentum.

- Growth in demand for new housing will be less pronounced – assuming that there are no significant changes in forecasts for the number of households. While the number of single-person households in Austria increased by about 1.6 % per year between 2013 and 2020, the rise will slow to 1.1 % by 2023, before falling below 1 % in future. During the same period, the number of new households will drop from an average of 39,000 to 29,000 from 2021–2023 and to less than 20,000 thereafter.
- The residential construction boom of recent years helped to address pent-up demand on the housing market. In many cases, supply may already exceed demand. The OeNB expects a nationwide oversupply of 30,000 apartments for 2022 and around 50,000 units for 2023.
- Overcrowding has lessened over the past two years. For Austria as a whole, the rate fell slightly in 2020 and 2021 (compared with 2013–2019) to 3.8 %, meaning that, of the roughly 4 million main-lease apartments in 2021, an average of 153,000 were overcrowded, measured in terms of living space relative to the number of persons in the household (source: microcensus).

Building permits in Austria

in 1,000 apartments*



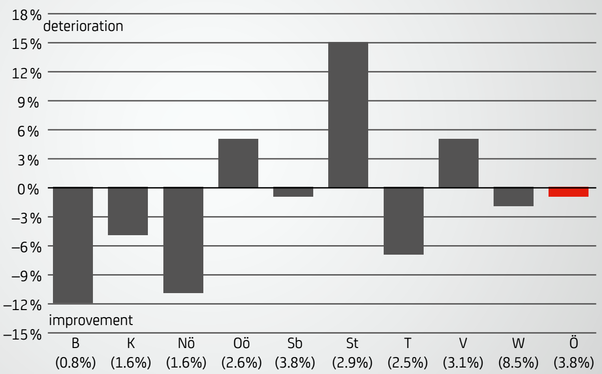
*) without apartments created by adding, building or converting existing buildings
Source: Statistik Austria, WIFO, UniCredit Reseearch

Gaps on the Austrian market

Overcrowding is an indicator of insufficient space availability, as well as of precarious housing situations. Availability of sufficient housing in Austria, which has a knock-on effect on supply and indirectly on affordability, has improved. At the regional level, however, overcrowding rate trends also indicate that there are still residential construction shortfalls in Styria, Upper Austria and Vorarlberg.

Overcrowding Rate*

Change 2019/20 in relation to 2013/18



*) Share of overcrowded main residences, rates in brackets
Source: Statistik Austria Microzensus; UniCredit Research

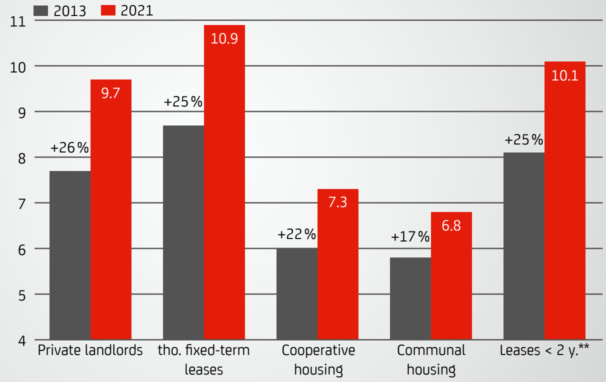
Note on Vienna: the high overcrowding rate of 8.5% is chiefly attributable to structural peculiarities on the Viennese housing market: owner-occupied apartments, where there is barely any overcrowding, account for around 19% of the market (compared to 48% nation-wide), whereas privately rented apartments and local authority apartments, which represent a particularly high proportion of the total, are the segments with the highest overcrowding rates.

To a lesser extent, the defining features of the Viennese housing market map onto other major urban centers. In other municipalities with a population of more than 100,000, overcrowding increased considerably in 2020 and only fell below the 6% mark in 2021. At the same time, housing supply in smaller communities with fewer than 10,000 inhabitants improved, with an overcrowding rate of just 1.3%. It can be assumed that the rising overcrowding rates in Styria and Upper Austria mainly relate to the greater Graz and Linz areas.

The shortfall in new housing in Austria primarily reflects a lack of affordable rental properties in major urban centers. While it is true that the number of subsidized rental apartments has in-creased significantly in recent years (housing cooperatives completed an average of 18,100 apartments in 2020 and 2021, far more than in the previous decade – 80% of which are rental apartments), barriers to entry for low-income households are still high due to the one-time expenses incurred at the start of a tenancy. Additionally, the number of local authority housing units (the segment with the lowest housing costs) actually declined between 2016 and 2019, only increasing again by a small margin in the last two years of 1,500 units, or 0.5%, according to the microcensus. Apartment costs in public housing (EUR 6.80/m² incl. operating costs) were 7% lower than those for housing association apartments in 2021, and 30% below those of private main lease apartments. It is safe to assume that the price gap is even higher for new tenancy agreements.

Large differences in rents

Main leases* in Austria, 2013 and 2021 in Euro/m²



*) Existing stock and new tenancies; incl. operating costs
**) Rental contracts concluded in the last two years
Sources. Statistics Austria, UniCredit Research

Diminishing returns and increasing lending costs subduing property demand

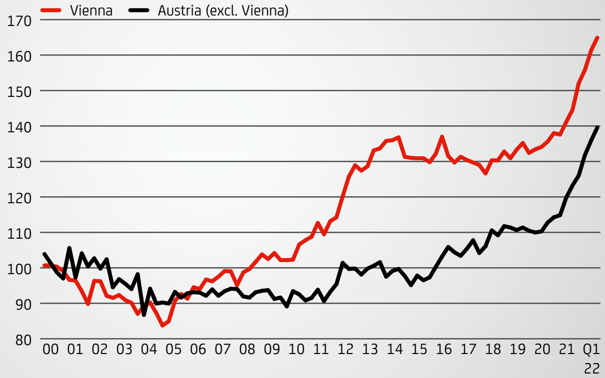
Faster increases in property prices since 2020 point towards continued high demand for property in Austria. In the second quarter of 2022 apartment prices went up by 13.1%, and those for detached family homes outside Vienna by 15% (source: OeNB). There are, however, increased indications that demand and price increases on the property market will start to cool in the course of 2022.

