Property Market Switzerland

2010 | 3

Wüest & Partner

Swiss economy

Economic growth stronger than expected ...

The Swiss economy has been on a recovery path since the second half of 2009 and expectations for the current year are more optimistic than previously estimated. The Swiss State Secretariat for Economic Affairs (SECO) recently revised its GDP growth forecast for 2010 upward from 1.4% to 1.8%. Nonetheless, some considerable risks remain.

... however some risks remain

The strength of the Swiss Franc, particularly in relation to the Euro - the currency of its main trading partners - has emerged as a major cause for concern. In addition, the uncertain economic situation in major European countries poses a threat to Switzerland's recent export growth.

Improved labour market conditions

Labour market conditions have improved in line with the economic recovery. Since its peak at the beginning of 2010, the unemployment rate has declined for four consecutive months and currently stands at 3.7%.

Continuation of expansionary monetary policy

Despite a slight rise in inflation in comparison with the same period last year, the Swiss National Bank (SNB) considers the risks to price stability to be low in the short-term and announced a continuation of its expansionary monetary policy in its latest June statement. Consequently, the target range for interest rates has remained low.

Consumer sentiment turns positive

Consumer sentiment continues to rise as expectations amongst Swiss households regarding the general economic situation, in particular the employment outlook, have become increasingly optimistic. The index increased for the fourth consecutive period in spring 2010, and at +14 reached a level that was last recorded before the onset of the recession.

Switzerland: Key indicators and change since last year

Population (2009)	7,783,000	↗
GDP growth, real (2009)	–1.5%	↘
GDP per capita (CHF, current prices, 2008)	70,600	↗
Unemployment rate (06/2010)	3.7%	↗
Total employment (FTE, 2010, Q1)	3,315,400	↘
Share of service employment (FTE, 2010, Q1)	71.1%	↗
Disposable household income (CHF p.a., 2007*)	75,300	↗
Monthly inflation (06/2010, year-on-year)	0.5%	↗
New variable mortgage rate (05/2010)	2.73%	↘
10-year confederation bond yield (06/2010)	1.51%	↘
Libor CHF 3 months (06/2010)	0.11%	↘
5-year CHF SWAP rate (20/07/2010)	1.36%	↘
10-year CHF SWAP rate (20/07/2010)	2.06%	↘
Consumer sentiment index (2010, Q1)	14	↗
Change in retail turnover, real (05/2010)	3.7%	↗

Arrows indicate the year-on-year change (throughout the whole document; quarter-on-quarter change applies to prime rents and yields).
Prime yield: Net initial yield for prime property.
*most recent available data.
Sources: BFS, SECO, IMF, SNB, UBS

Office market

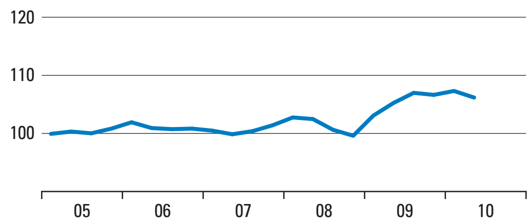
Asking price trend has started to ease

As was expected, the recent price hikes in the office market, observed despite unfavourable demand indicators, have proved to be unsustainable. In the second quarter of 2010, the asking price index started to reflect prevailing market conditions, in particular the rising unemployment recorded at the beginning of the year as well as increases in office space supply. Asking prices in this segment declined by 1% quarter-on-quarter, however the overall price trend remained positive in a year-on-year comparison.

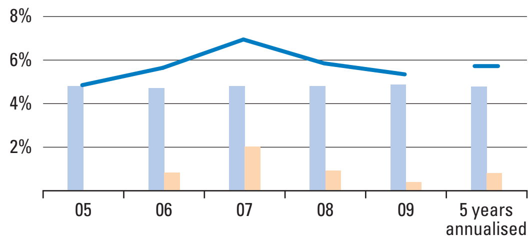
Rising supply is likely to push up vacancy rates

Due to restructuring efforts, large existing office buildings have recently entered the Zurich office market, particularly in Kreis 5 and around the airport. Given that new office space is about to be completed, the vacancy rate is likely to rise over the course of 2010. A similar picture emerges in Geneva, where in addition to major new office developments (e.g. in Vernier and Prailles/Acacias) consolidation activities have led to vacancies in and around the CBD area. Relative to 2006 and 2007 the level of international investment in offices remains low, in particular in the Zurich market.

