# Real estate

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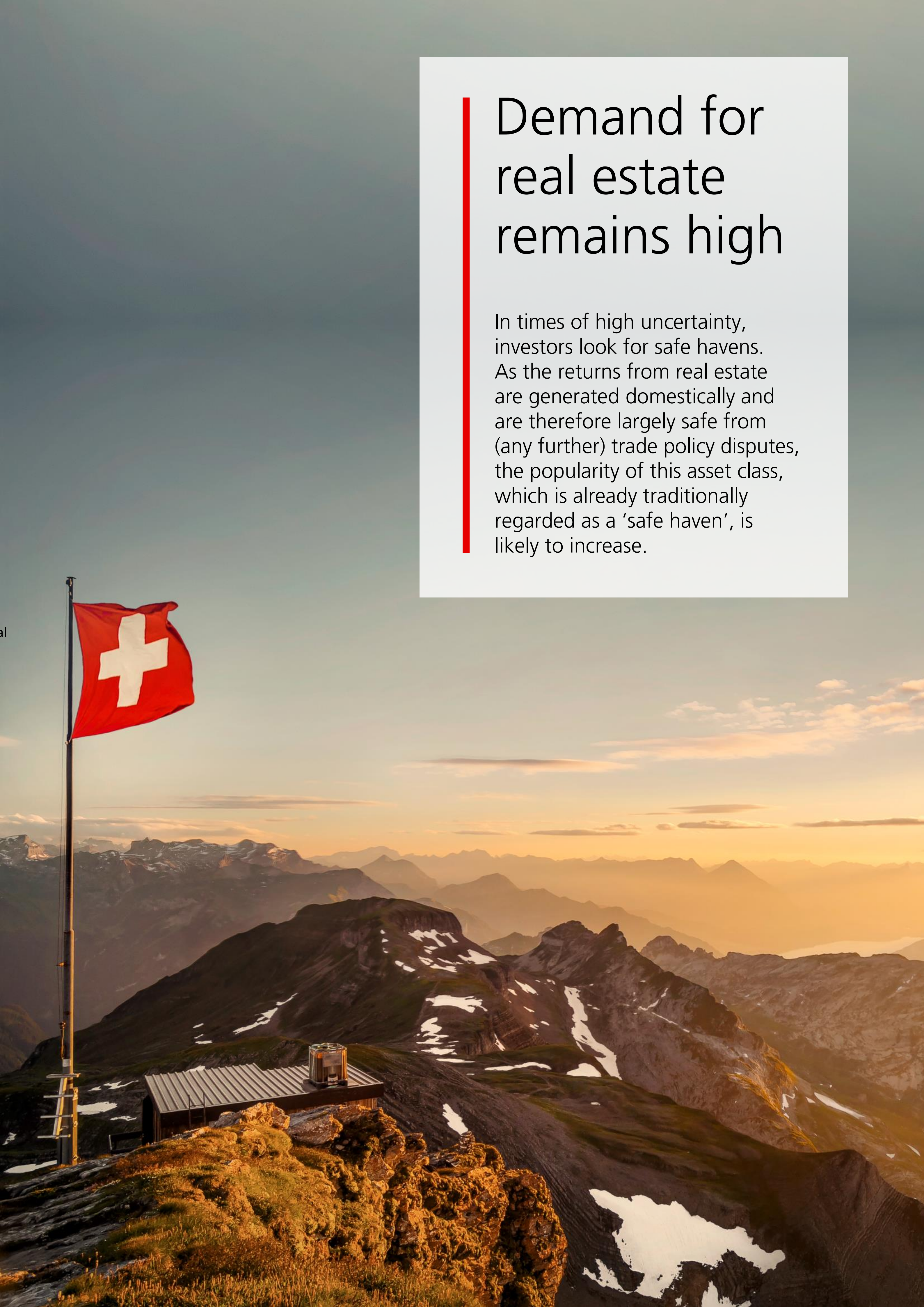
# 2H25 Switzerland – Real Estate Outlook

## Swiss real estate once again the safe haven

UBS

# Demand for real estate remains high

In times of high uncertainty, investors look for safe havens. As the returns from real estate are generated domestically and are therefore largely safe from (any further) trade policy disputes, the popularity of this asset class, which is already traditionally regarded as a ‘safe haven’, is likely to increase.



