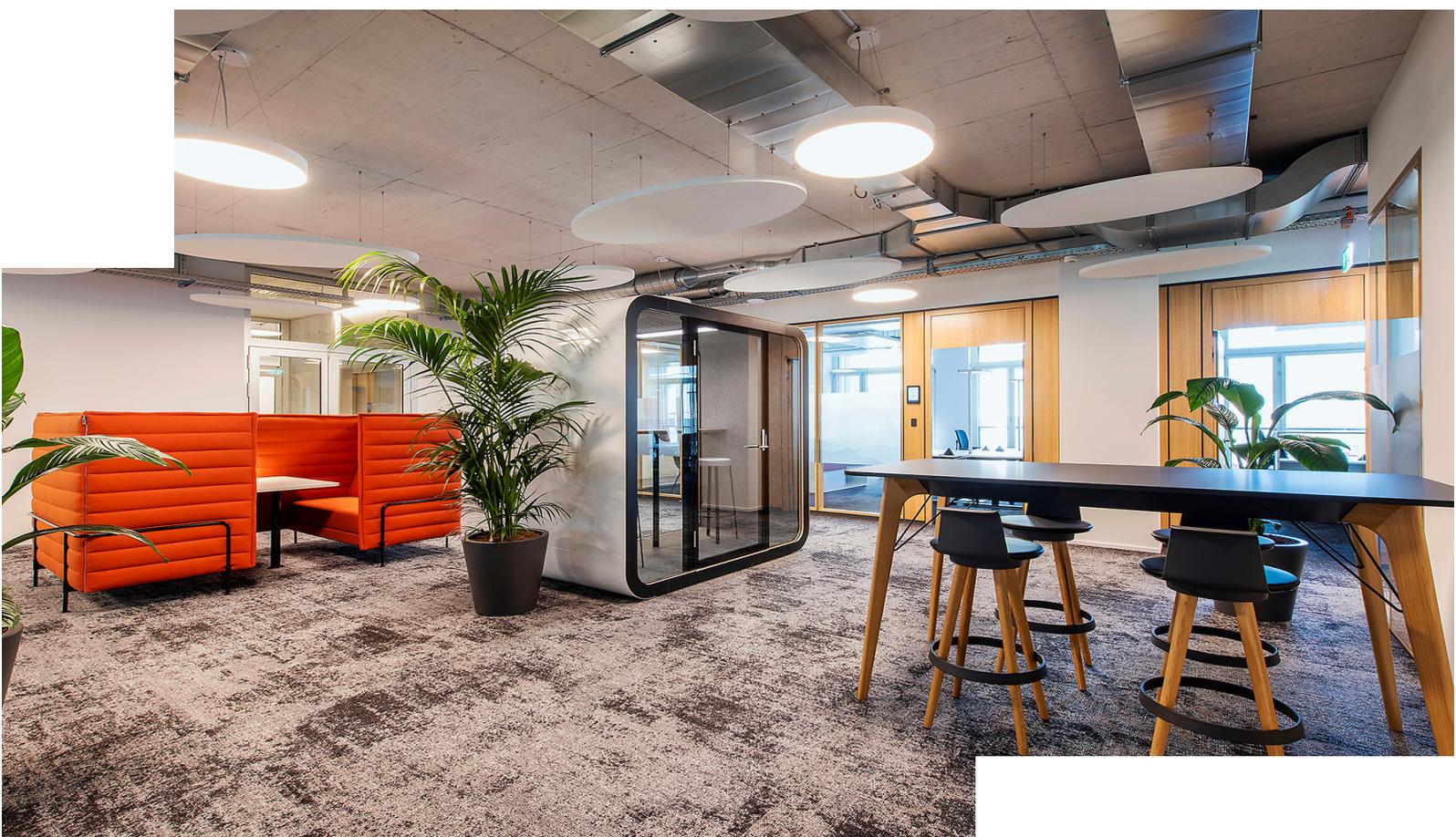


Pandemic leaves its initial marks on the office market

Swiss office property market 2022 | December 2021



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Pandemic leaves its initial marks

Switzerland's office property market cannot avoid the repercussions of the pandemic. Although the rise in the supply of space has been less pronounced than feared as demand has held up better than expected, the home working trend should still leave its mark on the office property market over the next few quarters. By contrast, the transformation of the working world promises a rosy future for modern office properties.

Sluggish demand for office space

In the wake of the dynamic economic recovery, the number of employed persons is also once again rising powerfully. But despite positive employment trends – particularly in the office-based sectors – demand for office space is proving sluggish. As a result of the uncertainty over future office needs, many tenants are taking their time to rent new premises.

Supply of space rising again – but not as strongly as anticipated

Viewed in isolation, we continue to expect a future of increasingly hybrid working models and more home working (compared to before the pandemic) to result in a decline in office space of around 15%. The initial impact of this development on the market can already be seen, as the supply of space is currently rising, prompting an increase in the supply rate over the last year from 5.5% to 5.8%. That said, demand for office space has not been that weak, particularly when compared to many foreign markets, with the market recording a number of rental contract extensions and even a few new tenancy agreements. So far, there has been virtually no sign of any structural changes. Ultimately, the current uncertainty also means that only a handful of tenants are actively relinquishing premises or deciding not to extend their contracts.

Investors planning less office space

Office property market investors have also been showing greater restraint. According to building permit data, future Swiss office property construction activity should remain some 17% below the long-term average. This is specifically true of the large centers. While on the one hand this cautious stance of investors is reflected in a certain hesitancy in demand, on the other it should help prevent any excessive imbalances building up over the next few quarters.

Supply side determining individual market situation

The advertised supply of space is increasing not just in Switzerland's five large office property markets, but also in the mid-sized and small centers, as well as in the rest of the country. In absolute terms, the increase in supply in the large centers is strongest in the wider conurbation surrounding the city center (outer business district). In percentage terms, by contrast, supply has risen most strongly in the inner city. Sub-markets that have seen a particularly high volume of construction approvals in recent years have also been more heavily affected. Increased construction activity in Basel, for example, has contributed significantly to the sharp rise in the supply of space. Lausanne has absorbed a high level of construction activity relatively well so far, whereas the supply rate in Geneva, which currently stands at 12%, is unlikely to come down that quickly. The strongest-performing office property market is currently Zurich, where planning activity has been below the long-term average for years.

Vacancies rising again, rents coming under pressure

Overall, the office property market is holding up well, even if vacancies and pressure on rental prices are once again on the rise. Across the country as a whole, vacancies have risen by 13%, more or less wiping out the slight declines seen over the last two years. However, the slight decline in rental prices by 0.1% does not tell the whole story. Particularly at locations outside of the inner city, landlords have increasingly been forced to offer incentives in order to be able to attract tenants in the first place.

Outlook subdued in medium term, rosy in long term

Despite strengthening employment growth, the absorption of space is likely to continue to be difficult and below normal levels, particularly for large premises or those sited on the urban periphery. A further increase in the supply of space is therefore possible, particularly as there have only been a few cases so far of companies giving up larger premises or downsizing due to the pandemic, even though such plans are being hatched. On the other hand, there is also likely to be a certain amount of pent-up demand. Over a horizon of several years, we are expecting a stagnation in the requirement for office space. Looking further ahead, by contrast, the transformation in the working world is likely to result in a greater need for office space (digitalization effect), thereby giving landlords the prospect of strongly rising long-term demand.

Hesitant demand

The Swiss economy continues to recover well from the unprecedented pandemic-related slump of the previous year, even if the recovery is losing some momentum. Due to persistent uncertainties, the upward trend in demand for office property – which broadly speaking has held up well – is lagging economic development generally.

Recovery of the economy in the summer of 2021...

The recovery of the Swiss economy from the coronavirus-related slump continues apace. While the second wave of COVID-19 and the associated restrictions acted as a major drag on the recovery at the start of the year, Swiss economic output has now climbed back to pre-crisis levels. Accordingly, by the second quarter of 2021 only the US and Sweden had recovered more strongly from their pandemic-related economic slumps. We are expecting Swiss gross domestic product (GDP) to rise by 4.0% this year.

... has slightly but not seriously slowed...

A further decline in unemployment and short-time working should act as a prop for consumer spending next year too. Accordingly, the Purchasing Managers Index (PMI) for manufacturing, which is a reliable leading indicator, currently stands at 65 points, well above the growth threshold of 50 points. However, a slight weakening of optimism as a result of supply bottlenecks and fears over inflation is now evident in the PMI (Fig. 1). Given the combination of rising coronavirus case numbers and a comparatively low vaccination rate, it may be some time yet before the pandemic is fully under control. In particular, this means ongoing restrictions and only a slow recovery for catering, certain areas of the leisure industry, and international tourism. Our forecast for the Swiss economy and 2022 remains positive, with GDP growth of 2.5%, even though the pace of growth can be expected to slow compared to this year.

... but continues unabated in the labor market

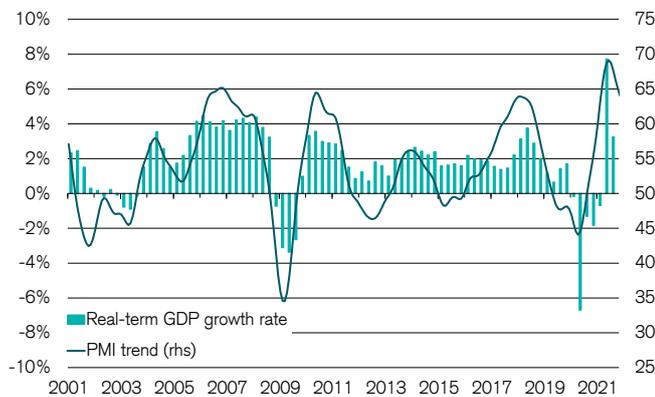
Generally speaking, the crisis has left less of a mark on the labor market in Switzerland than elsewhere, this being attributable to fiscal measures generally and compensation for short-time working in particular. Despite the pronounced economic slump, the Swiss unemployment rate peaked at just 3.7% in January 2021. Between then and the end of the third quarter it fell steadily to 2.5%, despite short-time working likewise being scaled back considerably. Overall employment, which declined by 0.3% last year, then went on to record a year-on-year rise of 1.1% by the end of the third quarter of 2021 (Fig. 2).

Office-based industries less affected by the pandemic

But the employment growth rate of 1.1% (+45,000 jobs) over the last 12 months has not been evenly distributed across sectors (Fig. 2). In particular, sectors with a traditionally high proportion of office workers have come through the pandemic relatively unscathed because they were able to switch to home working. The strongest growth in employment numbers can be seen in social services (+4.3%), architects/engineers (+2.7%), and IT (+3.0%).

Fig. 1: GDP growth and PMI leading indicator

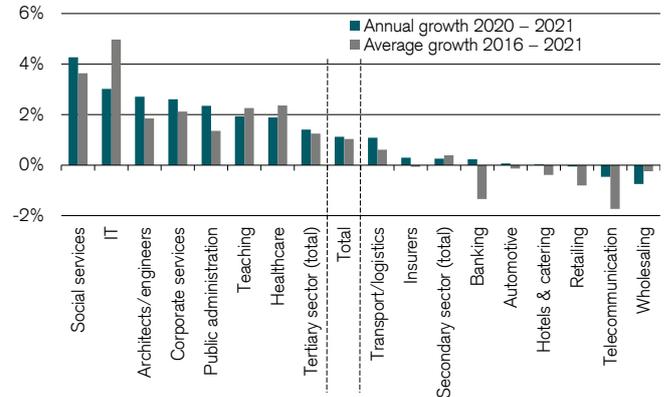
Annual GDP growth rates and trend growth of purchasing managers index (PMI)



Source: State Secretariat for Economic Affairs, procure.ch, Credit Suisse
Last data point: 11/2021

Fig. 2: Employment growth by sector

Annual growth (per end Q2) of selected service providers on a full-time basis



Source: Federal Statistical Office, Credit Suisse
Last data point: Q3/2021

The office-based sector recorded a 1.8% increase in employment overall thanks to much more dynamic employment growth than the economy as a whole. Among the worst-hit sectors during the pandemic, wholesale and retailing recorded the severest declines in employment. At the other end of the spectrum, corporate services recorded the highest increase in headcount (+17,000).

