

## MARKET TRACKER THIRD QUARTER 2019

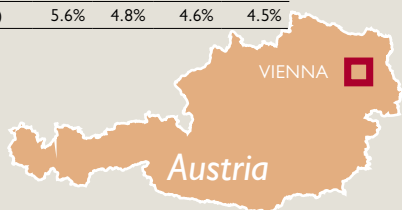
# Residential Market Tracker Austria

## I Macroeconomic Trends and Outlook

The above-average economic growth in Austria over the past years is currently being held back somewhat by the slowdown in the international economy. This is supported by dynamic domestic demand, driven by private consumption, increasing incomes and strong industrial production. According to the EU Commission, purchasing power is expected to reach around € 40,500 per capita in 2019, well above the eurozone average of around € 33,700. The unemployment rate has fallen from 6% in 2016 to currently 4.6% as a result of the economic boom.

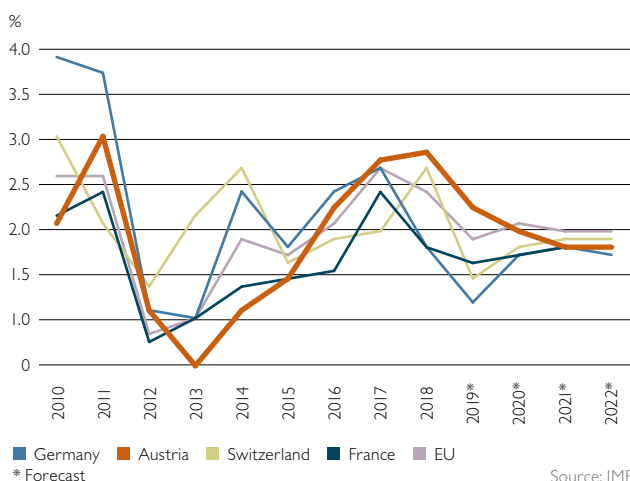
### Economic Outlook:

	2017	2018	2019e	2020e
Δ Households	0.94%	0.72%	0.66%	0.68%
Δ Real GDP	2.6%	2.7%	2%	1.7%
Δ HICP	2.2%	2.1%	1.7%	1.7%
Avg. household income	0.5%	1.39%	1.94%	1.8%
Unemployment rate (ILO)	5.6%	4.8%	4.6%	4.5%



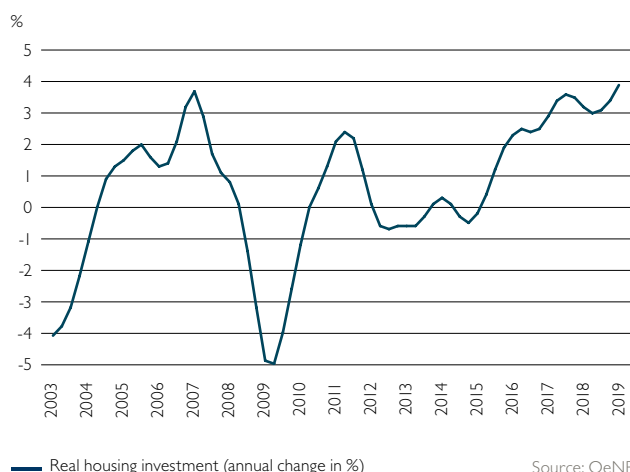
**Demographic development**, the main driver of housing demand, remains positive. Between 2010 and 2018, Vienna (13.2%) recorded the highest population growth, followed by Graz (12.2%) and Innsbruck (10.7%), while the total population increased by 6.24%. Private **debt** is around 50% of GDP, whereby the financial assets of the household sector amount to 177%.

FIG. 1: GDP GROWTH



Source: IMF

FIG. 2: HOUSING INVESTMENT



Source: OeNB

The development of **housing loans** is positive, but not excessively strong. Overall, the risks from real estate financing are currently considered to be low. Investments in residential construction have been rising almost consistently since 2010 but have gained considerable momentum over the past three years.

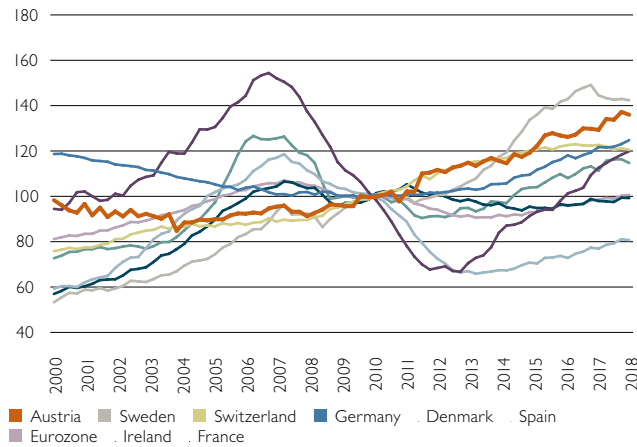
### Financial sector:

Since the ECB will not consider an initial interest rate hike until **mid-2020** at the earliest, observers even believe that a further easing of monetary policy in the eurozone is possible if inflation expectations and economic prospects do not improve. Accordingly, liquidity should remain high and interest rates, which are important for the real estate market, and the associated (re)financing conditions should remain at a low level for the time being (average interest rate for housing loans currently 1.7%).