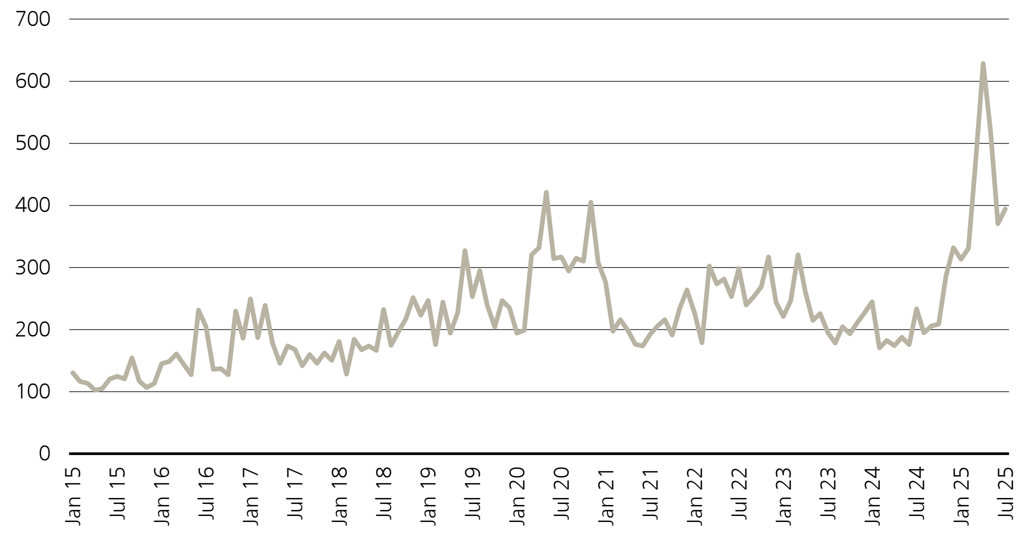
# Macroeconomic environment

## Environment characterized by uncertainty and volatility

## Highly turbulent global environment

The global environment was characterized by a high level of uncertainty in the first half of 2025. The geopolitical situation has been tense for over three years, particularly due to the Russia-Ukraine war and the ongoing conflict in Gaza. With the election of Donald Trump as the 47th US President in November 2024, economic and, in particular, trade policy uncertainty has once again increased significantly. A look at the global economic policy uncertainty index (Figure 1) illustrates this trend: Over the past 10 years, uncertainty was already significantly above the level of the reference period from 1997 to 2015 and rose continuously. However, the US election in November 2024 has further accentuated this trend. The index climbed from 215 points in October 2024 to 336 points in December 2024 and reached a high of just under 600 points after 'Liberation Day' in April 2025. Since then, a slight easing has been observed, but the level of uncertainty remains high, particularly with regard to US tariffs, possible countermeasures and their impact on the global economy.

**Figure 1: Economic policy uncertainty is extremely high**
Global economic policy uncertainty index (index, 1997-2015 = 100)

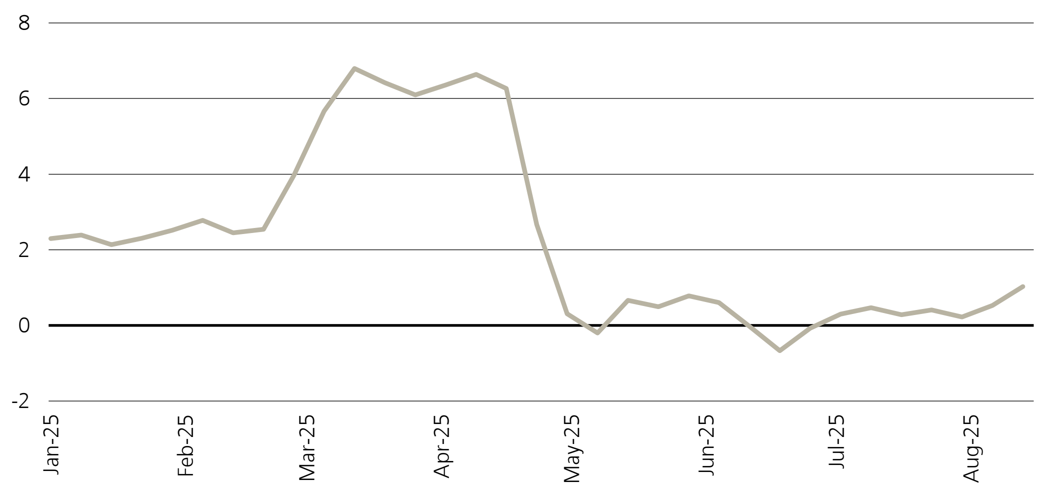



Source: Davis, Steven J., 2016. «An Index of Global Economic Policy Uncertainty», Macroeconomic Review, last data point: July 2025.

**'Frontloading' leads to strong GDP growth in first quarter of 2025, outlook gloomier**
The Swiss economy recorded significant growth of 0.8% QoQ in the first quarter of 2025. However, the result at the beginning of the year was influenced by preponed exports that were accelerated in anticipation of Liberation Day. There was a clear slowdown in economic momentum in the second quarter as GDP grew by only 0.1% in the second quarter, though this was still stronger than expected by many.

According to the State Secretariat for Economic Affairs, the negative trend in industry was offset by growth in the service sector. However, after a robust second quarter, the Purchasing Managers Index for services fell to 41.8 points in July, well below the growth threshold of 50 points. In general, the weekly economic activity index, which tracks economic development in Switzerland in real time, showed little momentum at the start of the third quarter (Figure 2).

**Figure 2: Significantly lower economic activity since May**
Index of weekly economic activity (scaled to the growth rate of real GDP adjusted for seasonal, calendar and sporting event effects compared with the same quarter of the previous year)




Source: SECO, Refinitiv Datastream; last data point: 13 August 2025.

**‘Tariff hammer’ hits the Swiss economy – but to a limited extent**
The US tariffs that were announced on 31 July and entered into force on 7 August were at 39% higher than the 31% announced in April and significantly higher than the level expected during the negotiations. According to the current status, around 60% of Swiss exports to the US and thus around 10% of total exports are affected by the tariffs. As the pharmaceutical sector and gold have so far been excluded, the watch, machinery and precision instrument industries are currently the sectors particularly affected.

