COVID-19 impacts on the Austrian Real Estate Market

EY Austria. 2020
Due to the government restrictions caused by the Corona Pandemic, Austria is already facing a profoundly changed economic situation. Company closures and thousands of new unemployed will lead to a recession in 2020.

In a time where new or stricter measures are being taken by our government every hour to contain the virus, it is hardly possible to assess the scale of the impact. But one thing is certain, the effects will also have a short-, mid- and long term impact on the Austrian Real Estate Market,

- as the Austrian Traded Index (ATX) has recorded strong fluctuations with historical lows and brings uncertainties to potential investors,
- as central banks are cutting key interests rates even more sharply and the mortgage rates increase,
- as human needs, in particular social activities, have been shifted, the use of properties changed, and
- as the level and continuity of the rent are essential components of the market value of a property.

**Legal principles related to tenancies for commercial activities**

- The application of paragraphs §1104 and §1105 ABGB (Austrian Civil Code) can lead to a reduction in rent due to the unusability of the rented property.
### What does it mean for our clients?

#### Valuation Market
- Is there a correction to be expected?
- What are the standard, best and worst case scenarios?
- Are real estate investment portfolios immediately devalued?
- Is the market risk immediately reflected in a premium to the discount rate?
- How will the key interest rate develop in the near future?
- By what percentage could the vacancy rate increase?
- What is the impact of the sensitivity analysis?
- What is the difference by asset class?

#### Transaction / M&A
- What will happen to forward deal negotiations started before the crisis?
- Might residential investment properties also be affected by price corrections or could they become even more expensive?
- Is the real estate investment market still a (relatively) safe haven for institutional capital or do the revaluation gains of recent years have to be realized as quickly as possible through sales?
- Do investors still have sufficient liquidity for new investments?

#### Transformation / Strategy
- How much office space do we still need as a company?
- How will home office affect company costs in the long run?
- What position will Corporate Real Estate play in the future within the corporate group?
- Will office space requirements be made completely flexible in the future?
- Do we have cybersecurity, etc. for home office in place?
- How is our workplace-management organized?
- What kind of costs need to be optimized on the mid- and long-term?

#### Tax / Legal
- Is a legal adjustment for rental contracts and thus a risk for the loss or delay of rental income likely? What does this mean for stamp duties?
- What are the liquidity enhancements for taxes due, what are the impacts on compliance with deadlines for payments and tax returns?
- How can losses incurred be used in a tax-efficient way?
- What mitigators will be introduced in material tax law?
- How is a possible valuation impact dealt with from a tax and regulatory perspective?
- Are tenants entitled to rent reductions?
Impact on specific real estate sectors

**Hospitality Market**
- The Hospitality Market is so far one of the most affected asset class
- After the closures for gastronomy all accommodation facilities such as hotels or pensions (for touristic purpose) will be restricted until at least mid of May 2020
- The business trips are restricted, hotel accommodation is allowed
- Events are currently prohibited
- The international tourism is also likely to recover more hesitantly
- Occupancy is below 10% at the moment
- Business plans need to be adapted
- Rent agreements are being re-negotiated
- Hotel developments are stopped or postponed, the guarantees are re-negotiated

**Retail Market**
- The Retail Market is mainly closed down with the exception of system-relevant institutions such as grocery stores, pharmacies and banks; small shops (<400 qm) and DIY will reopen after mid of April; SC to reopen after 1st of May
- The operating ban can put many tenants of commercial premises in financial difficulties
- In the case of leases with variable revenue shares, the owners will be indirectly impacted by the lockdown
- The growth of online trade is likely to continue at an accelerated pace
- Most of the rents for March have been paid, the question for April remains
- Deferal of rent initiatives related to ABGB
- Sustainable rent assessment delays forward deals

**Office / Industrial Market**
- Office rents are likely to come under increasing pressure due to the worsening economic outlook
- If the forced home office experiment is proved to be successful, the demand in office space and with it the market rents might decrease, while “office sharing” could raise in its popularity
- The supply of available small areas should increase at an above-average rate due to the financial shortages / bankruptcy of SMEs
- In the medium term, more and more companies are likely to be attracted by flexible rental arrangements
- Short-term leases are offered, also in the logistics market sector
- Cost of occupancy as key factor
Impact on specific real estate sectors

Housing Market

- The housing market is considered to be relatively crisis-resistant, as demand for housing is less dependent on the economic situation.
- Therefore, long-term impact is expected to be less than in the commercial real estate market.
- Non-profit housing companies and public homeowners are already thinking about rent reductions.
- Under the given restrictions, fewer site inspections and changes of ownership are currently expected.
- The interest in luxury properties may be low in the short and medium term due to the slump in the stock market.
- The continued low interest rates ensure a steady demand for home ownership.
- Deferements of payment given by banks.

Construction Industry

- Working on construction sites is permitted again starting 30.3. with compliance with the prescribed health regulations from the government and WKÖ.
- Shortfall of work as a result of lack of skilled workers and travel restrictions from CEE.
- Downtime on the construction site, delayed commissioning and unresolved claim situations entail the risk of protracted legal disputes.
- Numerous uncertainties and dangers due to the imminent failure to meet project goals (budgets, deadlines, qualities) on both sides (client and construction companies/GUs).
- Various tendered construction projects are currently being cancelled or postponed.

Transaction- and Investment Market

- For some investors, the sharp devaluation of shares leads to an absolute increase in existing real estate quotas and thus, in some cases, the target quotas might be exceeded.
- For individual investors, the change of the quota could lead to investment stops or even sales, or require an adjustment of the investment strategy.
- Already signed deals are completed, planned investments are more likely to be postponed.
- Banks operate a tougher risk management with a forecast of 3-6 months. They evaluate business dependencies with foreign countries; a national business model is classified as risk-minimizing.
- Increased uncertainty in Forward Deals (regardless of the asset class), as rental income is difficult to estimate.

April 2020
How we can help you?

The Austrian Real Estate Team
An interdisciplinary team of 60 experts

Composed of the areas of our core competences to generate the best solutions for you!

Extract from our Service Offer:

- Strategy and Transactions (S&T)
- Real Estate Restructuring incl. Tax and Legal aspects
- Portfolio Analysis and Scenario Planning
- Technical Building and Cost Analysis
- Market Analysis and Studies
- Feasibility Studies
- Financial Due Diligence Support
- Sale-and-Leaseback Transactions, Asset Swaps, Securitizations

- Workplace Transformation
- Sell-Side M&A: Structuring and Execution of Transactions (Asset & Share-Deals)
- Portfolio Strategies and Optimization
- Capital and Debt Advisory
- Real Estate Tax advice
- Real Estate Legal advice
- Commercial Due Diligence
- Real Estate Valuation

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