

Info-kit office property market

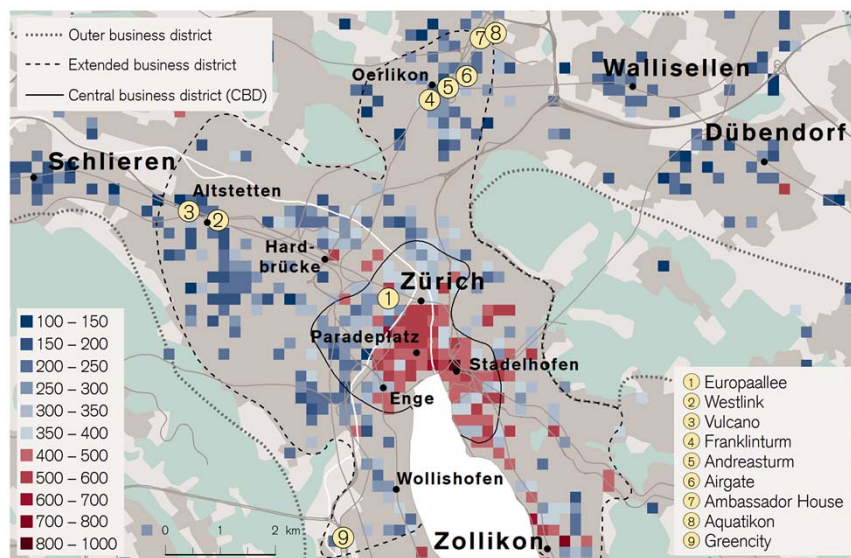
Swiss Real Estate Market 2016

The five largest office property markets in detail

Swiss Real Estate Research

Zurich: The supply of property has stabilized

Advertised rents (net) in CHF/m² and year, 2012–2015



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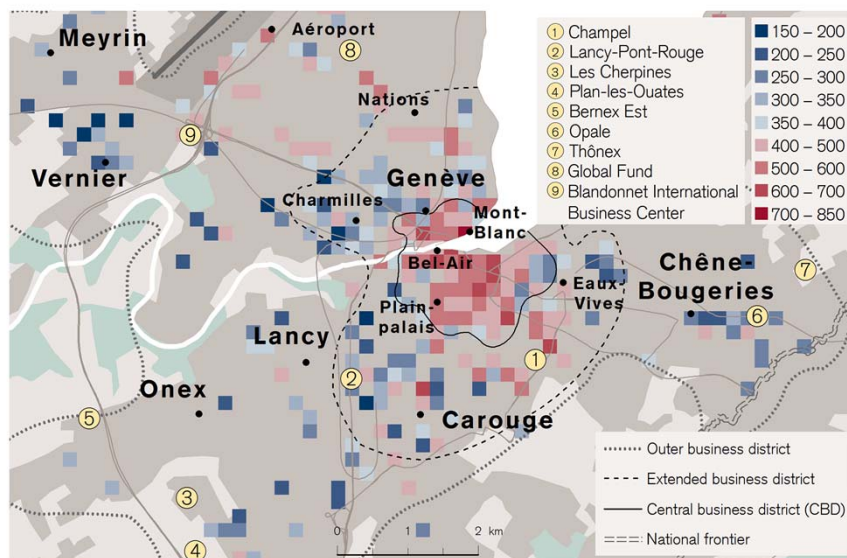
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Oversupply will not be alleviated

- The median advertised rent in Zurich's central business district (CBD) has now reached a price level of CHF 450/m² net. However, rents within the CBD can vary significantly. Outside the CBD the average price level is considerably lower. This difference is greater in Zurich than in any other major center, which is one of the reasons explaining the many relocations seen in recent years.
- While the supply of property on Zurich's office property market has stabilized in the course of 2015, it remains at a very high level at 6.4%. There are currently 645'000 m² on offer – around 83'000 m² fewer than at the last peak in the first quarter of 2015.
- With approved investment volumes of CHF 223 million in 2015, scheduled expansion is a significant 38% below the long-term average of CHF 358 million but this will barely suffice to ease the oversupply.
- It still remains unclear how the fiscal policy of the Canton of Zurich will embrace CTR III. A reduction in tax on profits may become necessary for the Canton of Zurich in order to prevent the difference in taxation from the neighboring cantons from becoming even greater. However, owing to the high share of legal entities in tax revenues, this would soon lead to tax losses. Due to this tricky starting position, demand for office space in Zurich could come under additional pressure.

