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Construction and real estate

Conditions in the construction and real estate sector have changed since last year. While at the beginning of 2007, the sector was still profiting from the momentum gathered in 2006, there is now widespread uncertainty over the business outlook, not least because of the global credit crunch.

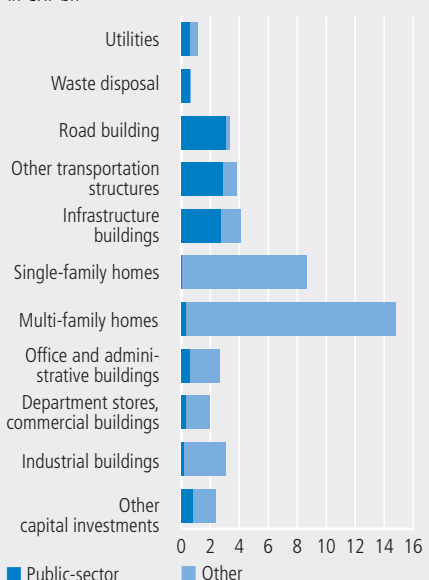
The sun is still shining on the Swiss construction and real estate sector for the moment. Demand for space remains extremely robust thanks to persistently high economic growth, which is driving an influx of migrant workers and consequently demand for housing, as well as stimulating commercial construction activity. This has been accompanied by a further rise in incomes right across Switzerland, bringing the dream of home ownership closer to reality for many people – particularly since interest rates and financing costs, although increasing slightly, are below average historical levels. But while the environment in the construction and real estate sector is still about as good as it has ever been, the first clouds are now appearing on the horizon. According to the Federal Statistical Office, there has been a surprisingly steep year-on-year fall in the number of building permits issued, particularly in the areas around the big cities. And the Swiss Contractors' Association recently said that residential construction order backlogs were falling – an indication of creeping saturation. However, the current trend in commercial and industrial construction remains positive thanks to the generally good economic climate. This gives some hope that commercial construction will step into any breach left by residential construction this year. The picture in non-building construction is mixed. While the public non-building construction sector is booming thanks to some major projects, business in private non-building construction is lacklustre. All in all, it seems that the construction and real estate sector peaked last year. The favourable fundamentals suggest that the sector will have a soft landing in the seventh year of its boom, although the current global credit crisis could still make for some unpleasant surprises.

Structural data and trends 2007

Value added ¹	bn CHF	55.0
	% of GDP	10.8
Employees	total	565,000
Productivity	CHF per employee	97,400
¹ Excluding properties let by private households		
Sectors, sub-sectors	Employees 2005 in %	Sales trend*
Construction & real estate	14.3	
Building materials	1.4	
Timber construction elements	1.1	
Gravel, ceramics, concrete, plaster, cement	0.4	
Construction	9.1	
Core construction sector	3.9	
Interior fitting	5.2	
Real estate	1.5	
Real estate management and sales	0.7	
Cleaning industry	0.8	
Architecture and engineering	2.3	

*UBS Survey (scale of max. +/-8) -2 0 2 4 6

Construction spending 2006 by type of building (total: CHF 47 bn) in CHF bn



Sources: BAK, SFSO, UBS WMR

Stagnation expected across the board

In most sub-sectors of the real estate and construction industry that we surveyed, companies are realistic about the future. Recognizing that they are already operating close to full capacity, their forecasts for revenues are more or less stagnant. Real estate management companies, brokers and promoters are the exception: they believe that they can continue to grow their revenues this year by taking on new staff and hiking their fees slightly. Consequently, they should also be able to improve their earnings as expected. In the other sub-sectors, meanwhile, falling prices mean that companies can hope for no better than a stabilization of earnings at the current high level. However, the fact that companies across nearly all sub-sectors plan to increase headcount slightly and make further investments this year shows that, ultimately, business remains very good.

Massively increased investment in multi-family homes

Construction investment over the 2001–2006 period rose 15%, slightly outpacing nominal GDP growth for the Swiss economy as a whole (+13%). It is notable that the rise in construction investment was driven entirely by the private sector, where spending shot up from CHF 28.3 billion to CHF 34.6 billion over the period. Meanwhile, public sector investment spending stagnated at around CHF 12 billion. Another interesting aspect of the five-year comparison is the trend in construction investment in the single-family homes and multi-family homes segments, where the construction boom has been particularly strong. Investment in single-family homes rose by an impressive 17.3% between 2001 and 2006, while the increase for multi-family homes was even more eye-catching, at almost exactly 50%. As a result, the multi-family homes segment now accounts for as much 31.8% of total construction investment (2001: 24.3%). ■