

# Vienna Offices

FIRST HALF-YEAR 2008

## MARKET OVERVIEW

Lettings transactions are stable.

Vacancy rate decreased to 4.7% in H1 2008.

Prime rents will increase to approx. EUR 24/sq m/month by the end of 2008.

In H1 2008 approx. EUR 900 million were invested into Austrian real estate.

2007 was a good year for the Austrian economy. The consumer market is becoming more confident and companies are increasing their investments. Unemployment is decreasing.

It is predicted that economic growth will slow down in 2008 and 2009.

In 2007, the inflation rate increased to 2.1% and the unemployment rate decreased to 4.4% in 2007. It is anticipated that inflation will settle down at a stable level of 3% by the end of 2008 while the unemployment rate is expected to decrease slightly.

Demand in the office sector has gone from strength to strength in 2007. Take-up of about 220,000 sq m in H1 2008 was lower than in the same period in 2007 (230,000 sq m).

We see a new office supply of ca. 260,000 sq m for 2008 (2007: 280,000 sq m). More than 60% of all developments that are expected to be completed in 2008 are already pre-let or will be owner occupied.

Since 2004, the vacancy rate has fallen steadily, reaching 4.7% in H1 2008. It is expected to stay at about this level until the end of 2008.

Prime rents have increased again slightly recently and are now at EUR 23/sq m/month. A further increase of prime rents to EUR 24/sq m/month is expected by the end of the year.

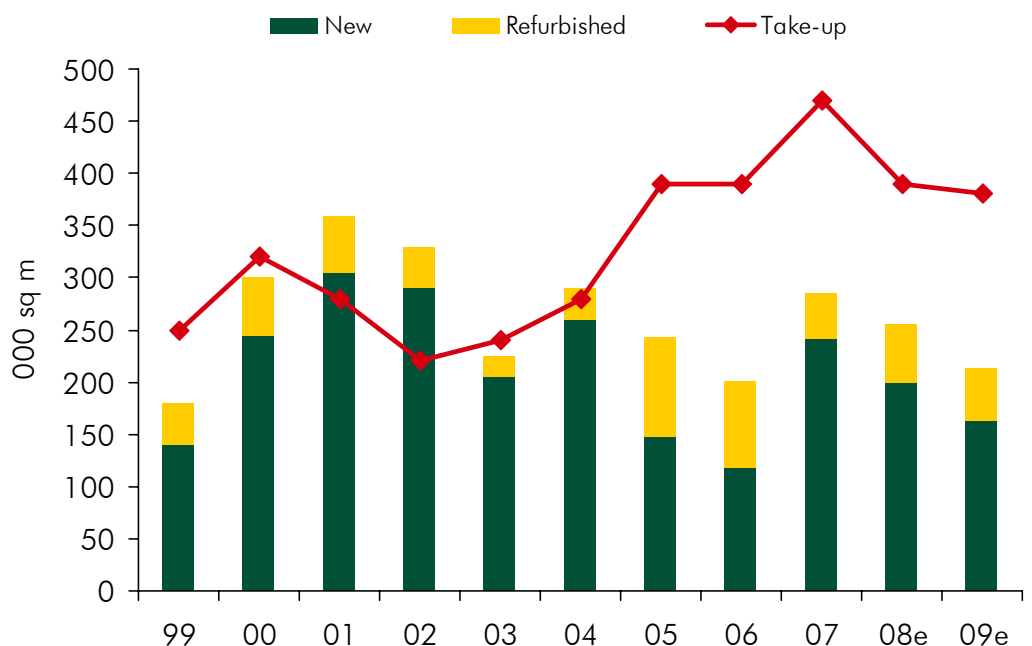
In H1 2008, ca. EUR 900 mln. were invested into real estate in Austria. The share of international investors increased to about 69%.

### REVIEW H1 08\*

Take-up	↘
Supply	↘
Prime Rents	↗
Vacancy Rate	↘
Yield	→

\* Compared to H1 2007

### SUPPLY/TAKE UP



Source: CB Richard Ellis

## ECONOMIC DATA

Over recent years the Austrian economy has shown strong growth. This growth trend is expected to slow down in 2008 and 2009 (GDP real: 2006: +3.3%; 2007e: +3.4%; 2008e: +2.2%; 2009e: +1.8%), but compared to the average GDP growth of the EU-15, Austria will be slightly above average through 2008. (2007e: EU-15: +2.6%; 2008e: +1.7%; 2009e: +1.5%).