Geneva: Office space market will be put on a new footing

Advertised rents (net) in CHF/m² and year, 2012–2015



Source: Meta-Sys AG, Federal Office of Topography, Credit Suisse; last data point: Q3 2015

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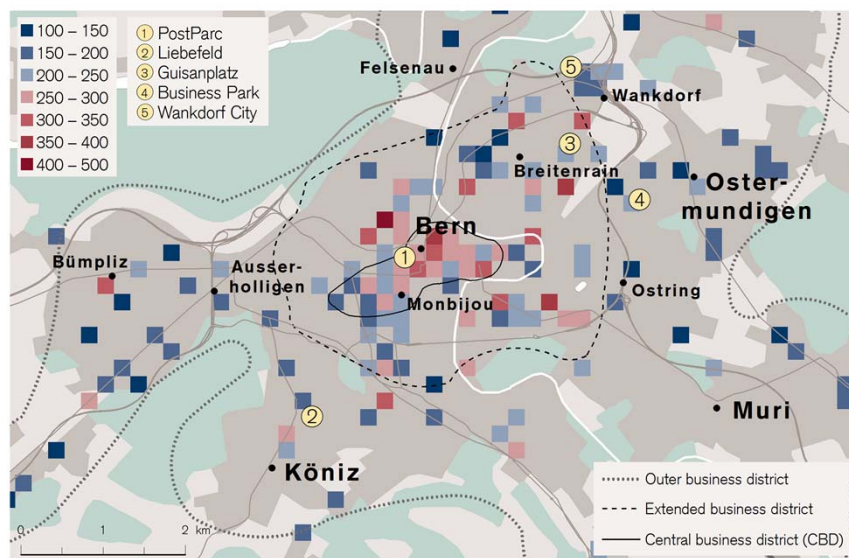
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Supply of property has stabilized at a high level

- With advertised median rents of a net CHF 510/m², Geneva's central business district (CBD) remains the most expensive business district in Switzerland despite the fact that the upwardly distorted advertised rents in Geneva have declined in recent years.
- The high supply level on Geneva's office property market stabilized in the course of 2015. Advertised office space in the fourth quarter of 2015 came to 346'000 m² or 8.6% of stock.
- Only 5.1% of the supply was advertised to be let for the first time, thereby illustrating that the problem lies on the demand side.
- The prevailing uncertainties have caused investments in new office buildings in Geneva to become extremely rare. The approved volume of construction investments in 2014 was 50.1% below the long-term average.
- The new Cornavin–Eaux-Vives–Annemasse railway line (CEVA) that is set to link Annemasse, just across the border in France, with Geneva's Cornavin railway station from the end of 2019, will have a decisive influence on the development of the Geneva office property market.
- As well as the subdued economic outlook, CTR III is also provoking uncertainty among investors on the Geneva office property market. The planned reduction of the ordinary effective tax rate to 13% will result in a slightly higher tax burden for special status companies that are unable to benefit from a patent box, for instance, while all those subject to ordinary taxation will be taxed less.

Berne: Completed major projects are increasing supply

Advertised rents (net) in CHF/m² and year, 2012–2015



Source: Meta-Sys AG, Federal Office of Topography, Credit Suisse; last data point: Q3 2015

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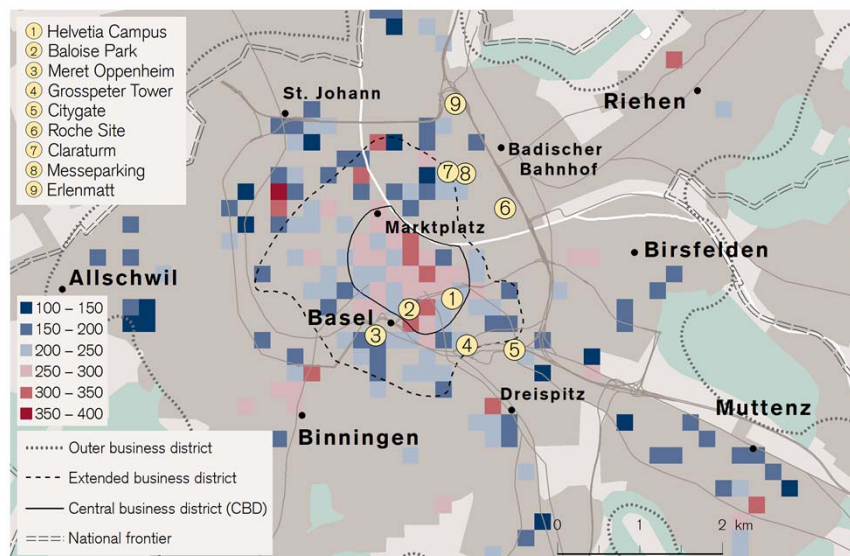
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The Berne office property market should recover over time

