Retail Market Report

Austria | 2023/24

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Introduction

The economic environment for the Austrian retail market has been challenging since the start of the Ukraine war, and it became even more complex with the related sharp rise in inflation and growing economic weakness. This course of events has, naturally, also been reflected in the market for retail properties.

However, what we are now seeing is more than just light on the retail property horizon. Energy prices, which had a particularly strong negative impact on households up through mid-2023, are trending downward towards normal levels, inflation is declining slowly but surely, the labour market remains robust, strong population growth in urban areas during 2022 has increased the number of consumers, and tourism is booming again. Added to all this are the additional opportunities for short-term expenditures caused by the previous reluctance to make long-term investments, a situation with major benefits for the retail trade and gastronomy. Parallel to these developments, the stock of retail space is declining – which can also be a positive factor for existing retailers because a smaller supply will improve their current positions.

In other words, there are grounds for optimism in spite of the negative news reports over recent major insolvencies and market exits. The retail property market has a solid foundation, several retail branches are witnessing a rising demand for space, and Austria remains an attractive expansion goal for international retailers – many of whom are EHL clients.

The current transition phase will undoubtedly call for innovation on the part of property investors, but also holds many new opportunities. We invite you to meet with our excellent retail team and together develop a personalised future strategy for your retail space.

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Managing Partner
EHL Immobilien GmbH

Stefan Wernhart MRICS
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Content

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Executive Summary

Retailers come under pressure from loss of real purchasing power

High inflation and rising interest rates combined with a related decline in real purchasing power and disposable income have increased consumers' reluctance to spend and, in turn, weakened the outlook for Austria's retail trade.

Vacancies are on the decline due to the reduction in space, despite market exits and insolvencies

The ongoing downward trend in the overall supply of retail space has led to a reduction in vacancies, despite the recent wave of insolvencies headed by the kika/Leiner Group and the exit of international retailers.

Demand is unbroken for prime locations

The demand for absolute top locations remains strong in spite of the challenging market environment. Vacant space almost always attracts numerous prospective tenants, and rents have risen to record levels.

Investors' criteria include long remaining lease terms and top tenants

Security is currently the magic word for real estate investors. The most important criteria, and often necessary conditions for a commitment, are long remaining lease terms and strong tenants. The popularity list is headed by retail parks and good standalone properties.

Brick and mortar retail gains market shares over online for the first time

The shift of revenue from brick and mortar to online retail has been halted, at least for the time-being. Online lost market shares in 2022 – a very positive signal also in view of the end of corona special effects.

Graz confirms its position as No. 2 on the Austrian retail market

Graz again strengthened its position as the most important retail market in the Austrian provincial capitals and offers good growth opportunities for the future. This shopping metropolis in the southeast is therefore a focal point for the new EHL market report.

Executive Summary

E-mobility providers are looking for more space in the urban centres

The providers of electric autos and sustainable mobility solutions are turning to new sales structures. Conventional auto showrooms in the periphery have given way, above all, to space in inner city locations – and Vienna is in line with the international trend.

Vienna is on the upturn in European comparison

For the leading global luxury brands, Vienna is one of the most important destinations in Europe. A branch in the capital city is a must for Chanel, Dior and Co – explains Jens Wehmhöner, Senior Director of Pan-European Retail at BNP Real Estate in an EHL interview.

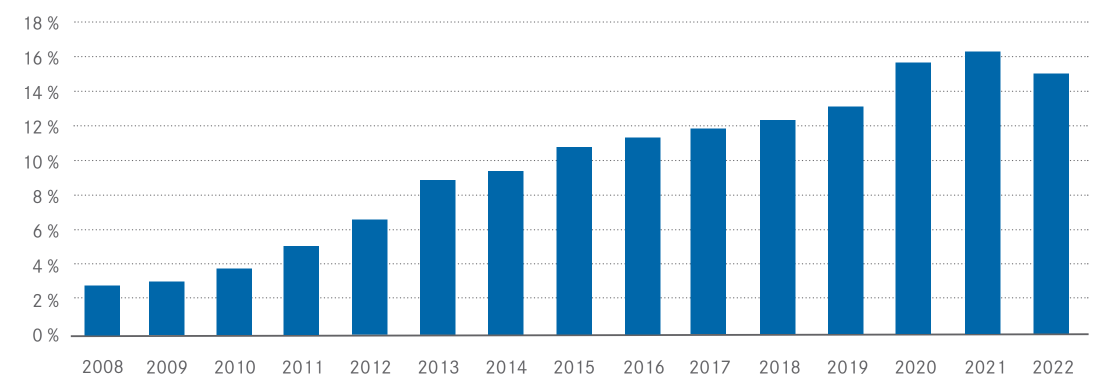
Luxury labels are on an expansion course

The luxury segment has, up to now, successfully disengaged from the weaker performance of the overall market. The lack of space at traditional top locations has become more dramatic, but this opens new opportunities for alternative locations like the future "Lamarr" on the Mariahilfer Strasse.

Discounters continue to gain market shares

High inflation and the resulting greater awareness for price-conscious shopping have created added impulses for the discount segment. This has been reflected in a continuing interest in expansion, especially in the non-food area. Discounters are concentrating their searches primarily on properties in the low-cost and medium price range.

Share of online trade in retail-relevant consumer spending by residents in Austria (in %)



Source: RegioData Research GmbH 2023

The Retail Market in Austria

Loss of purchasing power and insolvencies characterise a difficult year

The Austrian retail sector was the source of all sorts of headlines in 2022 and especially in the first half of 2023 – unfortunately, with less favourable events like insolvencies and announcements of market exits. Examples included the sensational bankruptcy of the kika/Leiner empire and the Forstinger automotive chain as well as the insolvency of Delka/Salamander and their 37 branches in the generally very difficult textile segment. With a total of 473 bankruptcies, the retail trade ranked first in KSV1870 insolvency statistics for the first half of this year.

> “Retail insolvencies have not had a serious impact on the supply of space or vacancies up to now.“

Together with several companies that have announced their intent to leave Austria, these developments have triggered a certain commotion on the market for retail space. kika/Leiner alone had roughly 300,000 sqm of rented space. One very positive factor was that practically all of this space was taken over by a successor company or redirected to an alternative use.

The sharp rise in insolvencies is, first and foremost, an aftereffect from the expiration of COVID-19 support measures, but also reflects a structural problem: Rising inflation has eroded Austrian consumers' real purchasing power, and the substantial increase in energy prices is driving retailers' operating costs upward.

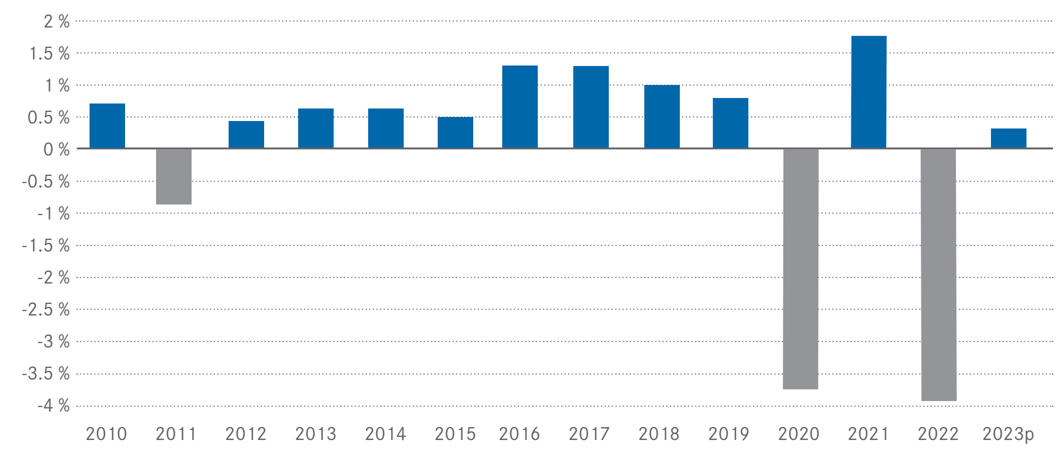
> “Weaker properties are being withdrawn from the market, and this adds to the steady decline in selling space.“

The second half of this year has, conversely, brought signs that the retail trade has passed the most difficult phases – at least for the time-being: Energy prices are falling (in particular, the key wholesale price for gas is now substantially lower than at the beginning of the Ukraine conflict), inflation is declining, tourism has just closed the summer season with strong results, and private consumption has stayed robust in spite of rising prices.

