

RESEARCH

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VIENNA

OFFICE MARKET OUTLOOK
Q3 2015

OCCUPIER TRENDS

INVESTMENT TRENDS

MARKET OUTLOOK

KEY FINDINGS

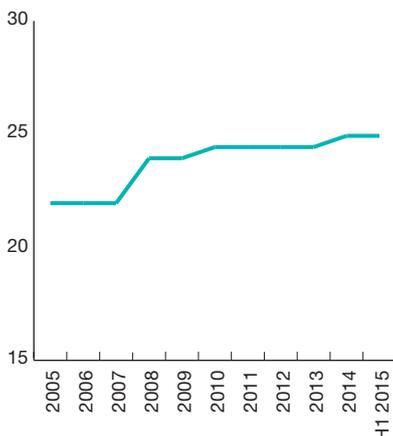
Prime office rents ticked up modestly to €25.75 per sq m per month in Q2 2015

Occupier requirements are focusing more on the need for high-quality space in prime locations, which are currently limited

Austria remains an attractive country for commercial real estate, with investment matching its pre-crash peak of €2.8 billion in 2014, however 2015 is not expected to follow in suit

Although the office sector continues to dominate investment activity, retail property has attracted growing demand, and industrial opportunities have begun to see positive interest

FIGURE 1
Prime office rents
€ per sq m per month



Source: OTTO Immobilien / Knight Frank Research

OCCUPIER MARKET

Although leasing activity reduced in 2014, demand for offices in Vienna remained healthy as occupiers continued to seek high quality space.

Office take-up in 2014 fell by 10% year-on-year to reach 215,000 sq m, largely because the availability of high quality space was extremely low. Compared to previous years, leasing transactions in excess of 10,000 sq m were virtually absent in 2014, with only ÖBB moving into their pre-leased headquarters of 31,000 sq m in the Central Station development. With ÖBB as the exception, the bulk of leasing activity last year was for space between 2,000 and 5,000 sq m.

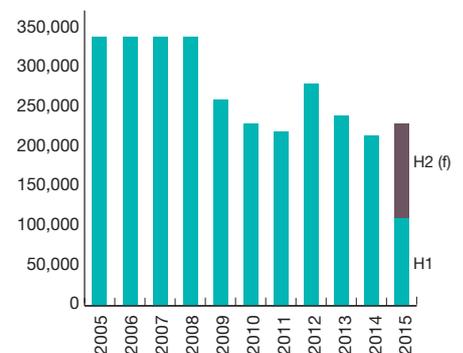
Prospective occupiers have become very selective in their requirements, demanding not only high quality office space, but also in exceptional buildings with excellent transport links. Such requirements are therefore restricted to select office locations, for example the areas in and around the CBD, Central Station and Donau-City districts, which have been particularly popular among tenants in the past few months. However, despite the supply of high quality stock being at a low level, 2015 started positively, indicating that demand is still healthy in Vienna. Take-up for H1 2015 totalled approximately 108,000 sq m, up 13.7% on the same period in 2014.

The lack of good quality stock was exacerbated by a fall in development activity. New completions in 2014 amounted to just 100,000 sq m, falling c. 30% on 2013 and reaching a 10-year low. Scheduled completions are set to rise slightly to 130,000 sq m in 2015; however, most of this new space has been pre-leased.

Only about a quarter of it is available to rent, leaving tenants with large space requirements with limited options. Much of the pre-leased space is the Erste Campus in the Central Station development, which will be occupied by owners Erste Bank for their new headquarters after they relocate from multiple sites in Vienna. Vacancy rates stayed low as a result, reaching 6.4% in H1 2015.

With demand outstripping supply, and requirements becoming a lot more specific, some occupiers are increasingly willing to pay higher rents to secure good space. As a result, although average office rents remained stable at €13 per sq m per month, prime rents increased modestly to €25.75 per sq m per month (as at H1 2015), up 5.1% in twelve months.

FIGURE 2
Office take-up
sq m



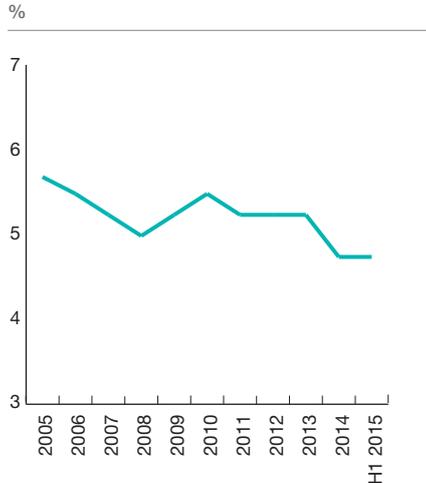
Source: OTTO Immobilien / Knight Frank Research