High property prices will also gradually lose their function as the driving force behind new construction, as falling rental yields offset the positive effects of rising property values. Since mid-2020, prices for apartments outside Vienna have risen by 23%, and by 21% in Vienna, while residential rents covered by the consumer price index (CPI) have only increased by 1% (since the adjustment of benchmark rents was suspended in 2021 for Covid-related reasons, rents in the CPI actually fell slightly from September 2021 to May 2022, after increasing by 4.3% from mid-2020 to August 2021 – faster than the long-term average). Even if the CPI does not adequately reflect movements in the rental housing segment, in particular sharp rises in prices for new rentals in the private segment, and the comparison with real estate prices is problematic for delimitation reasons, the development of the real estate price-rent index is at least an indicator of the evolution of returns in the residential real estate sector. A survey conducted by CBRE shows that top yields for institutional real estate investors from new housing developments in Austria have declined continuously since 2014 (source CBRE 4/2022)

Real estate financing is expected to become more expensive this year. Interest rates for new housing loans with rates fixed for more than 10 years have already risen by 95 basis points between January and August (to an average of 2.3%, according to the OeNB). However, the sharp rise in euro swap rates over the past few months is an indication of further increases in fixed interest rates for housing loans (20-year euro swap rates stood at 0% towards the end of

Real estate price – rent index*

Apartment prices relative to changes in rents
Ø 2.000 = 100

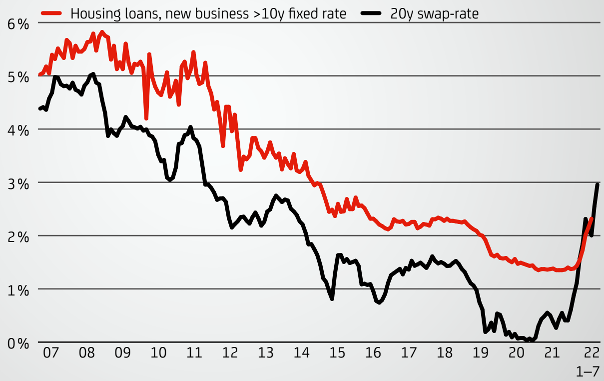


*) Prices for new and used owner-occupied apartments; appartment rents according to consumer price index
Sources: OeNB, Statistics Austria and UniCredit Research

2021, and at 3 % at mid-October). At the same time, households with variable-rate housing loans are having to contend with the growing interest-rate risk. Theres is no doubt that interest rate hikes are having an impact on housing demand. Almost two-thirds of newly granted mortgage loans to private households in Austria have a fixed interest rate agreement. However, it is unclear just how much interest rate changes will dampen housing demand due to the highly fragile wider macroeconomic environment.

Home loans becoming more expensive

Fixed interest rates for housing loans in Austria, 20 year euro swap rate; monthly average



Source.: OeNB, Refinitiv, UniCredit Research

Even though the business situation of companies in the residential real estate sector in Austria is not surveyed, the sector is probably currently on a similar path to that of Germany, where the business sentiment in the residential segment turned negative in June 2022 for the first time in years, with expectations for the next 12 months significantly more pessimistic than in all other real estate segments. Businesses expect rising financing costs to make real estate less affordable for private households and see the possibility of a sustained decline in demand and prices (source: German Economic Institute, IW).

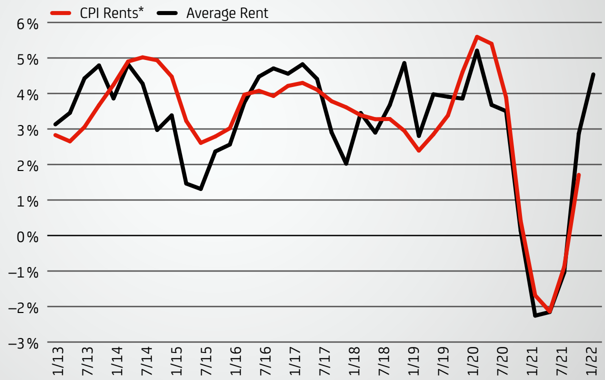
In Austria, it is unlikely that there will be a similar decline in real estate prices in 2022, and presumably also in the years after that, as although demand is rising at a significantly slower pace it is still on the up. That said, growth in property prices – which had come in at an average of 12 % over the past six quarters – will slow.

Rent increases to accelerate in 2022

At the same time as property price increases start to slow, high inflation will lead to greater increases in rents as existing rents rise. The fact that main rents in 2021 (adjusted for operating costs) actually fell by 1.3 % on average in all residential segments was primarily attributable to the postponement of the benchmark rent value adjustment as part of the pandemic-related relief measures (by comparison, rental expenses rose by an average of 3.4 % per annum between 2013 and 2020). Average rents for private main leases did not reflect this downward trend and stagnated in 2021. The reason for this is the high proportion of limited-term contracts in this particular segment (47 %), with rents rising by 1.5 % in 2021. In addition, rents for newly let apartments rose by 3 % (apartments with rental agreements of less than two years).

Rent increase imminent

Consumer price index Housing Rents item, main lease expenditure excl. operating costs; quarterly percentage change



*) CPI Rents lag by two quarters
Sources: Statistics Austria; UniCredit Research

Although rents for main rental flats rose again in the second quarter of 2022, by 4.5 %, the increase in housing expenditure according to the quarterly microcensus, which provides the basis for the Housing Rents item in the consumer price index, is yet to be reflected in full in the CPI. In the first half of the year, rents in fact fell by an average of 1.5 % according to the CPI and rose by an average of 1.5 % only in July and August 2022 (as the chart shows, the CPI for housing rents follows the microcensus results with a lag of about one to two quarters).

This means that the most recent increase of 5.9 % in benchmark rents in old buildings or in many municipal buildings in April and the adjustment of 5.6 % in category rents in old buildings in June will cause the CPI to rise even more sharply in the coming months.

Viennese office market in 2022: refurbishments playing dominant role in new space construction

Despite facing an environment shaped by negative factors such as the continuing Covid-19 pandemic, the war in Ukraine, high inflation and skyrocketing energy prices, Vienna's office property market is well placed to benefit from its solid and stable fundamentals, enabling it to weather the difficult conditions it has been confronted with this year. Lively demand from investors this year is further confirmation of the enduring attractiveness of the city's office market, even though total investment in 2022 could come in slightly lower than last year.

