RESEARCH

VIENNA

OFFICE MARKET OUTLOOK
Q2 2017

OCCUPIER TRENDS | INVESTMENT TRENDS | MARKET OUTLOOK

KEY FINDINGS

Vienna's strong level of take-up in 2016 was driven mainly by occupiers focussing on workplace optimisation.

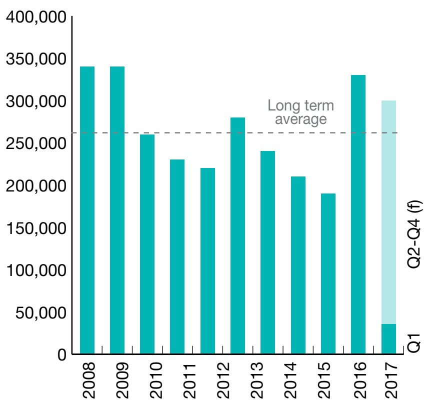
Despite 2016 being a lean year in terms of new supply, the next two years will see a stronger development pipeline.

Prime rents have remained stable at €25.75 per sq m but incentives have fallen, and sought-after locations have witnessed rental growth.

Austria's 2016 commercial real estate investment volumes were down year-on-year but came in above the long-term average.

Prime yields have come under downward pressure compressing by 40 bps to 4.0% over the 12 months to Q1 2017.

FIGURE 1
Office take-up
sq m



Source: OTTO Immobilien/Knight Frank Research

OCCUPIER MARKET

Occupiers in the Viennese office market have continued to focus on optimising their space utilisation.

This led to take-up volumes in 2016 of 330,000 sq m for the total market, comparable to those witnessed at the previous market peak (Figure 1). With a clear flight to quality evident, pre-lease agreements featured prominently in Vienna's office market throughout 2016. Although demand has slowed in the first quarter of 2017, some upcoming large rental agreements will compensate for the low volume of take-up. However, last year's volumes are unlikely to be reached.

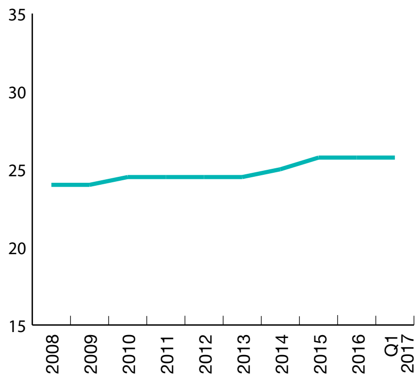
Occupier locational preferences are becoming more biased towards well-established business centres with good amenities and strong transport links. This places areas such as Central Station, Donau City, Viertel Zwei and Euro Plaza on the radar for many occupiers, heightening their prospects for rental growth.

Despite a lean year of supply in 2016 (22,000 sq m), around 150,000 sq m of new office stock is planned for completion in 2017. Over half of the space has already been pre-leased or purchased for owner-occupation, reflecting Vienna's robust occupational market dynamics. Large-scale new build projects are not expected to be completed until the end of 2017 and into 2018 and will continue to exacerbate the supply-demand imbalance. In 2018, the development pipeline is forecast at around 270,000 sq m, bringing some balance to the market.

In view of the occupier conditions, vacancy rates for prime office space have trended downwards. Although a flight to quality has contributed to the fall, office stock withdrawals for residential uses have also played a part. The overall vacancy rate as at Q1 2017 was 5.5% but may see a slight uptick during 2017, once new space is delivered.

The growth in freelancers and start-ups has also prompted the rise in demand for serviced offices in Vienna. Regus has responded to the increased market demand by taking on space in DC and Millenium Towers and is also exploring the potential for two other sites. Despite the growth in occupier demand, prime rents have remained stable at €25.75 per sq m (Figure 2). Due to limited supply in certain submarkets, incentives have fallen and are expected to continue to decrease.

FIGURE 2
Prime office rents
€ per sq m per annum



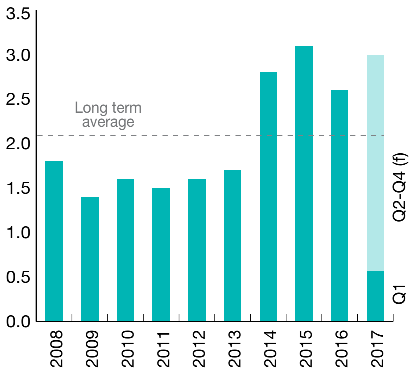
Source: OTTO Immobilien/Knight Frank Research

Key recent office leasing transactions

Quarter	Property / Location	Tenant	Size (sq m)
Q4 2016	The Icon	BAWAG	28,000
Q3 2016	DC Tower	PwC	16,000
Q3 2016	Denk Drei	BIG	8,500
Q1 2017	Brehmstraße 12	Otto Bock Healthcare	4,500
Q1 2017	e-Zone	City of Vienna	3,100