Asking price index (Q1 2005 = 100)



Total return (income return; capital growth)



	Office Stock (sq m GFA, 2008)	Planning appl. (m CHF, 2010 Q2)	Vacancy rate (2009)	Supply rate (2010 Q2)	Asking prices (Median, 2010 Q2)	Prime rents (2010 Q2)	Prime yields (2010 Q2)
Zurich	8,835,827 →	115.8 ↘	2.3% ↘	7.7% ↗	300 →	950 ↗	3.8% →
Berne	2,025,229 →	281.1 ↗	1.5% ↘	6.2% ↗	240 ↗	400 →	4.1% →
Basel	4,209,858 →	13.0 ↗	1.6% ↘	4.5% →	230 →	400 ↗	4.3% →
Lausanne	2,075,101 →	6.0 ↘	— —	5.7% ↗	270 ↗	450 ↗	4.2% →
Geneva	3,316,705 →	29.5 →	2.1% →	6.5% ↘	450 ↗	950 ↗	3.9% →
Switzerland	50,143,170 ↗	2,417.1 ↗	— —	7.5% ↗	200 ↗	— —	— —

Retail market

Volatile rental development

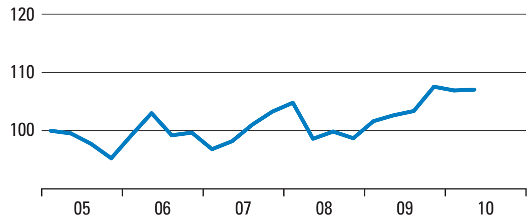
Switzerland's retail market remains exposed to a high level of volatility. Whilst asking prices soared towards the end of 2009, in the last few months demand for retail space has been curbed by the underlying economic situation. Consequently, during the first half of 2010 the national rental price index for retail space managed to only move sideways. On a regional level price corrections have occurred, particularly in the retail property markets of Berne and Basel, cities where positive price development has been relatively strong in recent years.

Downward correction in rents are on the horizon …

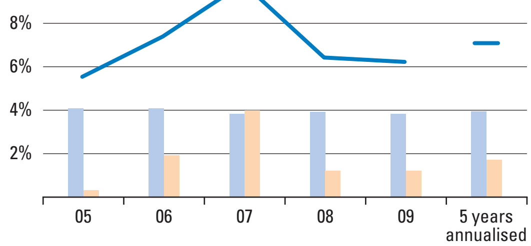
… but cushioned by positive consumer sentiment

Due to structural changes and ongoing competition in the retail segment, the threat of a further downward correction in the order of around 1% remains. Nevertheless, the recent positive development in consumer sentiment provides hope that private consumption will continue to support retail trade and with it demand for floorspace in the retail property sector.

Asking price index (Q1 2005 = 100)



Total return (income return; capital growth)



	Retail Stock (sq m GFA, 2008)	Planning appl. (m CHF, 2010 Q2)	Vacancy rate (2009)	Supply rate (2010 Q2)	Asking prices (Median, 2010 Q2)	Prime rents (2010 Q2)	Prime yields (2010 Q2)
Zurich	1,835,741 →	15.0 ↗	0.3% →	1.3% →	380 ↗	7,500 ↗	3.8% →
Berne	943,309 →	0.0 →	0.3% →	1.5% →	410 ↗	4,200 →	4.0% →
Basel	870,695 ↗	2.8 ↗	3.1% ↘	2.6% ↘	250 ↘	2,800 →	4.2% →
Lausanne	459,169 →	1.6 ↘	— —	3.1% ↘	280 ↗	2,200 →	4.2% →
Geneva	625,972 →	0.0 ↘	2.2% →	3.8% ↗	410 ↗	6,200 →	3.9% →
Switzerland	31,821,676 ↗	685.1 ↗	— —	1.3% →	240 →	— —	— —

Residential market

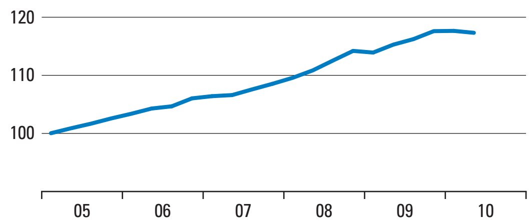
Rental growth has come to an end, but a trend reversal is unlikely

There are signs that a decade of positive price development in the rental-housing sector is now coming to an end after asking rents stagnated at a national level in the second quarter of 2010. However, a general trend reversal is unlikely in this market segment. Firstly, due to the nature of the Swiss residential market rental levels to some extent move in line with interest rates. As such the inevitable future rise in interest rates will lead to an increase in market rents. Secondly, once interest rates start to rise, rental accommodation is likely to emerge as the preferred housing option above owner-occupied apartments as the latter become less affordable to prospective homeowners.

