

# Investment Market Report

A Current Survey by OTTO Immobilien.



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## Dear Ladies and Gentlemen!

In 2021 the Austrian investment market has recovered quickly from the declines in the wake of Corona. A transaction volume of EUR 3.8 billion means an increase in investment by 20 % compared to 2020, and for this year the investment is expected to rise again to EUR 4.5 billion - which is the pre-crisis level. A large number of national and international investors act according to the principle **"Beds and Sheds,"** and therefore are looking for adequate residential and logistics objects. These two strongly growing asset classes turn out to be the clear winners of the Corona-crisis.

**Residential property**, with a share of approx. 35 % in the transaction volume, ranks again in the first place in the last year, with Graz being in the focus of investors apart from Vienna and the surrounding area. The pandemic has proven the high resiliency of this asset class and since its beginning the already existing strong interest in residential properties has further increased. This does not only apply to the market of private real estate, where sometimes significant price increases were observed, but also to the institutional market. In 2021 the investment volume of 1.3 billion not only stayed on a very high level but could nearly reach the record mark of 2020.

While the **asset class of trade** with a share of approx. 26 % of all investments was in the second place, behind residential property, this was exclusively the consequence of one large transaction; it was followed by the office real estate with approx. 22 %, and industrial and logistics real estate with 10 %. The hotel sector also lost shares in the Austrian investments in 2021 and is currently at approx. 4 %. For the first time we could observe again a transaction activity of 3 % of all investments in the segment of residential buildings managed by the operating company.

**Logistics/industry real estate** was in the focus of investors even before the consumer behaviour changed in the wake of Corona. In particular, the sector of city logistics is in strong demand by investors as a result of the continuously growing online trade and the floor-space demand by parcel logistics such as the Österreichische Post and AMAZON. In 2021 the transaction volume was slightly above EUR 390 million in Austria. For 2022 we expect a sharp rise to more than 500 million based on the large project pipeline. Apart from Vienna and the sub-markets, the surrounding Lower Austria and the Burgenland are in the focus.

**The office market** in the federal capital was able to resist all anticipated negative scenarios up to now. New projects were well-accepted by the rental market, and currently the investment market has difficulties to meet the demand for long-term rented objects in good locations. Although in 2021 the transaction volume for office property has shown only a minor decrease with slightly less than EUR 1 billion as compared to the previous year, it was clearly below the average of the last five years. Vienna is still clearly in the focus of national and international investors, and we assume that this will continue for the foreseeable future based on the high relevance of the Viennese office sector.

In the previous year, the **yields** declined again in nearly all market segments, and a strong downward pull was observed most of all in office, residential, and logistics properties. The prime yield for industry/logistics in Austria showed the highest fall with 125 basis points within the last 5 years to currently 3.80 %. For prime objects in the field of logistics the yield will presumably continue to decline towards 3.50 %. We expect a stabilisation of the yield for office objects at 3.20 %.

As always, I hope that you will find our survey interesting and please do not hesitate to contact us for further information and personal advice!

Yours



**Dr. Eugen Otto, MRICS**

Managing Director OTTO IMMOBILIEN  
eugen@otto.at

# 01

# Interview

## THE INTERVIEW

**“ERGO intends to expand its real estate sector”**

Josef Kreiterling, financial director of ERGO Insurance, on real estate as capital investment in his company, the recent sale of the historic office palais on the Wiener Schottenring, and the developments on the office market.

**Dkfm. Josef Kreiterling**  
Chief Financial Officer of ERGO Versicherung

**Dr. Eugen Otto**  
Managing Director OTTO Immobilien

**Christoph Lukaschek**  
Head of Investment OTTO Immobilien

**Photos**  
Christian Steinbrenner

## “The B-locations present an interesting option for us”



**EUGEN OTTO:** Our readers have always shown great interest in the way big managers of property stocks and investors act. The mission of an insurance is to invest the money of other people. Where is your main focus here?

**JOSEF KREITERLING:** In our role as life insurers, it is actually of importance to achieve an attractive running yield, which is almost more important than the building-up of hidden reserves, as we have to generate a guaranteed rate of interest for our customers every year. Although the guaranteed rate of interest, which is offered by life insurers in new business, has declined as a result of the general interest rate structure, for example the legislator in Austria has set the guarantees at zero percent, we still have the existing holdings. Here we talk about approx. two percent of running guarantees, which we have to assign every year. Therefore, bonds are our main asset category. Every year they provide a coupon, which might be the basis for calculations over decades. As far as the quoted prices for shares are concerned, the balance sheet is shielded to some extent, as a devaluation is not necessary based on the mitigated lower of cost or market principle. If the market interest rates increased as a whole, undisclosed liabilities could arise, which, however, are not visible in the profit and loss account. The most important fact is that the annual coupon is in line with the ongoing allocations to customers. At the moment, nearly all insurers have long-term interest investments, in particular in bonds. The ERGO Insurance

has invested in fixed-rate securities for approx. 80 percent. At the end of the year our hidden reserves were assessed with approx. EUR 800 million. Holdings, real estate, investments in infrastructure, and shares make up the rest.

**CHRISTOPH LUKASCHEK:** Real estate represents only 5 percent of your portfolio, which seems to be a minor portion for an insurance company.

Unfortunately, we are rather under-represented in the real estate sector, but we are planning an expansion.

**CHRISTOPH LUKASCHEK:** Recently, Otto Real Estate sold the office palais at the prestigious address Schottenring 1 in the first district of Vienna for you. Why did you decide to sell this property?

There were different reasons, and the crucial factor finally was the yield situation in relation to the attainable purchase price. We gave up a yield of less than one percent. If we reinvest the sales revenue and create a yield of 2.25 % after depreciation by higher rents at a different location, this will be an improvement in yield of EUR 1 to 1.5 million.

**CHRISTOPH LUKASCHEK:** Was it a difficult emotional decision to sell this house after such a long time?

Of course. The Victoria Volksbanken Versicherung is the



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predecessor company of ERGO and has owned the object at the Schottenring for more than 90 years. I had my office for some time in this house before we moved to the Marximum in 2010. Then, renovation work followed, which revealed magnificent details. The executive office and the antechambers had suspended ceilings. When they were removed, untouched stucco pieces of art appeared. The colleagues of the Volksbank Wien, who moved in, had fantastic offices.

**EUGEN OTTO:** The house has a special history. It was built on the occasion of the World Fair 1873. Because it was unacceptable for guests of the Court to move into a commercial hotel, it became the private guest house of the Emperor.

You can see this in the equipment of the house. By the way, the adjacent Hotel de France was given its name as a reference to the World Fair in Paris in 1878.

**How was the transfer from the first district into your current office space in the business park “Marximum” in the 11<sup>th</sup> district for your staff??**

At the beginning, there was some evidence that some employees missed the atmosphere and opportunities of the inner city. As a whole, I had expected a greater rejection. The modern air-conditioned rooms for four people were widely accepted, and the advantages of the underground connection were soon recognized.

**Did customers address the sale of Schottenring 1?**

No, as it is rather a subject for the community of investors. There are some business partners, who call, congratulate in part, or make investigations. For the normal customers other issues are more important. For example, there were this enormous hail and heavy rainfall in June and July 2021, which caused severe damage within a short time. Then the true quality of an insurer becomes obvious from the viewpoint of the customer: Is adequate compensation provided for the damage? This was quite a challenge for us.

**Some years ago, you have purchased part of the “Marximum.” Was it a strategic decision by ERGO to prefer ownership to rent?**

This was rather a coincidence. In those days we were looking for an adequate object, and there were several to select from. Our decision was then made in favour of this location, based on the cost-effectiveness-ratio and the ideal link to the public transportation system. The underground is right around the corner. At the beginning we rented the office from the constructor, a construction and civil engineering company. When it was offered for sale, we showed immediate interest – also for reasons of accounting and tax effects. There were also considerations to take over the complete business park. But we knew at this time that vis-à-vis “The Marks” would be built, the three high-rise towers offering mixed usage of apartments and offices. This was too uncertain, but we seized the opportunity to purchase our offices.

**To be sure, it was a wise decision not to acquire the complete object.**

Yes, while the location shows a good development, it lacks complete occupancy. There is considerably uncertainty as far as the development of office rents in the future is concerned. The trend towards home offices will entail changes.

**We observe a shift in the usage of offices. Big financial service providers and banks rent complete or half buildings or floors, as the working environments have changed rapidly in the times of the pandemic.**

Currently, we have approximately five percent of vacancies at the location Vienna. Many companies will now offer their employees between 40 and 60 percent of home office, some of them are even more flexible. Most of all big companies provide “shared desk” solutions. However, we do not expect that home office will be reflected in 1:1 additional vacancy, as there is still a need for free space, zones, where employees might meet and are emotionally bound to the company. Finally, according to my point of view the vacancies in the office sector will still increase. This will leave marks in the office rents. Although the terrible disaster will not occur, the office market will nevertheless be under pressure. It may be that real estate in undesirable locations and lacking good traffic connections will have to find a different kind of usage.



**The existing office space in Vienna varies in quality. There are complete outdated spaces and buildings, whose disappearance would hardly make the complete market suffer.**

The subject of rededication will have to be discussed, as the prices are going through the roof in the field of residential property. You only have to watch “Immobilienscout” or “Willhaben”. Prices are steeply increasing, along with continuously rising building costs. Many people are prepared to move to the periphery, where they can still afford objects of high quality.

**CHRISTOPH LUKASCHEK: Less offices, more apartments - is this reflected in your decisions concerning the investment in real estate?**

No, we look at each object individually. The last object, where we invested, offers mixed usage. It is located in Münchendorf near Vienna, which is connected to the city by trains. There are local suppliers - supermarket, restaurant, hairdresser, fitness studio. We hold the mixed usage for a thrilling concept. We are “buy-and-hold”-investors. Basically, we buy something and never sell. In our opinion B-locations such as Münchendorf are an interesting option today: You get good quality, but no yield loss like currently in the first district or in other prime locations.

**EUGEN OTTO: You have mentioned a yield of 2.25 % after depreciation, which might be a challenge in good locations in Vienna.**

This is exactly why we turn to B-locations. We still have a real estate supply in Vienna and get offers all the time, which we also verify. There are not only prime locations in Vienna. We have acquired a specialist retail centre near Vienna, but also invest in Salzburg and Leoben. If we extend our portfolio, we are always concerned that the yield is adequate.

**CHRISTOPH LUKASCHEK: Is there any established strategy for asset classes, which defines the investment in percent for apartments or offices?**

No, for us real estate is the asset class. Of course, the lot size might be an issue. An investment of EUR 50 million is rather the upper limit. We are familiar with the middle range, which, however, provides interesting opportunities, as the projects for 15 or 25 million are out of reach for private investors and too small for the large funds.

**EUGEN OTTO: So, basically, you manage everything in-house?**

Exactly. The property is managed by our own property management company and that is why we focus on Austria, where we - as life insurers - have certain advantages, for

example over Germany, and are capable to efficiently care for many objects with our existing property management company.

**CHRISTOPH LUKASCHEK: What other kinds of real estate market are the objects of investment by the ERGO group?**

The largest investment of ERGO is in Germany, where there is simply the biggest volume. If we are proud of our capital investment of EUR 5-6 billion, we will have a factor of 20 in Germany. The real estate portfolio is accordingly huge. However, we verify, if we should put out our feelers into Slovakia.

**EUGEN OTTO: *Dear Mr. Kreiterling, we wish you every success in the implementation of your real estate strategy and we are glad to accompany you on this path. Many thanks for this interview.***



#### PERSONAL DETAILS

### Dkfm. Josef Kreiterling

is member of the executive board of the insurance holding company ERGO Austria International AG. He is responsible for accounting, controlling & taxes, capital investment & real estate, risk management as well as control and support of foreign companies.

# 02

# Market Conditions

## INTERNATIONAL POSITIONING

In an international city ranking the federal capital of Austria is in the top segment. Political and social stability, dynamic-innovative economy, a rich cultural program as well as attractive tax benefits and framework conditions are in favour of the alpine republic, making its federal capital an internationally renowned location

## 2.1 Austria as a Business Location

**Austria has an efficient transport infrastructure network for transports on roads, rails, water and in the air with excellent international integration. The moderate cost level of the rail freight transport is seen by industry experts as an extremely positive locational advantage.**

In Austria, transport companies, service providers, investors, and industrial companies benefit additionally from the economic and social stability as well as from the internationally recognized know-how. Furthermore, industrial companies appreciate the skilled expert staff in Austria. This is reflected by the Logistics Performance Index (LPI), published by the World Bank, which ranked Austria in 2018 among 160 countries on fourth place. To achieve a higher rank in the international comparison, a continuing multi-modal extension of the freight transport with corresponding freight terminals is required according to the expert opinion of freight forwarders, in order to further improve the already excellent modal split as compared to other EU countries. On the contrary, the situation regarding wage costs and working hours models is considered to be less competitive in comparison to neighbouring countries like, among others, Hungary, Slovenia, and the Czech Republic.

The European system of Trans-European Networks (TEN-V) is embedded into this infrastructure and lies right in the centre of the three most important European transport corridors: the Brenner axis, the Rhein-Danube route, and the Baltic-Adriatic corridor. The last two extend along the West-South route in Austria, and thus allow the country to position itself as a logistics hub, which makes an ongoing expansion of the infrastructure inevitable. Most of all there is a clear potential in the expansion of shipping on the Danube.

Austrian logistics locations are basically settled in the region of Vienna or in the surrounding area of Vienna as well as in the region of Linz/Wels along the Danube and along the Baltic-Adriatic corridor in Styria in the surrounding area of Graz. These locations count among the international hubs and are classified as traditional logistic locations with a high agglomeration density with respect to production and population.

The most important industrial locations, apart from Vienna (life science, telecom, and IT), are Upper Austria (IT, production, and environmental technology) and Styria (mechanic and mechanical engineering industry as well as automotive).



## 2.2 Socio-Demographic and Economic Framework

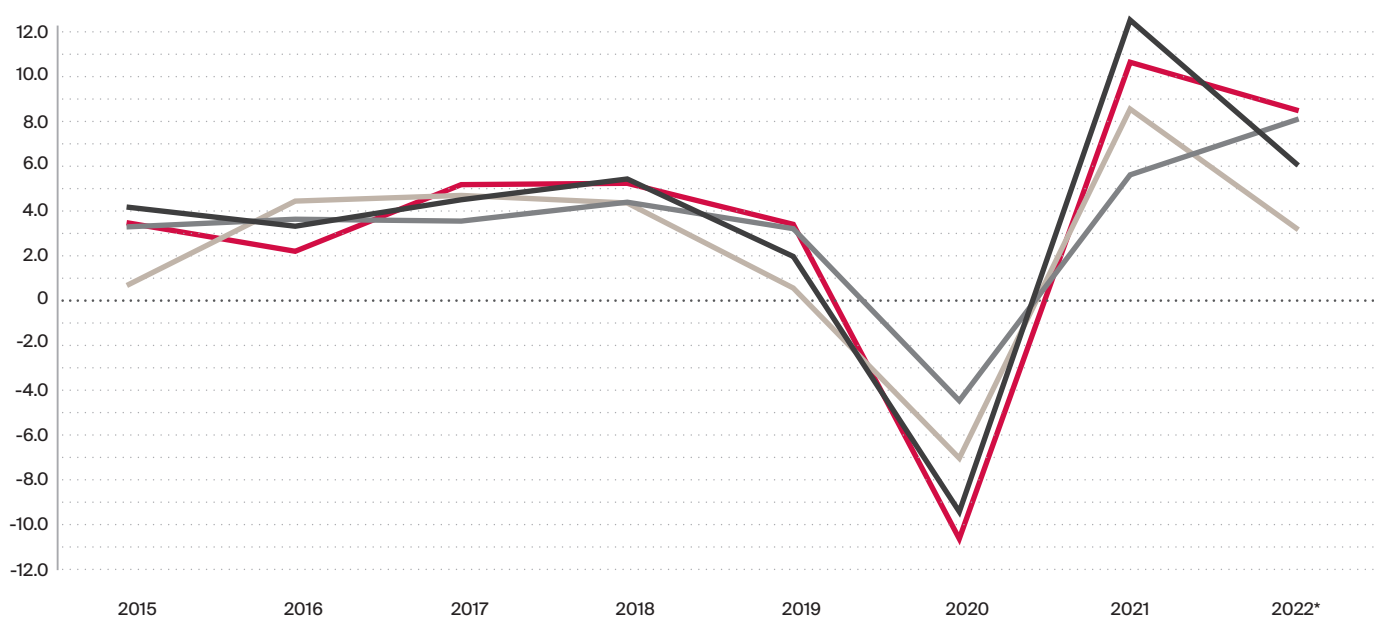
According to Statistics Austria, the Austrian population was 8,898,457 persons (Vienna: 1,920,949) in May 2021. The number of employees enrolled at the country's social security institutions was 3,813,305 (Vienna: 870,741) in December 2021. Forecasts predict a population in Vienna of 2 million by 2028, which corresponds to an average annual increase by approx. + 11,200 inhabitants in the federal capital.

The unemployment rate reached a value 5.0 % (of the working population) in the fourth quarter, which is one of the lowest values within the European Union (EU-27: 7.1 %). The Austrian Chamber of Commerce posted an economic growth of 4.1 to 4.3 % in 2021 in its press release of December 2021. According to Statistics Austria the inflation rate was at 2.8 % and 1.4 % in 2021 and 2020, respectively.

The Austrian foreign trade is a very important factor of the domestic economy, and the major economic drive. In 2018 Austria registered an increase of + 6.4 percentage points in the export of goods as compared to the previous year. Despite the difficult global framework conditions the export of goods shall remain on a high level (WIFO forecast for 2022: 2.0 %).

The Austrian online retail has shown a clearly more dynamic development in 2018 than the stationary retail. After a nominal increase in sales of 1 % in 2017, a growth of 4 % could be achieved in the online trade in 2018. In the whole year of 2018 the gross annual sales in the Austrian online retail increased by approx. EUR 100 million to approx. EUR 3.3 billion and thus reached nearly 4.6 % of the retail volume in Austria.

### Selected indicators of Austria's economic development



in % ● Goods exports ● Goods imports ● Economic growth ● Manufacture of goods<sup>1)</sup>

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Year	Goods exports in %	Goods imports in %	Economic growth in %	Manufacture of goods in %
2015	3.50	4.10	3.30	0.90
2016	2.10	3.20	3.80	4.60
2017	5.40	4.40	3.60	4.70
2018	5.10	5.30	4.30	4.30
2019	3.40	2.00	3.10	0.60
2020	-10.80	-9.40	-4.60	-7.00
2021	10.20	12.60	5.80	8.60
2022*	8.50	6.10	8.10	3.20

Source: WIFO 1) Net production value \*Forecast

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# 03

# Investment Market in Austria

## ESSENCE

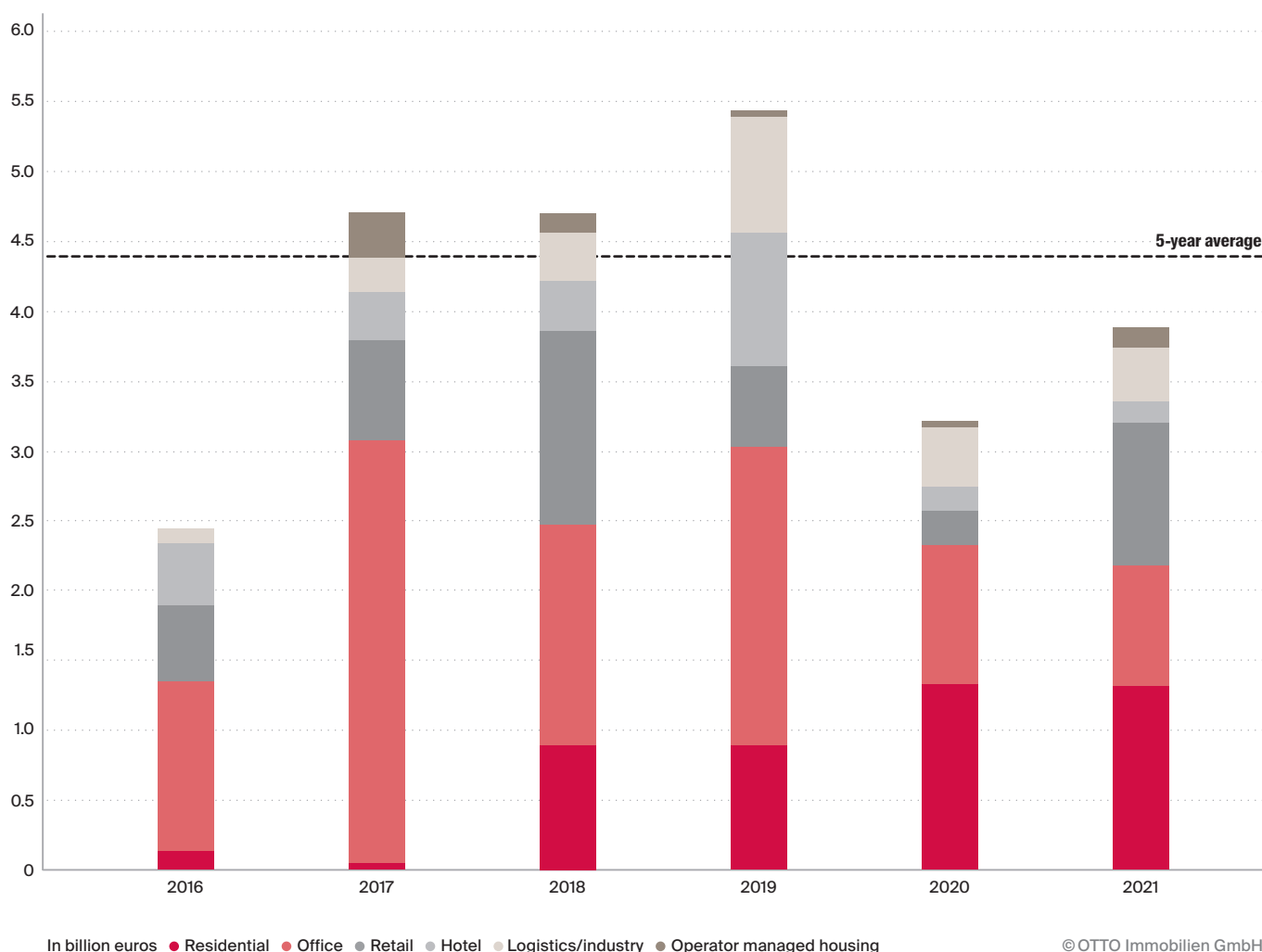
The investment market in Austria has seen a very dynamic development in many sectors in the last 5 years - a rapid increase of the residential segment with falling yields, growth and internationalisation of the logistics sector, and a very strong demand for core products in nearly all commercial sectors, most of all in the office sector, where the subject of sustainability is dominant in a way that is virtually unmatched in any other field.