Positive developments are also visible on the rental side: There is a rising demand for space by discounters, and food retailers remain on an expansion course despite weaker growth. The performance of the luxury segment has recently been outstanding, and the strong demand from this segment has led to record rents in the absolute top locations. On the Kohlmarkt in Vienna's first district, rents have risen up to EUR 600/sqm for smaller spaces and up to EUR 250/sqm for areas over 400 sqm.

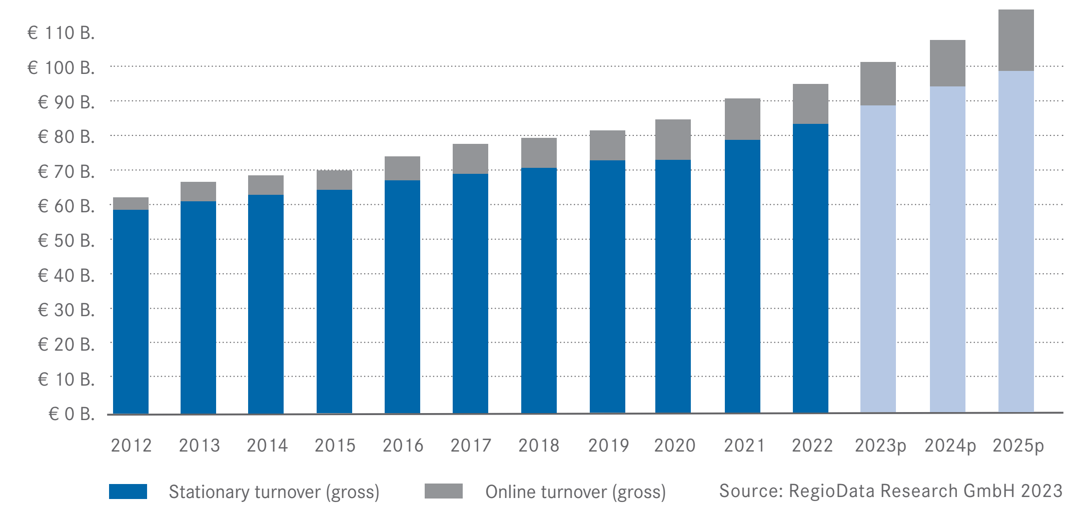
Another positive factor for the use of existing properties is the steady decline in total selling space, which continued during 2022 and 2023 and is again moving within a normal range of 1.5 to 2.0 percent per year. The mounting resistance against new retail areas – keyword: ground sealing – also leads to expectations that the very limited volume of new space entering the market will be unable to offset the annual reduction. Consequently, neither a substantial reduction in vacancies nor a decline in rents can be expected.

Development of purchasing power per resident



Source: RegioData Research GmbH 2023

Retail sales in Austria



Source: RegioData Research GmbH 2023

The Retail Market in Vienna

Exceptional boom in the luxury segment

The generally tense situation in the retail sector and, subsequently, on the market for retail space has in no way affected all submarkets. The luxury segment, in particular, has remarkably escaped the downward trend triggered by rising inflation and the weak economic climate. In Austria, Vienna has been the main beneficiary – and here, notably, the Inner City which is currently enjoying an exceptional boom.

This boom has not only been felt in the "Golden H", formerly the "Golden U", which is formed by the Kärntner Strasse / Graben / Kohlmarkt, but also in the smaller alleys and less glamorous streets in the city centre where demand is also robust. In these areas, the loss of an existing tenant raises little concern over a longer term vacancy and is at least a very good opportunity to strengthen the tenant structure and, possibly, to improve rental income.

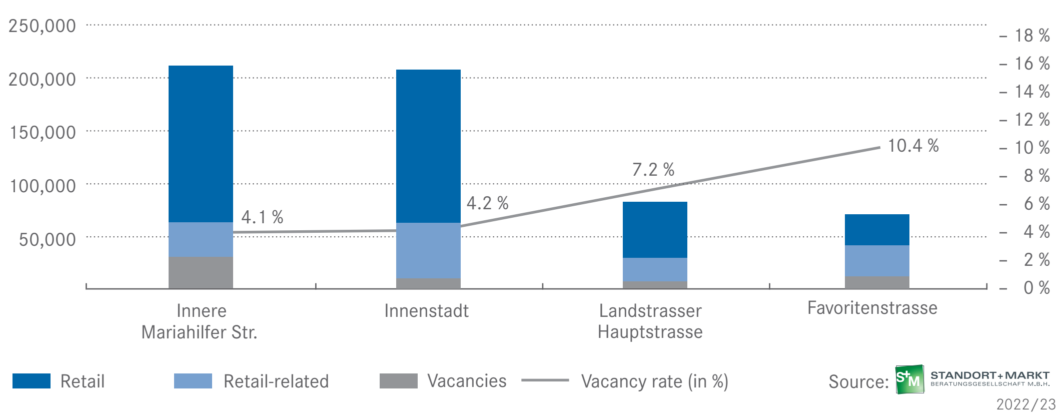
The sound development of this top segment is supported by several factors. Global luxury brands have, to date, been largely untouched by the weakening economy. Online competition is relatively unimportant for the traditionally stationary players in this segment and, not least, the rapid recovery of city tourism is extremely important for traditional brick and mortar retail where international customers are responsible for substantially more than 50 percent of turnover.

An added factor is the significant surplus of demand over the short supply, especially at top locations, that has characterised the market for many years. Numerous potential tenants have been waiting, in part for some time, for a location that meets corporate requirements, which means vacant space sometimes becomes the object of a real bidding war. Characteristic of the market situation at prime locations is, for example, the new rental to Van Cleef & Arpels at Kohlmarkt 1. Louis Vuitton recently moved out to take over the vacant space at Graben 20 (formerly part of Meinl am Graben), and Dior became the next French luxury brand to use this opportunity and relocate to an absolute top location at Tuchlauben 3.

The demand overhang has been responsible for rising rents at prime locations, while rents are stable in neighbouring areas. Square metre rents for very good space on the Kohlmarkt and Graben range up to EUR 450/sqm depending on size and are even somewhat higher for smaller units.

The future outlook for the luxury segment is very positive: Europe is becoming a new hotspot for the expansion of global luxury brands, and Vienna has joined this trend with its excellent development. The number of shop openings in North America and China declined significantly in 2022, while Europe posted a nearly one-fourth increase in year-on-year comparison.

Retail space (in sqm) and vacancy rates (in %) in Vienna`s high streets



Accelerated restructuring in a broad market

Apart from the luxury locations, the market for retail space is clearly challenging. The streamlining of branch networks together with insolvencies has accelerated the structural transformation, also in established and high frequency shopping streets and shopping centres. The outcome has been a shift in branch occupancy (especially a decline in the share of textiles and shoes as well as furniture) and an even stronger pull from the medium towards the lower price segment.

This development reflects the economic weakness, decline in real purchasing power and online competition that has had a substantial impact on the medium price retail segment that dominates good locations. In contrast, discounters tend to be the "crisis winners" as they benefit from consumers' rising price consciousness and have set out on an expansion course. The defensive branch strategy currently followed by conventional retail chains is also providing excellent opportunities for discounters to expand and improve the quality of their branch networks.

