

Presentation to Fixed Income Investors

Bank Austria

Vienna, December 2023

Empowering
Communities to Progress.

 **Bank Austria**
Member of  **UniCredit**

Agenda



Opening Remarks



Overview of Bank Austria Group



Funding & Liquidity



Annex





Opening Remarks



Bank Austria, a leading bank in the local market

Market position

- **Leading domestic bank** in **Corporate Banking** and **Wealth Management & Private Banking**
- **High client shares** in business with corporate customers and leading institution in Private Banking

Size

- Bank Austria is **by far the largest bank in Austria** at individual institution level
- With **assets of more than € 100 bn**, largest Austrian bank on unconsolidated level

UniCredit Group

- Bank Austria is **part of UniCredit Group, with 13 core markets in Europe and worldwide presence**
- Bank Austria clients can use UniCredit's CEE network – UniCredit is market leader in the region

Capital

- Well-capitalized – with a **CET1 ratio of 18.4%** ¹⁾





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Overview of Bank Austria Group



Bank Austria – at a glance

Key information

- **Member of UniCredit since 2005**
- **Leading corporate bank and one of the largest retail banks in Austria**
- **~ 4,900 FTE and 104 branches** in Austria
- **Excellent capital base** (18.4% CET1 ratio¹⁾)
- **Stable liquidity** with a perfect balance between customer loans and direct funding
- **High market shares²⁾** in Austria (Loans: 12%, Deposits: 12%)
- Issuer/Deposit **Ratings** at A3/A2 (Moody's) and BBB+ (S&P); Counterparty Ratings at A2 (Moody's) and A- (S&P)

Income Statement

(in € million)	9M23	9M22
Operating income	1,997	1,370
Operating costs	-780	-789
LLP	5	68
Net profit	934	496
Cost/income ratio	39.0%	57.6%
Cost of risk	-1 bp	-14 bp

Volumes

(in € billion)	Sep-23	Dec-22
Customer Loans	65.2	66.2
Customer Deposits	58.7	62.7

Other Figures

(Full-time equivalents in units, RoAC in %)	9M23	9M22
FTE (100%)	4,869	5,168
Return on Allocated Capital (RoAC)	23.3%	12.7%



Business Model and Market Position in Austria

RETAIL

Retail Banking

- Covers **1.5m^{*)} Retail & Small Business customers** (<€ 1m turnover)
- **Broad multi-channel offer** via **physical branch network** (with a total of 104 branches), **remote advisory** (personal advisory services between 8.00 a.m. and 7.00 p.m., also via video telephony), **digital services** (internet and mobile banking) and **support by experts** in deposit business and real estate financing business

WEALTH MANAGEMENT & PRIVATE BANKING

Wealth Management & Private Banking

- **Successful client approach**
 - via **Private Banking Area** (15 locations all over Austria, cooperation with 11 funds),
 - **Wealth Management Area** of Schoellerbank (8 branches all over Austria and own Schoeller Invest KAG) and
 - **Tailor-made financial services** to HNWI and foundations (Wealth Planning, Special Funds Solutions, Generation Planning)

CORPORATES

Corporate coverage: Large corporates (turnover > € 1bn), **Medium corporates** (turnover > € 50m) and **Small corporates** (€ 1 – 50m turnover)

Offering the full range of investment banking products, from simple, standardized products to highly complex tailor-made structures, depending on client structure and client needs

- **Multinational corporates in Austria, Nordics & Iberia**
- **Financial Institutions, Public Sector clients and Commercial real estate clients**

Leading role as strategic financial partner in client coverage which we strive to continuously improve.

For most of the Austrian Large Corporates, we are the **main banking connection** with a wide range of product offering among all product lines

Member of UniCredit, a pan-European Commercial Bank with a unique franchise in **Italy, Germany, Central Europe/CE and Eastern Europe/EE**

- Unparalleled access to market leading products and services in **13 core markets** through our European banking network
- Leveraging on an international network of representative offices and branches, UniCredit serves clients in **another 15 countries worldwide**



P&L of Bank Austria Group

Excellent profitability, based on a robust operative performance

Profit & Loss Development

- **Operating income** +46% y/y, driven mainly by strong net interest, supported by rising market rates
- **Operating costs** -1% lower y/y, due to continued strong cost discipline and further FTE reduction; significant improvement of cost/income ratio to 39.0%
- **Net write-downs of loans** positive (due to releases) at € +5m (9M22: € +68m), confirming excellent asset quality
- **Non-operating items** decreased to € -110m, of which € - 80m systemic charges
- **9M23 Group Net Profit** at strong € 934m (vs. € 496m in 9M22)
- **Cost/income ratio: improved significantly** by about 19 p.p. to **excellent 39.0%**
- **RoAC** also improved to outstanding **23.3%**

Bank Austria Group

(€ million)

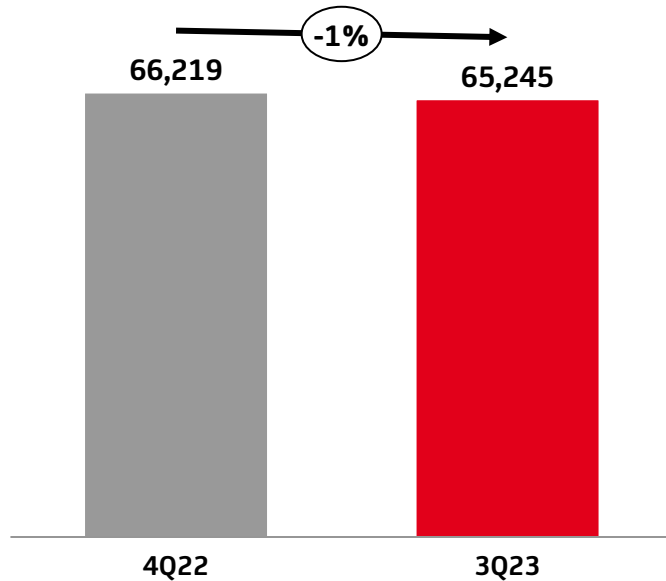
	1-9/ 2023	1-9/ 2022	y/y
Operating income	1,997	1,370	45.8%
Operating costs	-780	-789	-1.1%
Operating profit	1,218	581	>100%
Net write-downs of loans	5	68	-93.3%
Net operating profit	1,222	649	88.3%
Non-operating items	-110	-119	-7.3%
Profit (loss) before tax	1,112	530	>100%
Group Net Profit	934	496	88.3%
Cost/income ratio	39.0%	57.6%	-18.5 p.p.
Return on Allocated Capital (RoAC)	23.3%	12.7%	+10.6 p.p.



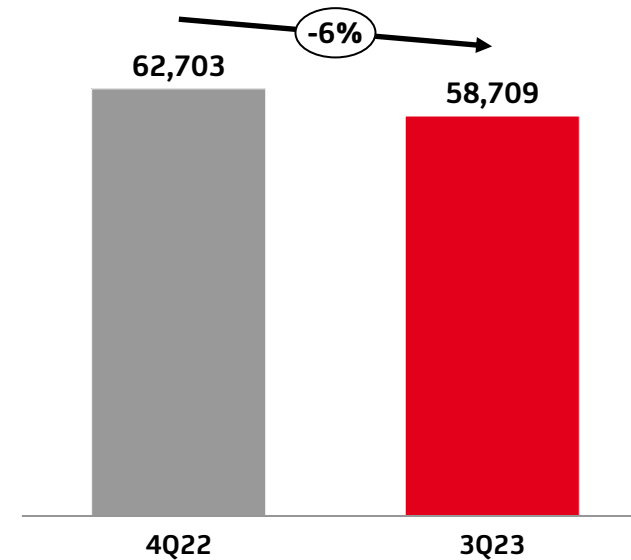
Loans and Deposit Volumes – Bank Austria Group

Well-balanced development of loans and deposits

Loans to Customers (€ m)



Deposits from Customers (€ m)



- **Loans to customers** almost stable – with new loans in particular in Retail affected by macroeconomic environment and more restrictive regulation
- **Deposits from customers** decreased by 6% to € 59bn, with reductions in particular due to the general market development in Corporates and the current focus on pricing





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Funding & Liquidity



Bank Austria Acts as Liquidity Reference Bank (LRB) for all Austrian Group Entities and is a Strategic Issuing Platform for UniCredit Group

