Investment Solutions & Products
Swiss Economics

CREDIT SUISSE

COVID-19 impacts on commercial property

Real Estate Monitor Switzerland | June 2020

Imprint

Publisher: Credit Suisse AG, Investment Solutions & Products
Nannette Hechler-Fayd'herbe
Head of Global Economics & Research
+41 44 333 17 06
nannette.hechler-fayd'herbe@credit-suisse.com

Fredy Hasenmaile
Head of Real Estate Economics
Tel. +41 44 333 89 17
fredy.hasenmaile@credit-suisse.com

Copy deadline
June 5, 2020

Publication series
Swiss Issues Immobilien

Visit our website at
www.credit-suisse.com/immobilien

Authors

Fredy Hasenmaile, +41 44 333 89 17, fredy.hasenmaile@credit-suisse.com
Alexander Lohse, +41 44 333 73 14, alexander.lohse@credit-suisse.com
Thomas Rieder, +41 332 09 72, thomas.rieder@credit-suisse.com
Dr. Fabian Waltert, +41 44 333 25 57, fabian.waltert@credit-suisse.com

Contributor

Fabian Diergardt

Editorial

Dear readers

Question after question. The coronavirus has not only completely disrupted our social lives, it has also thrown a spanner into the economic workings of mankind. It is remarkable to think that so much is still unclear about this pandemic, despite all the intense research being carried out. How far advanced is the spread of this disease? What kind of immunity results from an infection? When will the second wave come, and will this too wreak great damage?

One thing is certain. The world after COVID-19 will not be the same one as before. It is very rare for an event to turn the world on its head so swiftly and comprehensively as this virus has done. Hopes of a rapid recovery are likely to have been overly optimistic. The economic damage inflicted by the pandemic will be felt for years to come (page 5).

At the start of the COVID-19 crisis, the key questions revolved around the stability of the Swiss real estate market. In mid-March, when panic gripped the markets, real estate securities were not exempt from the wave of selling, and significant declines were recorded. Thereafter, however, Swiss real estate was once again able to do justice to its reputation as a secure investment. Over the year to date, it has also significantly outperformed international real estate investments. What's more, investors have started to increasingly differentiate between the individual segments (page 15).

In this issue, you can read what the pandemic means for the Swiss real estate market. We explore the situation in the individual submarkets, and provide an outlook for owner-occupied housing (page 8), the rental apartment market (page 10), the construction market (page 7), and commercial real estate markets (page 12: office property, page 14: retail property).

The focus of analysis is now shifting from the immediate effects on the different real estate submarkets to the longer-term repercussions of the pandemic. A particular area of focus is the future significance of home working and its repercussions for office property demand. You can read our appraisal of this issue on page 12.

On behalf of the authors, I hope you find our publication informative and inspiring.

Fredy Hasenmaile
Head of Real Estate Economics

Contents

Economy not a lightbulb

The containment of the virus and the delight with which the staggered easing measures have been greeted should not blind us to the fact that restoring the Swiss economy to its previous vigor will require more time than originally anticipated.

Pandemic suppressed with remarkable rapidity

In mid-March, few people could have expected that Switzerland would have got a grip on the coronavirus pandemic quite so quickly. The nation was prepared for the worst, and followed the number of new infections almost hypnotically. The exponential growth trend was broken on (or around) March 22, following which the number of new infections was gradually brought down to the current level of less than two dozen cases a day.

Social distancing does work, …

The first wave of COVID-19 has therefore been successfully halted. Social distancing measures appear to deal a significant blow to the virus's ability to transmit from person to person – at least when implemented as effectively as we have seen so far. Switzerland's success in combating the virus has subsequently permitted the draconian measures to be loosened in phases.

… but comes at quite a cost

But for all the reports of successes on the epidemiological front that accumulated, every day of lockdown brought a new level of awareness of the huge damage being done by the deliberate suppression of economic activity. The number of jobseekers on the Confederation's recruitment platform soared (Fig. 1). Indeed, it is already clear that Switzerland is being confronted by the greatest economic slump since the oil crisis in the mid-1970s. On the other hand, thanks to the targeted and rapidly implemented cushioning measures taken by the federal government, Switzerland is likely to experience a much less serious reverse than most other countries. According to the IMF, the global economy is looking at the greatest slump in value creation since the Great Depression in the 1930s.

An economy cannot be simply switched on and off

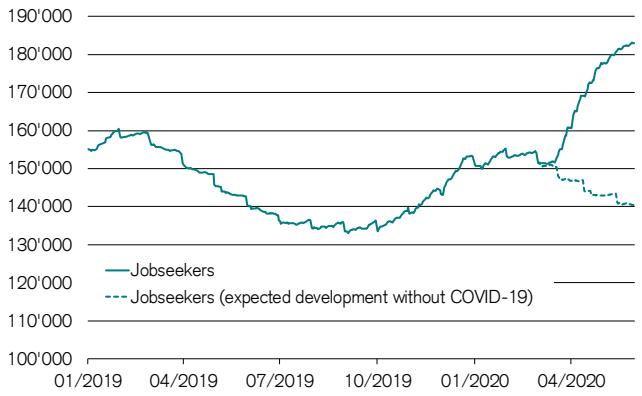
There was no time to carefully consider and debate the consequences of the dramatic measures taken by the federal government back in March. In keeping with the emergency situation, far-reaching protective measures had to be taken swiftly. Hopes were widespread at the time that the economy would bounce back quickly after the lockdown – there was even talk of a "recovery boom". In retrospect it is remarkable how little we actually understand about the economy. An economy cannot be simply switched on and off like a lightbulb. This reality was simply given insufficient consideration.

Economic activity is based on trust and confidence

Economic activity – down to every last transaction and business deal – is based on trust and confidence. Both of these factors essentially evaporated during the COVID-19 crisis. The best example of this was the rush to stockpile basic supplies, which testified to the magnitude of the uncertainty among the population at large. To be fair, it should be pointed out that the COVID-19 crisis has no precedent. Accordingly, there are no suitable points of reference.