For renters, the additional demand for space from the discount segment and the ongoing demand from the food trade represent a positive factor in today's environment. This factor is, however, frequently linked to rent discounts and, above all, to short lease terms. One consequence is the continuing withdrawal of less attractive space from the market. In the top shopping streets, this transformation is concentrated on the conversion of first or second floor space into offices, while at secondary locations discounters often take over previously occupied retail space.

Facts and Figures Vienna city center

Retail space city	116,100 sqm
Ø Shop size	162 sqm
Vacancy rate	3.0 %
Fluctuation rate	10.8 %

Rents in Vienna's top high streets

Location	Net rent EUR/sqm/month
Kohlmarkt	300 - 600
Graben	180 - 400
Kärntner Strasse	150 - 350
Rotenturmstrasse	50 - 100
Innere Mariahilfer Strasse	45 - 160
Neubaugasse	50 - 120

Sources: Standort + Markt 2022/23, EHL Market Research | Q3 2023

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Vienna | Inner City

Refurbishment, location changes, market entry – (almost) everything is new in the City

2023 has definitely brought a revolution to Austria's most important retail location, the Vienna Inner City. The 1,408 shops with their 207,200 sqm of selling space have not seen this scope of transformation or redesign in decades, and the changes in the absolute prime locations are proceeding at a particularly rapid pace. The makeovers are, however, largely positive: Investments in attractive facades and shop designs have increased, and a growing number of global top brands are entering the market at the City's most attractive addresses.

The hotspots for these changes include the Kohlmarkt, Graben and Kärntner Strasse as well as the Golden Quartier along the Tuchlauben. An interesting fact is the near complete lack of available space and longer waiting lists. The "showroom character" is becoming even more important here and actual sales – for example at the Mooncity Vienna (Audi House of Progress Wien) have largely faded into the background.

The situation on the Graben is similar: Nearly all vacant space has been rented, also because a number of luxury brands that initially preferred the neighbouring Kohlmarkt have come to see the Graben as an acceptable address – but the closer to the Kohlmarkt, the better. The situation on the Kohlmarkt itself is more complicated: Austria's best shopping address is currently the site of numerous refurbishments as well as vacant space.

Sustained momentum for prime locations

"The trend towards the absolute top locations is unstoppable, all strong tenants want to locate in the Inner City or on the Mariahilfer Strasse."

The Kohlmarkt and similar areas will become even more important, and space will be more expensive because the top labels are prepared to accept high rents for optimal quality. In contrast, the weaker locations – even the slightly weaker ones – will be the losers."

© Al-Wazzan

Jamal Al-Wazzan
Managing Director
Al-Wazzan GmbH

Here there are apparently differences between the price expectations of owners and potential tenants, which explains why some space has remained vacant for several months. Rents now range up to EUR 600/sqm for smaller spaces and up to EUR 450/sqm for larger units – which is quite ambitious, even for Austria's most expensive address by far.

The strong demand for prime space has influenced the Inner City's other shopping streets in different ways: Streets that have become more attractive due to local measures (above all, traffic calming) are benefitting from the overflow from top locations – positive examples include the Herrengasse and Rotenturmstrasse – while rents on other streets have come under pressure. The outlook is good for locations with prospects of new near-term impulses, for example the revitalised Petersplatz and the Habsburgergasse with its planned meeting zone.

New lettings Inner City 2022/23 (excerpt)

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Vienna | Inner City

Flexibility counters recession – ways to trigger a revival

Mr. Lindner: As a location expert, aren't you mainly involved with grief counselling right now?

Hannes Lindner: No, of course not. Obviously, these are challenging times but there is really no need for doomsday prophesies. Vacancies are not going to explode, rent levels will decline slightly in many cases but certainly not crash, and alternative uses can almost always be found for properties that are no longer fit for retail. And we still have a large group of international concepts looking to set up a base in Austria. I don't expect 2024 will be easy, but also don't see any unsolvable problems from a structural standpoint.

Only a few months after the kika/Leiner bankruptcy which involved hundreds of thousands of square metres of space, that almost sounds relaxed.

I don't want to downplay the situation, but kika/Leiner shows that we are facing problems and not a complete disaster. The properties were sold quickly, and I am convinced that most of them will soon find very attractive uses. This situation also shows that you can't ignore a downturn, you need to look for new perspectives. Flexibility is the magic word here. The real problem is not older spaces but older and outdated concepts. Innovation must definitely come from investors who, for example, use some of the upper floors for housing, offices or hotels, or maybe even sport concepts or production facilities. Another important point is that the responsible authorities and legal regulations shouldn't hinder, but facilitate these changes – a shift to another branch or use is a perfectly normal development. The worst possible strategy from an economic and ecological perspective is to risk vacancies and produce the space required for other uses through new construction with high resource consumption and ground sealing.

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Hannes Lindner
Managing Partner
Standort + Markt Beratungsges.m.b.H.

Develop quarters, not houses – Strategies that turn good locations into real top locations

The project name for the "Golden Quartier" expresses our philosophy: We don't develop properties but urban quarters in the sense of places where people want to be. But to do this, you need to include the entire environment – in other words, innovative traffic solutions with a focus on pedestrian safety and the transformation of the street from a traffic route into an attractive open, common area. This process takes a great deal of time and requires a substantial budget, but our goals are set high.

And urban quarter development will only be successful when all sides are working towards the same goal. The city, district, tenants and neighbours must benefit – we need to develop an inclusive win-win situation to make our vision reality.

When you change the macroeconomic parameters and the perspectives and options for use appear to be uncertain, it could be tempting to cancel measures that are not expected to become income generators. But a reduction to functionality and cutbacks in comfort factors just won't work. Regardless of whether we have developed an urban quarter in Vienna, Hamburg or Munich, one thing was always clear: We do it right or not at all – halfway is always a total flop. And seen this way, it's almost reassuring that an urban quarter development lasts longer than a short-term trend or temporary weakness.

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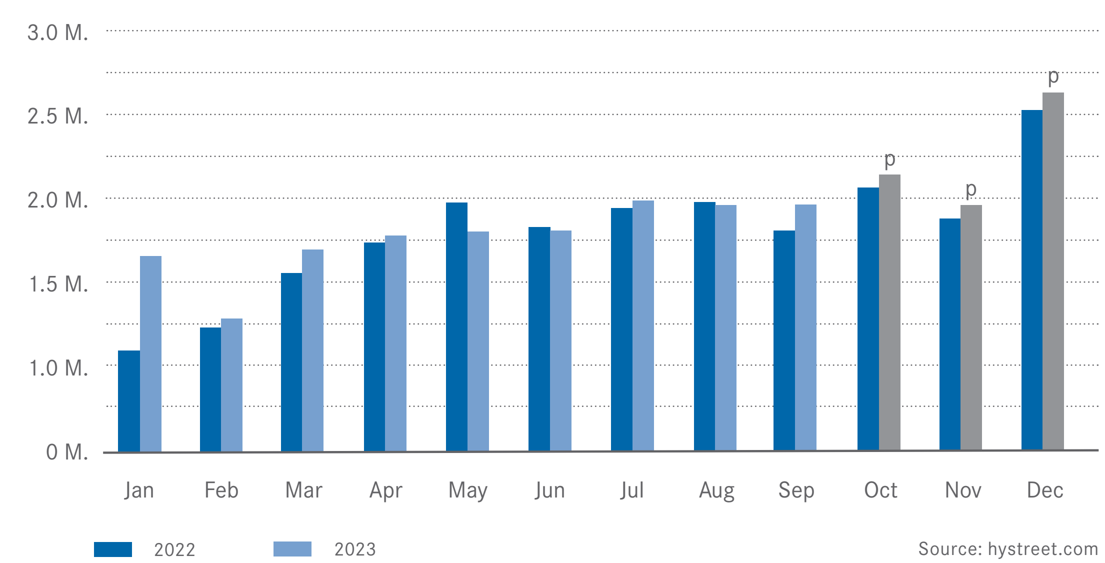
Thomas Hahn
Head of Retail Leasing Austria
SIGNA Real Estate Management GmbH

