# REAL ESTATE AND OFFICE INVESTMENT MARKET (CH, GE)

## FOCUS

**3%** office space vacancies in the Lake Geneva region

**122** properties sold in Geneva

**220'000** m² of office space under construction in Geneva

## SWISS OFFICE MARKET

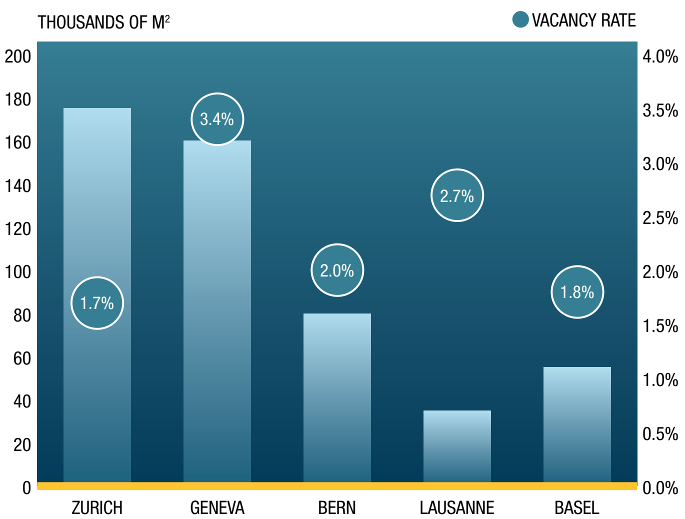
While the number of unoccupied offices has stabilised in Switzerland, the Lake Geneva area remains the most affected region, with a vacancy rate of over 3% (compared to a national average of less than 2%). Those rather encouraging signs of the office market need to be taken carefully, especially with regards to new spaces that will soon become available. At the same time, user demands have changed, since the size of the premises is no longer the main criterion. Indeed favourite factors include accessibility, modularity and functionality.

ALEXANDRE BAETTIG
Property expert
Acanthe SA

> "While the number of unoccupied offices has stabilised in Switzerland, the Lake Geneva area remains the most affected region"

### OFFICE SPACE VACANCIES 2017 (IN THOUSANDS OF M²)

SOURCE: CANTONAL STATISTICAL OFFICES




**Economic indicators are currently green**

The depreciation of the Swiss franc against the euro promises an exports upturn in 2018. Switzerland is becoming more attractive to foreigners, especially in the tourism sector. In this context, an increase in key interest rates of the European Central Bank (ECB) can't be ruled out, and it is hard to imagine that the Swiss National Bank (SNB) wouldn't follow the movement. With regards to real estate, a rise in mortgage rates can soon be expected, the consequences of which may be various. In theory, if financial costs increase, the investors' ability to acquire real estate should drop, with a downward pressure on prices, all other things being equal. On the other hand, if provisions of the law governing leases are applicable, a potential increase in rents may occur by way of indexation on the due dates. However, a slower population growth, mainly due to immigration, combined with the abundance of new buildings, inevitably leads to a downward pressure on rental incomes.

The amendment of the Federal Law on Spatial Planning (LAT) has considerably shuffled the cards and compels the cantons to revise their master plan to better target the building and activity zones. The latter tend to define the future expansion districts. In Switzerland, more than 50,000 new homes are built every year, and forecasts for 2018 are equally encouraging. According to the latest survey of the Federal Statistical Office (FSO), building costs amount to around CHF 66.5 billion, of which CHF 40 billion represent investments in new constructions. Although construction sites are a bonus for local economies in terms of labor, spatial planning must be linked to the attractiveness of a region and its ability to create jobs, at the risk of becoming dormitory cities.

**FOR VACANT SPACES, THE GAP BETWEEN STATISTICS AND THE MARKET REALITY MAY DIFFER CONSIDERABLY, DEPENDING ON DEFINITIONS**

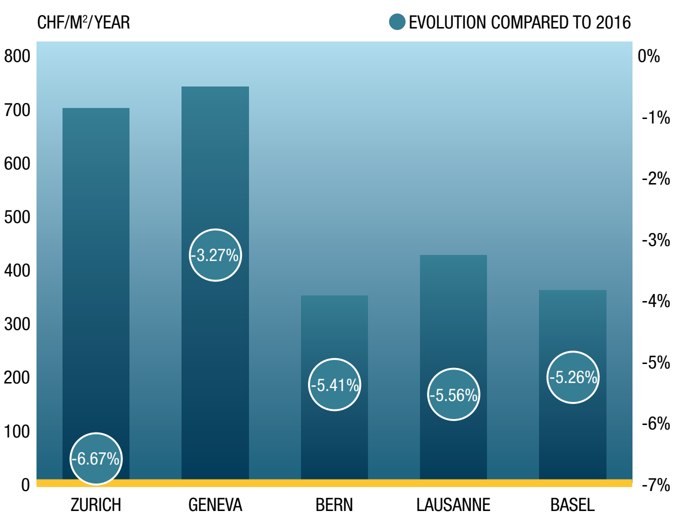
According to indices, office rents have been increased by nearly 26% in Switzerland since 2000, respectively 13% for businesses and 15% for arcades. Furthermore, only the latter would have undergone a correction since 2013 (about -7%). In order to generate attractive returns, opportunities will probably lie with industrial and retail buildings, provided they are strategically located in areas with high development potential and multiple tenants to minimise rental losses.

