



Q1 2020: Switzerland Commercial Property Monitor

Capital value and rental expectations sink amid global pandemic

The Q1 2020 Switzerland Commercial Property Monitor results predictably show the ongoing Covid-19 outbreak is having a significantly adverse impact on the outlook for commercial real estate.

The Occupier Sentiment Index slipped to -33, down from a reading of -22 in the previous quarter. Tenant demand reportedly fell across all areas of the market in Q1, with the retail sector seeing the steepest decline (in net balance terms). Alongside this, availability continued to rise at the headline level, although a marginal decline was reported across the industrial segment.

For the coming twelve months, given the weakening economic backdrop amid the Covid-19 outbreak, it is little surprise that rental growth projections were cut across the board relative to Q4. Rents are now seen falling by -11.5% across secondary retail locations, while projections are only slightly less downbeat for prime retail rents, at -8%. Furthermore, previously solid expectations

for prime office and industrial rents have now turned negative, with respondents now expecting declines of -2% and -1.5% respectively over the year to come.

Having moved into positive territory in Q4, the Investment Sentiment Index dropped to -16 in Q1. Investment demand (both in terms of the overall figures and those for international buyers) reportedly declined in both the office and retail sectors, and stagnated for industrial properties.

For the coming twelve-months, capital value expectations are now negative (to a greater or lesser degree) across virtually all categories covered in the survey. The prime industrial sector represents the only exception, where values are, for the time being at least, seen posting modest gains over the year ahead.

Overall, 47% of respondents report that market conditions are consistent with a downturn (up from 14% in the Q4 results).