Over the past few years, new rentals have generally been significantly higher than the increase in new space, underpinning the stability of Vienna's office market. In addition, very little new office space came onto the market in 2016 and 2019, while the figures for new builds last year and the forecast for 2022 were both fairly modest. This suggests that the decline in new rentals in recent years has not yet had a discernible effect on the overall market situation. It remains to be seen how new rentals will pan out for 2022 as a whole.

However, against the backdrop of current market conditions, the pressure on offices outside established prime locations is still a factor, and outdated spaces that no longer satisfy the increasing demands resulting from changing forms of use have become uncompetitive. Sites like these have been taken off the market in recent years and replaced by new builds, or refurbished as part of larger developments.

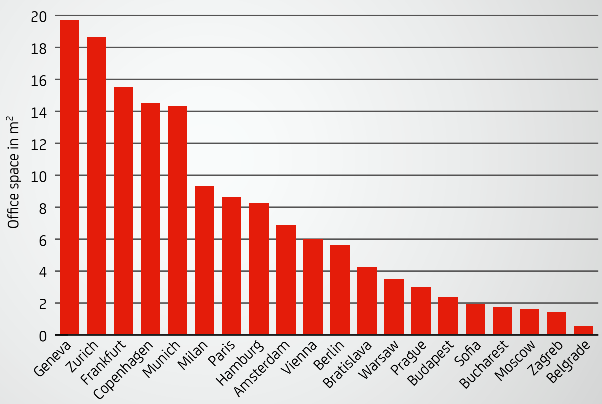
And refurbishment is the watchword on the Viennese office property market this year. The majority of the properties completed this year are spaces that have been renovated before being offered to prospective tenants. This category accounts for more than three quarters of total new construction in 2022 – a high-water mark in recent years. There are also some attractive projects in the pipeline. As things stand, the volume of new construction next year could fall to a level last seen in 2019. It is not yet clear whether this reflects a response to soaring construction costs by property developers, who may have postponed projects and are currently taking a wait-and-see approach. In any event, delays have had a negative impact on the implementation of several projects from the pipeline in the past few years.

On the whole, the lessons learned so far from the Covid-19 pandemic have brought about a realignment of the primary focus of available office space and a rethink of common office concepts that place an emphasis on open-plan designs. Instead, more sustainable, modern and, above all, flexible design options are taking center stage. The aim is to offer employees who have become used to working from home during the coronavirus pandemic optimized workplace solutions that represent an attractive alternative to home offices.

With staff splitting their time between working remotely and in the office, many employers now place different technical and communication-related demands on their office space. In the current age of Zoom and Teams, personal contact – which was severely curtailed during the pandemic – has taken on a new significance. Employers and developers need to respond to this when designing new office spaces, in order to win over employees and persuade them to return to their offices.

Vienna currently has around 11.5 million m² of office space. This includes older locations and space that no longer fully satisfies modern office standards, as well as small offices, and spaces in schools and at universities.

Office space in m² per capita 2022



Source: Bank Austria

Construction of new office space in Vienna remains volatile

After dropping to an all-time low of less than 40,000 m² in 2019, new office construction in Vienna rebounded sharply in 2020. New construction was close to 100,000 m² in 2021 and is forecast to reach about 130,000 m² this year. There is still some uncertainty surrounding the predictions for next year, but there are signs that new office production will fall to less than 50,000 m².

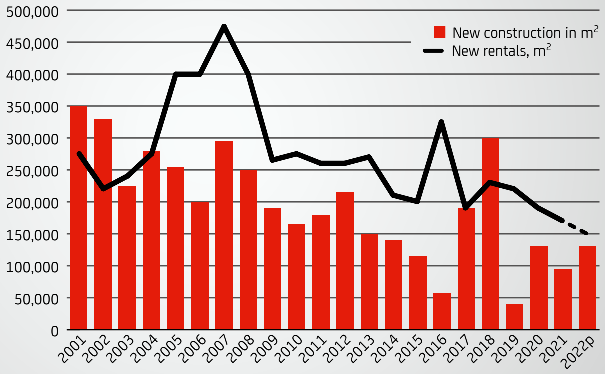
However, such estimates always depend on whether projects currently under construction are actually completed this year, are potentially pushed back to next year, or on the other hand whether projects scheduled for completion at a later date can be concluded earlier than planned.

Slight drop in new rentals in 2021

Last year, the take-up of office space stood at around 170,000 m², which was lower than in 2020, when there were already indications of a decline compared to the previous year. Around 75,000 m² was newly let in the first half of 2022, a moderate increase on the same period a year earlier. New letting could reach approximately 150,000 m² by the end of 2022, although there are some differences between the various forecasts, with expert opinion split as to whether new rentals will come in above or below this figure. With a range of factors having a negative impact on the market, it remains to be seen how new rentals will actually progress over the remainder of this year.

New construction and take-up

Office space in Vienna 2001–2022f



Sources: Bank Austria, CBRE, EHL, OTTO Immobilien

Rental of new space is generally characterized by a shift away from older offices to modern ones, and consolidation of several branches at a single location. Overall, the introduction of desk sharing has led to a steady fall in the amount of office space per employee over the years.

Refurbishments dominating the market – some 80,000 m² of office space upgraded on Lassallestrasse alone

Situated next to the distinctive TRIIIPLE towers, the Austro Tower – an equally striking glazed office development on Schnirchgasse in Vienna's third district – was one of the stand-out new builds of 2021. None of the projects scheduled for completion by the end of this year are as high-profile.

However, around 80,000 m² of fully refurbished office space will come onto the market once renovation of the Lassallestrasse 1 and Lassallestrasse 5 properties is concluded. And this is by no means a complete list of the refurbishment projects currently under way. Older offices at a number of smaller locations will also be revitalized, converted or consolidated before the year is out.

The new properties completed this year include a section of the high-profile VIENNA TWENTYTWO development in the city's Kagran district. The initial phase of the new TwentyOne quarter, a multi-phase project on Siemensstrasse in Floridsdorf, was concluded in the first half of this year – labelled the Innovation Hub, this part of the development includes around 14,000 m² of office space.

