Real Estate House View
Switzerland

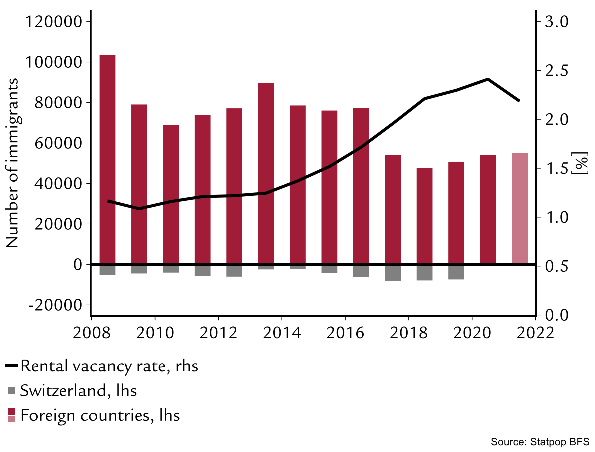
SwissLife
Asset Managers

First half of 2022

Key takeaways

- **Interest rate environment also supporting real estate investments in 2022**: Real interest rates are unlikely to emerge from negative territory this year. Interest in real estate will therefore not run dry, and yields will decrease alongside a simultaneous rise in the volume of transactions.
- **Residential vacancies fell in 2021 for the first time** in 12 years due to increased immigration from abroad and fewer Swiss nationals emigrating as a result of the ongoing pandemic. This trend is set to continue in 2022, with the uncertainties in the Eurozone and higher real wages strengthening the incentive to move to or remain in Switzerland.
- **Quality of workplaces gaining importance:** Office occupiers will have higher expectations in the future. Surveys predict that in the long term an average of 70% of working time will continue to be spent at the office. However, the office properties sought after will have to offer a little more extra than comparables.
- **Prime retail property segment continuing to stand out:** The winner of the prevailing uncertainties on the retail property market appears to be the top 10% segment. The trend of increasing rents has continued here since the start of the pandemic, while the lower segments have stagnated or declined slightly.
- **Stricter regulation of residential construction reaches German-speaking part:** Acceptance of a referendum in the Canton Basel-Stadt entails tighter approval criteria for refurbishments with rent increases.

Chart in focus



The residential sector in Switzerland had a surprise in store in 2021: the 12-year rise in the vacancy rate came to an end. On 1 June 2021, 9.5% fewer apartments were empty. One driver was the increased net immigration from abroad. However, the main reason was the smaller number of Swiss nationals who left the country in 2020. It is highly likely that the uncertainties elsewhere and particularly in the Eurozone due to the pandemic were responsible for this. These are set to continue in 2022 – also in view of the rising inflation and contraction of real wages. The rental sector in the major centres is poised to benefit from this.

Two years after the initial reports about the emergence of COVID-19, the marks left by the pandemic in the Swiss economy are becoming more apparent: gross value added in gastronomy remained 17% below its pre-crisis level (Q4 2019) in Q3 2021. However, the pharmaceutical industry and the retail sector grew by around 14% and 6% respectively over the same period. The flexible labour market has led to a reorientation of those working in the sectors particularly affected by the pandemic in recent months. The shortage of skilled workers in these sectors will accordingly continue to worsen. In view of the strong economic recovery of GDP in recent quarters, the tailwind from the backlog in domestic demand is limited. The short-term growth prospects are therefore dependent on an easing of the supply chain bottlenecks and hence industrial activity in Switzerland's two largest export markets, Germany and the United States.

No ghost towns

Although current relocation data and statistics on internal migration suggest a slight increase in the momentum of outward migration from the cities (Fig. 1), there is definitely no prospect of any ghost towns emerging, as a nationwide exodus from the cities appears just as unlikely as a collapse in the aforementioned immigration. The fact that the cities also continue to remain attractive for investors can be deduced from the falling yields of the major centres: prime yields forfeited between five and ten basis points between the first and second quarters of 2021 and this trend will continue in 2022. This is supplemented by the marked price rises on the market for owner-occupied housing (+6.3% for condominiums and 6.8% for single-family homes) that are further boosting the incentive for private households to rent.