Footfall on Kärntner Strasse 2022 – 2023



Source: hystreet.com

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Vienna | Inner City

E-mobility in the City

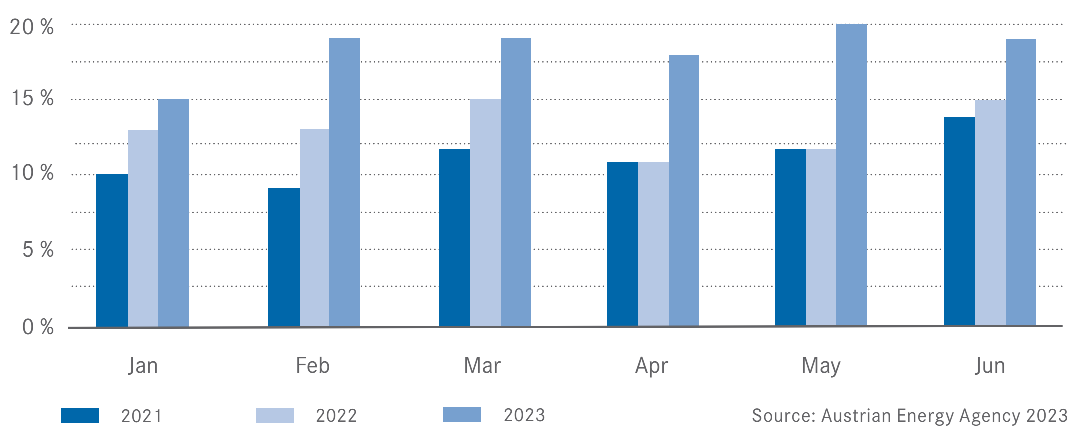
E-auto suppliers are taking a new approach to sales and marketing that has generated new impulses for inner city retail sites. Tesla, NIO, CUPRA and the like have replaced their conventional auto showrooms with outlets in prominent inner city locations.

In Vienna, two flagship stores have opened in the city centre: Polestar (a joint venture between Volvo and Geely) in the Herrengasse and the E-Division of Porsche Holding in der Kärntner Strasse ("MOONCITY VIENNA").

The extensive possibilities created by this trend are underscored by a look at other major European cities, where e-mobility suppliers have been responsible for significant shares of new rentals in very good central locations. One notable example is the Lynk & Co. brand, which is part of the Chinese Geely Group: The international EHL partner BNP Paribas Real Estate brokered prime city locations for this company in major European metropolises like Amsterdam, Berlin, Hamburg, Munich, Madrid and Barcelona.

These flagship stores serve as sales hubs for the suppliers and are also a key element of marketing and brand development. Sales are not only directed to e-autos and e-bikes, but also cover mobility solutions for a predominately urbane and (at the present time, still) wealthy target group. The inner city locations are part of this brand profile and expansive and innovative showrooms for electro-mobility will become a permanent part of the urban landscape – also soon in Vienna.

E-car share of new registrations - annual comparison 2021 - 2023 (1st half of each year)



Source: Austrian Energy Agency 2023

A top European leader for retail

Vienna is a big step ahead in the competition for investments by global retail groups. Only a few cities in Europe are ranked ahead of the Austrian capital by the major labels, explained Jens Wehmhöner, Senior Director Pan-European Retail at BNP Paribas Real Estate* in our interview.

Mr. Wehmhöner: In Austria, it is sometimes hard to believe that rents in the absolute top locations are substantially higher than 300 Euros per square metre. Is this level sustainable over the long-term?

Jens Wehmhöner: I haven't the slightest doubt. First, because Vienna is not particularly expensive compared with other major European cities, and second because the city is high on the "must have list" of major international labels. The LVHMs, Kerings and Chanels of this world must simply be represented here, and they will only accept absolute top locations. And these locations, of course, have their price.

Where would you place Vienna in European comparison?

Paris and London clearly head the ranking and, without a doubt, are in a league of their own: But then you have Vienna together with other metropolises like the Scandinavian capitals, Barcelona, Brussels and Madrid.

When you look at rents, only Milan and Zurich are clearly more expensive than Vienna. One good example is the Dior luxury group, which recently opened a global flagship store on the Champs-Élysées and has now leased substantial space in the Golden Quartier. These location decisions are an excellent testimonial for Vienna.

What makes Vienna so attractive?

First of all, I would say the booming tourism and its key importance for revenue in the high-quality retail segment. Vienna has recovered extremely well from COVID-19 and can easily compensate for the temporary loss of Russian guests. And with a population of two million, Vienna is one of the largest cities – and a market where global players really don't want to miss out.

* BNP Paribas Real Estate is the global partner of the EHL Immobilien Group and one of the world's leading real estate service providers. The company is part of the BNP Group and is represented in 23 countries with business activities in transaction, consulting, valuation, property management, investment management and property development.

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Jens Wehmhöner MRICS
Senior Director Pan-European Retail
BNP Paribas Real Estate GmbH, Hamburg

Vienna | Mariahilfer Strasse

Department store 2.0: A classic concept in a new design – The "Lamarr"

The future "Lamarr" department store at Mariahilfer Strasse 10-18, the location of the former Leiner furniture store, is currently a source of considerable construction noise and clusters of curious pedestrians, but has already come to play a key (positive) role in planning by expansion managers: "Close to the Lamarr" has become an important decision criterion and will soon be the new top address on the Mariahilfer Strasse.

These high expectations are based on the department store's clear positioning in the high price to luxury segment which, combined with an eye-catching roof landscape, superior gastronomy and an integrated hotel, will again attract a particularly affluent public to the Mariahilfer Strasse. This provides a real opportunity to establish a second top location in addition to the prime addresses in the Inner City that could be interesting for top labels (e.g. for secondary brands) when they are looking for lower cost alternatives to the Golden U.

Numerous retailers from the upper price segment have already shown an interest in the surrounding areas. For example: EHL, among others, is brokering roughly 1,000 sqm of space suitable for a flagship store in the same building complex as the Lamarr.