The Austrian budget deficit decreased by one percentage point to -0.5% in 2007. This positive trend will end in 2008 and 2009 (-0.7%, -0.6%).

The unemployment rate decreased to 4.4% (EU-15: 7%) in 2007 and a further decrease is expected in 2008 (4.2%), followed by a small increase to 4.3% in 2009.

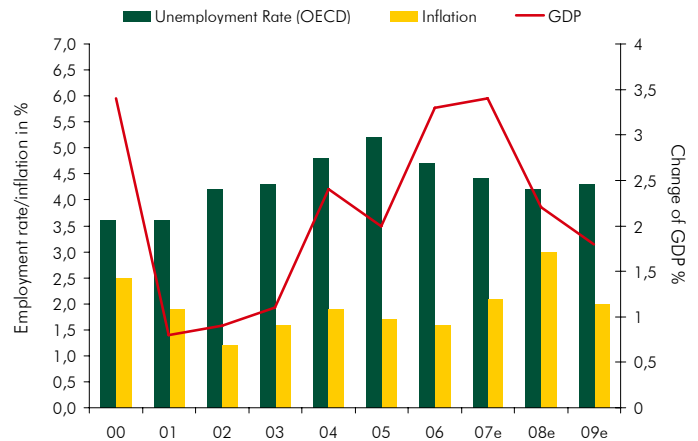
Compared to the previous year, the inflation rate is predicted to increase to 3.0% in 2008 (2006: 1.6%; 2007e: 2.1%) and will be above the EU-15 average of 2.8% for the first time since 2000 in 2008.

## OFFICE SPACE SUPPLY

Currently, Vienna's office stock stands at approximately 9.8 million sq m (Q2 2008). Annual completions over recent years have represented between 2.1% and 3.1% of total stock. After the office market downturn in the mid-1990s, the ratio of new supply to total stock was below 1% per annum. Since the late 1990s, office development per annum has increased continuously in both real and proportionate terms. Between 1998-2007, ca. 2.5 million sq m of office space were completed. Of this, ca. 20% is refurbished space.

In 2008, total new office supply (new + refurbished) is expected to be ca. 260,000 sq m, which is less than in 2007 (280,000 sq m). More than 60% of all developments expected to be completed in 2008 are either pre-let or owner occupied. Only about 44,300 sq m of new office space will be available to be rent in newly constructed office buildings (excluding refurbished buildings) - which equals about 18% of the total new office supply.

## ECONOMIC DATA



Source: EU-Commission, EUROSTAT, OECD, STATISTIK AUSTRIA, WIFO

## OFFICE MARKET INDICATORS IN VIENNA

Vienna (000 sq m)	Q4 07	Q1 08	Q2 08	Q3 08e
Total Stock	9,800	9,800	9,800	9,900
Office Take-up	100	110	110	90
Supply (*)	37	23	49	51
Vacancy	5.1%	4.9%	4.7%	4.5%

(\*) new + refurbished

Source: CB Richard Ellis

## LETTING TRANSACTIONS

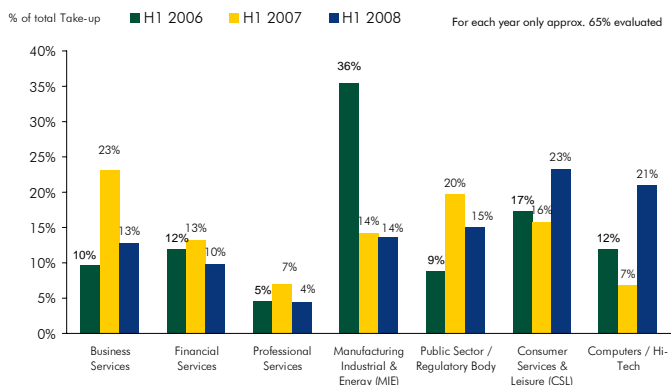
Letting transactions H1 2008	
Occupier	sq m
<b>CBD</b>	
Austrian Lottery	6,592
Peek & Cloppenburg	3,340
Bank für Ärzte und Freie Berufe (*)	2,500
<b>Donau City - Lassallestrasse (North East)</b>	
SV-Chipkarten	2,000
<b>Erdberg</b>	
LG Electronics Austria	1,423
<b>Wienerberg (South)</b>	
Kapsch	14,000
ÖBB-Infrastruktur Bau	3,954
Nestlé	3,200
Coca-cola Hellenic (*)	2,030
<b>North</b>	
UBM Realitätenentwicklung	2,464
<b>West</b>	
Nespresso	1,820

(\*) CB Richard Ellis acting as consultant to either the tenant or the landlord.