Fig. 1: Number of jobseekers rises steeply following lockdown

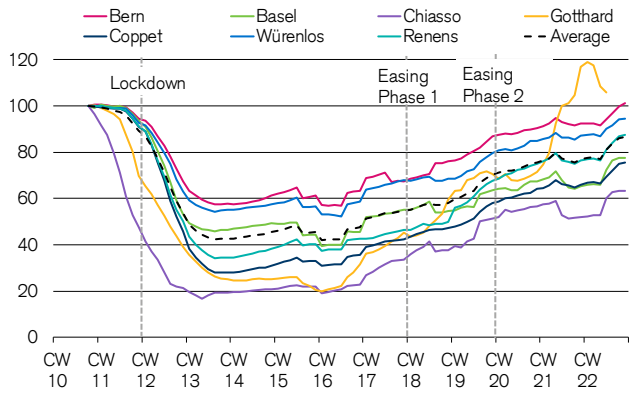
Number of registered jobseekers on the Confederation's recruitment platform (jobroom.ch)



Source: SECO, KOF — Last data point: 30.05.2020

Fig. 2: Mobility gradually increases again

Traffic flows on major Swiss roads, number of vehicles (cars and buses), moving 7-day total, indexed: 100 = 07.03.2020, CW = calendar week



Source: Swiss Federal Roads Authority — Last data point: 31.05.2020

Never before in modern history has a single cause paralyzed almost the entire world within such a short space of time.Getting the economic engine up and running again is proving difficult. It may well be possible to ratchet up economic output to, say, 85 to 90% of the level recorded prior to the onset of the COVID-19 pandemic. But restoring all economic activity to its prior level is likely to be a much slower business. The various economic protagonists are likely to exhibit a great deal of caution over the next few quarters, as well as reticence when it comes to spending money. Confidence will have to be built back up again – brick by brick.

Mobility data as indicator of economic activity

The problem is compounded by the fact that reliable economic data only ever appears with a time lag of several months. Moreover, all sorts of data is only assessed at the quarterly level, which means that the magnitude of the damage will only truly become evident once the data for the second quarter of the year is released. A useful proxy in this respect is the mobility data available on a daily or weekly basis, which can be used to (roughly) gauge the level of economic activity.

Rapid decline – slow recovery

Data compiled from a number of different measuring stations shows that road traffic on Swiss highways plummeted by almost 60% between the beginning and the end of March (Fig. 2). It is likely that Swiss road traffic declined by rather less than this overall, as the border regions are overrepresented in the measuring station sample. The decline was extraordinarily severe, above all in the week following the lockdown's entry into force on March 16. But the mobility of the Swiss population was already declining by that stage, as a number of employees had started to switch to working from home.

Major differences across the country

The major differences that are apparent across Switzerland are informative in themselves. In the Bern region, for example, mobility never dropped below 58%, whereas in Ticino or around the Gotthard tunnel the 20% threshold was breached at times. Interestingly, regions such as Ticino and the Lake Geneva region (Coppet), which were the first to impose restrictions on economic activity, appear to be needing longer to get their economies going again. The recession is likely to prove more severe in these regions than in many parts of German-speaking Switzerland. The development of mobility makes it clear that normalization is a long process. Moreover, since many employees are still working from home or preferring to use their private vehicles to avoid exposure to COVID-19, public transport flows will lag behind wider developments (Fig.3).

Domestic activity bounces back

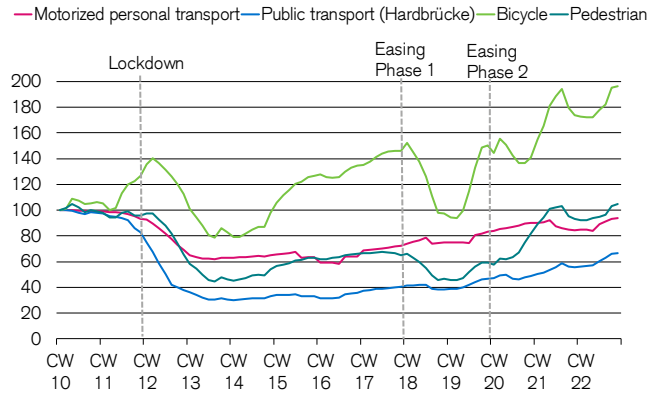
Domestic-oriented freight transport has now returned to its pre-crisis level, as is apparent from the data on heavy goods traffic in Würenlos (Zurich conurbation) and Bern (Fig. 4). By contrast, cross-border freight transport has not yet completely normalized. The measuring stations close to Switzerland's borders are reporting heavy goods transport volumes some 90% of the typical levels. In keeping with this development, the export business is also likely to be a long way off regaining its former dynamism. This is likely to be attributable not just to the much-described dislocations on the supply side, but also quite clearly to the demand shock, which is manifesting itself in subdued new order volumes.

Conclusion

The Swiss economy is gradually recovering from its unprecedented shock, but pre-crisis levels are unlikely to be achieved for a while yet – as is confirmed by the mobility data. In view of the economic damage wrought by the COVID-19 crisis, a rapid recovery looks increasingly improbable. It is likely to be quite some time until confidence is restored everywhere.

Fig. 3: Public transport normalizing only slowly

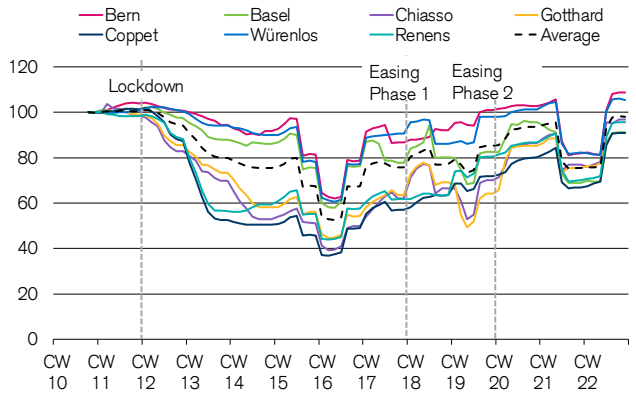
City of Zurich traffic flows by type of road user, moving 7-day average, indexed: 100 = 02.03.2020, CW = calendar Week



Source: City of Zurich Last data point: 31.05.2020

Fig. 4: Domestic truck traffic back to pre-crisis levels

Traffic flows on major Swiss roads, number of heavy goods vehicles, moving 7-day total, indexed: 100 = 08.03.2020, CW = calendar week



Source: Swiss Federal Roads Authority Last data point: 31.05.2020

Construction resilient

Building projects are being delayed by the coronavirus crisis, with demand over the next few quarters likely to decline in the commercial construction segment in particular. That said, there is currently little to suggest any real slump in construction activity.