One big construction site

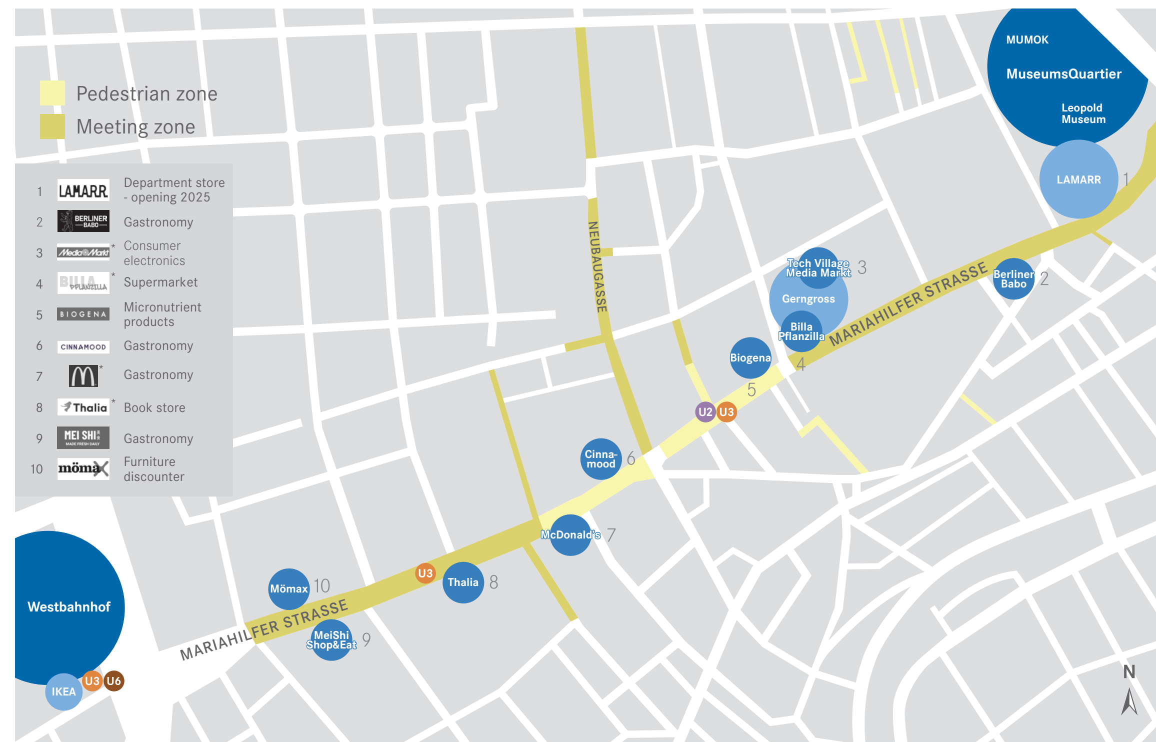
The Mariahilfer Strasse inside the beltway, with a length of roughly 1.8 km and nearly 125,000 sqm of retail space (approximately 212,000 sqm together with the side streets), is by far the country's most important shopping street and is currently – and has been for some time – one big construction site. In addition to the many normal refurbishment projects, there is the new construction of the Lamarr at the site of the former Leiner furniture store and, above all, the lengthy preparations for the future U2/U3 underground hub in the Neubaugasse.

These construction projects create important perspectives for the Mariahilfer Strasse but are currently a major obstacle for local retailers and especially for new rentals. For this and other reasons, the vacancy rate on the Mariahilfer-Strasse has risen to a record 4.1 per cent. Even very interested retailers and gastronomy concepts are postponing their decisions until the end of construction in order to start under optimal conditions. This long wait should end soon as surface construction is expected to be completed this year.

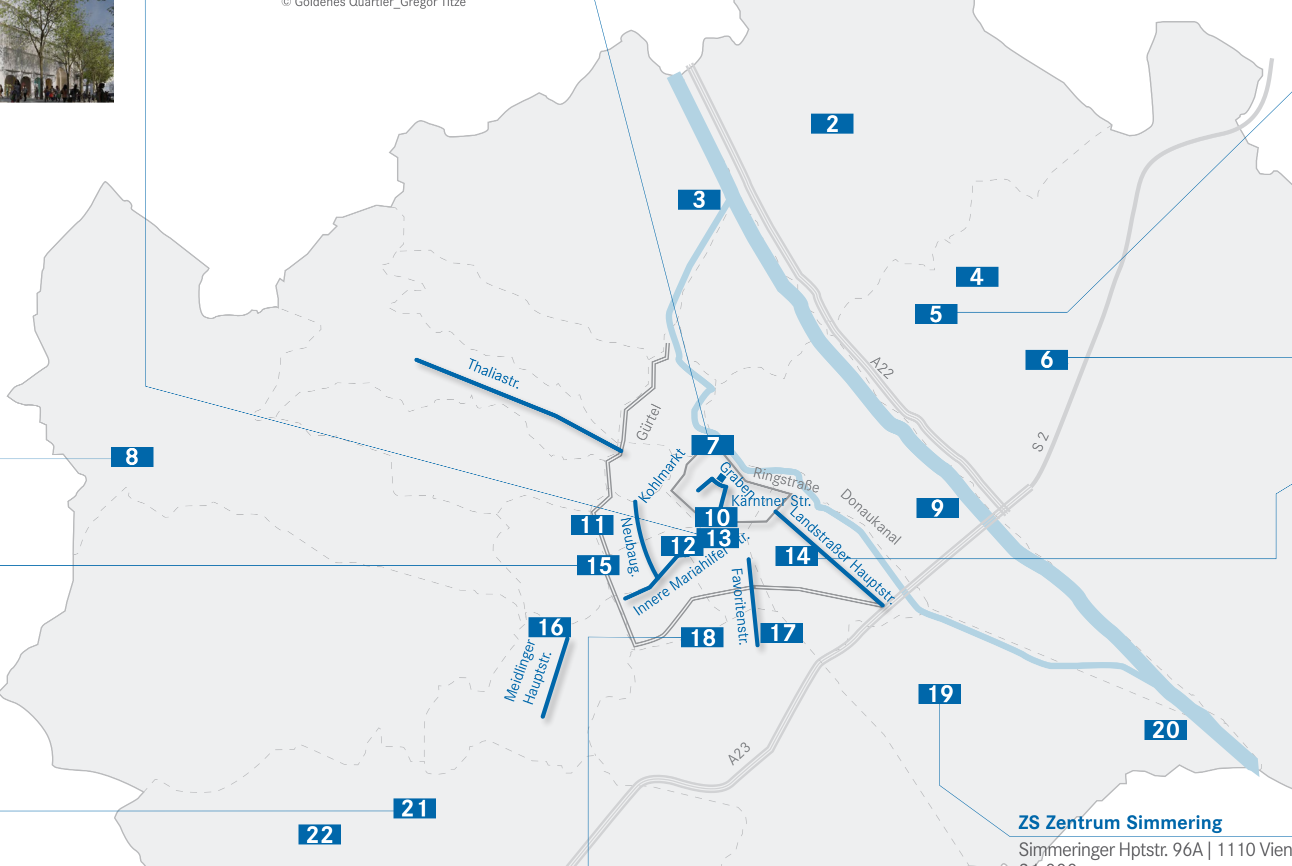
Most of the vacant space has, fortunately, been directed to other uses. For example: In 2023/24 mömax will move into the former location of Benetton's flagship store, CINNAMOOD into the former O bag store and Biogena into the former Asics shop. Other interesting relocations include the MEI SHI Shop& East food store and the Berliner Babo streetfood chain.

Another positive factor is the generally good performance of the rapidly expanding gastronomy and service sector. However, this growth has been unable to completely offset the weakness in key retail sectors, in particular fashion and shoes (minus 17 per cent of space in ten years). In contrast, upper storey space that has often become difficult to rent is gaining a new life as hotels (recently two floors in the former Peek & Cloppenburg, now Motel One) or offices. The demand by potential tenants is good, and the square metre prices for upper storey space are moving towards the levels for retail rentals. Given the low vacancy rates, longer lease terms and lower default risks, this conversion is a reasonable and attractive alternative.