## 3.1 Transaction Volume

With a complete transaction volume of EUR 3.8 billion in Austria the result of the year 2021 exceeded the one of last year by 20 %. This sharp increase is most of all due to the higher number of large volume transactions of more than EUR 100 million in the previous year, as well as to the sharply increasing number of transactions in the hotel and trade segments in the second half of 2021. As compared to the five-year average of approx. EUR 4.4 billion, the year of

2021 is lagging behind by approx. 16 % with approx. EUR 600 million. For 2022 we expect a further increase of the transaction volume by approx. EUR 4.5 billion to the level of 2017 or 2018. Most of all in the residential and logistics/ industrial segments we anticipate a strong increase in the transaction activity.

Transaction volume in Austria by asset class



### → Note

The transaction volume of commercial real estate takes into account different kinds of real estate like office, retail, hotel, logistics/industry, residential objects managed by the operating company, as well as the residential sector at the time of signing. Condominium property and traditional Viennese Gründerzeit-Zinshäuser in the residential category are excluded.

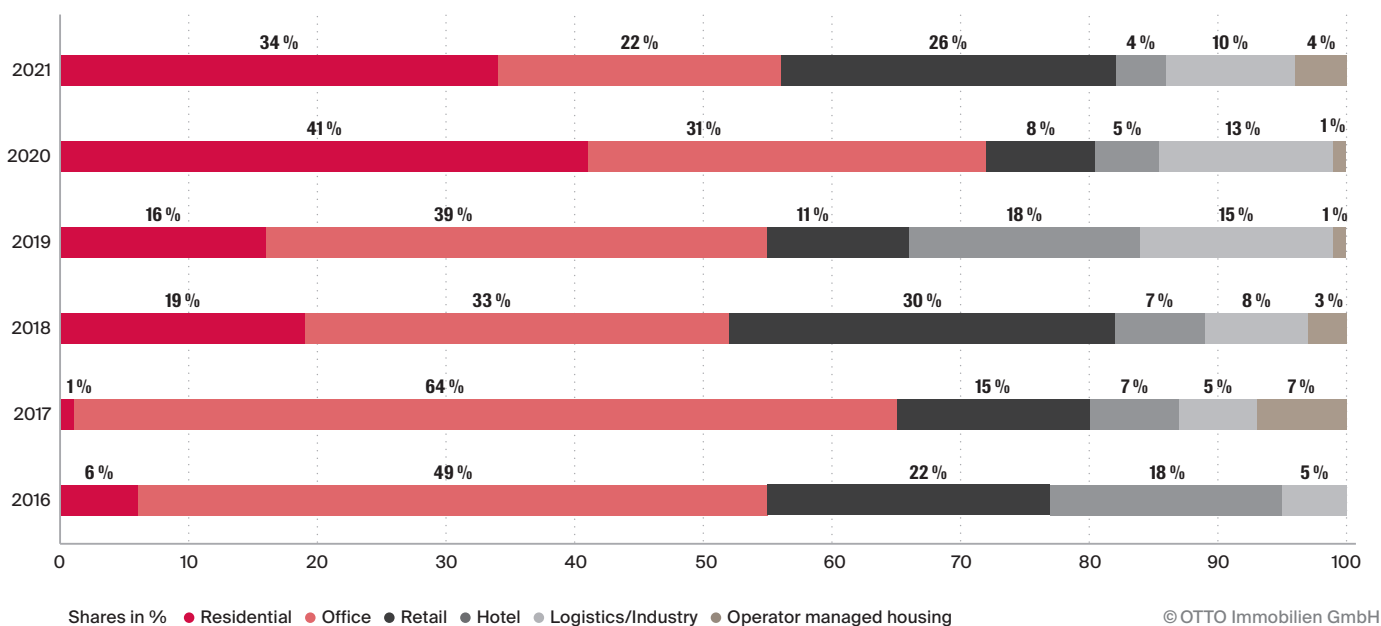
## 3.2 Distribution of the Transaction Volume

Due to some large-scale transactions the residential properties with a share of approx. 35 % in the transaction volume are in the first place of the asset classes for a second time after 2020, followed by the trade with a share of approx. 26 % in the transaction volume in 2021. Then the office properties follow with approx. 22 %. Industrial and logistics properties could maintain the level of the previous year and are currently at 10 %. In 2021 the hotel sector lost shares in the transaction volume and is currently at approx. 4 %. In the segment of residential properties managed by

the operating company we recorded a transaction activity of 3 % of the transaction volume for the first time in this year.

In 2022 we expect a further increase in the transactions of residential property, and we assume that their share will be further expanded in this year. The same applies to the industrial and logistics real estate, where we expect a clearly higher share in this year based on the strongly growing building activity and the ongoing high demand.

Distribution of asset classes



### → Note

The transaction volume of commercial real estate takes into account different kinds of real estate like office, retail, hotel, logistics/industry, residential objects managed by the operating company, as well as the residential sector at the time of signing. Condominium property and traditional Viennese Gründerzeit-Zinshäuser in the residential category are excluded.

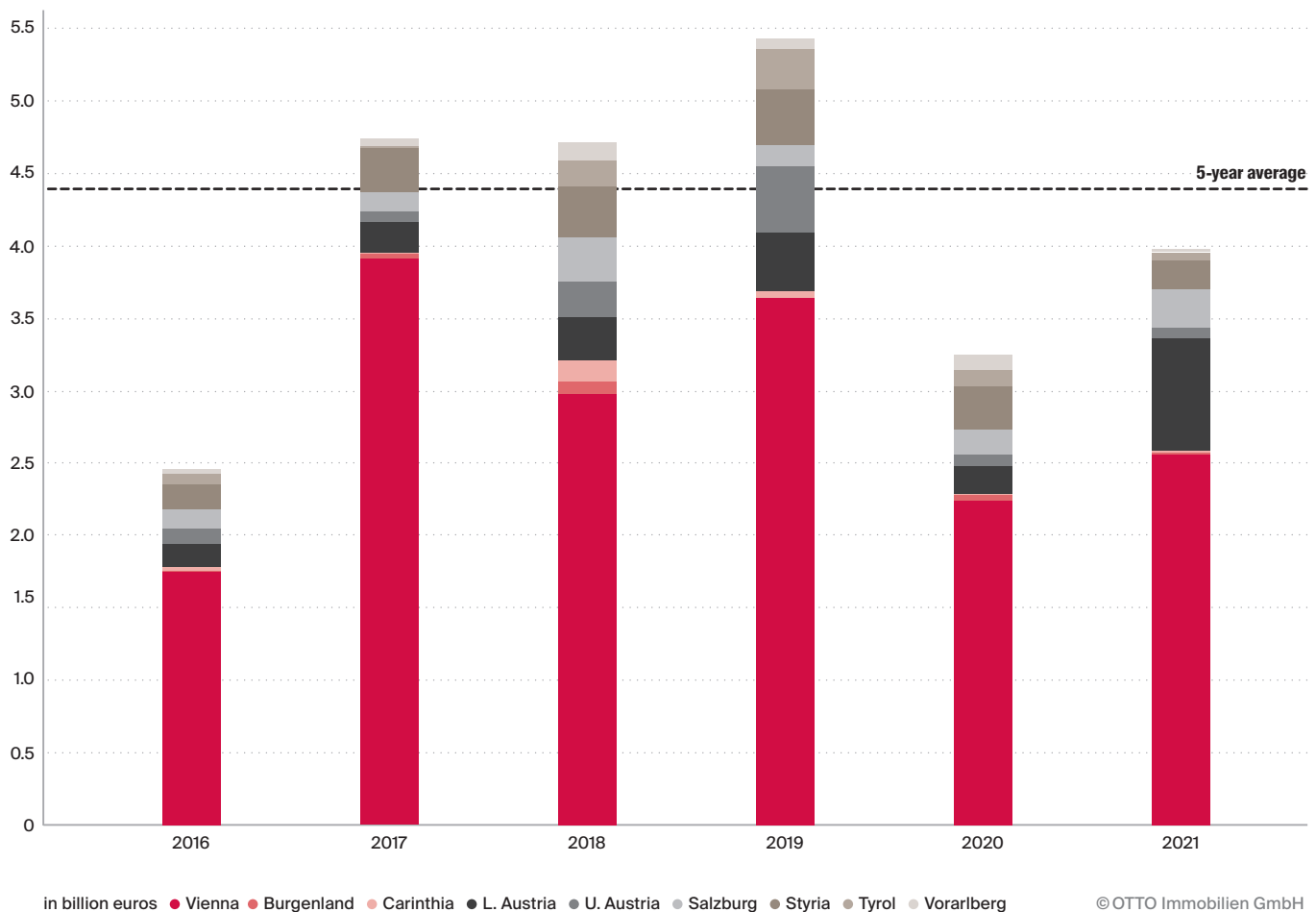
## 3.3 Regional Distribution of the Transaction Volume

Vienna is still in the focus of national and international investors, and we assume that this will continue for some time based on the high relevance of the Viennese office and residential sectors. Styria and in particular Graz have gained in importance by the growth of the residential sector and recorded hardly any decline in the transaction volume in 2021 - the decline in the share of logistics transactions from 25 % to 10 % is compensated by a share of 20 % in the residential volume. The high share of Lower Austria 2021 was mainly caused by the transaction of the Shopping City Süd. Basically, the logistics segment also supports the importance of the federal provinces and counteracts an opposite trend marked by the decline in retail transactions in the federal provinces.

Vienna is also clearly dominant in the residential segment with approx. 77 %, followed by Styria, where in particular Graz with approx. 12 % plays a major role. Linz still shows a share in the transaction volume of 2 %, where a greater growth might be expected. Generally speaking, we still assume a lasting growth in the capitals of the federal provinces, based on the continuously falling yields and the insufficient supply in the federal capital.

For 2022 we expect a further shift towards the federal provinces: most of all Salzburg will gain in importance.

Regional distribution of the transaction volume in Austria



## 3.4 Major Transactions

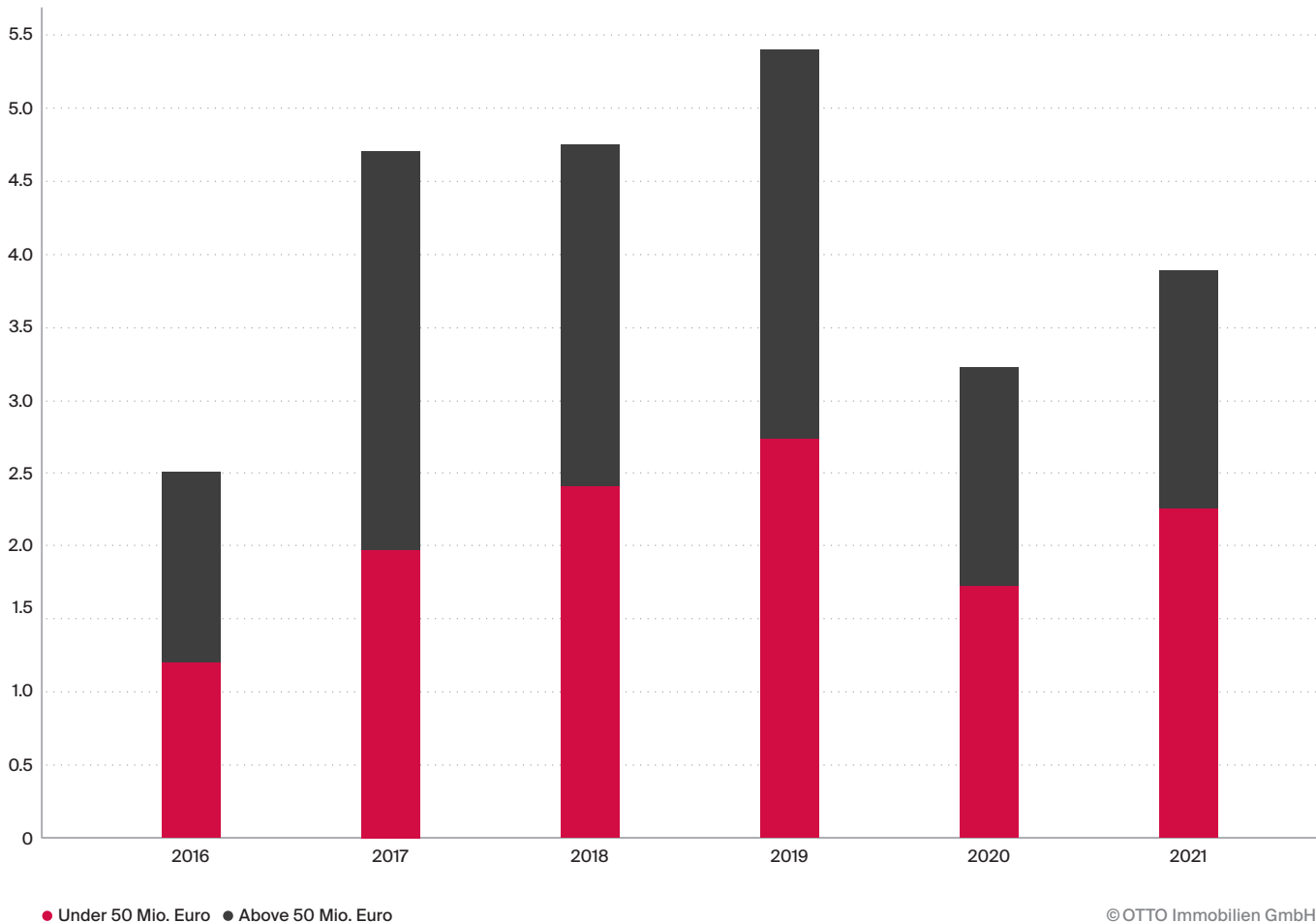
With regard to the transaction volume of major transactions (above EUR 50 million) it should be noted that transactions below EUR 50 million have constantly increased from EUR 2 billion in 2017 to nearly EUR 3 billion in 2019. In 2021 they dropped for the second time below the EUR 2 billion mark. The further decline is most of all based on the sharply increased activity in residential transactions, which nearly

exclusively show a transaction volume below EUR 50 million. Currently transactions below EUR 50 million have a share of 58 % in the transaction volume, and consequently major transactions of more than 50 million have a share of 42 %. The 5-year average of the share of major transactions in the total transaction volume amounts to 49 %.

### Relevant Transactions

Object	Address	Federal state	Asset class	Volume in Mio. Euro	Year
Grabenhof	Graben 14	Vienna	Office/Retail	~ 320	2021
Hilton Hotel Stadtpark	Am Stadtpark 1	Vienna	Hotel	~ 330	2019
DC Tower 1	Donau-City-Straße 7	Vienna	Office	~ 370	2017
ICON Wien	Getrude-Fröhlich-Sander Straße	Vienna	Office	~ 500	2017

#### Transaction volume by major transactions



## 3.5 Overview of Prime Yield

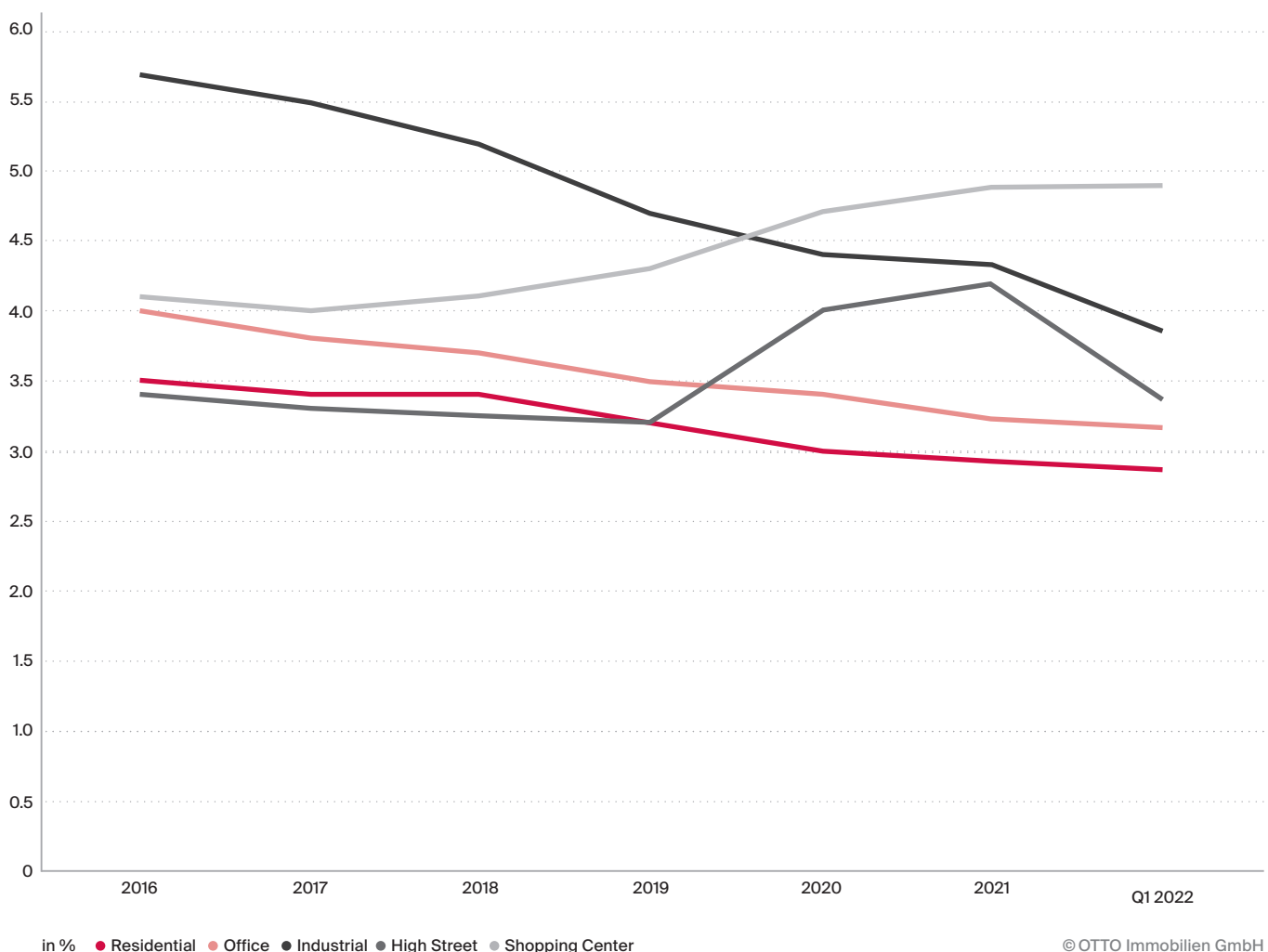
With 125 basis points the prime yield for industry/logistics in Austria has shown the largest decline to currently 3.8 % within the past five years - which is in correspondence with the international trend. Even in Vienna the demand for long-term rented objects in prime locations led to a drop of the prime yield for office objects below 3.2 %. In the field of residential properties, which is an asset class of low yields based on the risk profile, the prime yield for objects in top residential areas in Vienna fell below 2.9 %.

