

SWITZERLAND

Office Market Snapshot

Third Quarter | 2015



Overview

Following from H1 – when the national economy as well as the office market were impacted by the appreciation of the Swiss franc – the exchange rate situation improved only slightly in Q3. Combined with low interest rates and the reorganization of large companies, this has led to increased vacancy rates and to a shift in investment activity, which is currently concentrated on quality assets with stronger occupational level.

Occupier focus

Corporate reorganizations and cost reducing activities are the main drivers of occupier demand, which is also shaping the supply side of the office market in Geneva and Zurich. Existing companies are often looking for new and modern sites with larger floorspaces located in the conveniently accessible subcentres or peripheral areas of the city. While the financial sector remains a major force behind sustained occupier demand, there is a growing number of requirements deriving from the IT, education, audit & consulting and commodity trading sectors. Office space availability is rising, largely due to the occupier trend of relocation rather than expansions holding firm. As a result, there now remains a hefty amount of office space vacant on the market. Although this did not have an impact on rental levels, it did prompt landlords to offer more attractive leasing conditions as well as larger incentive packages including rent free periods and fit-out contributions.

Investment focus

In Q3, the value of investment volumes in the office sector was €300 mn, representing 35% of total property investment volumes. The negative interest rates in conjunction with weakening occupational markets pushed many investors to seek core assets with higher returns. The slight hardening in prime yields seen in the prime office spots of Zurich and Basel held firm over the quarter, while secondary yields in Zurich centre increased slightly in Q3.

Outlook

Although supply levels are expected to rise further in the near future, the pace should be kept under control thanks to Switzerland's dynamic employment growth in recent years. Stability within the office property market is anticipated to be supported by good occupier as well as investor demand for CBD space – although the strong Swiss franc will remain an issue for the office market in the future.

MARKET INDICATORS

Market Outlook

Prime Rents:	Prime rents to remain stable, although support by incentive packages is expected.	▶
Prime Yields:	Prime yields are likely to hold firm, although secondary assets will see interest wane further.	▶
Supply:	Supply is expected to continue to rise as space relocations remain a primary market trend.	▶
Demand:	Demand for town centre sites is likely to lift as quality assets in these areas remains limited.	▶

Prime Office rents – September 2015

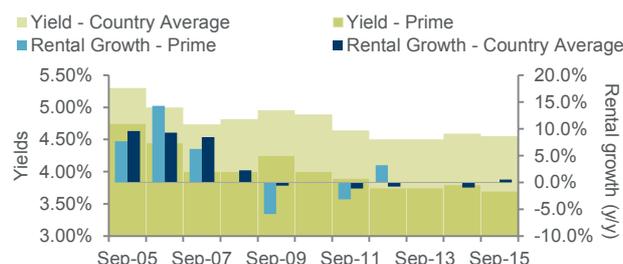
LOCATION	SFR	€	US\$	GROWTH %	
	SQ.M YR	SQ.M YR	SQ.FT YR	1YR	5YR CAGR
Zurich	750	688	71.3	0.0	-1.3
Geneva	800	733	76.1	0.0	1.3
Basle	350	321	33.3	0.0	0.0

Prime Office yields – September 2015

LOCATION (FIGURES ARE NET, %)	CURRENT	LAST	LAST	10 YEAR	
	Q	Q	Y	HIGH	LOW
Zurich	3.70	3.70	3.80	4.75	3.70
Geneva	4.25	4.25	4.25	4.90	4.25
Basle	4.40	4.40	4.60	5.45	4.40

With respect to the yield data provided, in light of the lack of recent comparable market evidence in many areas of Europe and the changing nature of the market and the costs implicit in any transaction, such as financing, these are very much a guide only to indicate the approximate trend and direction of prime initial yield levels and should not be used as a comparable for any particular property or transaction without regard to the specifics of the property.

Recent performance



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