



Q1 2018: Switzerland Commercial Property Monitor

Retail sector remains a challenge

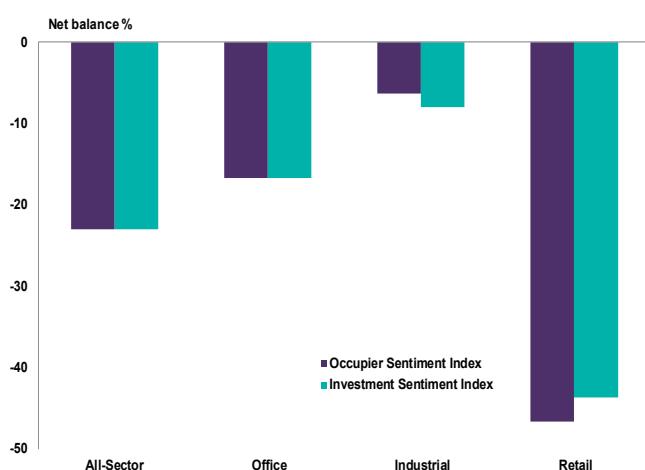
Occupier Market

- The Occupier Sentiment Index remained in negative territory during Q1, posting a reading of -23. When broken down, the headline figure was pulled down by particularly cautious sentiment in the retail sector.
- Tenant demand held broadly stable in both the office and industrial sectors over the quarter, while demand for retail space declined sharply.
- Availability continued to edge up, with a headline net balance of +28% of respondents noting an increase. That said, leaseable space in the industrial sector saw little change for the second successive period.
- Landlords opted to increase the value of incentive packages across each area of the market. The retail and office sectors recorded the strongest quarterly rise.
- For the coming year, respondents expect rents to drift lower for prime retail space, while the outlook is negative across all sectors in secondary locations. Prime office rents are seen holding relatively steady, and prime industrial rents are anticipated to grow marginally.
- In Zurich, the twelve month view on rents differs slightly from the national average. Indeed, both prime office and industrial rental growth expectations sit comfortably in positive territory. Notwithstanding this, sentiment remains negative across secondary locations.

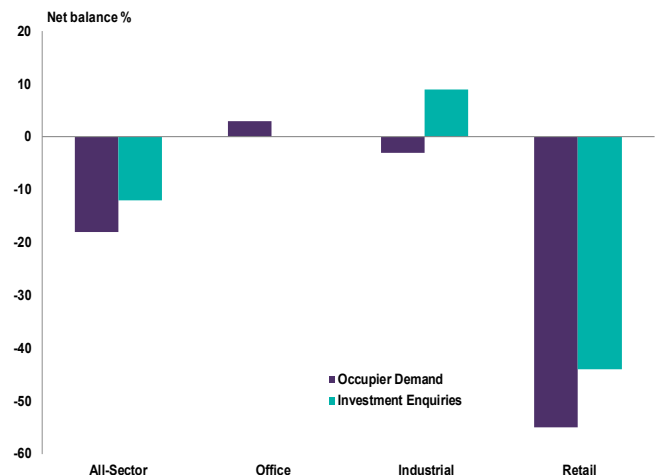
Investment Market

- The Investment Sentiment Index also returned a figure of -23 in Q1. Again, much of the weakness came from the retail sector. The office and industrial sectors fared better, although the ISI remained negative in each instance.
- Investment enquiries for retail assets fell significantly during Q1. By way of contrast, investor demand picked-up slightly for industrial properties and remained unchanged for offices. Demand from foreign buyers was reported as flat in all but the retail sector, where enquiries declined.
- Having fallen in the previous quarter, the supply of property on the market for sale increased across the board in Q1.
- Capital value expectations for the next twelve months point to prime office and industrial values holding steady, although projections are negative across all remaining sub-sectors. Unsurprisingly, secondary retail exhibits the most pessimistic twelve month price outlook.
- Compared to the figures for Switzerland as a whole, respondents envisage a very similar trend for capital values in Zurich over the coming year. Expectations are fractionally more positive for the prime office and industrial markets, but values are still anticipated to fall across all other sub-sectors.
- 55% of respondents view the Swiss commercial property market to be in some stage of a downturn.

Occupier and Investment Sentiment Index



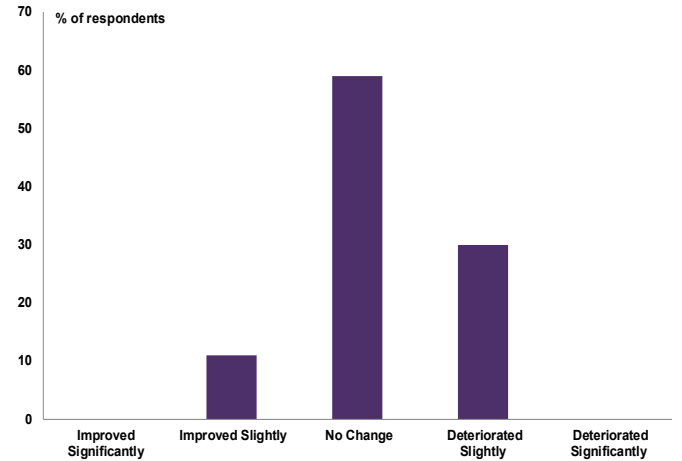
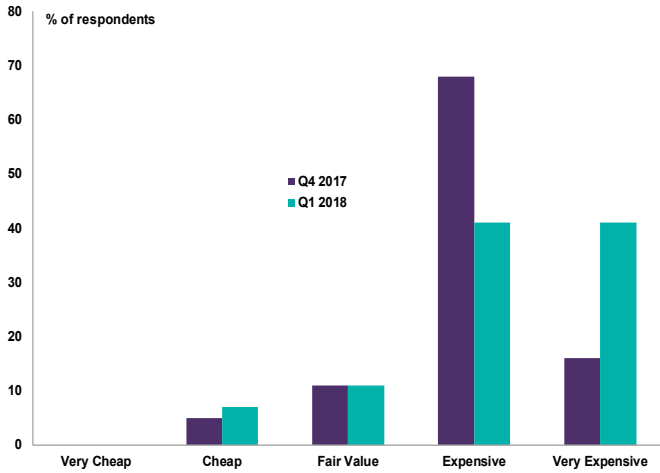
Occupier Demand and Investment Enquiries



