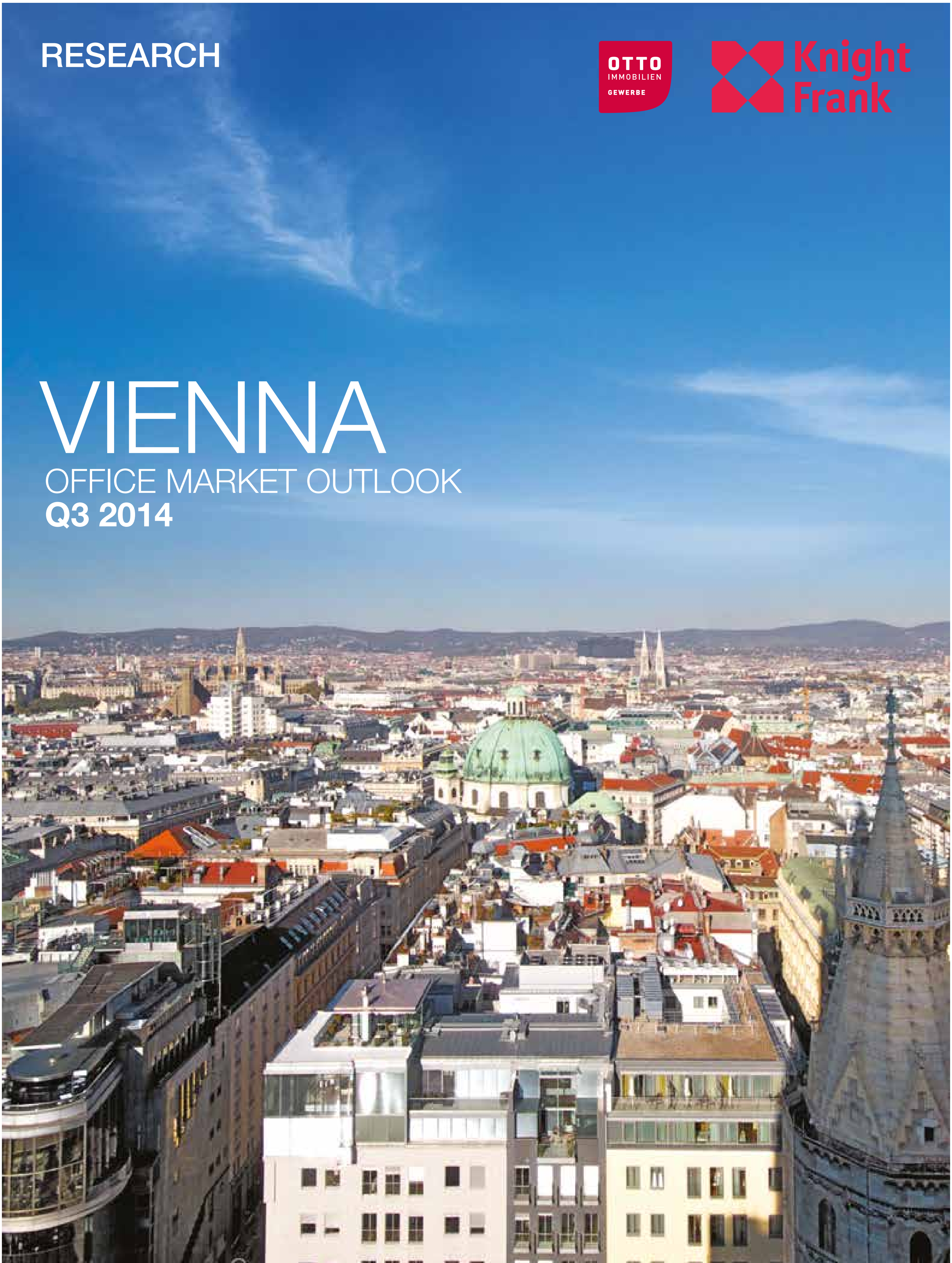


RESEARCH

VIENNA

OFFICE MARKET OUTLOOK

Q3 2014

OCCUPIER TRENDS | INVESTMENT TRENDS | MARKET OUTLOOK

KEY FINDINGS

Vienna is one of the most stable office markets in Europe

Prime office rents ticked upwards slightly in H1 2014, to €25.00 per sq m per month