Decoupling of labor market trend from demand for office space

The traditionally close correlation between growth in office employment and demand for office space has been partly eliminated by the pandemic. Despite relatively robust development of office employment, many of the sources of demand for rental space have been sitting on the sidelines. Space absorption is proving difficult not least because mastering the pandemic is taking a long time, and the home working trend is becoming more entrenched as a result. According to a survey carried out by Deloitte, the proportion of workers based at home for at least half a day a week has doubled from 24% in 2018 to almost 50% in the most recent data as a result of the pandemic. Mobility data shows that workplaces generally were still around 15% less frequented at the end of the third quarter of 2021 (Fig. 3). This is likely to be primarily attributable to office workers opting for a mix of office presence and home working.

Home office trend will leave a lasting mark

In the longer term, demand for space is likely to suffer from the likelihood of an increasing number of companies allowing their employees to work partly from home, even after COVID-19. We still consider our forecast made last year – that the stimulus given to home working by the pandemic should reduce demand for office space by some 15% in the medium term – to be a decent ballpark figure. By contrast, the process of digitalization, which has likewise received a boost from the pandemic, is likely to drive a counter-trend, as an increasing number of working activities can now be executed with a computer and screen (cf. our special focus on page 10). Viewed in totality, therefore, demand for office space is likely to trend sideways over the coming years.

Demand less hesitant than supposed

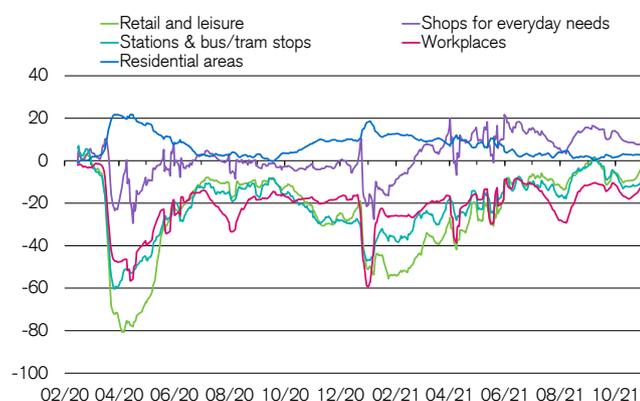
But even if there is great uncertainty among many office tenants over the future need for office space, rental contract extensions and new agreements – particularly for workforce concentration purposes – are nonetheless being signed in the market. Despite numerous half-empty office buildings, demand for office property is therefore not as weak as many people believe. So far, there has been virtually no sign of structural change in the market. Ultimately, the current uncertainty also means that only a handful of tenants are actively relinquishing premises or deciding not to extend their contracts. What is apparent, however, is a widespread tenant preference for high quality premises, which is why office property demand is much more vibrant in the inner city than on the urban periphery.

Demand trend pointing upward, but still weak

Furthermore, as the world continues its slow journey back to normalization, the key role played by a central office for communication and interaction within the company is becoming increasingly apparent. This is particularly true of innovation. In time, the disadvantages of home working are likely to become more evident, with the attendant likelihood that the office will again be a more valued environment. Overall, we are expecting additional demand this year to reduce by around 260,000 m², whereas next year it should recover to a growth of around 360,000 m² (Fig. 4).

Fig. 3: Swiss mobility data

Moving seven-day average; 0 = reference value prior to pandemic

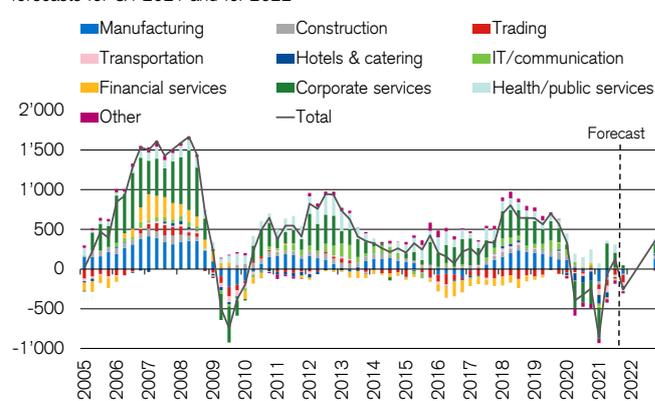


Source: Google

Last data point: 31.10.2021

Fig. 4: Surplus demand for office space

Estimated additional demand compared to prior-year quarter in 1,000 m²; forecasts for Q4 2021 and for 2022



Source: Credit Suisse, Federal Statistical Office Last data point: Q3/2021

Supply of space back on the rise

The volume of Swiss office space being advertised is currently on the rise once again, although more modestly than in other countries. Hesitant demand is prompting an increase in supply in all sub-markets, without exception. We are therefore expecting the marketing of office premises to remain difficult over the next few quarters.

Supply of office space on the rise again – but more modestly than in other countries

The robust demand for office space evident prior to the pandemic did not reverse the long-term trend of rising supply in Switzerland, but it did at least halt it temporarily. The demand weakness triggered by the pandemic ended this brief phase of consolidation, and the volume of office space being advertised is now rising once again (Fig. 6). Over the last year, the supply rate has risen from 5.5% to 5.8%. This increase in available space in Switzerland is quite modest when compared to certain foreign markets such as those of the US or UK. Premises therefore continue to be absorbed by the market, primarily for reasons of location optimization, but also to consolidate a company workforce at a single location.

Broad-based increase in supply

All sub-markets are contributing to this increase in space. The advertised supply of space is increasing not just in Switzerland's five large office property markets, but also in the mid-sized and small centers, as well as in the rest of the country (Fig. 5). In absolute terms, the increase in supply in the office markets of the large centers is strongest in the wider conurbation surrounding the city center (outer business district). In percentage terms, by contrast, supply has risen most strongly in the inner city. Sub-markets in which high volumes of new space are coming onto the market are particularly affected by this increase. For example, the anticipated expansion of space in Basel is a key driver of the rise in the supply of space in the inner city.

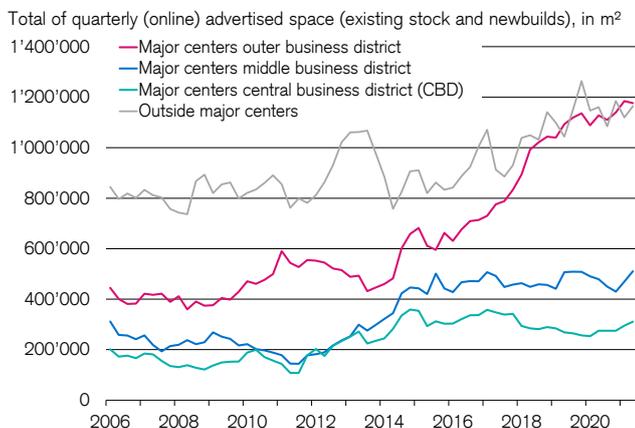
Space increasingly being advertised outside of real estate search engines

Given the current restraint of tenants, who are often postponing the decision to rent additional premises, landlords are becoming reluctant to advertise vacant or soon-to-be vacant space on the big real estate search engines. The proportion of space only being advertised through brokers or individual property websites has roughly doubled over the last year. This may be interpreted as a response to the weak absorption of office space.

Outlook mixed

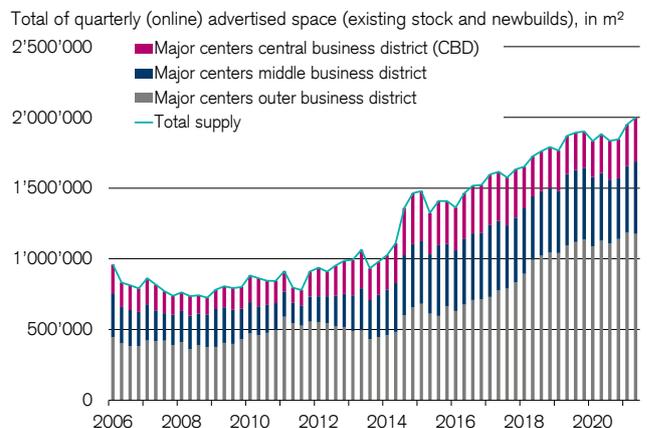
Despite strengthening employment growth, the absorption of space is likely to continue to be difficult and below normal levels. A further increase in the supply of space is therefore possible, particularly as there have only been a few cases so far of companies giving up larger premises or downsizing due to the pandemic. Such plans do exist, however. On the other hand, there is also likely to be a certain amount of pent-up demand. We are expecting the supply of space to rise in particular for large premises as well as premises based on the urban periphery.

Fig. 5: Supply of office space in Switzerland



Source: Credit Suisse, Meta-Sys AG Last data point: Q2/2021

Fig. 6: Supply of office space in the large centers



Source: Credit Suisse, Meta-Sys AG Last data point: Q2/2021

Restrained building activity

According to building permit data, future Swiss construction activity in respect of office property should remain well below the long-term average. This is particularly true of the large centers, despite differences from city to city.

Construction activity shaping current market situation

The pandemic has greatly accelerated the transition to new ways of working and modern working practices. The uncertainty that this has induced for companies' future office space needs has weakened demand. In this situation, it is the supply side that automatically becomes the point of focus, and with new premises increasingly adding to the available market supply, this could rapidly lead to imbalances in regional markets.

Investors showing restraint

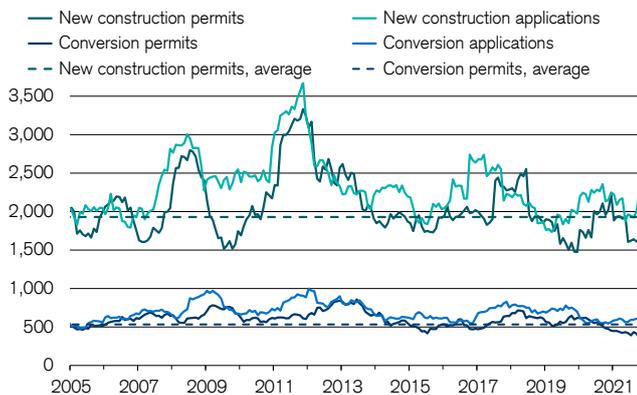
Over the last 12 months, the investment volume of building permit issuance for office space amounted to some CHF 1,598 mn (Fig. 7). This is well below the most recent peak recorded last November, and as much as 17% below the long-term average since 1995. As a consequence, investors have become rather more circumspect about investing in office construction projects, and have been delaying the launch of new projects until uncertainties over their future need for space subside. By contrast, planning application volumes have increased, with special effects being the primary cause here. For example, an increasing number of data centers or other special properties that will include office space are currently being planned. A planning application for a new police station for Canton Bern in Niederwangen has recently been submitted, for example. In a long-term comparison, the figure of CHF 363 million for building permit issuance in connection with office renovations over the last 12 months is very low. Replacement newbuilds are typically preferred over renovations at the moment.

Low construction activity in majority of major centers

The relatively intact market situation in the Zurich office property market has a strong correlation with the well below-average level of construction activity. In Figure 8 we have selected average approved investment volumes over the last five years as a measure of the expansion of office space supply, as many projects are only started when the expiry of the building permit looms after a few years. By contrast, the significant expansion of office space in Basel makes it clear why the advertised supply of space in this city on the Rhine has been rising continuously to the point where the supply rate now stands at 8.8%. A comparison of Geneva and Lausanne yields interesting results: whereas in the former it has mainly been weakening demand that has seen the supply of space rise to 12.3%, the latter has benefited from relatively robust demand despite higher construction activity, with the result that the supply of space has expanded much less sharply here. Overall, the pipeline in the majority of large and mid-sized centers is only three-quarters full. This restraint on the part of investors is likely to be one reason why no dramatic imbalances are likely to build up in most office markets over the next few quarters.

