For global professional clients / qualified investors / institutional clients

Real estate

1H25 Switzerland – Real Estate Outlook

Back in the low-interest environment

Demand for real estate increases

The risk premium on real estate fell significantly in 2022 and 2023, but a considerable recovery has now been seen here. At the end of 2024, the risk premium for real estate investments was just above the long-term average again. Demand for real estate investments is rising accordingly.

Macroeconomic environment

Switzerland stable in an uncertain environment

Swiss economy performs solidly in a difficult environment

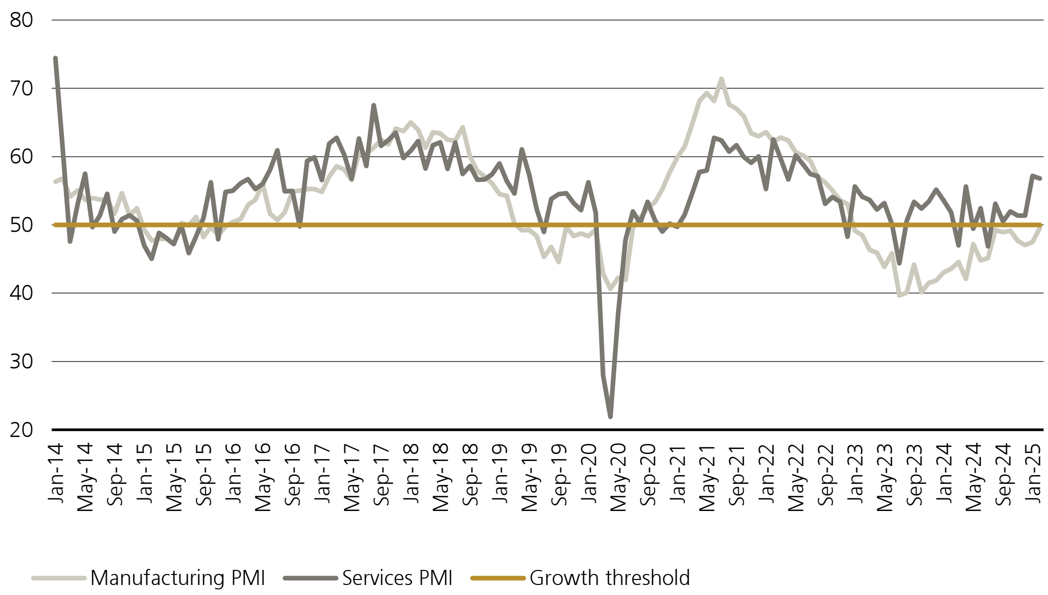
The global economy has faced considerable challenges over the past five years. First of all, the COVID-19 pandemic led to far-reaching restrictions, supply chain problems and, as a result, economic slumps throughout the world. This was followed by a sharp rise in inflation, as well as interest rate hikes to combat this. The war in Ukraine, the conflict in the Middle East and the associated geopolitical tensions increased uncertainty on the global financial markets. The election of Donald Trump as US President, the protectionist measures announced and the potential trade conflicts as a result will also significantly slow down the economic engine of "globalization". In Europe, export-oriented, industry-heavy economies are suffering in particular.

Despite the choppy waters, the Swiss economy has proved remarkably resilient. In 2024, the Swiss economy grew by 0.9% adjusted for sport events[1]. Weak foreign trade was offset by above-average growth in private consumption and thus strong domestic demand. However, the labor market cooled significantly from a high level in the course of 2024. After employment growth of over 77,000 full-time equivalents (FTEs) in 2023, employment growth flattened out in 2024 at 40,800 FTEs and remained around 17% below the average of the last 10 years. The unemployment rate also rose from 2.5% in January 2024 to 3.0% in January 2025.

Slight improvement expected

Despite the continuing high level of uncertainty, a slight improvement in economic development is expected for 2025. The European Purchasing Managers' Indexes (PMIs) have recovered from their lows, and in Switzerland the leading indicators also point to slightly higher momentum. The Purchasing Managers Index for services in particular has been very positive since the beginning of the year at over 57 points, but there are also signs of a slight improvement in industrials. At 49.6 points in February, the indicator has come very close to the growth threshold of 50 points again, having been below it since January 2023.

Figure 1: Leading indicators point to improvement (Purchasing Managers' Index – PMI)



Source: procure.ch; Refinitiv Datastream; Last data point: February 2025

[1] International sports organizations such as FIFA, UEFA and the IOC have their headquarters in Switzerland. The license income recorded in connection with major sport events is recognized as value added in the entertainment sector. Given the moderate size of the Swiss economy, the value added generated by these sporting events is a noticeable quantity in the national accounts. Major sporting events usually take place every two years and only in certain quarters, leading to fluctuations in annual and quarterly gross domestic product (GDP). In order to make GDP rates comparable over the years, the State Secretariat for Economic Affairs SECO publishes sport-adjusted GDP.