Construction operations mostly not disrupted – but delayed

The lockdown imposed due to the pandemic is weighing heavily on numerous sectors. Although building sites were closed in Ticino and – for a shorter period – also in Cantons Geneva and Vaud, building activity typically continued in most other regions, albeit subject to social distancing and hygiene rules. However, these measures and personnel absences have resulted in delays, even though these cannot yet be more precisely quantified. For example, the completion of "The Circle" project at Zurich airport is likely to be delayed by two to three months as a result of coronavirus protection measures.

Decline in planning applications, but no slump

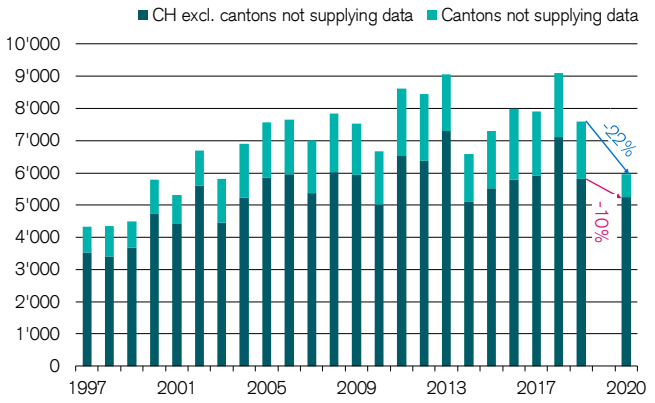
More crucial going forward is how developers react to the sudden change in the economic situation. Will advanced projects still be realized? Will new projects be initiated without any changes? Some answers are given by the planning applications submitted in March and April (Fig. 5). Overall, the volume (by value) of building construction applications submitted in these months amounted to CHF 6 billion, a 22% fall on the prior-year period. The last time planning application volumes were this low in these two months was back in 2003. However, the decline is exaggerated by the fact that municipalities in Ticino and the French-speaking cantons of Vaud, Geneva, Fribourg, and Neuchâtel have partly discontinued the reporting of building applications for the time being. If these cantons are stripped out of the statistics, the decline amounts to just 10%.

Residential construction and civil engineering in a better place

Even though building activity has continued in recent months and new projects are still planned, the pandemic will nonetheless leave its mark on the construction industry. In the second quarter, the construction index that predicts revenues in the main construction trade points to a decline of 2.3%, with a value that lies 6.7% below the prior-year quarter (Fig. 6). Over the next few quarters, it will initially be the cyclically-sensitive commercial construction area that will suffer, as demand from the sectors badly hit by the crisis – such as retailing and catering/hotels – is likely to take a battering. By contrast, residential property demand reacts less sensitively to economic fluctuations, and multi-family dwellings should remain sought after as investment properties against the backdrop of persistently negative interest rates. In civil engineering too, we are anticipating only a modest correction, as this segment can fall back on a very strong order pipeline, and the financing of infrastructure projects is likely to be secure for the time being thanks to the special funds earmarked for this purpose (FABI, NAF). Overall, therefore, there are a number of reasons to believe that construction will prove more resilient than many other sectors. However, development over the coming months remains shrouded in uncertainty

Fig. 5: Decline in planning applications exaggerated

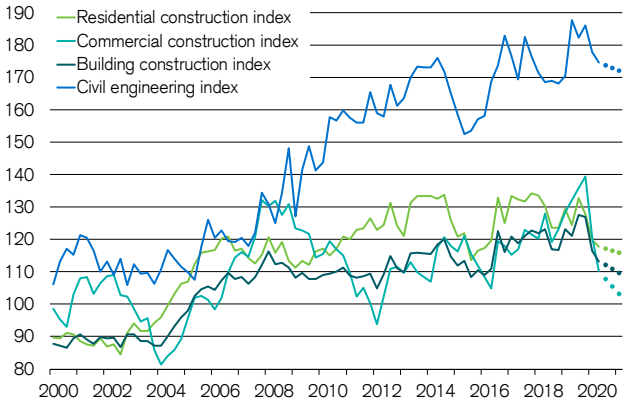
Building construction planning applications for March and April in CHF mn; cantons partly not reporting data during the coronavirus crisis: Ticino, Vaud, Geneva, Fribourg, and Neuchâtel



Source: Baublatt, Credit Suisse — Last data point: 04/2020

Fig. 6: Coronavirus exacerbates Q1 downturn

Construction index: Expected sales in main construction trade, seasonally adjusted, nominal points = trend expectation, index: Q1 1996 = 100



Source: Credit Suisse, Swiss Contractors' Association — Last data point: Q1/2020

Briefest of setbacks

In the first instance, the COVID-19 crises led to a paralysis of the residential property market. This phenomenon was to prove short-lived, however. Thanks to interest rates remaining at very low levels and subdued construction activity, we are expecting this market to normalize rapidly. That said, the demand shock is unlikely to be fully overcome until next year at the earliest.

Owner-occupied housing market paralyzed briefly

After a very strong start to the current year for the Swiss residential property market, the COVID-19 crisis and the associated lockdown initially triggered paralysis. With the new social distancing regime, sellers and property agents had to consider how to arrange property visits and conduct the selling process at all under such conditions. Moreover, potential buyers initially relegated the issue of property acquisition to the bottom of their list of priorities in the face of the pandemic.

Uncertainty – a toxin for demand

The initial shock was compounded by uncertainty over economic developments. The steep upward trajectory of short-time working statistics and the sharp unemployment rise greatly unsettled potential buyers initially. For example, a survey showed that consumer sentiment had plunged to an all-time low (Fig. 7). This was also true of answers to the question of whether this was a good moment to make a major acquisition. Although the survey did not specifically touch on real estate, economic and personal uncertainties are toxic when it comes to the acquisition of residential property.