New lettings and concept adaptions* Mariahilfer Strasse 2022/23 (excerpt)

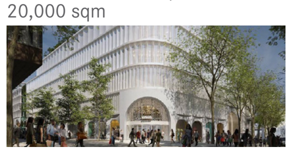


Retail Locations in Vienna and the Surrounding Areas



NEW FROM 2025: Lamarr

Mariahilfer Str. 10-18 | 1070 Vienna
20,000 sqm



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Goldenes Quartier

Tuchlauben | 1010 Vienna
11,500 sqm

© Goldenes Quartier_Gregor Titze

Westfield Donau Zentrum

Wagramer Str. 81 | 1220 Vienna
120,000 sqm

© Visualisation based on photo by Colin Cyruz

Auhof Center

Albert-Schweitzer-G. 6 | 1140 Vienna
51,000 sqm

© Auhof Center

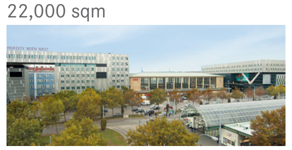
Gewerbepark Stadlau

Gewerbeparkstrasse | 1220 Vienna
66,000 sqm

© IMMOFINANZ

BahnhofCity Wien West

Europaplatz 2-3 | 1150 Vienna
22,000 sqm



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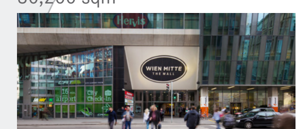
The Mall

Landstrasser Hauptstr. | 1030 Vienna
30,200 sqm



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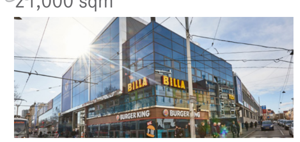
Center Alterlaa

Anton-Baumgartner-Str. 40 | 1230 Vienna
20,000 sqm

© LLB Immo KAG | Architekten KBIA Kulmus Bügelmayer

ZS Zentrum Simmering

Simmeringer Hptstr. 96A | 1110 Vienna
21,000 sqm



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Westfield Shopping City Süd

Vösendorf Süd | 2334 Vösendorf
192,500 sqm

© Dragan Dok

BahnhofCity Wien Hauptbahnhof

Am Hauptbahnhof 1 | 1100 Vienna
23,000 sqm

© ECE

Top Shopping Locations:

No.	Name
1	Shopping Resort G3 Gerasdorf
2	SCN – Shopping Center Nord
3	Q19
4	Citygate
5	Westfield Donau Zentrum
6	Gewerbepark Stadlau
7	Goldenes Quartier
8	Auhof Center
9	Stadion Center
10	STEFFL + Ringstrassen Galerien
11	Lugner City
12	Gerngross
13	Lamarr
14	The Mall
15	BahnhofCity Wien West
16	VIO Plaza
17	1100 Columbus
18	BahnhofCity Wien Hauptbahnhof
19	ZS Zentrum Simmering
20	Huma Eleven
21	Center Alterlaa
22	Riverside
23	Westfield Shopping City Süd

Top Shopping Streets:

District	Street
1010 Vienna	Kärntner Strasse Graben Kohlmarkt
1030 Vienna	Landstrasser Hauptstrasse
1060 Vienna 1070 Vienna	Innere Mariahilfer Strasse Neubaugasse
1100 Vienna	Favoritenstrasse
1120 Vienna	Meidlinger Hauptstrasse
1160 Vienna	Thaliastrasse

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The Austrian Provincial Capitals

Attractive opportunities in the "provincial league"

The markets for retail properties in the Austrian provincial capitals are clearly smaller than Vienna, but they still offer very attractive opportunities for real estate investors and tenants from the retail trade, gastronomy and service sectors.

A typical characteristic of the situation in these regional capitals, which are classified as primary cities but overshadowed by Vienna, is the comparatively stronger standing of local players. This reflects the initial concentration of international chains on the larger market in Vienna. Of the eight provincial capitals, the four largest – Graz, Linz, Innsbruck and Salzburg – have attracted attention beyond their regional borders.

The most important advantage from the viewpoint of the retail trade is the rent level, which is moderate in comparison with the top locations in Vienna. The plus points for investors include somewhat lower vacancy and turnover rates. Over the coming years, these inner city locations should also benefit from increasingly restrictive zoning policies in the surrounding areas (ground sealing by shopping centres, retail parks and parking areas).

Graz – the southeast shopping metropolis

Graz has established a firm position as the second most important retail location in Austria after Vienna and occupies a prominent standing among the provincial capitals. This status is supported by the city's strong growth, which has reached an astonishing 25 per cent since the beginning of this century. In relation to the number of inhabitants, Graz currently has the highest population growth among the major cities in this country.

This position is also supported by the city's key central function for the southeastern region of Austria, in other words large parts of Styria, parts of Carinthia and southern Burgenland. The Styrian capital and surrounding areas are by far the most important retail location for this large catchment area. The Graz shopping centres can also be reached from parts of neighbouring Slovenia in much less than an hour, in other words much more quickly than the capital city in Laibach.

This strong base benefits the inner city shopping zones as well as the shopping centres and retail parks on the periphery and in the surrounding areas. The Seiersberg shopping city with its 85,000 square metres of selling space plays a dominant role but large retail parks and clusters – for example in Webling, Puntigam and Andritz or directly adjoining the shopping centre in Seiersberg – also hold strong market positions.

From a transregional perspective, the strength of the inner city retail cluster is remarkable. The Graz City with its 167,000 square metres is the number two in Austria after Vienna's Inner City. Other indicators – like the number of shops (925) and street length (7.5 kilometres) – also rank Graz second with a clear lead over the other provincial capitals.

The prime locations extend along the foot of the Schlossberg around the main plaza, Herrengasse and the well-known Kastner & Öhler department store in the Sackstrasse. The border to the south is formed by Jakomini Square (a secondary location), and the commercial area continues with Südtiroler Square (a secondary location) and the Annenstrasse (a tertiary location) to the west of the Mur River. The Annenstrasse, in particular, is undergoing a structural transformation and has lost some of its attractiveness as a shopping destination. Vacancies are considerably higher than on the other side of the Mur River, and new impulses will be required to trigger a trend reversal and close the gaps in shop occupancy.

Rents in Graz are constant at a solid level. Prices at the best locations range from EUR 45 to 80/sqm, but there are individual cases up to EUR 90. The vacancy rate equals roughly 4% and has remained at this good level for many years.

Turnover is also low at only seven per cent for prime locations, and the rate for the city as a whole (10.5 per cent) is also below the average for Austria's largest cities. The most notable changes in the recent past included the takeover of Modehaus Brühl by Aiola Living and the opening of a hotel (Motel One) in the historical Dorotheum building am Jakominiplatz after extensive refurbishment. In contrast, Bipa, Nespresso, Burgerista and Orsay have closed their branches in the Graz City.

The further development of the inner city area will be dependent on the success of the planned boulevard expansion and new traffic concepts with a better focus on pedestrians, cyclists and public transportation users. The design of the western section of the inner city (between the Herrengasse and Mur River), in particular, will be re-evaluated. The far-reaching plans to expand the public transport network to include a first underground line have been discarded, but the Jakominiplatz will be connected with the Annenstrasse via a new tram line, together with sidewalks and bicycle paths, by 2025. These measures, when completed, could provide new impulses for the retail trade and (possibly even stronger) for gastronomy in the city centre.

Data and facts on the retail market in Graz

Retail space city	167,300 sqm
Ø Shop size	181 sqm
Vacancy rate	4.0 %
Fluctuation rate	10.5 %

Rents in Graz

Location	Net rent EUR/sqm/month
Shopping streets prime locations	93
Shopping streets sec. locations	36
Shopping malls	52

Source: Standort + Markt 2022/23


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© Franz Brück

The Austrian Provincial Capitals

Linz – low vacancies, high share of shopping centres

The Upper Austrian capital also successfully held vacancies at a traditionally low rate in 2022/23. This positive development was supported, among others, by the four strong inner city shopping centres (which are responsible for nearly 40 per cent of the inner city retail space). Another shopping centre at Schillerpark is currently in the design phase, and its realisation would sustainably improve the commercial area along the southern part of the Landstrasse. The important peripheral shopping locations, Plus City and the large retail park cluster in Leonding, have done reasonably well with low vacancy rates and good visitor frequency from consumers throughout the province.

The vacancy rate in the inner city is very low at 3.7 per cent, while turnover remains high at 12 per cent but has stabilised after a longer upward trend. The most notable changes include branch closings by dm, Subway und Northland. Nespresso has relocated to a new location and Hansaton opened a new branch. Part of the space occupied by the former textile discounter Texhages is undergoing conversion into apartments and offices.