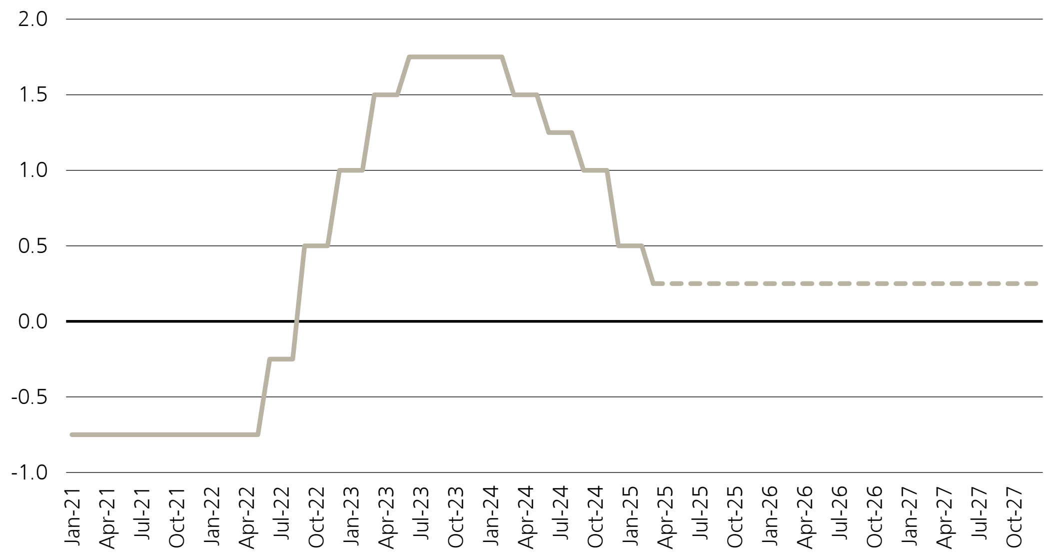
Swiss GDP (adjusted for sport events) is expected to grow by 1.5% in 2025[2]. The Swiss economy is expected to return to the growth trend (between 1.6 and 1.8%) by 2026. Nevertheless, the uncertainties surrounding this outlook remain considerable. While a possible ceasefire in Ukraine holds upside potential for the European and therefore the Swiss economy, the threat of US tariffs poses a significant downside risk. Although the direct impact of US tariffs on Switzerland is not considered to be particularly far-reaching, the indirect negative impact of tariffs and thus weaker growth in Europe – particularly in Germany – could have a significant impact on the Swiss economy.

The SNB's cycle of interest rate cuts is coming to an end

Inflation in Switzerland continued to fall in the course of 2024. Inflation averaged 1.1% for the year but was only around 0.6% in the fourth quarter. The decline in inflation combined with the strength of the Swiss franc in 2024 prompted the Swiss National Bank (SNB) to lower the prime rate by a further 50 basis points to 0.5% in December, following three interest rate cuts of 25 basis points each over the course of the year. At the beginning of 2025, inflation fell again, partly due to lower electricity prices. In January 2025, inflation was 0.4%, while in February it was only 0.3%. Core inflation (excluding energy prices and food) remains at 1%.

As a result and with reference to the downside risks for inflation, the SNB lowered the rate again on 20 March by 25 basis points to 0.25%. In the base scenario, we assume that the prime rate will now remain at this level. Should the economy in the eurozone develop more negatively than previously expected – in view of the threat of tariffs – and thus also weaken the Swiss economy and the local labor market to a greater extent, a further rate cut to 0% might still be possible.

Figure 2: Swiss National Bank lowers interest rate to 0.25% (Interest rate and forecast, %)



Source: Refinitiv Datastream, UBS CIO WM; Last data point: March 2025; Forecasts as of 20 March 2025

[2] Unadjusted growth of 1.2% is expected for 2025.