The yield for shopping centres, which were greatly affected by the Corona crisis, has already increased in the past years in the consequence of changes in the trade sector, and is currently at approx. 4.20 %, a value, which is an estimation because of lacking transactions. In the meantime, high street objects were regarded as critical because of the

anticipated rent losses, although there are now signs of a clear recovery. For objects in inner-city prime locations with a high-quality tenant structure there is a continuous international demand.

For prime objects in the logistics field the yield will presumably further decline towards 3.5 %. For office objects we expect a stabilisation of the yield at 3.2 %, however, for objects with a long-term fixed rental income there might be a further decline by up to 35 basis points and even more for trophy assets. The residential sector will presumably stabilize at a low level, while a closer review of the current rental level is expected for some locations. The current rental level might get under pressure in consequence of the higher number of newly completed apartments.

Prime yields



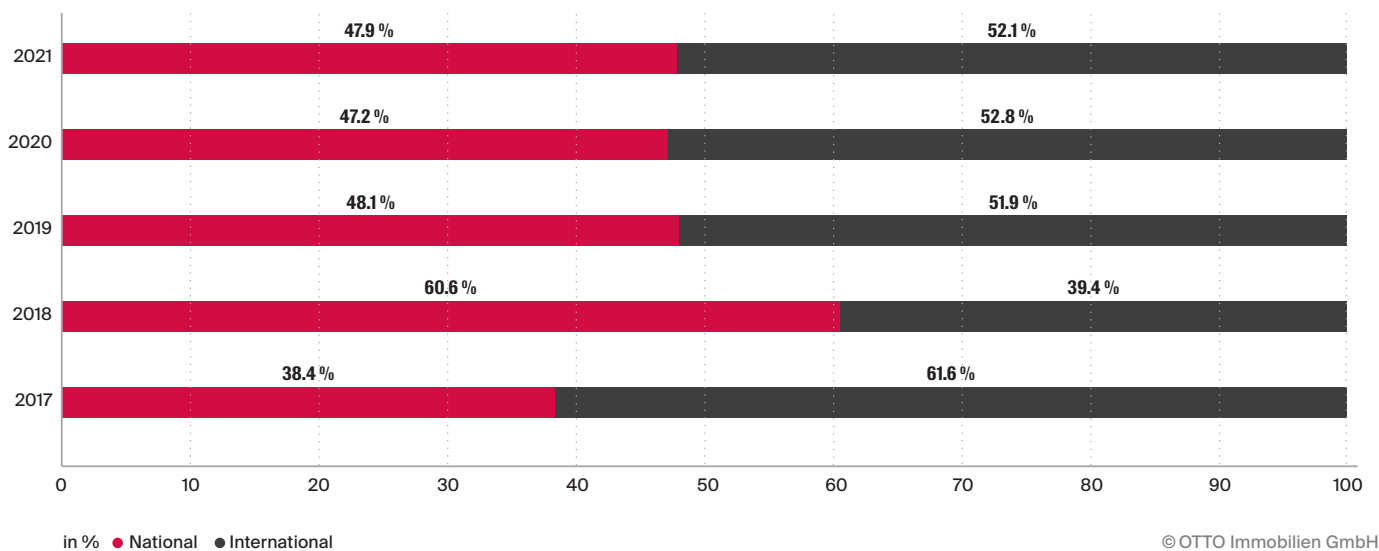
The prime yield of office properties for prime properties in prime locations is made up of the annual net rental income in relation to the net purchase price.

## 3.6 Investor Origin

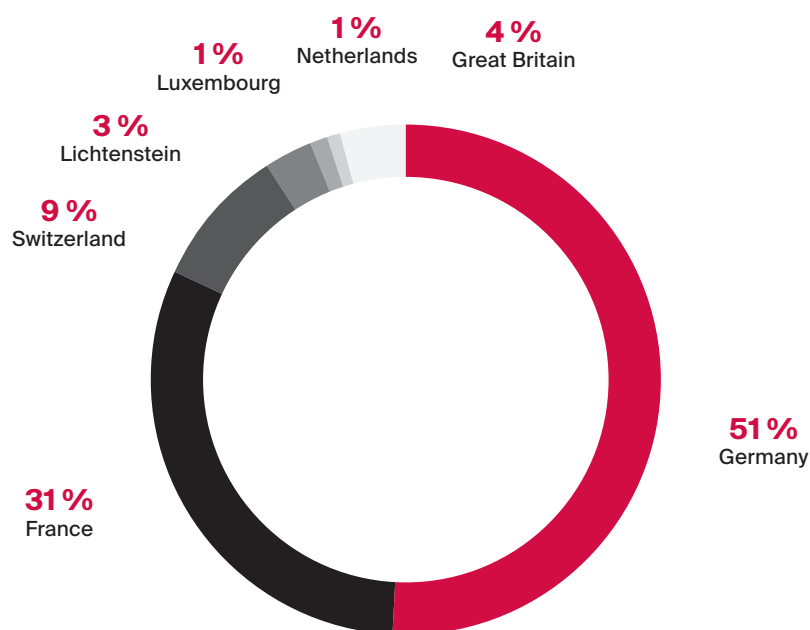
In 2021 international investors with a share of 53 % of total transaction volume are again very active on the domestic market. However, the share of foreign investors has shown

a lateral movement for 3 years and stays constantly at the 50 percent mark. This is also a clear sign that products for international buyers are still lacking on the Austrian market.

Investor origin national/international

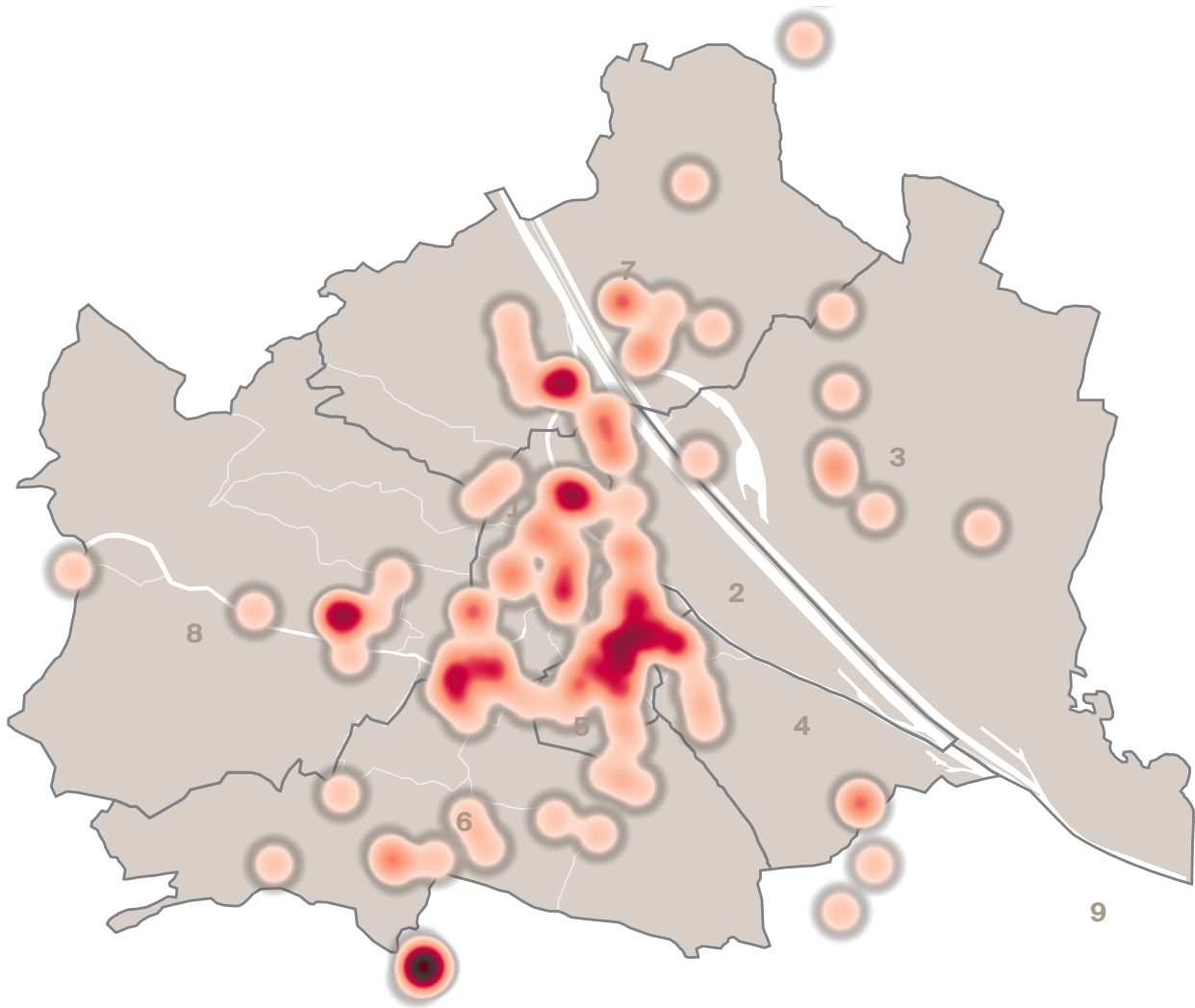


Investor origin international



## 3.7 Geographic Distribution of the Transaction Volume in Vienna

Heatmap transaction activities Vienna



### Office submarket

1. Inner Districts (CBD)
2. Prater/Lassallestrasse
3. Donauey
4. Erdberg – St. Marx (East)
5. Central Station
6. Wienerberg (South)
7. North
8. West
9. Airportcity Vienna

low  
transaction activity

high  
transaction activity

### → Note

A heat map is a representation of data, which makes intensities - in this case the transaction volume from Q1 2021 to Q4 2021 - in the geographic context intuitively understandable. The transaction volume of commercial real estate takes into account different kinds of real estate like office, retail, hotel, logistics/industry, residential objects managed by the operating company, as well as the residential sector at the time of signing. Condominium property and traditional Viennese Gründerzeit-Zinshäuser in the residential category are excluded.

# 04

# Office Investment Market

## ESSENCE

Office property forms the historic core of the institutional investment activity, and the demand in particular for core objects clearly exceeds the supply in Austria. The small volume of completions increases the competition in terms of demand for established existing properties with a good level of occupancy - we assume that here the number of transactions will increase in 2022.

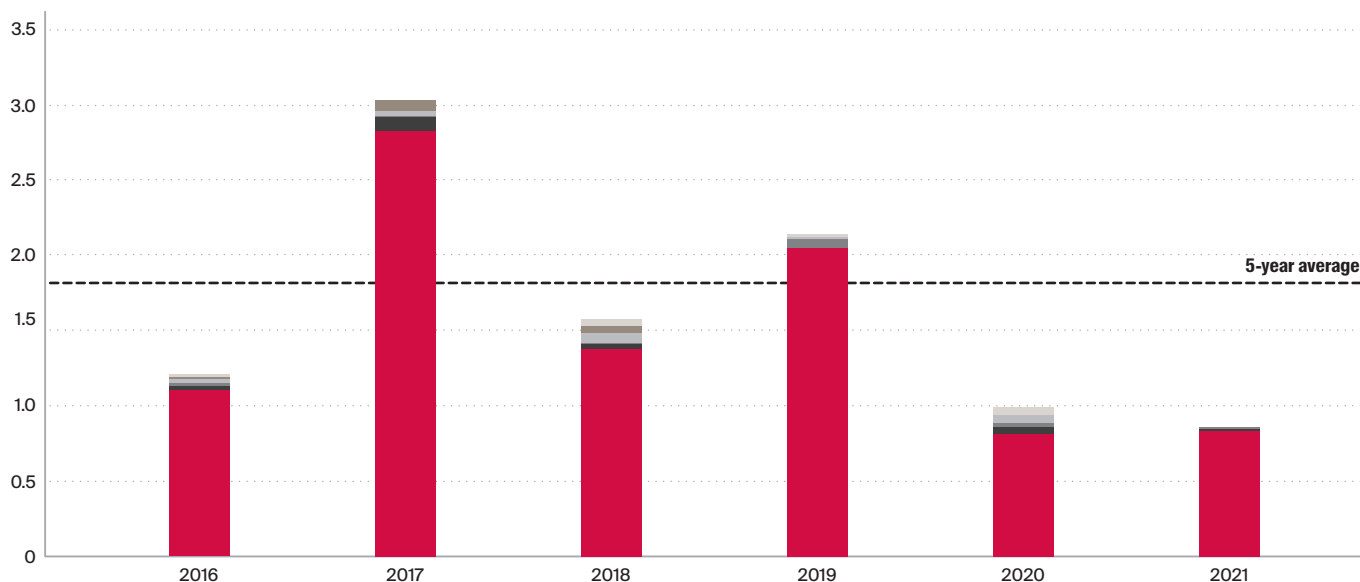
# 4.1 Office Investment Market in Austria

## Transaction Volume

The transaction volume for office property has slightly declined in 2021 as compared to the previous year and remained significantly behind the year 2019 as well as the 5-year average with slightly below EUR 1 billion. In the distribution among the federal provinces the strong focus on Vienna is obvious. None of the federal provinces had a share of

approx. 10 % of the transaction volume in Austria in the last 5 years. However, in the last years we have observed an increasing interest as well as supply in cities like Graz, Linz, or Salzburg. We expect a clear increase, which will exceed the 10 percent mark in the next years.

Transaction volume office by federal state



in billion euros ● Vienna ● Lower Austria ● Upper Austria ● Salzburg ● Styria ● Rest of Austria

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## Relevant Transactions

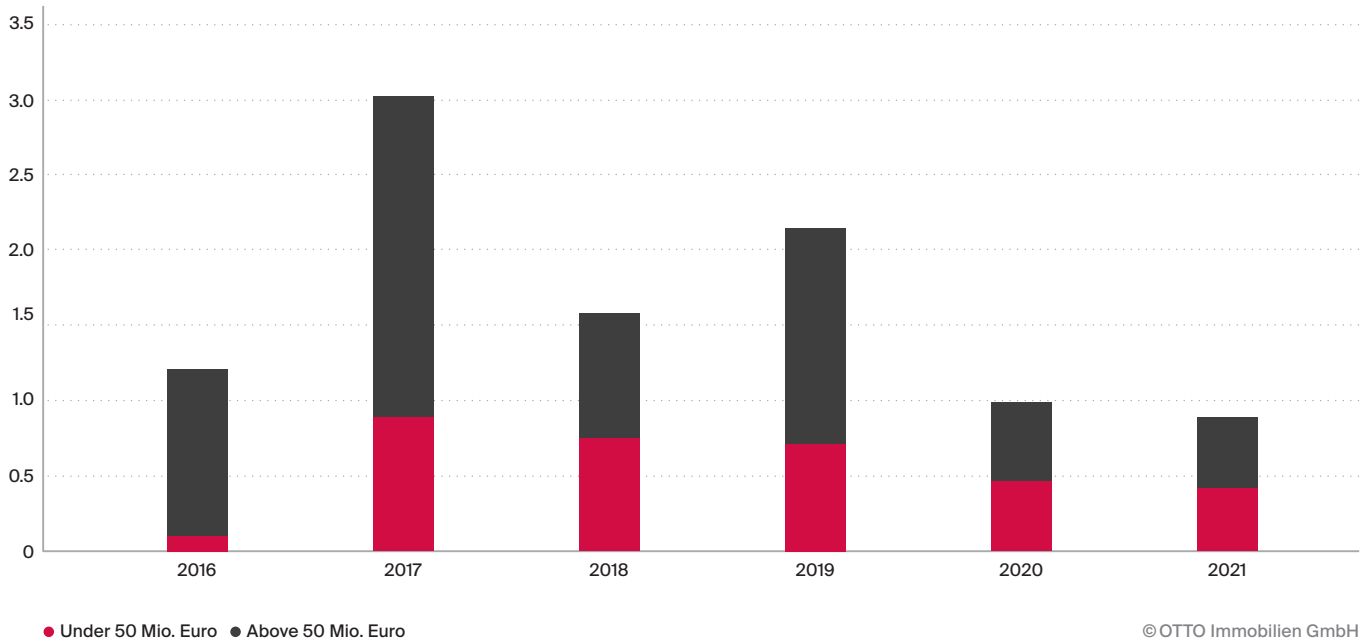
Object	Address	Federal state	Buyer	Transaction period
Square One	Leopold-Ungar-Platz 2	Vienna	Warburg-HIH Invest	Q3 2021
Euro Plaza A-C	Am Euro Platz 1-5	Vienna	ARE	Q1 2021
Schottengasse 10	Schottengasse 10	Vienna	AVV Real Estate GmbH	Q4 2021
Nordbahnstraße 50	Nordbahnstraße 50	Vienna	IMFARR	Q1 2021

## Major Transactions and Investor Origin

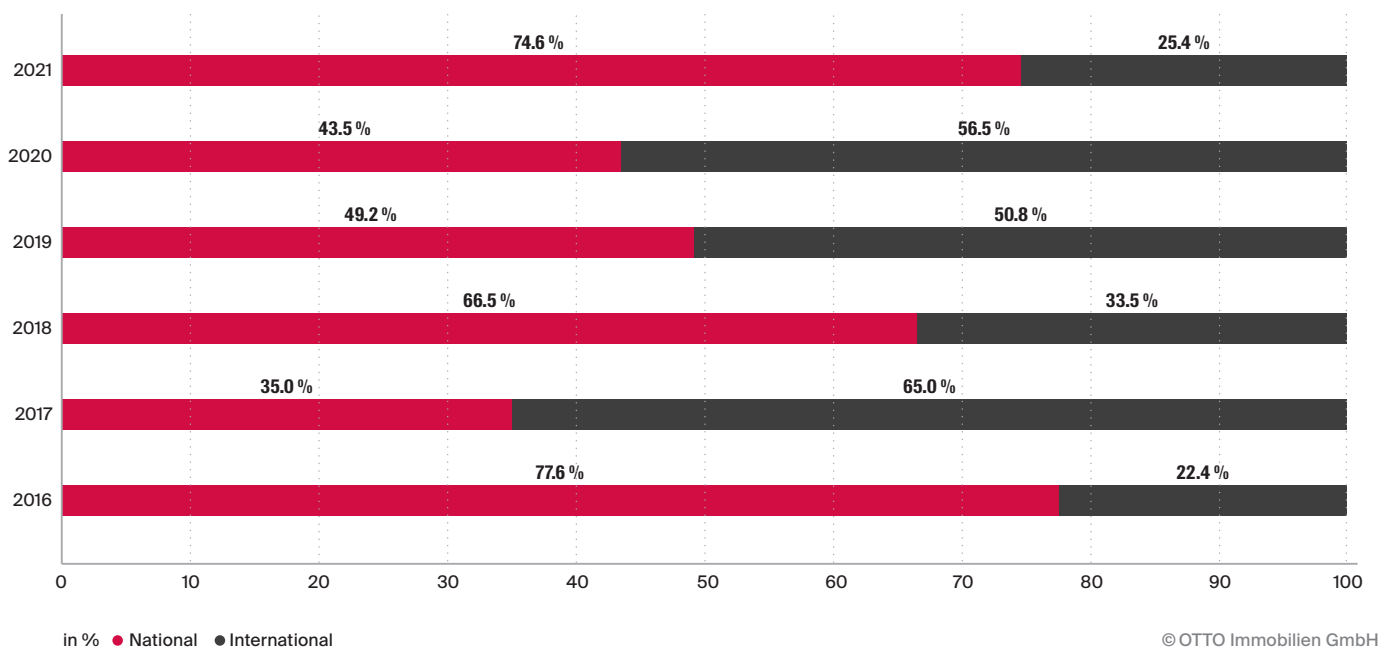
In the analysis of the transaction volume with regard to major transactions it becomes apparent that most of all the major transactions are essential for the transaction volume per year. Since 2017 the level of transactions with a volume

below EUR 50 million lies constantly at approx. EUR 800 million per year. The higher transactions, however, fluctuate strongly between EUR 500 million and up to EUR 2 billion.