Source: CB Richard Ellis

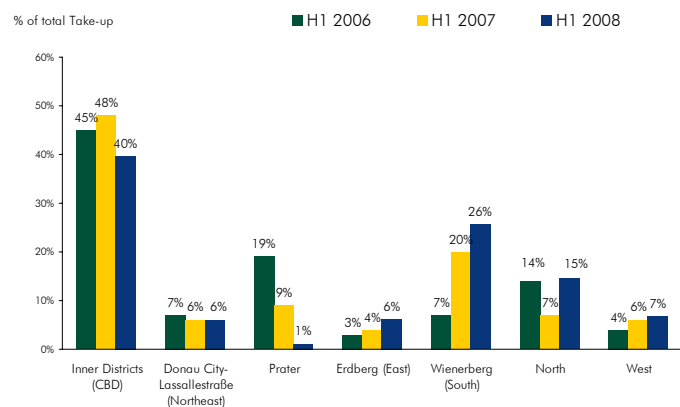
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### TAKE-UP BY SECTOR H1 2006 – H1 2008



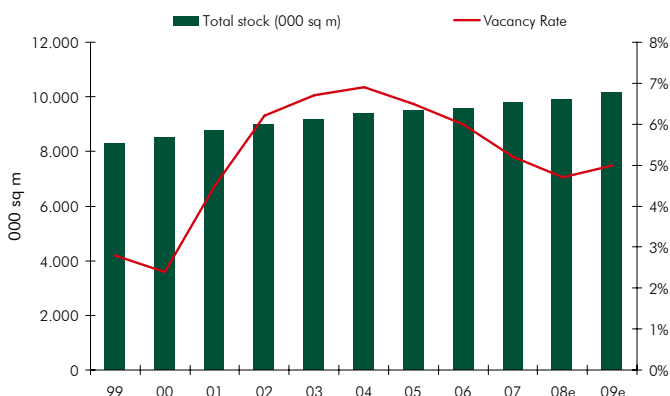
Source: CB Richard Ellis

### TAKE-UP BY LOCATION H1 2006 – H1 2008



Source: CB Richard Ellis

### TOTAL STOCK – VACANCY RATE



Source: CB Richard Ellis

### RENTS

Rents in different locations in Vienna (EUR/sq m/M.)		
Status: Q2 2008	office buildings	office towers
Inner Districts (CBD)	13.00-23.00	15.00-25.00
Donau City - Lassallestrasse (Northeast)	10.00-15.00	12.00-21.00
Prater	10.00-15.00	11.00-20.00
Erdberg (East)	9.00-14.00	11.00-19.00
Wienerberg (South)	8.50-15.50	10.00-18.00
North	8.50-13.00	10.00-17.00
West	8.50-13.00	10.00-17.00

Source: CB Richard Ellis

### DEMAND

Demand for office space has gradually increased in Vienna since the last downturn of the mid-1990s. Leases signed in H1 2008 amounted to 220,000 sq m and fell below the value of H1 2007, when 230,000 sq m of offices were let in Vienna. In Q3 and Q4 2008 we expect stable and slightly decreasing letting activities of ca. 90,000 sq m. The main reasons for this decline are the slow-down of the economy and the real estate crisis.

An analysis of the lettings activities in the first-halves of 2006-2008 (65% of the total lettings can be related to specific sectors) shows that most transactions were closed by companies in the consumer services & leisure sector (23%). Transaction figures in the computers / hi-tech sector also increased to 21%, which marks a tripling of its share since the first half 2007, as a result from the pre-let of Kapsch in the Wienerberg submarkets. In the business services sector, letting performance declined by 10 percentage points (H1 2007: 23%) and the public sector/regulatory body sector decreased to 15% (H1 2007: 20%). In H1 2008, only 4% of letting transactions were closed by companies in the professional services sector (H1 2007: 7%) and 10% were closed by companies in the financial services sector (H1 2007: 13%). Leasing transactions in the manufacturing industrial & energy sector were stable at 14%.