Investment market

More attractive risk premium increases demand

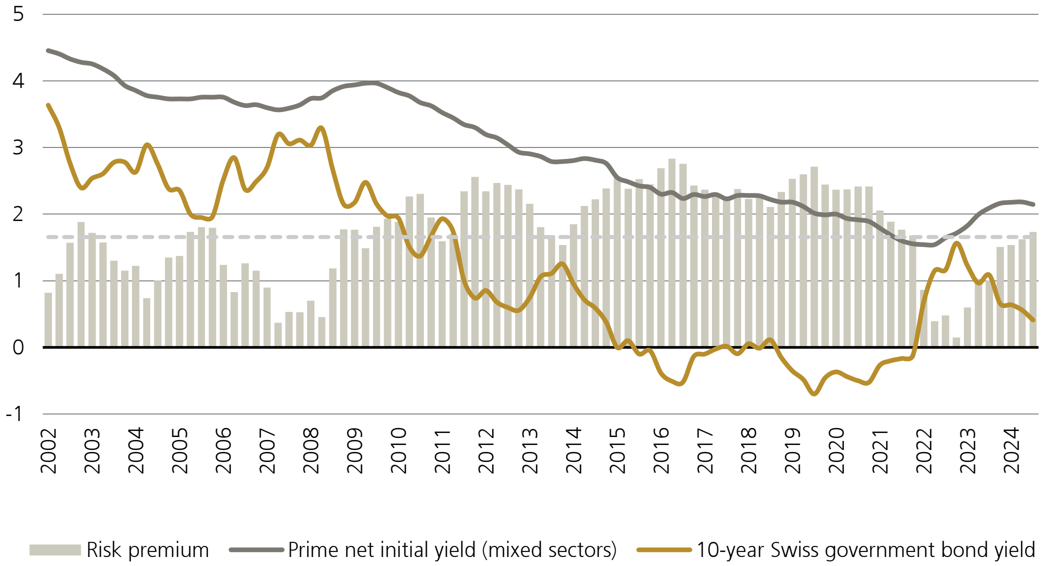
Increased attractiveness of real estate investments

After the attractiveness of Swiss real estate investments declined significantly in 2022 and 2023 due to the rapid rise in interest rates, the signs improved considerably again in 2024. The renewed rise in the risk premium contributed significantly to this. After reaching a low of 15 basis points in the fourth quarter of 2022, the average risk premium rose again to 180 basis points in the fourth quarter of 2024.

The recovery consists of two factors: First, the real estate risk premium benefited from the decline in the yield on Swiss Confederation bonds from 1.65% at the end of December 2022 to 0.32% at the end of 2024. This was compounded by the correction in net initial yields on real estate, which rose by around 60 basis points on average between mid-2022 and early 2024. Due to the announced fiscal package in Germany and the high level of geopolitical uncertainty, the yield on the 10-year Swiss Confederation bond has recently risen again, but the risk premium remains around 150 basis points.

Figure 3: Risk premium back above long-term average

Yield on 10-year Swiss Confederation bond, net initial yield on prime real estate and resulting risk premium (%)



Source: Wüest Partner; Swiss National Bank; UBS Asset Management (GRA); February 2025; Last data point: 4Q24.
Past/expected performance is not a guarantee of future performance.

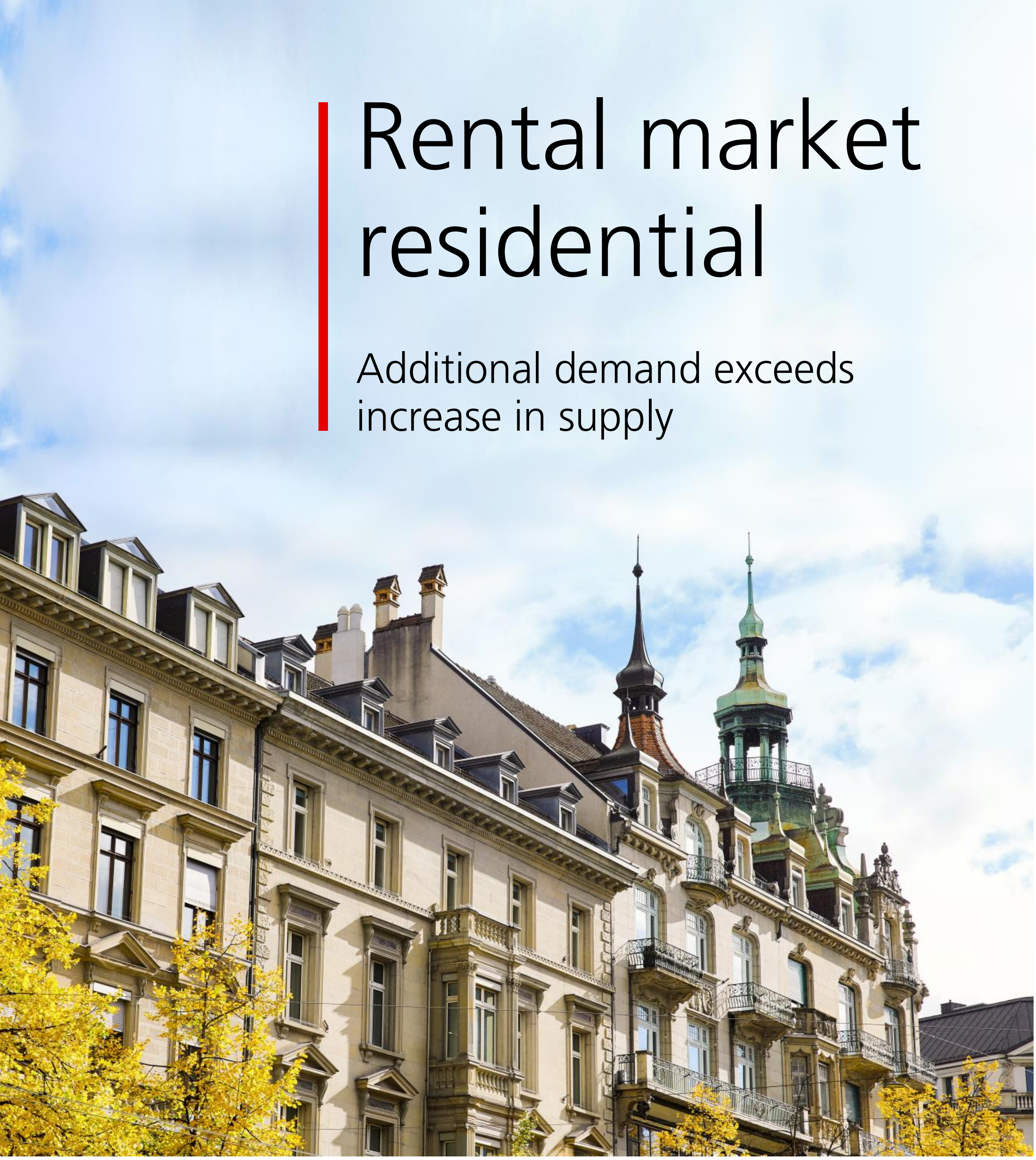
Investor sentiment has thus improved significantly. At +17.6%, 2024 was the fourth most successful year for the SWIIT since its launch in 1995. A comparison of last year's capital market transactions with those of the two previous years clearly shows the renewed increase in attractiveness.