The regional concentration of industries results in regional differences in terms of impact. According to an analysis by Wüest Partner, the Cantons of Nidwalden (aviation sector) and Jura (watches and precision machinery) are currently the hardest hit. The Cantons of Basel-City and Aargau, on the other hand, will only be marginally affected by the tariffs as long as the pharmaceutical industry remains excluded. The reason for this is that the companies and industries concerned generate little value added in these cantons. Even if the tariffs hit individual companies very hard, the overall economic impact is likely to remain limited as things stand. The Swiss economy should continue to grow in 2025, provided the trade disputes do not plunge the global economy into a downturn.

**No recession expected**
Assuming that lower tariffs are achieved in the negotiations, we continue to expect (sporting-event-adjusted) growth of 1.3% in 2025 – also due to the strong first quarter - and 0.9% in 2026. At the same time, the forecast uncertainty remains very elevated. If the tariffs of 39% remain in place, growth is likely to be around 0.4 percentage points lower over four quarters. However, if sector-specific tariffs are extended, particularly on pharmaceutical products, the downside risks for Swiss growth would increase significantly.

**Sideways movement in interest rates expected**
After inflation stood at 0.4% in the first quarter of 2025, it fell in the second quarter and was slightly negative again in May 2025 for the first time in four years, at -0.1%. In response, the Swiss National Bank (SNB) lowered its policy rate again on 19 June by 25 basis points to the current level of 0.0%. Since then, inflation has tended to surprise on the upside, despite the appreciation of the Swiss franc: it was 0.1% in June and 0.2% in July. Overall inflation in Switzerland is unlikely to change significantly as a result of the tariffs. While the adjustment of global supply chains has the potential to drive up prices, increased supply from the EU and Asia as well as the weaker economy could have a price-dampening effect. There is therefore no new impetus for the SNB to cut interest rates further. We therefore expect the SNB to leave the policy rate at 0.0%.

# Investment market

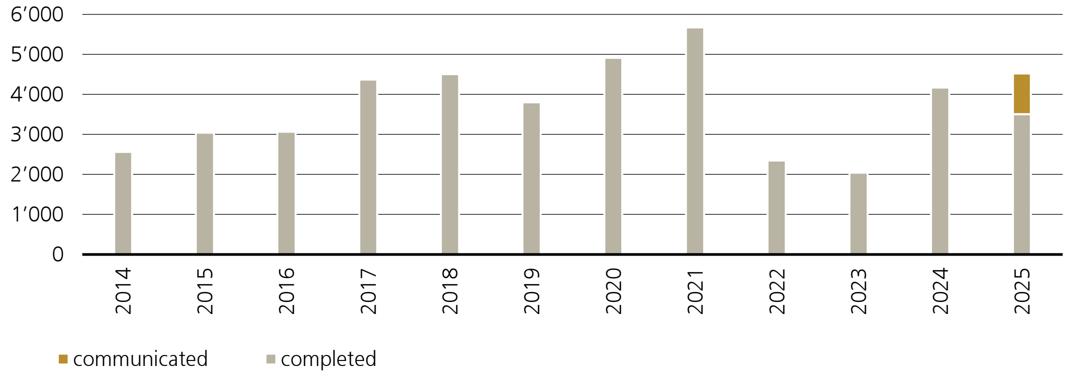
## 'Safe haven' characteristic of Swiss real estate increases demand

## High momentum on the capital market

On the investment side, demand for real estate investments, particularly in the residential sector, is likely to become stronger rather than weaker in the short term due to global uncertainty and the surprisingly higher tariffs imposed on Switzerland. In times of high uncertainty, investors look for safe havens. As the returns from real estate are generated domestically and are therefore largely safe from (any further) trade policy disputes, the popularity of this asset class, which is already traditionally regarded as a 'safe haven', is likely to increase.

A significant increase in demand for real estate investments has been observed since 2024. Following restrained momentum in 2022 and 2023, capital market transactions increased noticeably in 2024 and once again exceeded the CHF 4 billion mark (Figure 3). A further increase is becoming apparent for 2025: by 1 September, around CHF 3.5 billion had already been raised by funds and real estate companies, and a further CHF 1 billion has already been announced. At the same time, the premiums of listed funds are stable and are not coming under pressure despite many capital increases. Numerous oversubscriptions are reported when investment foundations are opened. In this case too, the additional capital raised in the year to date already amounts to CHF 1.8 billion.