Austria is rated with the second-best credit rating by all three major rating agencies and (most recently by Fitch 2018) with a positive outlook. The German rating agency Scope even rates the country's creditworthiness with the top mark and with a stable outlook. Austria is therefore amongst the prime countries, including Germany, Luxembourg, Switzerland and the high-grade debtors such as Belgium, France and the UK.

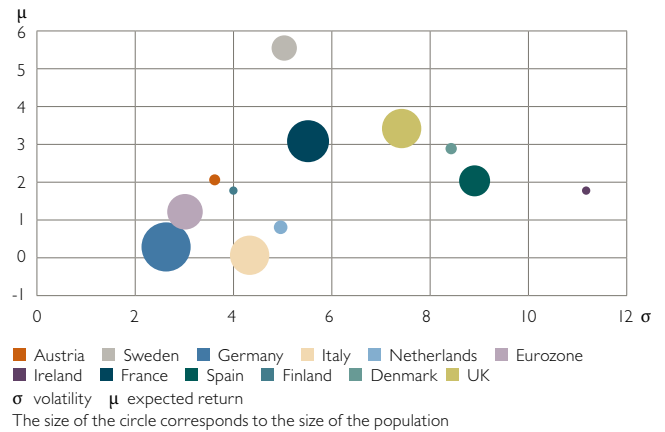
## 2 Housing Price Indicators

FIG. 3: RESIDENTIAL PROPERTY PRICES IN EUROPE (INDEX 2010 = 100)



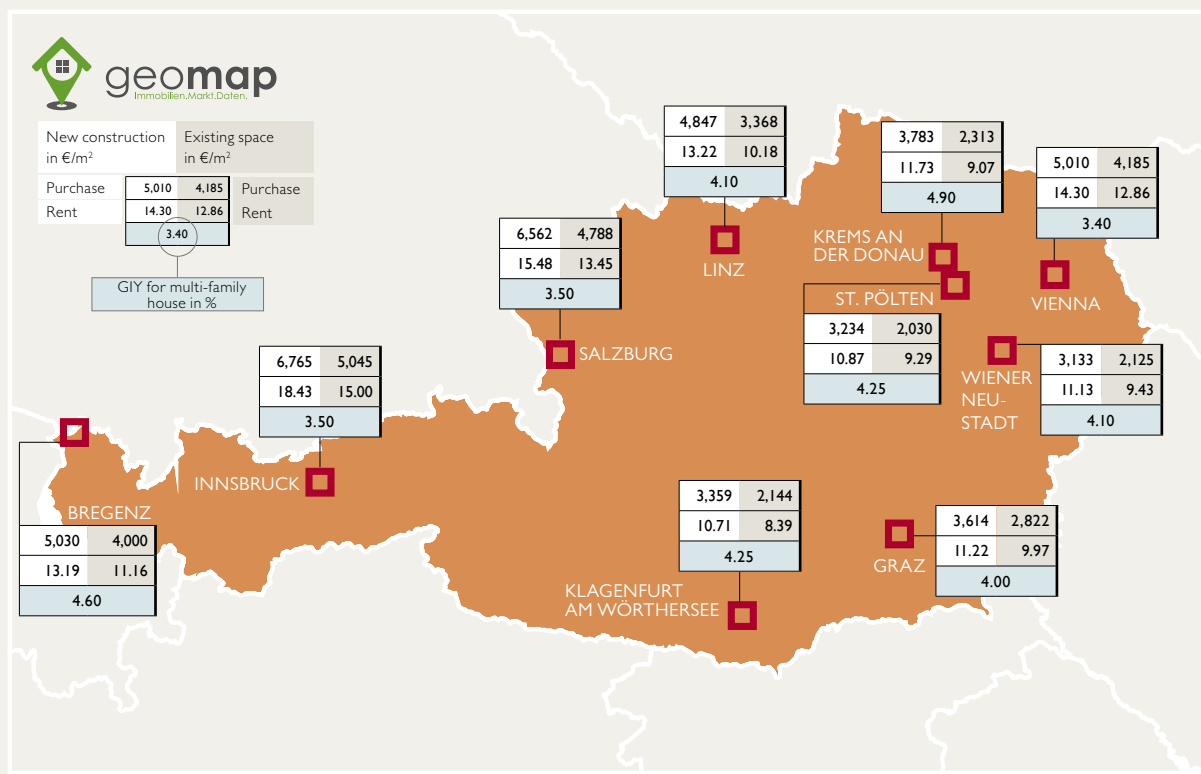
As can be seen from the chart, real residential property prices in Austria have risen relatively sharply since 2010. In addition, volatility is comparatively low. Prices also continued to rise strongly in 2018, with the growth rate for the entire country being 6.8% (after 3.8% in 2017). At 8.4%, price increases in the provinces excluding Vienna were much stronger than in Vienna, where prices rose by 5.2% (OeNB).