Following the low momentum in 2022 and 2023, volumes rose significantly in 2024 and exceeded the CHF 4 billion mark again. In view of the capital increases and bond issues totaling CHF 1.7 billion that have already taken place or have been announced as at the end of March, there are no signs of a trend reversal here.

This should accelerate momentum on the direct transaction market in order to make use of the capital raised. After a sideways movement was observed in net initial yields in the first half of 2024 following the increases in 2022 and 2023, there were isolated signs of compression again at the end of 2024. This trend is likely to continue as demand increases.

Rental market residential

Additional demand exceeds increase in supply



Immigration decreases slightly but remains at a high level

The picture on the Swiss rental housing market has hardly changed year on year. Although net immigration in 2024 was slightly down compared to the record year of 2023, at 83,400 it was the third-highest figure in the past 25 years after 2008 and 2023. This in turn means that Switzerland's permanent population will have grown to over 9 million people by the third quarter of 2024, an increase of around 375,000 persons over the past five years. Thus, the population is currently moving toward the "high" population scenario published by the Swiss federal government, in which the 10 million mark would be reached in 2034 and a population of 11.4 million would be expected by 2050. Assuming that the average household size remains constant at 2.18, this scenario would require around 46,000 additional homes per year over the next 10 years.

Planning activities pick up speed

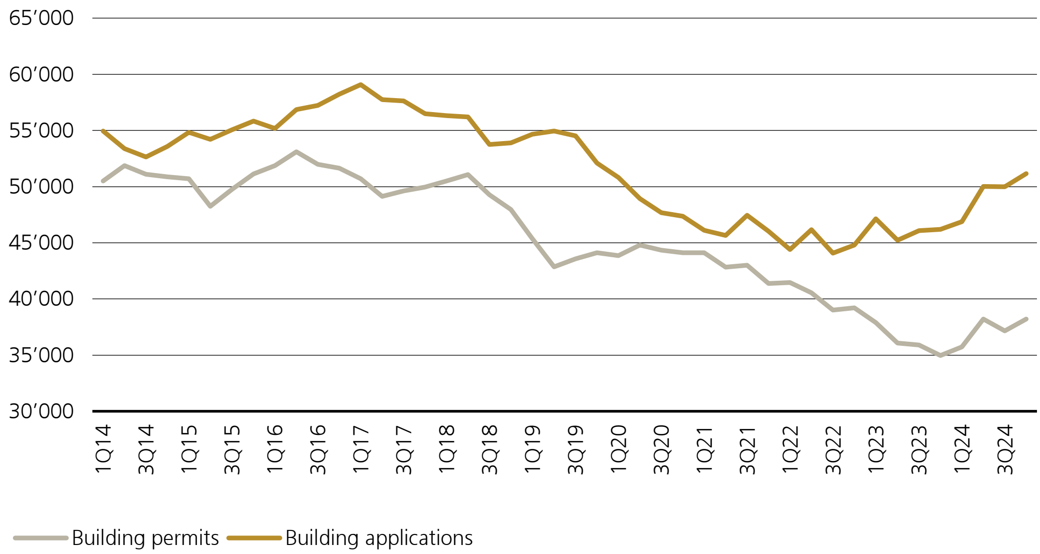
Despite the strong increase in demand, construction activity however remains subdued, even if a slight increase was observed in 2024. In addition to the reduction in interest rates and the resulting improvement in the financing situation, the easing of construction prices is having a supporting effect. Following the significant increase between 2020 and 2022 due to supply chain problems and higher energy prices, a sideways movement has been observed here since the beginning of 2023.