### Still a large number of vacant spaces

Due to the strong competition in an almost saturated market, the supply of office spaces continued to increase in 2017. Geneva and Zurich alone account for more than 1 million m² available rental space. Moreover, the gap between statistics and the market reality may differ considerably, depending on definitions and calculation methods. As such, the number of actual vacant spaces could be significantly higher than stated in recent studies. Even if some brands are still ready to pay high prices for a downtown location (luxury brands, in particular), they can no longer support rental prices that have become unreasonable compared to the generated turnover. Not to mention the coworking phenomenon, whose exponential growth considerably reduces the need for office space for a highly mobile clientele no longer really attached to a workplace. Of course, small spaces, such as shopping arcades, may still exceed the average prime rent, limited to around CHF 750-800/m² for the best locations.

"PRIME" OFFICE RENTS IN URBAN CENTRES (IN CHF/M²/AN)

SOURCE: ACANTHE

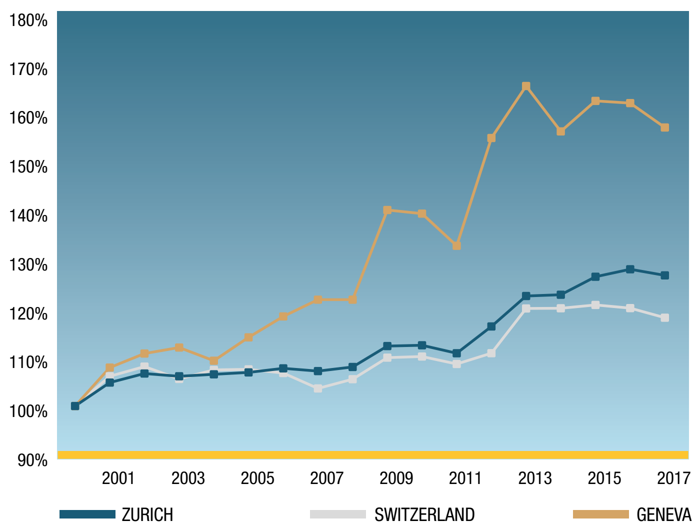



As for prices, it is more difficult to identify a real trend in the commercial real estate market. The number of transactions remains low in this area, and two types of market need to be distinguished:

- On the one hand, that of specialised investors looking for an investment volume.
- On the other hand, that of investors who want to buy a space (usually small) for their own use and linked to their business activity.

EVOLUTION OF RENT INDICES

SOURCE: WUEST & PARTNERS




In view of these observations, a new correction in rents is expected. With certain activities leaving the city centres, vacant spaces lead property owners to think about the strategy to adopt. Indeed, the balance of power tilts in favour of the renters. Some landlords are not yet ready to accept the extent of rent reductions, and prefer to keep their property vacant, hoping for an improvement in the market and, therefore, a lower profitability decrease.

We'll finally mention that the presentation of the new package of measures foreseen by the corporate taxation reform could influence the commercial real estate market, in particular with regards to the strategic location choice.

# BUILDING SALES IN GENEVA

**At a glance, everything worth knowing about the property sales segment in Geneva in 2017.**

2017 was a dynamic year with 122 transactions, the best year since 2010 with its 151 transactions. The volume invested reached CHF 1,829 billion, close to the 2015 record, of which 54% (CHF 989 million) were commercial and 46% (CHF 840 million) residential properties.