Fig. 7: Planned expansion of office space

Building permits and planning applications, moving 12-month total, in CHF mn.

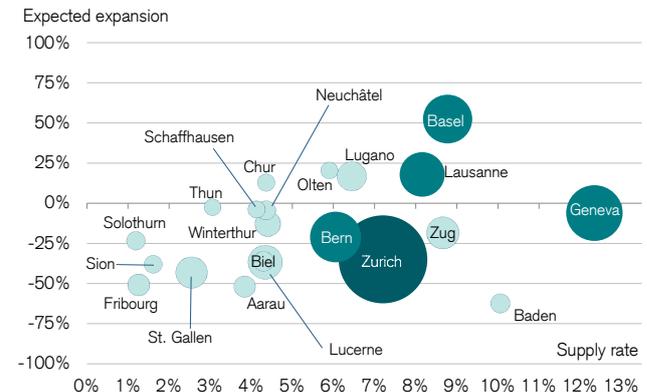


Source: Baublatt, Credit Suisse

Last data point: 09/2021

Fig. 8: Expansion and supply in the large and mid-sized centers

Circle size: existing office space; expansion (y-axis): building permits over last five years compared to long-term average; supply rate as % of existing space in 2018



Source: Credit Suisse, Meta-Sys AG, Baublatt

Last data point: 09/2021

Office market holds up well

The pandemic-related weakness of demand has been feeding through into rising supply rates and vacancies. Moreover, rental prices are coming under pressure. Compared to foreign markets, however, the Swiss office market is holding up better than expected.

Repercussions of pandemic have been manageable so far

Whereas both the volume of advertised office space and official vacancy figures surged in the wake of the coronavirus pandemic in London and New York, the situation in Switzerland has so far remained manageable. The supply of space has admittedly risen in Switzerland too, as have overall vacancies, but the dislocations have so far been much less pronounced than originally feared. Overall, the officially measured vacancy rate for Switzerland – which covers around 44% of the market – has risen by a modest 13%. This development has had the effect of almost completely reversing the decline in vacancies recorded in the two prior years (Fig. 9).

Vacancy rates on the rise once again

Although vacancies have risen by 18% in the city of Zurich, they are still at their third-lowest level of the last 20 years. Within the city limits of Bern, where the office space conversion trend is already widespread, vacancies actually declined by a third. A similar picture can be found in Canton Geneva, where the current vacancy level remains close to the all-time high recorded two years ago. By contrast, vacancies have risen sharply in the urban centers where construction activity has been most vibrant. Vacancies have more than doubled in both the city of Basel and the Lausanne region, whereas the increase in Canton Basel-Country has amounted to less than a third.

Rental prices still trending sideways

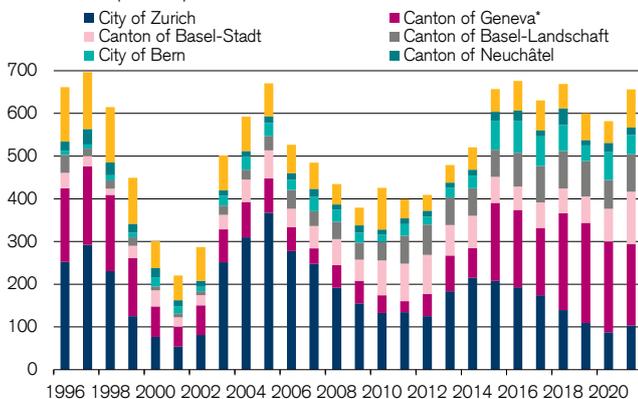
Rental prices have been giving out conflicting signals: as per mid-2021 these had declined slightly year-on-year by 0.1%, but had on average risen by 1.3% every year over the preceding decade. Declines were recorded by both the Bern region (-1.2%) and the city of Zurich (-0.6%). However, initial contractual rents probably paint an incomplete picture. Specifically, it must be assumed that incentives are increasingly being granted – particularly at locations outside of the inner city – in order to be able to attract tenants in the first place.

Subdued outlook

On the one hand, powerful employment growth and eventually declining COVID-19 infection rates can be expected to invigorate the demand for office space over the next few quarters. On the other hand, we are expecting to see a certain amount of space rationalization when rental contracts expire, particularly in the case of large companies. Going forward, it therefore looks only reasonable to expect a lower need for space per employee. In other words, the marketing of office property can be expected to remain difficult. Despite the economic recovery, we expect supply and vacancies to remain stubbornly high, along with a further slight decline in rental prices.

Fig. 9: Office vacancies

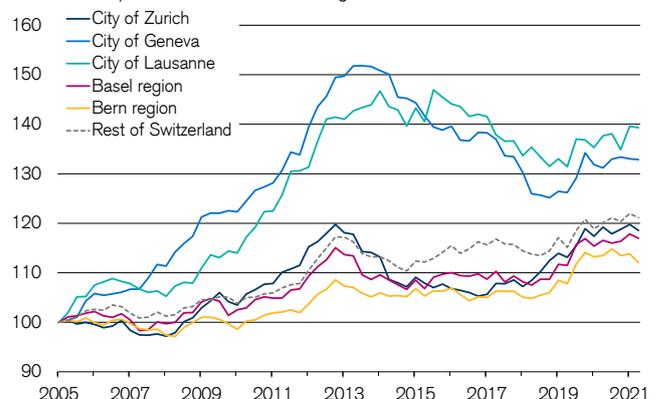
Vacant office space as per June 1, in thousand m²



* Figure for Canton Geneva from 2020 interpolated due to lack of data.
Source: Various govt. statistical sources, Credit Suisse
Last data point: 06/2021

Fig. 10: Regional office rents

Hedonic rental price index on the basis of signed contracts, index: 2005 = 100



Source: Wüest Partner, Credit Suisse Last data point: Q2/2021

Home working slows space requirements only temporarily

Employment growth between now and 2060 is unlikely to be sufficient in itself to compensate for the decline in demand for office space as a result of home working. However, the parallel trend of strong digitalization will transform many types of work into office-based activity, which should in turn generate significant additional long-term demand for office space.

Contrary trends with unclear repercussions for office property demand

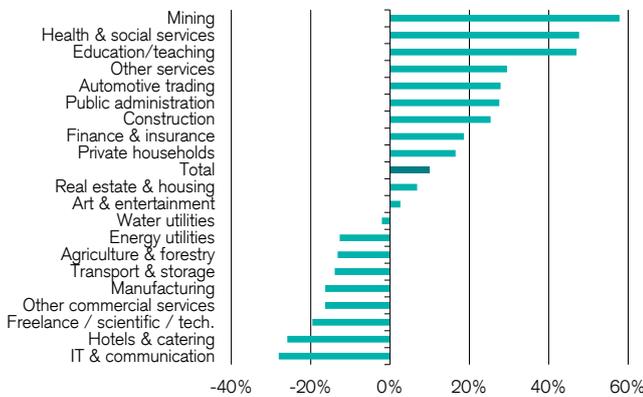
Over the last few years, a combination of employment growth and the increasing tertiarization and digitalization of the labor market has created a significant additional number of office jobs in Switzerland, thereby fueling demand for office space. At the same time, the proportion of office-based employees able to work at least partly from home was growing by around one percentage point a year even before the pandemic. COVID-19 has accelerated – or at least confirmed – both these trends. Due to strict social distancing requirements during the pandemic, even companies that had adopted a conservative approach to this issue were suddenly forced to allow home working. In addition, it has emerged that sectors with a high degree of digitalization coped with the crisis better, as the transition to home working was much easier for their employees. According to surveys this transformation is set to last, as many companies are keen to offer their workforce hybrid working models in the future too. All in all, therefore, we are looking at two contrary trends shaping the key parameters of demand for office space. This begs the question of how the future development of employment – taking into account the three trends of tertiarization, digitalization, and home working – will feed through into demand for space.

Basis: forecasts for employment up to 2060

In order to forecast the development of office employment and the resulting demand for office space over the very long term, we have used the Swiss Economic Scenarios for 2060 as drawn up by Ecoplan and KPMG on behalf of the Swiss Office for Spatial Development and the State Secretariat for Economic Affairs (SECO)¹. Based on these calculations, employment in Switzerland is expected to increase 10% in total by 2060, and there will also be a significant shift in employment proportions for certain sectors of the economy (Fig. 11). The sector set to enjoy the greatest employment growth is mining at 58%, although given the minimal size of the sector this will barely affect overall employment (+0.06 percentage points). By contrast, the growth in employment in the healthcare and social services sector (almost 50%) should contribute some 6.35 percentage points to overall growth. The greatest declines in employment can be expected in manufacturing (-2.27 percentage points), much of which will be attributable to automation.

Fig. 11: Employment growth up to 2060 by sector

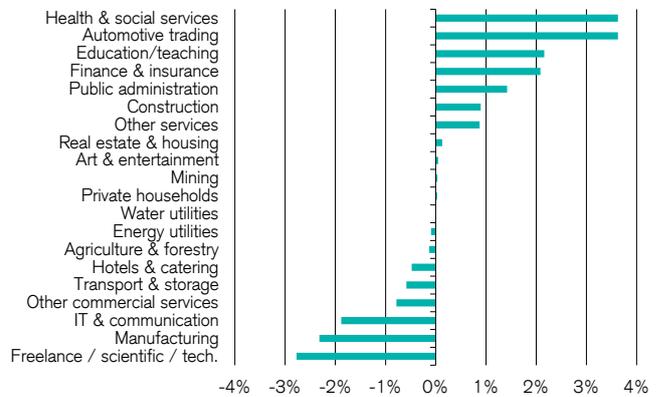
In %, 2019 to 2060



Source: Ecoplan, KPMG, Credit Suisse

Fig. 12: Sectoral contributions to the 6% increase in office space

In percentage points, 2019 to 2060



Source: Ecoplan, KPMG, Swiss Federal Statistical Office, Credit Suisse

¹ This is based on a scenario that assumes a shift toward high-tech industries as well as growing environmental awareness, but without making any explicit assumptions in respect of spatial effects. The latter arise endogenously from our modeling process. Due to the exceptional situation caused by COVID-19, 2019 was taken as the base year.

Forecast for office space demand disregarding trends

The sector-specific repercussions of the employment forecasts for the office property market depend heavily on the size of each industry and its proportion of office workers. Assuming that all other parameters remain the same, the employment growth figure of 10% translates into an increase in office space of around 6%. At just under 4 percentage points in each case, the growth in both automotive sales and healthcare & social services makes a significant contribution to overall growth in Swiss office space, compensating for the space likely to be freed up in manufacturing (-2%), the IT and communications industry (-2%), as well as freelance, scientific, and technical services (-3%) (Fig. 12).

Office employment set to decline most strongly in the south

The employment forecasts were drawn up not just for the individual sectors of the economy, but also for the individual MS regions. This makes it possible to estimate how demand for office space might develop in the individual regions (Fig. 13). Declines can be expected in Graubünden, Ticino, and the Jura in particular, and could be most pronounced of all in the regions of Schanfigg (-31%), Mendrisio (-29%), Prättigau (-24%), and Lugano (-23%). In Lugano, for example, the decline in demand for space is related to lower employment in the consultancy and IT industries. By contrast, demand for office space is set to increase in Cantons Geneva, Vaud, and Zurich, as well as in their neighboring cantons. The greatest employment-related rise in demand for office space is expected in the Fricktal region (+23%), where the local pharmaceutical industry is expected to grow strongly.