This is likely to have fueled the visible upward trend in planning applications, i.e., applications for planning permission from developers, since the beginning of 2023. From 44,000 planning applications at the low point at the end of 2022, the annual total rose again to 51,000 in the fourth quarter of 2024. The development of building permits (i.e., the approval of the application) generally follows that of planning applications with some level of delay, but this is the decisive factor in estimating the future construction of living space.

Although approvals have risen again compared to the low point in 2023, at 38,000 they remain very low compared to the long-term average. The fact that the gap between the two indicators is widening and the time lag is increasing is probably a further indication of the increasing duration and complexity of the approval processes. This means that construction activity and thus the completion of additional living space is likely to remain subdued for a while yet.

Figure 4: Planning activity enjoys a little more impetus

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



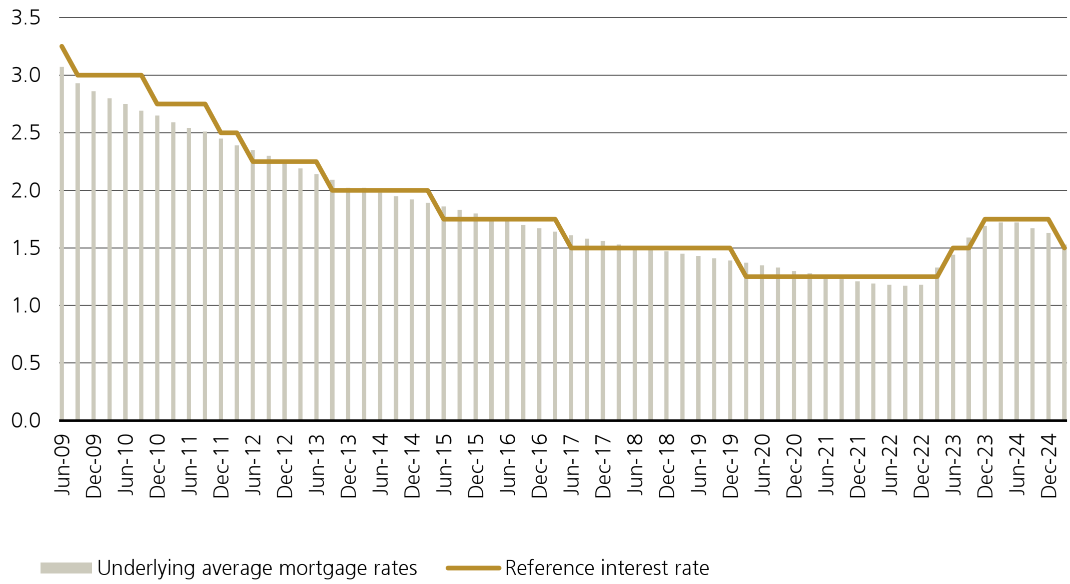
Source: Bauinfo; UBS Asset Management (GRA); February 2024; Last data point: 4Q24

Record increase in rents
Through the high demand and little expansion in supply remains a persistently strong price dynamic. According to figures from Wüest Partner, the average asking rent in Switzerland rose by 4.7% in 2024 - a record figure for the past 25 years. However, there are clear regional differences. Zurich has once again taken the lead. Rents in the region rose by 7.2% in 2024. In central Switzerland, around Lake Geneva and in southern Switzerland (Valais, Ticino and Graubünden), rents have also risen more sharply than the national average. In contrast, growth in the western Swiss cantons of Jura, Fribourg, Neuchâtel and Vaud (excluding Lake Geneva) was very low at 0.6% year-on-year. Although rental price growth calmed somewhat by the end of 2024, the slow recovery in construction activity and high demand means that the increase in asking rents is likely to remain strong in the future, particularly in regions with strong inward migration.

Reference interest rate experiences reverse
In 2023, in addition to the increase in asking rents, existing rents were also raised on the rental housing market due to two increases in the mortgage reference interest rate of 25 basis points each in June and December 2023. In 2024, the reference interest rate, and thus existing rents, remained constant. As the reference interest rate is based on the volume-weighted average interest rate of outstanding mortgage receivables of Swiss banks, the direction has now reversed.