Transaction volume by major transactions



Investor origin national/international

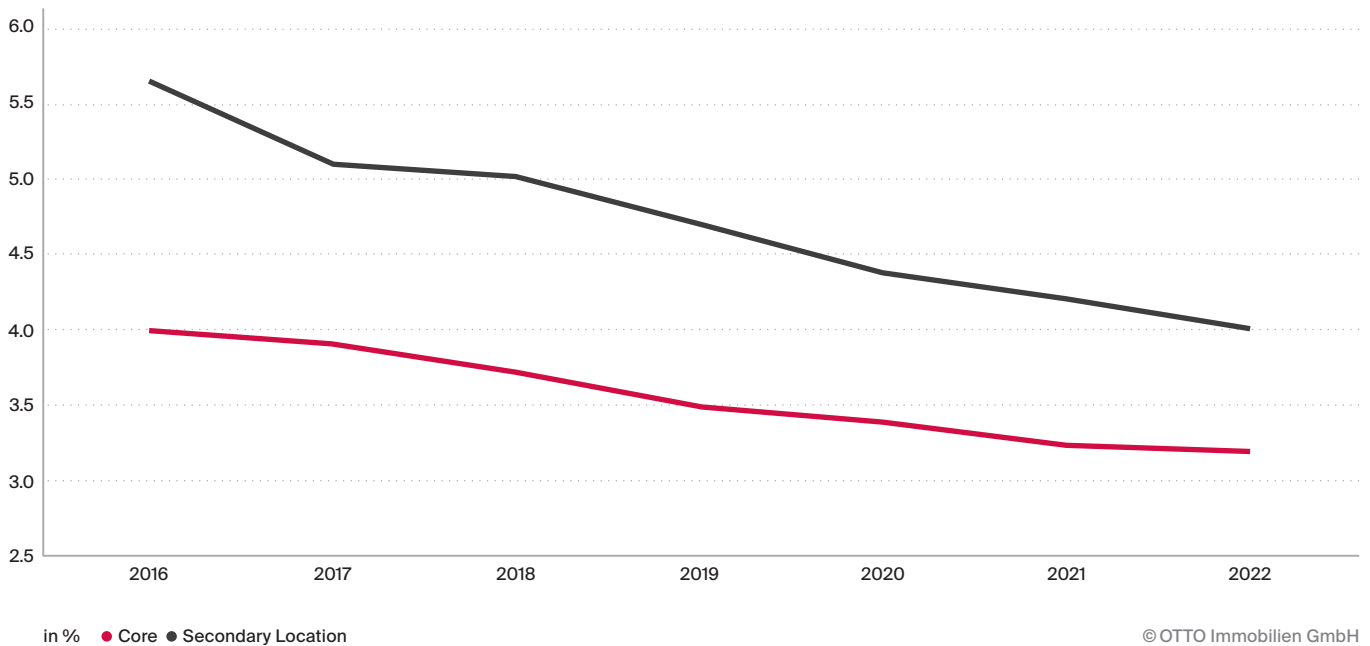


## Yields and International Comparison

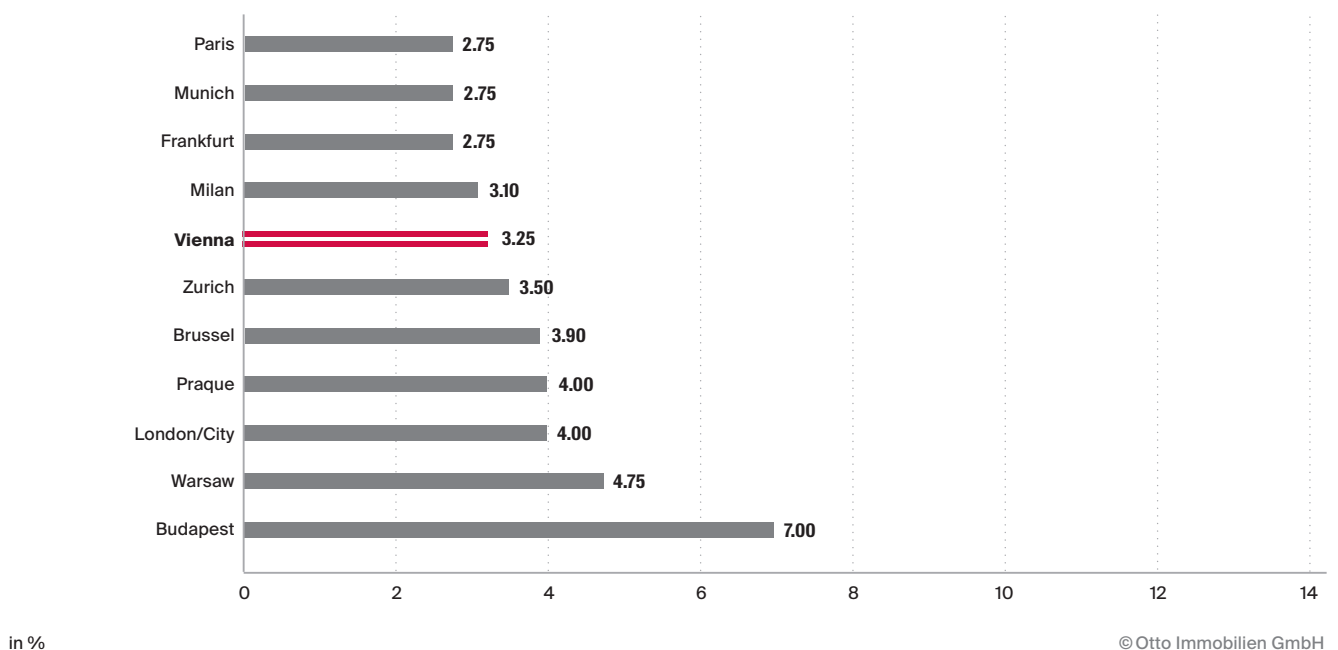
The prime yield for core locations in Vienna is currently at approx. 3.25 % - in the sub-locations at slightly above 4 %, while even less than 4 % are possible for a corresponding product (new building, rent, and ESG). We expect a further

decline of the prime yield in 2022, but not in such large steps as have been observed in the last years.

### Yield office Austria



### European comparison of prime yields



## 4.2 Office Investment Market in Vienna

### Office Transaction Volume in Vienna

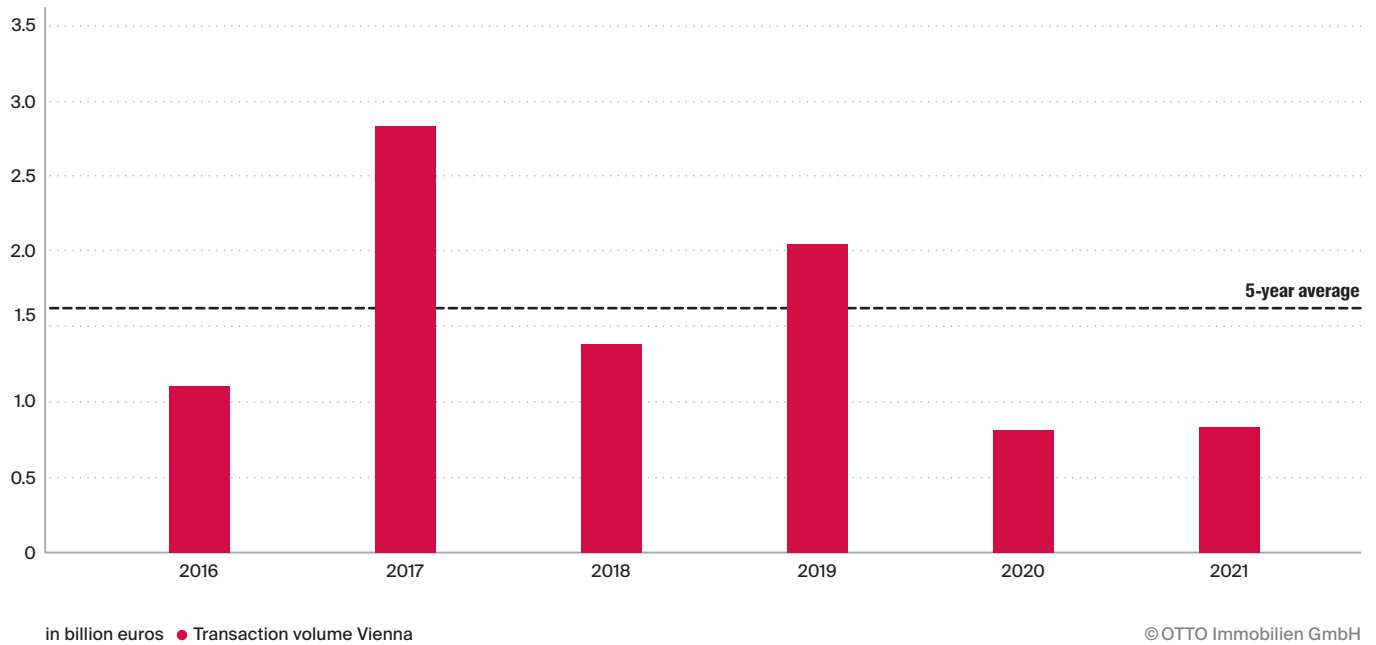
The transaction volume for office property strongly declined since 2019 and remained significantly behind the year 2019 and the 5-year average with slightly below EUR 1 billion in 2021 but is now at a similar level as in 2020. The decline in the last years is mainly based on the small supply of products in Vienna or other major capitals of the federal provinces such as Linz, Graz or Salzburg, which might be attractive for international customers. We expect a clear increase in the next years to more than EUR 1 billion.

### Volume of Completions in Vienna with Share of Sales

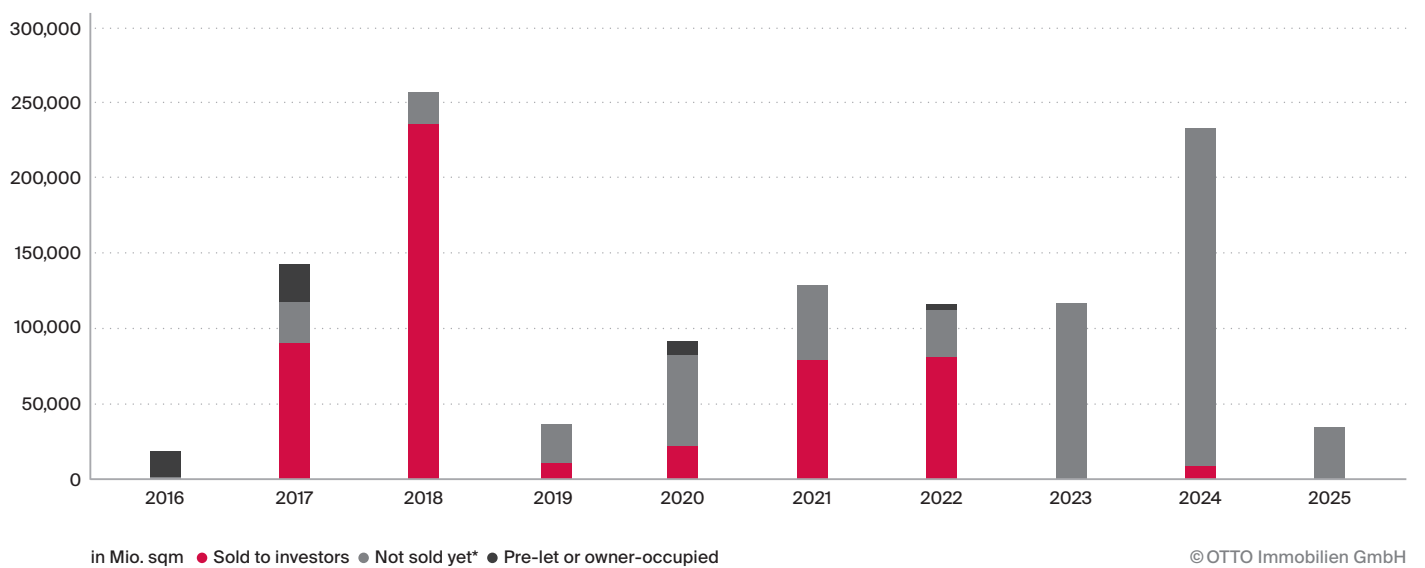
In the analysis of the volume of completions with regard to sold projects in the federal capital some interesting observations can be made. At the first glance, there seems to be sufficient supply of currently built or completed office buildings, but a major part of the space, which is not yet sold, has a size of less than 10.000 sqm or will be used by the owner. Already 70 % of the areas, which were or will be completed in Vienna in the time period from 2018 to 2022 have already been sold to investors. The remaining areas are primarily small renovation projects, will be transferred to owner-occupiers, or are still subject of sales negotiations.



## Transaction volume office Vienna



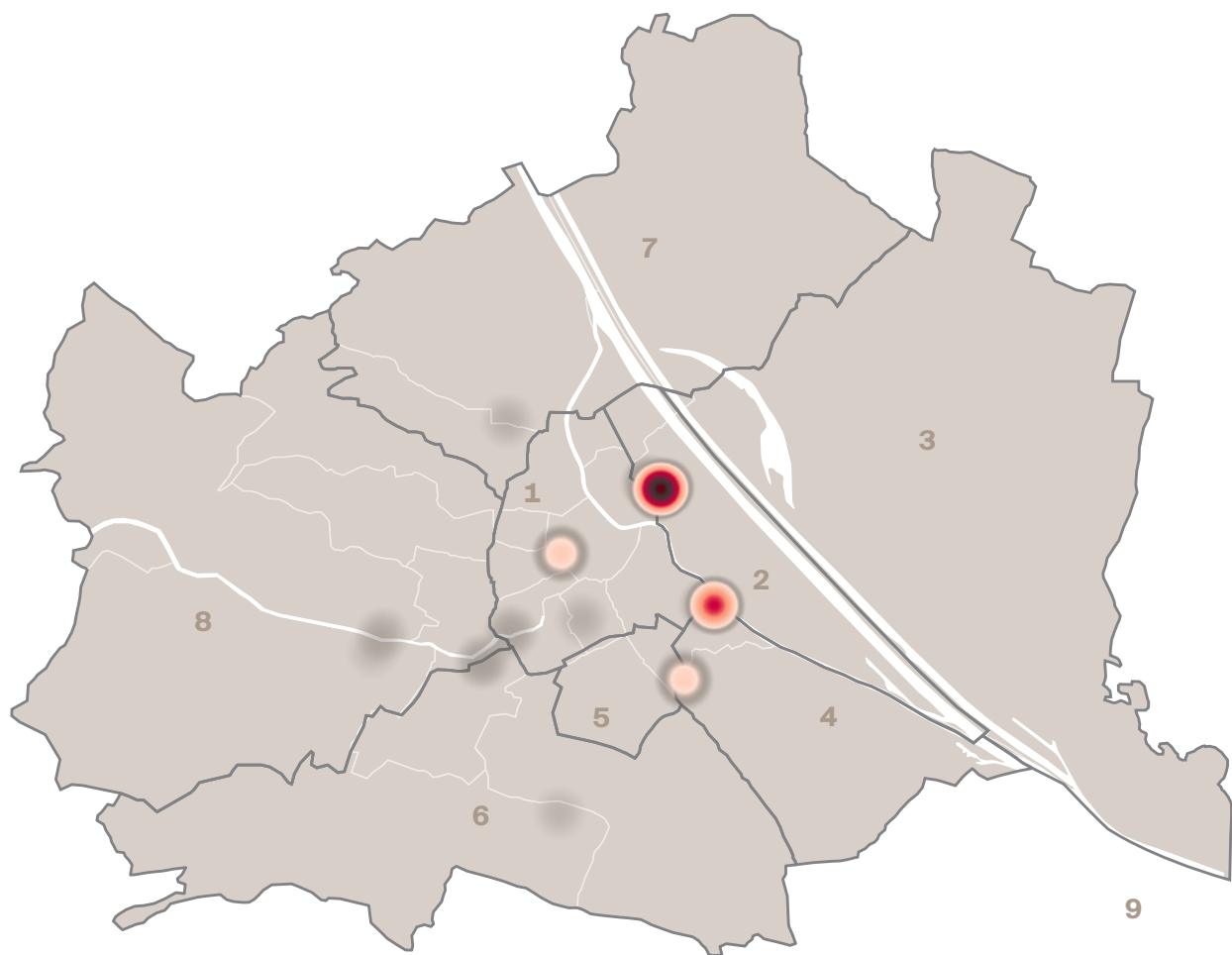
## Completion volume Vienna with sales share



\* Currently in the process of being sold or held by the project developer

# Geographical Distribution of Transaction Volume Vienna Office

Heatmap transaction volume office



Submarket

- 1. Inner Districts (CBD)
- 2. Prater/Lassallestrasse
- 3. Donaucity
- 4. Erdberg – St. Marx (East)
- 5. Central Station
- 6. Wienerberg (South)
- 7. North
- 8. West
- 9. Airportcity Vienna

low rental intensity | high rental intensity

→ Hinweis

A heatmap shows data ( in this case the take-up Q1 2021 to Q4 2021) in a geographical context and is aimed at an intuitive understanding of transaction intensities of office properties.

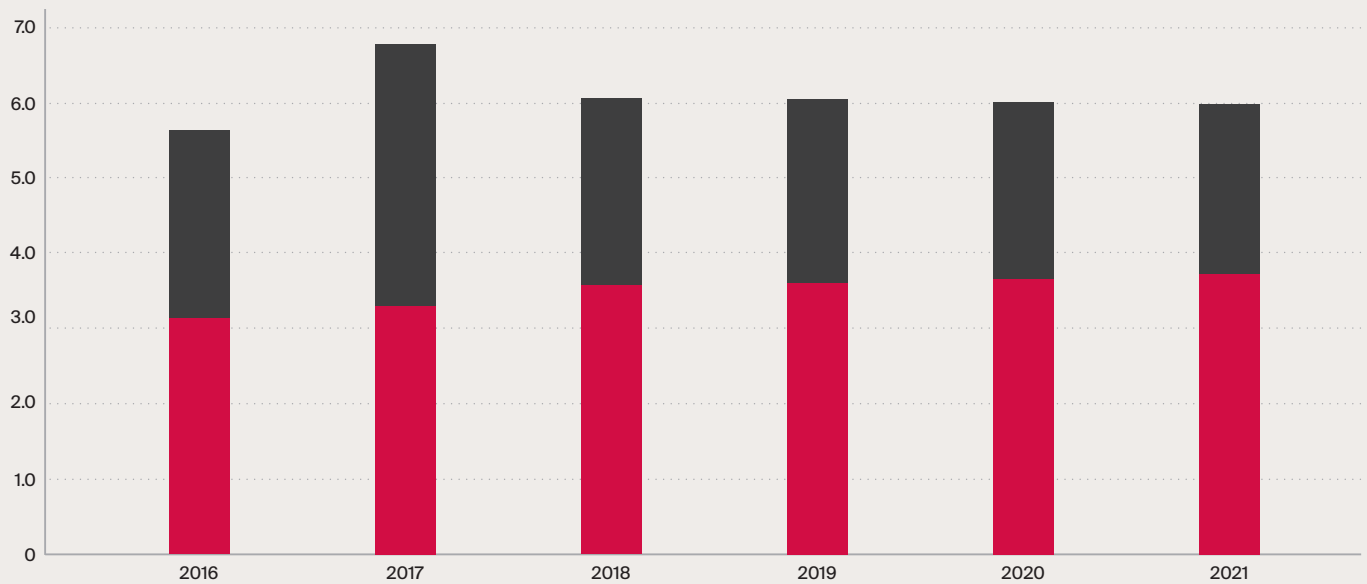
## 4.3 Office Rental Market in Vienna

### Supply

The supply of modern office property according to the VRF-Standard is currently at approx. 6 million sqm, which is divided into approx. 60 % class A and 40 % class B sup-

plies. The class B supply is at a very constant value since 2016, while the class A supply rose by 17 % since 2016, which corresponds to an average annual increase of 3.4 %.

#### Office inventory in Vienna



in Mio. sqm ● Class A ● Class B

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Submarkt	Total area in sqm	New supply 2021/2022	Vacancy rate in %	Trend 2022*	Net take-up 2021 in sqm	Net take-up Q4 2021 in sqm	Trend 2022*
Inner Districts (CBD)	2,198,222	30,600	3.00	↗	41,997	30,278	↗
Prater/Lassallestraße	752,993	86,000	5.70	↗	29,284	9,330	↗
Donaucity	537,736	22,300	6.20	↘	1,219	-	↘
Erdberg - St.Marx (East)	712,843	28,000	4.00	↘	3,218	1,960	↔
Central Station	516,321	51,000	2.10	↗	23,680	1,735	↔
Wienerberg (South)	454,627	9,032	8.80	↔	17,446	3,158	↔
North	444,192	20,000	5.20	↗	9,496	1,599	↗
West	255,117	-	5.80	↔	7,895	6,526	↔
Airportcity Vienna	106,947	-	14.80	↘	2,174	286	↔
<b>Total</b>	<b>5,978,989</b>	<b>246,932</b>	<b>4.60</b>	↘	<b>136,409</b>	<b>54,872</b>	↔

\* The arrow for „Trend 2022“ shows the estimate for the whole year 2022.