Strong slump in advertisements following lockdown

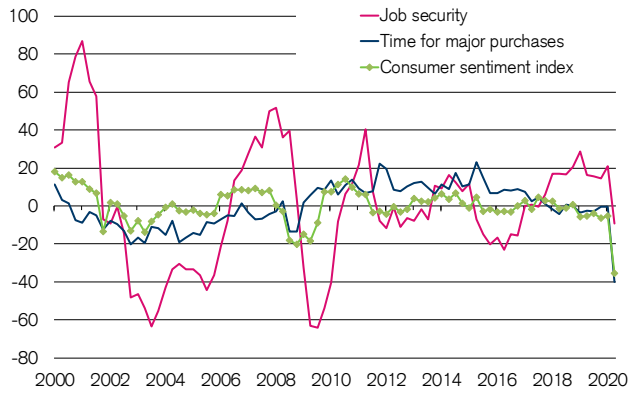
As many real estate market indicators only appear on a quarterly basis, these reveal little or nothing of the consequences of the lockdown. For this reason, we have now started to monitor – on a weekly basis – the number of residential properties being advertised for sale. Here the consequences of the lockdown are very apparent: The number of condominiums and single-family homes (SFH) advertised for sale had declined by 30% by the end of April (Fig. 8). On the one hand this was attributable to a complete collapse in the number of properties being advertised for the first time (-72%). On the other, there was a strong rise in the number of advertisements removed from the internet in some weeks of the lockdown. In many cases, this withdrawal is unlikely to have been prompted by a successful sale.

Market momentum picking up again

A slow trend reversal has emerged since the announcement of the first easing measures in mid-April. For example, the number of newly advertised residential properties has since risen (Fig. 8). In keeping with the return to normality, the number of new advertisements of apartments for sale has also risen recently, although this remains well below pre-crisis levels. At the same time, however, there is evidence of considerable regional differences. Above all in Ticino and in French-speaking Switzerland, which were much more badly affected by the pandemic, the number of advertisements has declined more sharply than in many areas of German-speaking Switzerland (Fig. 9). Accordingly, the recovery in the former regions is also lagging.

Fig. 7: Consumer sentiment at an all-time low

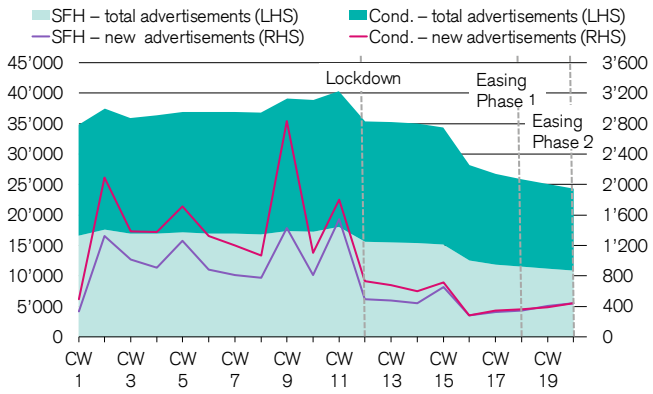
Consumer sentiment, deviation from average 2000 – 2019



Source: State Secretariat for Economic Affairs — Last data point: 04/2020

Fig. 8: Number of new advertisements rises again

Apartments advertised on online platforms, by calendar week (CW) in 2020



Source: Meta-Sys AG, Credit Suisse — Last data point: 17.05.2020

Number of transactions on the rise again

The residential property market is likely to have been less severely affected than the number of advertisements suggests. Based on the property transactions in which our bank was involved, there was an initial decline in the number of transactions, but also a subsequent recovery. This recovery is above all likely to have been the result of the swift response of the Federal Council following the outbreak of the crisis. For a large number of people, this had the effect of preventing a slump in income. However, the interest of potential buyers was also reawakened, with the lockdown having shown the importance of having one's own home. This is likely to have spurred many prospective buyers to resume the home-hunting process. As an additional factor, sellers, brokers, banks, and the authorities rapidly adjusted their processes to the new parameters.

Annual living costs remain low

The greatest barrier of all to any slump in demand is likely to be the fact that mortgage interest rates remain extremely low. In other words, the very low cost of financing one's own four walls is unlikely to change any time soon. Annual mortgage costs are even likely to fall further this year, to just CHF 4,750 per year on average (Fig. 10) for existing owners. Accordingly, existing homeowners are unlikely to find themselves in payment difficulties, even if they do suffer income problems.

Market remains attractive for first-time buyers

Even when all costs are taken into consideration, it is clear that owner-occupied housing entails lower annual costs than a comparable rental home in many areas. In other words, the market remains attractive for first-time buyers. With minimum capital and income hurdles remaining high, demand can be expected to continue to focus on the low and medium-priced segments. In the high-price segment, we are anticipating lower demand over the next few quarters. Households on the threshold of fulfilling acquisition requirements, who have been having to go to extreme lengths to get past the regulatory financing hurdles, have for the most part withdrawn from the market. Income security is just too low right now for these prospective buyers.

Pipeline of new properties hardly bulging

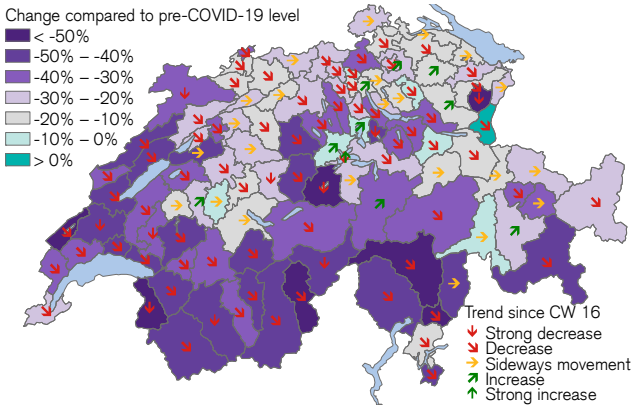
Another source of support for the residential property market is the continued decline in the supply of new homes. Even before the outbreak of the COVID-19 crisis, we were anticipating a further decline in residential housing production this year, namely by 7%. In the short term, this decline is likely to be accentuated by the construction site delays associated with COVID-19. Accordingly, the supply of residential property is likely to remain meager in the medium term too. Although it was only of short duration, the disruption to the transaction market could nonetheless lead to slightly higher vacancies from a year-on-year perspective, as these are measured annually as per June 1, and will therefore not have enough time to make up the lost ground.