UniCredit S.p.A. – Holding

- **UniCredit S.p.A.** is operating as the **Group Holding** as well as the Italian operating bank:
 - ✓ **TLAC/MREL issuer** assuming Single-Point of Entry (SPE)
 - ✓ **Coordinated Group-wide funding and liquidity management** to optimize market access and funding costs
 - ✓ **Diversified by geography and funding sources**

UniCredit Bank Austria AG

- **Mortgage- and Public Sector Pfandbriefe**
- **Senior benchmark**
- **Housing bank bonds** (Wohnbaubank-Anleihen)
- **Registered secs. (SSD, NSV*) covered/senior**
- **Private placements**
- **Network issues**

- **Bank Austria** has its **own Issuing Programs** for the respective instruments to be issued
- **Bank Austria** continues to be **present on the local and global markets**
- **Coordinated approach within UniCredit** regarding **issuing activities** on the **global markets**



Funding Strategy Bank Austria Group – Self-Sufficiency Principle

Key Pillars of Bank Austria Group Funding Strategy

- Well-diversified funding base due to Bank Austria's commercial banking model

The key pillars are

- strong client deposit base related to a variety of products (sight-, savings- and term deposits)
- complemented by medium- and long-term placements of own issues in the capital market in order to cover the medium- and long-term funding needs

The key pillars described are part of the **self sufficiency principle of Bank Austria's funding strategy**

- It ensures that the proceeds are used primarily for business development of entities of Bank Austria Group
- It enables Bank Austria to reflect its own funding costs according to its own risk profile



Liquidity and Funding Management within BA Group based on clear and strict Risk Management Principles

Clear Rules and Principles in Bank Austria for the Management of Liquidity and Funding

- **Liquidity strategy**
 - Bank Austria acting as an independent Liquidity Reference Bank (LRB) within UniCredit Group - in line with the self-funding principle of the Group Strategy
 - Bank Austria manages the liquidity development in Austria (including all Austrian Group entities)
- **Clear operative rules**
 - Active liquidity and funding management by defining short-term and structural liquidity and funding limits for all subsidiaries of BA Group
 - All national legal / regulatory constraints have to be followed on single entity level
 - Bank Austria establishes a separate Funding and Liquidity Plan for Austria as part of the Funding and Liquidity Plan of UniCredit Group
 - Bank Austria enjoys a sound counter-balancing capacity and ensuring compliance with key liquidity indicators (LCR >100%, NSFR >100%)



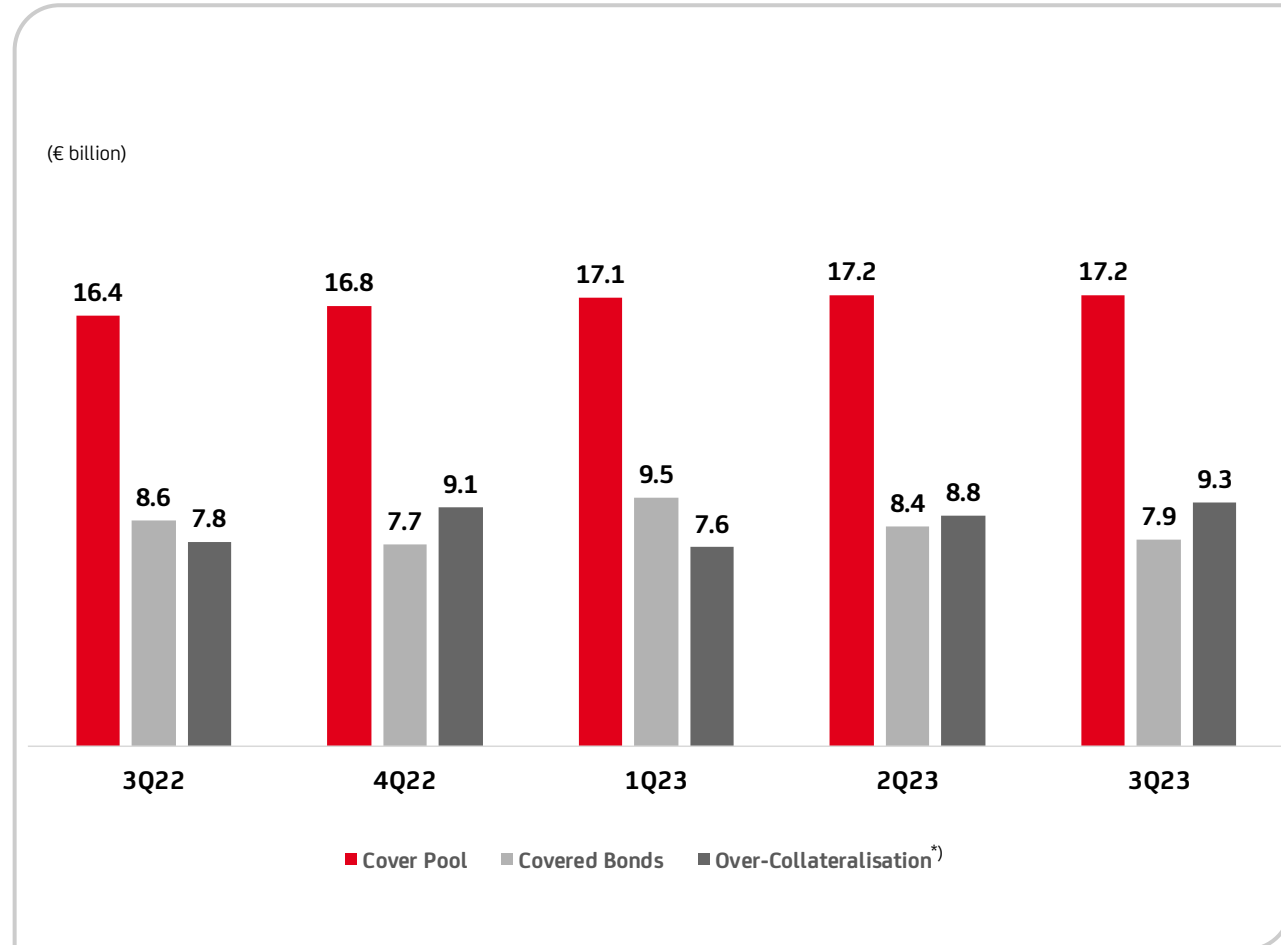
Mortgage Cover Pool

Overview and Yearly development

Total Value of the Cover Pool (Primary Coverage)
as of 30 September 2023: **17,219 million**

- of which Loans: 17,181 million
- of which Bonds: 38 million

- Focus on **purely Austrian mortgages**
- **Moody's-Rating: Aaa**
- **ECBC Covered Bond Label**)**
- **No foreign currency risk (only EUR exposures in the cover pool)**



^{*)} Contains 2% legal Over-Collateralisation of the notional amount of the covered bonds, the remaining part is not bound

^{**)} <https://www.coveredbondlabel.com/issuer/60-unicredit-bank-austria-ag>



Mortgage Cover Pool

Parameters of Cover Pool and Issues

Parameters of Cover Pool^{*)}

Weighted Average Life (in years including Amortization)	10.8
Contracted Weighted Average Life (in years)	18.0
Average Seasoning (in years)	5.8
Total Number of Loans	66,965
Total Number of Debtors	58,109
Total Number of Properties	49,930
Average Volume of Loans (€ million)	0.3
Stake of 10 Biggest Loans	8.8%
Stake of 10 Biggest Debtors	9.9%
Stake of Bullet Loans	13.7%
Stake of Fixed Interest Loans	49.7%
Average Interest Rate	3.3%
Average Loan-to-Value	45.0%
Stake of Defaulted Loans	0.0%
Stake of Loans 90 Days Overdue	0.0%

Liquidity Buffer

Covered Liquidity buffer requirement (€ million)	0.0
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Parameters of Issues