PATRICK PEYROT

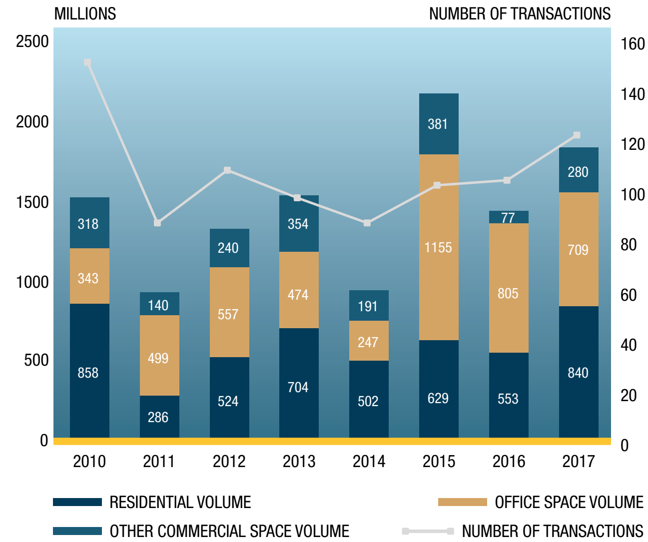
Manager
Naef Investissement & Commercial

> Profitability decrease of commercial buildings by 22% in zone 2

The profitability of residential buildings fell by 13% between 2016 and 2017, and that of commercial buildings in zone 2, between the periphery and the town centre, by 22%. Those last two zones increased by 1.9% and 6.7%, respectively.

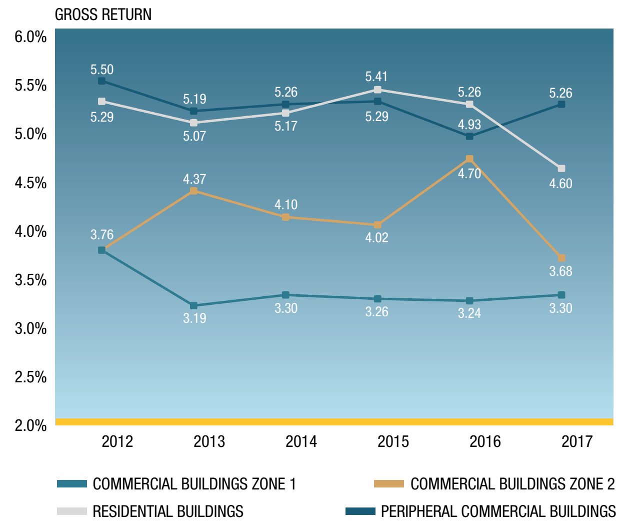
## VOLUME ACCORDING TO ASSIGNMENT AND TRANSACTIONS

SOURCE: FEUILLE D'AVIS OFFICIELLE




## GROSS CAPITALISATION RATE AFC

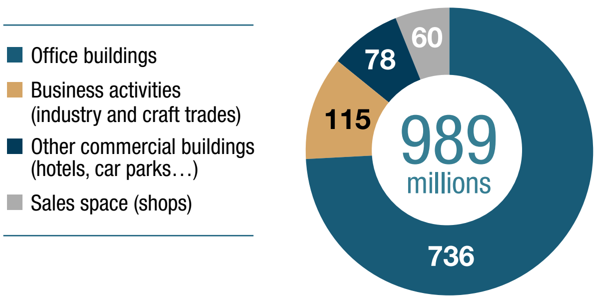
SOURCE: GENEVA TAXATION ADMINISTRATION AFC




**Average price, profitability and increase of the invested volume**
In 2017, 90 residential buildings were sold, against 32 commercial ones. The unit price for homes is CHF 9.3 million, while the commercial price is CHF 31 million. All sales combined, the unit price for 2017 is CHF 15 million, one million more than in 2016. The average price was strongly influenced by two exceptional sales.

The 32 commercial buildings sold in 2017 amount to CHF 989 million, representing a 12.5% increase in investments in one year. The share invested in commercial real estate has risen by 50% since 2010.

The “commercial real estate” investment market can be divided into four categories:




**Breakdown buyers-sellers**
In 2017, 62% of sellers are private individuals, whereas they account for only 16% of buyers. Other buyers include professional structures (funds, real estate companies, insurance companies, etc.), of which 66% are public limited companies and 19% pension-related institutions.

TOP TEN OF BUILDING SALES IN 2017

| | PRICE (CHF) | ADDRESS | BUYER |
|---|---|---|---|
| 1 | 197’240’000 | Lancy Pont-Rouge | Swiss Life SA |
| 2 | 143’180’000 | Lancy Pont-Rouge | Swiss Life SA |
| 3 | 85’816’800 | Château-Bloch 11 | CS Funds |
| 4 | 78’080’000 | Corraterie 4 | Safra-Sarasin |
| 5 | 64’269’447 | Châtelaine 5-7 | Fondation H.Wilsdorf |
| 6 | 60’361’400 | Avenue de la Paix 7 | CP AXA |
| 7 | 57’500’000 | François-Diday 2 | AXA Assurances |
| 8 | 46’800’000 | Chemin de l’Armoise 2 à 12 | CP SWISSLIFE |
| 9 | 41’500’000 | Place de l’Université 7 | AXA Assurances |
| 10 | 41’250’000 | Rue du Lect 32 | Voituriers 2 SA |

SOURCE: NAEF INVESTISSEMENT & COMMERCIAL

The trend of recent years is increasing with already established Swiss or foreign companies who, subject to the uncertainties of a sluggish economy, are rationalising and refocusing their activities. Costs are closely scrutinised and opportunism is the rule.