Approximation of home working and digitalization effects

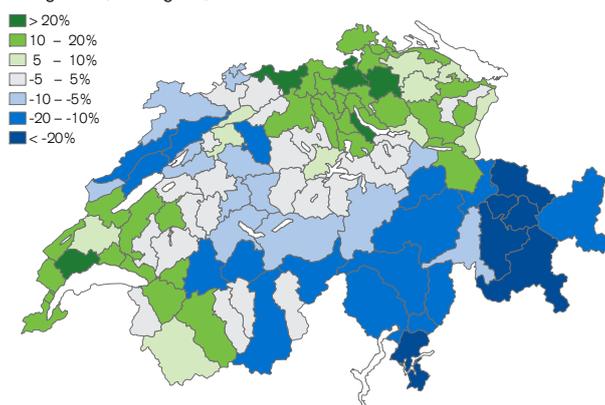
In order to incorporate the effects of the strong base trends of digitalization and home working into our forecasts, we have modelled the growing proportion of office jobs per sector in the wake of digitalization. In addition, as already mentioned in the "Demand" section, we are sticking with our assumption that home working will cause a 15% decline in demand for office space by 2030. The reduction in space that this entails for each sector is determined by two factors: the weighting of each industry as a source of demand for office space, and the feasibility of home working in this industry².

Home working – when viewed in isolation – to trigger a 10% decline in space by 2060

Without taking into account other effects, the 15% decline in demand for space attributable to home working is equivalent to an overall space reduction of 8.4 mn m² by 2030. The greatest percentage declines are likely to be found in the finance/insurance area (-26%) and IT/communications (-24%), whereas the home working effect is least noticeable in the primary sector. When viewed regionally, it is the cities with a generally high density of office jobs that are most affected by this development, due to differing regional economic structures. For example, the cities of Zurich, Bern, Lugano, and Basel contribute around one percentage point each to the total decline in space of 10% by 2060.

Fig. 13: Regional office space growth due to development of employment

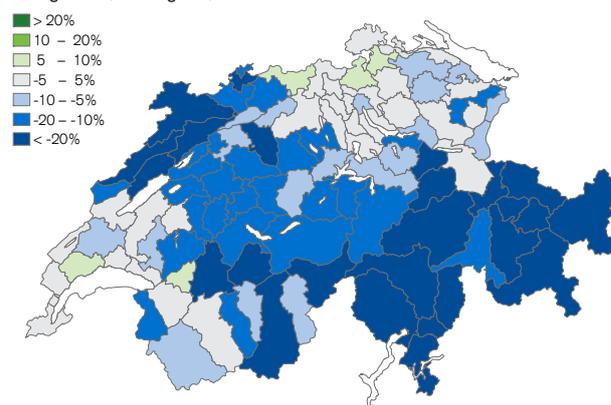
Change in %, MS regions, 2019 to 2060



Source: Ecoplan, KPMG, Swiss Federal Statistical Office, Credit Suisse

Fig. 14: Regional office space growth due to development of employment and the home working trend

Change in %, MS regions, 2019 to 2060



Source: Ecoplan, KPMG, Swiss Federal Statistical Office, Credit Suisse, Rutzer & Niggli, 2020

Digitalization leads to more office jobs

While home working will reduce demand for space, the increasing digitalization of all forms of life and work will increase the proportion of office workers in all sectors, thereby generating significant long-term demand for additional space. For example, this has become apparent in recent years in manufacturing, where more basic activities have been taken over by machines at the same time as

² Based on data produced by Christian Rutzer and Matthias Niggli (2020): "Corona-Lockdown und Homeoffice in der Schweiz" ["Coronavirus lockdown and home working in Switzerland"], Center for International Economics and Business (CIEB), University of Basel.

new office jobs have been created, e.g. for the programming, management, and monitoring of the machines.

**Assumption:
proportion of office-
based workforce to
rise by between 5 and
23 percentage points,
depending on sector**

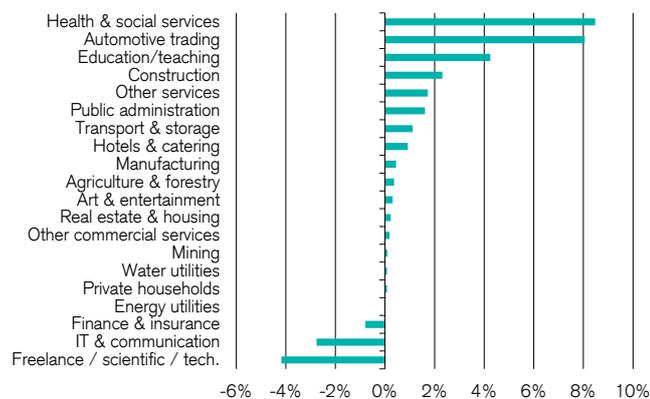
The future development of sector-specific proportions of office workers will depend heavily on technological progress, and can hardly be forecasted precisely over a time horizon of 40 years. In order to highlight the impact of possible repercussions, specific assumptions have nonetheless been made about the potential for – and the tempo of – further digitalization in the individual sectors, which are then modeled using rising proportions of office jobs for each sector. For example, office workers already accounted for some 90% of the workforce in financial/insurance services back in 2019, hence there is only limited potential for this to increase. By contrast, given the increasing implementation of digital health concepts in the healthcare sector and rapid progress in connection with autonomous vehicles in the transportation area, we are predicting a more significant increase of up to 23 percentage points in the proportion of office-based workforce in these sectors by 2060.

**Growing proportion of
office-based
workforce could
hugely increase
demand for space**

Between 2000 and 2019, the average proportion of office-based employees in Switzerland rose from 34% to 45%. According to our model, this should increase further to 60% by 2060. In this scenario, the number of office workers would increase by 42% in total. Viewed on its own (i.e. disregarding the impact of home working), this would mean a rise in demand for office space of 42%. This gives us three significant drivers of the future need for office space by 2060: total employment growth (+10%), a partial shift of workers from the office to the home (demand for space: -15% by 2030), and a growing proportion of office-based workers (office-based ratio: +15 percentage points). When all three developments are taken together, the resulting additional requirement for office space in Switzerland amounts to 23%. The sectors with the greatest contribution to this rise in demand are automotive trading, healthcare & social services (+8 percentage points in each case), as well as education/teaching (+4 percentage points) (Fig. 15.)

Fig. 15: Sectoral contributions to the long-term 23 % growth in office space, including home working and digitalization trends

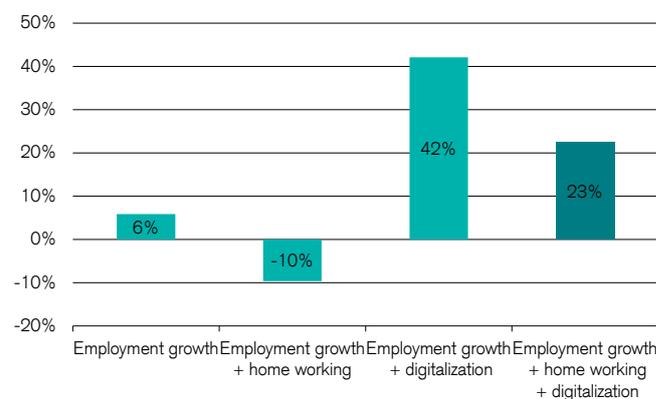
In percentage points, 2019 to 2060



Source: Ecoplan, KPMG, Bundesamt für Statistik, Rutzer & Niggli, Credit Suisse

Fig. 16: Growth in office space by 2060 by scenario

In percentage points, 2019 to 2060



Source: Ecoplan, KPMG, Bundesamt für Statistik, Rutzer & Niggli, Credit Suisse

**Conclusion: Effects of
home working will be
more than offset by
contrary trends**

When considering the above results, it should be borne in mind that the analysis rests on various assumptions, and a time horizon of 40 years inevitably entails many uncertainties. Rather than providing precise predictions, the results are intended to highlight the potential influences of contrary trends. The assessment reveals that – in addition to the already evident negative repercussions of home working for the office space market – there are other drivers with the potential to offset or even outstrip the effects of home working in the longer term. Although the home working trend can be expected to reduce the need for space tangibly over the next few years, as soon as the new relationship between home working and an office presence has found its natural equilibrium in individual companies, the strong digitalization trend will become the key driver and stimulate demand for office space (Fig. 16). It is not growth in employment *per se* that will be the greatest driver of demand for office space, but the way in which the working world changes as greater automation and digitalization feed through into an ever-greater proportion of office-based activities.

Large and mid-sized centers

In addition to the table below covering the office markets of the large and mid-sized centers, the following pages explore the situation in the large centers in greater detail.

Overview of regional office property markets

Figure 17 provides an overview of Switzerland's key office property markets. 65% of existing Swiss office space is accounted for by these 21 office space markets. For the most part, supply is concentrated in Switzerland's five largest conurbations, which in 2021 accounted for some 63% of all available office space in the Swiss market. Together with the largest mid-sized centers listed below, these accounted for 80% of available space. At 5.8% of existing space, the supply rate for Switzerland as a whole has recorded a further slight year-on-year rise. The expansion of space going forward is likely to be very low in the large centers in particular (-21% below the long-term average), whereas it is only just below the long-term average in the mid-sized centers (-14%).

Fig. 17: Total and advertised space in the largest office property markets

Advertised vacant space (existing premises and newbuilds) in m², 2021; total space as per end 2018³, space-weighted average rents (net) 2021 in CHF/m²; expansion: building permits of last five years compared with long-term average

Major centers	Inventory of office space	Space available	Supply rate	Expansion	Average rents
Zurich	10'547'050	759'853	7.2%	↘	296
Geneva	4'239'056	523'457	12.3%	→	393
Bern	3'484'515	210'843	6.1%	↘	214
Basel	3'232'916	283'796	8.8%	↗	244
Lausanne	2'699'624	220'211	8.2%	↗	253
Mid-sized centers					
Lucerne	1'568'346	68'083	4.3%	↘	199
Zug	1'395'595	120'870	8.7%	↘	231
St. Gallen	1'328'225	33'839	2.5%	↘	217
Lugano	1'159'161	74'705	6.4%	↗	222
Winterthur	864'358	38'048	4.4%	↘	203
Fribourg	646'354	8'154	1.3%	↘	207
Aarau	612'199	23'513	3.8%	↘	203
Biel	543'148	23'329	4.3%	↘	149
Neuchâtel	500'656	21'822	4.4%	→	164
Baden	499'603	50'257	10.1%	↘	224
Solothurn	463'045	5'517	1.2%	↘	164
Sion	433'215	6'990	1.6%	↘	170
Chur	399'549	17'434	4.4%	↗	184
Schaffhausen	391'872	16'184	4.1%	→	147
Olten	384'498	22'688	5.9%	↗	151
Thun	375'670	11'490	3.1%	→	199
Switzerland	55'006'668	3'162'896	5.8%	→	257

Source: Credit Suisse, Meta-Sys AG, Baublatt

Note on available office space and supply rate:

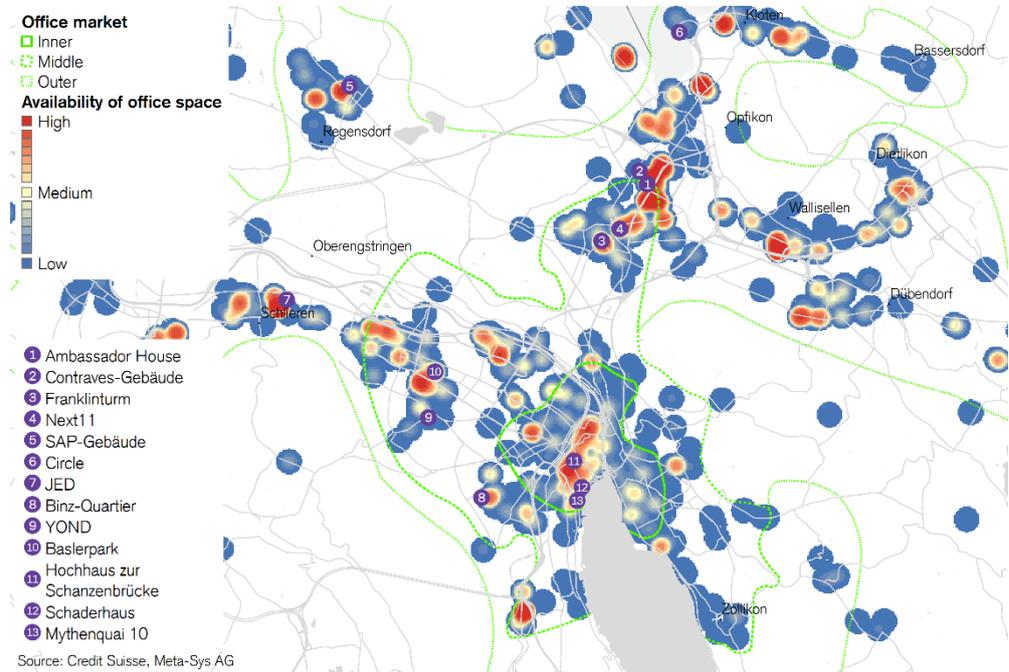
We define the supply rate as the total of all office space advertised for rental in a quarter, insofar as office use is clearly suitable as well as quantifiable, divided by the total office space in the area in question. The point in time at which the space will be available is irrelevant to us here, as the market is only influenced by the current amount of space being offered. When compiling the data, we rely on all publicly accessible offers on the internet for any given quarter. These offers are not just restricted to real estate websites, but also include other publicly available sources (e.g. individual websites). In terms of geography, the supply rates each refer to the entire office space market of a large or mid-sized urban center. The map illustrations of the large urban centers on the following pages provide information about any relevant expansions, which we demarcate at hectare grid level.

³ Due to the delayed publication of the employment statistics in 2019, our extrapolations of existing space are based on 2018 figures. The supply rates therefore relate to prior-year data, which means the decimal places of the figures given are somewhat inflated.

Zurich

Fig. 18: Density of available office space

Office space marketed on the internet (existing stock and newbuilds) in m² per hectare as per Q2 2021



Supply of space rises only modestly

The supply of office space in the Zurich real estate market has risen by just 3.5%, despite uncertainty over the coronavirus crisis. In keeping with the strength of the office market economy, which persisted right up until the onset of the pandemic, a considerable amount of space has clearly been absorbed. Moreover, given their uncertainty over future space requirements, many tenants have decided against relinquishing office space too hastily. Within the city limits, the supply of space is concentrated in city district 1, which is home to a very dense cluster of office buildings (Fig. 18). In the central business district (CBD), just 3.3% of all office space is currently on the market – far less than the 7.2% for the office market as a whole when the surrounding urban municipalities are taken into account.

Rental successes and failures occurring side by side

Other areas within the city limits where plenty of office space is being advertised include Altstetten and Zurich North. However, there have been various recent letting successes in Altstetten, as well as along Thurgauerstrasse in Zurich North, where many office buildings have been waiting for tenants for years. In the huge Ambassador House, just under 2,500 m² of the original 38,000 m² is still available; in the former Contraves building at Schaffhauserstrasse 550 the equivalent figure is just 27 m². That said, letting successes are anything but a given, with other office premises on the same streets still waiting for tenants, in some cases for years. Even outstandingly located areas close to Oerlikon Station, such as the still unfinished Franklinturm and virtually new existing premises such as in the Next11 office building – which world football's governing body FIFA is about to vacate after only a short tenancy – are not finding tenants overnight.

Outer business district: Supply dominated by large premises

Overall, advertised office space has only increased outside of the city, in the outer business district. Here the supply rate has increased from 11.6% the previous year to 12.9% most recently (Fig. 19). The dark-red shading in Figure 18 shows the dozen or so hotspots with more than 10,000 m² of available office space. These include the former SAP building in Regensdorf, which is looking for a new tenant after the relocation of the German software group to the Circle quarter, and the innovative JED business park on the site of the former NZZ printworks in Schlieren. The above-average number of large-scale premises is partly attributable to the highly successful letting of office premises in the Circle quarter. This has freed up plenty of space at other locations that will take some time to be re-let.

Middle business district: Decline in supply of space

In the middle business district, the supply of space has declined 6.3% year-on-year to 5.5% following various letting successes – such as in the popular Binz district and the award-winning YOND development in Albisrieden – and only a limited amount of new space coming onto the market. The growing number of co-working spaces may have also contributed to the fall in the supply of space. When offices are converted into co-working spaces, a certain amount of square meterage is lost. However, as these premises are unlikely to be 100% occupied, the supply of space tends to be underestimated. This is probably also true of the CBD. So far, conversions have only reduced the supply of space in Zurich to a very limited degree. For example, the Mobimo office building at the bottom of the Friesenberg quarter has been converted into apartments, and a whole floor in the Baslerpark has been converted into co-living lofts.

Central business district: Supply pretty scarce

There are very few premises available at the heart of the Zurich office market. Notable exceptions include premises in the high-rise “Hochhaus zur Schanzenbrücke”, which UBS vacated with a view to concentrating its workforce in a small number of buildings. A number of large companies are pursuing a similar location strategy, and not just in Zurich, as they look to save costs and exploit the innovative synergies of having large numbers of employees working in the same building. While certain sectors are reducing their space footprint, others are stepping into the breach. In the middle of the CBD, for example, Microsoft is expanding its premises in order to develop its “Mixed Reality & AI Lab – Zurich”. Other big tech companies are also securing premises at the heart of the city: According to various sources, Google is about to move into the Schaderhaus on General-Guisan-Quai, while just a stone’s throw away Amazon is set to join the mainly insurance-dominated roster of tenants at Mythenquai 10. Major premises offering 2,000 m² or more are therefore relatively scarce in the CBD, which testifies to the strong appeal of Zurich’s inner city.

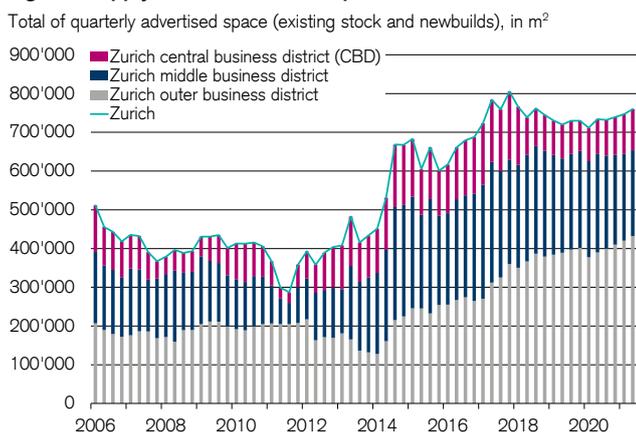
Vacancies once again on the rise after six-year downward trajectory

Office vacancy levels within the city limits have now risen again after six years of decline. The main contributor here is the Seebach quarter, where vacancies have more than doubled. By contrast, vacancies have fallen sharply in Seefeld and Altstetten, while in the CBD they are virtually unchanged on the previous year. As prospective tenants clearly favor high-quality premises in good locations, we anticipate only a modest increase in vacancies within the city limits over the next few quarters. As things stand, the vacancy situation is most acute in the wider urban area of the city, where no such relevant data is gathered. Our monitoring of advertised space (Fig. 19), which incorporates not just advertising portals but also the advertising of real estate brokers and individual property websites, shows that the supply of space in the outer business district continues to rise despite the decline in construction activity, and now amounts to some 430,000 m².

Increase in available space set to slow going forward

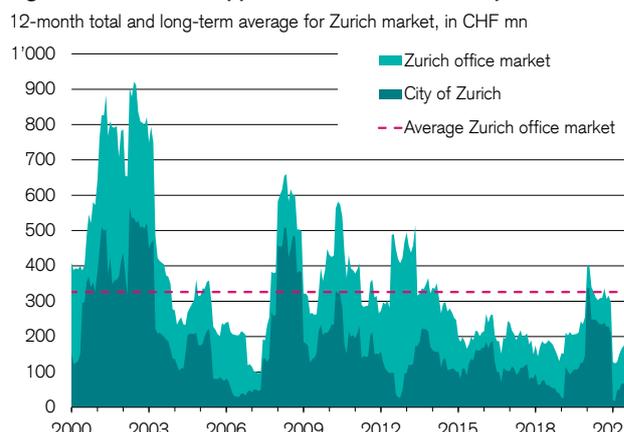
Zurich’s office market benefits from the fact that construction investment (as gauged through planning applications) was well below the long-term average between 2015 and 2019, as well as since the start of this year (Fig. 20). The decline in vacancy levels and the supply of space in 2018 and 2019 triggered a number of new investment projects, which (after a short time lag) brought approved construction volumes back in line with their long-term average in 2020. However, pandemic-inspired uncertainty then saw many investment ambitions quickly evaporate; hence approved construction volumes have recently fallen well below their long-term average once again. The weak expansion of existing office space is a major reason why both the supply of space and vacancies have risen only modestly. Given the weak pipeline, this is likely to remain the case going forward.

Fig. 19: Supply of available office space



Source: Meta-Sys, Credit Suisse Last data point: Q2/2021

Fig. 20: Construction approval volumes for office space

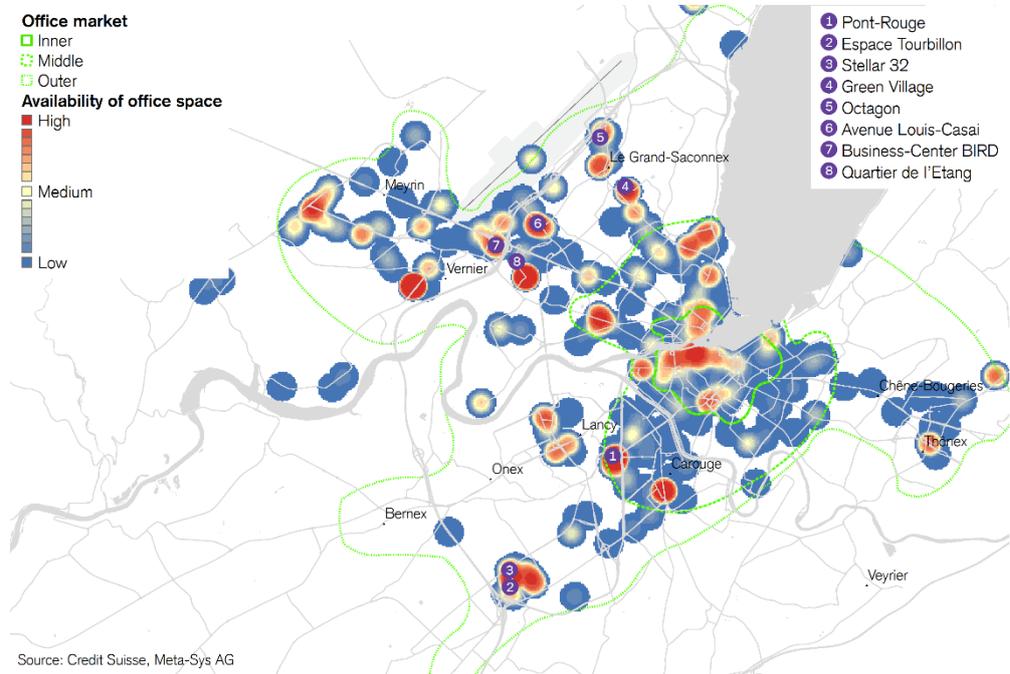


Source: Baublatt, Credit Suisse Last data point: 09/2021

Geneva

Fig. 21: Density of available office space

Office space marketed on the internet (existing stock and newbuilds) in m² per hectare as per Q2 2021



Further rise in supply of space in Geneva office property market

The supply of space in Geneva's office property market – the problem child of the wider Swiss market in recent years – appeared to have peaked in 2019. The volume of advertised space then declined, but uncertainties in the wake of the coronavirus pandemic have resulted in a further rise in supply of space (Fig. 22). The supply rate of the overall office market in Geneva rose from 11.5% last year to 12.3% most recently. This is primarily attributable to a sharp increase in supply in the wider office market, either due to a significant amount of space coming onto the market (Pont-Rouge), or the expansion of space in connection with the opening of the Lemman Express resulting in vacancies elsewhere. At the heart of the Geneva office property market, a shrinking of supply testifies to intact demand, mainly for premises with less than 1000 m². One contributory factor here is the stabilization of the Geneva financial center in recent years. Although the number of banking personnel continues to decline, the same is not true of the more broad-based financial intermediary sector. Many office tenants are exploiting the greater breadth of choice to seek out premises in the city center. In the central business district (CBD), the supply rate has therefore declined from 7.4% to 7.1%. That said, the various supply hotspots on the map (Fig. 21) make it clear that oversupply remains a widespread problem in Geneva's office property market.