Total Number	66
Average Residual Maturity (in years)	4.0

^{*)} Without bonds

LTV = Loan-to-Value

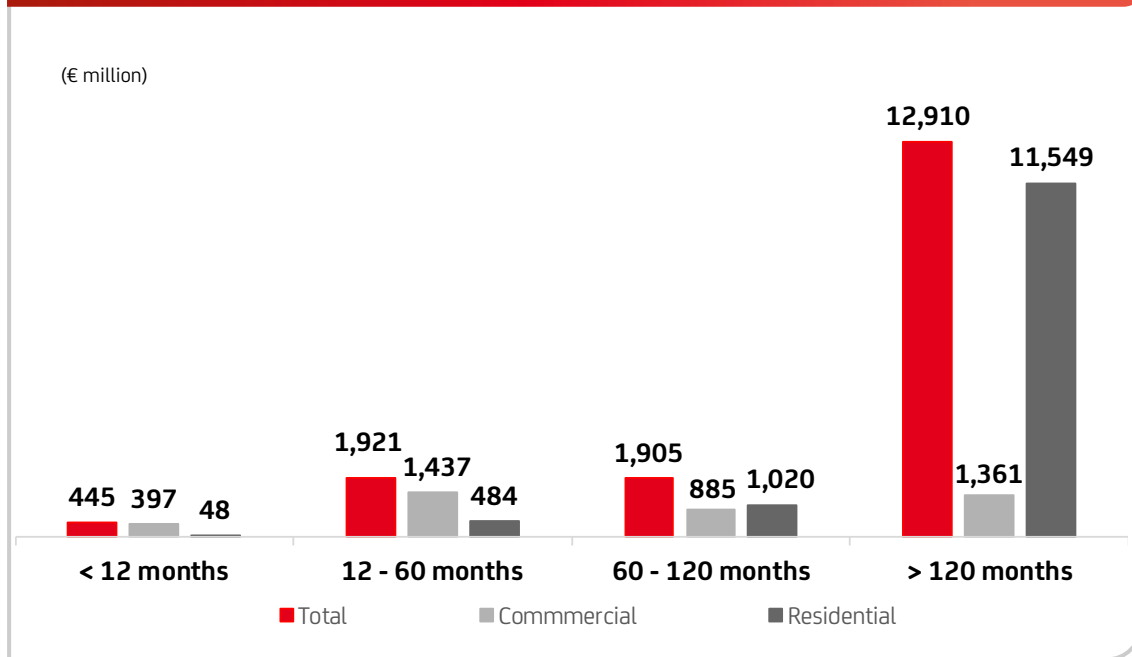
The valuation method for the cover assets is in accordance with § 6 (4) PfandBG



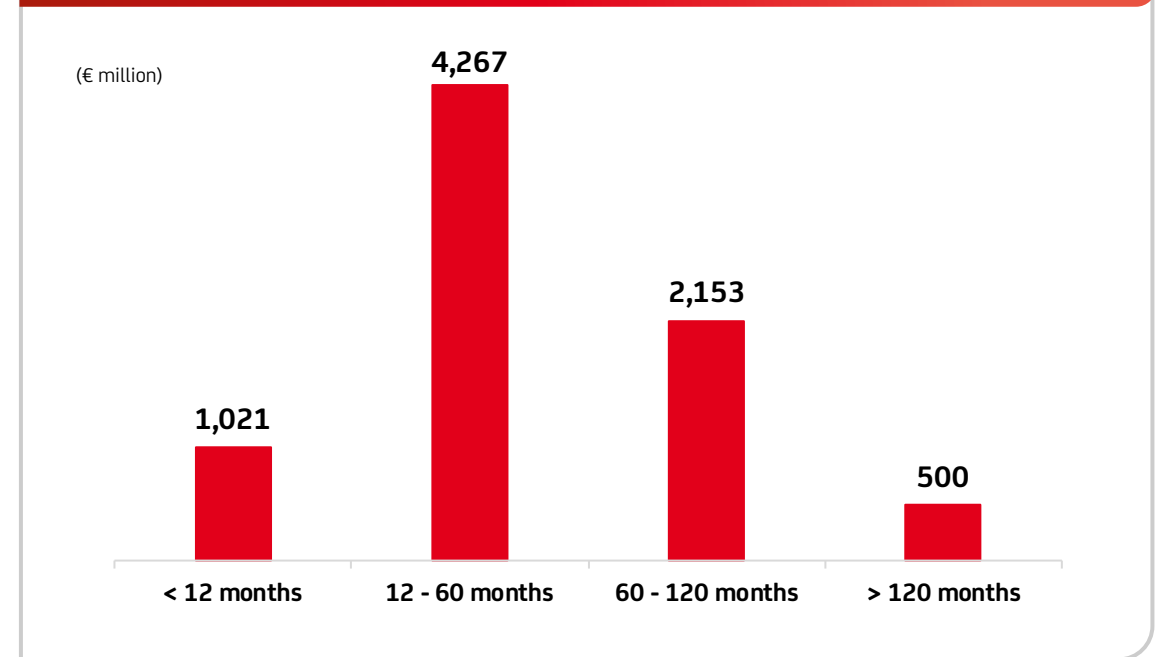
Mortgage Cover Pool

Maturity Structure of Cover Pool and Issues

Maturity of assets in the cover pool^{*)}



Maturity of issued covered bonds^{**)}



^{*)} Without consideration of the repayment and without bonds

^{**)} A list of Pfandbriefe and covered bonds of UniCredit Bank Austria AG (including the ISINs of all issues and information on the soft/hard bullet structure) can be found on the Covered Bond Label website (<https://www.coveredbondlabel.com/issuer/60-unicredit-bank-austria-ag>).

The base prospectus for the EMTN program, including the conditions of a potential postponement of maturity, is available on the UniCredit Bank Austria website (<https://www.bankaustria.at/en/about-us-issues-under-base-prospectuses-base-prospectuses.jsp>).

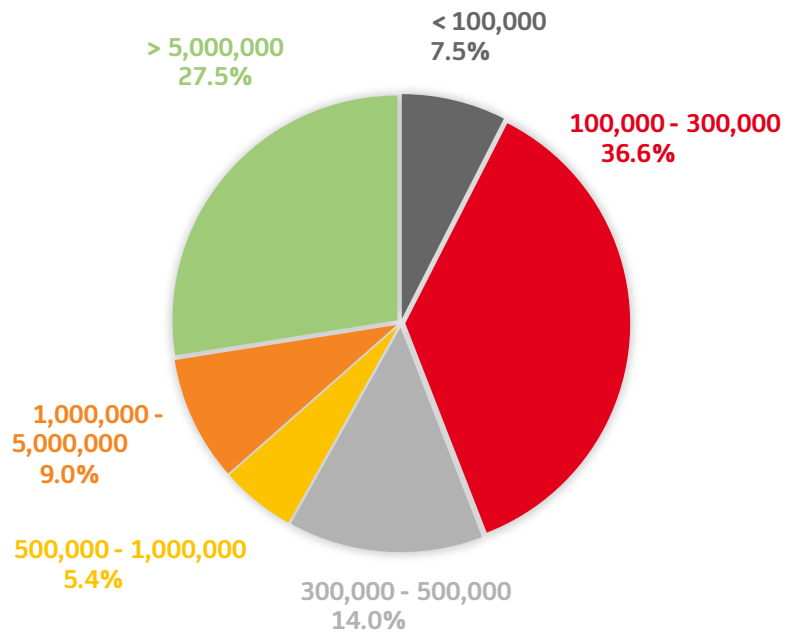
A list of covered bonds with the designation "European Covered Bonds (Premium)" can be found on the website of the Austrian Financial Market Authority (<https://www.fma.gv.at/en/banks/fma-disclosure/other-disclosure-items/>).