In a liquid market, a new fixed-term lease contract will fiercely be discussed and future well-informed tenants will make sure to obtain graduated rents, exit options, free rents, property owners' participation to works and prices/m$^2$/year negotiated downwards. Ultimately, the ball is in the court of future tenants, provided they are released from their contractual obligations with their previous landlord.

CYRIL PEYROT

Broker
Naef Investissement & Commercial

"Two indicators are crucial to understand the trend"

**Investments and constructions**

The volume of "newly delivered" properties, projected and annualised on the basis of the third quarter of 2017, is lower than the previous year, with 42,000 m² of gross floor space (SBP) on offer at the end of the first three quarters, representing a decrease of 23%. This decline is a breath of fresh air in view of the large amount of gross floor space (219,586 m²) currently under construction, to be delivered between 2017 and 2020 and which will have to be absorbed in addition to the available. The structure of newly built buildings perfectly meets the current demand, with significant infrastructures, infinitely modular spaces, as well as a good location and an optimal accessibility compared to existing Business Centres. The project currently under construction, Pont-Rouge, is the perfect example with already more than 30,000 m² of leased floors.

The supply can be measured in various ways, but two indicators are crucial to understand the trend.

**1.** The supply rate* represents around 5% (appreciation varies depending on calculation methods) of the total available space in Geneva. This high indicator, combined with major construction projects and the small number of new international companies, suggests that the market has limited capacity to absorb the thousands of m$^2$ currently available or to come, all other things being equal.

**2.** The vacancy rate** has steadily increased since 2014 to more than double in 2016. It is experiencing a slight decline this year (drop of 57 basis points), while remaining significant (3.41%).

RENT ESTIMATES PER AREA

| | ZONE / AREA | CHF/M²/YEAR | TREND |
|---|---|---|---|
| 1 | Eaux-Vives | 380-480 | → |
| 2 | Champel / Florissant | 430-520 | → |
| 3 | Malagnou | 350-480 | ↓ |
| 4 | Cité / Russian church | 460-580 | → |
| 5 | Praille / Acacias / Vernets | 270-480 | ↑ |
| 6 | Jonction / Plainpalais | 350-580 | → |
| 7 | Banking district | 450-600 | ↓ |
| 8 | Plan-les-Ouates | 260-380 | → |
| 9 | Hôpital | 350-450 | → |
| 10 | Carouge | 320-450 | → |
| 11 | Lancy / Onex | 280-380 | ↓ |
| 12 | Vernier / Meyrin | 220-320 | → |
| 13 | Rue du Rhône | 550-780 | → |
| 14 | Gare / Pâquis | 280-480 | ↓ |
| 15 | St-Jean / Charmilles | 260-420 | → |
| 16 | Sécheron / Nations | 350-450 | → |
| 17 | Aéroport / Gd-Saconnex / Blandonnet | 270-430 | → |
| 18 | Chêne-Bourg / Chêne-Bougeries | 230-320 | ↓ |

SOURCE: NAEF INVESTISSEMENT & COMMERCIAL

* measures the available space on the market in m$^2$ (occupied, vacant and under construction) in relation to the real estate stock.