FIG. 4: RISK-RETURN PROFILE OF EUROPEAN HOUSING MARKET (2000-2018)



In the European comparison, Austria is in the mid-range in terms of both return and risk (expressed in volatility) and stands out with its moderate risk-return profile. Overall, a good risk-adjusted return can be quoted.

FIG. 5: RESIDENTIAL – (MEDIAN) ASKING PRICES IN AUSTRIA FROM FIRST HALF YEAR 2019



### 3 Real Economic Indicators – Housing Demand and Transactions on the Residential Market

The Austrian **investment market** is also characterised by rising transaction volumes and an increased concentration of international investors. Between 2009 and 2014, the residential investment market generated annual revenues of approximately € 350 million. Over the past three years (2015–2018), the value has risen to over € 1 billion, with the majority of properties located in Vienna. A similar turnover can be expected for 2019. Almost one third of all transactions were carried out by German investors in 2018, as the supply of attractive properties in Austria (especially in new-build properties) is still comparatively high.

According to the OeNB (Austrian Central Bank), the **average housing expenditure** (the ratio of current housing expenses to household net income) in Austria is at 29%, while the current housing expenditure of tenants (39%) is higher than that of homeowners (22%). Households in the lowest income quartile had a significantly higher value of 40% than those in the highest quartile with 19%. Compared to 2014, a slight decline can be seen in most cases, as the nominal income development was higher than the increase of housing costs.

Due to **growing population, declining household sizes and low construction output**, the Austrian housing market has

been subject to a housing shortage since the mid-2000s. This reached its **peak in 2016** with a backlog demand of 64,000 apartments. At the same time, the vacancy rate fell to a low (since the 1990s) and was about 1.3% below the long-term average.

#### Signs of an easing construction boom:

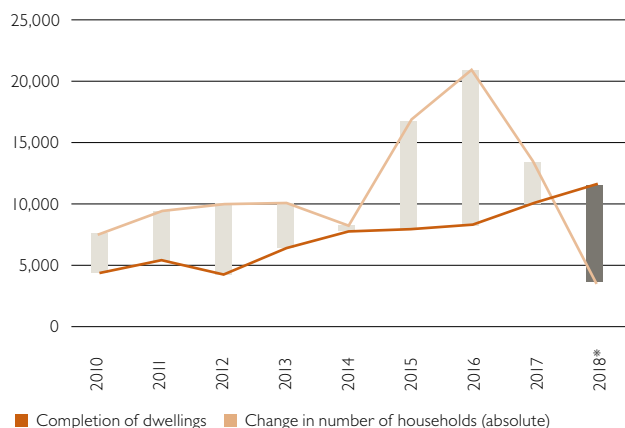
Since 2017, there has been a slight easing in the market. After **building permits** rose sharply in 2016 (+12%) and 2017 (+9%) and reached the record level of 79,900 units, the figures are now declining again. At the same time, the overall demand for apartments is declining. Between 2016 and 2018 alone, it fell from its high of 71,500 to 45,500. For 2018, the Austrian Central Bank estimates the backlog demand at 31,000 apartments and expects a market equilibrium to emerge by 2020. While investments in building construction have increased (+7%), the number of approved residential buildings fell by 14% in 2018. Here, however, a distinction must be made between developments in (large) cities and the overall market.

### 4 Housing Market Vienna

Vienna is an exception. Here, the **supply deficit** is likely to persist (due to the development of the population), although investments in residential construction have increased. In 2017 alone, the population of Vienna rose by about 27,000 (2016 > 40,000), while only about 8,000 new apartments were completed. When comparing new construction activity with changes in households, a housing deficit can be identified, whereby only those who have moved in are recorded and demand from outsiders (looking for accommodation) is excluded. Between 2011–2015 only 35% of the housing demand was covered by newly completed flats and the backlog demand between 2010 and 2017 is estimated to be at approx. 41,500 units by Catella Research.