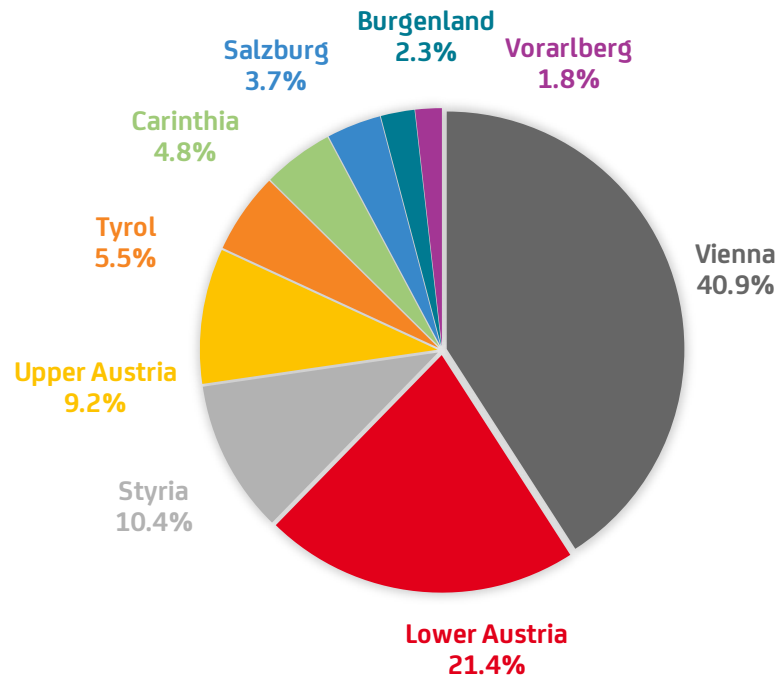
Mortgage Cover Pool

Breakdown of Mortgages by Size, Region and Type of Use^{*)}

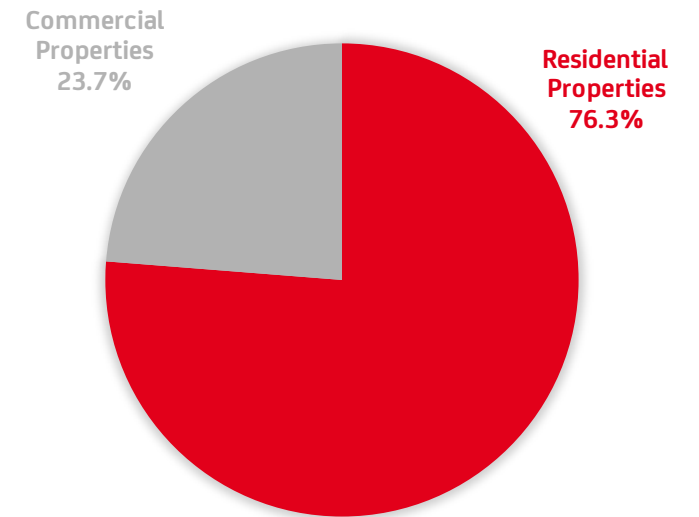
Breakdown by size of assets



Regional Breakdown Austria



Breakdown by type of use



^{*)} Without bonds

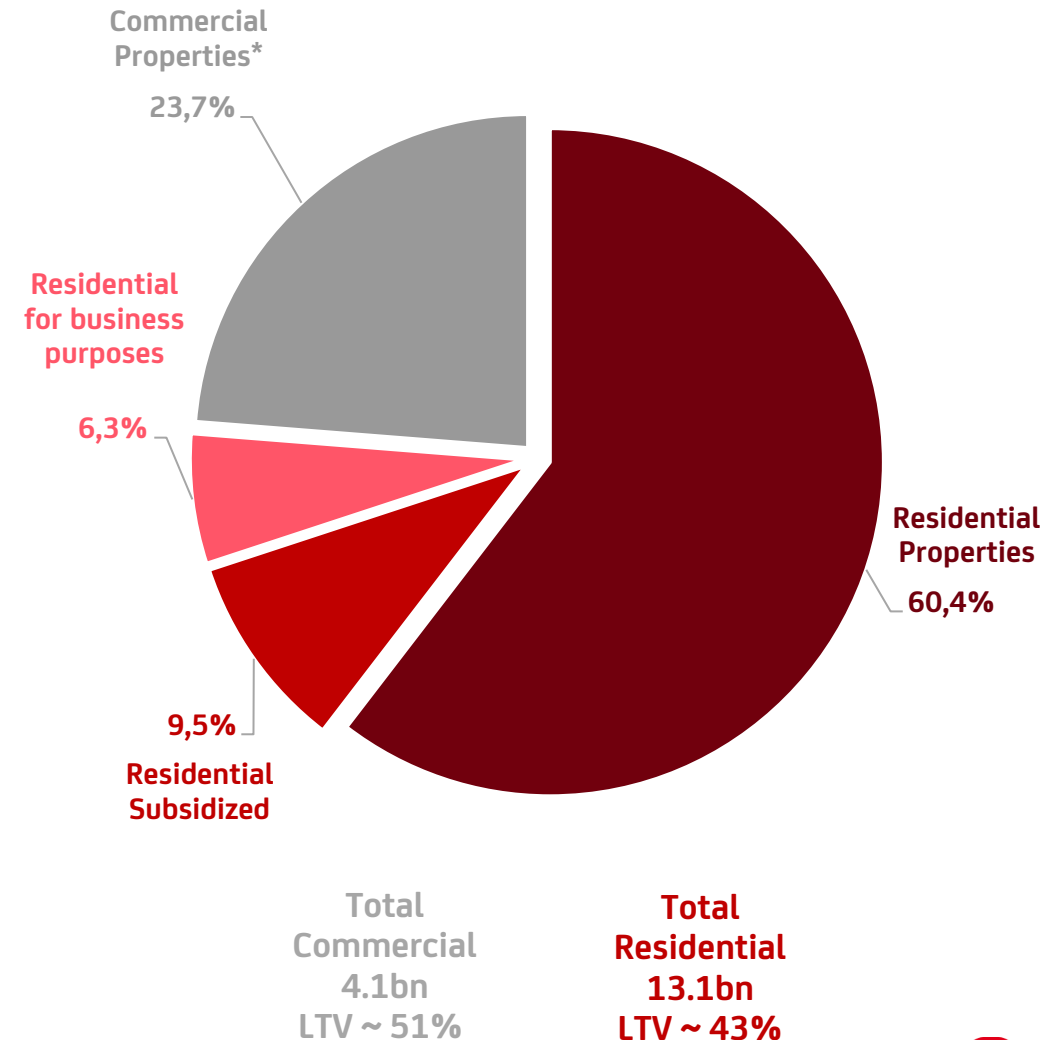


Mortgage Cover Pool

High quality assets exclusively in Austria, granular pool composition, high over collateralization and more than 75% residential

High quality Mortgage Cover Pool

- **Residential properties** represents the **majority** of the mortgage cover pool, while less than a quarter consists of Commercial properties
- Properties located **exclusively in Austria** and overall cover pool with **low average LTV** (below 50%)
- **Granular mortgage cover pool** with average loan volume of € 0.3mn and share of 10 biggest debtors below 10%
- **No defaulted loans, no foreign exchange exposure** and no derivatives in the cover pool
- Moody's Collateral Score of 7.7% (better than peers) and minimum Overcollateralization requirement consistent with Aaa rating of 5.5%
- **High Overcollateralization** in the mortgage cover pool of **more than 100%** (17.2bn Total Value of the Cover Pool versus 7.9bn Outstanding Covered Bonds), better than peers
- All assets in the cover pool comply with European legislation (CRR) resulting in **European Covered Bonds (Premium)**
- **Green buildings** account for around **20%** of the mortgage cover pool volume

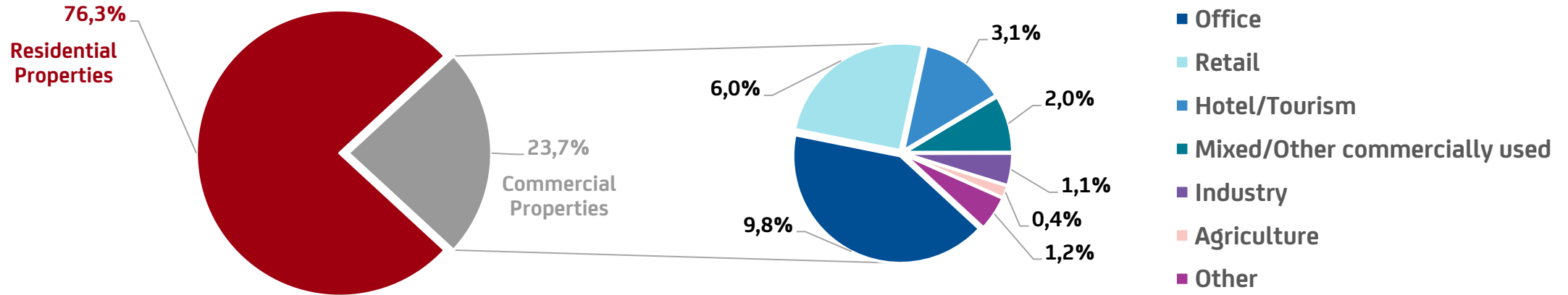


* Commercial Properties breakdown in the next slide



Mortgage Cover Pool

Diversified Commercial Real Estate objects following strict origination criteria and conservative valuation



Origination

Strict origination criteria for commercial real estate based on **cash-flow & asset-based financing** approach



Collateral

Focus on **highly collateralized projects** with **conservative valuation** and collateral haircuts



