



Q2 2015: Austria Commercial Property Monitor

Prime markets expected to see steady price growth while secondary assets struggle

Key macroeconomic trends

Growth in the Austrian economy may only be modest in 2015, with consumer confidence subdued (as captured by the EC survey) due, in part, to the rise in unemployment seen in recent months (albeit from a low base). The gradual deterioration in the labour market is consistent with the weak occupier market conditions and negative rent expectations reported by RICS members in the latest set of results. Further out, the planned introduction of tax reforms in January 2016, including income tax-cuts, should help to drive stronger consumption growth beyond this year. In addition, Austrian exporters should be supported by the weak euro and by stronger growth in the nation's main trading partners, although downside risks to the euro area recovery are still prominent. Nevertheless, demand from commercial real estate investors is rising and this is expected to translate into capital value growth over the next twelve months, although this is set to be confined to the prime areas of the market.

Occupier Market

- The Occupier Sentiment Index dipped into negative territory during Q2 at -10, following a broadly neutral reading of -2 posted in the first three months of the year.
- Occupier demand picked up marginally in the retail sector, more significantly across offices, but fell in the industrial area of the market.
- At the same time, available space rose sharply in office segment, moderately in the retail sector and remained flat across the industrial sector. The value of landlord incentive packages on offer to tenants increased across the board (albeit to varying degrees).
- In the near term, rents are expected to decline marginally in the office and industrial sectors and to hold stable in the retail sector. Over the next twelve months, rents are projected to fall across the board, with the exception of the prime office and retail areas of the market.

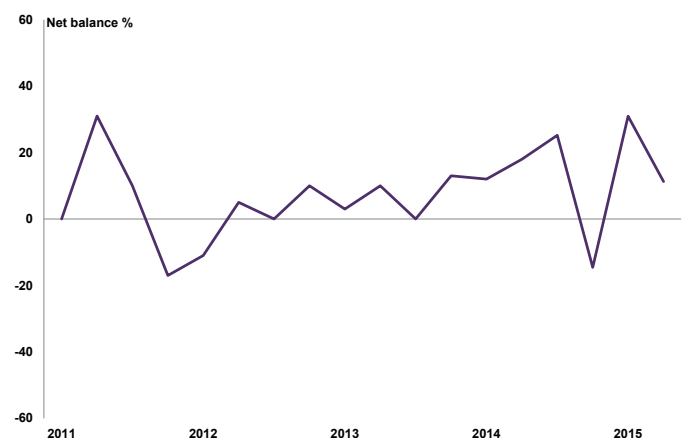
Investment Market

- The Investment Sentiment index eased slightly to +11, but remained positive for a second consecutive quarter.
- Investment demand grew sharply in the office sector, at a gentle pace in the retail arena but was flat in the industrial sector. Interest from foreign buyers increased in each area of the market, to a greater or lesser extent.
- The supply of property for sale increased in the office sector whilst declining in both the industrial and retail segments.
- Capital value expectations are mixed in the near term, but over the next twelve months all prime areas of the market are anticipated to see price growth. The outlook for secondary markets is much weaker however.

Occupier Sentiment Index



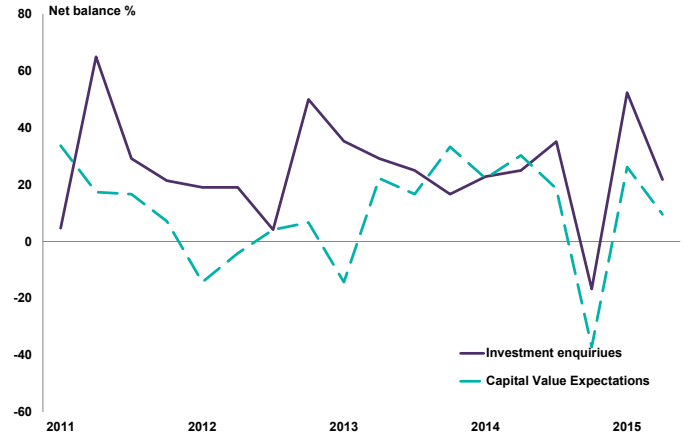
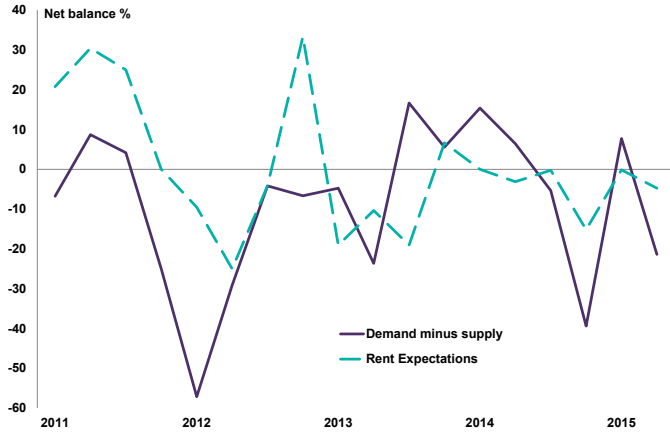
Investment Sentiment Index



