

# Real estate in Switzerland – hidden pearls

Although Switzerland is one of the most globalized economies (banks, pharmaceuticals, watches, machinery etc.), many Swiss in their dreams see their country as a remote peaceful island with high mountains in a world of uproar and political and economic crises. Interestingly, one of the sectors in Switzerland where these dreams of a splendid isolation come close to reality is real estate where the presence of international investors is still very limited.



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## Population and economy highly concentrated in few regions

**S**witzerland – with a size similar to the Netherlands (with more than 14 million inhabitants) and Denmark (with less than 5 million inhabitants) – is characterized by the fact that the Alps limit the settlement areas in the country.

Therefore, the population of 8 million inhabitants is highly concentrated in a big and a small “banana” – the big banana stretching over 350 km from Geneva in the southwest via Lausanne-Fribourg-Berne-Zurich-Winterthur to St. Gall in the northeast, the smaller banana stretching over 250 km from Basle in the northwest via Zug/Lucerne to Lugano in the southern canton of Ticino. Most economic activities, also in the real estate sector, concentrate in these areas.

Of course, Zurich – the economic and financial heart of the country – and Geneva – the city with many UN and other institutions – are the hot spots of real estate. But even secondary cities in the two banana areas offer interesting real estate perspectives. Apart from these regions, real estate is also important in many tourist resorts in the Alps (e.g. St. Moritz, Davos, Gstaad, Zermatt etc.).

Switzerland is a highly urbanized society: more than 50 percent of the population lives in one of the 230 towns (140 of them with more than 10,000 inhabitants). And more than half of the population (4.5 million) lives in one of the five big metropolitan areas:

- Zurich 1.7 million inhabitants (although the City of Zurich has only 373,000 inhabitants)
- Geneva-Lausanne 1,2 million inhabitants (including those in France, City of Geneva 188,000)
- Basle 0.8 million inhabitants (including those in Germany and France, City of Basel 185,000)
- Berne 0.7 million inhabitants (City of Berne 124,000)
- Ticino 0.5 million inhabitants (including those in Italy, City of Lugano 51,000).

### Real estate market sectors – foreign players missing

Switzerland's real estate market is composed of two parts:

- The service providers on the market (including property and facility managers etc., however, without the construction sector) – statistics show that more than 30,000 people are working in this sector and contribute more than 5,000 million CHF to the GDP of the country. The market is very fragmented with many local and regional players, and a small number of big nationwide companies. They highly profit from low interest rates, good performance of the economy and the growing population, which produces continuous growth of the real estate stock in the country and large numbers of big projects.

In general, the real estate sector in Switzerland is still very "local" – the newest "Who is Who?" for the Swiss real estate market lists only 16 representatives of foreign companies among the 100 most important players (and 6 of these 16 represent international letting agents and tax advisors).

### Real estate sector trends

Currently, development trends in the Swiss real estate sector may be described in short as follows:

- Residential: strong growth, still rising prices which may have reached a peak, some researchers see danger of regional overheating
- Office: demand in economic centres currently lower than offer, leads to regional oversupply and vacancies

Over the past few years, many former industrial areas have been converted into residential or mixed-use. Population growth – the country today counts 8 million inhabitants, 800,000 more than in 2000 – and economic prosperity are the main drivers for the growth in residential real estate, together with changing household structures, rising living standards and low interest rates. Construction of new apartments in multi-and single-family houses reached a peak with 48,000 units in 2011. Rising prices due to continuously growing construction of residential real estate led to decreasing yields – for rental apartments in multi-storey residential complexes within 10 years from close to 4 percent to close to 3 percent. Some of the larger projects, which are currently under construction, are Zollfreilager and Glattpark Opfikon, both in Zurich.



- The real estate investors – these are mostly Swiss banks and funds, insurance companies and pension funds, but are also powerful private groups and families. There are only a few foreign investors on the market – one of the reasons is that good projects are rare and expensive, yields on the Swiss real estate market have always been very moderate (but mostly stable), did not produce large leverage effects and did not offer the lucid "stories" and "fantasies" which many fund managers abroad thought they would need to convince their clients to open their money bags. As a consequence, many foreign investors tended to engage in other countries where the market promised to produce higher yields – and frequently ended in crises.

- Retail: reluctance of some retailers regarding further expansion, coinciding with less new projects coming to the market

In general: supply and demand do not always match 100 percent, but there are no real dangerous tendencies – the last real crisis on the Swiss real estate market was back in the early 1990s.

### Residential:

The current number of owner-occupied apartments in Switzerland is around 935,000; the number of single-family houses is approx. 925,000, the number of rented apartments approx. 2 million. Small private investors own most of the smaller multi-family apartment houses – institutional investors concentrate on approx. 42,000 larger buildings with a market value of 5-10 million CHF or more.

Nevertheless, there were no speculative forces on the market, and banks have been very risk-averse in offering loans. Therefore, all new projects have been absorbed so far without problems, and there are no vacancies in the prosperous areas of the country – on the contrary: demand seems to be unlimited, in particular in Zurich and Geneva where public discussion more and more focuses on more density by filling up currently unbuilt areas or by adding two more storeys to existing buildings.

### Office:

Small but stable economic growth in Switzerland led to many projects of new offices throughout the last few years. In addition, favourable location qualities in Switzerland (like a stable political system,

efficient administration, reliable legal framework, low taxes, highly developed educational and research infrastructure, high living standards etc.) are still attracting new companies from abroad.