Decline in supply of space at the heart of the city

In the central business district (CBD), the supply of available space is primarily concentrated on the left bank of the Rhône. A high supply density can also be discerned in Sécheron, where various buildings have vacant premises close to the station. In the middle business district, the new Pont-Rouge business quarter is developing dynamically. This is the first large-scale building phase of the city's significant Praille-Acacias-Vernets (PAV) development project. The new business district right next to Lancy-Pont-Rouge station comprises six buildings offering total space of around 110,000 m², of which just under 95,000 m² is office space. More than a half of this space is already let. Due to these letting successes, the two largest building complexes are already in the construction phase and being advertised. The Pension Fund of Canton Geneva has stepped in as an investor in Esplanade 3, where it also intends to concentrate its workforce. The addition of new space at the Pont-Rouge location is one reason why the supply rate of the middle business district has risen to 9.5%, whereas last year it was actually lower than the CBD supply rate.

Letting successes in outer business district

The volume of advertised space has remained constant in Geneva's outer business district – in contrast to developments in Switzerland's other major office markets. Among other things, this is attributable to letting successes in the Plan-les-Ouates quarter. Of the five buildings in the Espace Tourbillon complex, Swiss Prime Site has sold a further building to the Hans Wilsdorf Foundation,

thereby reducing the supply of available space. Another contributor to the reduction in supply is the letting of more than 11,000 m² in Stellar 32 – which was completed in 2020 – to a Japanese pharma company. However, there are still various premises requiring tenants, as is clear from Figure 21. The other vacant space hotspots are almost all clustered in the northern part of the office market, close to Geneva airport. For example, the Green Village project in Grand-Saconnex, right at the heart of the international part of Geneva, is taking shape. The first office building currently under construction (Kyoto) already has tenants in place for its lower floors. The premises of the next building (Stockholm) are also now being advertised.

Newbuilds put pressure on existing stock

To the north of this area, right by the airport, the Ensemble Octagon previously occupied by US chemical giant Dupont is positioning itself as a new incubator and innovation campus for start-ups. Further premises in existing buildings are being advertised on the Avenue Louis-Casai, the main axis between the airport and city center. Further to the west, a significant volume of space still awaits tenants in the imposing BIRD business center. On the other side of the freeway Geneva's largest current building site can be found – the Quartier de l'Etang. This will be home to an entire district with 870 apartments and numerous offices. No less than 44,000 m² of office space is currently being advertised in four office buildings. Not least due to these newbuilds, the supply rate in Geneva's outer business district is stuck at a high 20.5%.

Vacancy rate now below all-time peak

Canton Geneva did not publish vacancy figures last year due to poor data quality, but its Statistical Office now estimates the volume of vacant office space to be in the region of 191,000 m². This may be short of the peak of 235,000 m² recorded in 2019, but is nonetheless the third-highest figure of the last 40 years. On average, vacant offices in Geneva currently stand empty for more than 20 months before a tenant is found. Not since the 1990s have letting times been so long. More than a half of all vacant space has been on the market for more than two years. The properties most difficult to market are those constructed in the 1980s and 1990s. This explains why many properties are currently undergoing renovation and have therefore been removed from the available supply for the time being. There is therefore a risk that the supply rate will rise further once these properties return to the market.

Geneva pipeline fatter than those of other major centers

That construction activity is relevant to the high supply of available space in Geneva is also evident from the volume of approved construction investment for office space. Despite only limited demand dynamism and increasing signs of oversupply, investors appear to have shown almost no restraint in recent years. Over the last five years, the volume of approved office construction is only 6% below the long-term average of CHF 84 mn – a level that is too low for a comprehensive recovery of Geneva's office property market. Indeed, until recently the 12-month total of approved office space had climbed back above the long-term average, only falling back again from June 2021. We are therefore anticipating a persistent expansion of office space and a rocky road to recovery.

Fig. 22: Supply of available office space

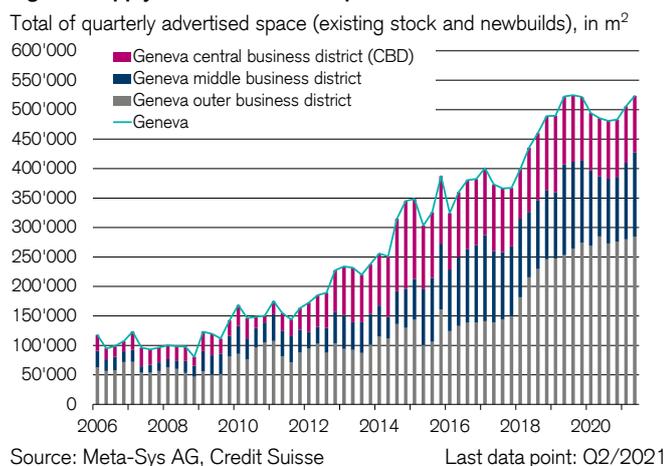
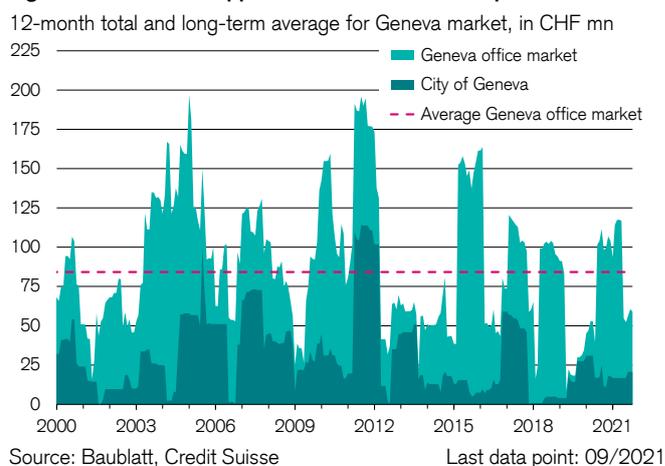


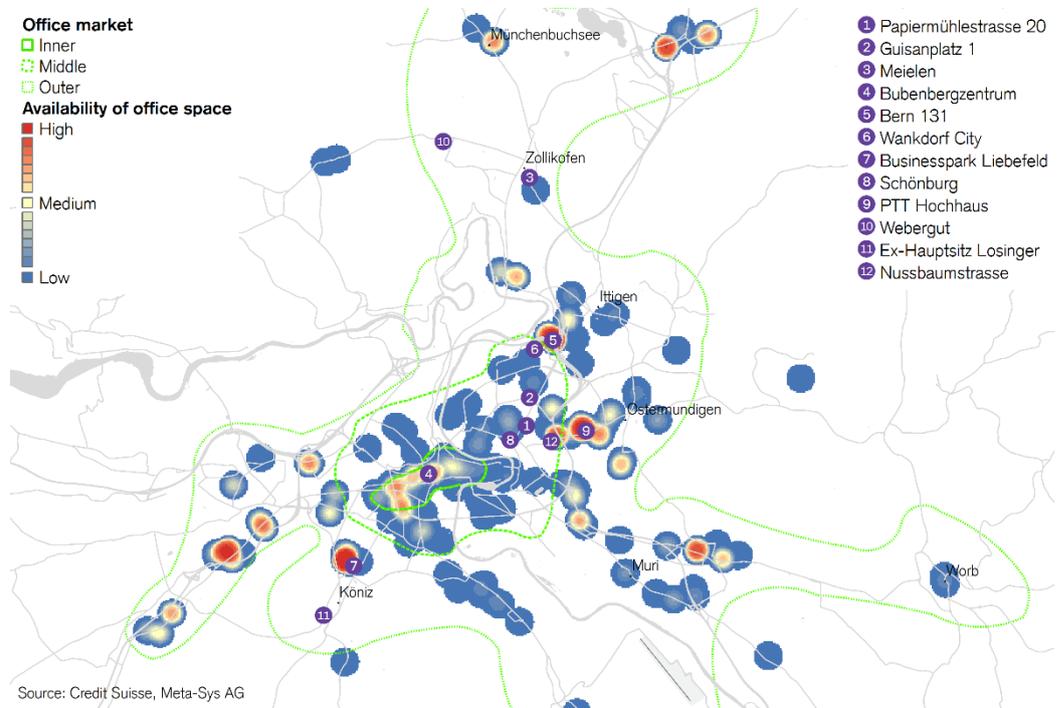
Fig. 23: Construction approval volumes for office space



Bern

Fig. 24: Density of available office space

Office space marketed on the internet (existing stock and newbuilds) in m² per hectare as per Q2 2021



Demand situation in Bern anything but straightforward

For many years, the Bern office market has been dominated by the space needs of the federal administration and the Confederation's publicly-owned companies: SBB, Swisscom, and Swiss Post. Whereas the former keeps growing and pursues its space occupation strategy unflinchingly, the three publicly-owned companies face difficult times for a variety of reasons. Swisscom operates in a saturated market. Swiss Post is confronted by major structural change that has greatly reduced mail volumes. Moreover, negative interest rates are weighing on the business model of its subsidiary PostFinance. For many years SBB was unaffected by such trends, but it too has now entered turbulent waters as a result of the coronavirus crisis. None of these three companies is on a growth trajectory. Against a backdrop of structural change, they are instead reducing headcount and reducing their spatial footprint. Letting successes in the Bern office property market may therefore be few and far between, but they do exist. In Münchenbuchsee, the Steiner Investment Foundation has found a single tenant for its planned office newbuild close to Zollikofen station and is revising the project in line with this tenant's requirements.

Unbroken rise in supply rate

As a result of this development, the supply of office space in Bern has risen steadily in recent years (Fig. 25). In addition, the pandemic has driven the available supply up to 211,000 m², a very high figure for the Bern market and equating to a supply rate of 6.1%. Meanwhile, the federal government is pressing ahead with its workforce concentration concept and building additional space. At Papiermühlestrasse 20 in Bern, the existing administration center is being replaced by a newbuild and condensed to house the entire administration of the army. In addition, construction activity for an office property on the site of the new administration center at Guisanplatz 1 got under way in January 2021. At some point, this building will also be occupied by employees of the Federal Department of Defence, Civil Protection and Sport (DDPS). And even though the third building phase has not completed at the Meielen site in Zollikofen, where the Department for Foreign Affairs (DFA) will house some 1,000 employees from 2023, the contingent credit for the next phase of construction activity at the same location has already been applied for.

Low supply rates in the center

The central and middle business districts in Bern have been less affected by this development, and their supply rates remain low at 2.2% and 2.7% respectively. Accordingly, available space is scarce in the central business district (Fig. 24). Only in the Bubenbergzentrum (once intended for

SBB) right by the main station are any sizable premises available. However, this replacement new-build will not significantly increase the supply of space – unlike the office building Bern 131, which is planned by Losinger Marazzi at the Bern-Wankdorf freeway junction, currently the site of a storage building. Close by, the third and final construction phase of WankdorfCity is close to completion. This project should take concrete form from 2023 onward and bring additional office space to the market.