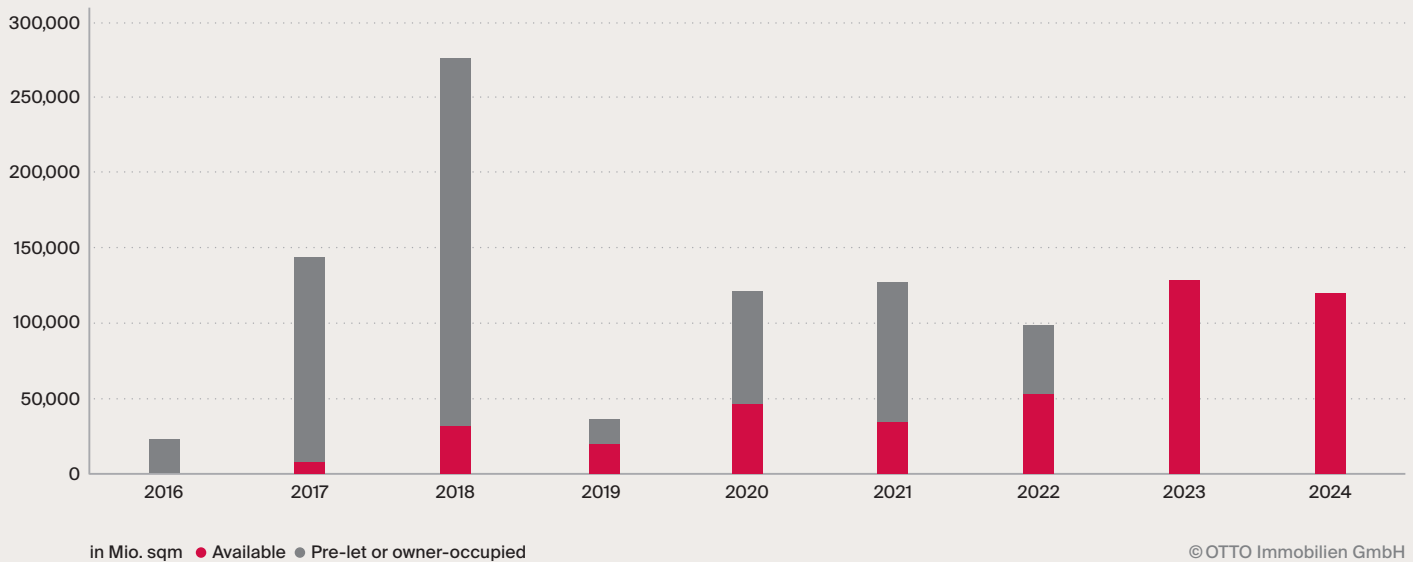
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## Volume of Completions and Level of Occupancy

After a volume of completions of 121,000 sqm in 2021, the volume of new constructions stayed constantly at the same level in this year with a total of 127,000 sqm. Approx. 74,900 sqm (72 %) of the new buildings were already rented or

owner-occupied in the fourth quarter and are no longer available on the market. In 2023 the volume of completions will decline slightly to a total of 98,000 sqm.

Volume of completions and level of occupancy

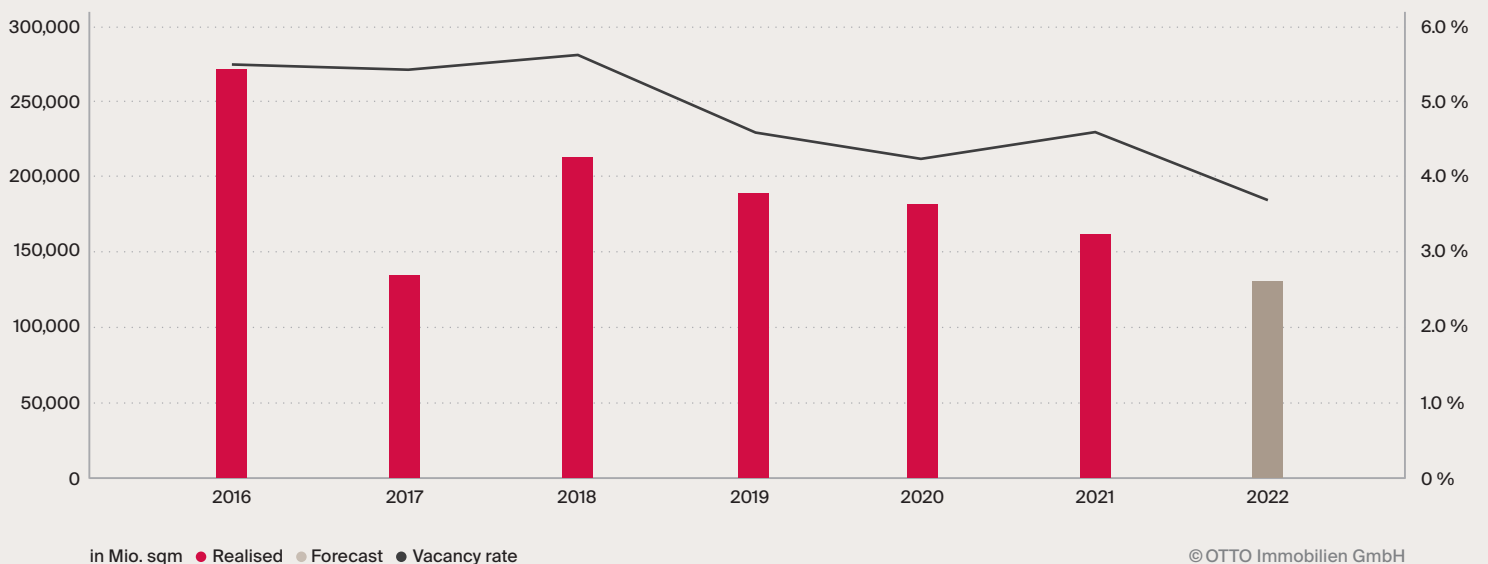


## Net Take-up and Vacancy Rate

In 2021 the level of 2020 and 2019 of approx. 180,000 sqm could no longer be held up. In 2022 we expect a slight decline to approx. 130,000 sqm. Since 2016 the vacancy rate is at a constantly low level: In 2021 it increased only to a

minor degree, from approx. 4 % in Q1 to currently 4.2 % in Q4. For the next quarters we expect a slight increase in consequence of the completions in 2021.

Net Take-up and vacancy rate



## Rents

The rents have been at a constant level for years: Currently the average rent amounts to approx. EUR 15.10 per sqm and month and the top rents amount to approx. EUR 27.00 per

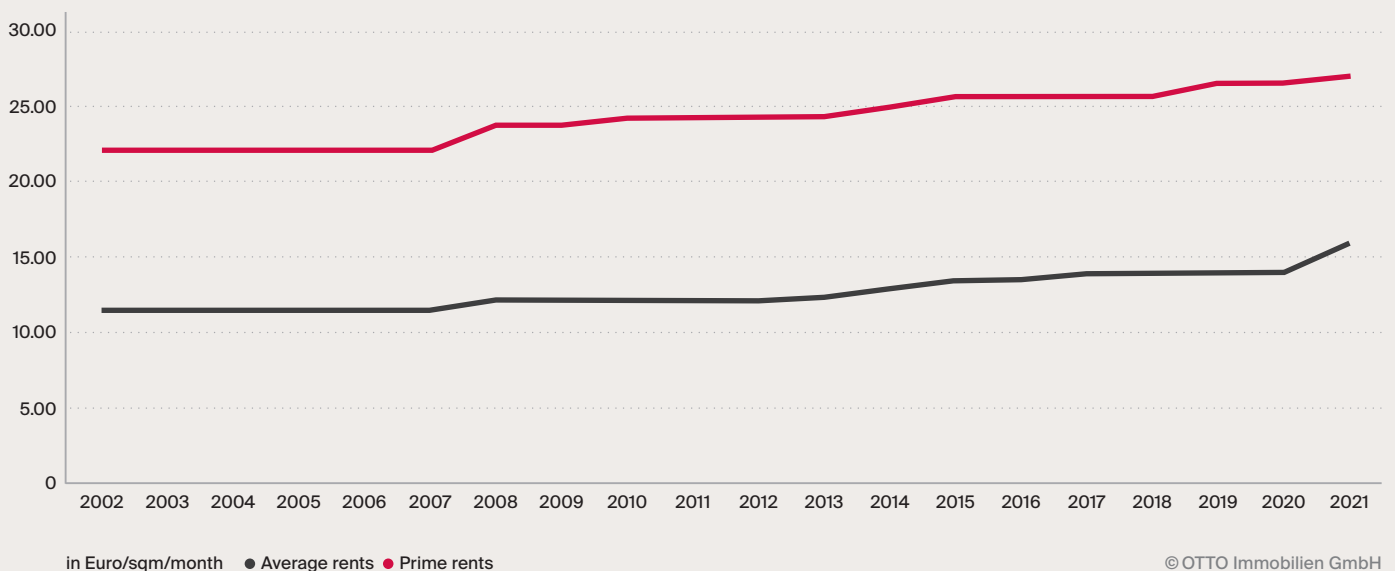
sqm and month. We observed a sharp increase of the rent level in some areas, most of all in the last years.

### Rents in Euro/sqm/month



The prices quoted refer to modern office space in established office locations. Office space of minor quality is, apart from this, available at much lower prices.

### Average and prime rents



# 05

# Residential Investment Market

## ESSENCE

- Residential properties are the winners of the crisis
- Asset class was able to establish itself better in the comparison
- Apart from Vienna, most of all Graz and increasingly the surrounding area of Vienna are in the focus of the investors
- High share of German investors in the total market
- Positive outlook: Unabated high demand of the investors

**NOTE Definition of residential properties:** completely privately financed rented apartments; condominium property and traditional Viennese Gründerzeit-Zinshäuser are excluded.

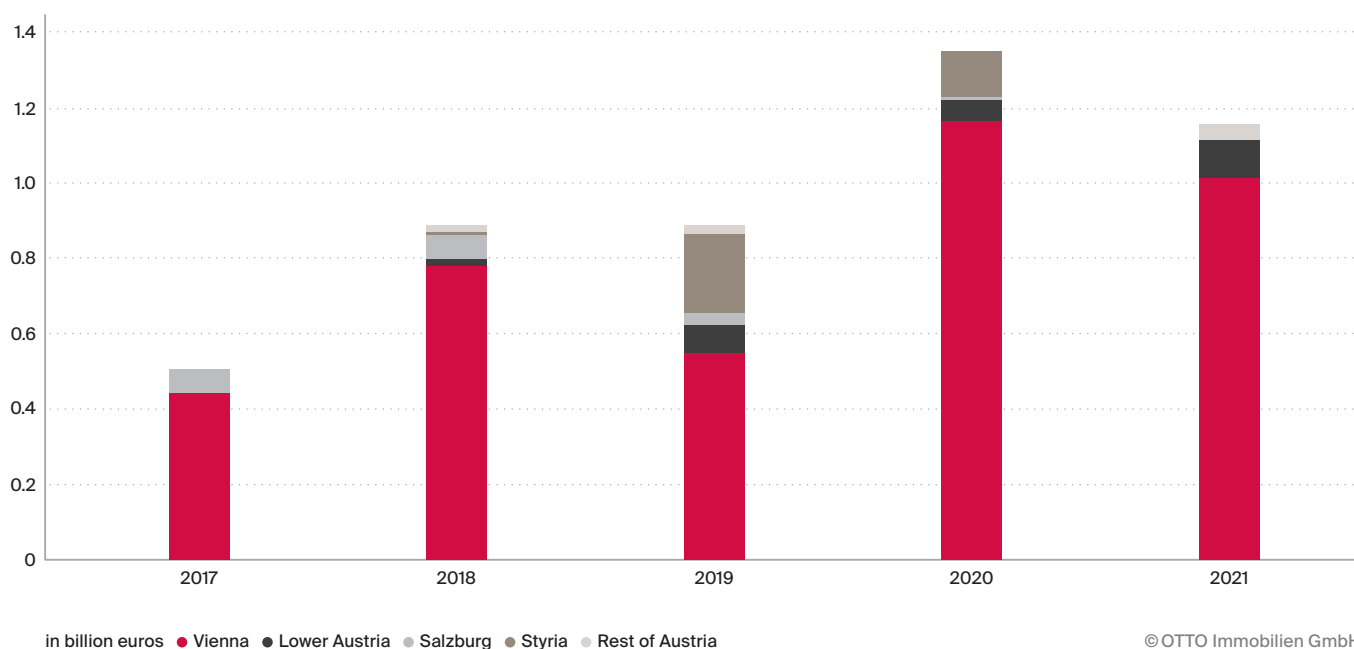
# 5.1 Residential Investment Market in Austria

## Residential Transaction Volume in Austria

Residential properties are the winners of the Corona crisis, which can be clearly established after more than two years of pandemic. The pandemic has proven the high resiliency of this asset class and since its beginning the already existing strong interest in residential properties has further increased. This is not only true for the market of private properties, where sometimes significant increases in price for residential property were observed, but also for the institutional market. While the asset class of residential property had already a substantial share in the total volume of the institutional investment market of more than EUR 800 million already in 2018 and 2019, the investment

volume could be raised by approx. 50 % to approx. EUR 1.3 billion in 2020. With more than EUR 1.3 billion the investment volume not only remained high in 2021 but could nearly reach the record level of 2020. This corresponds to a share in the total market of approx. 34 %, which made residential property again the strongest asset class on the institutional real estate investment market. It was observed that the capitals of the federal provinces and the surrounding area of Vienna were increasingly of interest for institutional investors. Nevertheless, Vienna with a share of 77 % and a volume of approx. EUR 1.01 billion is the clear frontrunner in the Austrian ranking.

### Transaction volume for housing by federal state



## Relevant Transactions

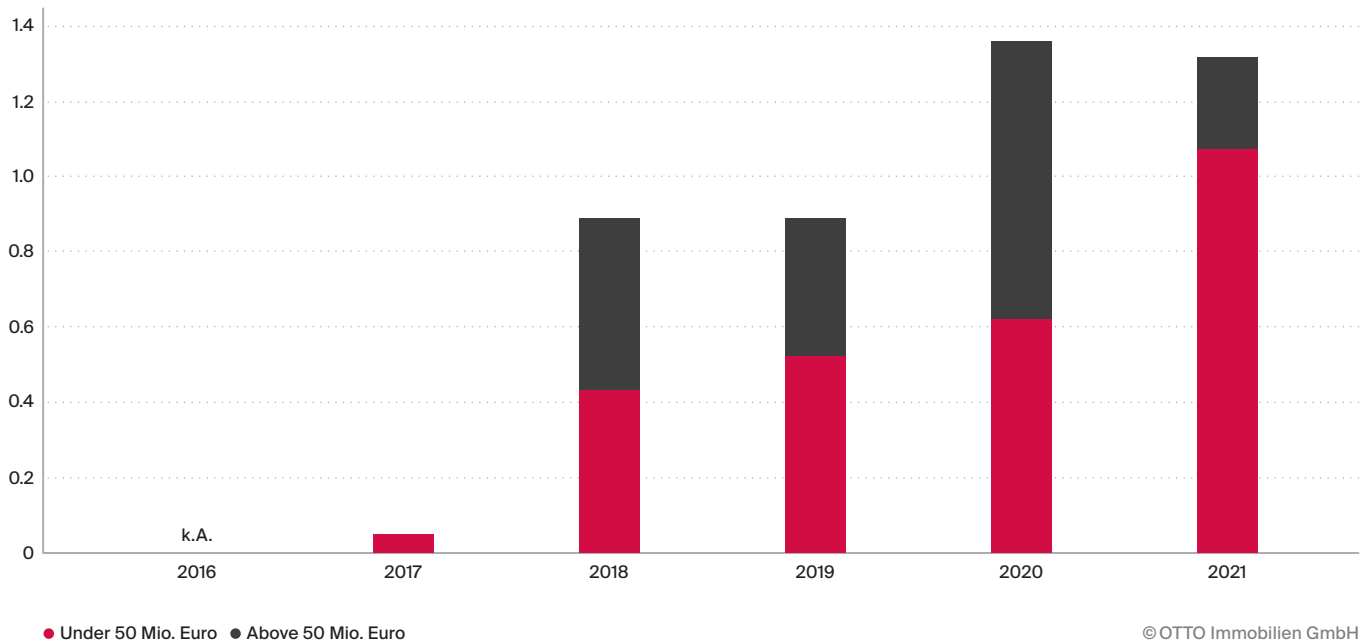
Object	Address	Federal state	Buyer	Transaction period
Laaer Wald	Puchsbaumgasse	Vienna	CRIM	Q3 2021
Dresdner Strasse 109	Dresdner Strasse 109	Vienna	AEW Europe	Q1 2021
Kay	Engerthstrasse 61-63	Vienna	SIGNA, Universal Investment	Q4 2021
Flo7	Jedleseer Strasse 1	Vienna	Galcap	Q4 2021

## Major Transactions and Investor Origin

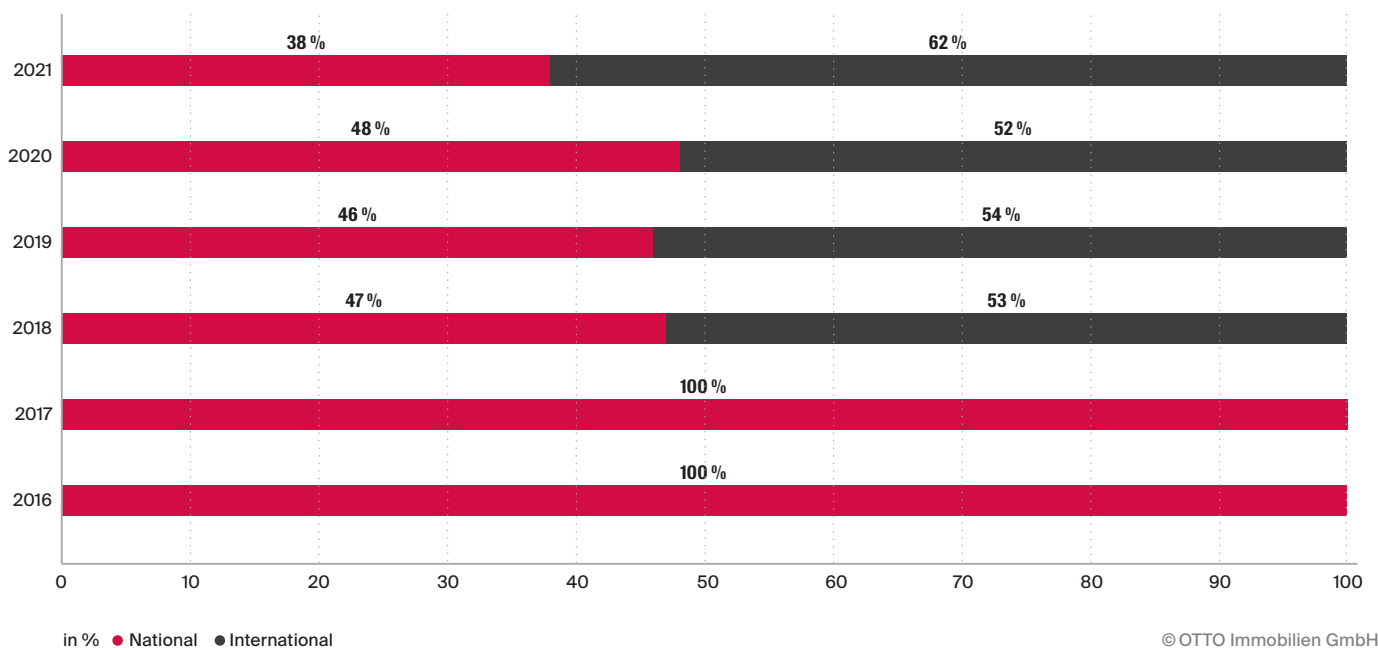
As compared to the previous year significantly fewer major transactions were completed in 2021. After some major project developments were realized in 2020, the volume of major transactions was only approx. EUR 243 million in

2021. Therefore, the share was even below the values of 2018 and 2019, which, however, was caused by the insufficient supply.

### Transaction volume by major transactions



### Investor origin national/international

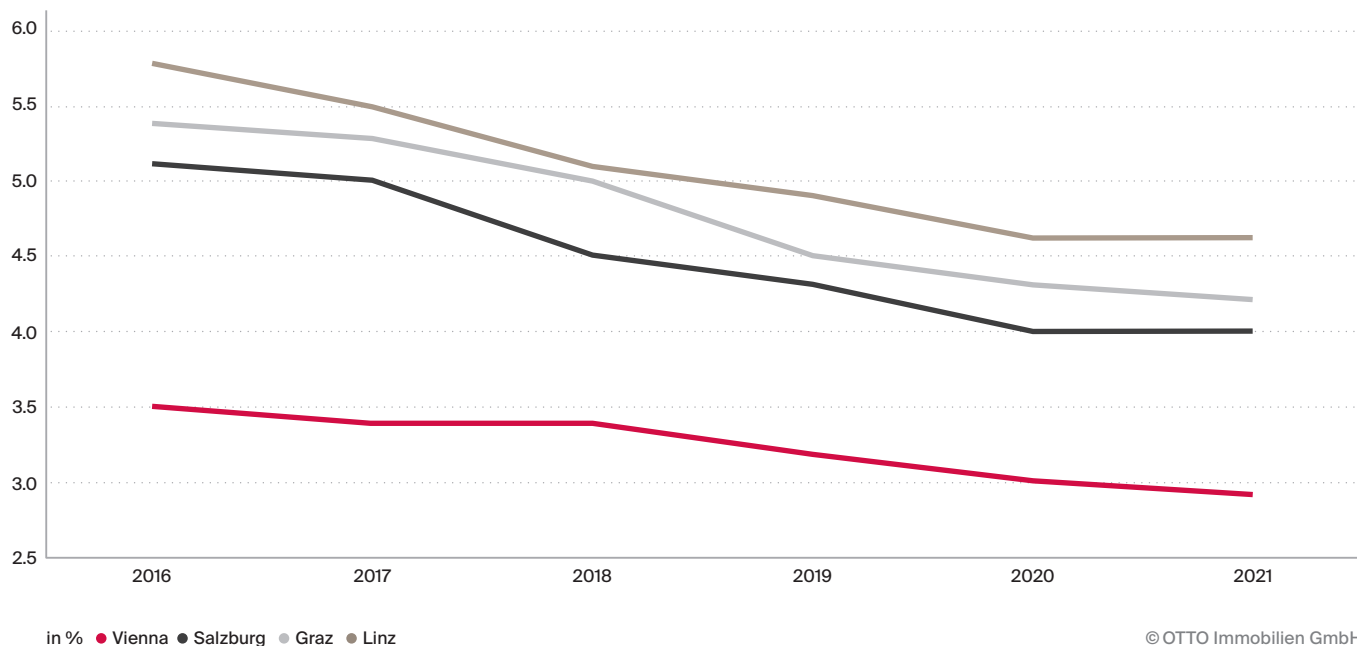


## Yield and International Comparison

The yields are still influenced by the high demand and show a slightly declining trend. Only in Salzburg and Linz the yields stayed at the level of the previous year and as a whole, declining yields were observed most of all in the capitals of the federal provinces in the past years. The

already low prime yield in Vienna declined again in 2021 by 10 basis points to 2.90 % per year. This underlines once more the high demand for residential property by institutional investors in the federal capital.