** is the number of vacant office spaces in m$^2$, in relation to the commercial real estate stock.

# GENEVA INVESTMENT MARKET 2018

| INVESTMENTS ALL TYPES OF INVESTMENT PROPERTIES | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|---|---|---|
| Number of transactions | 151 | 87 | 108 | 97 | 87 | 102 | 104 | 122 |
| Investment volume | 1 519 | 925 | 1 321 | 1 532 | 940 | 2 165 | 1 435 | 1 829 |
| Average unit price (million CHF) | 10 | 11 | 12 | 16 | 11 | 21 | 14 | 15 |
| Largest transaction (million CHF) | 85 | 74 | 108 | 200 | 76 | 535 | 141 | 197 |
| Aggregation of the three largest transactions (million CHF) | 222 | 203 | 242 | 428 | 200 | 829 | 318 | 426 |
| Transactions over 10 (million CHF) | 45 | 24 | 42 | 29 | 30 | 38 | 36 | 46 |
| Transactions under 10 (million CHF) | 106 | 63 | 66 | 68 | 57 | 64 | 68 | 76 |
| **INVESTMENTS IN “COMMERCIAL RENTAL PROPERTIES”** | | | | | | | | |
| Number of transactions | 41 | 32 | 37 | 21 | 23 | 27 | 27 | 32 |
| Commercial investment volume (in million CHF) | 661 | 639 | 797 | 828 | 438 | 1 536 | 882 | 989 |
| Office space volume | 343 | 499 | 557 | 474 | 247 | 1 155 | 805 | 709 |
| Office space in % | 23% | 54% | 42% | 31% | 26% | 53% | 56% | 39% |
| Other commercial space volume | 318 | 140 | 240 | 354 | 191 | 381 | 77 | 280 |
| Other commercial space in % | 21% | 15% | 18% | 23% | 20% | 18% | 5% | 15% |
| **INVESTMENTS IN “RESIDENTIAL RENTAL PROPERTIES”** | | | | | | | | |
| Number of residential transactions | 110 | 55 | 71 | 76 | 64 | 75 | 77 | 90 |
| Residential investment volume | 858 | 286 | 524 | 704 | 502 | 629 | 553 | 840 |
| Residential in % | 56% | 31% | 40% | 46% | 53% | 29% | 39% | 46% |
| **TYPE OF BUYERS** | | | | | | | | |
| Private (physical person) | | | 18% | 25% | 15% | 22% | 24% | 16% |
| Public / Coop / Foundations | | | 25% | 15% | 9% | 18% | 5% | 19% |
| Plc / Real estate companies / Funds / Insurers | | | 57% | 60% | 76% | 60% | 78% | 66% |
| **TYPE OF SELLERS** | | | | | | | | |
| Private (physical person) | | | 53% | 48% | 55% | 48% | 50% | 62% |
| Public/Coop/Foundations | | | 6% | 5% | 2% | 12% | 1% | 2% |
| Plc / Real estate companies / Funds / Insurers | | | 42% | 46% | 43% | 40% | 56% | 35% |
| **PROFITABILITY** | | | | | | | | |
| Net return “prime” office space | 3.50% | 3.30% | 3.30% | 3.19% | 3.30% | 3.26% | 3.20% | 3.10% |
| Weighted average gross return (in %) | 5.70% | 5.01% | 4.74% | 4.32% | 4.40% | 5.15% | 4.26% | 4.07% |
| **GROSS RATE (AFC*)** | | | | | | | | |
| Housing buildings | 4.96% | 4.96% | 5.29% | 5.07% | 5.17% | 5.41% | 5.26% | 4.60% |
| Housing buildings + 20 years | 6.29% | 6.01% | 5.73% | 5.47% | 5.17% | 5.41% | 5.26% | 4.60% |
| HCM / HLM / HEB / HM buildings | 7.00% | 7.00% | 6.50% | 6.50% | 6.50% | 6.50% | 6.25% | 6.00% |
| Commercial buildings zone 1 | 4.86% | 4.45% | 3.76% | 3.19% | 3.30% | 3.26% | 3.24% | 3.30% |
| Commercial buildings zone 2 | 4.86% | 4.45% | 3.76% | 4.37% | 4.10% | 4.02% | 4.70% | 3.68% |
| Peripheral commercial buildings | 6.36% | 5.90% | 5.50% | 5.19% | 5.26% | 5.29% | 4.93% | 5.26% |

# GENEVA OFFICE RENTAL MARKET

| VACANT OFFICE SPACES (OCSTAT**) | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|---|---|---|
| Vacant m² | 41 410 | 25 830 | 52 183 | 84 000 | 69 833 | 182 719 | 181 107 | 157 738 |
| Vacancy rate (%) | 0.9% | 0.6% | 1.2% | 1.9% | 1.5% | 4.11% | 3.98% | 3.41% |
| **NEWLY DELIVERED OFFICE SPACES** | | | | | | | | |
| Delivered office spaces | 70 244 | 40 314 | 81 980 | 54 364 | 22 823 | 25 281 | 71 461 | 42 325 |
| Office spaces under construction | 118 536 | 155 123 | 196 092 | 173 040 | 182 192 | 230 571 | 201 529 | 219 586 |
| **RENTAL HISTORY** | | | | | | | | |
| “Prime” rents | 983 | 1 005 | 960 | 898 | 830 | 807 | 765 | 805 |
| “Airport” rents | 481 | 490 | 462 | 452 | 448 | 456 | 445 | 429 |

*AFC : Cantonal tax administration **OCSTAT : Cantonal Statistical Office, Geneva