RESEARCH

Knight Frank

in association with

OTTO IMMOBILIEN GEWERBE

# VIENNA

## OFFICE MARKET OUTLOOK

**Q2 2016**

OCCUPIER TRENDS | INVESTMENT TRENDS | MARKET OUTLOOK

# KEY FINDINGS

A flight to quality has been a prominent feature of the market, as occupiers seek high quality space in prime locations.

Strong pre-leasing activity has been witnessed for new projects due for delivery in 2017, in light of the current year's constrained development pipeline.

The coupling of robust demand and limited new supply has led to an increase in prime office rents in 2015 to €25.75 per sq m per month.

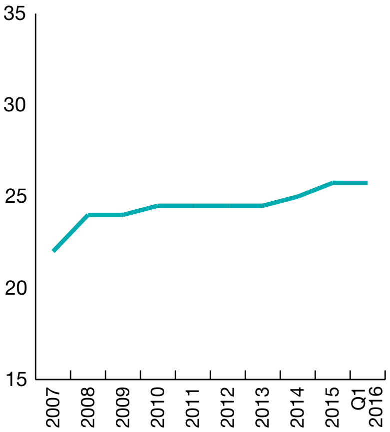
While investment volumes were muted in Q1 2016, activity has lifted this quarter, with several institutional-grade assets transacting.

Yields hardened by 35 bps to end Q1 2016 at 4.4%, with further compression anticipated.

FIGURE 1

**Prime office rents**

€ per sq m per annum




**Source:** OTTO Immobilien/Knight Frank Research

# OCCUPIER MARKET

## A flight to quality is a prominent and continuing feature of Vienna's occupational market.

Office take-up in Vienna fell by 9% year-on-year to reach 190,000 sq m in 2015. Comparatively, 2016 has been off to a solid start, with 54,000 sq m of take-up in Q1 2016. Leasing transactions above 1,000 sq m accounted for around half of the total leasing volume in 2015, with the largest occupier deals taking place in the Donau-City District. Both Ernst & Young (10,300 sq m) and Austrocontrol (10,000 sq m) took on leases in the IZD Tower, one of Vienna's highly sought-after landmark buildings. The Donau-City District is host to the United Nations European Campus and has attracted high profile local and international occupiers alike.

Similar to recent years, occupier requirements have been for high quality space in new or modern premises, or renovated buildings enabling a certain degree of flexibility in floor plans and fit-outs. Location has also been an important consideration, with excellent transport links a key criterion. Most recently however, the growing trend has been toward serviced offices in Vienna. Operators such as Regus have accommodated self-employed individuals and small partnerships, and will respond to this growing market by expanding their offering.

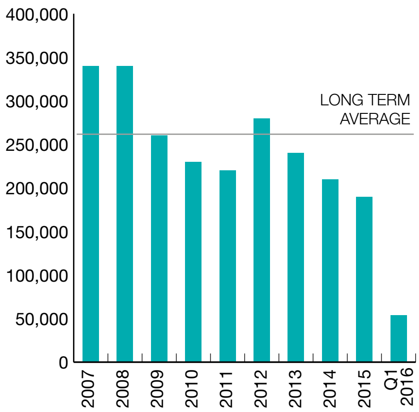
During 2015, 130,000 sq m of new or newly renovated stock was delivered to the market. In comparison, supply additions in 2016 will fall significantly short of this and reflect the lowest delivery since 2002 (approximately 48,000 sq m). As a result of the limited supply, pre-lease agreements for new projects have been prevalent among major occupiers. In particular, Vienna City, the Second District and Donau-City have experienced elevated demand, while the Central Railway Station precinct has also attracted significant interest.

The coupling of robust demand and a constrained pipeline led to an increase in prime rents in Vienna to €25.75 per sq m per month in 2015. Rents remained stable at this level in Q1 2016. However, rental incentives are beginning to fall due to scarcity of stock. In view of these market characteristics, vacancy levels will decline over the year from their current level of 6.2%. As flight to quality continues, secondary stock availability is likely to increase, placing landlords of obsolete and older secondary assets under pressure to invest in capital works for refurbishment or redevelop their sites for alternative uses.

FIGURE 2

**Office take-up**

sq m



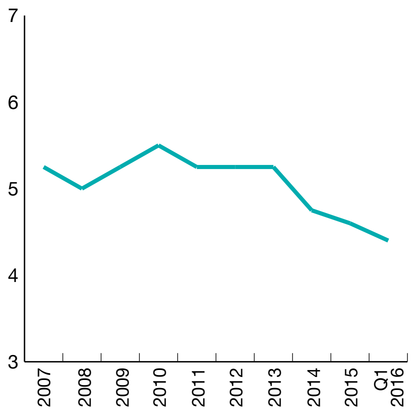

**Source:** OTTO Immobilien/Knight Frank Research

**Key recent office leasing transactions**

| Quarter | Location | Tenant | Size (sq m) |
|---|---|---|---|
| Q2 2015 | IZD Tower, Wagramer Str. 19, 1220 | EY | 10,300 |
| Q1 2015 | IZD Tower, Wagramer Str. 19, 1220 | Austrocontrol | 10,000 |
| Q4 2015 | Hollandstraße 11-13, 1020 | Akademie der Wissenschaften | 8,500 |
| Q2 2015 | Obere Donaustraße, 1020 | Lebenministerium | 5,000 |
| Q4 2015 | DC Tower, Donau-City Straße 7, 1220 | Voestalpine | 3,700 |