Location

Commercial real estate focused on **prime locations** in the **largest Austrian cities** (mainly Vienna, Graz and Linz)



Object type

Commercial properties comprise **mainly Office and Retail** objects with **low vacancy rates** and **stable cash-flow generation**



Mortgage Cover Pool

ESG Overview

HIGHLIGHTS

Inaugural Mortgage Green Covered Bond

500mn

2022

Eligible Green Portfolio

4.15bn

as of 1Q2023¹

+98%

Compared to 3Q2021

Second Mortgage Green Covered Bond

750mn

2023

Impact

41,800ton

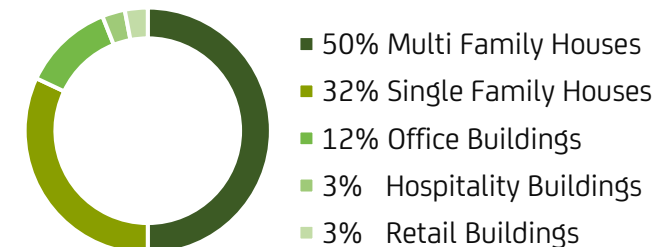
CO₂ savings annually

289,808MWh

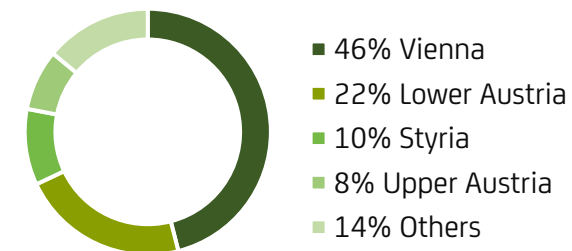
Total Energy savings per Year

BREAKDOWNS

BUILDING TYPE



REGION



- » Eligible Green Portfolio comprising **Green Buildings**
- » Eligibility criteria and assessment guided by the **UniCredit Sustainability Bond Framework** and the **ICMA Green Bond Principles**





Bank Austria aims to issue at least one Green Covered Bond per year and be a leading green bond issuer in Austria

1. See Sustainability Bond Report 2023 of UniCredit Bank Austria AG.



Mortgage Cover Pool

Eligibility criteria for green buildings¹

 Green Buildings Portfolio 	Existing buildings (built before 2021)	Energy Performance Certificate (EPC)²			
		<ul style="list-style-type: none"> Energy performance certificate with energy efficiency rating of A or better 			
		Top 15% most energy-efficient buildings² based on year of building permit			
Major renovation²		<ul style="list-style-type: none"> Major renovation meets cost optimal minimum energy performance requirements for total energy efficiency 			
		<u>Single family houses</u> <i>year of building permit by county</i>	<u>Multi family houses</u> <i>year of building permit by county</i>	<u>Office & Retail buildings</u> <i>year of building permit by county</i>	<u>Hospitality buildings</u> <i>year of building permit by county</i>
		<ul style="list-style-type: none"> Salzburg: 2012 All other counties: 2010 	<ul style="list-style-type: none"> Salzburg: 2012 Vorarlberg: 2013 Burgenland: 2017 All other regions: 2010 	<ul style="list-style-type: none"> Tyrol, Vorarlberg: 2008 Lower Austria: 2010 Salzburg: 2012 All other counties: 2009 	<ul style="list-style-type: none"> Tyrol, Vorarlberg: 2008 Lower Austria, Vienna: 2010 Salzburg: 2012 All other counties: 2009

¹ The low carbon building criteria are aligned with the EU Taxonomy (Delegated Act June 2021- technical criteria for climate change mitigation)

Criteria are valid for assets located in Austria. Status: May 2023. Assets do need to comply only with one of the criteria to proof eligibility, according to the corresponding asset category and usage.

² 83.7% based on the top 15% approach, 10.7% based on EPC class 'A' or better and 5.6% based on major renovations.

³ Building energy codes are based on guidelines issued by the Austrian Institute of Construction Engineering.

Calculations provided by

DREES & SOMMER



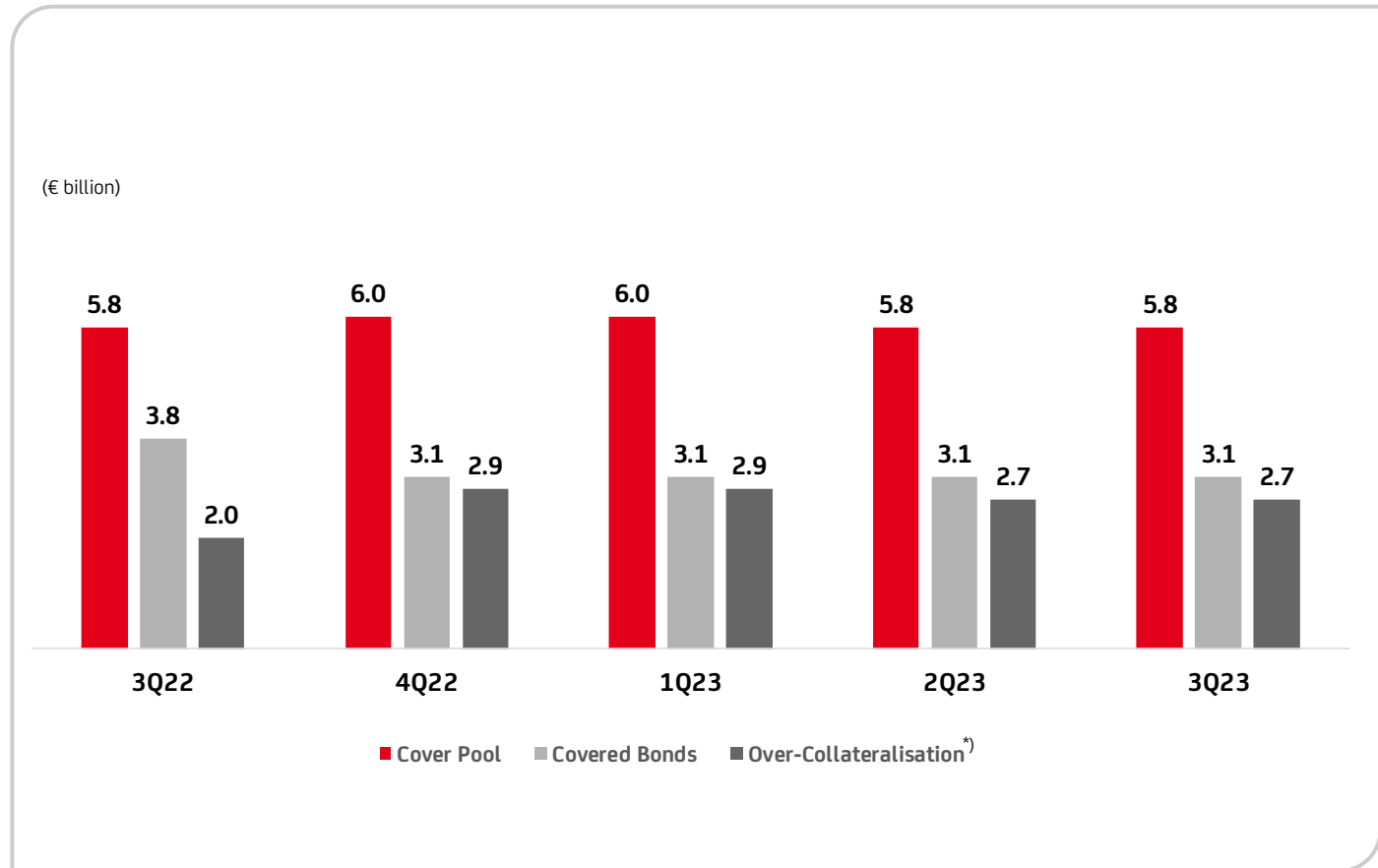
Public Sector Cover Pool

Overview and Yearly Development

Total Value of the Cover Pool (Primary Coverage)
as of 30 September 2023: **5,807 million**

- of which Loans: 5,254 million
- of which Bonds: 553 million

- Focus on **purely Austrian claims**
- **Moody's-Rating: Aaa**
- **ECBC Covered Bond Label**)**
- **No foreign currency risk (only EUR exposures in the cover pool)**



^{*)} Contains 2% legal Over-Collateralisation of the notional amount of the covered bonds, the remaining part is not bound