Due to the high proportion of fixed-rate mortgages, the decline in mortgage interest rates over the course of 2024 had a delayed impact. Interest rates continue to rise for part of the total mortgage portfolio, depending on the term and time of refinancing, despite prime rate cuts. However, the reference interest rate published on 3 March has fallen again from 1.75% to 1.5%. The underlying average rate has declined from its peak of 1.72% at the beginning of 2024 to 1.53%. For a further reduction, the rate would have to fall by at least another 16 basis points to 1.37%. In view of the recent rise in long-term interest rates, this is currently not expected.

Figure 5: Existing rents on current reference interest rate likely to fall in summer
Development of mortgage reference interest rate and underlying average rate (%)



Source: Federal Office for Housing; March 2025. Last data point: 31 December 2024

Commercial rental market

Uncertainty due to structural shifts decreases somewhat

While fundamentals on the Swiss housing market are very positive and the segment is highly favored by investors, the commercial segments in Switzerland are currently enjoying less interest due to structural shifts, the economic headwind, but also the rather poor publicity of the commercial segment abroad. In general, however, it can be said that the situation on the rental market is better than might be expected under the circumstances.

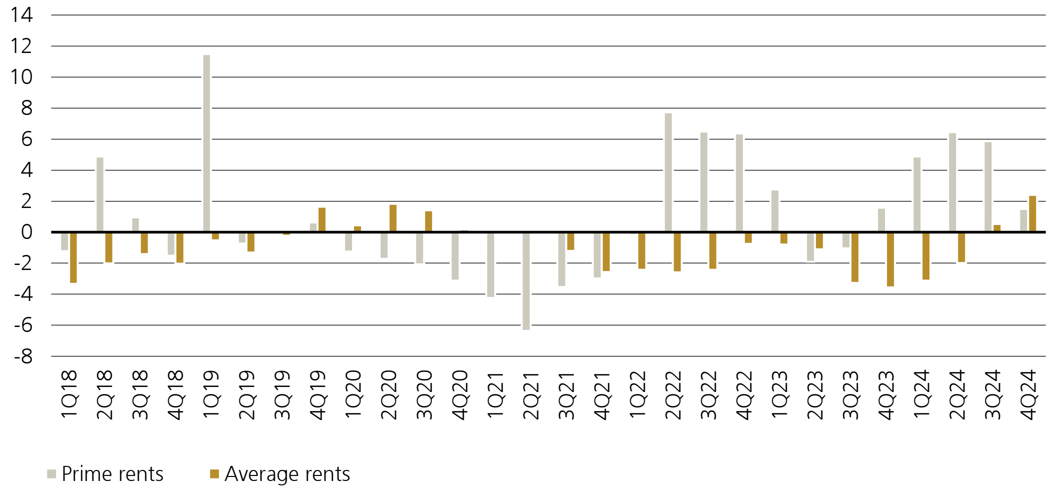
Office: Uncertainty due to hybrid working models decreases
The economic slowdown has dampened employment growth in the Swiss labor market somewhat, but with an increase of around 40,800 full-time equivalents in 2024, momentum remains positive, resulting in further growth in demand for office space. In addition, the uncertainty caused by the rapid acceleration and establishment of the home office trend due to the pandemic is diminishing somewhat.

The vast majority (80%) of Swiss companies continue to rely on hybrid forms of work; However, the office remains the main workplace. In the new form, fewer individual workstations are needed, but more space is required for discussion and collaboration or simply being together. Although the Swiss supply rate has also risen in response since 2020, it has done so from a lower level and to a much lesser extent than was the case in global, particularly American, office markets.

According to JLL, 27% of Swiss companies currently anticipate a reduction in their space requirements over the next two years. In the medium to long term, however, employment growth and the increasing digitalization and tertiarization of the economy are likely to counteract this trend. Moreover, according to the Wüest Partner Office Space Barometer, no further increase in hours spent working from home is expected. On the contrary, an increasing number of so-called "return-to-office mandates" from large companies have recently been seen internationally. This should make it increasingly easy to assess the impact of this structural change factor and reduce uncertainty somewhat.

However, the impact on quality requirements and location preference is likely to remain. In the "war for talent", the location and amenities of the workplace will become increasingly important. This results in a polarization in favor of very well-located, central, high-quality properties. This is reflected in the differing development of supply rates. In Zurich, for example, the rate rose by just 0.2 percentage points in the city year on year to 3.4% in 2024. In the wider urban area, however, the increase was somewhat greater – from 4.8% to 5.3%. Flexible concepts also remain in demand. Sustainability is playing an increasingly important role when renting, especially for larger companies. The high demand for prime offices has been reflected in the sharp rise in rents in this segment over the past three years, while average rents have tended to come under pressure. However, average rents recovered year on year in the second half of 2024 and even recorded stronger growth than prime properties in the fourth quarter at +2.4%.