Data and facts on the retail market in Linz

Retail space city	144,300 sqm
Ø Shop size	182 sqm
Vacancy rate	3.7 %
Fluctuation rate	12.0 %

Rents in Linz

Location	Net rent EUR/sqm/month
Shopping streets prime locations	95
Shopping streets sec. locations	22
Shopping malls	57

Source: Standort + Markt 2022/23

Salzburg – difficult location in the city centre

The retail market in this city centre is influenced by the still incomplete recovery of tourism (especially the sharp drop in bus tourists compared with pre-COVID years) to a significantly greater extent than any other provincial capital. Combined with very ambitious rents in and around the central shopping axis on the Getreidegasse, this has caused numerous problems and a rising vacancy rate that is only disguised by refurbishments. Larger branch closings by Interio, Depot, Nespresso and Zara in 2022 must, in any event, be seen as an urgent warning signal and the pressure on rents is rising.

The peripheral locations have been much more successful, above all the Europapark, which has been trying for years to obtain a permit to expand the current 50,700 square metres of rental space, and the Designer Outlet Salzburg.

Data and facts on the retail market in Salzburg

Retail space city	71,000 sqm
Ø Shop size	113 sqm
Vacancy rate	4.9 %
Fluctuation rate	10.9 %

Rents in Salzburg

Location	Net rent EUR/sqm/month
Shopping streets prime locations	110
Shopping streets sec. locations	36
Shopping malls	100

Source: Standort + Markt 2022/23

Innsbruck - solid basis and new perspectives

Innsbruck has 116,000 sqm of selling space, including 66,400 sqm in prime locations, which represent an unusually large retail stock in relation to the city's size. A very positive factor is the low and generally stable vacancy rate of only three per cent. The latest shop closings (e.g. Timberland, Rossignol and Peak Performance) have been contrasted by sufficient new openings (e.g. Starbucks, sehen!wutscher, Dunkin' Donuts and L'Occitane). Plans include projects to make the inner city more attractive for pedestrians and cyclists, and the concepts for a meeting zone on Bozner Platz are fairly concrete.

The peripheral shopping centre destinations like the dez or the retail park cluster in the east and Cyta shopping world play a dominant role in the entire catchment area of norther Tyrol.

Data and facts on the retail market in Innsbruck

Retail space city	116,100 sqm
Ø Shop size	162 sqm
Vacancy rate	3.0 %
Fluctuation rate	10.8 %

Rents in Innsbruck

Location	Net rent EUR/sqm/month
Shopping streets prime locations	95
Shopping streets sec. locations	30
Shopping malls	95

Source: Standort + Markt 2022/23

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Focus on Online

Competition is gradually becoming symbiotic

In the midst of the hype over digitalisation and artificial intelligence, a study by the retail research institute RegioData caused quite a stir at mid-year: For the first time since the appearance of online retail, the online share of retail-relevant turnover in Austria declined – by a full 1.5 percentage points to 15 per cent.

This remarkable trend is primarily attributable to the end of the corona pandemic, but there are other underlying reasons: the strong performance of numerous branches like discounters, the luxury segment and food retailing where the online share is very low. All in all, online is no longer a fear factor for brick and mortar retail. Internet shopping has become an everyday occurrence, but now complements and in no way replaces the branch-based retail trade.

More than by analytical market data, this development is illustrated by qualitative trends and a growing number of successful examples that show the transition from competition for customers towards synergetic cooperation where online and offline elements together create benefits for consumers and added value for retailers.

Click and Collect improves outlet efficiency, and the growing number of branches with showroom character provide haptic and visual impressions for online purchases as well as opportunities for personal advising. The “Ropo Effect“ (research online, purchase offline) is becoming more and more important as a buying impulse.

> “Stationary brick and mortar retail is developing more and more effective concepts to deal with online competition.“

Online as a threat scenario has become a marketing and sales tool that many retailers are successfully using to expand their market shares. Another exciting facet from the viewpoint of the real estate branch is the trend by previously pure online providers to establish showrooms (with and without purchasing opportunities), for example the pioneering home24 which has operated a branch in Vienna’s Inner City for several years.

Outlook

Weak demand for space

The starting position for the Austrian retail property market in 2023 and 2024 remains difficult: Disposable income is rising as a result of wage and pension increases combined with government transfer payments (key word: climate bonus), but the weak economy, high interest rates and inflation are fuelling uncertainty and consumers’ reluctance to spend. In combination with the higher wage and purchasing costs faced by the retail trade, this has led to substantial reservation in the demand for space on many submarkets. One positive aspect is the apparent calm that has followed the year’s prominent insolvencies through mid-2023.

Little potential for rent increases

The weak demand for space has been responsible for greater pressure on rents. Adjustments equal to the inflation rate are often difficult to achieve on new rentals and contract extensions. That means a decline in real rental income, also when nominal rents are stable, even at good locations. However, the normalisation of energy prices – which triggered a massive surge in operating costs during 2022 and at the beginning of 2023 - should slightly improve landlords’ negotiating position. The trend towards shorter lease terms is continuing. Leases of more than five years will no longer be the rule, and the previously rare, very short two- or three-year commitment periods will become more popular.

More conversions

The limited production of space in other real estate markets, for example office and residential, will have an indirect impact on the market for retail space. The conversion of retail space into offices or apartments will often be economically more feasible than in the past. The increased restrictions for AirBnB apartments announced in Vienna could, over the long-term, increase the demand for space in lower cost hotels and hostels and create an additional option for hard-to-rent shop areas.

Steady and strong demand for top locations

The exceptional boom for top locations, above all the addresses popular with international luxury labels, will also serve as a source of rising rents in the Golden U during 2024. Numerous global top brands are looking to settle in Vienna and searching, with a definitely aggressive pricing approach, for the infrequently vacated space.

Sustainability – challenge and opportunity

The political and social pressure towards greater sustainability is, from a pure economic standpoint, both a challenge and an opportunity for the retail property market. On the one hand, energetic improvements and the changeover to sustainable heating systems are connected with significant costs but, on the other hand, the mounting resistance against ground sealing is making the production of new space more difficult. In the end, this will benefit the existing supply (especially retail parks and shopping centres in secondary and tertiary cities).

Investment: price pressure in varying intensity

Retail properties, just like all other usage categories, have come under price pressure. The main underlying causes are high inflation and the related reactions by central banks in the form of interest rate hikes, which have fundamentally changed the capital market environment and the investment market. These developments have been compounded by a substantially weaker economic outlook. The consequences include rising yields and a sharp drop in transactions – and here, the Austrian market is in line with the European trend.

There are, nevertheless, differences among the subsegments of the retail market that are reflected in varying yields and diverging investor interests.

Investments in shopping centres came to an almost complete standstill at the beginning of the pandemic. This market is traditionally characterised by a large share of major institutional investors, who are showing little interest in new commitments due to the still incomplete repositioning of trans-regional shopping centres and the related risks. The lack of transactions makes it impossible to provide a yield range for this submarket.

Retail parks that are focused primarily on everyday necessities have rebounded. Here investors see little volatility, also in times of high inflation and strong online competition. New developments are rare due to the rigid zoning situation, and the demand for existing properties is good. Prime yields in this submarket range from 5.25 to 5.5 per cent.