In H1 2008, most of the letting transactions took place in the inner districts. About 26% of all lettings were closed in Wienerberg, which means a further increase of 6% (H1 2008: 26%, H1 2007: 20%), whereas letting transactions in Prater have decreased to only 1% (H1 2006: 19%, H1 2007: 9%). The office locations Donau-City – Lassallestrasse, Erdberg, North and West accounted for 6 % to 15 % of the total letting transactions in H1 2008.

### VACANCY

Since 2004, the overall vacancy rate has slowly been declining and has reached ca. 4.7% at present. We assume that the vacancy rate will be approximately the same value at the end of 2008 due to few completions and the stable lettings activities.

### RENTS

Rents in Vienna are stable compared to other European cities. The recent strong price pressure in the outskirts and in areas without close subway stations has now come to an end and prices in such locations are settling down at a low level relative to prime rents.

The current prime office rent in Vienna is ca. EUR 23.0/sq m/month and has increased again slightly (+2%). By the end of 2008 we expect a further increase to EUR 24.0/sq m/month.

## OFFICE SUB-LOCATIONS

### 1. Inner districts (CBD)

The 1<sup>st</sup> district is the historical and commercial heart of Vienna. The CBD is home to many listed buildings and only a marginal amount of newly built office space, with the exception of Schwarzenbergplatz 5 and the Neutorgasse 4-8, while office areas in old buildings are being refurbished (e.g. Deutschmeisterplatz 2) with considerable accompanying expenditures. Modern office buildings define this location along Untere and Obere Donaustrasse, at the beginning of Praterstrasse (Galaxy 21-Building) and the adjacent areas of the 3<sup>rd</sup>-9<sup>th</sup> districts.

### 2. Donau City – Lassallestrasse (Northeast)

The office location Donau City – Lassallestrasse is situated along the northern route of the U1 underground line. It continues to attract strong demand from office tenants due to its excellent access to public transport and the short distance to the city centre. The office stock is mostly comprised of large new office buildings with open floor plans and high specifications. In the area of Lassallestrasse, ezone BT1+2 with an 21,000 sq m net lettable office space was completed in H1 close to Lassallestrasse.

Donau City still has three potential sites for large office developments. Twin towers, which expected heights of 220m and 160m, with a total area of 200,000 sq m are planned for 2010. The Saturn Tower with ca. 33,000 sq m office area and the Tech Gate Tower with a total area of ca. 12,300 sq m still offer some vacant space.

### 3. Prater

This newly created location is bordered by the Danube River to the North, by Ausstellungsstrasse to the Northwest and by the Danube Channel to the South. Due to the extension of the underground line U2, this office location will become a small and attractive location with advantages such as: proximity to CBD, a direct location at Exhibition Center "Messegelände",

and direct access to the Prater recreation area. VIERTEL ZWEI (total office space of 80,000 sq m) is currently developed, among other buildings.

### 4. Erdberg (East)

This location is situated to the east of the city, between the city centre and the Vienna International Airport. An attractive and new office location has emerged in recent years next to the underground stations "Erdberg" and "Gasometer". The mixed-use redevelopment of the listed Gasometer buildings was the main catalyst in turning a predominantly industrial location into a modern, high-quality office location. The Marximum, with a lettable area of ca. 40,000 sq m, is being completed currently. Town Town Phase 3 (CB5-7) was completed at the end of Q2 2008.

### 5. Wienerberg (South)

Over the last 15 years, a new office location has been developed on the Wienerberg along Wienerbergstrasse, including Euro Plaza and Business Park Vienna with the adjacent Twin Towers. Euro Plaza I-III is situated at the western end of Wienerbergstrasse within walking distance of the underground station, though Wienerberg itself does not offer direct underground access. The fourth phase of Euro Plaza (ca. 40,000 sq m) is due to be completed by the end of 2008, like Forum Schönbrunn with an office area of 11,200 sq m.