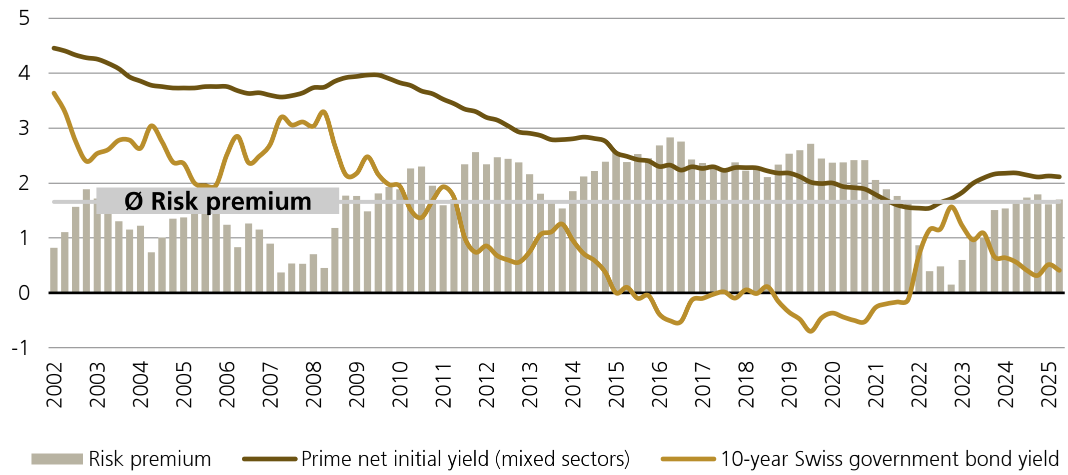
**Figure 3: Capital market transactions with a lot of momentum**
Capital market transactions (debt and equity) on the Swiss real estate investment market (in CHF million)




Source: J Safra Sarasin; UBS Asset Management (GRA), September 2025; last data point: 01 September 2025.
**Past/expected performance is not a guarantee of future performance.**

The renewed increase in demand for real estate investments can be explained by the significantly more attractive risk premium compared to 2022 and 2023. Since the low point of just 15 basis points in the fourth quarter of 2022, the premium rose to 170 basis points by the second quarter of 2025 (Figure 4). In addition to the decline in yields on Swiss government bonds, the correction in net initial yields on prime real estate between mid-2022 and early 2024 contributed to this. Since then, real estate yields have largely stabilized and in some cases have seen compression since the second half of 2024.

**Figure 4: Risk premium at long-term average**
Yield on 10-year Swiss government bond, net initial yield on prime real estate and resulting risk premium (%)




Source: Wüest Partner; Swiss National Bank; UBS Asset Management (GRA); August 2025; last data point: 2Q25.
**Past/expected performance is not a guarantee of future performance.**

# Rental market – residential

## Scarce supply is likely to remain the crucial factor

## Asking rents have eased off slightly, but vacancy rates continue to fall

The fundamentals of the Swiss housing market remain largely stable. Even if the 39% US tariffs come fully into force, the impact on the housing market is likely to remain limited, especially as long as the pharmaceutical industry is not affected. The economic slowdown has already led to low employment growth in recent quarters and has slowed immigration somewhat in comparison to the very high levels of the previous year. If US tariffs remain in place in the longer term, demand for labor could decline further, with a potentially dampening effect on immigration dynamics, especially in the more affected regions. However, this is currently not expected to have a major impact on rents.

**Slightly lower momentum for immigration**

Although immigration to Switzerland is declining slightly compared to the last three years, it is likely to continue to exceed the average of the last 25 years, with a forecast of around 70,000 in 2025. In the second half of 2024, the total population slipped over the 9 million mark; according to the reference scenario of the new population scenarios published by the Federal Statistical Office, the 10 million mark will be reached in 2041. Demand for residential space therefore remains high.

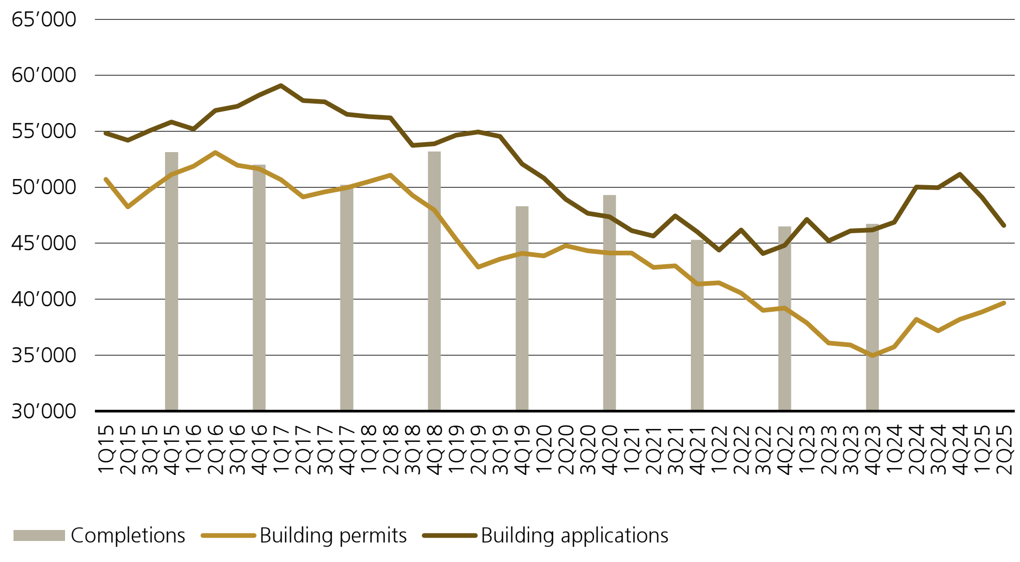
**Planning activity delivering mixed signals**

On the supply side, planning activity has picked up again somewhat since the low point in 2023. This is certainly partly because construction prices are proving to be reasonably stable. Compared to the second half of 2024, construction prices rose by 0.6% in the first half of 2025. Although this is 16.4% higher overall than in 2020, the pace of inflation has slowed significantly since 2023.