Projected new office space in 2022 (selected developments)

Project	Total usable office space (m²)	Status
Quartier Lassalle	78,000	under construction
TwentyOne, Innovation Hub section	14,000	completed
VIENNA TWENTYTWO Office property phase 1	8,000	completion phase
DOPPIO DUE	5,500	under construction
F80	4,000	completion phase

Source: Bank Austria, as of August 2022

The Central Hub building, which also includes office space, is under construction at the same location. Another renovation project will see a significant volume of space added to Vienna's office property market in 2023. About 15,500 m² of newly refurbished space is taking shape at Urban Garden in the Wienerberg area of the city. The largest single addition of newly constructed space next year will come courtesy of the mixed-use Vio Plaza project at the Kometgründen site in Vienna's Meidling district, where just under 23,000 m² is due for completion by the end of 2023.

Alongside the properties currently under construction, there are also a number of projects in the pipeline, but the timeframes for some of those developments are still up in the air, and the start of building work on many projects has been postponed, even though earlier completion dates had previously been announced.

Forecast new space, 2023 / 24 (selected)

Project	Total usable office space (m²)	Status
FRANCIS	40,000	under construction
VIO PLAZA	22,600	under construction
myhive Urban Garden	15,500	under construction
Grand Central office complex	12,200	under construction

Source: Bank Austria, as of August 2021

Top rents on Viennese office market could rise by year-end

Office rents in the Austrian capital were largely unchanged in the first half of 2022. Top rents for class A office space in attractive locations were around EUR 26 / m²/ month in mid-2022.

However, rental costs can be higher for certain spaces in premium properties, such as the top floors of office blocks, and for exclusive premises with custom amenities, fixtures and fittings – although such prices are the exception. That said, top rents in particular could rise by the end of this year due to interest rate increases and high inflation.

Demand for office space in the first district, in central office locations and at popular office clusters remains strong. These locations include the area around the Hauptbahnhof station, which has been developed over the past few years.

Interest in space in the mid-price category also remains high – besides location, accessibility and rental costs, the most important criteria for prospective tenants when choosing a site include energy efficiency and the lowest possible operating expenses. In light of concerns about gas supply shortfalls in the coming winter, and surging energy prices in general, cost considerations could take on even greater significance in the office market.

It is also too early to consign the coronavirus pandemic to history. Although a number of measures have been relaxed this year, there are still fears of a new wave of infections from autumn onwards. If these predictions come true, the question of workplace safety will rear its head once more. This includes the matter of distancing, especially in the types of open-plan office that are so popular among employers but do not feature physical partitions. Against the backdrop of increased cost pressures, it is also possible that some companies will consolidate locations in order to reduce their space requirements. Concentrating employees in a smaller space is not only a challenge due to the risk of Covid-19 infections; it also has to take employees' needs into account.

Many industries are already facing a shortage of skilled staff, so maintaining employee satisfaction in the face of higher cost pressures is becoming an even more significant factor than it was anyway. Employers need to weigh up which cost-saving measures will be so badly received by the workforce that they make for an unattractive working environment, causing some staff to consider leaving the company.

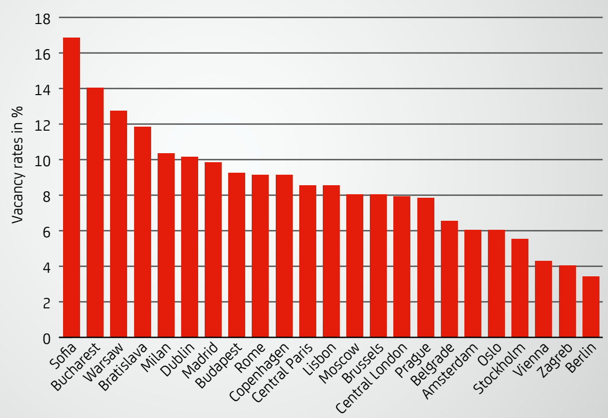
Office vacancy rates still generally stable

Vacancy rates in Vienna have traditionally been among the lowest in Europe. Vacancies in the Austrian capital fell slightly once again last year and stood at about 4.25 % for modern office spaces at the midway point of 2022. Rates in the premium segment are expected to remain largely stable until year-end, and will continue in this vein next year, with new construction set to remain subdued as things stand.

Nevertheless, it is hard to predict how vacancies on the city's office market will evolve. This will depend on how new rentals progress between now and the end of the year, and we also need to bear in mind the project pipeline, in spite of the uncertainty surrounding the completion of particular developments.

Compared with attractive spaces in central locations, vacancies at older properties are higher and have been rising for many years. Vacancy rates have often been above average at some office towers, especially at older developments.

Office vacancy rates in Europe in % 2022

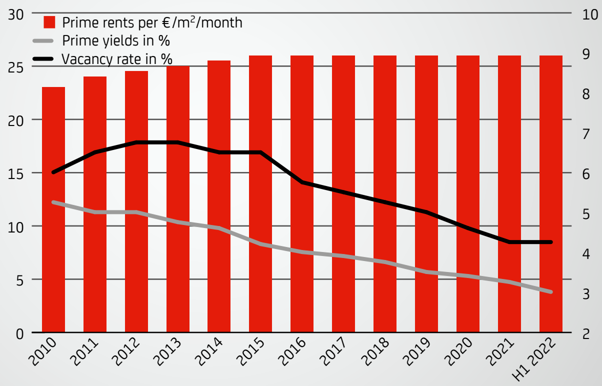


Sources: Bank Austria

Another small drop in prime yields, but some indications of a turnaround

Prime yields in the Viennese office sector fell slightly once again during 2021, followed by another small downturn in the first six months of 2022. At the halfway point of this year they were close to 3.0 % for top-of-the-range properties in premium locations. No significant changes in yields are expected during the remainder of this year. Sustained investor demand for top-quality real estate means that a further minimal decline in prime yields at the most exclusive properties in Vienna's premium office segment cannot be completely ruled out. On the other hand, the European Central Bank's decision to raise interest rates, coupled with high inflation, suggests that prime yields could rise across virtually all segments in the real estate market.

Rents, yields and vacancy rates
in the Viennese office market 2010–H1 2022



Sources: Bank Austria, CBRE

Vienna's office hotspots

City center

Central Vienna and the city's inner districts remain the most popular office locations, and demand there is still strong. The city center is dominated by offices and numerous retail spaces, while the previously large number of residential properties has fallen steadily over the past few decades.

In recent years, though, the strong demand for large apartments and luxury residential space has led to former offices in some parts of the city center being reconverted into apartments. Former offices in city center properties dating back to the Gründerzeit era in the mid-to-late 19th century have been a particularly popular choice for reconversion into residential space with generously proportioned floor layouts, as they cater to the demands of wealthier clients for expansive, luxury living. This trend may now be losing steam, though.