Chart 1: RICS OSI and ISI

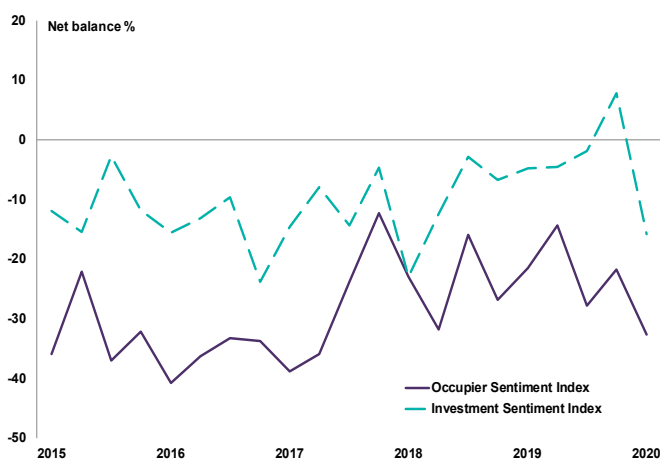


Chart 2: Property cycle

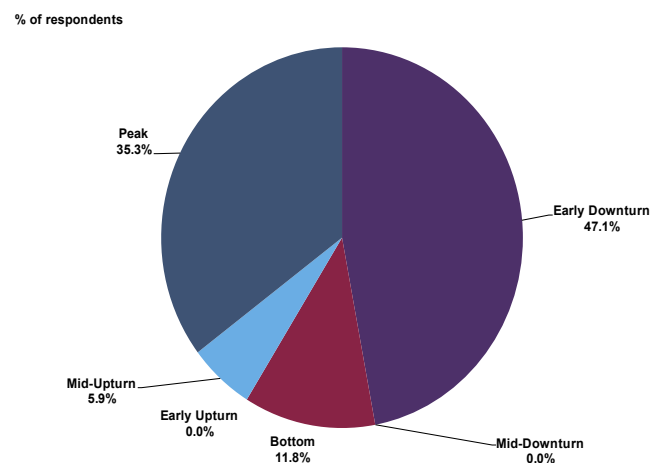


Chart 3: Occupier Market

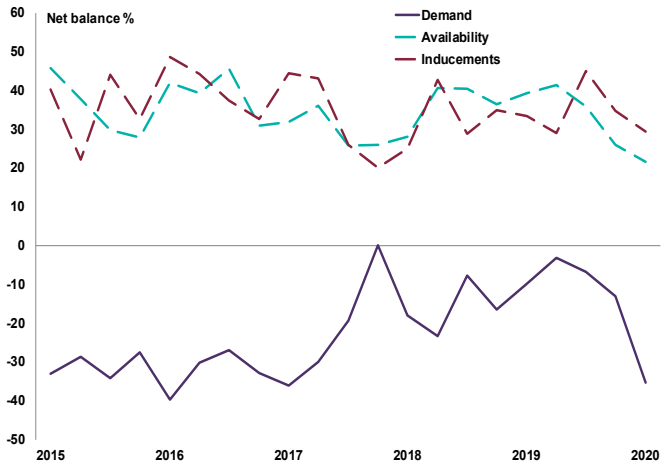


Chart 4: Investment Market

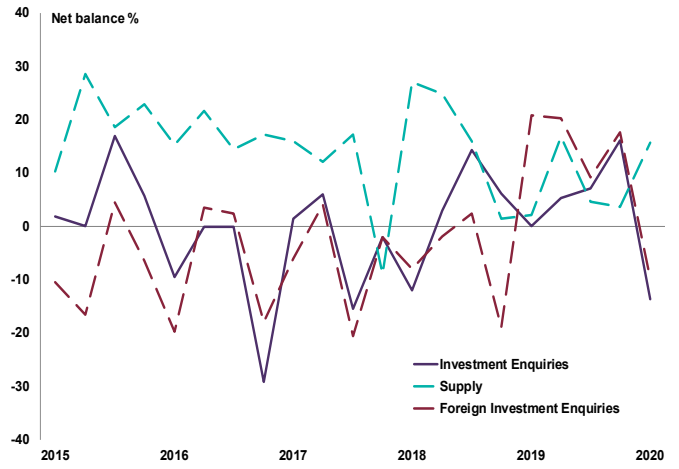


Chart 5: Credit Conditions

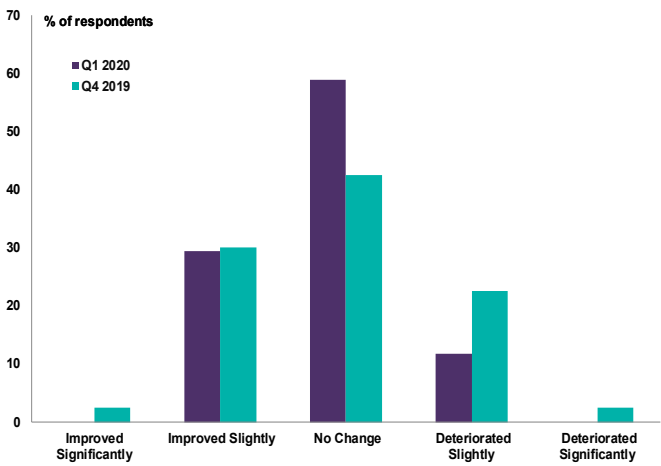


Chart 6: Valuations

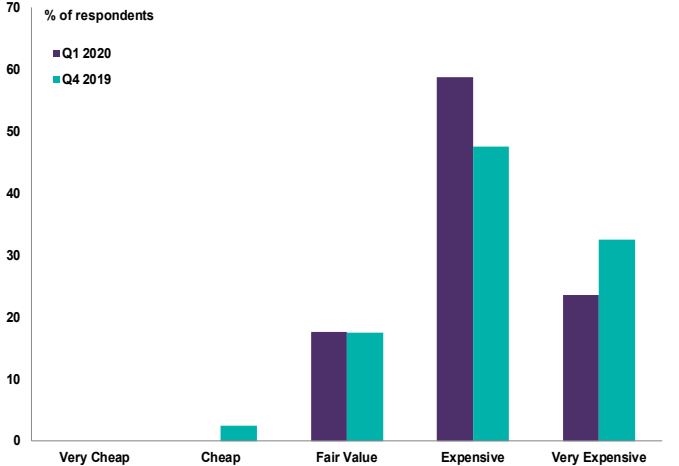


Chart 7: Twelve Month Capital Value Projections

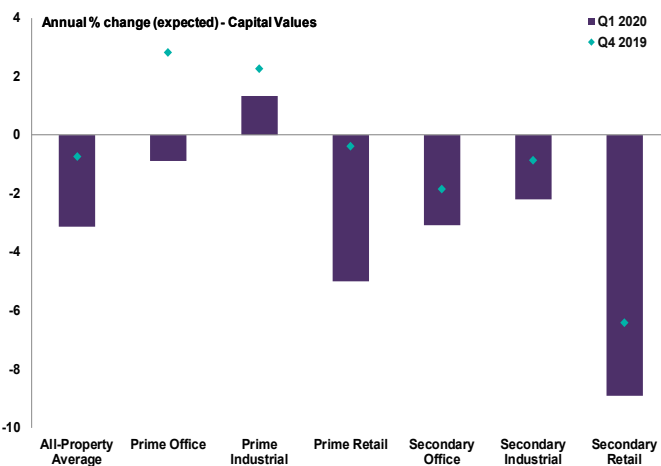
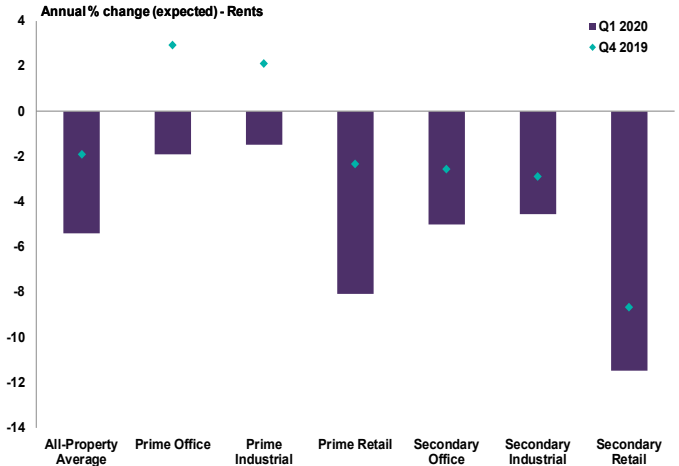


Chart 8: Twelve Month Rental Value Projections



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 11 March 2020 with responses received until 13 April 2020. 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 2604 company responses were received, with 592 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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