### Yields residential Austria



## 5.2 Residential Investment Market in Vienna

### Residential Transaction Volume in Vienna

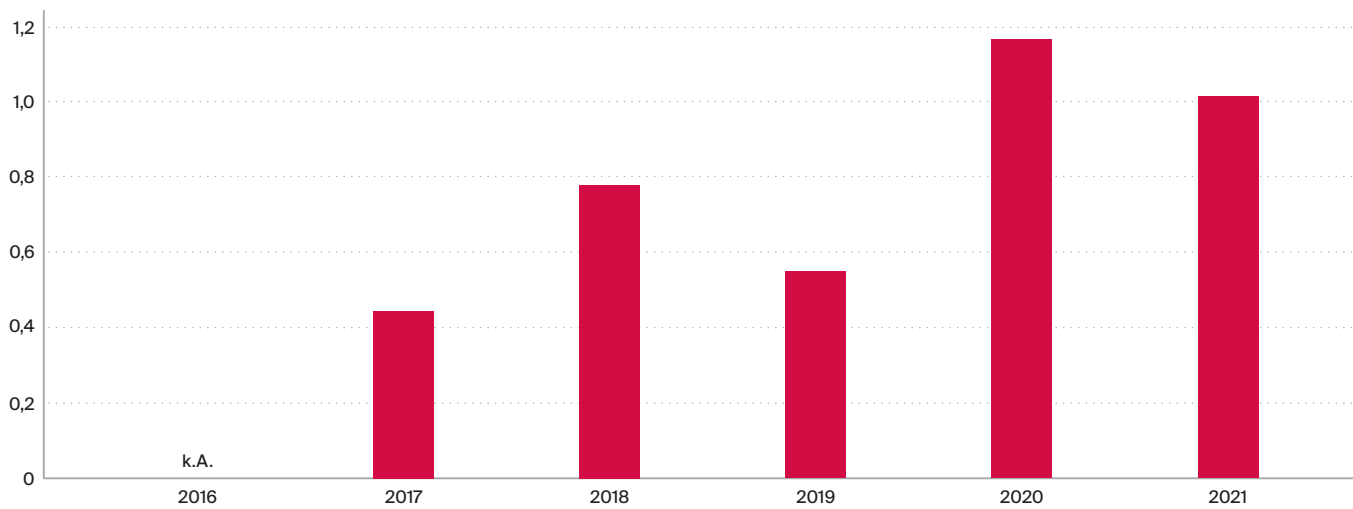
The focus of the investors lies unchanged on the federal capital, nevertheless, a significant decline could be observed in the transaction volume. In 2021 the volume for residential property in Vienna was slightly above EUR 1 billion and was therefore clearly less than in the previous year. Nevertheless, the volume was clearly above the 5-year average, which amounts to approx. EUR 710 million. The figures for the recent years confirm an increasing investment activity in the surrounding area of Vienna and in the capitals of the federal provinces like Linz or Graz, where sometimes strong increases in the investment volume could be observed.

### Volume of Completions of Privately Financed Rented Flats

The development of privately financed rented apartments shows a clear picture: 2021 was characterized by a record of completions of a total of approx. 6,100 new rented apartments, which were built without any subsidies. This is an increase of one third compared to the previous year. The share of 35 % of these apartments in the total volume of completed apartments in 2021 is an absolute record value. In 2022 this share was, however, reduced again to approx. 22 % by approx. 4,400 of currently planned privately financed rented apartments. For the year 2023 and afterwards we currently expect a clear decline in projects.



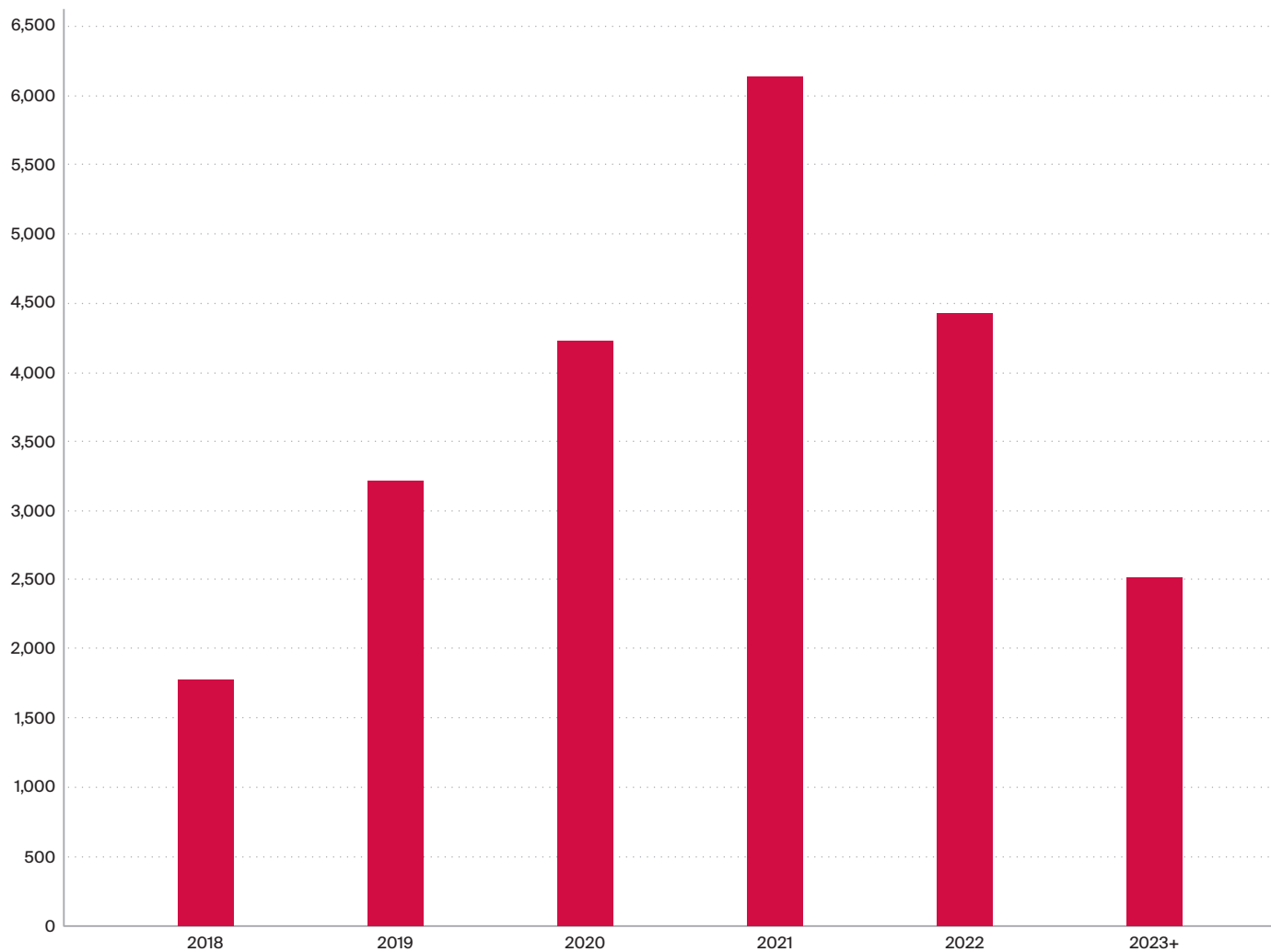
## Transaction volume residential Vienna



in billion euros • Transaction volume Vienna

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## Completion of privately financed rental flats



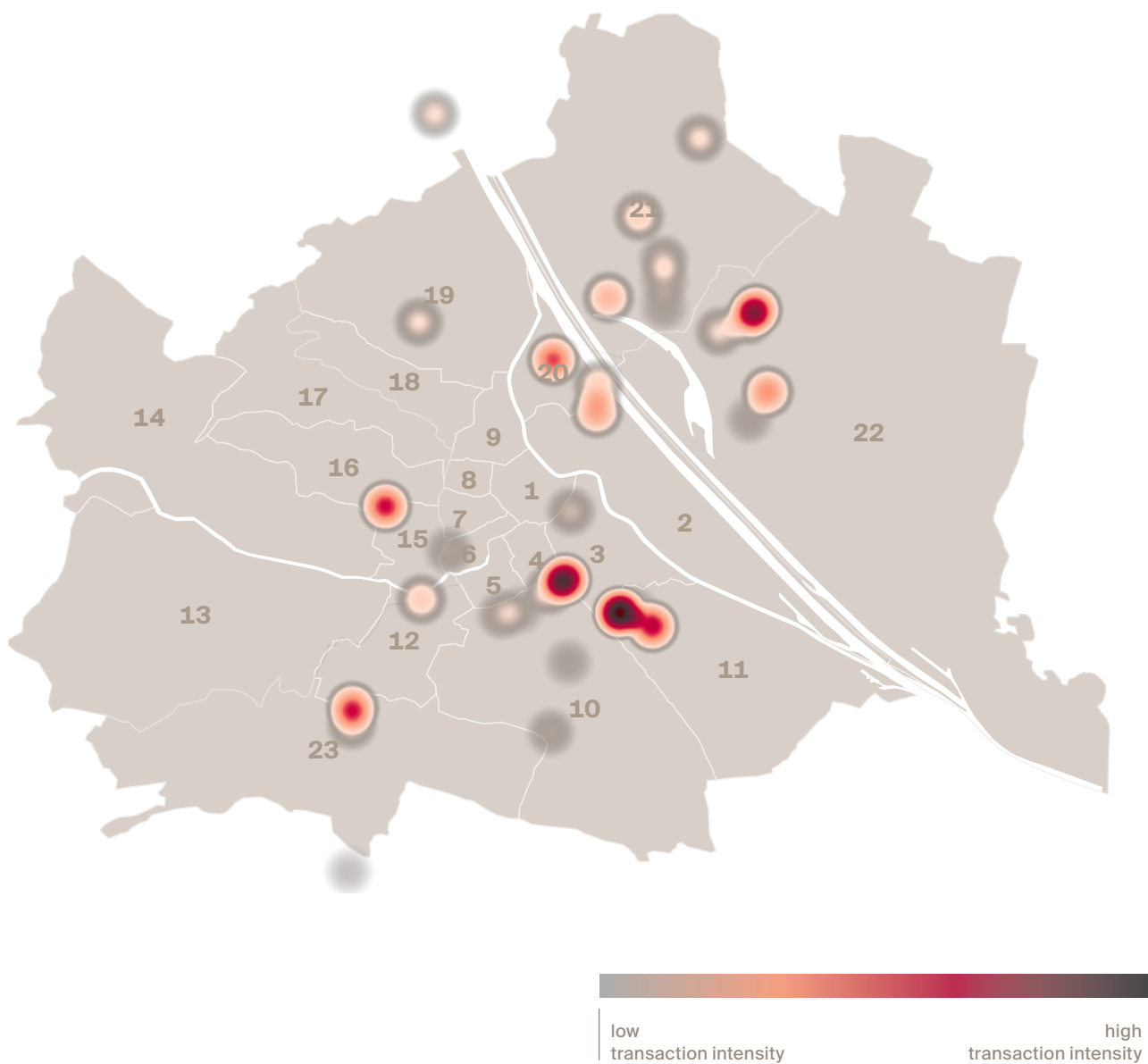
by number • Privately financed

© OTTO Immobilien GmbH



## Geographical Distribution of the Residential Investment Market in Vienna

Heatmap transaction volume residential



### → Note

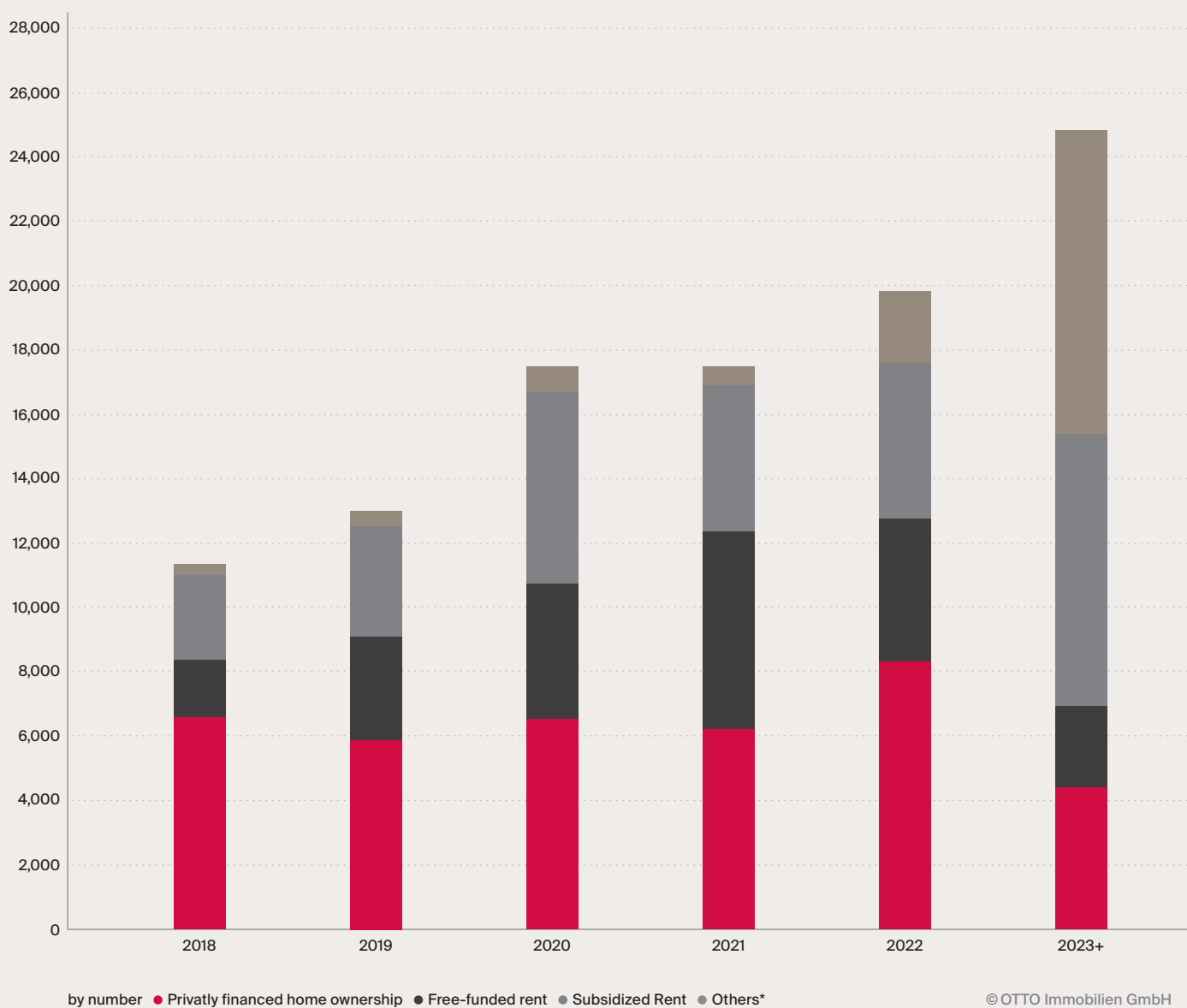
A heatmap shows data (in this case the take-up Q1 2021 to Q4 2021) in a geographical context and is aimed at an intuitive understanding of transaction intensities of Residential properties.

## 5.3 Residential Market in Vienna

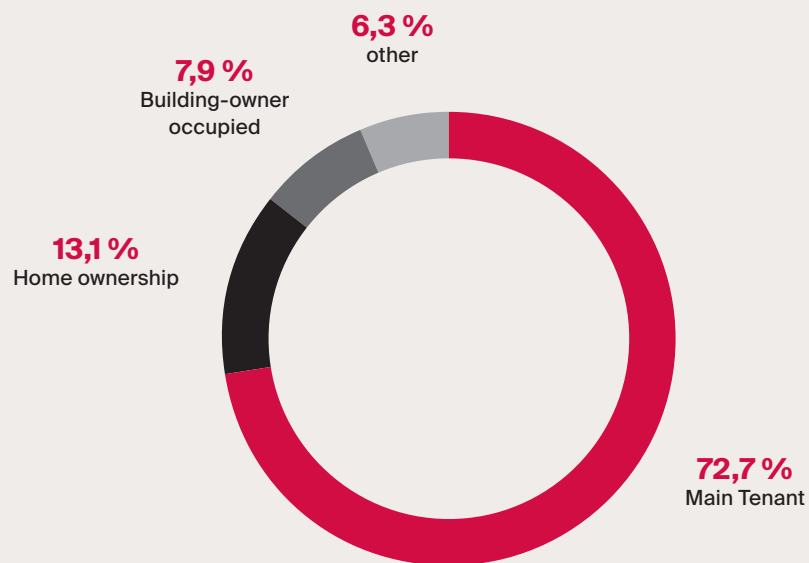
After approximately the same number of apartments were completed in 2020 and 2021 with approx. 17,400 units, a sudden rise, and therefore an absolute record of completions in Vienna, with approx. 19,700 new units followed in 2022. The outlook shows that the number of completions with more than 15,000 completed units will stay at a high level in the following year.

The number of privately financed apartments, which is especially relevant for the institutional residential market, showed a continuous upward trend since 2018. In 2018 bis 2021 the number was increased step by step to more than 6,000 units. The share of privately financed apartments in the total number of completed apartments amounted to approx. 35 % in this time period.