The area around the former Österreichische Post AG headquarters on Postgasse in the first district is currently being remodeled. Fully renovated under a project entitled Das lebendige Haus (The Living Building), the property is set to include around 9,000m² of office space, as well as residential space including serviced apartments.

A refurbishment project involving the consolidation of two locations on Peregringasse close to Schottentor and the Stock Exchange building will create nearly 6,000 m² of fully upgraded office space.

Inside the Gürtel outer ring road

A large number of office properties are situated in this area of the city. Location and ease of access are the main factors behind the popularity of the districts surrounding the city center. However, new developments are rare due to the high concentration of buildings in these areas – new space only occasionally comes onto the market as a result of conversions and refurbishments.

One of the projects taking shape in this part of the city, on Siebenbrunnengasse in Vienna's fifth district, Margareten – involving a combination of demolition, new construction, conversions and refurbishments – has now been completed. It also includes a small amount of office space. The refurbishment of an old gas meter factory on Felberstrasse in Vienna's 15th district, which will be converted into an office property called F80, is currently in the completion phase.

Donau City

The Donau City area (Vienna DC) has become one of the capital's key office locations, alongside the city center. A number of high-rise office blocks dominate the skyline, including the tallest office tower in Vienna, DC Tower 1, which is located in the Donauplatte area. The planned DC Tower 3 on the same site was completed before Tower 2. However, the property does not include any office space; instead, the 20,000 m² of usable space feature more than 830 student apartments. Work has also begun on DC Tower 2 – scheduled for completion in 2025; the 60,000 m² of usable space will include apartments, shops and new offices.

Prater / Messe / Handelskai

In the past few years, new office hotspots have sprung up in the areas around Handelskai and Messe Wien, and close to the site of the former Nordbahnhof and Nordwestbahnhof stations. The area around Praterstern, the site of the Austria Campus, is still one of the capital's biggest urban development zones.

At the Viertel Zwei site, the refurbishment of the heritage-listed stands at the former Trabrennverein harness racing track and their conversion into office space have been completed; a modern extension was also added. Construction work has started on another project at the location, a mixed-use high-rise called Weitblick.

Two large office blocks at Quartier Lassalle on Lassallestrasse, close to the Praterstern station, are scheduled to be renovated by the end of 2022, bringing some 80,000 m² of new office space onto the market. Formerly the site of a rail freight terminal, the expansive Nordwestbahnhof site has been earmarked as an urban development zone and will be transformed over the coming years into a new, green district adapted to a range of uses.

Erdberg / St Marx / Gasometer

Over the last few years, the Erdberg, St Marx and Gasometer office location has been shaped by new office properties such as Marxbox, Marximum and the multi-phase TownTown project. The TownTown office complex was completed in 2017 with the construction of Orbi Tower. Construction work on the large-scale, primarily residential TrIIIple project on Schnirchgasse has now been completed; office space is planned as part of a future development phase. The Austro Tower has also been completed – Austro Control and ASFINAG both have offices in the property.

Wienerberg

Wienerberg in southern Vienna is another firmly established office location. Several extensions at the Euro Plaza site have added more and more office space, which increased further with the expansion of the Inno Center and construction of the Inno Plaza. A mixed-use project The Brick, which houses Wienerberger's new head office as well as additional office space, a hotel, commercial space, bars and restaurants, has gradually taken shape at the Wienerberg site over the past few years.

Older offices at Wienerbergerstrasse 3–5 are currently being renovated, with about 15,500 m² of space scheduled for completion by the end of 2023, at a site that will be renamed myhive Urban Garden.

North Vienna / Heiligenstadt / Muthgasse

A number of office properties have been built on Muthgasse near Heiligenstadt station in the 19th district in recent years. These include the existing space2move office block and the two-unit Square Plus – the first phase of the development, Square One, was completed in 2017. However, instead of the additional office block that was originally planned, the second phase features intelligently furnished units aimed at students, labeled SMARTments, which were handed over last year. The new headquarters of the CKV Group is due to be built at Muthgasse 105, followed by a mixed-use development at Muthgasse 107–109. Both projects are scheduled for completion by the end of 2024.

Western Vienna

This area is one of the city's less developed office locations. The most recent major increase in office space in the area came several years ago with completion of the Forum Schönbrunn project. No large-scale developments are planned in the area at present.

Seestadt Aspern

Aspern IQ (Technology Centre Seestadt) was the first office property built in the new Seestadt Aspern urban development zone; the site was expanded with the completion of phase two. Additional office space has been built at HoHo – a spectacular, predominantly timber high-rise – and at the Mischa and Seehub projects, while smaller office properties have been developed as part of the Separq and Sirius projects. Office space also forms part of the Am Seebogen project, where the topping-out ceremony has already taken place.

Hauptbahnhof

The Hauptbahnhof station is the site of Vienna's newest office location. The headquarters of Austrian Federal Railways (ÖBB) and Erste Bank, as well as The Icon Vienna, a striking ensemble of three office blocks of different heights, are situated there.

The area around the Hauptbahnhof has undergone extensive development. A number of other projects have been completed at the site, including QBC 1 and 2 at Quartier Belvedere, as well as Signa Holding's mixed-use Bel & Main project.
The Hauptbahnhof has quickly become one of Vienna's most sought-after office locations, and once completed it will offer a diverse mix of offices, apartments, shops, hotels, bars and restaurants, service providers and health facilities.

War in Ukraine, Covid-19, surging energy prices and inflation – what does it all mean for Vienna's office property market?

After two and a half years of the Covid-19 pandemic, and in spite of the significant easing of restrictions, it is still too early to give a definitive all-clear. Although more and more people in Austria are vaccinated or have already received boosters, experts again have some concerns as we head into autumn and winter.

On top of this came the war triggered by Russia's attack on Ukraine at the end of February, which has also had a huge impact on Austria. Due to the dependency of many European countries on Russian gas and curbs on deliveries since the start of the war, the whole of Europe is facing gas shortages which will kick in during the coming winter at the latest. The consequences are already being felt – soaring prices for all forms of energy, which in turn is reflected in exceptionally high inflation rates.