An increase in planning applications has been seen again since mid-2022. This is reflected with some delay through the rise in building permits, where the annual total rose again to just under 40,000 in the second quarter of 2025 (Figure 5). At the same time, the number of planning applications has fallen sharply again following the significant increase in the meantime. Despite the somewhat higher momentum in planning activity, it will take some time before building permits are reflected in supply. This means that a further low in the number of completed units is still likely to come. Thus, although there are signs of easing on the rental housing market, there is still no real recovery. It also remains to be seen whether the significant decline in planning applications is already a reversal of the trend or merely a brief interim low.

**Figure 5: Planning activity with a little more thrust**

Construction and planning activity on the Swiss residential real estate market (total over 12 months, number of residential units)

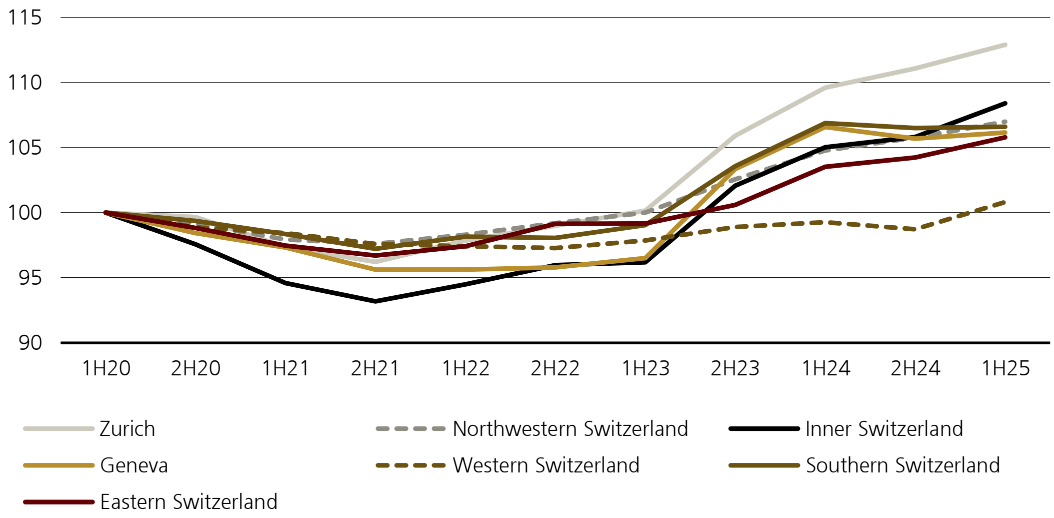



Source: Federal Statistical Office, Bauinfo; UBS Asset Management (GRA); August 2025; last data point: 2Q25 (completions: 2023).

**Vacancy rates continue to fall**
The slight decline in immigration and the resumption of construction activity are signs of a slight easing on the rental housing market, but not yet a real recovery, as it will take time for these developments to be reflected in the market. This is shown in the already published vacancy surveys for 2025. In the canton of Zurich, the vacancy rate has fallen from 0.56% to 0.48%. In the canton of Geneva it fell from 0.46% to 0.34%, and in the canton of Bern it remained constant at a low 0.44%. Only Basel recorded a slight increase from 0.8% to 0.9%, mainly driven by an increase in empty small and furnished apartments.

**Asking rents continue to rise**
A trend reversal in asking rents is therefore not expected in the short term. Although momentum has slowed somewhat, growth in the second quarter of 2025 remains very positive at 1.3% YoY. And the growth is broadly based. Although Southern Switzerland (-0.3%) and the Lake Geneva region (-0.4%) recorded slight falls in rents last year, the other regions continued to record significant growth. This remains particularly pronounced in the Zurich region (+3%) and in Central Switzerland (+3.2%). In Western Switzerland, where there has been little momentum in recent years, rents rose by 1.6% over the past year (Figure 6).

**Figure 6: Zurich continues to lead the way in rental price momentum**
Regional rent growth (index, 1H20 = 100)




Source: Wüest Partner; last data point: 1H25.

Although YoY rental growth has eased somewhat, the delayed effects of higher planning activity are likely to result in further increases in asking rents in the coming years as demand remains high.

**Reference interest rate falls twice**
Existing rents, on the other hand, are moving in the opposite direction. Existing rents in Switzerland are linked to the mortgage reference interest rate. If this increases, as in 2023, rents may be raised. If this falls, tenants may demand a rent reduction. The reference interest rate refers to the volume-weighted average interest rate of outstanding mortgage loans from Swiss banks.

Due to the high proportion of fixed-rate mortgages, the decline in mortgage interest rates, which manifested itself in the course of 2024, has only affected the reference interest rate with some delay. The reference interest rate published on 3 March has fallen again from 1.75% to 1.5%. In June, the reference interest rate remained at 1.5%. In September, we saw another decline in the underlying average rate to 1.37%, exactly the threshold that needed to be reached to push the reference interest rate to 1.25%. We expect a sidewards movement from here, though there is a chance that we will see an up and down over the coming quarters due to the proximity to the threshold and the volatile environment-driving interest rates.

