



Q3 2015: Austria Commercial Property Monitor

Occupier sentiment continues to deteriorate as business investment weighs heavily on growth

Key macroeconomic trends

The Austrian economy grew modestly during the first half of 2015, up 0.2% and 0.3% quarter-over-quarter in Q1 and Q2, respectively. Lower commodity prices and planned tax relief for low and medium-income earners should lift domestic demand through the remainder of the year, although the boost to household disposable income may be muted by an inclination to save in anticipation of less accommodative monetary policy. Weak global macroeconomic fundamentals, particularly in Austria's main emerging market trading partners, and a loss of market share in the Eurozone will weigh on near term growth prospects. As these growth uncertainties fade, we expect business investment and exports to recover in 2016. Insofar as financial conditions remain favourable, investment in residential construction and the demand for housing should gradually improve as well. This nascent trend is reflected in a more favourable occupier market with sentiment on our survey having rebounded into positive territory in Q3. Overall, we expect economic growth of 0.7% in 2015 with stronger momentum building into next year.

Occupier Market

- The Austrian Occupier Sentiment Index climbed back into positive territory in Q3 but the reading of +5 is more indicative of a stabilisation than a recovery in the market.
- Tenant demand rose across all sectors with the office segment seeing a particularly sharp increase.
- The supply of leasable space decreased slightly at the headline level due to a significant reduction in the supply of office space.
- Near term rent expectations turned positive in the office sector while in the retail and industrial areas they stayed flat and slightly negative, respectively.
- At the twelve month horizon, only the prime office and retail sectors are expected to see any rental growth with rents in all other parts of the market expected to stay broadly flat or fall slightly.

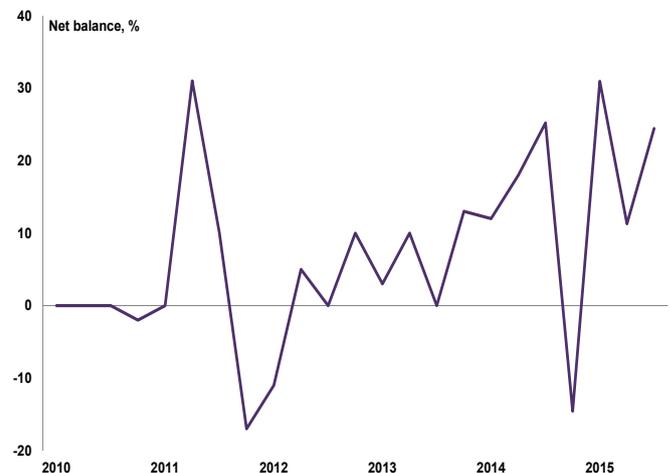
Investment Market

- The Austrian Investment Sentiment Index remained firmly in positive territory in Q3, recording a value of +24.
- Investor demand rose across all sectors with offices seeing a particularly strong rise in interest thanks, in part, to continued growth in foreign demand.
- A net balance of 13% of respondents noticed a fall in the supply of commercial property for sale in Q3.
- Expectations for capital value growth over the coming year have improved slightly relative to Q2 but remain subdued. The prime office sector is expected to outperform over the medium term.