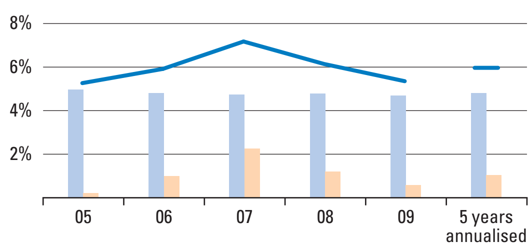
Investment in residential property remains intact

There is strong demand for multi-family houses as an investment alternative, both amongst private and institutional investors - a trend that is largely driven by the low interest rate levels and uncertainties regarding the future development of inflation. Even older properties in peripheral locations are currently sought after, as indicated by the high and rising levels of observed transaction prices.

Asking price index (Q1 2005 = 100)



Total return (income return; capital growth)



	Number of Apartm. (2008)	Planning appl. (m CHF, 2010 Q2)	Vacancy rate (2009)	Supply rate (2010 Q2)	Asking prices (Median, 2010 Q2)	Prime rents (2010 Q2)	Prime yields (2010 Q2)
Zurich	173,100 →	769.4 →	0.1% →	3.2% ↗	280 →	550 →	3.6% ↘
Berne	58,100 ↗	121.7 ↘	0.8% →	6.3% →	220 →	400 ↘	3.7% ↘
Basel	76,500 →	111.0 ↗	1.1% →	6.5% ↘	210 →	340 ↘	3.9% ↘
Lausanne	58,600 →	250.7 →	0.1% →	2.8% →	250 ↗	460 →	3.9% ↘
Geneva	81,500 →	87.4 ↘	0.2% →	1.4% →	330 ↗	590 →	3.8% ↘
Switzerland	2,039,000 ↗	15,720.4 →	1.3% →	5.3% →	190 →	— —	— —

Single-family houses

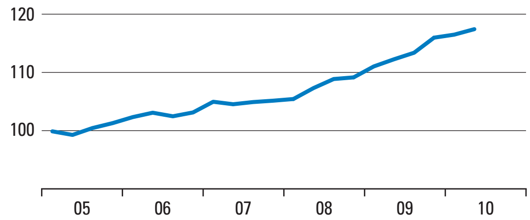
Overall house prices still on an upward trend

The overall price trend in Switzerland's single-family housing sector remained positive during the second quarter of 2010. Furthermore, the current low interest rate level is likely to help sustain demand for residential property, so that prices look set to increase further. However, given the moderate overall development, the risk of a price bubble remains low in this segment.

Transaction prices move sideways in tourist regions

An upward trend in asking prices for single-family houses can still be seen in Saanen/Gstaad and St. Moritz, while transaction prices in most tourist regions now tend to move sideways at consistently high levels.

Asking price index (Q1 2005 = 100)