Limited development activity has kept the city-wide vacancy rate relatively low, at 6.5%

Investment activity is on the rise, boosted by strong demand from German institutions and private buyers

Development around the new Vienna Central Station has the potential to create a major new office district over the next few years

OFFICE OCCUPIER MARKET

The Vienna office market is one of the most stable in Europe. In recent years, there has been limited movement in prime rents and vacancy rates have remained consistently low.

Vienna's geographic location, at the crossroads of Eastern and Western Europe, helps to make it an important international business hub. It is viewed as an entry point to the Central and Eastern Europe region by many global companies, with around 300 firms having their CEE headquarters in the Austrian capital.

Office take-up reached 240,000 sq m in 2013, which was a respectable performance albeit c.15% below the ten-year average. Activity was boosted by a large number of deals involving public sector occupiers. Take-up was below expectations in H1 2014, coming to c.100,000 sq m, but leasing volumes are expected to improve in H2 as several tenants are actively considering options to lease new space.

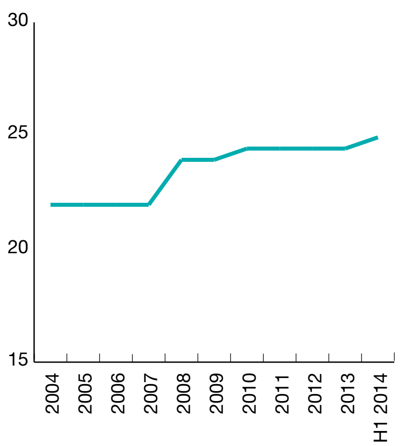
A scarcity of development in recent years has helped to keep vacancy rates relatively low. The overall vacancy rate stood at 6.5% in mid-2014. There is a limited availability of high quality office space, which has pushed many companies towards pre-leasing space in buildings currently in development.

The development pipeline is limited, but a major focus for activity is the emerging business district around the new Central Station (Wien Hauptbahnhof), which is due to be fully operational in December 2015. Projects under development in this area include new headquarters for Erste Bank (117,000 sq m) and ÖBB (31,000 sq m), both of whom will be consolidating existing operations in the new buildings.

As companies leave their old accommodation in order to relocate to the new district, it is possible that a growing amount of vacant older office space will emerge elsewhere. However, the general low level of development activity across most of Vienna should limit increases in the overall vacancy rate.

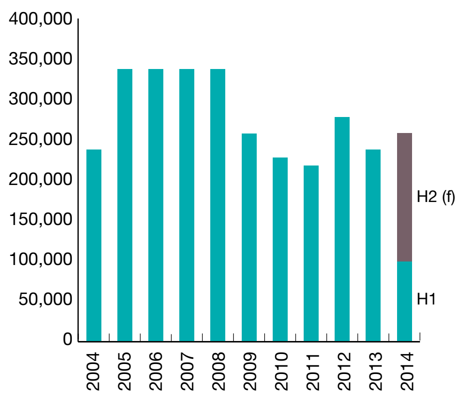
During H1 2014, prime office rents increased for the first time in four years, rising by a modest 2% to €25.00 per sq m per month.

FIGURE 1
Prime office rents
€ per sq m per month



Source: OTTO Immobilien/Knight Frank

FIGURE 2
Office take-up
sq m



Source: OTTO Immobilien/Knight Frank

Key recent office leasing transactions

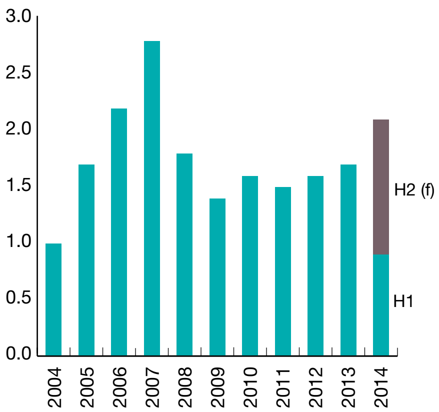
Quarter	Property	Tenant	Sector	Size (sq m)
Q4 2013	Ungargasse 37	AMS	Public	7,300
Q3 2013	Euro Plaza 5	Kapsch CarrierCom	Telecommunications	6,800
Q2 2014	Florido Tower	Wiener Krankenanstaltenverbund	Healthcare	4,500
Q3 2014	Saturn Tower	Alcatel	Telecommunications	4,500
Q2 2014	Marximum	Wiener Wohnen	Public	4,000