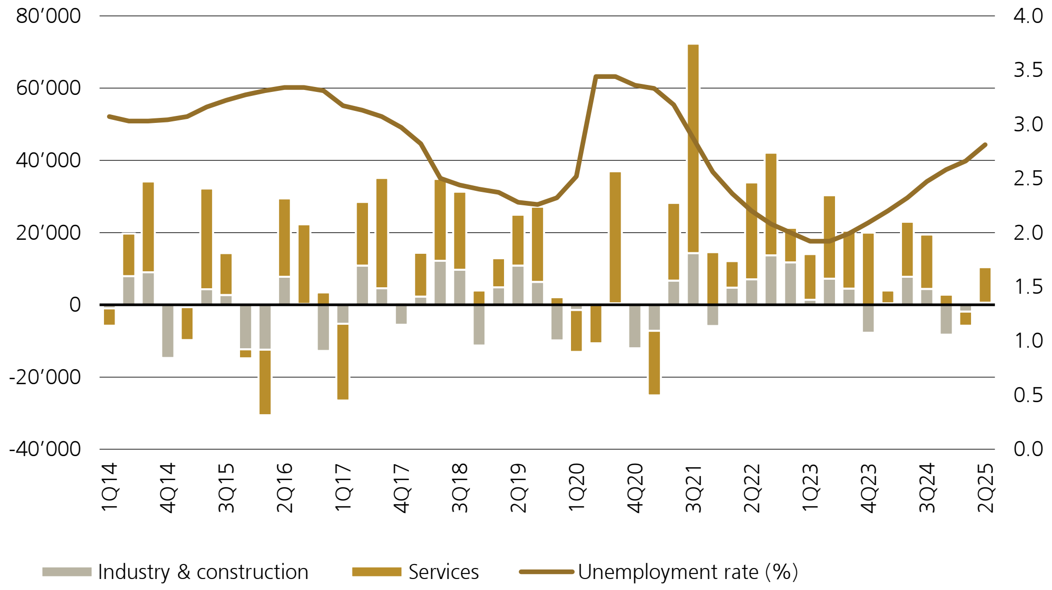
# Commercial rental market

## Economy provides little tailwind

Even if the impact of high tariffs on growth should be limited, an economic slowdown tends to affect commercial space the most. Industrial and logistics space in particular is likely to be hit hardest by the trade policy disruption. This is due to the high level of uncertainty, but also to the falling sales of export companies. Nevertheless, the situation on the rental market is better than might be expected under the circumstances.

**Office: employment growth declines**
The tailwind of strong employment growth, which has supported the office space market over the past two years, has dried up to some extent. Employment growth has declined over the last few quarters and was negative in the first quarter of 2025 not only in industry (where it was already negative in the previous quarter), but also in the service sector (Figure 7). In 2Q25, employment was positive again, but momentum remains low. With a decline in employment growth to below 20,000 full-time equivalents in the past 12 months, the need for additional office space due to employment has reduced significantly.

**Figure 7: Employment trend with low momentum**
Employment trend (change on previous quarter, full-time equivalents)

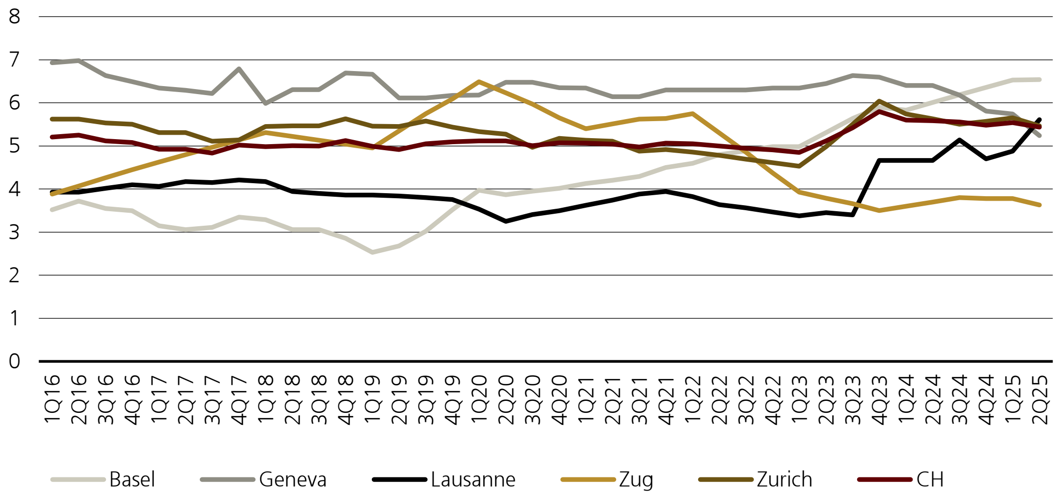



Source: State Secretariat for Economic Affairs; Oxford Economics, UBS Asset Management, Global Real Assets (GRA); last data point: 2Q25.

**Vacancy rate decreasing nevertheless**
Despite the difficult circumstances, the Swiss office space market is showing itself to be robust. 'Return-to-office' mandates are having a positive impact. They are increasingly gaining ground and mitigating the home-office-related decline in space requirements. It is true that take-up is currently somewhat lower than the long-term average. However, net absorption remains positive, and the vacancy rate has stabilized. The vacancy rate across Switzerland continues to fall. After peaking at 5.8% in the fourth quarter of 2023, it currently (2Q25) stands at 5.4% (Figure 8).