Figure 6: Average rents also recovering slowly (Rental price growth, %, year-on-year)



Source: Wüest Partner; UBS Asset Management (GRA); February 2025; Last data point: 4Q24

Retail: Sales seeing a recovery

Retail space faces similar challenges to office space. The structural shift from bricks-and-mortar to digital retail began earlier than the switch from offices to home offices and has led to a less abrupt change in demand for retail space. Nevertheless, the shift remains noticeable. The resulting pressure on retail space is reflected in the asking rents. In addition to the structural shift, consumer sentiment has been severely dampened in recent years, reflecting the Swiss population's lower propensity to consume, although an upward trend has emerged since the low point in the third quarter of 2022. With the slow improvement, retail sales also recovered somewhat last year. After sales declined in 2022 and 2023, an increase of 1.4% was recorded in real terms in 2024.

As a result, rents for retail space have experienced a recovery. As the food segment in particular developed positively, grocery-anchored properties benefited disproportionately. Real retail sales should continue to grow in 2025, as real wages are expected to rise for the second year in a row and immigration will have a positive impact on sales growth. This in turn should further support the recovery in the retail space market. A certain renaissance in the retail segment can also be observed internationally, as the past decade has had a cleansing effect and providers have repositioned themselves in the changed environment with fresh concepts.

Logistics: Structural tailwind helps counter economic headwinds

The logistics segment has been on the upswing globally for years and is also attracting increasing attention in Switzerland. However, due to the high proportion of owner occupation, this is still a niche market. Nevertheless, according to CBRE, strong yield compression from 5.5% to 3.7% was observed in Switzerland between 2012 and 2022, especially in prime locations and for larger spaces. Although the change in monetary policy conditions led to an increase in yields of 60 basis points in the logistics segment between October 2022 and June 2023, yields have remained stable again since then.

Although the Swiss rental market for logistics space is currently still small by international standards, demand for space is likely to grow in the future. While the retail space segment has faced headwinds due to the growth of online retail, the trend means a sustained tailwind for the logistics segment. In addition to the continued growth in online trade, increasing protectionism is likely to support the domestic industrial and logistics segment. With the review of national security interests, more manufacturing is being brought back to the local level. Companies are also increasingly switching from just-in-time to just-in-case in order to increase the resilience of their supply chains.

As a result, there will be a structural increase in demand for industrial and logistics space. In view of the economic headwind, the supply rate rose minimally from 2.4% to 2.6% in 2024. Rental price growth remained positive at 2.5%, although the increase in prime rents in Switzerland remains moderate compared to other European countries, where double-digit rental growth rates were recorded at the height of the COVID-19 pandemic. According to CBRE, growth is likely to continue over the next five years. However, a general slowdown is expected compared to previous years.

Hotels: Swiss hotels and spas see another record year in 2024

The Swiss hotel industry escaped the gloomy consumer sentiment in Switzerland and abroad and recorded another record year in terms of overnight stays with 42.6 million in 2024 despite the strong Swiss franc. The ongoing recovery since the onset of the pandemic is broadly based. Contrary to many fears, the hotel industry in major centers is developing very positively and is recording new highs. Many people thought that city tourism would not recover as a result of the sustained loss of business trips. At -56% compared to 2019, the slump in overnight stays in major centers was also significantly larger than in tourist areas (-22%). However, the recovery is also stronger. With almost 16.3 million overnight stays in 2024, the pre-pandemic level was exceeded by 9%, and for the first time more overnight stays were recorded in major centers than in tourist areas.

The trend in the origin of guests is also closely linked to the different regional demand. In 2020 and 2021, the Swiss hotel industry was driven by domestic guests. Their share rose from 45% previously to 65% during the pandemic years. And at just under 50%, the proportion of overnight stays by Swiss residents remains high with the end of travel restrictions. In addition to the increase in overnight stays by domestic guests, the proportion of American guests in particular has risen sharply from 7% in 2019 to 11% in 2024. This in turn supports the city hotel industry in particular. This is because American tourists spend the majority of their overnight stays in major centers, while domestic tourists spend the majority of their overnight stays in tourist areas.

This explains the less severe slump outside the cities during the pandemic. Further growth in overnight stays is forecast for 2025. The city hotel industry in particular should continue to benefit from major events such as the Eurovision Song Contest in Basel and the European Women's Football Championships. At the same time, the high level of geopolitical uncertainty and its potential impact on the global economy as well as exchange rate developments are leading to increasing risks for the Swiss hotel industry.

