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News release

Anita Müller
Media Relations
Phone.: +41 (0) 58 286 48 54
anita.mueller@ch.ey.com

EY "Trend Barometer: Real Estate Investment Market Switzerland 2016"

Real estate in Switzerland remains attractive in 2016

While investors continue to find the Swiss real estate market attractive, the outlook has grown somewhat gloomier since last year. EY Real Estate Trend Barometer participants see the best opportunities for gains in the residential sector. The picture for hotel property prices, by contrast, is bleak.

ZURICH, 12 JANUARY 2016 – The mood remains positive among Swiss property investors despite a slightly gloomier outlook. Switzerland will remain an attractive place to invest in real estate in 2016. Ninety-one percent of those surveyed regard Switzerland as an attractive or very attractive place to invest, a slight decline of six percentage points year-on-year. Three-fourths of survey participants also prefer Switzerland in a direct comparison with other European countries, according to the results of EY Real Estate's "Trend Barometer: Real Estate Investment Market Switzerland 2016."

Office property prices stable

Some 40 investors who have been active on the Swiss real estate market in recent years offered their assessment of the 2016 property market. Anticipated trends in the micro markets are varied. Over half of the investors expect stable prices in 2016 for office properties at 1A locations. Thirty-five percent expect lower prices while only 12% expect prices to rise. For 1B locations and the periphery, investors mostly foresee lower prices.
The picture for retail properties is similar: while 73% of investors predict stable or rising prices at 1A locations, the outlook for 1B locations and the periphery remains somewhat negative.

Rising prices in the residential sector

Expectations for the residential sector are considerably more positive. All investors expect stable to rising prices for 1A locations, with the majority anticipating that prices will hold steady in 2016 for 1B locations and the periphery as well.

The expected trend in hotel property prices is bleaker. The investors are especially pessimistic when it comes to peripheral locations, where 81% of those surveyed expect prices to collapse. Nearly two-thirds also anticipate declining property values at 1B locations, while a good one-third expect prices to remain stable. The assessment for the best locations is more sanguine: while 38% expect prices to fall and 53% expect them to remain stable, 9% of those surveyed still expect values to rise.

"Capital growth differs considerably by location," says Daniel Zaugg, Partner and Sector Leader Real Estate for EY Switzerland, "but in most cases this is not true of cash-flow yields." In other words, potential selling prices at other than the best locations may decline, but income from ongoing rent payments will remain stable even at weaker locations. "Not all locations are suitable for plans to sell in 2016," says Zaugg, "but as long as cash flow is strong and no refinancing problems or strategy changes come up, there is no need to sell either."

Seeking returns

Investment alternatives to real estate are rare in view of low interest rates and volatile stock markets — finding sensible ways to reinvest free capital remains a challenge in 2016. So it is unsurprising that those surveyed plan fewer major transactions in their commercial real estate portfolios in comparison to the previous year. A clear majority (77%) of those surveyed do not plan to exit the real estate sector themselves. "Investors are staying put," says Rolf Bach, Executive Director Real Estate at EY Switzerland, summarizing the survey results. At the same time, the supply of properties on the Swiss market is contracting, as 70% of those surveyed agree. "Many buyers are resorting to riskier real estate investments that promise higher returns," says Daniel Zaugg. "Many are looking for investment opportunities abroad."

No consensus on comparison with government bonds

Nearly eight out of ten of those surveyed expect Swiss investors to invest more in foreign real estate in 2016, while as many as nine out of ten of those surveyed expect risky transactions to increase. "It is more important than ever today to carefully weigh up the opportunities and risks of investing in sub-markets, although Swiss properties remain an attractive investment instrument," Zaugg explains.

Asked about the case for investing in real estate as an alternative to Swiss government bonds, opinions in the survey differ. Fifty-three percent expect the yield differential between the two investment categories to shrink further, while 47% expect the difference to grow. "The additional yield in comparison with alternative investments determines whether an investor will choose a Swiss government bond or an exposure in the real estate sector," says Rolf Bach.

Zurich region popular

Investors who choose a real estate exposure prefer the Zurich region for office, retail and residential properties alike. Basel is also popular as an investment location, followed by Geneva in the office property sector and Lucerne in retail and residential. In general, investors will continue to focus on residential properties. Six out of ten of those surveyed are prioritizing residential properties over other use categories in 2016.

About the study

Each year, investors active on the Swiss real estate market in recent years are surveyed for the Real Estate Investment Market Trend Barometer. This is the sixth annual Barometer in the series, which began in 2011. The roughly 40 participants in this sixth edition were surveyed in October and November 2015. The Barometer is intended to deliver an assessment of the Swiss real estate investment market as well as providing insight into the strategy investors will pursue in Switzerland for the coming year.

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