The decline is driven in particular by a significant fall in vacancy rates in Geneva, where the high level of new construction activity in recent years is increasingly being absorbed by the market. Basel and Lausanne, on the other hand, continue to record rising vacancy rates. In Lausanne, this is at least partly due to the high level of construction activity outside the city center in the west, where a lot of space has come onto the market. In Basel, the vacancy rate is mainly driven by the two pharmaceutical companies Roche and Novartis and the insurance company Baloise, which have freed up a lot of space in the city by moving to their own campuses in recent years.

**Figure 8: Switzerland-wide office vacancy rate falls again**
Vacancy rates (% of stock)




Source: CBRE; last data point: 2Q25.

**Average rents are also seeing an upward trend again**
Office rents continue to show strong price growth in prime rents. The high requirements of office tenants in terms of quality and location thus seem to remain unchanged. Compared to the previous year, prime rents rose by 3.4% in the second quarter of 2025. Average rents are however also up for the fourth quarter in a row, following the sustained decline between 2021 and mid-2024. YoY, they were up 2.1% in the second quarter of 2025.

**Retail space: consumers not in a euphoric mood**
In addition to ongoing structural challenges, the retail space market, like the other commercial segments, is struggling with a difficult economic environment. Although consumer sentiment has improved again compared to the end of 2022, it remains well below the long-term average and is highly volatile. Sales in the retail sector are also not really getting off the ground. Although sales rose by 1% YoY in the first quarter of 2025, a decline of 0.5% was recorded again in the second quarter of 2025.

In this respect, the situation on the retail space market remains challenging. It is true that asking rents have increased significantly since the low point in 2022: noticeable positive momentum was observed in the second half of 2024 in particular. Nevertheless, rents are still below the level of 10 years ago. Following the positive development in the previous year and in the first quarter of 2025, a slight decline was again recorded in the second quarter.

At the same time, the retail space market is not developing homogeneously, as individual sub-segments are performing differently. Grocery stores, DIY stores, as well as absolute top retail locations, are performing better, while retail space in B and C locations continues to struggle to generate sufficient tenant demand.

### Logistics and industry: trade policy tensions create a headwind

The market for industrial and logistics space is likely to feel the effects of trade policy disruption the most. However, as many production and logistics facilities are owned by the occupying companies, no major market movements are expected in the short term. This is particularly the case as long as entire locations do not have to be closed, as the degree of specialization in some space is very high and relocation due to job cuts is not necessarily worthwhile.

Despite the headwind, there are still positive structural factors that will continue to support the logistics segment in the future. Although Swiss Post's parcel volumes have fallen slightly since the peak of the pandemic, which is likely due to increasing competition from alternative providers as well as a slight decline in the share of online sales in the total retail volume, a significant increase in the online share is still expected in the medium to long term in the retail sector.

The logistics market in Switzerland is currently proving stable. The supply ratio remains constant at 2.6%, and vacancies continue to be concentrated in relatively small spaces. Large, modern spaces in good locations have high reletting potential. As a result, prime rents are rising by 9% per year, and according to CBRE, prime yields fell again by 25 basis points in the first half of the year.

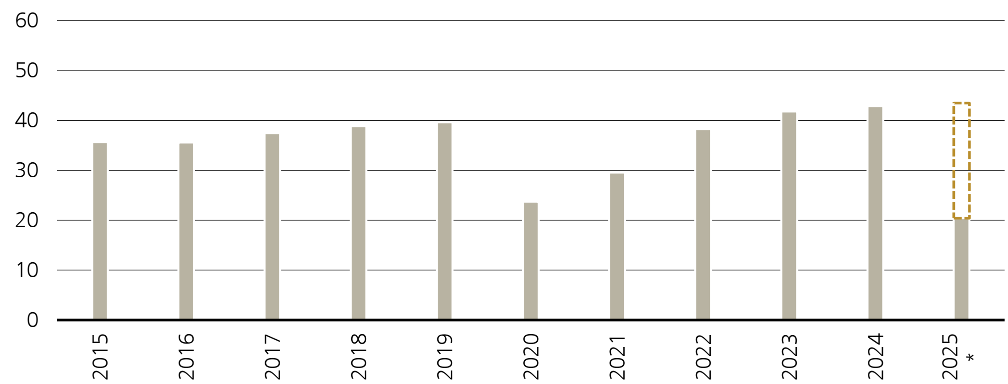
### Hotels: Swiss hotels and spas on track for record figures again

Despite a challenging economic environment, the Swiss hotel industry is remaining strong in 2025. The appreciation of the Swiss franc and subdued consumer sentiment abroad offer little tailwind, but Swiss hotels are still on course for record figures. With 20.4 million overnight stays between January and June 2025, a record high level was reached in the middle of the year. As the second half of the year has tended to be stronger since the pandemic, a new record of around 43 million overnight stays is expected for the year as a whole (Figure 9).

The main driver continues to be the increase in urban centers, which is also supported in 2025 by major events such as the ESC (Eurovision Song Contest) in Basel and the Women's European Football Championships. This means that major centers are still ahead of tourist centers. In addition to the big events, this was also supported by the continuing strong demand from American guests. They were not deterred by the strong nominal appreciation of the Swiss franc against the US dollar and once again recorded 8% more overnight stays in the first half of 2025 than in the same period of the previous year.

