WARBURG-HIH INVEST REAL ESTATE

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Pressemitteilung

Austrian Commercial Real Estate Markets Offer Stability and Growth Prospects

- Investment volume hits new record level in 2017
- Sustained momentum in lettings of and demand for office property in Vienna
- Existing properties stable and construction activity slow
- Viennese hotel property market benefits from international organisations and tourism
- Bright outlook across types of use

Hamburg, 12 April 2018 – The stable growth of the Austrian economy, the brisk demand for lettable area, and a comparatively small-scale supply have ensured a high degree of stability for commercial real estate in Austria and for an attractive growth outlook. More than to any other place, this applies to the national capital Vienna, which occupies a very prominent position within the country as office, retail and hospitality hub. With this in mind, the keen interest that domestic and foreign investors have shown in Austrian commercial real estate will probably remain strong even after the record-volume investments of 2017. This assessment was made by Dr. Martin Sabelko, Managing Directors of Warburg-HIH Invest Real Estate Austria GmbH, based on analytic findings by the in-house research department.

"Austria's gross domestic product grew by 3.1 percent in 2017, and is highly likely to keep increasing by well over two percent in 2018. At the same time, the unemployment rate is expected to drop below the five-percent mark by 2019. So, the stable boom cycle that the Austrian economy entered after overcoming the financial market crisis along with the subsequent recession and the sovereign debt crisis of the member states on the EU periphery is set to continue and offers, in combination with the persistently low interest rates, an attractive environment for investments on the real estate markets," said Dr. Martin Sabelko, Managing Director of Warburg-HIH Invest Real Estate Austria GmbH. The situation is clearly reflected in the increase in investment volume. In 2017, a sum total of c. 5.34 billion euros was spent on commercial real estate in Austria. This record sum exceeded the transaction total of the previous year by c. 390 million euros. With an increase by over 7.5 percent, Austria outperformed all other European commercial real estate markets in 2017. Vienna accounted for almost 80 percent of the realised investments, cementing once again its position as the country’s leading commercial real estate market by far. German investors proved most active in 2017 with a market share of around 51 percent, followed by Austrian investors with a 28-percent share.

The keen investor demand caused initial yields for prime office properties to keep hardening in 2017. Prime yields for office properties let on long-term leases in Vienna’s central business district (CBD) dropped to 3.9 percent, undercutting the all-time low of 2016 by another ten basis points. The prime yields on Vienna’s high streets declined from 3.4 percent at mid-year 2016 down to around 3.25 percent only. In the shopping centre category, CBRE observed a hardening of prime yields by another five basis points down to 4 percent in the course of 2017.

The vacancy rate on the Viennese office market continued to go down slowly in 2017, and currently stands at just 4.9 percent overall. The reason for this is the relatively low level of completions in combination with a high pre-let ratio for new-build office space coming on-stream. CBRE registered by far the lowest vacancy rate of Vienna’s office market in the SBD submarket, where only 2.3 percent of the office units are available for rent.

International retail multiples show a sustained high level of interest in the Austrian retail market, and the persistently high number of new market entries—especially in Vienna—suggests as much. Especially fashion chains like the H&M spin-offs Monki and Weekday keep opening new stores in prime high-street pitches with a high footfall. In a parallel development, gastronomy is gaining in significance as a major footfall driver for retailers in surrounding high-street locations and malls. The growing competition posed by online retailing and the tight planning law restrictions ensure that the number of new shopping-centre developments remains limited. Existing shopping centres therefore benefit from a low competitive pressure.

The hospitality market in the Austrian capital benefits above all from Vienna’s role as one of the world’s leading conferencing cities and the seat of significant international organisations such as the Organisation for Security and Co-operation in Europe (OSCE), the Organisation of the Petroleum Exporting Countries (OPEC) and the Vienna International Centre (VIC). Although Austria’s hotel transactions in 2017 fell short of the prior-year total of 510 million euros, according to Christie & Co, they once again topped the long-term average.

Meanwhile, the outlook for Austrian real estate markets remains favourable: Markets in Vienna, for one, are stimulated by positive demographic growth that is explained not least by the city’s standard of living, which is higher than in many other European cities. The retail property market benefits from the fact that the spending power of Austrians is relatively evenly spread across the country. While retail warehouse parks often thrive on catchments of moderate size, some of the big-ticket shopping centres lack adequately sized market areas, and this factor has discouraged new-build developments and lowered the competitive pressure on existing malls. The office market, especially the one in Vienna, presents a stable picture, while the hotel property market is paced by the city's international appeal as domicile of international organisations and as a popular tourist destination. Given the favourable parameters, there is every reason to expect the interest in real estate investments in Austria among foreign investors to keep growing. In fact, the strong demand makes it likely that forward purchases, meaning the sale of properties before they are completed, will continue to play a key role.

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Dr. Martin Sabelko, Managing Director,
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About Warburg-HIH Invest

Warburg-HIH Invest Real Estate (Warburg-HIH Invest) is a real estate investment manager serving institutional investors and covering the entire spectrum of national and international real estate investments. Warburg-HIH Invest is one of Germany's leading managers of special AIF for real estate, with real estate assets of c. EUR 6.7 billion under management. Warburg-HIH Invest can demonstrate a comprehensive track record in designing and implementing bespoke investment solutions. Warburg-HIH Invest, as a quality provider, supplies products and services with added value. This pursuit matches the quality standards set by both of its shareholders, HIH Real Estate and the private bank M.M.Warburg & CO founded in 1798.

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