### 6. North

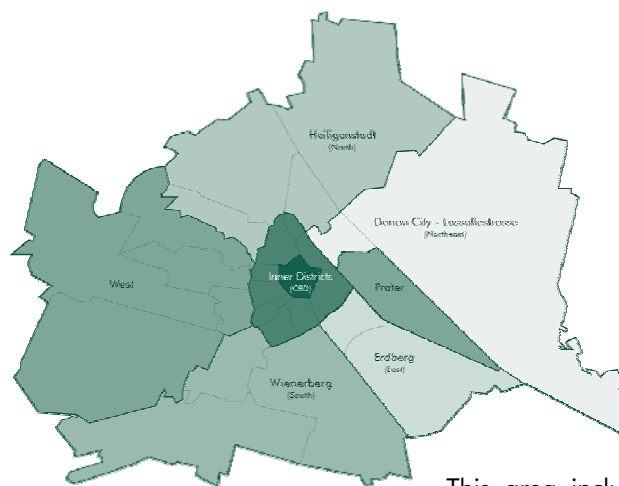
This area includes the area between the U4 underground stations "Spittelau" and the terminus station "Heiligenstadt", where the headquarters of the largest Austrian daily newspapers were established more than 30 years ago, such as the Eastern bank of the Danube Channel around Dresdner Strasse, where many office buildings were been built in recent years.

This location is attractive and in high demand due to its proximity to the city centre and Vienna's best residential area. In Q1 2008, the Skyline office building (ca. 13,000 sq m) was completed.

### 7. West

This small office location in Vienna's West runs along the Vienna River in the 13<sup>th</sup>, 14<sup>th</sup> and the Western outer districts. It is becoming increasingly attractive due to its proximity to the motorway and the residential areas close to the periphery of the city.

## OFFICE SUB-LOCATIONS IN VIENNA



Source: CB Richard Ellis

## INVESTMENT MARKET

In H1 2008, ca. EUR 900 million were invested into Austrian real estate. Compared to H1 2007, the total investment volume decreased slightly (H1 2007: EUR 960 mln.). This decline is not as high as expected given the ongoing global credit crunch.

In Q1 and Q2 2008 portfolio sales made up approximately 21% of the total volume transacted, which is slightly less than 50% of the value in H1 2007.

An analyse of the use of purchased real estate (in H1 2008) shows that shopping centres hold the first place with 73% use (H1 2007: 16%), which results mainly from the Rodamco-Deal in the second quarter. Office properties and mixed-use portfolios each had about 8% use. (H1 07: Office 35%, mixed-use portfolios 25%)

## YIELDS

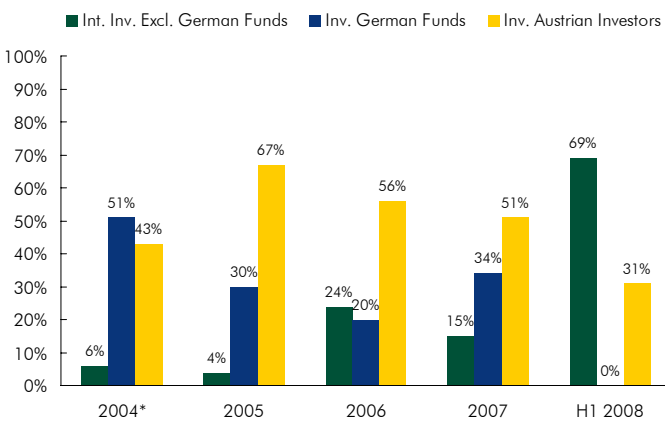
The prime yield for newly built, long-term rented office properties outside the 1<sup>st</sup> district is stable at 4.75%. In 2008 and the first half of 2009, we are expecting no changes to the prime yield. The yield for good locations will increase to 5.5% by the end of the year and yields in average locations or for properties with short-term contracts will also rise.

In the last few years, yields below 3% were paid for some properties in the 1<sup>st</sup> district.