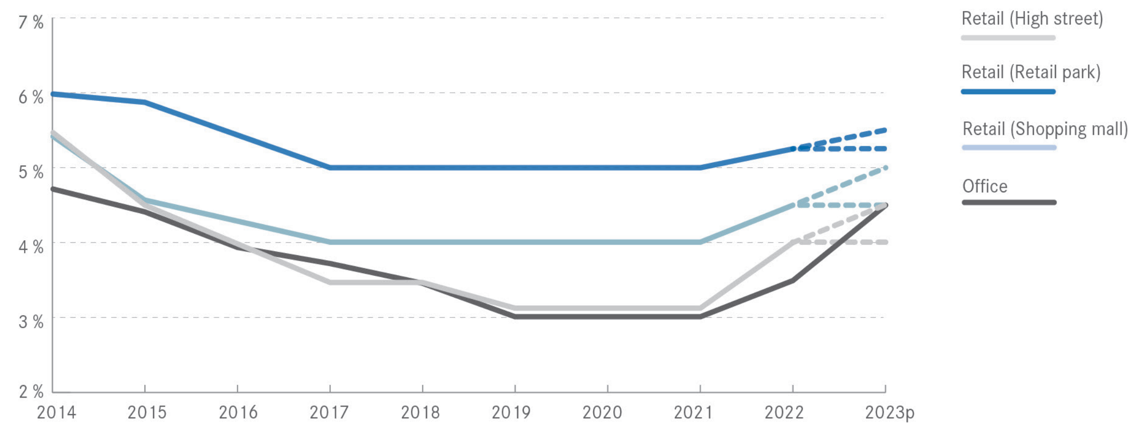
The interest in supermarkets is relatively strong and good prices can still be realised for properties in suitable locations with long, fully indexed leases and prime yields of roughly five per cent. Properties with these specifications are particularly interesting for investors, but are seldom found on the market.

For retail and mixed use properties on established shopping streets, the yield is heavily dependent on the lease term, indexing and tenant credit ratings as well as the development of rents (increases or decreases) for retail space. Investors are interested in high street properties and/or locations that allow for flexible use (e.g. partial conversion from retail to office or hotel use).

Properties in absolute top locations (Golden U, Golden Quartier) form a separate segment that disengages in part from yield-based price determination because investors are prepared to pay prices for these unique locations that are only economically understandable over the very long term.

![EHL logo]

Office and retail yields 2014–2023



Source: EHL Market Research | Q3 2023

There are signs of rising investor interest in several subsegments of the retail sector, but the increase in insolvencies and series of retailer exits from the Austrian market have led to a greater focus on sustainability in tenants' business models.

Not only "bad news" for investors

The Austrian retail market was recently confronted with a number of insolvencies and market exits. Investors as well as the financing banks are, consequently, evaluating new commitments very carefully. The current pressure on prices and sharp dop in transaction activity hardly come as a surprise.

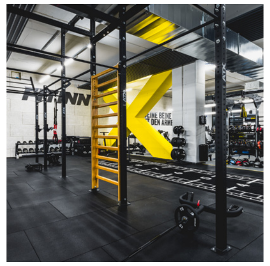
But the news is not only bad – retail is a very attractive asset class when the viewpoint is longer term. The overall supply of space is declining, and zoning approvals for new space are rare. At the same time, the pace of growth in online sales is weakening – or even negative – in nearly all branches. Not least, there is a greater interest in (former) retail locations from the office, service and logistics sectors.

The market for retail properties is currently undergoing a strong transformation. It begins with ESG requirements, which are also becoming more important for retailers, and extends to the stronger integration of entertainment offerings to the (partial) conversion of locations. There is still substantial interest on the part of investors in attractive products/properties that meet tenant requirements and, in the end, also satisfy consumer demands.

Franz Pöltl FRICS
Managing Partner
EHL Investment Consulting GmbH

Reference Projects

Letting


© FITINN

FITINN
EHL brokered 1,415 sqm of space in the mixed-use property “AM DONAUKAI“ close to the Millennium City to FITINN, the largest fitness studio chain in Austria.


© EHL

Engel & Völkers (EuV)
Engel & Völkers rented a showroom with 165 sqm in a top inner city location at Kärntner Ring 4 that was brokered by EHL.

© EHL

Leanschi & Friends
The Leanschi & Friends concept store at Spiegelgasse 4 in Vienna’s first district is scheduled to open at the end of 2023. This 50 sqm location was brokered by EHL.

© NKD

NKD
Parallel to brokerage activities for the sale of commercial space, EHL assisted the discounter NKD in finding a new branch location with 285 sqm of space at Schüttaustrasse 55 in in Vienna’s 22nd district.


© EHL

MÖMAX
EHL brokered a new location with 3,800 sqm of space at Mariahilfer Strasse 116 for the furniture discounter mömax, which is part of the XXXLutz Group, in cooperation with ÖRAG and OTTO Immobilien.

© Ernst Rieder

ASIA Trading
EHL brokered 550 sqm on the Schulring in St. Pölten for the largest Asian supermarket in Lower Austria, which offers products for all cuisines from Japan to India.


© Pommes Freunde

Pommes Freunde
EHL brokered the first location in Austria for the German chain “Pommes Freunde“ with 150 sqm at a highly frequented top location in the Bermuda Triangle party hotspot.

© Degen

Oak 107 Smokehouse
The Texan barbecue restaurant OAK 107 Smokehouse rented 436 sqm of space, including an outdoor pavement cafe, at Mariahilfer Strasse 47, which was brokered by EHL.

Center Management

© LLB Immo KAG | Architekten KBIA Kulmus Bügelmayer

Total space	20,000 sqm
Customer	LLB Immo KAG

Center Alterlaa
The Center Alterlaa with shops like Interspar, dm, Deichmann etc. is an important local supplier for the 23rd district and can be easily reached by car and the U6 underground line.

© EHL

Total space	13,000 sqm
Customer	LLB Immo KAG

Arena Mattersburg
The Arena Mattersburg with 13,000 sqm of retail space in 30 outlets is the district’s most important shopping centre. EHL has been responsible for management since the beginning of 2021.

Bewertung

© EHL

Total space	88,400 sqm
Customer	Financing bank

Seiersberg shopping mall
This third largest shopping mall in Austria and the largest in the province of Styria is only 20 minutes by car from the Graz city centre. The location connects directly with the A9 motorway.

© EHL

Total space	36,600 sqm
Customer	Financing bank

City Arkaden Klagenfurt shopping mall
The City Arkaden shopping mall is located on the northern border of Klagenfurt‘s inner city. It is the second largest shopping mall in the province of Carinthia after the Atrio shopping centre in Villach.

Investment

© EHL

Total space	11,800 sqm
Customer	Serone Intern. Ltd.

SC17
In the Vienna suburbs, EHL Investment Consulting brokered the FMZ SC17 with 11,800 sqm of selling space on the B 17 motorway opposite the SCS to the BETHA Zwerenz & Krause Group.


© EHL

Total space	650 sqm
Customer	Private investor

Billa Vienna Wieden
In Wieden, Vienna’s fourth district, EHL brokered a supermarket leased to the REWE Group as part of the Billa chain with roughly 650 sqm to a private investor.

Market Entries and Relocations of Selected Companies (2022|23)

Tag Heuer
Graben 21
1010 Vienna

Longines
Graben 29a
1010 Vienna

Van Cleef & Arpels
Kohlmarkt 1
1010 Vienna

Hermes
Graben 22
1010 Vienna

BYD
Westfield SCS, Vösendorfer Südring
2334 Vösendorf

Karaca
Westfield SCS, Vösendorfer Südring
2334 Vösendorf

Dior
Tuchlauben 3, 1010 Vienna
Reloc. from Kohlmarkt 6A, 1010 Vienna

Saint Laurent
Graben 17, 1010 Vienna
Reloc. from Bognerg. 4, 1010 Vienna

Biogena
Mariahilfer Strasse 50, 1060 Vienna
Reloc. from Mariahilfer Str. 47, 1060 Vienna

Louis Vuitton
Graben 20, 1010 Vienna
Reloc. from Tuchlauben 3, 1010 Vienna

L'Occitane
Graben 30, 1010 Vienna
Reloc. from Seilerg. 1, 1010 Vienna

Tommy Hilfiger
Graben 11, 1010 Vienna
Reloc. from Kohlmarkt 12, 1010 Vienna

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