	Number of houses (2008)	Market value (m CHF, 2010 Q2)	Planning appl. (m CHF, 2010 Q2)	Vacancy rate (2009)	Supply rate (2010 Q2)	Asking prices (Median, 2010 Q2)	Transaction prices (av. object, 2010 Q2)
Major cities							
Zurich	8,730 →	14,060 →	17.3 →	0.0% →	1.1% →	8,300 ↗	13,350 ↗
Berne	3,850 →	3,690 →	1.3 ↘	0.1% →	1.7% ↘	5,410 ↗	7,940 →
Basel	5,800 →	6,750 →	6.6 ↗	0.1% →	1.0% ↘	5,690 →	9,660 →
Lausanne	2,100 ↗	2,360 →	36.2 ↗	0.0% →	5.4% ↘	6,110 →	9,480 →
Geneva	770 ↗	1,530 →	1.0 ↗	0.3% →	7.3% ↘	9,320 →	16,330 ↗
Tourist destinations							
Saanen/Gstaad	1,010 →	1,280 →	15.7 →	0.0% →	1.5% →	10,210 ↗	10,500 →
St. Moritz	270 →	350 →	19.0 ↗	0.0% →	0.4% ↘	10'390 ↗	10,780 ↘
Davos	780 ↗	880 →	5.0 ↘	0.1% →	2.9% →	8,620 →	9,400 →
Ascona	720 →	1,040 →	0.0 ↘	1.0% →	6.8% →	10,980 →	11,940 ↘
Bagnes/Verbier	2,390 ↗	3,180 ↘	57.4 ↗	0.0% →	3.2% ↗	9,930 ↘	11,020 ↘
Zermatt	250 ↗	240 ↘	3.5 ↘	0.0% →	6.8% ↘	6,800 ↘	8,150 ↘
Switzerland	915,700 ↗	701,240 →	7,306.0 →	0.5% →	4.1% →	5,000 →	5,920 ↗

Owner-occupied apartments

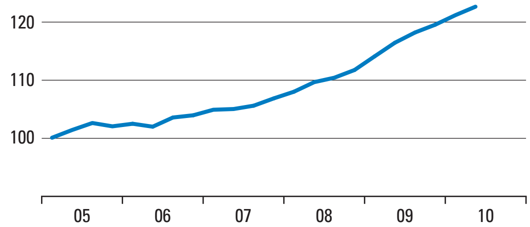
Rising concerns about a property bubble in Switzerland

Concerns over the possible build-up of a property bubble have intensified in recent months, as buyers are attracted to the market by historically low interest rates and relaxed lending conditions. Indeed, the national asking price index is still increasing. Figures for the second quarter of 2010 indicate a 5% growth in asking prices year-on-year.

Strong demand in Geneva and Zurich

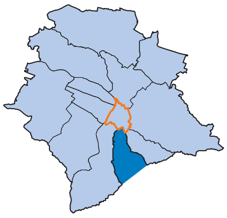
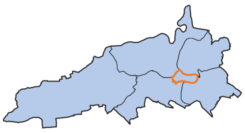
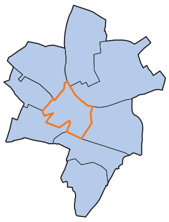
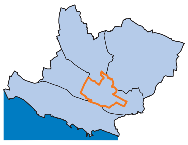
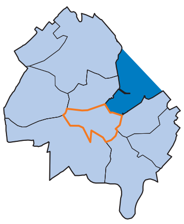
Demand is particularly strong in the Zurich and Geneva property markets, as reflected in a recorded 9% and 6% price increase respectively.

Asking price index (Q1 2005 = 100)



	Number of houses (2008)	Market value (m CHF, 2010 Q2)	Planning appl. (m CHF, 2010 Q2)	Vacancy rate (2009)	Supply rate (2010 Q2)	Asking prices (Median, 2010 Q2)	Transaction prices (av. object, 2010 Q2)
Major cities							
Zurich	23,320 →	19,770 →	769.4 →	0.0% →	1.6% ↘	8,630 ↗	9,290 ↗
Berne	11,310 →	6,360 →	121.7 ↘	0.0% →	3.2% ↘	5,690 ↗	6,130 →
Basel	14,600 →	8,820 →	111.0 ↗	0.1% →	2.2% ↘	6,110 ↗	6,640 →
Lausanne	10,800 →	7,350 →	250.7 →	0.0% →	3.4% ↘	7,310 ↗	7,480 ↗
Geneva	20,800 →	24,700 →	87.4 ↘	0.1% →	3.3% →	11,360 ↗	13,030 ↗
Tourist destinations							
Saanen/Gstaad	3,200 ↗	3,270 →	44.8 ↘	0.8% →	1.1% →	11,700 ↗	11,270 ↗
St. Moritz	3,300 ↗	3,890 →	25.4 ↗	0.1% →	2.1% →	12,720 ↗	13,090 ↗
Davos	5,900 ↗	4,620 →	49.0 ↘	0.5% ↘	3.5% ↘	7,790 ↗	8,590 ↗
Ascona	2,800 →	2,180 →	12.5 ↘	0.1% →	11.0% ↗	8,440 ↗	8,670 ↗
Bagnes/Verbier	5,200 ↗	5,960 →	135.4 ↗	1.1% →	2.1% →	11,840 ↘	12,650 ↗
Zermatt	3,500 ↗	3,310 →	47.7 ↗	0.0% →	2.3% →	10,460 ↗	10,680 ↗
Switzerland	920,800 →	507,770 →	15,720.4 →	0.5% →	5.1% ↘	5,290 ↗	5,350 ↗