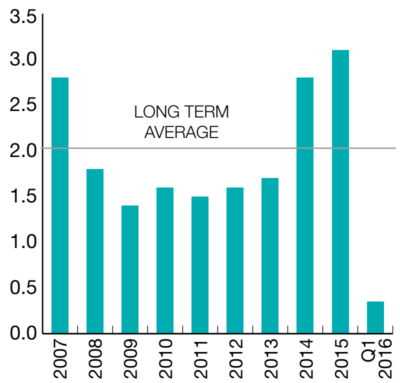
**Source:** OTTO Immobilien/Knight Frank Research

FIGURE 3
**Prime office yields**
%




**Source:** OTTO Immobilien/Knight Frank Research

FIGURE 4
**Austria commercial investment volumes**
€ billion




**Source:** OTTO Immobilien/Knight Frank Research


The Wien Mitte Complex, purchased by Morgan Stanley in 2015

# INVESTMENT MARKET

A significant weight of capital entered commercial property markets globally during 2015. Analogous to many markets, Austria had its strongest year on record, as €3.1 billion was invested into its commercial real estate, an 11% increase year-on-year. The most dominant buyer groups were local investors accounting for 52% of the transaction volume, while German funds and US institutions were also active buyers. Office assets with attractive lease profiles continued to be the most sought-after, in light of their reduced market vulnerability and stable cash flows.

While the majority of transacting assets were within the sub-€20 million range, a handful of large-scale investments also exchanged hands and accounted for nearly half of the total annual volume. The largest was Morgan Stanley's acquisition of the Wien Mitte retail and office complex for €500 million. The Rivergate office complex at Handelskai was another significant acquisition. Canada's Dream Global REIT entered a joint venture with an Asian sovereign wealth fund, marking the Canadian institutional investor's first acquisition in Austria.

Following an exceptionally strong Q4 2015, activity in Q1 2016 was subsequently muted, with the lowest quarterly transaction volume recorded since the post-credit crunch of 2009. Prime offices have experienced yield compression of 35 basis points from the start of 2015 to end Q1 2016 at 4.4%. Overall, Vienna remains an attractive market and will be a focus of domestic and cross-border investors.

**Key recent property investment transactions**

| Quarter | Property | Seller | Buyer | Approximate price (€million) |
|---|---|---|---|---|
| Q4 2015 | Wien Mitte | BAI | Morgan Stanley | 500 |
| Q2 2016 | IZD Tower | Signa Holding | CBRE Global Investors | 230 |
| Q1 2016 | Hotel Hilton am Stadtpark | Raiffeisen | Krause & Kollitsch | 200 |
| Q4 2015 | Rivergate | JV Signa & Raiffeisen | Dream Global REIT | 189 |
| Q4 2015 | Haus an der Wien | Signa Holding | Allianz | 94 |

**Source:** Knight Frank Research

## KNIGHT FRANK VIEW

Vienna's occupational market is expected to experience robust demand throughout 2016, with tenants continuing their quest to secure modern and high quality premises. Due to a curbed supply pipeline and the unrelenting appetite of occupiers for new and modern premises, pre-leases in new projects will feature prominently throughout 2016-2017. While prime rents are likely to stabilise at their current level, properties in highly sought-after areas in the city centre may face further upward pressure, particularly where substantial supply shortages persist. However, with a sizeable development pipeline due for completion in 2017, this will assist in moderating rental growth.

Following an exceptionally strong year in investment activity, the plunge in investment volumes in Q1 2016 suggests growing investor concern over a range of global economic and political risks. However, transactional evidence indicates an active market, with CBRE Global Investors' recent acquisition of the IZD Tower for €230 million. Trophy assets will continue to be pursued by investors and although commercial transaction volumes are unlikely to reach last year's volumes, strong investment activity will be underpinned by high market liquidity. Further yield compression will lead to continued capital growth.

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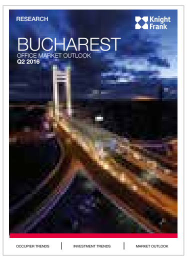

Bucharest Office Market Outlook Q2 2016

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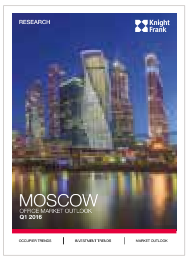

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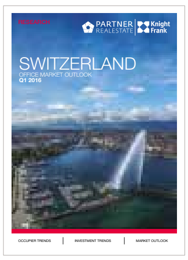

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