Key recent office leasing transactions

Quarter	Location	Property	Tenant	Size(sq m)
Q3 2014	Central Station	ÖBB HQ	ÖBB	31,000
Q1 2015	Donau-City	IZD Tower	Austro Control	12,000
Q1 2015	Dresdner Str./Handelskai	Rivergate	Global Blue	5,800
Q1 2015	CBD	Palais Strozzi	Institut für höhere Studien	4,700
Q3 2014	Donau-City	Saturn Tower	Alcatel-Lucent Austria	4,500
Q2 2015	Dresdner Str./Handelskai	BC20	MA11	4,000

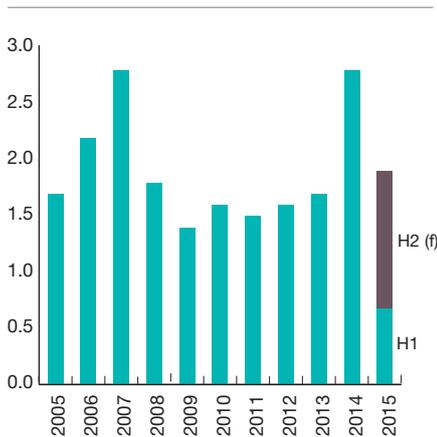
Source: OTTO Immobilien / Knight Frank Research

FIGURE 3
Prime office yields



Source: OTTO Immobilien / Knight Frank Research

FIGURE 4
Austria commercial* property investment volumes
€ billion



Source: OTTO Immobilien / Knight Frank Research
* office, retail, industrial and hotel transactions

INVESTMENT MARKET

Commercial investment in Austria showed exceptional improvement in 2014, matching its pre-crisis peak and increasing by 65% year-on-year to c. €2.8 billion. As with previous years, the office sector continued to dominate, taking a 51% market share in 2014, followed closely by a growing retail sector. Mixed-use buildings were of particular interest, with the largest deal of 2014 being the acquisition of the Millennium City office tower and retail mall for €315 million in Q3.

2014 saw an increased number of transactions with large lot sizes, in comparison to 2013. Union Investment – which acquired the Space2move building in Vienna for approximately €185 million, in the second largest property transaction of 2014 – are amongst many German investors who are increasing their presence in Austria. This high intensity has continued into 2015, with Union Investment purchasing the Green Worx office building for €50 million in April and the Ibis and Ibis Budget

Wien Messe portfolio, consisting of office and hotel units, for an undisclosed sum in March. Another noteworthy international investor is Corpus Sireo, who made their first purchase in Austria, with the acquisition of Nordbahnstraße 50 for €43 million, in a deal advised by OTTO Immobilien. As such, commercial investment volumes for the first six months of 2015 totalled €700 million in Austria. Though down by about 22% on the same period last year, full-year volumes are expected to be relatively healthy and reach approximately €1.9 billion – in line with the 10-year average.

Having remained stable at 5.25% since 2011, firm competition for office stock in Vienna drove prime yields down 50 bps to 4.75% at the start of 2014, where they have stayed throughout H1 2015. Though this ranks midway against other major European cities, yields still look very attractive, particularly against the country's low long-term government bonds.

Key recent commercial investment transactions

Quarter	Sector	Property	Seller	Buyer	Approximate price (€)
Q4 2014	Office	Space2move	Raiffeisen Bank	Union Investment	185,000,000
Q4 2014	Hotel/Retail	Haas Haus	Uniqa Group	Do & Co	106,700,000
Q2 2015	Office	Green Worx	S+B Gruppe JV Raiffeisen Bank	Union Investment	50,000,000
Q2 2015	Office	Nordbahnstraße 50	Bank Austria Real Invest	Corpus Sireo	43,000,000
Q1 2015	Hotel	Courtyard Vienna Messe	S IMMO AG	DekaBank	35,000,000

Source: OTTO Immobilien / Knight Frank Research



KNIGHT FRANK VIEW

Demand in Vienna's office market is expected to strengthen throughout 2015, as occupiers continue to seek high quality office space. Take-up is forecast to increase as a result, and is likely to be aided by the pre-leasing of new projects due at the end of 2016. Completion volumes are expected to be low until the end of 2016, and consequently, average and prime office rents may experience some upward movement in the short term. However, development is forecast to pick-up thereafter, when rents could begin to stabilise.

Investment sentiment has remained positive in 2015, but the lack of high quality stock in prime locations will continue to restrict office transactions. Commercial transaction volumes in 2015 are forecast to be in the region of €1.9 billion, falling by a third on 2014, though broadly in line with the 10-year average. Although the retail sector is attracting an increasing share of investment in Austria, the key focus for investors will still be office buildings in core locations. As office demand remains high, prime yields, which have already begun facing mild compression, could fall further by the end of the year.



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