Increase in supply in outer business district

By contrast, things look very different in the outer business district, where the supply rate has risen to 10.8% (Fig. 25). This is mainly due to 26,000 m² coming onto the market in the Liebefeld business park, vacated by Swisscom as it seeks to divide staff between its other Bern locations. The mobile working model of Swisscom employees is reducing the company's need for space, which is why it resolved upon this step even prior to the onset of the COVID-19 pandemic. Given the price war in Switzerland and the pandemic-related slump in roaming revenues, Swisscom will probably also continue to cut its real estate footprint going forward. The several hundred full-time equivalent positions axed in 2020 may therefore not have been the last.

Use conversion a widespread phenomenon in Bern

Due to weakness of demand for office space in Bern, some owners have chosen the path of use conversion. The forerunners of this development were the conversions of the Schönburg building and the PTT high-rise building – which is still in progress – on the eastern periphery of the capital. A similar path has been pursued by the new owners of the Webergut complex in Zollikofen, which was vacant for a long time following the relocation of the Federal Administrative Court to St. Gallen. Innovative residential solutions should help make this an appealing district in the future. Other examples include the conversion of Mattenstrasse 6 in Gümligen to furnished apartments, the conversion of the Brückenkopf building next to the Monbijou bridge to studios and small apartments with a roof terrace, and the conversion of the former offices of Hasler AG in Liebefeld to apartments.

Conversions bring down vacancy rate

After years of vacancies, the owners of the former Losinger headquarters in Köniz have now also decided to go down the apartment route. The persistence of this trend is clearly feeding through into the vacancy figures of the city of Bern: the volume of vacant office and medical/dental practice space had declined from 65,000 m² in 2020 to just 44,000 m² as per June 1, 2021. The dynamism of the conversion trend is more pronounced in Bern than anywhere else, and various other examples could be cited. In some cases, even conversions to school premises are an option for investors looking to reduce vacancies. For example, Bern city council is intending to convert the striking red structure between Nussbaumstrasse and the freeway into a secondary school following the departure of the Federal Office of Police.

Bern office market broadly in equilibrium thanks to conversions

Thanks to these and other conversions, the Bern office space market is broadly in equilibrium. One contributory factor here is the weak level of private sector construction activity. Approved building investment volumes have languished at very low levels for years, with the only stimuli coming from the federal government's newbuild projects (Fig. 26). These include approvals for the expansion of the Ittigen site at the end of 2016 and the next expansion phase of the Meielen site in Zollikofen in June 2020. The next phase of the Guisanplatz development should also be submitted for approval soon. The federal government's real estate strategy is therefore the key driver of the Bern office property market.

Fig. 25: Supply of available office space

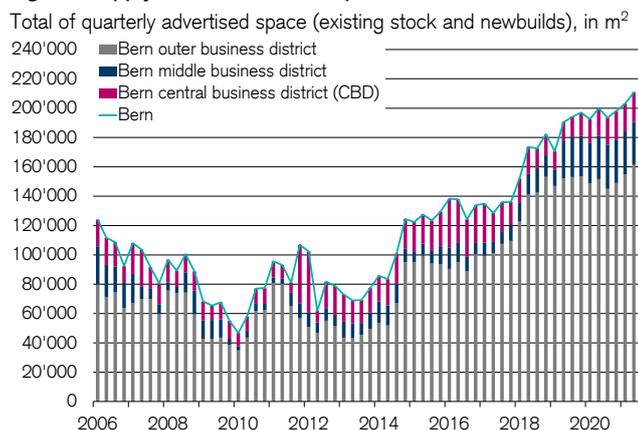
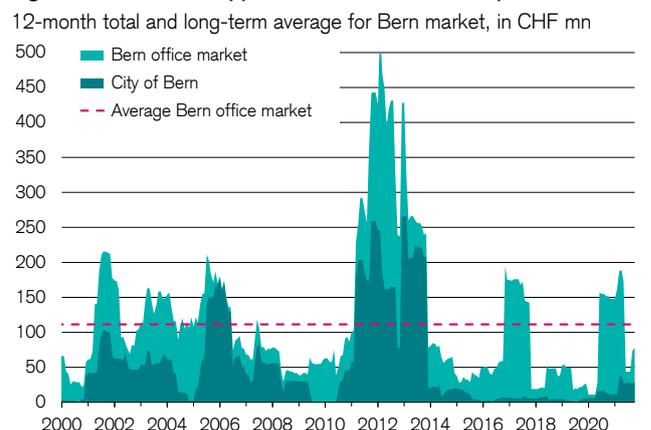


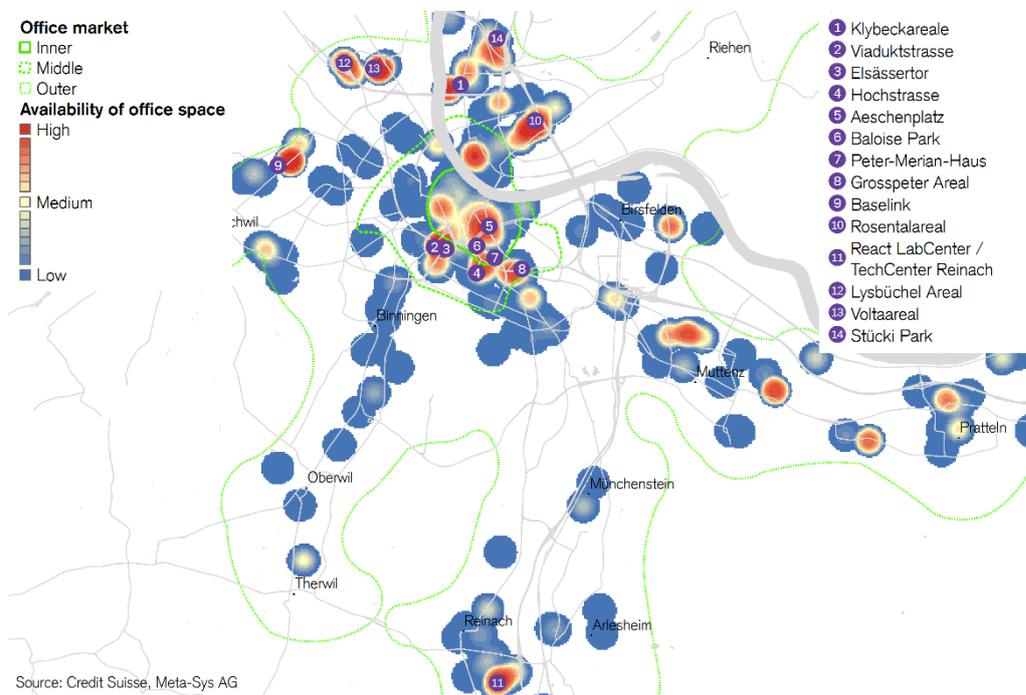
Fig. 26: Construction approval volumes for office space



Basel

Fig. 27: Density of available office space

Office space marketed on the internet (existing stock and newbuilds) in m² per hectare as per Q2 2021



Strong rise in supply of space in Basel office market

The strategy of Basel's major pharma companies to concentrate workforces at their production sites, is increasingly leaving a mark on the Basel office property market. The supply of space has been increasing steadily since 2016 – from 123,000 m² to just under 284,000 m² most recently (Fig. 28). The supply rate has risen sharply over this period, from 3.8% to its current level of 8.8%. To a lesser degree, a similar strategy adopted by Basel's insurance companies has contributed to this rise. Last but not least, the opening of the sealed-off former Klybeck sites of BASF and Novartis – which had often been advertised for interim rental for extended periods – has provided additional space. Due to this development, the supply of space has increased significantly above all in Basel's central business district (CBD) and its wider office market, as the high concentration of available space close to Basel SBB station makes clear (Fig. 27).

Supply of space around main station likely to rise further going forward

The advertising of more than 18,000 m² of office space on Viaduktstrasse, previously home to the UBS training center but rented by pharma giant Roche since 2015, has resulted in a sudden surge in the supply of space in the CBD to a high 8.7%. When the second office tower is completed in 2022, the pharma multinational will relinquish more space close to the station. Roche is also likely to vacate the Elsässertor and additional premises on Hochstrasse behind the station. These employees will be transferred not just to the company's production site on Grenzacherstrasse, but also to the Roche campus in Kaiseraugst. However, it is not just close to the station that the volume of available office space is rising significantly in the CBD: numerous premises – mainly between 1000 m² and 2500 m² – are available in various buildings close to Aeschenplatz.

Construction activity picks up close to main station

Positive market developments include the move of Moderna Therapeutics to Basel. The company has set up its European headquarters here, and is currently expanding local headcount significantly. Another positive development is the almost full letting of the office premises for third-party tenants in Baloise Park. The return of the Baloise employees to their traditional site has freed up space in the Peter-Merian-Haus, however. In addition, further to the east on the Grosspeter site, the Clime building (currently under construction) is seeking tenants. Also on the market are premises in the neighboring former operating building of Swisscom, which under the name of Grosspeter Tec is looking for tenants for space now superfluous to Swisscom's long-term needs. In the same row of buildings, the B City project has been waiting for years for sufficient tenant commitments to start construction.

Basel's attractive life sciences cluster

Despite the ongoing coronavirus crisis, the Basel area remains attractive to companies. In 2020, efforts to attract companies to the city reaped various successes. Particular interest in this office location has been coming from Asia: companies to have opted for Basel include Chinese pharma company Hengrui and the Japanese testing and measuring device manufacturer Yokogawa. Another arrival this year is Holmusk from Singapore, a young company specializing in health data. The majority of new arrivals come from the life sciences area – presumably not least because these companies will be able to draw on a significant reservoir of specialist labor in Basel. Viewed globally, only Boston can compete with the life sciences cluster found in and around Basel.

Campus trend

Interested companies can find appealing locations not just in the city itself, but also in surrounding municipalities. Development has been dynamic at the new Baselink campus in Allschwil. In addition to life science companies already present such as Johnson & Johnson (formerly Actelion), the US pharma group Abbott, and other prestigious institutions, the main campus still has some two-fifths of its total space of 50,000 m² available for rent. The building is set to open its doors in the summer of 2022. Novartis has also been pursuing a campus strategy recently and has opened up its Basel location to third-party companies. Space freed up as a result of new working models is to be rented out to companies and institutions from the life sciences area, with the headquarters of Novartis to be transformed gradually into a pharma industry cluster.

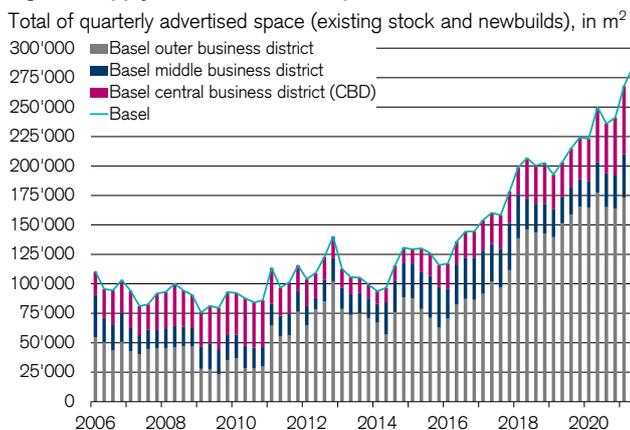
Strong rise in vacancies – particularly in Basel-City

The plentiful supply of office space has also meant a rise in vacancies. Both Canton Basel-City and Canton Basel-Country reported an increase in the volume of vacant office space as per June 1, 2021. In the more urban canton this increase was particularly significant at 60%, pushing the volume of vacant space to a new all-time high of 122,000 m². Vacancies were also up in the more rural canton, although the increase here – from 20,000 m² to 89,000 m² – was less dramatic. The smaller increase outside of the city is in line with the development of space supply, which did not rise further in the outer business district. That said, a supply rate of 9.2% still testifies to a very large amount of vacant space here. In addition to the above-mentioned space available on the Klybeck site, vacant premises include the space formerly occupied by Syngenta on the Rosental site, as well as campus-type laboratory and office space in the TechCenter Reinach and the neighboring React LabCenter. Moreover, tenants are still being sought for sizable premises in Muttenz (BusinessCity Polyfeld, Polypark, Gretherpark) and the Werkarena commercial center on the Lysbüchel site at the city's northernmost extremity.