On the other hand, existing companies in Switzerland – one of the world's most innovative economies – are confronted with challenges to reduce costs, to restructure their businesses and to reorganize their work load globally.

The result of this development is the current oversupply of office space in some regions in Switzerland and rising vacancies. However, the office market supply in the country has always adapted within a short time to the demand that is approx. 400,000 sqm annually (and corresponds to the current vacancy). Current office stock is around 50 million sqm. Long-term average rents are around 200 CHF per sqm annually, with peaks of 700 CHF and more in core business centres and around 400 CHF in most CBD areas.

Skyscrapers are not yet a very familiar sight in Swiss cities – one of the most spectacular projects is Prime Tower in Zurich, the highest building in Switzerland inaugurated in 2012 and owned by Swiss Prime Site, the leading Swiss real estate investor. The largest deal of the last few years was the sale of Uetlihof office complex by Credit Suisse to a Norwegian Fund in 2012 for 1,000 million CHF.

#### Retail:

A growing population and high purchasing power are some of the main drivers for new retail projects in Switzerland. Therefore, new retailers, in particular from abroad, are always interested in entering the Swiss market. Current stock retail stock in Switzerland is 32 million sqm of which approx. 2,5 million sqm is in shopping centres. Average rents for retail are around 240 – 250 CHF per sqm annually, going up to more approx. 2,000 CHF in the best high street locations in Zurich and Geneva.

Currently, unfavourable exchange rates between the Swiss Franc and the euro are limiting the absorption of new sales areas and in some cases also the expansion of retailers – experts estimate that in 2012 between 6 and 7 percent of the total purchase power went into retail purchases in neighbouring countries (France, Italy, Austria and Germany) where prices are lower.

Researchers guess that approx. 700,000 sqm of new retail space will come on the market within the next 3 years. In recent years the market has absorbed all new retail spaces without producing noteworthy vacancies. However

– all business is local, and hence each project has to be checked individually. Apart from some vacancies in B and C locations in some cities, there are no really distressed shopping areas and empty malls in the country.

One of the largest new projects will be the "Mall of Switzerland" in Ebikon on the outskirts of Lucerne. The opening of the shopping mall with 46,000 sqm GLA is planned for 2016 as part of a larger mixed-use project – and this is also one of the few projects in which foreign investors engage: The Luxemburg-based private equity fund Freo announced in spring 2013 that they will be the main investor of the ambitious project, which is valued at 500 million CHF.

#### Turnovers and yields in the real estate sector:

Although there are many statistics regarding real estate in Switzerland, the market is still somewhat intransparent. Therefore, it is difficult to find numbers regarding transaction volumes and yields. As real estate in Switzerland is usually bought and held but not traded (in particular by banks, funds, insurance companies and pension funds), the overall real estate transaction volume is low, and many transaction prices are not disclosed.

According to KPMG researchers, Swiss (non-listed) real estate companies had a stock with a total value of 21,700 million CHF in 2011 – they sold real estate for 450 million CHF and bought for 250 million CHF. In addition, listed companies held real estate with a value of 31.500 million CHF, they sold assets for 0,5 billion CHF and bought for 1,9 billion CHF.

Yields can be estimated by analyzing the results of listed Swiss institutional investors and funds – the overall performance may reach 5-6 percent annually (with dividends in the range of 3-4 percent annually) which is a good value when compared to the yield spread between real estate and government bonds or interest rates for bank deposits. First class office buildings may produce a net initial yield of approx. 3,5 percent, UBS bank researchers found that the overall yield of apartments and offices was in the range of 5-6 percent throughout the years 2002 to 2010, with a rise to 7 percent in 2011. At the same time, they estimated yields in the retail sector to be more volatile with an average of 6-8 percent with peaks in 2007 at 10 percent (and 8,5 percent in 2008 and 2011).

In general: Switzerland is a relatively stable, somewhat conservative, but clearly not a speculative real estate market

offering interesting opportunities and satisfying yields in a market which is not easy to enter, partly due to the fact that the market is largely dominated by national players. Foreign investors – if they are interested in the Swiss market – tend to look for real estate in central locations of the main cities. Such projects and buildings, however, are rare, have high prices and cannot be successfully acquired without a local presence.

#### How to get familiar with the Swiss real estate investment market

Foreign investors and other real estate professionals from abroad who are interested to engage on the Swiss market should use experienced local expertise (e.g. the author of this article) in order to get the right information and connections and not to get lost on the market.

A good chance to get first-hand information related to the Swiss real estate market and to meet Swiss real estate professionals is a visit to the Swiss Circle stand at "Expo Real" real estate exhibition and fair on Oct. 7-9, 2013 in Munich.

An even closer look at 8 distinguished real estate projects in different parts of Switzerland will be offered by "Swiss Visit" organized by Swiss Circle ([www.swiss-circle.ch](http://www.swiss-circle.ch)) from June 25 to 27, 2014. This is a 2-day guided bus trip (starting with dinner on Wednesday evening in Zurich's highest restaurant in the Prime Tower) for approx. 20 international guests who intend to invest in Swiss real estate or to locate their real estate business to Switzerland. Guests will gain an in-depth impression of projects, real estate and locations on a trip from project to project, with detailed presentations of the respective projects and many networking opportunities.

#### The author:

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