Residential completions Vienna by funding-type



\* Studenthousing, assisted living, rent- or purchase option

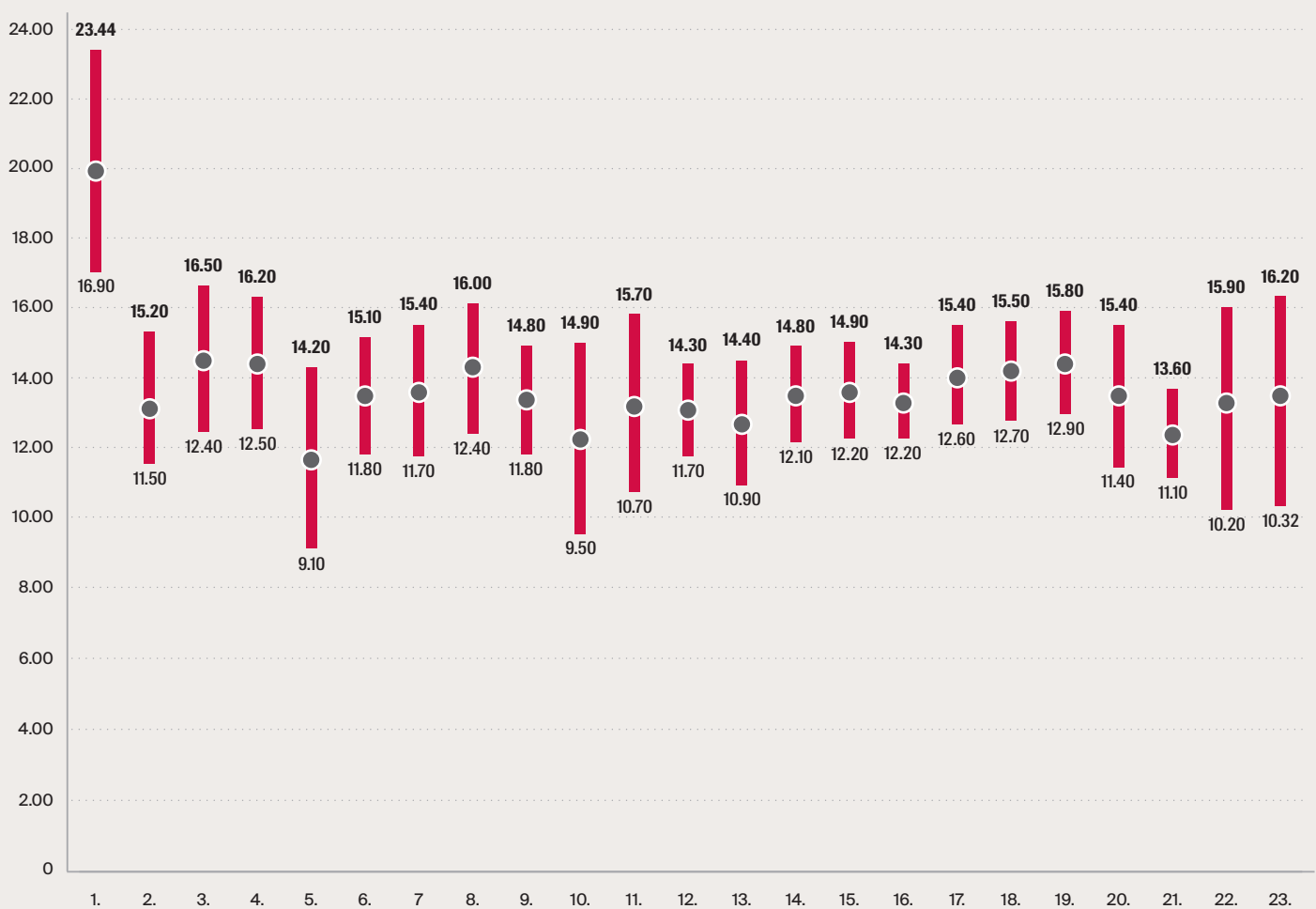


in %

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Source: Statistik Austria; 2016

## Net rents by districts in Euro/sqm/month



Rental price ranges by Districts ● 2021 ● Average rent 2021

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# 06

# Investment Market for Logistics/ Industry

## ESSENCE

- Logistics was in the focus of the investors even before the changed consumer behaviour in the wake of Corona crisis
- The demand is continuously growing
- A number of international developers and investors are entering the Austrian market
- Based on the strong growth of the logistics sector new projects are very well accepted by the market

# 6.1. Investment Market for Logistics/Industry in Austria

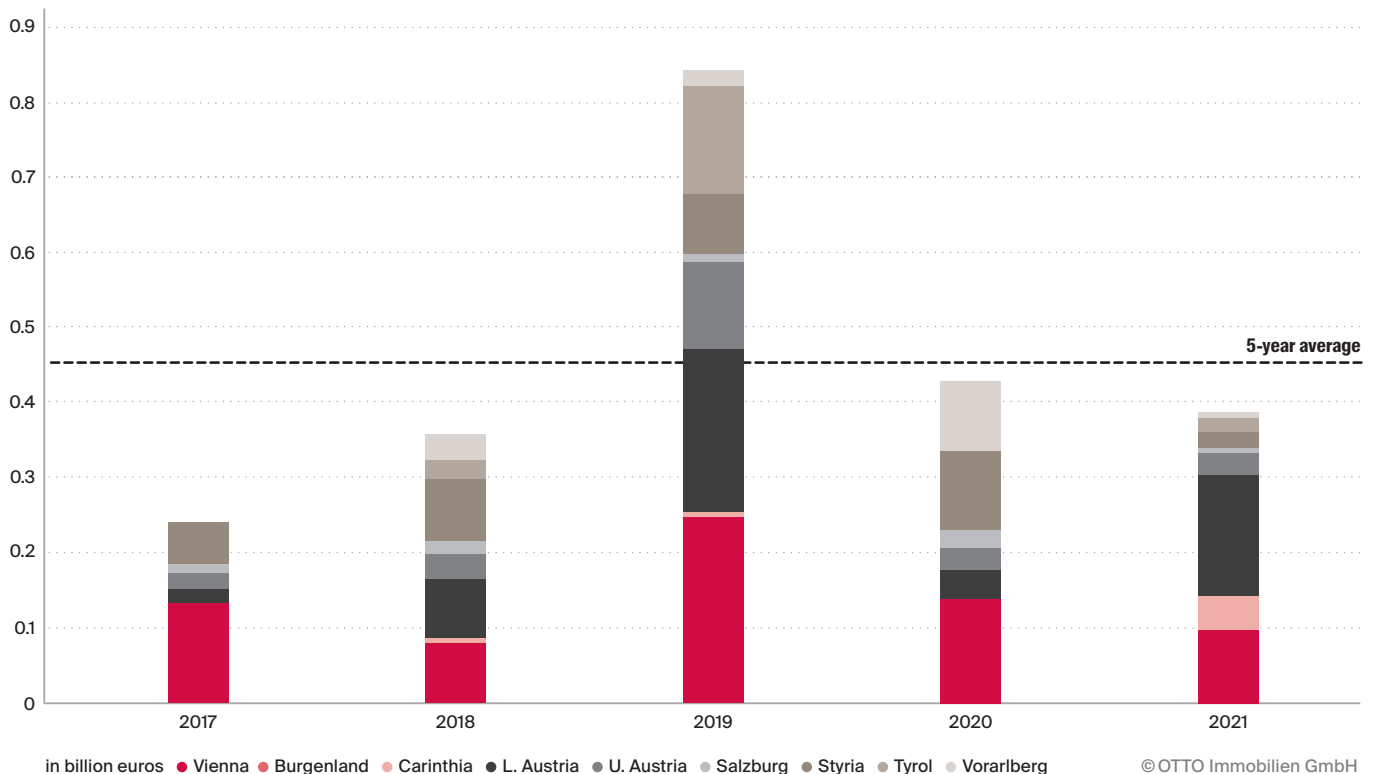
## Transaction Volume

In the last 3 years the transaction volume für logistics and industrial real estate was in the range of EUR 390 to 820 million. In 2021 the transaction volume was slightly above EUR 390 million in Austria. Most of all in the province of Lower Austria several major transactions were observed in the last year. This year the transaction volumes are split more evenly between the federal provinces. On the average one third of the transaction volume is realized in Vienna. The investment pressure on national and international investors remains at a high level by the persistent low level of interest rates. In Austria, too, the field of industry/

logistics is for sure one of the winners of the developments in the wake of the Corona crisis. In particular the field of city logistics is in strong demand by investors based on the continuously growing online trade and the demand for space by parcel logistics companies such as the Österreichische Post and AMAZON.

For 2022 we expect a clear increase in the transaction volume to more than EUR 500 million in consequence of the large project pipeline.

### Regional distribution of the transaction volume in Austria



## Relevant Transactions

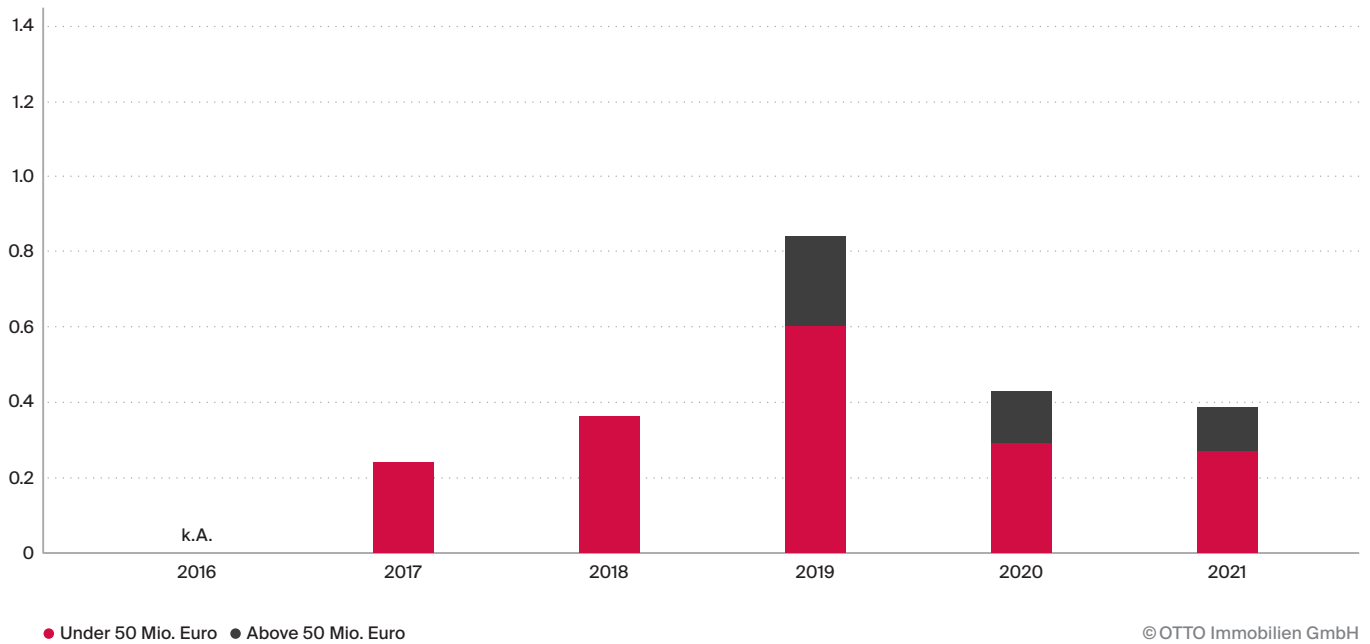
Object	Address	Federal state	Buyer	Transaction period
Perfektastrasse 71	Perfektastrasse 71	Vienna	Allianz	Q3 2021
IZ NO-Sud Strasse 3	IZ NO-Sud Strasse 3	Wiener Neudorf	Swiss Life AM	Q3 2021
DHL Verteilzentrum	Flughafenstrasse 3-5	Hörsching	Palmira Capital Partners	Q4 2021
Hoferstrasse 1	Hoferstrasse 1	Loosdorf	Soini Asset Immobilien	Q4 2021

## Major Transactions and Investor Origin

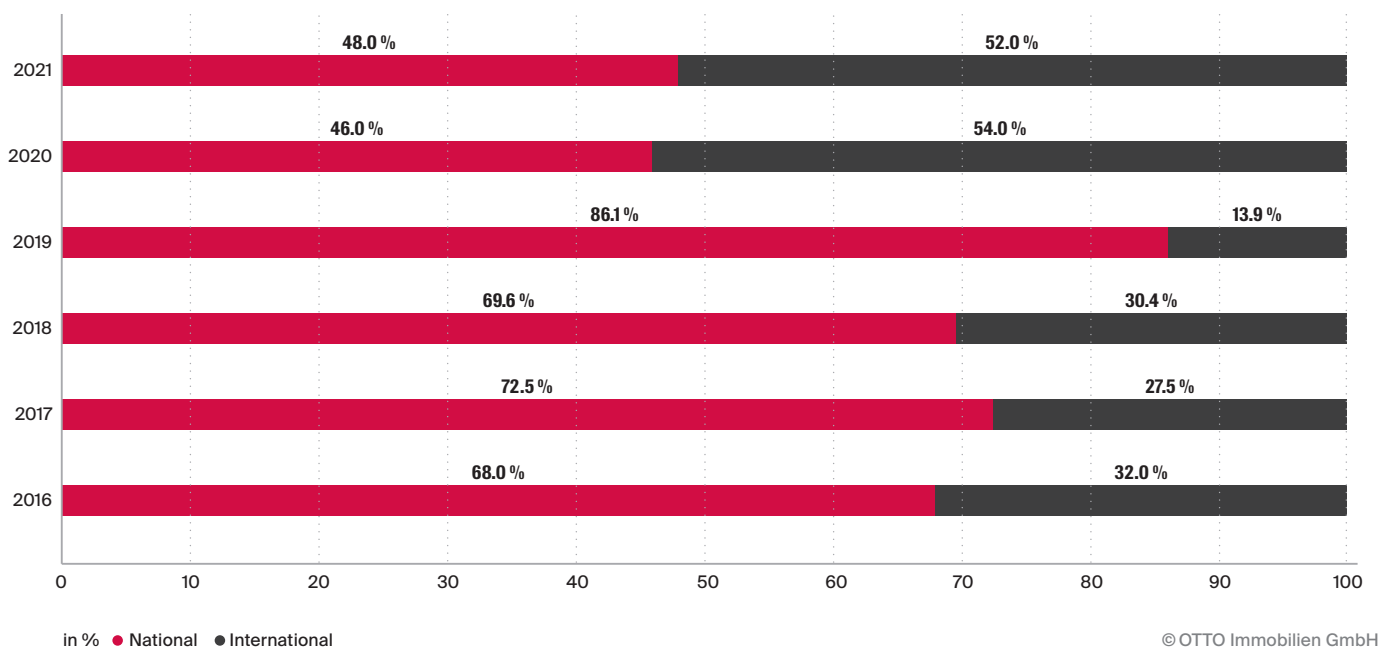
In the logistics and industrial segments, the transactions of less than EUR 50 million had the largest share in the transaction volume. This is due to the fact that currently hardly any large projects are built or sold in Vienna. Projects with a

volume of more than EUR 50 million can be found at regular intervals on the market only since 2019. However, in 2022 in particular these projects will have a higher prevalence.

### Transaction volume by major transactions



### Investor origin national/international

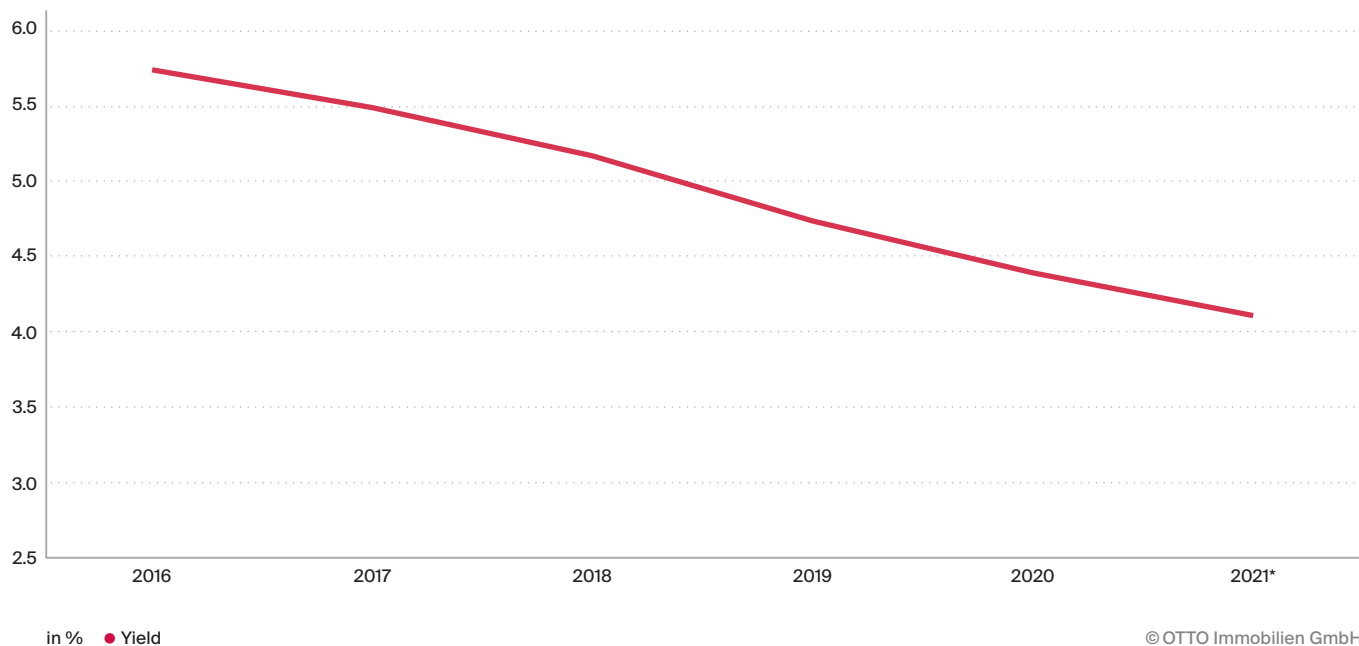


## Yield and International Comparison

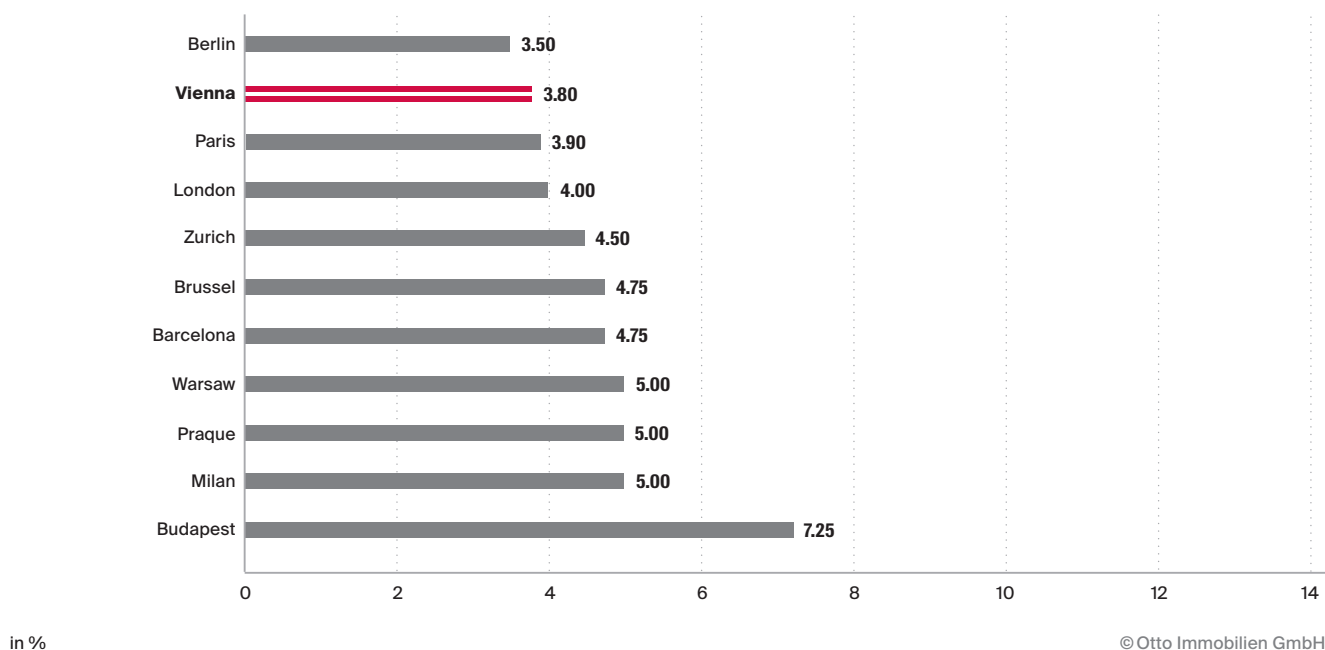
A strong decline has been observed in the prime yields for logistics and industrial real estate in the last years. In the meantime, the current prime yield amounts to 3.8 % - which, however, currently can only be achieved in Vienna,

while slightly more than 4 % might be achieved in the federal provinces. In parcel distribution centres 50 to 100 basis points below the prime yield are possible.

### Yield logistics/industry Austria



### European comparison of prime yields



## 6.2. Investment Market for Logistics/ Industry in Vienna and Surrounding Area

### Transaction Volume of Logistics/Industry in Vienna and Surrounding Area

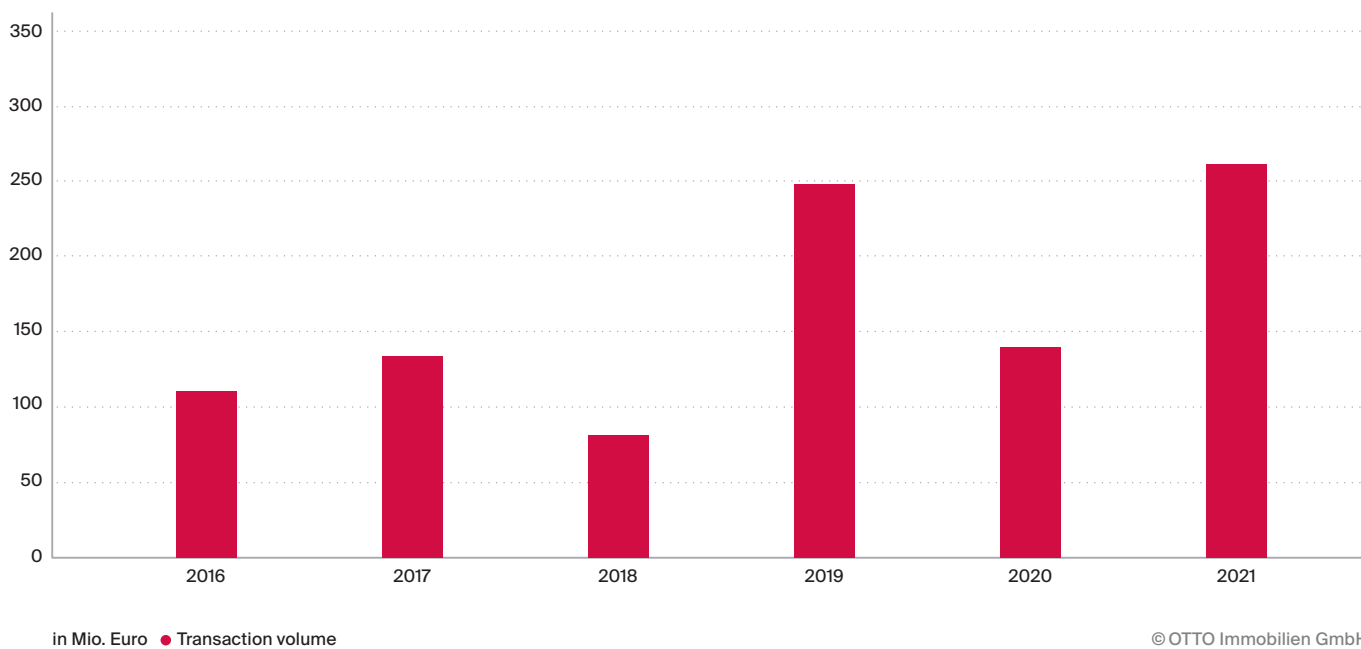
When taking a look at the federal capital and its sub-markets, which also comprise the surrounding Lower Austria and the Burgenland, it becomes obvious that a major part of sales takes places there. Here the transaction volume ranges between EUR 150 and 460 million and has on the average a share of 54 % - and the trend is rising. Most of all in the surrounding areas (south, north, and east of Vienna) high transaction volumes were realized by the attractive new building projects.