Occupier Sentiment Index

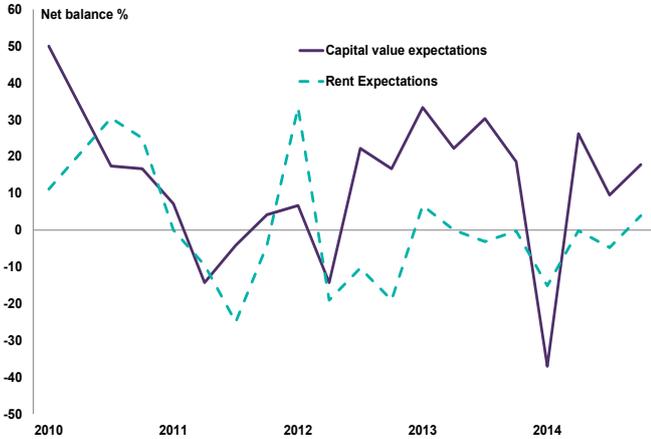


Investment Sentiment Index

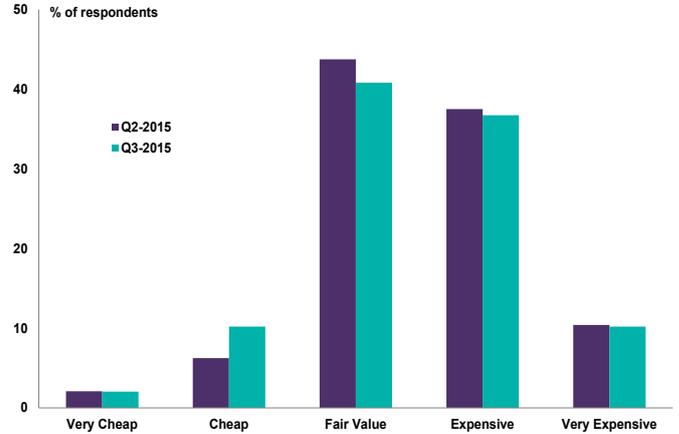


Commercial Property Market

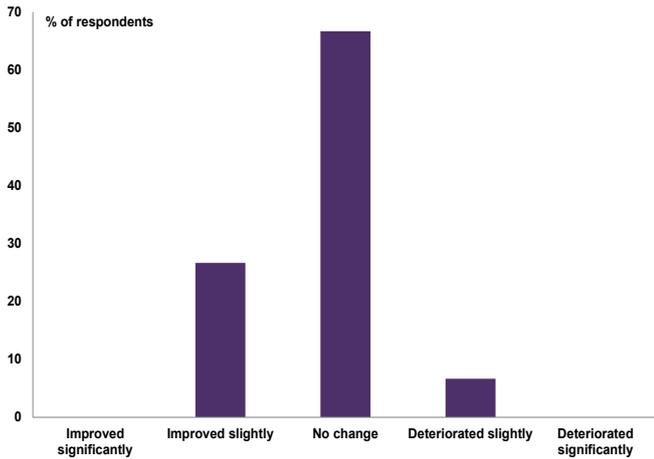
3 Month Rental and Capital Value Expectations - Capital value expectations remain comfortably in positive territory while rents are projected to display a more stable trend in the near term.



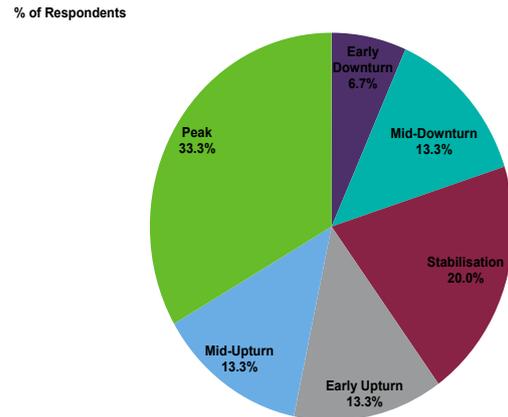
Market Valuations - Almost half of contributors view current selling prices as expensive, to some degree.



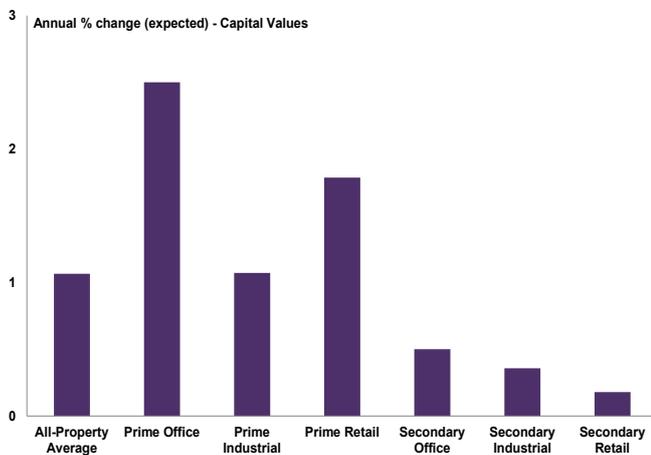
Credit Conditions - A net balance of 20% of respondents reported credit conditions had improved during the quarter.



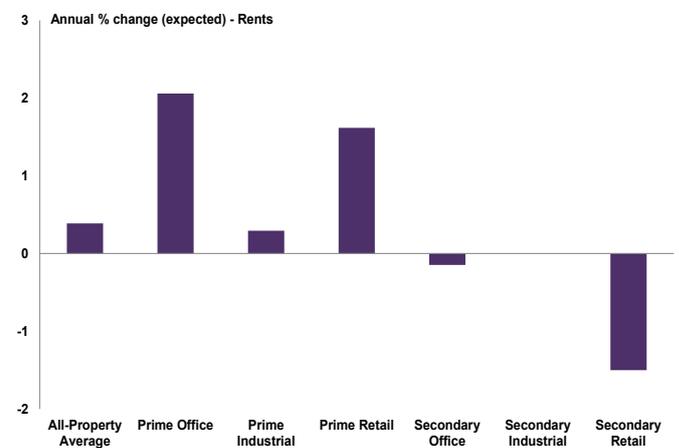
Property Cycle - One third of respondents think the market is at the peak of its current cycle but almost as many think there is further growth to come.



12 Month Capital Value Expectations - Respondents expect all-sector capital values to rise by around 1% over the course of the next twelve months.



12 Month Rent Expectations - Only the prime office and retail sectors are expected to see any meaningful growth in rents over the next year.



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 16 September 2015 with responses received until 2 October 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 1308 company responses were received, with 312 from the UK. Responses for Ireland 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 country 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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