Commercial Property Market

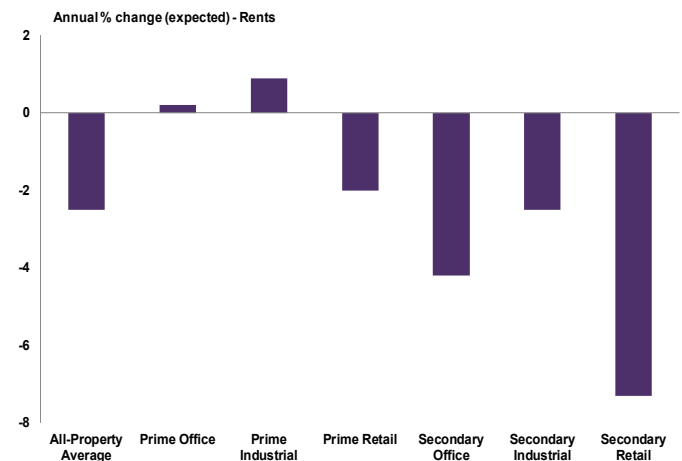
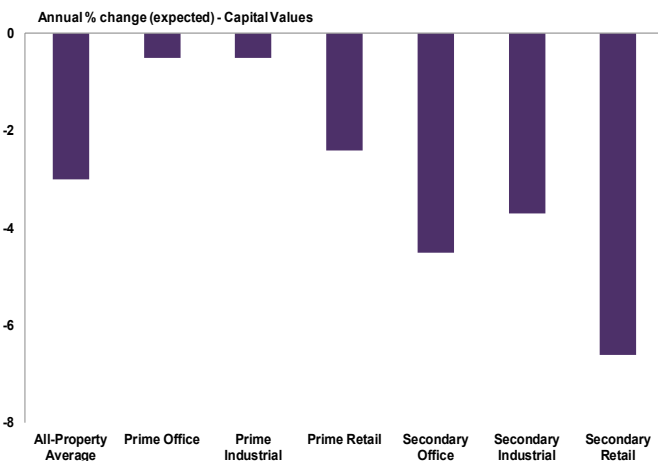
Market Valuations - 82% of respondents view commercial real estate prices to be above fair value to some extent. Furthermore, 41% of contributors now sense the market is 'very expensive'.

Credit Conditions - On balance, credit conditions reportedly deteriorated to a certain extent during Q1. That said, the largest share of respondents noted little change in access to finance.



12m Capital Value Expectations - The outlook for values across the secondary retail sector appears firmly negative. Prime office and industrial values, by way of contrast, are anticipated to hold steady.

12m Rental Expectations - While rents across secondary sub-sectors are anticipated to fall over the coming twelve months, prime office and industrial rents are anticipated to prove more resilient.



Information

Global Commercial Property Monitor

RICS' Global Commercial Property Monitor is a quarterly guide to the trends in the commercial property investment and occupier markets. The report is available from the RICS website www.rics.org/economics along with other surveys covering the housing market, residential lettings, commercial property, construction activity and the rural land market.

Methodology

Survey questionnaires were sent out on 14 March 2018 with responses received until 11 April 2018. Respondents were asked to compare conditions over the latest three months with the previous three months as well as their views as to the outlook. A total of 1748 company responses were received, with 385 from the UK. Responses for Ireland were collated in conjunction with the Society of Chartered Surveyors Ireland. Responses for Spain and Portugal were collated in conjunction with Iberian Property. Responses for New Zealand were collated in conjunction with Property Council New Zealand.

Responses have been amalgamated across the three real estate sub-sectors (offices, retail and industrial) at a country level, to form a net balance reading for the market as a whole.

Net balance = Proportion of respondents reporting a rise in a variable (e.g. occupier demand) minus those reporting a fall (if 30% reported a rise and 5% reported a fall, the net balance will be 25%). Net balance data can range from -100 to +100.

A positive net balance reading indicates an overall increase while a negative reading indicates an overall decline. The RICS Occupier Sentiment Index (OSI) is constructed by taking an unweighted average of readings for three series relating to the occupier market measured on a net balance basis; occupier demand, the level of inducements and rent expectations. The RICS Investment Sentiment Index (ISI) is constructed by taking an unweighted average of readings for three series relating to the investment market measured on a net balance basis; investment enquiries, capital value expectations and the supply of properties for sale.

Contact details

This publication has been produced by RICS. For all economic enquiries, including participation in the monitor please contact: economics@rics.org

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