The office property market will also be affected by these developments. Total monthly costs – i.e. rent plus operating expenses – play a decisive role in tenants' choice of office locations. It remains to be seen how business will respond if rents and operating costs both climb sharply due to high energy costs and rising inflation. There are many indications that heightened sensitivity to costs will lead some companies to save energy by switching off heating, hot water supplies and air conditioning in unused sections of office properties. Reducing the amount of space used would also be a viable measure.

At present it is still too early to give a comprehensive assessment of future developments on the office market, or to even try to make accurate predictions. With so many negative factors influencing the current situation, we can only wait and see which approaches companies adopt to deal with these problems. Hopefully a solution can be found to end the current conflict and deal with the problems it has created, which in turn would open the door for the Viennese office property market to regain its accustomed level of stability.

Retail seeking out crisis-proof and sustainable blueprints

Shopping centers in Austria: Growth in new spaces stagnates, SCs withstand pandemic crisis

As of June 30, 2022, Austria had around 2.9 million m² of lettable space at a total of 122 shopping centers (SCs). This means that the average shopping center has about 23,800 m² of space. Shopping center density stood at approximately 323 m² per 1,000 inhabitants at the midpoint of 2022. There have been no significant changes in the amount of lettable space compared with the first half of last year Nor have there been any coronavirus-related closures to date, as drops in SC revenues sustained over the past two years were mitigated in part by government aid measures.

Austria | selected SC openings 2021 / H1 2022

Shopping center	Gross lettable area (GLA), m²	Opened
Linzerie (relaunch)	approx. 8,000	2021
Stadtparkquartier Weiz	approx. 5,000	2021
BHF-City Wr. Neustadt (mixed-use)	approx. 2,500	2021

Sources: UniCredit Bank Austria and Standort+Markt

The most recent smaller SC openings in Austria took place in the first half of 2021. What they all have in common is that they follow the trend toward inner-city locations close to city centers. A case in point is the relaunched 8,000 m² Linzerie am Taubenmarkt, which opened in the heart of Linz. The 5,000 m² Stadtparkquartier Weiz (SPQ) opened in Weiz in Styria. Located a short distance from the station, it features a greened rooftop and cinema.

Only two smaller-scale shopping center projects under construction outside Vienna

At present, there are only two smaller-scale shopping center projects under construction outside Vienna. One of them is the M-Center shopping center with around 8,000 m² in the center of Mattighofen. In line with the trend towards greater sustainability, a groundwater heat pump, photovoltaic system and electricity from hydropower will help make the site carbon neutral. The second project involves a hybrid expansion of EKZ Eisenstadt to include a specialist retailer with around 4,000 m². Both projects are scheduled for completion in 2023.

Austria (excl. Vienna) | Selected SC projects

Shopping center	Gross lettable area (GLA), m²	Scheduled opening
M-Center shopping center Mattighofen	approx. 8,000	H2 2023
EZE Eisenstadt (expansion)	approx. 4,500	H1 2023
Shopping Quartier Lienz	approx. 13,000	Project
Outdoor Center Parndorf	approx. 12,000	Project
Europapark Salzburg (expansion)	approx. 8,500	Project
Arkade Liezen (relaunch and modernization)	approx. 8,000	Project
Das Salzamt Klagenfurt (renovation)	approx. 5,000	Project
EZE Eisenstadt (expansion)	approx. 4,500	Project

Sources: UniCredit Bank Austria and Standort+Markt

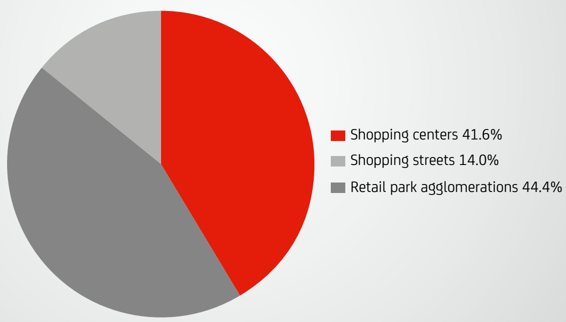
The shopping center pipeline is drying up. At present, the status of some projects is uncertain. Delays can be explained for by the coronavirus crisis and / or complex approval processes.

Vienna's SC market: openings of Vio Plaza and MAHÜ 10–18 quarter development scheduled for 2023 and 2024 respectively

The total amount of retail space in Vienna and the surrounding areas fell slightly, to just under 1.8 million m². The winners included retail

Importance of individual segments in Vienna

as measured by sales space



Sources: UniCredit Bank Austria, Standort+Markt, EHL spaces in retail park zones including retail park agglomerations, whose share of the total increased to 44.4%. Retail spaces in shopping streets, and in category B and C locations in particular, came under intense pressure during the coronavirus pandemic. Their share of the total fell year on year from 15.2% to 14%.

At the end of June 2022 Vienna's shopping center market comprised around 991,000 m² of lettable space spread across 30 locations. There has not been a single new SC opening in the past five years. The last major SC expansion was at the Auhof Center in 2018. The density of shopping center space per 1,000 people fell slightly year on year to around 513 m².

At present, there are two SC projects under construction. Close to Meidlinger Hauptstrasse in the southwest of Vienna, the mixed use Vio Plaza property will feature hotel, office and retail spaces as well as apartments. Covering some 12,000 m², the shopping center and other spaces are due for completion in 2023. The second project, the development of the MAHÜ 10–18 quarter, involves the conversion of the former Leiner site on Mariahilfer Strasse. A new eight-story, 25,000 m² department store with hotel and F&B spaces in the mold of Berlin's KaDeWe is set to open by autumn 2024.

Wien
Selected SC projects under construction

Shopping center	Gross lettable area (GLA), m²	Scheduled opening
Vio Plaza	approx. 12,000	H2 2023
KaDeWe (Leiner building)	approx. 25,000	H1 2024
G3 Shopping Resort Gerasdorf (expansion / outdoor areas)	approx. 3,000	Project

Sources: UniCredit Bank Austria, Standort+Markt

Otherwise, the shopping center pipeline is almost empty. Only the G3 Shopping Resort Gerasdorf on Vienna's northern border with Lower Austria is planning a new sports cluster with a 3,000 m² outdoor activity area (including a bicycle testing track, pump track, climbing wall and multi-purpose sports field), where consumers can try out the sports products on offer.