However, current **new-build activity** in Vienna has increased sharply. An increase of 72% is expected for 2018. This is also reflected in the ratio of residential construction investments to GDP. The number of building permits has risen sharply and more than doubled between 2015 and 2017 to over 22,000 units. The “Vienna Housing Programme 2016–2018”, with a budget of around € 300 million, is also contributing to this. The housing output is to be increased by a total of 30% from 10,000 to 13,000 housing units per year, with the share of subsidised housing amounting to 70% or 9,000 housing units per year.

FIG. 6: BACKLOG DEMAND FOR RESIDENTIAL CONSTRUCTION



Source: Statistik Austria, \*2018 of EHL

#### Structure of the residential real estate market in Vienna:

The capital currently has a population of almost 1.9 million, with a positive trend. Since 2004, both the natural population development and the migration balance have also been positive. The share of rental apartments in Vienna is 77.5% and therefore well above the national average of 42.8%. At 19.4%, the ownership rate (house and apartment) in Vienna is remarkably lower than in the other provinces (48.1%). More than 60% of the pop-

ulation lives in subsidised or municipal apartments (compared to 42% nationwide), of which the City of Vienna owns 220,000 residential units and a further 200,000 have been built by non-profit organisations.

#### Amendment to building regulations: subsidised housing construction

21 March 2019: the regulations on the “subsidised housing” dedication category came into force for the City of Vienna. In the case of new dedications, **two thirds of the area must be reserved for subsidised housing construction** in the future if the usable living area exceeds 5,000 square metres. This regulation applies to areas that are designated as residential areas or mixed construction areas (including new high-rise buildings). Single-family houses are not affected. The amendment does not interfere with existing dedications. The basic costs in subsidised residential construction are limited to 188 euros per square metre of gross floor area above ground in the Housing Promotion Act. This basic cost limit is frozen for the duration of the subsidy (40 years) and the apartments cannot be profitably rented or sold. In addition, the apartment may only be rented on in line with the subsidy law (at €4.87/sqm in 2018 (OeNB)).

## 5 Student Housing

Vienna is one of the most popular student cities in Europe and the number of full-time students has increased in the last ten years by over a quarter to 185,000. Due to the three internationally-acclaimed top universities and 20 other colleges, further increases can be expected in the future. Since the demand for student apartments is especially high among international students, the increase is particularly remarkable with over 70% to 52,373 students in 2017/2018. They now account for nearly one third of the total.

This development is also reflected in the residential investment market. In 2017, the transaction volume amounted to EUR 325 million. There are currently 20,366 beds available in the 123 student residences in Vienna. In relation to the number of students, the accommodation rate is 11%, which is well below the optimal occupancy rate of 20%. Currently, the demand (especially from international students) for modern, high-quality dormitories still exceeds supply, but many new projects are already in the pipeline.

Supplier: Most of the beds offered (81%) are provided by non-commercial providers. The first market entry of a private provider was in 2013, since then the share has risen to 19%. Single rooms account for around half of all offers from both providers. Currently, 2,718 beds are under construction and 380 units are being planned, most of which will be assigned to private student housing. Significantly higher prices have to be paid here, due to a lack of subsidies and increased construction costs.

#### VIENNA: SELECTED TRANSACTIONS OF SPECIAL CASE HOUSING

Year	Name	Construction year	Price in € million	Units	Buyer	Seller	Monthly rent in €
Sep '19	SQUARE 2	2020/21	undisclosed	316	Catella Residential IM	JV GBI/STRABAG RE	Avg. 500
Oct '18	DC Tower 3	2021	110	900	Greystar	S+B	From 750
Mai '18	The Fizz	2019	undisclosed	195	Union Investment	CORAG, Kollitsch & Reichstamm	From 610
Dec '17	STUWO Spengergasse	2007	11.65	300	OVW Volkswohnungswerk	STUWO AG	422
Dec '17	Haus Donaufeld	2011	15.29	329	OSW	STUWO AG	439
Nov '17	Triiiple Tower 3	2020	110 (for 3 towers)	670	Corestate	ARE JV Soravia	undisclosed
Oct '17	The Student Hotel	2020	undisclosed	822	The Student Hotel	S+B	undisclosed in Berlin from 844
Sep '17	SMARTments Student	2018	15.5	165	Catella Residential IM	GBI	Avg. 490

Source: Catella Research, RCA

#### STUDENT HOUSING – RENTAL PRICE LEVEL BY CATEGORY:

€/month p.p.	Single Room	Single Room Suite	Single Studio	Double Studio	Apartment
Average	375	385	492	333	827
Private provider	481	379	552	345	1,000
Other providers	370	385	478	330	769

Source: BONARD

#### About Catella

Catella is a leading specialist in property investments and fund management, with operations in 15 countries. The group has assets under management of approximately EUR 20 billion. Catella is listed on Nasdaq Stockholm in the Mid Cap segment. Read more online at [catella.com](http://catella.com).

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