^{**)} <https://www.coveredbondlabel.com/issuer/60-unicredit-bank-austria-ag>



Public Sector Cover Pool

Parameters of Cover Pool and Issues

Parameters of Cover Pool

Weighted Average Life (in years including Amortization)	9.0
Contracted Weighted Average Life (in years)	14.5
Average Seasoning (in years)	6.9
Total Number of Loans	4,327
Total Number of Debtors	2,081
Total Number of Guarantors	293
Average Volume of Loans (€ million)	1.3
Stake of 10 Biggest Loans	23.8%
Stake of 10 Biggest Guarantors	31.5%
Stake of Bullet Loans	31.1%
Stake of Fixed Interest Loans	59.4%
Average Interest Rate	2.7%
Stake of Defaulted Loans	0.0%
Stake of Loans 90 Days Overdue	0.0%

Liquidity Buffer

Covered Liquidity buffer requirement (€ million)	0.0
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Parameters of Issues

Total Number	25
Average Residual Maturity (in years)	2.3

The valuation method for the cover assets is in accordance with § 6 (4) PfandBG

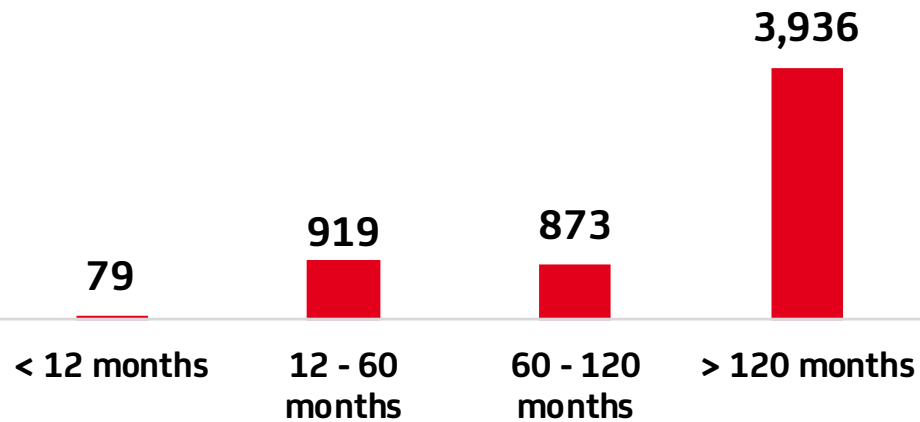


Public Sector Cover Pool

Maturity Structure of Cover Pool and Issues

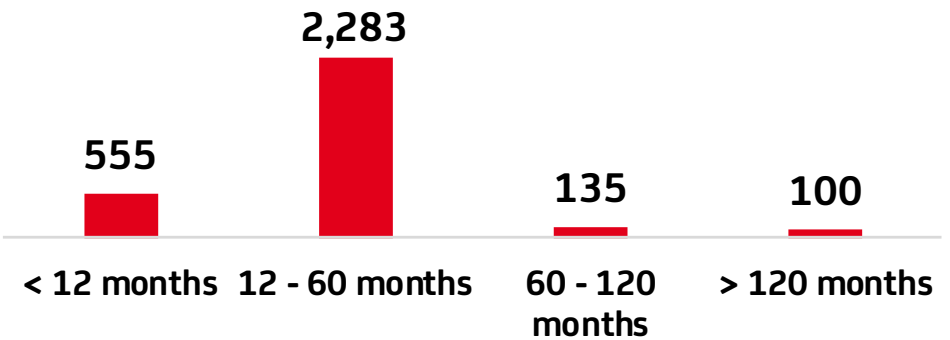
Maturity of assets in the cover pool^{*)}

(€ million)



Maturity of issued covered bonds^{**)}

(€ million)



^{*)} Without consideration of the repayment

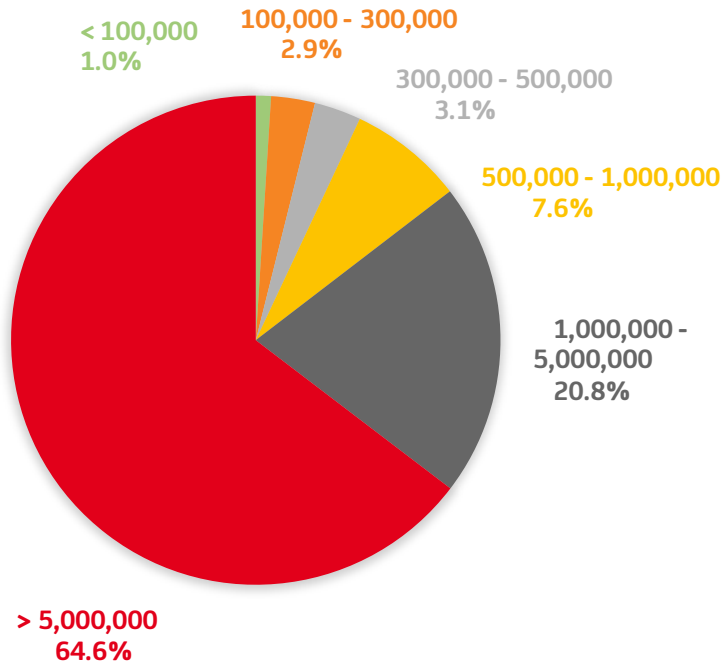
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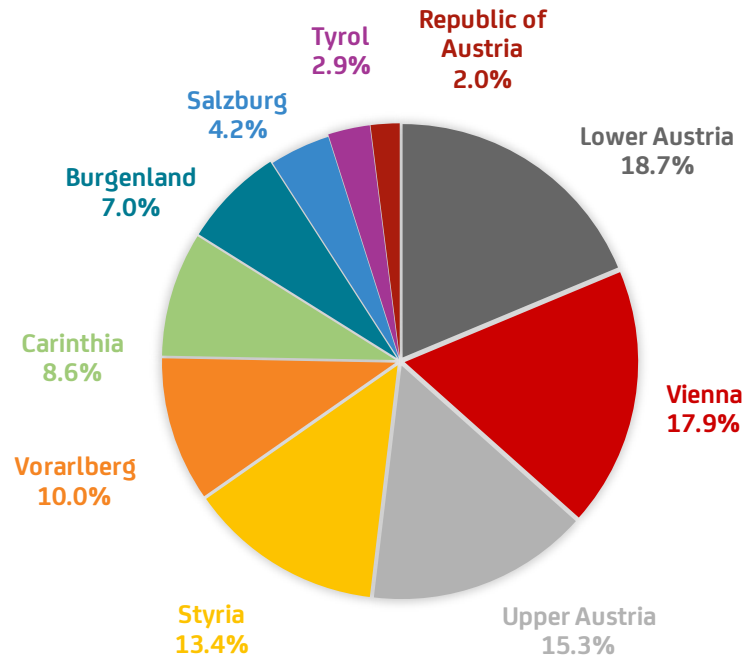
Public Sector Cover Pool

Breakdown of Assets by Size, Region and Type of Debtor / Guarantor

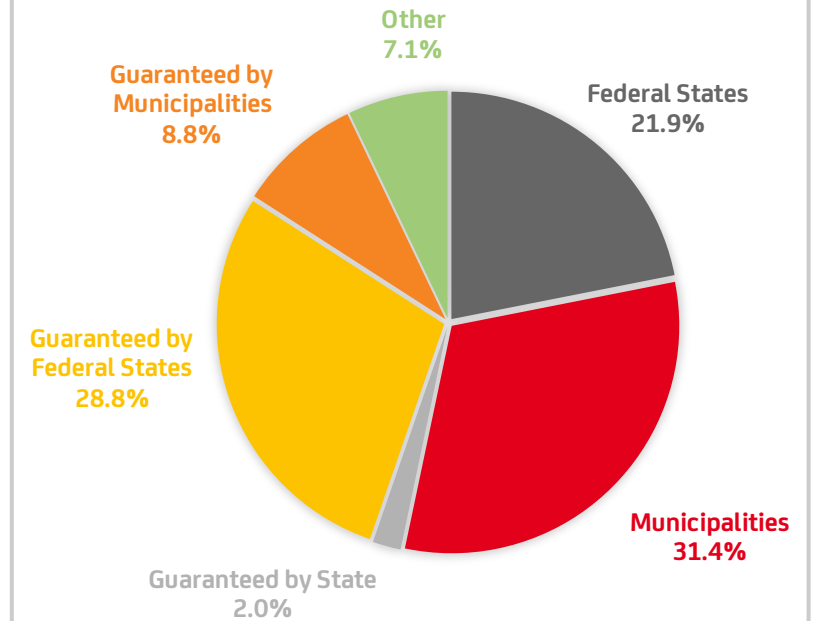
Breakdown by size of assets



Regional Breakdown Austria^{*)}



Breakdown by type of debtor/guarantor



^{*)} Considering Guarantors





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Annex

- **Liquidity & Funding Transactions**
- **Ratings Overview**
- **Real Estate Market**
- **Legal Situation – Austrian Covered Bonds**