Source: OTTO Immobilien/Knight Frank

FIGURE 3
Prime office yields
%

Source: OTTO Immobilien/Knight Frank

FIGURE 4
Austria commercial property investment volumes
€ billion



Source: OTTO Immobilien/Knight Frank

Wipplingerstraße 33. Photo credit: Atelier Hayde

INVESTMENT MARKET

Around €1.7 billion was invested in Austrian commercial property in 2013, with Vienna attracting more than 65% of nationwide investment. The current year is on course to outperform 2013, with approximately €900 million invested in Austria in H1 2014.

Investment demand in Vienna is currently very strong, particularly for core office assets with good covenants in established business districts. However, transactional activity is restricted by the limited availability of prime stock.

Between them, domestic investors and German institutions accounted for the vast majority of investment activity in H1 2014. German open-ended funds have been particularly active as they seek to deploy more capital outside of their domestic market. A noteworthy example is Union Investment, which has invested more than €100 million in commercial properties throughout Vienna in the first half of 2014.

The Vienna market also continues to see strong interest from Austrian and German private investors and family offices, whose interest in commercial properties is partly a result of the current high prices of residential properties. These investors are generally focused on prime central properties with relatively small lot sizes.

Prime yields have hardened over the last twelve months. Yields for core offices in the city centre currently stand at 4.75-5.00%. However, yields for trophy assets sold to private buyers, particularly buildings with retail or residential components, can be significantly lower. Yields for “core plus” offices are c.6.00%.

Key recent office investment transactions

Quarter	Property	Seller	Buyer	Approximate price
Q4 2013	BAWAG HQ	BAWAG PSK	Signa Holding	€150 million
Q4 2013	Schottengasse 6-8	Bank Austria	RPR Private Foundation	N/A
Q3 2014	Euro Plaza 5	Kapsch Immobilien	Union Investment	€104 million
Q1 2014	3-property portfolio (Office/ Residential/Retail)	Uniqa Group	Novoreal Immobilien invest	€56 million
Q4 2013	Kärntner Strasse 5	Chamber of Architects	Private Trust	€38 million

Source: OTTO Immobilien/Knight Frank

KNIGHT FRANK VIEW

The Vienna office market remains a beacon of stability within Europe. Its ability to withstand the economic vacillations affecting other European capitals will continue to give it considerable appeal to investors seeking to hedge against more volatile markets. With large volumes of capital currently targeting Vienna, we forecast that Austrian commercial investment volumes will pass the €2 billion mark in 2014. Prime yields may see further moderate compression, particularly in Vienna city centre.

Office property development associated with the construction of the new Vienna Central Station has the potential to have a major impact on the market over the next few years. There may be some moderate upward pressure on vacancy rates elsewhere as companies relocate to the new district. However, Vienna’s overall vacancy rate is likely to remain among the lowest of any major European capital city. We expect office rents to be largely stable throughout the rest of 2014 and 2015, with modest increases possible in central locations.

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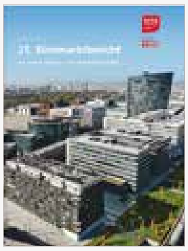


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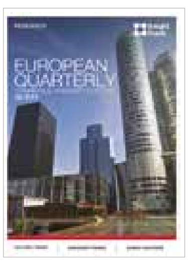

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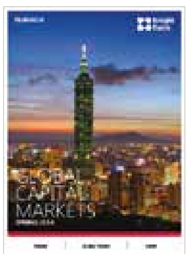

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