Press release

Second Swiss edition of the PwC Real Estate Investor Survey
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Further decline in interest rate expectations on the Swiss real estate market

The second edition of the PwC Real Estate Investor Survey with Swiss figures gives details of yields and letting parameters, explains the methodology for calculating net income, and sets out the interest rate expectations of Switzerland's major real estate investors. Over the past six months, yields have suffered a further decline across all three areas (residential, office and retail property). Expected rental growth remains stable at zero for residential property, has declined slightly in selected office markets, and has experienced a consistent downward trend for retail properties in all Swiss cities.

Zurich, 1 October 2018 – As in the first edition, the study focussed mainly on the development of interest rates and yields on real estate investments. We asked our interviewees about the key risk and yield indicator, all-risk yields (ARYs; net yields) for Switzerland's nine largest cities and the country's regions. While the section of the report on the Swiss market comprises data on residential, office and retail real estate, the section on Germany concentrates on office, retail and logistics. This mirrors the fact that while residential assets are highly popular among Swiss investors, they remain a niche in the German market. Instead, the logistics market is of great importance in Germany.

Residential property: Compression of yields in all cities; Zurich and Geneva still generate the lowest yields

Over the past six months, investors have witnessed a decline in net yields in all Swiss cities and in most regions. This affects "core" urban residential properties in particular, where a lower ARY of 25 basis points (bps) was calculated on average. A similar picture can be seen in the regions, where compression of the ARY for "core" properties stands at an average of 9 bps. The lowest yields in the "core" segment continue to be obtained in the city of Zurich (ARY of 2.2%) just ahead of Geneva (2.3%). The ARY of average residential properties in Zurich and Geneva is valued at 2.8%. The cities of Basel, Bern, Lausanne and Winterthur are all in the middle range, with average net yields of 3.1%, followed by Lucerne, St. Gallen and Lugano with an ARY approximately 10 bps higher. Even in regional terms, Zurich is at the top of the table with an average ARY of 3.2%, and has slightly increased its lead over the Lake Geneva region (3.4%) over the past six months.

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Office property: Compression in all submarkets; especially on the outskirts of cities and in top regional locations

Net yields also underwent a decline in the office market. In cities, this particularly impacted high-risk real estate; maximum ARY fell by an average of 39 bps. In the regions, the net yields of top locations dropped by an average of 30 bps. The cities of Zurich and Geneva again recorded the lowest ARY at 2.4% and 2.5% respectively. The city of Zug came in third place just behind them, where estimates were increased for the first time to a minimum ARY of 2.6% in this edition. In the regions, Zurich (3.4%) finished ahead of Central Switzerland (3.5%). Overall, a much less negative view is taken of expected growth in rental interest rates than six months ago, although investors still expect rent to decrease in most cities and all regions.

Retail property: Significant compression of all yields; less pessimism about growth of rental interest rates

Only the best properties in the top locations in Zurich, Geneva and Lugano produce stable net yields. Significant declines can be observed for all other partial markets: -26 bps for average properties in Switzerland's main cities and -46 bps in the regions. The cities of Zurich and Geneva continue to lead the way with minimum yields of 2.4% and 2.5% respectively. Middle-of-the-range locations around Basel, Lausanne and Lucerne experienced a significantly greater compression of yields, moving approximately 20-30 bps closer to the top. Whereas six months ago, investors were still expecting a decline in rental interest rates of between -2% and -4%, the forecasts for most cities have now improved to around -1%.

Investors are seeing the first signs of an approaching downturn, which is expected to hit in the medium term

The vast majority of investors agree that a downturn will occur, albeit only in the medium term: they have identified the following clear signs of this: a potential interest rate turnaround, surplus surfaces in below-average locations with stagnating demand, ongoing investment pressure, and unpredictable geopolitical risks. Although profound structural changes would be premature, a trend towards heightened caution can be seen. Investors are becoming more selective when acquiring new properties, and are seeking to strengthen their portfolios in terms of quality.

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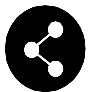

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