Commercial Property Market

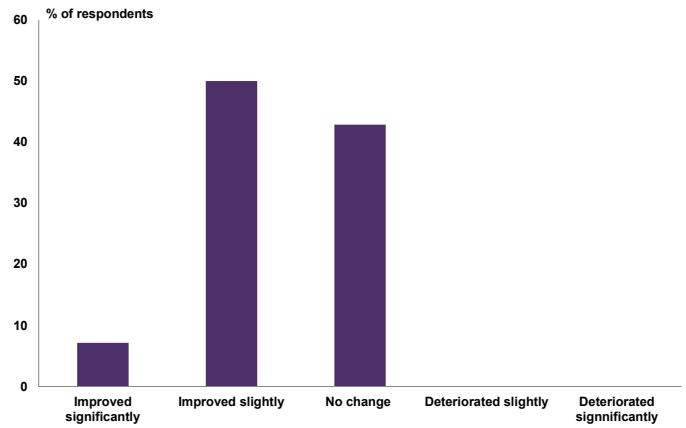
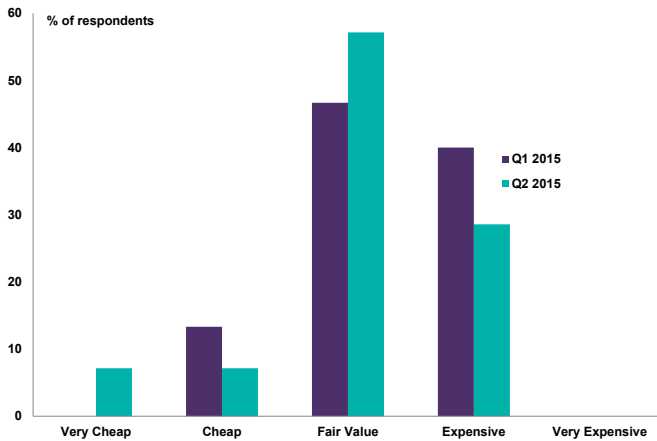
3 Month Rental Expectations - Supply growth outstripped that of demand during Q2, resulting in a subdued outlook for rents over the next three months.

3 Month Capital Value Expectations - Both investment enquires and capital value expectations series eased over the quarter, but remained in positive territory nonetheless.



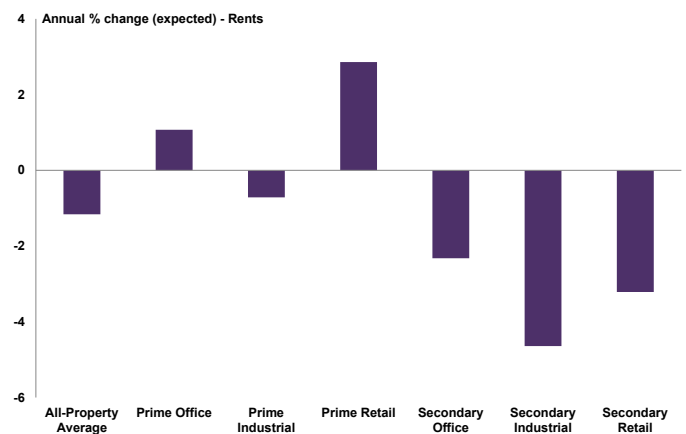
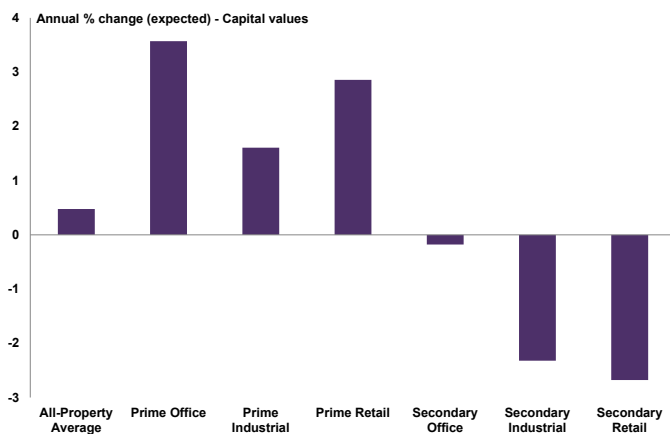
Market Valuations - 57% of respondents believe current market valuations are at fair value, an increase from the 47% who took this view last time out.

Credit Conditions - A combined 57% of contributors reported that credit conditions had eased to some degree in Q2.



12 Month Capital Value Expectations - All prime categories are expected to see price growth in the coming twelve months, led by office and retail, while the outlook is weak across secondary units.

12 Month Rent Expectations - Marginal rental growth is projected in the prime office sector and stronger gains in prime retail. Expectations are negative across all other categories however.



Information

Global Commercial Property Monitor

RICS' Global Commercial Property Monitor is a quarterly guide to the trends in the commercial property investment and occupier markets.

The Global Cities Commercial Property Monitor is available from the RICS website www.rics.org/economics along with other surveys covering the housing market, residential lettings, commercial property, construction activity and the rural land market.

Methodology

Survey questionnaires were sent out on 10 June 2015 with responses received until 3 July 2015. Respondents were asked to compare conditions over the latest three months with the previous three months as well as their views as to the outlook. A total of 1294 company responses were received, with 283 from the UK. Responses for Dublin were collated in conjunction with the Society of Chartered Surveyors Ireland.

Responses have been amalgamated across the three real estate sub-sectors (offices, retail and industrial) at a city level, to form a net balance reading for the market as a whole.

Net balance = Proportion of respondents reporting a rise in a variable (e.g. occupier demand) minus those reporting a fall (if 30% reported a rise and 5% reported a fall, the net balance will be 25%). Net balance data can range from -100 to +100.

A positive net balance reading indicates an overall increase while a negative reading indicates an overall decline. The RICS Occupier Sentiment Index (OSI) is constructed by taking an unweighted average of readings for three series relating to the occupier market measured on a net balance basis; occupier demand, the level of inducements and rent expectations.

The RICS Investment Sentiment Index (ISI) is constructed by taking an unweighted average of readings for three series relating to the investment market measured on a net balance basis; investment enquiries, capital value expectations and the supply of properties for sale.

Contact details

This publication has been produced by RICS. For all economic enquiries, including participation in the monitor please contact: economics@rics.org

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