Slight price declines in short term

Even if the market for owner-occupied residential property has already recovered from the worst of the COVID-19 shock, the pandemic will nonetheless leave its mark on the market over the next few months. As long as there is no second lockdown, we are expecting this market to broadly normalize. That said, the combination of deep recession and the time-consuming process of resuming economic activity and restoring consumer trust in the future is unlikely to see demand return to pre-crisis levels until next year at the earliest. The prevailing uncertainty is also likely to be reflected in price levels. Over the year as a whole, we are expecting a slight decline in prices despite transaction activity only having been briefly halted by the pandemic shock. Declines are likely to be greatest at the upper end of the price scale.

Fig. 9: Trend reversal not yet evident everywhere

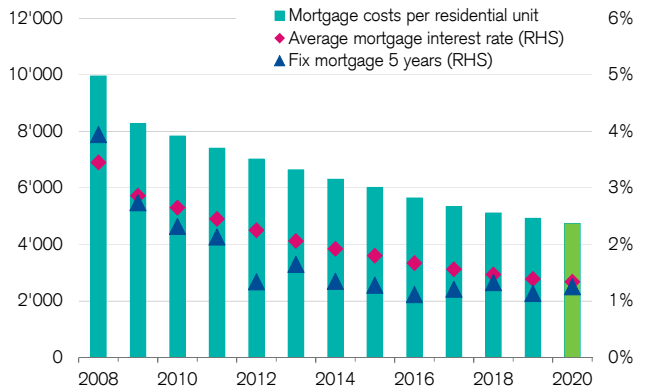
Advertised condominiums and SFH: change compared to pre-COVID-19 level



Source: Meta-Sys AG, Credit Suisse, Geostat Last data point: 17.05.2020

Fig. 10: Financing costs of residential property at historic low

Mortgage costs per residential unit in CHF; average mortgage interest rate as per September 30 of corresponding year; 2020: forecast



Source: Credit Suisse, SNB, Federal Housing Office Last data point: 2019

Slump in demand

The rental apartment market is another real estate area that will not be spared the fallout from the coronavirus crisis. In the short term, we are likely to see a sharp fall in demand and a greater rise in vacancies. Nonetheless, multi-family dwellings should remain in demand as sources of return.

Lockdown applies to immigration too

Switzerland is a country of immigration. Almost 80% of the population growth over the last ten years is attributable to immigration from abroad. This makes it the key driver of demand for rental apartments. As a result of the lockdown decreed by the Federal Council on March 16, rental apartment demand is now temporarily in danger of running out of fuel. Border controls were reintroduced, and a wide-ranging ban was imposed on incoming travel for citizens of neighboring countries, Spain, and non-Schengen states without residency rights. The latter was extended to all Schengen states on March 25, and the cantons have been instructed to suspend residence application processing with just a very few exceptions.

Border traffic declines by up to 95%

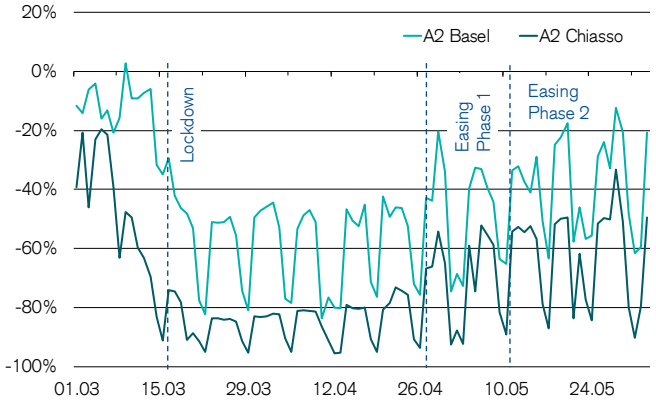
A consequence of these measures has been a genuine slump in the number of border crossings. In Chiasso, where the border was closed on March 13, the number of cars recorded on highways close to the border recorded a fall of some 95% on weekends and up to over 80% on weekdays (Fig. 11). A similar decline in traffic began a week later on the Schwarzwald highway bridge close to the border, namely around 80% on weekends and 50% during the week.

Immigration figures are falling only hesitantly…

The far-reaching closure of Switzerland's borders is feeding through into the official figures for immigration only gradually. Net immigration in the first quarter of 2020 was up as much as 30% on the previous year's equivalent. Even in March itself, the prior-year level was surpassed by some margin. People already holding a visa were able to continue to enter the country up to March 24, while the number of people exiting the country simultaneously recorded a strong decline. Not until April was a sharp decline apparent in the net immigration figures for the first time (-10.2%, Fig. 12). The number of submitted asylum applications declined by as much as 70% in the same month.

Fig. 11: Collapse in number of border crossings

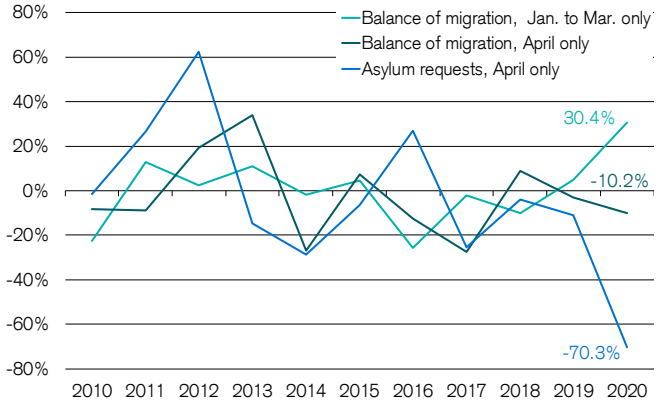
Numbers of border crossings into Switzerland recorded by border-area counting stations, change compared to same weekday in previous year



Source: Swiss Federal Roads Authority Last data point: 02.06.2020

Fig. 12: COVID-19 reduces immigration

Net immigration of permanent foreign residential population (excl. registry corrections) and number of asylum applications: Change compared to prior-year period



Source: State Secretariat for Migration, Credit Suisse Last data point: 04/2020

… but should remain weak in the coming months

The easing measures resolved by the Federal Council due to the decline in the number of infection cases envisage the country's borders being reopened as soon as possible. Residence permit applications submitted prior to March 25 started to be processed again on May 11, and the first lifting of border restrictions (e.g. for family members moving to Switzerland) has also now been implemented. Finally, Switzerland's borders with EU/EFTA states and the United Kingdom are set to be reopened as of June 15. However, the massive deterioration in the labor market situation over the next few months (cf. p. 5) should have the effect of limiting the demand for foreign labor

considerably. A rapid recovery in immigration is therefore not to be expected. Overall, we are expecting net immigration in 2020 to record a year-on-year decline of up to 15,000 persons.