## INVESTORS

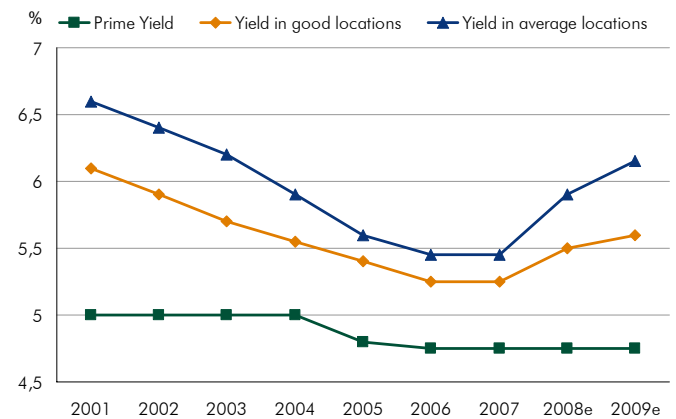
In H1 2008, German investors did not invest in the Austrian market. The share of Austrian institutional investors has decreased to 31% (H1 2007: 51%). The share of international investors decreased to 69%, which means a tripling of the value compared to the same period in 2007 and can be tied to the Rodamco-Deal.

### INVESTMENTS IN AUSTRIA 2004 – H1 2008



Source: CB Richard Ellis \* excl. Buwog-Deal

### GROSS INITIAL YIELDS FOR OFFICES IN VIENNA 2001 – 2009



Source: CB Richard Ellis

## INVESTMENTDEALS

### Investmentdeals during the last 9 months

Address	Name	Purchaser	Use	Total Area (sq m)	Initial Yield
1 <sup>st</sup> district, Neutorgasse 4-8		S-Immo AG	office, retail, residential	5,400	~5.00%
2 <sup>nd</sup> district, Ernst-Melchior-Gasse 22-24	e-zone 1. Bauphase	RCM	office	21,563	~5.40%
2 <sup>nd</sup> district, Handelskai 348	Catamaran	Sachsenfonds	office	38,764	N/A
6 <sup>th</sup> district, Mariahilfer Strasse 77	Generali Center	Redevco	high street retail	13,810	N/A
11 <sup>th</sup> district, Modecenterstrasse 17-19	Marximum	Fonds Haus Hamburg	office	40,000	6.00%
20 <sup>th</sup> district, Dresdner Strasse 33-47	BC20	KGAL	office	22,049	~5.50%
Vienna	Muadib-Portfolio	Muadib Beteiligung GmbH	office	33,063	N/A
2334 Vösendorf	Shopping City Süd, Sale & Motor City	Unibail-Rodamco	shopping center	140,400	~4.75%
3100 St. Pölten	Traisenpark	APN/UKA	shopping center	22,700	N/A
3430 Tulln, Hauptplatz 11-14	Rosenarcade Tulln	IG Immobilien	shopping center	21,400	~6.35%
Nationwide (*)	BAWAG portfolio 16 properties	Signa	office, retail	135,000	N/A

(\*) CB Richard Ellis acting as consultant to either the buyer or the vendor  
*Italic fonts incl. tilde are reflecting estimates by CB Richard Ellis.*

Source: CB Richard Ellis

## FORECAST – TRENDS

### Supply

Despite high construction costs, the supply of office space will increase. We are expecting a new high in the supply of office space in 2010.

### Demand

Letting transactions will decline slightly because of the weak economy and the ongoing global credit crunch. This change is already noticeable in other European cities.

### Vacancy

The vacancy rate will stay below 5% due to stable demand and poor production of new office space.

### Rents

The prime office rent will rise slightly further due to the low supply of large-area office space in the inner districts (CBD).

### Investment

The record high of last year will not be reached again. We expect increasing interest from German open-end funds.

## TOTAL INVESTMENT TURNOVER IN EUROPE H1 2007 – H1 2008

Europe: H1 08: EUR 63.8 bln. (H1 07: EUR 123.6 bln.)

Investment Turnover (EUR bln.)	H1 2007	H1 2008	Change
United Kingdom	42,924	16,234	-62%
Germany	27,146	12,100	-55%
France	13,735	6,900	-50%
Italy/Portugal/Spain	10,595	8,386	-21%
CEE	6,611	5,224	-21%
<b>Austria</b>	<b>960</b>	<b>900</b>	<b>-7%</b>
Other	21,664	13,697	-37%
<b>Europe</b>	<b>123,635</b>	<b>63,441</b>	<b>-49%</b>

Source: CB Richard Ellis, Property Data, VastGoedMarkt, KTI

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