- Together with Basel, the Berne office market has the least expensive properties among the major centers. At CHF 221/m², the area-weighted average rent (net) is almost 30% below that of Zurich. Berne's outer business district in particular is a less expensive location compared with other centers with a median rent of CHF 190/m².
- The construction progress and completion of major projects has heralded an increase in supply on Berne's office property market. At the end of 2015, the peak of 132'000 m² of advertised space was reached, which corresponds to a comparatively low supply rate of 3.9%.
- As of 1 June 2015, vacancies in the federal capital had jumped to 68'000 m², which is more than double those of the previous year and represents the highest level of vacancies since measurements began in 1998.
- Planning activity has therefore fallen clearly: The approved volume of investments in office properties was 58.4% below the long-term average in 2015. In view of such a small future expansion of supply, the Berne office property market is bound to recover over time.
- Owing to its high rate of corporate taxation, relocations to Berne are not to be expected as a consequence of CTR III. In order to prevent relocations for fiscal reasons, Berne also intends to reduce its maximum rate of tax on profits from 21.6% at present to between 16.4% and 18% by 2021. This will not make it entirely competitive as a location in terms of fiscal attractiveness.

Basel: Most dynamic office property market in Switzerland

Advertised rents (net) in CHF/m² and year, 2012–2015



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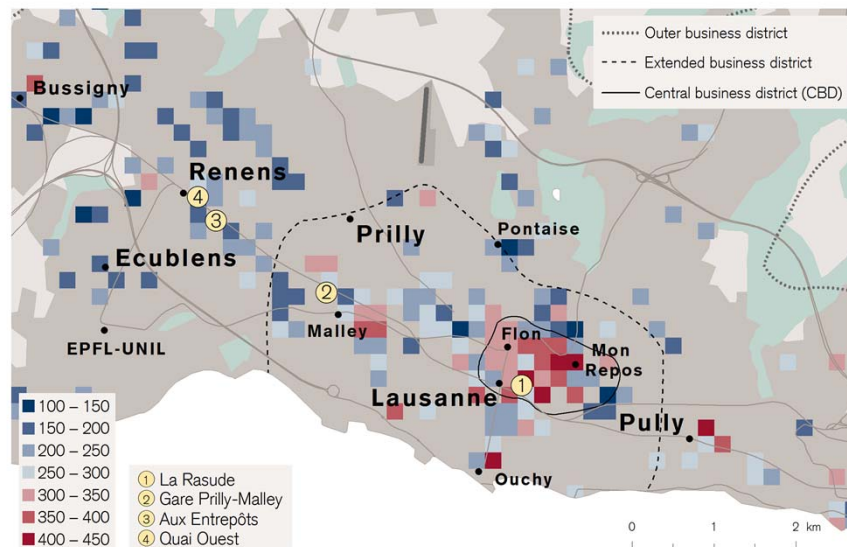
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Basel high-rise fever continuing

- With an area-weighted average net rent of CHF 222/m², Basel, alongside Berne, is the least expensive major center in terms of office property prices. Particularly in Basel's central business district (CBD) the median rent lies at a comparatively low level at CHF 260/m² and differs from that in the outer business district by just CHF 52/m².
- Since with the exception of the works premises of the pharmaceutical multinationals at the Rhine knee only few properties have recently been constructed, the amount of advertised office space has fallen to 152'000 m² in the course of 2015, down by 17'000 m² compared with four quarters previously.
- Basel is currently proving the most dynamic office property market among the Swiss major centers. The share of properties being let for the first time in the entire supply of property lies at a comparatively high 60.6% and there is no shortage of ideas for further projects in the office segment.
- Alongside the familiar projects, an estimated 70'000 m² of existing office space is expected to come onto the market in Basel city center by 2024 due to the ongoing restructuring and consolidation of the Roche site.
- Eighty percent of the profit tax substrate and 56% of the actual profit tax revenues of the Canton of Basel City originate from special status companies enjoying privileged taxation. No other canton depends so much on special status companies.
- The patent box is an important element for enabling the City of Basel to remain competitive in research and development-intensive industries (R&D).

Lausanne: Projects planned around the stations

Advertised rents (net) in CHF/m² and year, 2012–2015



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Peak in supply of property likely to have been passed

- At a net CHF 269/m², area-weighted average rents are almost 40% lower than in neighboring Geneva – even in the central business district (CBD).
- After supply on Lausanne's office property market reached its previous record of over 199'000 m² in the fourth quarter of 2014, it subsequently decreased and now lies at 172'000 m², which equates to 6.8% of existing office space.
- Because planning activity already decreased sharply in 2013, the share of property advertised for first-time let is today significantly lower at 7.7% than in the major centers of German-speaking Switzerland.
- The oversupply of properties and uncertainties concerning future demand have given rise to restraint among investors in the last two years.
- However, as in Geneva, there is no lack of ideas on the office market of Lausanne. Particularly at locations with a high quality of public transportation connections close to Lausanne, Renens and Prilly-Malley railway stations there are plans for some major site developments.
- The uncertainties concerning CTR III are set to hamper demand on Lausanne's office property market. With the envisaged effective tax rate, Lausanne would altogether prove to be an attractive and competitive corporate location.

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