Fall in demand by 8,000 apartments

The drastic fall in immigration will weigh on demand for rental apartments in the current year. But we are also likely to see much less demand for additional apartments by the Swiss themselves. The massive deterioration in consumer sentiment and the challenging labor market situation are likely to translate into the deferral, for the time being, of many a plan to set up a new household or to move to a larger apartment. Overall, we are anticipating a decline in demand for additional rental apartments of around 8,000 units compared to 2019 (Fig. 13). But this is unlikely to prove a lasting development: In our main scenario of rapid economic recovery (GDP growth for 2021 of +3.5%), demand should recover again by some 3,000 to 4,000 apartments in 2021. Even in this relatively positive scenario, however, demand is still likely to lag well behind pre-crisis levels.

Coronavirus also temporarily weighing on supply

The effect of the coronavirus crisis on the supply side of the market remains difficult to assess from today's standpoint. A clear decline in the number of advertisements has become apparent on online platforms (Fig. 14). Given the problematic situation, those who were able to avoid moving house during the lockdown will presumably have done so. The decline in demand and the complexity of arranging viewings prompted a number of marketing agents to suspend ongoing advertising campaigns. That said, we are anticipating the number of advertised rental apartments to begin to rise again in the second half of 2020 at the latest. The slight recovery in the number of new advertisements over the last few weeks is an indication that this process is already under way. However, there are likely to be delays in the completion of a number of construction projects, while new projects may well take a while to get up and running due to regional moratoriums (cf. p. 7).

Accelerated rise in vacancies expected

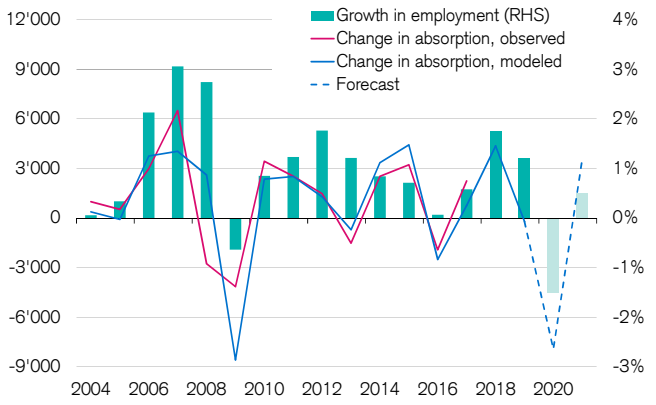
These delays can be expected to have a restraining impact on the number of new apartments coming onto the market, above all in the current year but also in 2021. Even so, we are already estimating a year-on-year rise of some 7,000 to 8,000 additionally vacant rental apartments as per June 1, 2020, pushing the vacancy rate up to 2.9%. This rise is also likely to continue over the coming 12 months. In Switzerland's major centers too, which typically attract large numbers of immigrants, some heat is likely to fizzle out of the market. That said, it is primarily outside of the urban agglomerations that significant declines in rents are likely to be recorded.

Investors nonetheless likely to keep their faith in multi-family dwellings

The coronavirus crisis will weigh on the rental apartment market for some time to come, accelerating the trend of rising vacancies and declining rents. But this phenomenon is nonetheless unlikely to prove a "game changer" in the rental market. From an investor's perspective, multi-family dwellings are unlikely to lose their appeal, as the risk of income losses appears manageable across a broad portfolio compared to commercial properties. On the valuation side, this factor is unlikely to play a major role as long as persistently low interest rates make any sharp rise in discount rates unlikely.

Fig. 13: Temporary slump in rental apartment demand

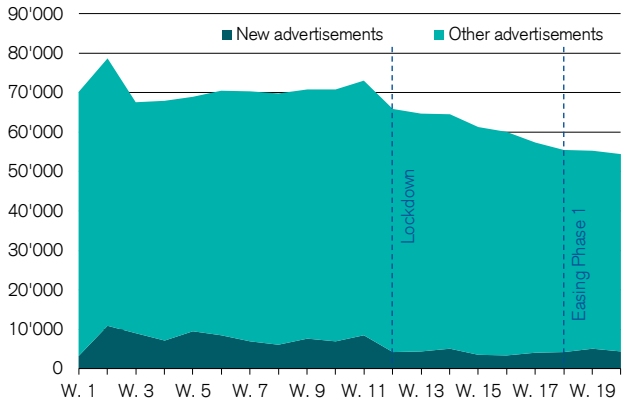
Annual change in absorption of rental apartments and employment growth (full-time equivalents), 2019: estimate, 2020/2021: forecast



Source: Swiss Federal Statistical Office, Credit Suisse Last data point: 2019

Fig. 14: Supply of rental apartments records temporary dip

Rental apartments advertised on online portals, by calendar week, 2020



Source: Meta-Sys AG, Credit Suisse Last data point: 17.05.2020

Deserted office space

In the short term, office property has been relatively unaffected by COVID-19. Rental losses have been of manageable proportions. However, the decline in employment (in the medium term) and the accelerated structural change caused by the lockdown (in the long term) should reduce the demand for office space substantially.

Direct impact on office properties only minor

Neither the real estate market generally nor the office property market in particular have been badly affected by the lockdown. Indeed, fewer than 16% of office tenants were directly affected by this phenomenon. Most workforces were told to work from home, and have maintained company operations from there. For landlords, rental income losses this year are likely to end up in low single-digit percentage territory.