### Volume of Completions in Vienna and the Surrounding Area

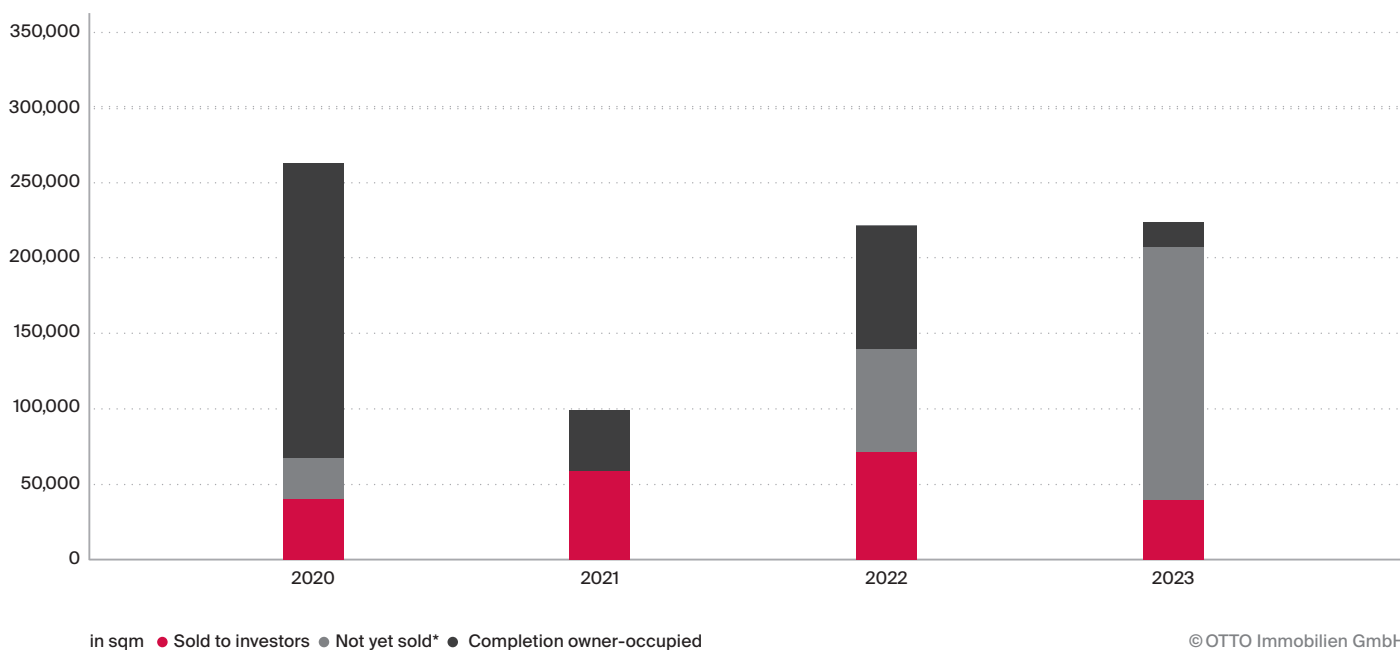
After a weak year in 2021 with only approx. 68,000 sqm of newly completed logistics/industrial areas, the completed areas will in total amount to 88,000 sqm and 423,000 sqm in 2022 and 2023, respectively, as per January 2022. However, we still expect some additional areas, which are currently in the design stage, for 2022 and 2023.



### Transaction volume logistics/industry Vienna and surrounding area



### Completion volume Vienna and surrounding area



\* Currently in the process of being sold or held by the project developer

## 6.3 Rental Market for Logistics/Industry in Vienna and surrounding area

### Stock

The survey of the Vienna Research Forum revealed in total 5,303,846 sqm of logistics, production, and industrial areas in Vienna and the surrounding area, which are split into 47 % for logistics areas and 53 % for production and industrial areas\*. The highest quality standards, so-called logistics objects of class A, are met by 43 % of the classified buildings, 36 % and 21 % are qualified as class B or class C, respectively.

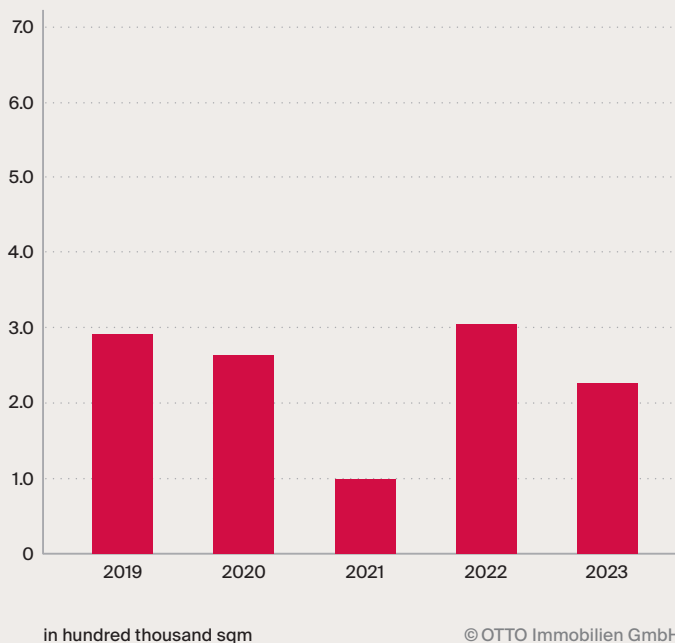
Inventory logistics/industry



### Volume of Completions

After a weak year in 2021 with only approx. 68,000 sqm of newly completed logistics/industrial areas, the completed areas will in total amount to 88,000 sqm and 423,000 sqm in 2022 and 2023, respectively, as per January 2022. However, we still expect some additional areas, which are currently in the design stage, for 2022 and 2023.

Completion volume logistics/industry

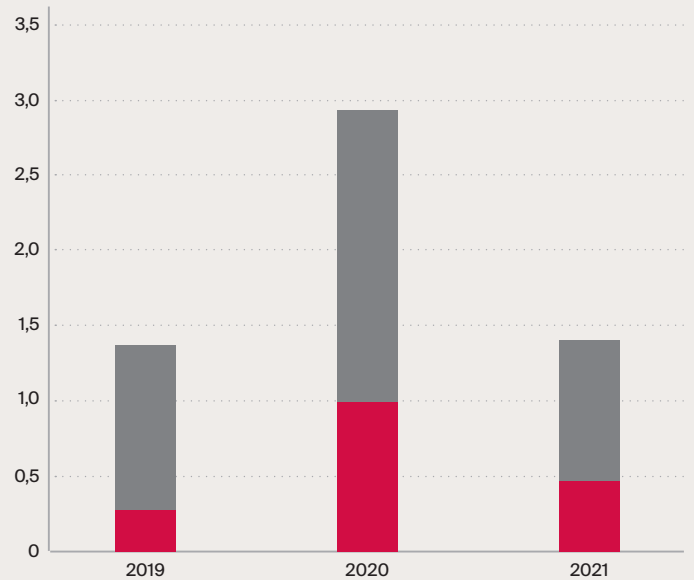


\* All production and industrial properties currently used for this purpose and meeting certain minimum criteria, such as hall size are considered.

## Net Take-up

In 2021 139,613 sqm were rented in the sub-markets of Vienna and the surrounding area of Vienna. This corresponds to a strong decline (of approx. 153,000 sqm) as compared to the previous year. The major responsible factor was most of all the insufficient supply of modern logistics space on the market. The strongest decline was felt in the sub-markets of the surrounding areas of Vienna in the South and in the North. The sub-market in Vienna South was the only sub-market, which showed minor increases as compared to the previous year. The forecast for 2022 is a net take-up of approx. 200,000 sqm, with a probable concentration on the sub-market of the surrounding area in Vienna East and South.

### Net take-up



in hundred tsd. sqm ● 1. Half-year ● 2. Half-year © OTTO Immobilien GmbH

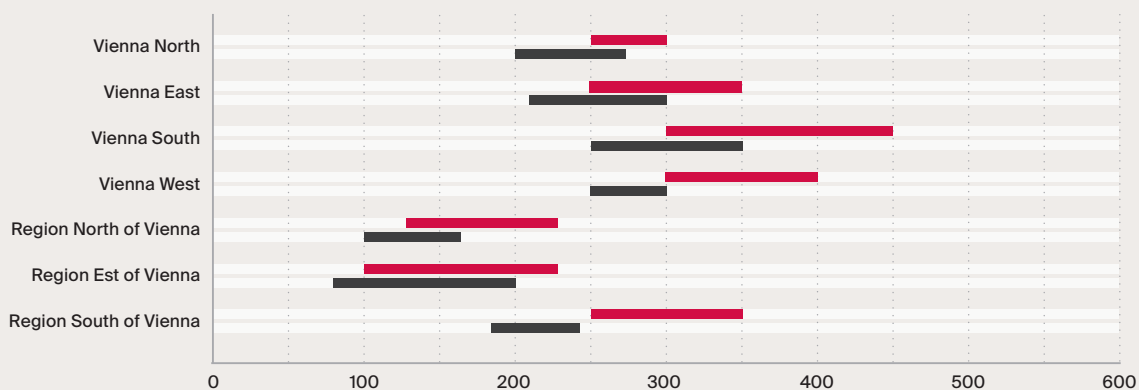
## Land Prices

The land prices for already fully developed and zoned areas currently range from 100 to 450 €/sqm. Premium prices of more than 400 €/sqm are achieved in the sub-markets of Vienna South and Vienna West. Favourable entry prices can be found in the sub-markets of the surrounding areas of

Vienna in the East (with the exception of the International Airport Vienna and its immediate surroundings).

For 2022 and the following years we expect a sharp rise in land prices.

### Rents newly built/existing



Minium/Maximum in Euro/sqm/month ● 2021 ● 2020

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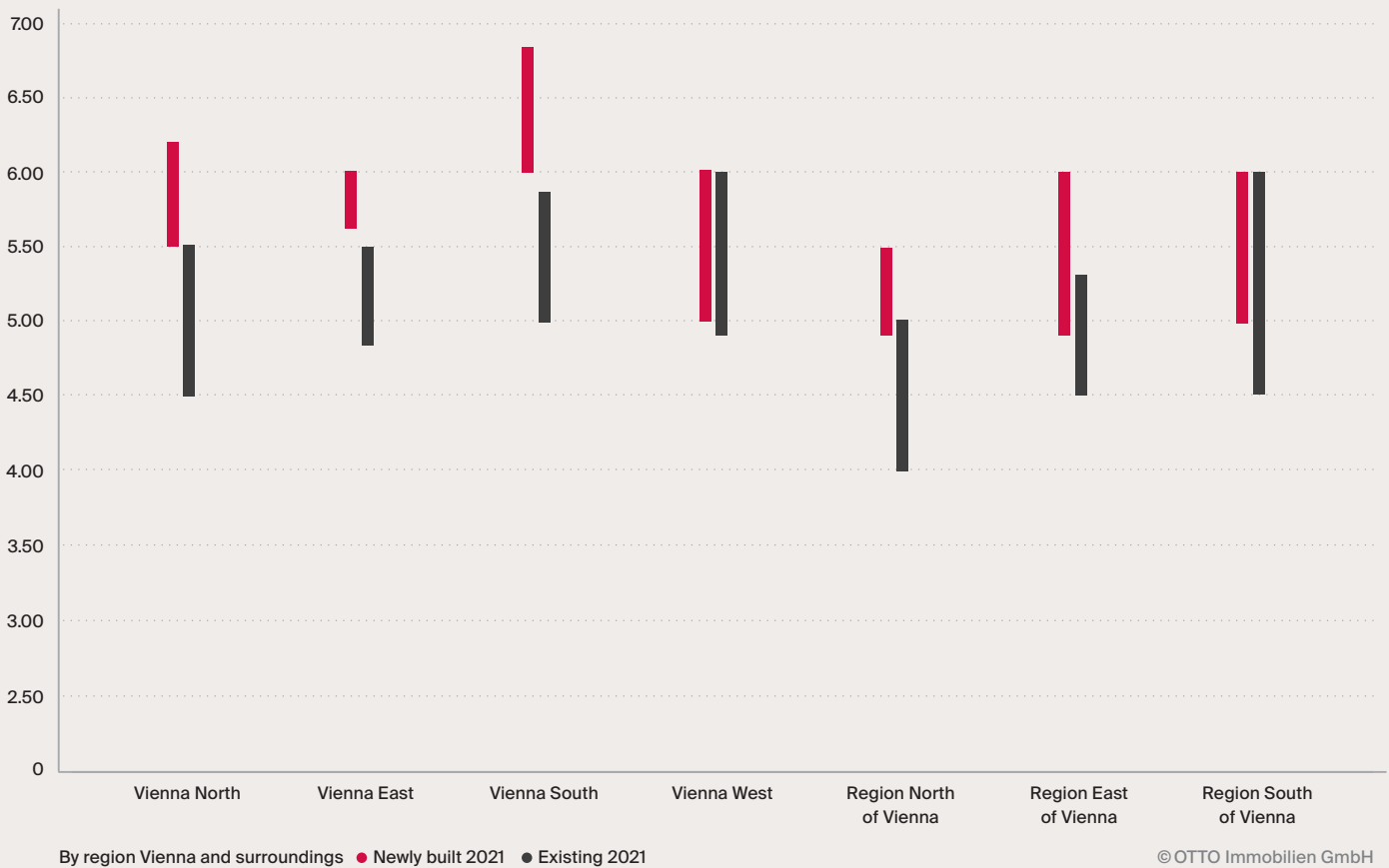


## Rents

The net rents for logistics and industrial real estate have a large bandwidth, ranging from EUR 4.90 to 6.80 per sqm and month, depending on the quality and location. The spectrum ranges from the simple warehouse in the local area and a high-rack storage near a highway-connection to a high-tech production location which is monitored for 24

hours. The highest prices are currently achievable in the sub-markets of Vienna Süd as well as in the surrounding areas of Vienna in the South. In the North and in the West of Vienna the prices are currently more favourable. In the past 5 years the rents have been rather stable and only rose sharply in the past 2 years.

Rent per sqm in Euro for newly built/existing



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07

# Outlook

# 7.1 Outlook

**Even in Austria all investors and project developers are currently speaking of “Beds and Sheds,” which is the constant search for residential and logistics objects.**

In both cases the rare commodity at the beginning of the value chain is the land plot. In the case of residential property, the competition of national project developers has boosted the prices of central urban land - calculated by square meter of living space - to hitherto unknown heights. In the case of logistics, international project developers increasingly managed to secure suitable real estate and operate elaborate development and zoning processes.

However, the effects on the rental market are different. Even though the rents for privately financed apartments have tendentially increased in the last years in Vienna, they are at a moderate level with 10.30 - 18.20€/sqm, precisely in the international comparison, which is caused by the large supply of newly built apartments and the historically high share in subsidized apartments. Developments in B-locations are only accepted by the market with market-conform rents. However, in logistics new objects are in part absorbed by the market before their completion, based on the developments in the field of E-commerce. The rent of storage and logistics spaces could make up some ground in the international comparison with 4.40 - 5.00 €/sqm and EUR 6.50 - 7.00 €/sqm.

What does this mean for Austria as a business location of real estate investment? Austria, and most of all Vienna, has a stable and functioning housing market with living space that is affordable for broad sections of the population. Investors, who select their investments carefully based on the location and the expected rents, will find a stable value investment, which is far from the overheating of other markets, and apart from the privately financed market the subsidized residential market also offers an investment potential, which has not been fully exploited to a large part! In the last years, the logistics market in Austria just woke up like “sleeping beauty” from a long sleep in the past - the traditionally high share of owner usage is now undermined step by step by the development of the logistics market and the pipeline of new projects: National developers are increasingly confronted with international players with good contacts to users - here also competition stimulates business!

But even in Austria there is not only “Beds and Sheds.” The office market in the federal capital has been able to resist all predicted scenarios up to now; new projects are accepted by the rental market and currently the investment market can only hardly meet the demand for long-term rented objects in good locations. The stable office rents are a guarantee for international investors for the sustainability of their investment, far from cyclic fluctuations of other markets. In view of possible uncertainties on the financial and capital markets Austria will further gain in attractiveness as a business location. And last but not least, Vienna is a European metropolis with a unique historic substance, which offers the investors the opportunity to purchase magnificent properties in the inner city, so-called “Trophy Assets”, in irreplaceable locations, with a power of attraction that is felt for more than 100 years and will last in the future.



**Dipl.-Kfm. Christoph  
Lukaschek, MBA, MRICS**

**Head of Investment**

T +43 1 512 77 77-355  
M +43 676 930 77 30  
c.lukaschek@otto.at

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# Contacts

## OTTO IMMOBILIEN TRADE AND INVESTMENT TEAM

The expert teams of the Trade and Investment Department of OTTO offer consulting services for tenants and institutional investors like trusts and foundations both from Austria and abroad. The Research-Team of OTTO Immobilien provides support with its well-founded market analyses at submarket level. Analyses of tenant satisfaction as well as tailored benchmarking reports, under consideration of the most important competitive objects, complete the services provided.



**Dr. Eugen Otto, MRICS**  
Managing Director

T +43 1 512 77 77-102  
[eugen@otto.at](mailto:eugen@otto.at)



**Martin Weinbrenner**  
Managing Director

T +43 1 512 77 77-500  
[m.weinbrenner@otto.at](mailto:m.weinbrenner@otto.at)

# Looking for investment opportunities or want to sell?

Our experts will be happy to advise you:



**Dipl.-Kfm. Christoph  
Lukaschek, MBA, MRICS**

Head of Investment

T +43 1 512 77 77-355  
M +43 676 930 77 30  
c.lukaschek@otto.at



**Mag. Georg  
Kretschmer MSc, MRICS**

Head of Capital Markets

T +43 1 512 77 77-353  
M +43 664 885 33 205  
g.kretschmer@otto.at

**You are looking for  
commercial space or  
want to rent out?**

**Talk to our Commercial  
Property team:**



**Patrick Homm, MA**

Head of Commercial Property  
Agency

T +43 1 512 77 77-351  
M +43 664 885 33 211  
p.homm@otto.at

**More information  
about data and  
figures?**

**Talk to our Research team:**



**Martin Denner, BSc**

Head of Research

T +43 1 512 77 77-379  
M +43 664 885 90 400  
m.denner@otto.at

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# Imprint

## **Editor**

OTTO Immobilien GmbH  
Riemergasse 8, 1010 Vienna  
Phone +43 1 512 77 77  
Fax +43 1 513 77 78  
gewerbe@otto.at, www.otto.at

## **Responsible for Content**

Martin Denner, BSc  
Head of Research  
OTTO Immobilien GmbH  
Phone +43 1 512 77 77  
Fax +43 1 513 77 78  
m.denner@otto.at, www.otto.at

## **Editorial Team**

Dr. Eugen Otto, MRICS  
Martin Weinbrenner  
Dipl.-Kfm. Christoph Lukaschek, MBA, MRICS  
Mag. Georg Kretschmer  
Dipl.-Ing. Christopher Kmen  
Moritz Langer  
Katharina Scheidl-Aziz

## **Design and concept**

Lisa + Giorgio  
Agency for communication and design  
Dominikanerbastei 17, 1010 Vienna  
www.lisaundgiorgio.at

## **Design & Final Artwork**

grafik & produktion STEINBRENNER  
Kästenbaumgasse 23, 1100 Vienna  
www.steinbrenner.at

## **Coverphoto**

Schottenring 1, 1010 Vienna  
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1<sup>st</sup> Edition: Spring 2022



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**Riemergasse 8, 1010 Vienna  
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**[www.otto.at](http://www.otto.at)**