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EVALUATION: **OFFICE MARKET IN AUSTRIA - INVESTMENTS IN VIENNA AS GOOD AS EXHAUSTED, BUT WITH POTENTIAL IN SECONDARY CITIES**



The majority of office buildings in Austria concentrate in the 9 provincial capitals, with Vienna having about the same amount of office space as all other provincial capitals combined. However, on the part of end investors, the availability of office properties in Vienna's A and B locations is limited, thus they are increasingly focusing not only on various submarkets in Vienna, but also investing in other provincial capitals such as Graz and Linz, as even higher yields of about 4.5% can often be achieved there. High-volume investments will continue to be well represented in Vienna, but some provincial capitals will come into sharper focus in the future, especially among international investors.

The total stock of office space in Vienna amounts to around 13 million m². Almost half of this is categorized as "modern office space". The most important submarkets in Vienna are: Inner districts, Erdberg/St. Marx, Prater/Lasallestraße, Wienerberg, Donaucity, Central Station, small submarkets (west and north). Office submarkets in the inner city, as well as Prater and Erdberg, are of great importance in relation to inhabitants.

Top rents in Vienna's city center are around €26/m² net. However, rents in the various sub-markets vary considerably, ranging from €10 to €20/m². The average vacancy rate in Vienna is around 4%. The figure varies between the sub-markets: around 7% in the north and 3% in Prater/Lassallestrasse. The office market in Vienna is generally developing quite dynamically. However, after a strong year in 2018, the completion volume declined by 38,000 m² in 2019. However, an increase is expected again in 2020 and 2021. A completion volume of 132,000m² can be expected, with the projects for 2020 possibly slipping into the next year due to COVID-19.

With approximately 2 million m² of office space, Graz is Austria's second largest office market. Despite relatively high demand in the office market, however, this is more than covered by the supply, which results in moderate vacancy rates (5-10 %) and acceptable rents, ranging in the Austrian midfield (approx. 9 €/m²). There are hardly any large office complexes or business centers in Graz, such as those around Vienna's main train station or Vienna's Donaucity. Examples such as the Science Tower in the "Smart City Graz", the Max Tower on Eggenberger Gürtel, or the City Tower on Grieskai are exceptions, albeit on a smaller space level. Therefore, among others, co-working spaces are widespread in Graz. These concentrate in and around the city center and usually only offer space for small offices. The supply in the Graz office market currently exceeds the demand and will continue to increase until 2025. Due to the currently planned office projects, especially in urban development areas and other small offices, about 80,000 m² of usable space will be realized in Graz in the coming years.

Linz and Klagenfurt have even higher potential regarding new modern office real estate projects. Linz has a total of up to 2 million m² of office space. Rents (net) range between 6 and 10 €/m², with top rents in modern office buildings reaching 15 to 17 €/m². The Linz office market is concentrated in the city center. Due to a large number of new office properties, however, no independent submarket will be able to develop due to the decentralized distribution. These projects will also cause a reconstruction of the market, but the vacancy rate will increase only slightly. Similar to Linz, office properties in Klagenfurt are scattered throughout the city and offered both in the outer areas and the city center. The total office stock in Klagenfurt is between 800,000 and 900,000 sqm. Rental prices (net) on the office market are usually around 8 to 10 €/m². In 2019, the "Brain@Work" project was completed, the property with approx. 2,000 m² of office space was built on Viktringer Ring, and another 25,000 m² of office space is to be built in Klagenfurt by 2030. Demand will remain high, including from international companies.

In the remaining provincial capitals of Austria, developments in the office market are less dynamic. Some notable projects are under construction in Innsbruck and Salzburg (Gewerbe- und Technologiepark Kematen and Wissenspark Urstein). These office properties are modern and geared toward companies eager to innovate.

Flexible concepts and customized rents can also attract new investors here. However, the current situation surrounding the coronavirus is likely to cause delays.

*Source:* ***RegioData Research GmbH***

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