

PRESS INFORMATION

## Austrian real estate market remains interesting for investors despite difficult conditions

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### **Return to a more balanced situation in Europe.**

The economic downturn, coupled with the crisis in the telecommunications and new economy sectors, has lent visible weakness to the European office real estate markets over the past year.

“We expect the market to soften even further in 2003, despite the anticipated economic upturn. Large volumes of new buildings will be forcing their way onto the market this year and next, with further pressure on rental prices as a result”, commented Siegfried A. Cofalka, manager director of Oppenheim Immobilien-KAG in Wiesbaden. A substantial amount of surplus supply is, however, unlikely. It is much more plausible that the real estate markets will return to a balanced, more healthy situation.

Nevertheless, real estate has lost none of its appeal as an investment target. At over €3.3 billion in the first half of 2002, investment volumes at Germany’s five major real estate locations were up 30% year-on-year. This is attributable to the dominant low interest rates and high volatility of alternative investments, such as equities.

Net initial yields (operating result from the first year relative to the purchase price, including ancillary costs) for most locations have remained

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unchanged since the start of the year, thanks to high levels of investment activity. The total return for 2001, i.e. the current operating result together with the growth in the value of the properties, was still down slightly year-on-year, as a result of weak growth in rents. Given the unexceptional prospects for the tenancy market, the total return is expected to be equally modest this year.

### **Viennese market also softening**

The office market in Vienna has been experiencing a similarly visible easing process. At 280,000 m<sup>2</sup>, sales of office space in 2001 remained around 10% below the prior-year level. The vacancy rate has increased substantially from 2.4% at the end of 2000, owing to reduced demand and the subsequent completion of a large number of major projects, and is now hovering at around 5%. In contrast to many other major European cities, this increase is only marginally attributable to the return of leased properties to the market, and is more the result of problems with regard to finding tenants for new office space with unfavourable transport connections or locations. Office vacancies will continue to rise as a result of the boom in new building projects (expected vacancy rate of approx. 6.2% at the end of 2003). This will put increasing pressure on rental prices, although rents for medium-quality office properties in peripheral locations in particular are expected to drop. By contrast, the top-end rents for office space with high-quality furnishings and transport links will remain constant.

### **Decentralisation of the office market – a reason for low rents**

At €250/m<sup>2</sup> per annum, the top-end rents in Vienna are at the bottom end of the spectrum for major European cities. This is due, in particular, to the spatial structure of the Viennese office market. Demand for modern, large-

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scale office buildings in central Vienna, the most expensive area of the city, could not be met at the start of the nineties due to a lack of suitable construction sites and as a result of the strict building regulations protecting listed buildings. For this reason, many small, decentralised office sites featuring modern buildings have since sprung up in more reasonably-priced districts, such as the Lasallestrasse-Donaucity-Dresdnerstrasse and Gasometer-Erdberg areas. In the light of this decentralisation in office activities – and leaving aside the market’s current softening – it would appear unlikely that Vienna’s top-end rents will start rallying to play “catch up” in the coming years.

#### **Healthy prospects for the Vienna capital market**

The Viennese real estate market has been attracting mounting interest from global investors over the past few years, and from German funds in particular. Although the net initial returns that can be generated in Vienna are modest by European standards, given its moderate rents and in anticipation of the EU expansion, Vienna is nevertheless seen as a force for stability, which is an attractive prospect for those wishing to diversify the risk of their real estate portfolios. More intensive competition from the central and eastern European capitals will, however, prevent a recurrence of the office market boom enjoyed in Vienna in the past. By contrast, Vienna’s retail property market is expected to benefit from the EU expansion and associated economic growth. It should ultimately be noted that the conclusion of the Real Estate Investment Fund Act (*Immobilienfondsgesetz* – ImmoInvFG), which is scheduled for 2003 and promotes the creation of Austrian real estate funds following the German model, will boost the liquidity of the real estate market and, in turn, its attractiveness.

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