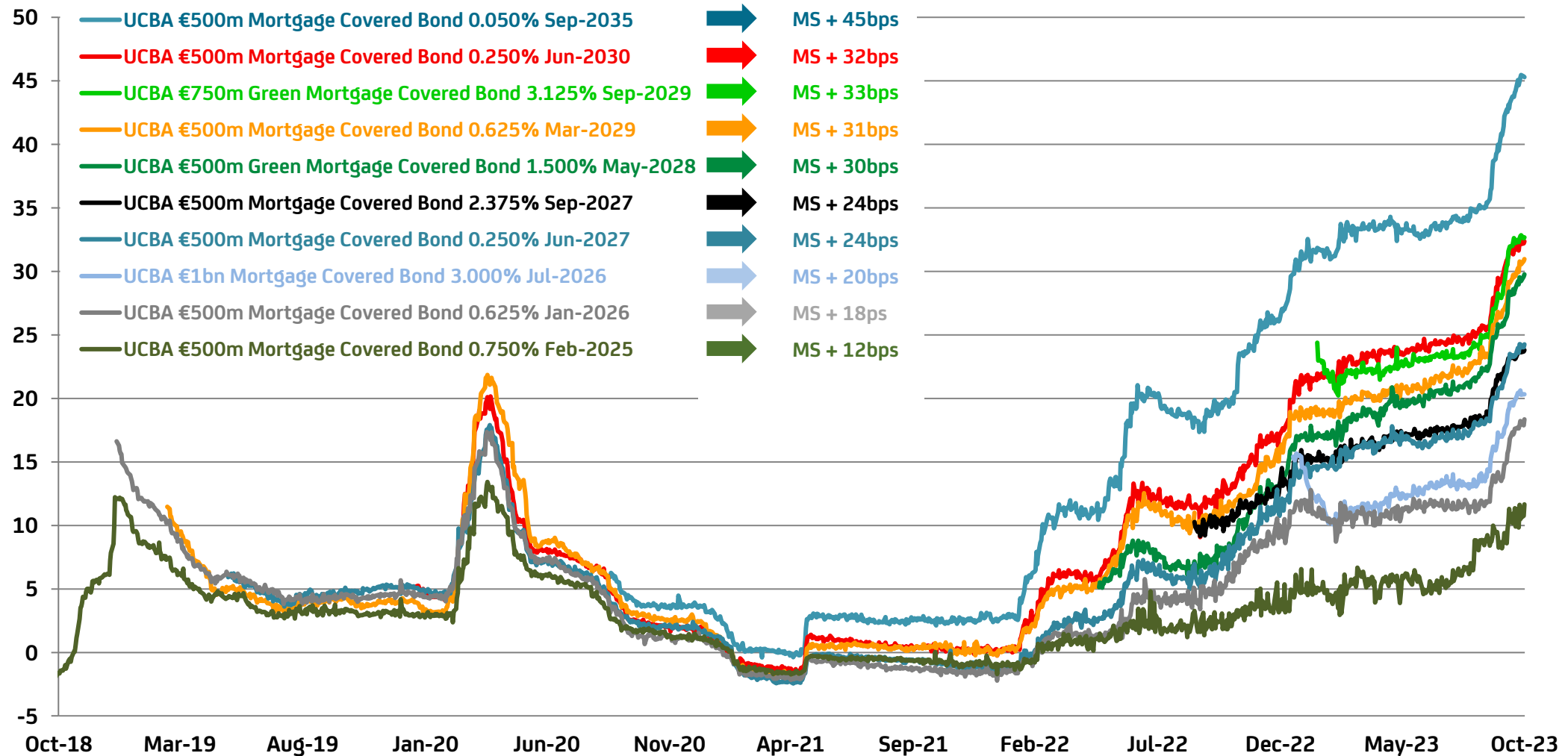


Overview of Bank Austria's outstanding Pfandbrief Benchmark Issues

Type of Pfandbrief	Interest rate	Due date (dd/mm/yyyy)	Volume	Date of issuance	Mid Swap + number of basis points
Green Mortgage Pfandbrief: AT000B049945	3.125%	21/09/2029	€ 750m	Feb. 2023	MS + 26bps
Mortgage Pfandbrief : AT000B049937	3.00%	31/07/2026	€ 1 bn	Jan. 2023	MS + 17bps
Mortgage Pfandbrief: AT000B049929	2.375%	20/09/2027	€ 500m	Sept. 2022	MS + 10bps
Green Mortgage Pfandbrief: AT000B049911	1.50%	24/05/2028	€ 500m	May 2022	MS + 6bps
Mortgage Pfandbrief: AT000B049846	0.05%	21/09/2035	€ 500m	Sept. 2020	MS + 9bps
Mortgage Pfandbrief: AT000B049796	0.25%	21/06/2030	€ 500m	Jan. 2020	MS + 6bps
Mortgage Pfandbrief: AT000B049788	0.25%	04/06/2027	€ 500m	June 2019	MS + 7bps
Mortgage Pfandbrief: AT000B049754	0.625%	20/03/2029	€ 500m	March 2019	MS + 15bps
Mortgage Pfandbrief: AT000B049739	0.625%	16/01/2026	€ 500m	Jan. 2019	MS + 18bps
Mortgage Pfandbrief: AT000B049572	0.75%	25/02/2025	€ 500m	Feb. 2015	MS + 3bps
Mortgage Pfandbrief: AT000B049465	2.375%	22/01/2024	€ 500m	Jan. 2014	MS + 35bps



UniCredit Bank Austria Covered Bond Spread Comparison



Rating Overview

	Moody's					S&P					Fitch		
	Long-Term/ Deposits	Long-Term/ Senior Unsecured	Short-Term	Subordinated ¹⁾	Counterparty Risk	Long-Term/ Deposits	Long-Term/ Senior Unsecured	Short-Term	Subordinated ¹⁾	Counterparty Risk	Long-Term	Short-Term	Subordinated ¹⁾
Bank Austria ²⁾	A2	A3 Stable	P-1	Baa3	A1 / P-1	A- / BBB+ ³⁾	BBB+ Stable	A-2	BBB-	A-	-	-	-
Public Sector Covered Bond	Aaa					-					-		
Mortgage Covered Bond	Aaa					-					-		
UniCredit S.p.A.	Baa1	Baa1 Stable	P-2	Baa3	Baa1 / P-2	BBB	BBB Stable	A-2	BB+	BBB+	BBB Stable	F2	BB+

(as of 24 November 2023)

¹⁾ Subordinated (Lower Tier II)

²⁾ Securities issued before 31 Dec. 2001 which benefit from a secondary liability by the City of Vienna (grandfathered debt) are exclusively subordinated and are also rated as shown above by Standard & Poor's, while by Moody's the corresponding subordinated securities are rated Baa1

³⁾ A- for insured deposits



- In the **3rd quarter of 2023**, approximately the same **amount** was **invested in Austrian real estate** as in the 1st two quarters of the year combined: **around € 1 bn** (vs. PY 2022 total: € 4.1 bn). Overall, the investment volume amounts a total of around € 2.1 bn since the beginning of the year. The investors are almost exclusively equity-rich domestic investors and family offices with longer-term investment strategies.
- **Office** was the **leading asset class** in the first nine months **with 47% of the investment volume**, followed by **retail with 26%, residential with 8% and logistics with 6%**. Residential - the most popular asset class in recent years - will thus play a relatively minor role in 2023.
- Currently, few international investors are active in Austria. This is only expected to change again when there is more certainty with regard to interest rate developments and financing conditions. Due to the tighter financing conditions, the pressure on yields will also continue.
- In **September 2023**, **inflation** was **6.0%**, down from 7.4% in August of that year. This was the lowest level of inflation since the start of the Ukraine war in February 2022. The decline in consumer prices is mainly due to household energy, which was previously one of the main drivers of inflation and is now having a dampening effect.
- In **September 2023**, the **ECB raised the key interest rates again** by 25 bp while continuing to pursue the goal of achieving an average inflation of around 2.0% with its interest rate policy. Currently, the projected development of average inflation excluding energy and food is around 5.1% for 2023, around 2.9% for 2024 and around 2.2% for 2025. The previous ECB interest rate increases continue to have a strong effect.
- **Dampened purchasing power, high energy prices and sharp increases in interest rates** will lead to a **slight recession in Austria in 2023**. With strongly rising real incomes and a recovery in world trade, domestic economic value added will expand again in 2024. In construction, however, the recession will continue to intensify.



