Source: UBS

Real estate boom with a demographic expiry date

18 July 2025, 13:55 UTC, written by Daniel Kalt

Real estate investors should incorporate different demographic scenarios into their investment decisions, as aging populations and negative birth rates will create varying market dynamics across regions.

The Swiss real estate market's boom has now lasted about a quarter of a century. Since prices bottomed out following the real estate crisis in the early 1990s, they have only moved in one direction—up. As many of the drivers of this boom are likely to remain intact for a while, the boom is expected to continue for the time being.

In the coming years, demand for housing should be supported by persistently high immigration. This is primarily because, in the coming years, up to 25,000 more people will retire each year than young people entering the workforce, meaning many companies will have to compensate for the loss of experienced professionals by recruiting from surrounding European countries. Annual population growth is likely to remain high at 0.8 to 1.1 percent until 2030, but could almost halve by 2045, as the low birth rate will likely turn the birth surplus negative in the coming years and dampen population growth. In the long term, demand for residential and commercial space is expected to decline from around 2035 due to an aging society and the aforementioned negative birth surplus.

In this environment, regional differences are also likely to become more pronounced. While urban cantons such as Zurich, Geneva, Vaud, and Lucerne still have a birth surplus, many rural and peripheral cantons are already fully dependent on immigration. In regions with weak immigration and a negative birth surplus, stagnation or population decline and significant aging are looming. This affects real estate demand and price development.

Furthermore, we expect demand for age-appropriate housing and care facilities to rise sharply, while the need for school space may stagnate or decline in many cantons. Especially in rural regions, a decline in student numbers is to be expected, while the number of people over 85 is likely to increase by 75% by 2040.

As a result, the pressure on land reserves is also easing. In 19 out of 26 cantons, expected population growth is now estimated to be lower than five years ago, which reduces the need for new building zones and could even lead to rezoning in some regions. Cantons such as Lucerne and St. Gallen, on the other hand, could once again have slightly more leeway for new zoning in the future, and in Valais, the recent high pressure to reduce building zones is likely to ease somewhat.

For investors, this means that location selection and consideration of regional demographic trends are becoming increasingly important. Residential and commercial real estate are expected to remain attractive in urban centers and high-growth regions, while risks exist in peripheral areas with declining populations and aging demographics. Demand for age-appropriate properties and care facilities offers new opportunities.

Overall, it appears more sensible than ever to incorporate demographic scenarios into investment strategies and to respond flexibly to regional developments. In the long term, a normalization of price and rental dynamics can be expected, with Switzerland continuing to occupy a special position in a European comparison due to its comparatively stable demand.

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