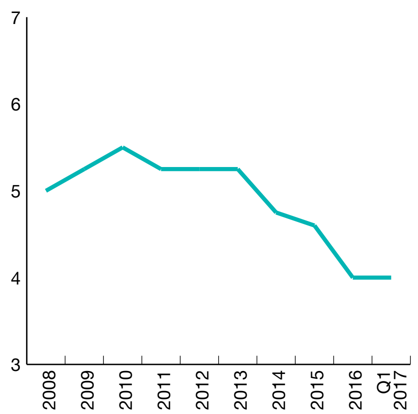
Source: OTTO Immobilien/Knight Frank Research

FIGURE 3
Austria commercial investment volumes
€ billion



Source: OTTO Immobilien/Knight Frank Research

FIGURE 4
Prime office yields
%



Source: OTTO Immobilien/Knight Frank Research

DC Tower in Vienna where PwC signed 16,000 sq m lease in Q3 2016

INVESTMENT MARKET

Austria's commercial investment outlook is positive. Although 2016 transaction volumes totalling €2.6 billion were down from an exceptional 2015 (-16%), it was still notably higher (+24%) than the long-term average (Figure 3). The office sector continued to dominate, accounting for 40% of commercial real estate investment volumes, but with the hotel sector following closely behind (32%).

Cross-border investment accounted for 58% of the total 2016 volume, in line with previous trends. German funds were the most active, acquiring multiple properties with a combined total value of nearly €500 million during 2016. On behalf of Korean REIT KORAMCO, CBRE Global Investors acquired the IZD Tower for €250 million in the largest deal seen in Austria in two years. Several forward-funded deals were signed during 2016, including the planned DC II Tower and the Forum Donaustadt, a future-oriented urban development project, which was taken over by a joint venture of the Austrian Signa Group and ARE Development. More transactions of this nature are expected to close throughout 2017-2018, and will support a healthy volume of investment activity.

Investors have also been attracted to the Viennese market in view of its political stability and favourable economic conditions. Subsequently, prime office yields in Vienna have come under downward pressure, falling by 40 bps to 4.0% over the 12 months to Q1 2017 (Figure 4). Due to high market liquidity; strong investor appetite is anticipated with scope for further yield compression. More recently, Class B and C investment locations in Vienna have been attracting growing interest due to the shortage of new institutional developments.

Key recent commercial investment transactions

Property	Seller	Buyer	Approximate price (€)
IZD Tower	Signa	CBRE Global Investors	250
Tech Gate Vienna	Vienna Insurance Group	Strabag	Confidential
LinkedLiving	Corestate	Bayerische Versorgungskammer (BVK)	Confidential
IBIS & Novotel	Strauss & Partner	Amundi	80
Schottenring 19	RAI	Bank Austria Real Invest	80
Neutorgasse 10	MBT Investment	Sirius Real Estate	50
Marximum Units 1+3	Hochtief	Ergo Group	40
QBIK	Savills	Bank Austria Real Invest	Confidential
QBC 3	Strauss & Partner	Union Investment	30

Source: OTTO Immobilien/Knight Frank Research

KNIGHT FRANK VIEW

In view of the delivery of several new sizeable development schemes, large-scale transactions will continue to feature in Vienna's occupational market. Rental levels may therefore come under downward pressure. As occupiers will be looking at relocating and upgrading existing space, the availability of secondary space is expected to rise. Impacts will however be mitigated, as some obsolete office stock will be withdrawn from the market and redeveloped into residential and alternate uses.

Some prominent deals are expected to close in 2017 including the sale of the landmark DC Tower. As Vienna's yields remain attractive compared to other continental European markets, sustained interest and appetite from domestic and international investors should see 2017 investment volumes exceed last year's levels.

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EUROPEAN RESEARCH

Matthew Colbourne
Associate
International Research
+44 20 7629 8171
matthew.colbourne@knightfrank.com

Vivienne Bolla
Senior Analyst
International Research
+44 20 7629 8171
vivienne.bolla@knightfrank.com

VIENNA – OTTO IMMOBILIEN

Dr Eugen Otto
Managing Director
+43 1 512 77 77 – 102
eugen@otto.at

Martin Weinbrenner
Head of Commercial RE Division
+43 1 512 77 77 – 500
m.weinbrenner@otto.at

Christoph Lukaschek
Head of Capital Markets
+43 1 512 77 77 - 355
c.lukaschek@otto.at

Lene Kern
Capital Markets and Research
+43 1 512 77 77 – 357
l.kern@otto.at

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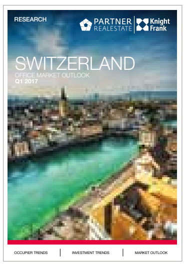

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