COVID-19 a long-term game changer?

One might infer from this that the pandemic has affected the office property market only peripherally– were it not for the disturbing reality of empty office properties. Indeed, some open-plan offices have no one working in them at all. Operations are nonetheless functioning smoothly, remotely managed almost invisibly from afar – by employees working from home. This development was technically possible before the onset of COVID-19, but only few businesses actually made real use of this option. According to the Swiss Federal Statistical Office, just 3% of employees in Switzerland worked predominantly from their homes in 2019. During the COVID-19 lockdown, this figure surged to more than 50% at times. At Credit Suisse, for example, more than 80% of employees worked from home for several weeks (Fig. 15). The equivalent figure at Roche was as high as 85%. COVID-19 has provided incontestable proof that working from home is a viable model. And over the long term, this could have a significant impact on demand for office property.

Working from home gains respect

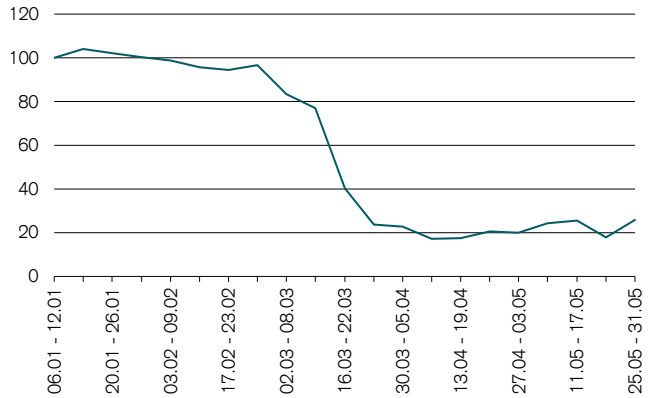
Working from home is now a respected practice. Line managers who obstructed such an approach in the past now lack good arguments for their stance. Moreover, senior managers have become aware of the huge potential savings offered by home working. For example, Morgan Stanley CEO James Gorman has said that his bank is looking to reduce its footprint in the office property market. Other CEOs/CFOs have made similar statements. All this is likely to weaken line manager resistance, making it easier for employees to be assertive in the future. Various surveys show that most employees, even after weeks of home working, would like to continue to have the option of working in this way in the future. According to a survey conducted by media firm Heise in Germany, for example, some 62% of more than 27,000 respondents stated that they would prefer to continue to work from home (Fig. 16); just 23% preferred to return to the office.

Cost of office premises a major factor

Services companies typically spend a medium single-digit percentage of their revenues on office premises, which makes this a significant cost factor. Indeed, empirical data shows that the cost of office premises has always been a major driver of location mergers and office space outsourcings. According to an international survey of more than 300 CFOs conducted by Gartner Inc., three out

Fig. 15: Building admissions of Credit Suisse employees

Number per week in Switzerland, index: week commencing 06.01.2020 = 100

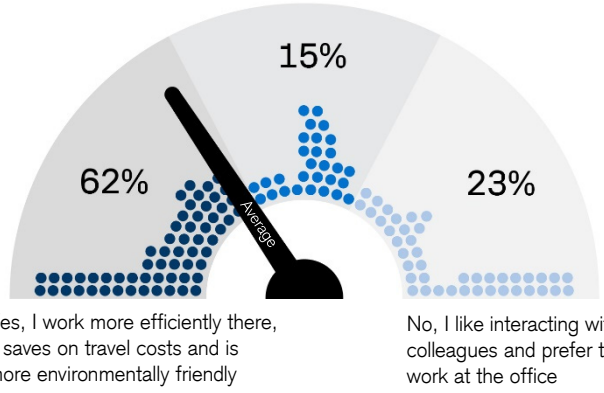


Source: Credit Suisse

Last data point: 31.05.2020

Fig. 16: Employee survey on home working in Germany

"Would you like to continue to work from home?"



Source: heise online (n = 27,128)

Last data point: 02.06.2020

of every four respondents are planning to relocate the workplaces of at least 5% of their workforce to the corresponding employees' "home offices" on a permanent basis. On average, this would involve the relocation of some 11% of jobs. The savings potential has therefore been recognized, and is likely to have a corresponding impact sooner or later.

Service companies anticipate 7% reduction in need for office space

Purchasing managers surveyed by us on a monthly basis expect 14% of all employee hours to be worked from home in the future (Fig. 17). The service companies estimate the office space savings that this would trigger to be in the region of 7% (Fig. 18). The equivalent savings anticipated by manufacturing companies are rather lower, namely 3.6%. This development is likely to affect above all the new letting of office space, as many companies have now put their expansion plans on ice and are carefully weighing up whether or not they can make do with their existing premises.

Long-term consequences for office property demand

Real estate experts have very diverging views on the consequences of this for the letting of office space. For some, the office remains the irreplaceable creative hub for a shared corporate culture, a place where creativity is born through spontaneous interactions and employees get to enjoy the diversity of numerous social contacts. For others, the office property market is on the verge of undergoing a disruptive development not dissimilar to the problems suffered by the retail property market for years now. There is one thing that almost every real estate expert agrees on: A return to the pre-pandemic status quo is highly improbable. Even the greatest skeptics are expecting a consistently higher proportion of employees to work from home in the future. Opinions diverge most of all when it comes to the magnitude and tempo of moving employees to home offices.