Top six shopping centers account for over 57 % of total SC space

In all, six malls in the Austrian capital have more than 50,000 m² of lettable space. Together they account for about 57% of all shopping center space in Vienna. There are also 14 smaller shopping centers of less than 20,000 m². The average shopping center size is around 33,000 m².

Number of shopping centers in Vienna and the surrounding area by size

Number	Gross lettable area (GLA), m²
14	< 20,000
10	20,000–50,000
6	more than 50,000

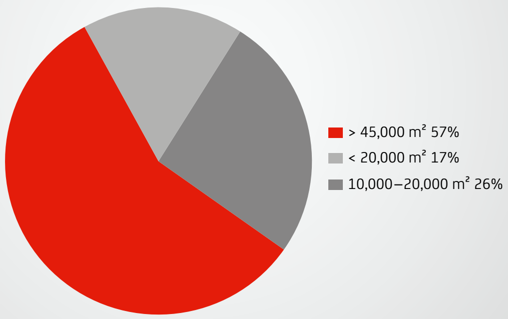
Sources: UniCredit Bank Austria, Standort+Markt

Top six shopping centers in Vienna and the surrounding area

Name	Gross lettable area (GLA), m²
SCS Shopping City Süd (SCS)	approx. 173,000
Donau Zentrum (DZ)	approx. 130,000
Auhof Center	approx. 59,000
G3 Shopping Resort Gerasdorf*	approx. 58,000
Millennium City	approx. 51,000
Huma Eleven	approx. 50,000

*) excl. retail park
Source: UniCredit Bank Austria, Standort+Markt

Breakdown of shopping centers by gross lettable area (GLA),m²



Source: UniCredit Bank Austria, Standort+Markt, EHL

Environmental, social and governance (ESG) playing an increasingly important role for retail businesses

The coronavirus pandemic has brought about a shift in people's shopping and mobility choices. The ecological sustainability of shopping center locations is becoming even more important due to climate change, and is certainly more prevalent than at the start of the year owing to the current energy crisis. The need for a basic supply of everyday and higher-value goods and services closer to where people live has risen sharply. Distances to shopping locations need to be short and, ideally, accessible by public transport, bicycle or on foot.

The era of putting up new malls and shopping centers on greenfield sites is definitely over as a result. Today's trend is towards mixed-use and/or hybrid models in the form of city-center department stores, town centers, and neighborhood or campus developments. Contemporary SCs are an integral part of the urban space, with the focus of leasable space increasingly on flexibility and multifunctionality. In addition, the trend towards refurbs/relaunches and expansions of existing established shopping locations remains unchanged.

Online retailers were among the clear winners to come out of the health crisis. With above-average growth across the board, they reported a jump in sales of around 150% to EUR 23.0 billion in Austria in 2021 (2019: EUR 9.0 billion), which is equivalent to about 30% of all consumer spending in the country.

Generally speaking, any attempt to definitively analyze the impact of the coronavirus pandemic on the retail sector will be beset by considerable uncertainty, given its dependence on changes in the wider operating environment. That said, the winds of change in the retail sector are picking up, and future trends could emerge more quickly than predicted.

Slight increase in top yields – rents currently stable or down marginally

Monthly rents at shopping centers in Vienna in mid-2022 ranged from EUR 8–110/m² depending on store size. Prices at premium shopping centers in prime locations are holding firm (for smaller units of less than 250 m²) or decreasing slightly. Category B and C locations are coming under even more pressure and are often confronted with the need to cut rents.

Shopping center rents

	Range (EUR/m²/month)
Anchor tenants	8–15
Shops (depending on size and location)	15–100

Source: UniCredit Bank Austria

Top yields for high-end shopping center properties in prime locations are currently about 4.5–4.75%. Compared with pre-pandemic levels, this represents only a slight increase of 0.35–0.5 percentage points due to ongoing uncertainty surrounding developments in this asset class. Yields are expected to stabilize or increase slightly by the end of the year.

In 2022, growth in purchasing power in conjunction with the prevailing high inflation rates, as well as the lasting impact of the coronavirus pandemic on rents at shopping centers, will play a major role in shaping investor sentiment and risk assessment as regards this particular asset category.

Retail parks in Austria: demand higher than ever – hidden winners in the coronavirus crisis

In mid-2022, Austria had about 117 retail parks[1] with a total of around 1.3 million m² of retail space, and retail park agglomerations[2] with approx. 4.3 million m² of space. This is equivalent to a density of approximately 620 m² per 1,000 inhabitants – one of the highest rates in Europe. Like the shopping center segment, Austria's retail park market is saturated and most of the attractive development locations are occupied. Around two thirds of retail parks in Austria have less than 10,000 m² of lettable space, with the national average coming in at around 9,800 m².

Retail parks are among the hidden winners in the health crisis. In some cases, the tenant mix prioritizes supermarkets and day-to-day essentials, both of which have proved to be systemically important and crisis resistant. As a result, the performance of the retail park asset class – driven by solid rent growth – was better than that of the shopping center segment in some cases.

Several small retail park projects under construction

One of the most significant changes on the market since last year was the completion of the 13,500 m² expansion of Oberwart retail park next door to EK EO. Additional openings – Triestingpark Münchendorf and the Grieskirchen retail park – involved smaller retail parks of less than 10,000 m². All of the retail parks currently under construction and pending projects are in this category.

Selected retail park openings 2020/H1 2021

Retail park	Gross lettable area (GLA), m²	Opened
Triestingpark Münchendorf (mixed-use)	approx. 7,000	H1 2021
Grieskirchen retail park	approx. 5,000	H2 2021
Oberwart retail park	approx. 13,500	H1 2022

Sources: UniCredit Bank Austria and Standort+Markt

By the end of 2022, a total increase in space of around 15,000 m² is expected, split between four locations.

1) Retail parks: let and managed by a central body; planning is uniform.
2) Retail park agglomeration: retail park locations that have grown organically and are not managed by a single operator.

