

Focus real estate: Vienna — epicenter of the European real estate correction?

Across Europe, residential property prices are in a downward spiral. Recently, there was a great deal of astonishment when, in the previous month, news circulated that Vienna was the unfortunate front-runner in this respect. However, upon further investigation, there is reason to doubt this hypothesis. After all, the price correction of 12% in asking prices on the Viennese residential market follows years when they posted noticeably more pronounced increases than actual transaction prices.



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Vienna: Asking prices are not equal to transaction prices

In May, news articles were released that put **Vienna into focus as the epicenter of the European real estate market correction**. According to a cited ranking, **apartments in Vienna** have fallen in price by **12%** since the peak recorded in the previous year — more than in any other of the European cities surveyed. What is to be made of this? **In principle, a distinction must be made between asking and transaction prices.** While the former initially reflect the seller's wishful thinking, the latter represents the actual selling price achieved. Indeed, according to data from immopreise.at (the data source which was referred to in the ranking), (unweighted) average advertised prices in all Viennese districts have declined by the aforementioned 12% since the price peak recorded in the second quarter of the previous year. However, this does not necessarily imply that transaction prices will decrease in a similar fashion. **Since the beginning of 2013, asking prices have continued to outpace actual transaction prices.** Desire and reality were thus increasingly diverging (at the peak by 12%, relative to the base value Q1 2013). Due to rising rates and tightened regulation, offer prices in Vienna are now being brought back to reality. **It is therefore to be expected that the correction in transaction prices will be less pronounced than suggested when looking at asking prices.** In this context, it should be mentioned that the ranking of European cities utilized both asking and transaction prices.

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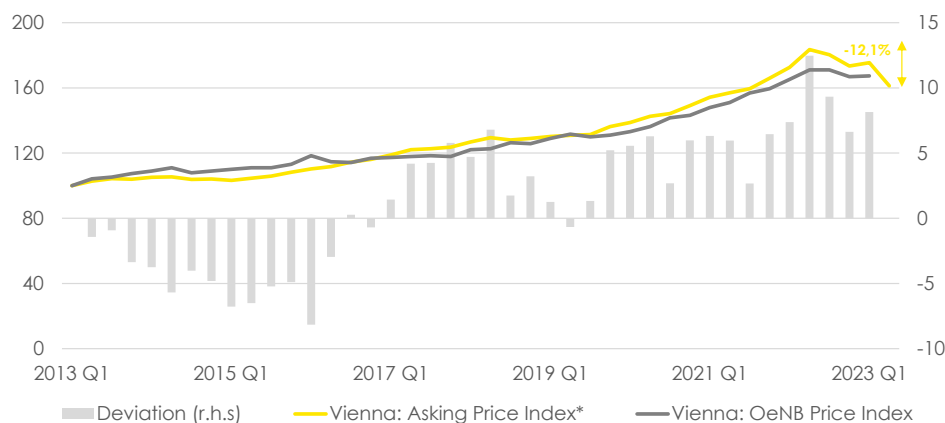
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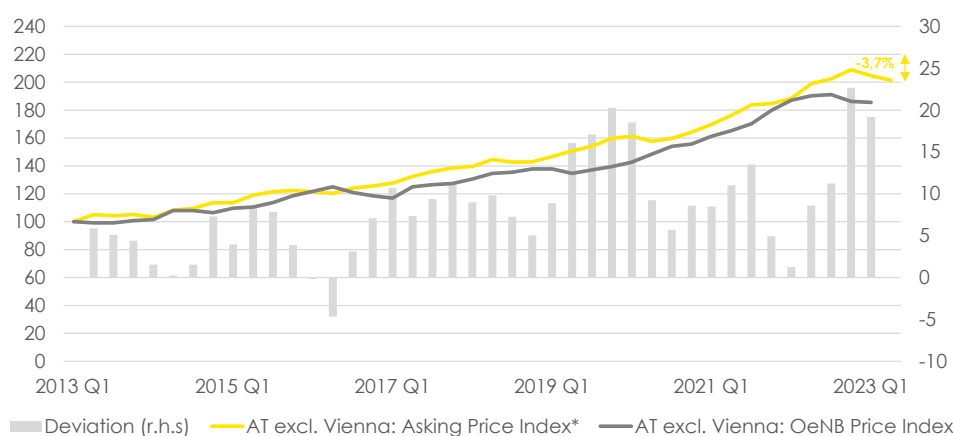


*The asking price index was calculated utilizing asking prices from *immopreise.at* using 2013 Q1 as the base value. The same point in time was used as the base value for OeNB's price index (transaction prices).

Source: *immopreise.at*, OeNB, RBI/Raiffeisen Research

Austrian federal states: So far only a moderate correction of asking prices

Furthermore, a broader look at Austria excluding Vienna shows that **"Vienna is different"**. Although asking prices of single-family homes (these represent the more relevant category outside of Vienna) in the rest of Austria (AT excl. Vienna) have outpaced transaction prices by an even greater margin than those of Viennese apartments in recent years, **at times deviating by more than 20%**, prospective sellers of single-family homes have only **decreased their asking prices by a comparatively moderate 4.5% since the peak**; using quarterly averages, the figure only amounts to 3.7%. How does that fit into the picture?



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Source: *immopreise.at*, OeNB, Statistik Austria, RBI/Raiffeisen Research

Different ownership structure explains different asking price developments

One possible explanation for this quite heterogeneous development is the difference in ownership structure in the respective markets. In Vienna, the ownership rate amounted to **19.3%** in 2021. This means that not even one in five Viennese households lives in their own home. **In comparison, the ownership rate in the other federal states (population-weighted) was 56%.** Clearly, there are differences in the ownership structure between the capital and the rest of Austria, and this is of significant importance in this context. After all, scientific studies (e.g. Genesove and Mayer, *The Quarterly Journal of Economics*, November 2001) have shown that **small investors and people who live in their own homes feature a significantly higher loss aversion when it comes to selling residential real estate.** It is therefore quite likely that the differences in asking price developments between Vienna (significant decline) and the

other provinces (comparatively moderate decline) are not so much caused by past price dynamics (which were more dynamic in AT excl. Vienna), but rather by differences in the ownership structure. Of course, this also has implications for future price developments in the compared market segments. The literature not only shows that small investors tend to adjust their price expectations slower but also that their **increased loss aversion prevents them from selling properties at prices that would result in significant losses being realized**. Among large-scale investors, who typically make more frequent shifts in their investment portfolios, the willingness to realize losses in the short term is higher.

Against this backdrop, at least, it should not come as a surprise if the **price corrections in Vienna turn out more pronounced than in the rest of Austria**. However, this does not necessarily mean that Vienna will also become the epicenter of the European property price correction.

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Creation time of this publication: 07/06/2023 10:11 A.M. (CEST);

First Dissemination of this publication: 07/06/2023 10:11 A.M. (CEST)

Company Register Number: FN 122119m at the Commercial Court of Vienna VAT Identification Number: UID ATU 57531200 Austrian Data Processing Register: Data processing register number (DVR): 40027715 W.I.F.T.-Code: RZBA AT WW

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