In the medium term, the strong growth of recent years is likely to weaken somewhat, particularly as distant markets, especially those in Asia, are likely to lose some of their momentum. Following growth of 5% in overnight stays from distant markets this year, BAK Economics in its May tourism forecast is expecting lower growth of 3% over the next two years. Domestic demand should continue to perform well. At the same time, risks due to the high level of geopolitical and trade policy uncertainty and its potential impact on the global economy remain high.

**Figure 9: Record figure likely to be surpassed once again**
Overnight stays in the Swiss hotel industry (total, in millions)




Source: Federal Statistical Office, UBS Asset Management (GRA), August 2025; last data point: June 2025; *2025: Jan-Jun + forecast (dashed line). **This does not constitute a guarantee by UBS Asset Management.**

# Return forecasts

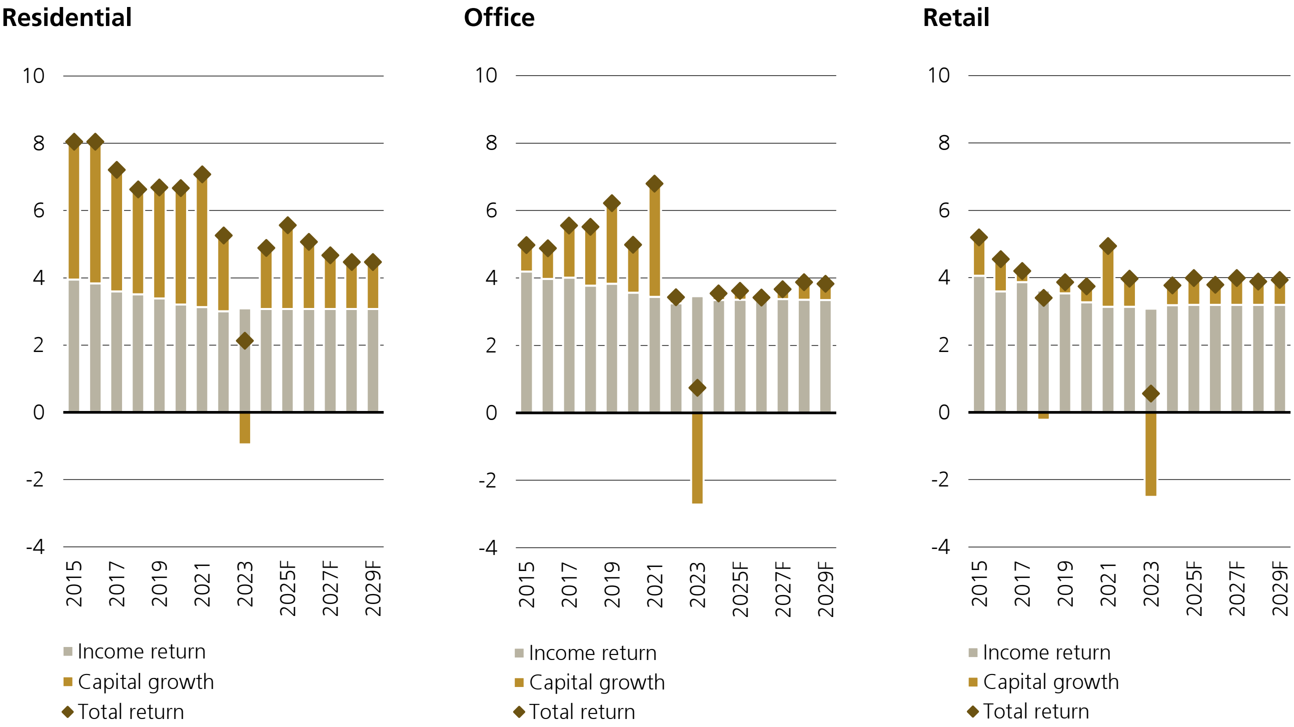
## Positive performance expected

After a slight decline in value of 1.7% in 2023, Swiss real estate again posted positive performance of +1.1% in 2024. This was supported in particular by residential real estate, where values increased by 1.8% (Figure 10).

Office properties also recovered slightly last year following the decline in 2023, recording an increase in value of +0.2%. A similar trend is expected for the current year. Retail space was a positive surprise last year, with a 0.6% increase in value. Here we expect an increase in value of 0.8% for 2025. The fact that the increase in value here is more pronounced than in the office segment can be attributed to the consolidation that has already taken place and the comparatively low increase in value in the years before the pandemic and the turnaround in interest rates. In addition, international demand for high-quality retail space is rising noticeably again, while office space remains difficult to place on the transaction market. An average increase in value of 2.5% is expected for residential properties in 2025 due to continued high demand. The average total return should therefore be around 5.6%.

Somewhat more subdued performance is expected across all segments in 2026. In the residential sector, the reduction in reference interest rates and increasing regulatory pressure could have an impact. In the commercial segment, the low economic momentum and the rise in interest rates anticipated for the end of 2026 are likely to be felt. In the coming years, we expect the commercial segment to stabilize and the residential segment to calm down slightly, as new construction activity is likely to increase supply again in the medium term.

**Figure 10: Low-interest-rate environment leads to value appreciation again**
Income return, capital growth and total return on Swiss real estate investments (by segment, in %)




Source: MSCI/Wüest Partner, Oxford Economics; UBS Asset Management (GRA); August 2025; last data point: 2024.
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