Selected retail parks under construction and projects

Shopping center	Gross lettable area (GLA), m²	Scheduled opening
Schwechat retail park (Innerbergstrasse)	approx. 5,000	H2 2022
Power Center Stoob Oberpullendorf (renovation and relaunch)	approx. 5,000	H2 2022
Kulmax Spittal / Drau retail park (expansion)	approx. 4,000	H2 2022
STOP SHOP Eisenstadt (expansion)	approx. 1,200	H2 2022
Thayapark (expansion)	approx. 2,500	H1 2023
Frunpark Parndorf (phase II)	approx. 5,000	Project
Einkaufspark Perg	approx. 5,000	Project
Arena Mattersburg (Phase II expansion)	approx. 3,000	Project

Sources: UniCredit Bank Austria, Standort+Markt

The development opportunities for retail parks with less than 10,000 m² of space are extremely limited. In many cases, these sites are heavily dependent on tenants that generate high footfall (e.g. supermarkets), and if such tenants are replaced by lower-quality outlets, this poses a threat to the image of the location in question.

Top 5 retail park agglomerations incl. FOC in Austria

Name	Gross lettable area (GLA), m²
Vösendorf Nord / Brunn am Gebirge	approx. 239,000
Rautenweg West & Ost – 1210/1220 Vienna	approx. 155,000
Klagenfurt Ost – Carinthia	approx. 154,000
Parndorf retail park agglomeration – Burgenland*	approx. 120,000
Graz – Webling	approx. 83,000

*) incl. Designer Outlet Parndof, Fashion Outlet Parndorf, PADO Shopping Park, Pannonia Shopping Park, XXX-Lutz
Sources: UniCredit Bank Austria, Standort+Markt

There were no changes in the ranking of the largest retail park agglomerations in Austria in terms of area compared with the previous year. The largest retail park by far can be found in the area around SCS Shopping City Süd. In second and third place are the retail park around Rautenweg in Vienna and another in the eastern outskirts of Klagenfurt. According to Standort+Markt, the market share of retail park agglomerations including FOC in Austria is just under 30 %. Average space productivity is currently slightly above the previous year's level at around EUR 2,430 / m².

Retail park rents stable for very good and good locations – yields falling

The appeal of retail parks for investors has increased significantly as a result of the pandemic. At the moment, they are the most sought-after type of retail property, with transaction volumes on the up as well as a trend towards rising purchase prices. Prime yields are trending downwards and continue to converge with yields for shopping centers.

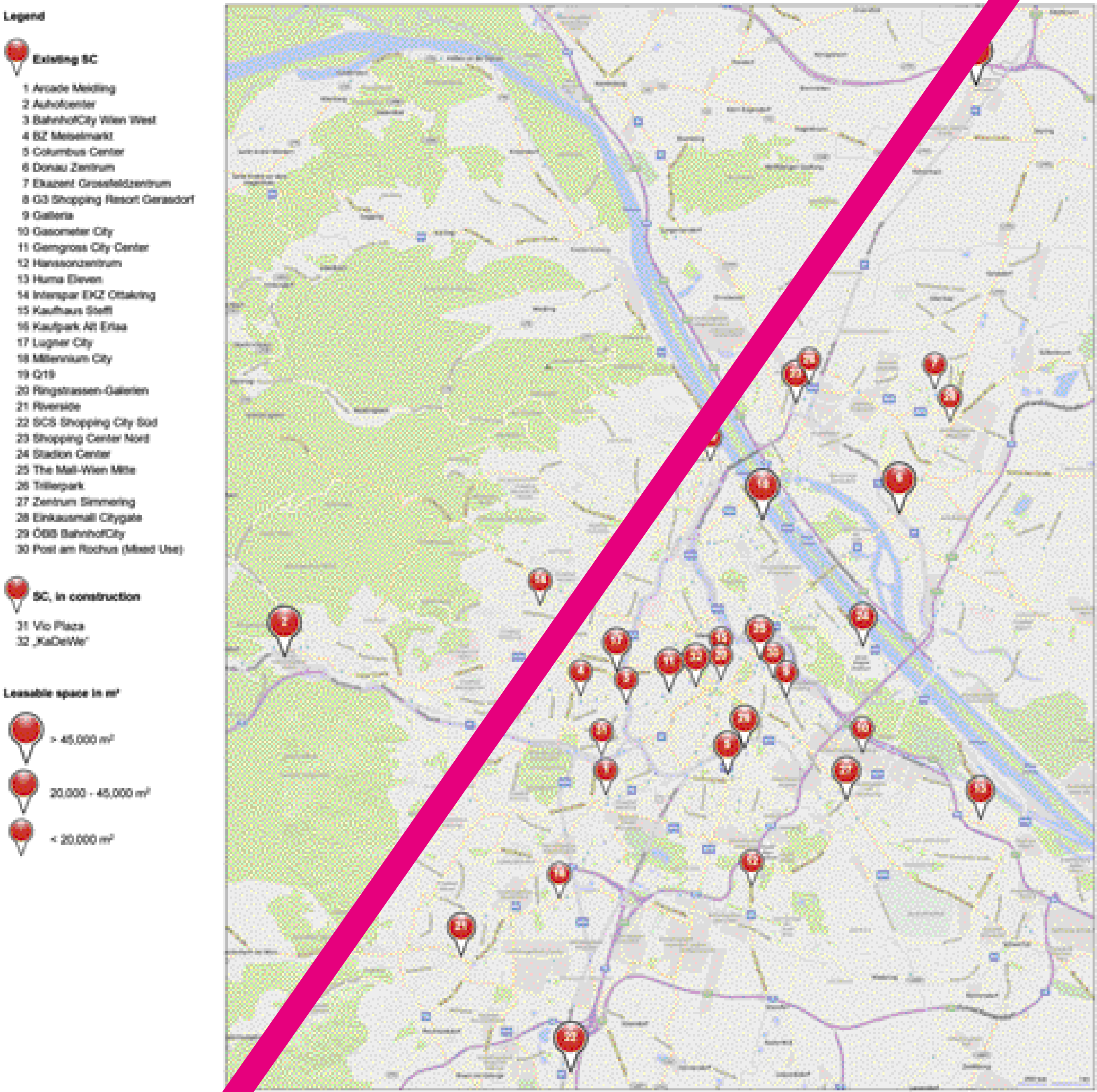
Retail park rents

	Range (EUR / m² / month)
Shops (depending on size and location)	7–16

Sources: UniCredit Bank Austria

Demand is healthy for rental space at easily accessible retail parks with high-level functionality and a balanced tenant mix. Rental costs for retail park units are currently stable and range from EUR 7–16 / m² per month. Slight increases in rents are only expected for smaller units.

Shopping centers Vienna and the surrounding area



Source: IRG, Bing Maps

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