- The **forecasts** for the individual asset classes are varied:
- For **office properties, new space production** and the **vacancy rate** (3.6%) are **at an all-time low**, which is due to the low production of new space in recent years. Office properties - like all other asset classes - are under price pressure. There are significant price declines for older, non-ESG-compliant existing properties and a gradual pricing in of the measures for energy upgrading. In contrast, there is **strong demand for new, taxonomy-compliant properties** in **existing office clusters**, although availability on the Vienna market is limited. In the **3rd quarter of 2023**, the **prime yield** was **4.5%** and has thus further increased. More increase is to be expected by the end of the year.
- The **retail sector** continues to struggle with hurdles such as inflation and high interest rates on loans, and the resulting decline in real purchasing power. **Space reduction** ensures a **falling vacancy rate** despite market withdrawals and insolvencies. However, there is still **strong demand for prime locations**. Store-based retail is taking market share from online retail for the first time, so the transfer of turnover from store-based to online retail has stopped, at least for present. The most **attractive locations for investors** are **retail parks** and **good stand-alone properties**. The strong increase in price awareness due to high inflation is providing a tailwind for the **discount segment**. Although growth has declined for **food retailing**, this segment is nevertheless also **on an expansion course**. At the moment, the market for retail real estate is facing a strong change. This starts with the ESG requirements, which are also becoming increasingly important for retailers, and continues with the stronger integration of entertainment offers and the (partial) reutilisation of locations. There is still investor interest for attractive products/properties that meet the new requirements of tenants and ultimately, above all, consumers. **Yields in 3Q23** were around **5.4% for retail parks, 5.65% for shopping centres and 4.4% for shopping streets**.



- **Hotel** performance is developing well in 2023, with **overnight stays increasing in the first half of 2023** compared to the previous year (+16% for Austria, +43% for Vienna) and almost **reaching the level of 2019** in Vienna. The outlook for tourism is even good enough that a full recovery of the hotel market can be assumed. In the federal capital **Vienna**, the **hotel pipeline is well stocked**. **Future completions** are predominantly hotels from the **midscale and upper midscale segment** in **locations close to the city centre**. In addition to hotels, more **serviced apartments** will be built and opened in the coming years. These have been able to establish themselves on the market since the Corona pandemic due to their flexible use of short- and long-stay and are **attracting the interest of investors** and operators due to their lean cost structure with few staff and competitive room rates and higher profit margins. ESG measures are also gaining importance in the hotel segment. From the operator's point of view, the implementation of ESG measures is worthwhile, among other things, if they are aimed at reducing costs. For investors, not only sustainable buildings but also establishments with sustainable concepts are interesting and could also bring a higher rent, among other things. The interest rate turnaround acts as a brake on investment activity in the hotel sector in 2023; compared to other asset classes, **prime yields have risen less, by around 50 bp**.
- For the Austrian **logistics** real estate market, the **positive trend** of 2022 is **continuing**, and a **new record value** was achieved in the first half of 2023 **in terms of space turnover**. Demand for suitable logistics space remains high but is currently being generated primarily in the B2B sector. As in all asset classes, the **prime yield** for logistics properties has also risen and was currently **4.6%** in the first half of 2023. Compared to other asset classes, the positive market conditions are ensuring a faster stabilisation of the logistics property market.



- The **residential market** has been hit by heavy downturns and is still under the **influence of high construction and financing costs, inflation and stricter financing conditions**, so that **many projects** are **currently on hold**.
- **Demand for real estate** is particularly **dependent on the interest rate market**, as debt financing via mortgage loans plays an important role. The **decline in residential construction** is thus a direct consequence of the significant increases in key interest rates. Growth impulses from other segments such as civil engineering or refurbishment are still counteracting this. However, the decline in new residential construction will gradually affect other parts of the construction industry, especially the secondary construction industry, and therefore lead to even greater losses in value added in 2024.
- The **tendency of rising real estate prices was interrupted** in the **4th quarter of 2022**; prices for residential real estate recorded a declining trend across Austria for the first time in a long term. In **2023, prices** across Austria **changed by around -2.3%** compared to the previous year 2022. Housing costs have increased by a total of around 23% since 2020.
- Further declines in residential property prices are expected in the next few quarters. But **properties** will **remain more expensive than before the pandemic**. However, the market is divided into two segments: **Newly built flats** have also become **more expensive** recently, which is due to higher construction costs as well as increased energy requirements. **Prices for second-hand flats**, on the other hand, **are falling**, as high investment costs are to be expected for the future. However, it should be noted that **second-hand flats in demanded, well-located areas** are also **stable in price**.
- Stricter lending guidelines for loans and high interest rates are leading to **stronger demand for rental flats**, **rental yields** are **expected to rise**. **High-quality, affordable housing** is in **high demand**, especially **in urban areas**. Due to the upcoming housing shortage caused by the **surplus demand**, **rental housing properties** are an **attractive investment opportunity** for investors.



Austrian Real Estate Market

Prices for residential real estate

- The trend of increasing prices for residential real estate was interrupted in the Q4 2022, when price increases declined for the first time after a long period. The high interest rate level and stricter lending guidelines will probably lead to a further flattening of the prices.
- The **prices for residential real estate declined** slightly in **2023**, compared to the previous year in Austria (excluding Vienna) at around -2.3% p.a., in Vienna even at around -3.1%.
- In the next few years, construction activity will decrease, however, the population will continue to grow and the number of one-person-households will increase, which will intensify the pressure on the housing market overall.

Source: OeNB, Technical University Vienna, Department für Raumplanung



Austrian Real Estate Market Investment Outlook

- Due to the stricter financing conditions, the **pressure on yields** will also **continue**. In the first three quarters of 2023, yields in Austria rose by another 50 basis points on average, and further increases are expected by the end of the year.
- The **next ECB interest rate decision dates** were/are **26 October 2023 and 14 December 2023**. According to **forecasts**, there should be **no further increases in the key interest rates in 2023**. However, the ECB will decide in the short-term depending on data. Further yield adjustments will also be necessary to widen the yield gap to the 10-year government bond and to compensate for the higher investment risk in real estate investment.
- So far, hardly any distress sales or restructurings have been observed on the market. However, it can be assumed that such scenarios will become more frequent in the short and medium term due to expiring financing and thus – across all asset classes – more supply will come onto the market.
- ESG will play a significant role in real estate decisions in all asset classes in the future, and many investors are willing to pay a price premium for ESG-compliant properties.

Top yields for real estate investments vs. yields for Austrian government bonds

- | | |
|--|-------|
| • Office top yield in 3Q23 | 4.50% |
| • Yield of Austrian Government Bonds (10Y) | 3.52% |
| • Spread | 0.98% |



Austrian Covered Bond Law

Mortgage and Public Sector Covered Bonds

- On 8 July 2022, the **new Covered Bond Law** (*Pfandbriefgesetz - PfandBG*) entered into force in Austria. The Covered Bond Law is based on an EU Directive, which harmonized the rules for Covered Bonds within the EU
- The Covered Bond Law offers investors in Mortgage and Public Covered Bonds a **safety net** by i.a. the following provisions:
 - The issuer has to maintain an **overcollateralization** of at least 2 % of the nominal amount of the Covered Bonds issued at all times
 - The credit institution must at any time maintain a **liquidity buffer**, which covers the net liquidity outflows of the respective Covered Bond Program over the next 180 days
 - Each credit institution, which issues covered bonds, is obligated to appoint an internal or external **Trustee**
 - In case of insolvency of the issuer, the **assets in the Cover Pool are being separated** from the rest of the assets and the holders of Public Covered Bonds or Mortgage Covered Bonds have a preferential claim on the cover assets. A special cover pool administrator will then be appointed to manage the cover pools
- Covered Bonds are declared as **gilt-edged** under Austrian Civil Law



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