Office as a service

The pandemic wave over the winter and renewed instructions to work from home will make little change to the long-term trend: a majority of companies and their staff in the services sector prefer working on site. Surveys conducted during the autumn predict that 70% of work performance will continue to take place at the office. One to two days spent working from home are therefore to be anticipated. However, owing to the long-term nature of commercial space leases, it will take some time before these effects become visible. Nevertheless, a certain degree of caution can at present be gleaned from the nationwide supply figure, which at 6.9% was slightly above the average of the last two years in the third quarter of 2021. Furthermore, prime yields in Zurich and Geneva fell slightly and were well below CHF 900/m^2 in the second quarter of 2021 owing to the ongoing uncertainty. This once again reflects the call for letting and asset management to offer customised solutions in terms of properties and fittings. Or to use the jargon of IT service providers and companies, which may well soon comprise the largest group of tenants: "office as a service".

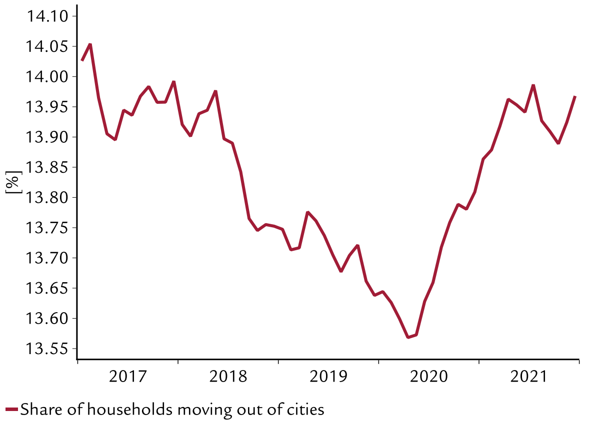
Prime retail still in demand

Retail property rents are known to belong not only to the most volatile but also to those with the largest price spread. This also appears to have remained the case during the pandemic: the upper segment (90% quantile) is continuing to gain momentum (Fig. 3). This speaks in favour of retail properties at prime locations in major centres, where high footfalls continue to beckon with location bonuses. However, a decline in rents is to be expected at these more discerning locations in the next year, as the shift from the bricks-and-mortar retail business to e-commerce is set to continue. Increased demand for logistics space can therefore theoretically be expected.

Logistics properties largely owned by operators

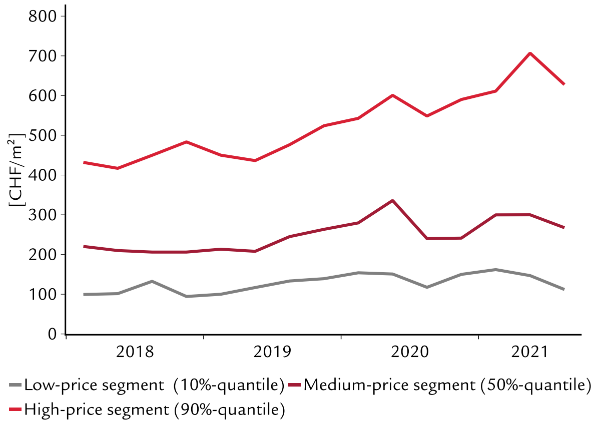
In contrast to its neighbours, Switzerland is not only smaller but also comparatively well covered by the public service mandate. Alongside the logistics and transport infrastructures of Swiss Post and SBB Cargo which have evolved over time, there remains just a small number of logistics enterprises which largely operate with their own warehouses and buildings. It remains to be seen whether the continuous growth in delivery volumes and the associated demand for space of e-commerce – according to a CBRE estimate 80 000 m^2 p.a. with revenue growth to CHF 19.3 bn by 2025 – suddenly trigger a call for rentable space. The market currently remains a niche dominated by owner-run properties.

Figure 1: Since the start of the pandemic, more households move out of the cities



Source: Swiss Post, BFS *without inner-city moving

Figure 2: Prime segment of retail rents still standing out in 2021



Source: Wüest Partner

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