Recovery likely to be some way off

The management of office space in Basel looks set to be challenging in the future too. At CHF 76 million, the volume of investment in approved office construction over the last 12 months may be only around half the long-term average, but construction investment was previously often at or above this level for a period of five years (Fig 29). This explains the current oversupply and suggests that a recovery of this market is still some way off. New developments – such as on the Volta site in the north of the city, where further office space is planned on SBB land, and in the Stücker Park, where Swiss Prime Site has commissioned new buildings – should contribute to an ongoing increase in the supply of space.

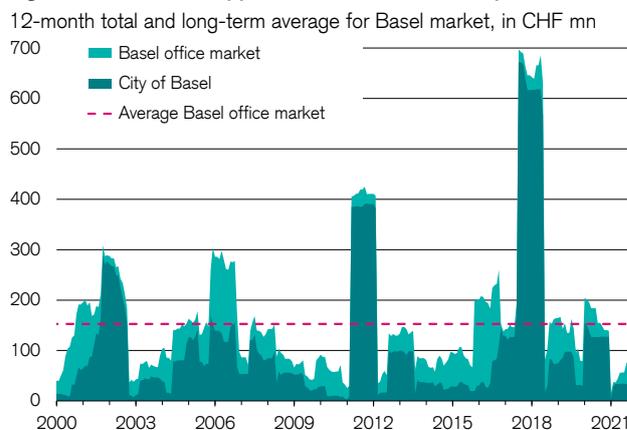
Fig. 28: Supply of available office space



Source: Meta-Sys AG, Credit Suisse

Last data point: Q2/2021

Fig. 29: Construction approval volumes for office space



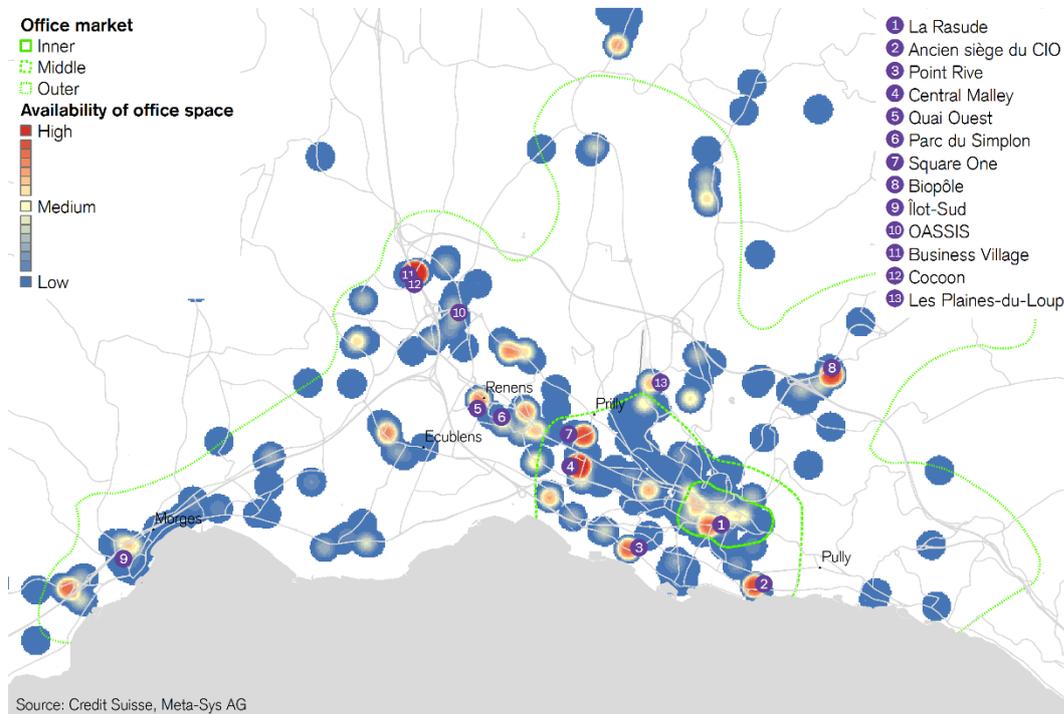
Source: Baublatt, Credit Suisse

Last data point: 09.2021

Lausanne

Fig. 30: Density of available office space

Office space marketed on the internet (existing stock and newbuilds) in m² per hectare as per Q2 2021



Little office space available at heart of Lausanne market

Although the supply of office space in Lausanne appears high given the supply rate of 8.2%, there are very few large existing properties with space to rent in the city proper (Fig. 30). These include the two renovated historic buildings in the La Rasude district close to the main railway station, the former headquarters of the International Olympic Committee in Pully, and the elegant Point Rive complex left vacant at the end of 2020 when Nespresso relocated its global headquarters to Vevey. With a supply rate of 3.5%, the supply of space in Lausanne’s Central Business District (CBD) is similar to that of Zurich (3.3%) and Bern (2.2%).

Plenty of space under construction

The sharp increase in the supply of office space in the Lausanne market to some 220,000 m² (Fig. 31) following a period of relatively stable development between 2012 and 2018 has been primarily driven by a few large-scale construction projects. All of these are located outside of the city limits. The most easily accessible site is the Central Malley complex, where SBB is developing a former brownfield site on the outskirts of the city between the western suburbs of Renens and Prilly. Although these premises are right by Prilly-Malley station, as well as being accessible from the M1 metro line to the south and the future T1 tram line to the north, tenants have hardly been queuing up to sign. Hardly any space has been let in this complex over the last two years.

Office space close to suburban stations suffering from saturation

Patience is also required in the marketing of office space in the Quai Ouest complex by Renens station, where only around 22% of office space has been let, despite marketing starting back in 2018. The successful letting of more than 90% of the 18,000 m² or so of office space in the Parc du Simplon – to the east of Renens station – has clearly covered the existing need in this area for now. Another huge project at the construction stage is the Square One campus to the north of Prilly-Malley station. This is where Sicpa, the world’s leading provider of banknote inks, is building an open research center relating to the theme of security. Another participant in this project is the École Polytechnique Fédérale de Lausanne (EPFL), which is planning to use this site to extend its successful EPFL Innovation Park, which is bursting at the seams in Ecublens.

Science campuses in vogue

The aim of Square One is to replicate the success of the Biopôle life sciences campus above Lausanne in the municipality of Epalinges. Biopôle managed to increase the number of companies active on its research campus from 40 to 110 within just a few years. Hardly a year goes by without

yet another building springing up here, making Biopôle one of the largest life sciences campuses in Europe. The latest building – Serine, encompassing 9,500 m² of office and laboratory space along with a certain amount of free space – was inaugurated in October. The campus has a utilization rate of 85–90%, and is therefore already eyeing up the next phase of expansion. A further three buildings offering some 23,000 m² of additional office and laboratory space are set to complete by the fall of 2024. In view of the home working trend, which has been greatly accelerated by COVID-19, the focus of space expansion in Lausanne on science campuses would appear a fortuitous development, particularly as research activities require significant interaction at a central workplace and hardly run the risk of being transferred to home offices.

Demand intact

Overall, the supply of available space in the Lausanne market has risen by 3.6% year on year – a similar figure to Zurich, even though the latter has seen significantly less construction activity in recent years. Demand for office space therefore appears to be relatively robust, despite the pandemic. In the last year, for example, most of the available space has been let in the Îlot-Sud complex close to Morges railway station, while a similar success has been recorded in the new OASSIS district in Crissier. In addition to newbuild lettings, there has also been progress in the rental of existing space: in Bussigny’s Business Village, for example, the vacant premises that had been seeking tenants for years are now no longer on the market. Canton Vaud has joined the roster of tenants there and has rapidly set up a new grammar school in order to deal with the surging number of secondary school pupils.

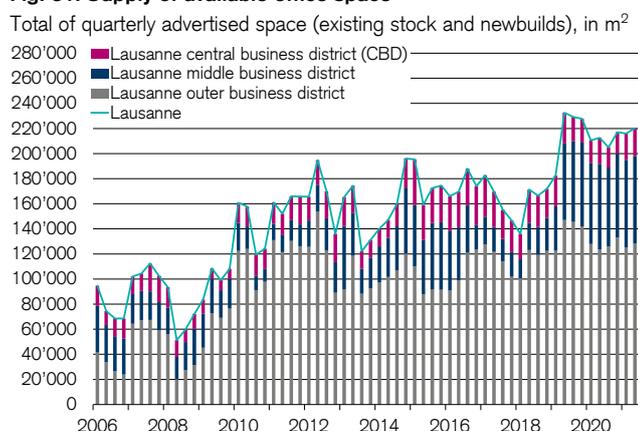
Vacancies in Lausanne region on a par with 2018/2019

Lausanne’s relatively stable development despite the pandemic is not reflected in the strong increase in officially recorded vacancies in the Lausanne region, which rose from 24,000 m² in 2020 to 53,000 m² in 2021. However, closer analysis reveals that 70% of the difference relates to Epalinges alone. The rise is therefore not representative of the region, and may also involve some measuring inaccuracies. If the Epalinges municipality is excluded, vacancies in the Lausanne region are virtually on a par with those recorded in 2018 and 2019.

High level of construction activity to persist for time being

The increase in the supply of available space in Lausanne (supply rate: 8.2%) is first and foremost the result of vigorous construction activity. This is clear from Figure 32, which shows the officially approved volume of new office space construction: building permit issuance since the end of 2015 shows that the volume of office investment has often been above the long-time annual average of CHF 91 mn. There currently appears to be something of a lull in planning activity, as the volume of approved construction over the last 12 months amounts to just CHF 28 mn. In the absence of the launch of further new projects, therefore, the space expansion is likely to shrink with time. On the other hand, no reduction in supply should be expected any time soon as new premises are continuously coming onto the market. To the north of Bussigny, for example, work has begun on the large-scale Cocoon project. This will see four new buildings with a total of 38,000 m² of office and commercial space spring up close to the future Cocagne tram stop (extension of T1 line). In addition, it remains unclear whether further office space will be planned for the huge Les Plaines-du-Loup eco-district next to Blécherette airfield, where around 3,000 m² of office space is already under construction.

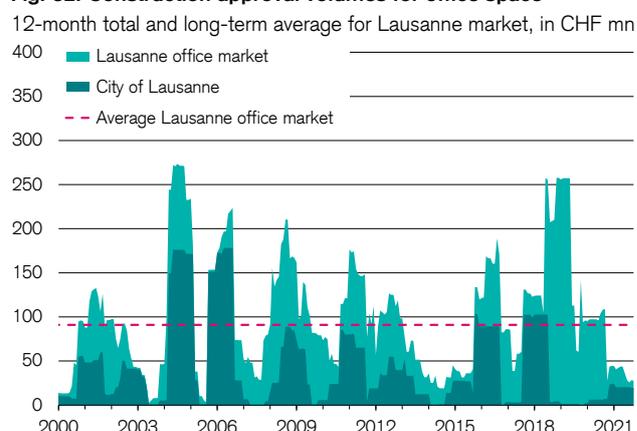
Fig. 31: Supply of available office space



Source: Meta-Sys AG, Credit Suisse

Last data point: Q2/2021

Fig. 32: Construction approval volumes for office space



Source: Baublatt, Credit Suisse

Last data point: 09/2021

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