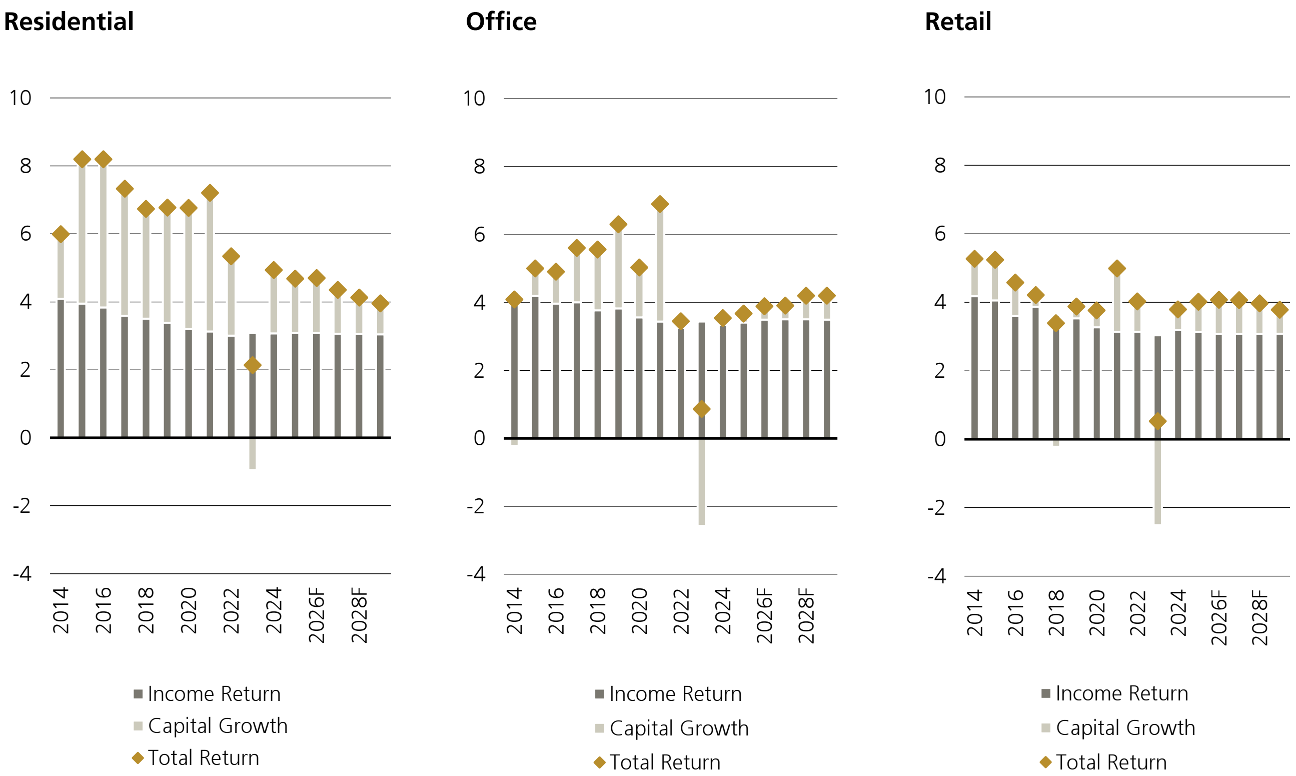
Yield forecasts

Upturn due to interest rate cuts

Globally, the real estate markets had to accept significant value corrections over the interest rate hike cycle. In Switzerland, corrections remained moderate at -1.7% in 2023. In 2024, positive performance was already recorded again across the market, supported in particular by the residential market, which has a high weight in the Swiss index and recorded a clearly positive return on changes in value at 1.8%, while offices appreciated only slightly at 0.2% and retail space at 0.6%. The interest rate cuts that have taken place have significantly increased the demand for real estate again.

Therefore, we expect residential capital values to increase by around 1.6% in 2025 again, also due to the continuing positive rental growth prospects in the residential segment. In the commercial segment, we continue to see somewhat more subdued performance. For office space, we expect a similar appreciation in 2025 as in 2024 due to the rather low demand from investors. We expect an increase in value of 0.9% for retail space. The fact that this is more positive than in the office segment can be attributed to the consolidation that has already taken place in the segment, or the significantly lower increase in value in the years before the pandemic and the interest rate turnaround. In addition, the international demand for quality retail space is currently increasing more significantly, while office space continues to struggle on the transaction market.

Figure 7: Focus on income yields
Income return, capital growth and total return of Swiss real estate investments (by segment, in %)



Source: MSCI/Wüest Partner; UBS Asset Management (GRA); March 2025; Last data point: 2024
Past/expected performance is not a guarantee of future performance.

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