Prices in the major cities (2010 Q2)

City	Percentile	Office	Retail	Rental apartments	Single-family houses	Owner-occupied apartments
Zurich 	10th percentile	280 ↗	460 ↗	200 ↘	5,130 ↘	6,000 ↘
	50th percentile	550 ↗	790 ↗	360 ↘	8,280 →	11,250 →
	90th percentile	990 ↗	1,610 ↗	540 ↘	16,460 →	15,820 ↘
	10th percentile	170 →	220 ↗	210 →	5,110 ↗	5,530 ↗
	50th percentile	300 →	380 ↗	280 →	8,300 ↗	8,630 ↗
	90th percentile	560 ↗	760 →	420 ↗	16,660 ↗	14,190 ↗
Berne 	10th percentile	220 ↗	210 ↘	190 →	3,540 ↘	4,740 ↘
	50th percentile	290 ↗	480 ↘	260 →	6,000 ↘	7,690 →
	90th percentile	360 →	1,180 ↘	370 →	9,780 ↘	12,020 →
	10th percentile	140 ↗	210 ↗	170 →	3,190 →	3,520 ↗
	50th percentile	240 ↗	410 ↗	220 →	5,410 ↗	5,690 ↗
	90th percentile	360 ↗	1,250 ↗	300 →	8,830 ↗	9,470 ↗
Basel 	10th percentile	180 →	240 ↗	180 →	3,400 ↗	5,370 →
	50th percentile	250 →	330 →	220 →	5,170 ↗	6,940 ↗
	90th percentile	330 →	790 ↘	290 ↗	8,480 ↗	9,430 →
	10th percentile	160 →	140 ↗	170 →	3,680 ↘	4,570 ↗
	50th percentile	230 →	250 ↘	210 →	5,690 →	6,110 ↗
	90th percentile	320 →	450 ↘	260 →	9,250 →	8,470 ↗
Lausanne 	10th percentile	190 ↗	190 ↗	200 →	4,150 ↗	5,910 ↗
	50th percentile	280 ↗	320 ↗	270 →	6,370 ↗	8,140 ↗
	90th percentile	400 ↗	600 ↗	360 ↗	10,440 ↗	11,280 ↗
	10th percentile	170 ↗	150 ↗	200 ↗	4,000 ↗	5,630 ↗
	50th percentile	270 ↗	280 ↗	250 ↗	6,110 →	7,310 ↗
	90th percentile	390 ↗	480 →	330 ↗	10,030 →	11,020 ↗
Geneva 	10th percentile	360 ↗	300 ↘	240 ↗	6,030 ↗	9,200 ↗
	50th percentile	650 ↗	610 ↘	380 ↗	9,870 ↗	13,250 ↗
	90th percentile	960 ↗	1,210 ↘	610 ↗	16,710 ↗	18,620 ↗
	10th percentile	270 ↗	240 ↗	240 →	5,770 →	7,840 ↗
	50th percentile	450 ↗	410 ↗	330 ↗	9,320 →	11,360 ↗
	90th percentile	740 →	760 ↗	510 ↗	16,320 ↗	15,390 →
Switzerland	Median	200 ↗	240 →	190 →	5,000 →	5,290 ↗

Sources
This market survey is based on a broad internal data pool. It also draws on data provided by the Federal Statistics Office as well as cantonal and local statistical offices (vacancy rates), the Baublatt Info-Dienst (planning applications for single-family houses and apartment blocks) and IPD (performance indices). The cartographic illustrations are based on the generalised municipal boundaries (BFS Geostat/L+T).

Notes
Office Stock in sqm gross floor area (GFA); commercial rentals in CHF per sqm usable area p. a.; rented apartments: net rentals in CHF per sqm usable area; owner-occupied apartments and single-family houses: market prices in CHF per sqm usable area.
Arrows indicate the quarter-on-quarter change to prime rents and yields, otherwise year-on-year change (throughout the whole document).

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