Three scenarios for the next ten years

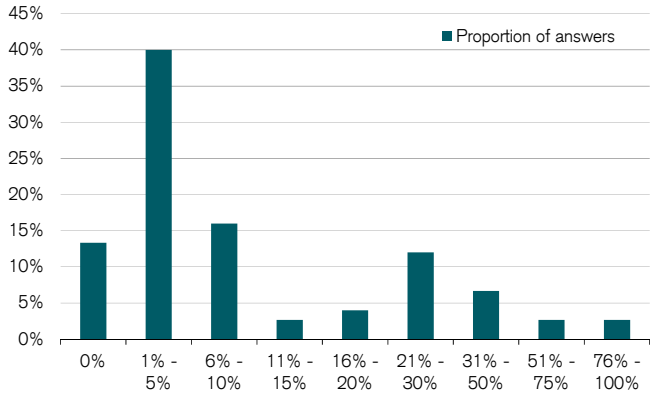
Only after the social distancing measures have been repealed will it be possible to measure the proportion of employee hours worked from home in the future. Mobility data currently shows that only a small proportion of employees have returned to the office so far. Based on what we currently know, we have therefore sketched out three scenarios for the long-term impact of home working on demand for office property. In the "Return" scenario, we anticipate – all other things being equal – only minor repercussions, with office property demand likely to decline in the long term by a maximum of just 5%. In the "Game changer" scenario, we envisage demand declining by up to 25% over the next ten years. Finally, in the medium scenario – or the scenario that appears most likely to us – we anticipate a long-term negative effect of 15%. It should be borne in mind that net demand is likely to decline by a lower percentage rate since other structural trends (digitalization, tertiarization) should have a positive impact on demand for office property. Nonetheless, the impact on demand of the magnitude indicated above will obviously have negative consequences for office rents. On the basis of historical data, we are assuming that a decline in demand of 1% will trigger a decline in rental prices of around 2.4%. This would imply clear limits to rental price potential in the future.

Declining employment the immediate problem

However, the structural change in the office property market that is being accelerated by the COVID-19 crisis is not the only problem looming on the horizon: In the medium term, the decline in employment will weigh on demand earlier and be perceived by landlords as the greater problem. We are expecting employment in Switzerland to have declined by 1.5% by the end of 2020. This should result in negative additional demand for office space amounting to some 770,000 m^2. This figure is equivalent to almost three quarters of the cumulative additional demand recorded in the market over the last two years, and would be comparable to the office property market slump witnessed in the aftermath of the financial crisis.

Fig. 17: Expected proportion of employee hours worked from home

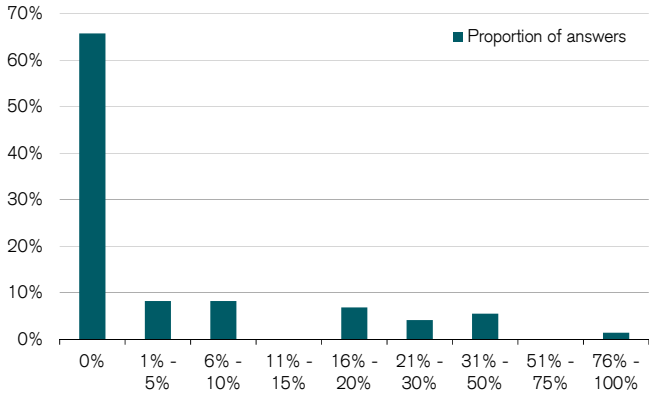
Survey of purchasing managers: Expected proportion of employee hours worked from home following lifting of COVID-19 restrictions



Source: Credit Suisse, procure.ch Last data point: 05/2020

Fig. 18: Expected savings in office space by employers

Survey of purchasing managers: What long-term savings in office space are you anticipating in your company thanks to home working (as % of current space)?



Source: Credit Suisse, procure.ch Last data point: 05/2020

Retail sector reeling

The COVID-19 pandemic has come at a time when bricks-and-mortar retailers are already struggling, and has further accelerated the shift of retail sales to the online channel. Bankruptcies and reductions in floorspace will further increase the downsizing of retail space.

Retailers suffering terribly from COVID-19 measures

Even before the arrival of COVID-19, the stationary retail trade in Switzerland was clearly under pressure in the face of growing competition from online shopping. The temporary closure of most shops from March 16, 2020 inflicted additional heavy financial damage on the bricks-and-mortar sector. Although the easing of the lockdown measures from May 11 onward saw buyers stream back into shops and use their debit cards even more frequently as they did before the pandemic outbreak (Fig. 19), we are expecting a sales decline of some 20% in the non-food area over the year as a whole. Weak foreign demand for Swiss goods and further growth in unemployment numbers will weigh on consumer sentiment and rule out any return to previous consumption levels.

Food, personal care / health, and consumer electronics increase sales

While all retailers were confronted by the same storm, they were not all in the same boat. A number of retail sectors were less hard-hit by the COVID-19 restrictions. For example, the food area recorded a strong year-on-year sales rise of 7.4% in the first quarter of the year (Fig. 20). Whereas many cafés and restaurants had to shut their doors, food stores remained open, and the majority of Swiss stockpiled goods in the face of a prolonged stay at home. The stronger focus on health and hygiene resulted in the "personal care and health" area booking a sales increase of 6.7%, while the need to sit out the pandemic at home (including working from home in many cases) also provided a stimulus for sales of consumer electronics (+4.3%).

Clothing / shoes once again among the losers

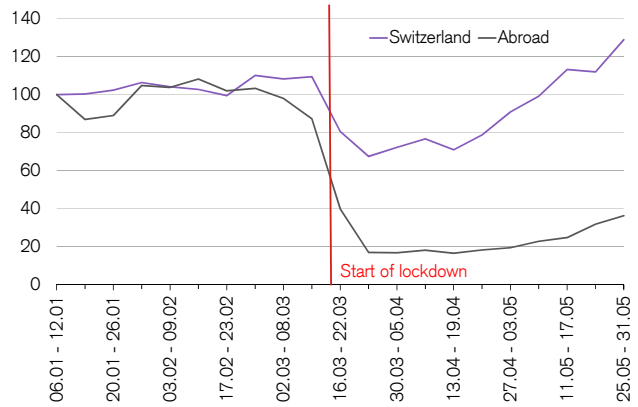
By contrast, the clothing segment, which has already had to cede considerable market share to online providers in recent years, suffered a further decline in sales of 20% in the first quarter. The second quarter will bring even worse data. Disastrous figures also appear inevitable in Q2 for the household, living, garden, auto accessories, and leisure areas, where sales likewise declined sharply in the first quarter of 2020.

Long-term effects possibly even more serious for stationary trade

Faced with no other alternative, many consumers switched to the online channel during the lockdown. A fair few will have come to appreciate the advantages of this channel and will accordingly switch a proportion of their spending to online retailers on a permanent basis. Up until now, the reluctance of many consumers to engage with internet shopping was the "best friend" of bricks-and-mortar retailing. But COVID-19 has had the effect of forcing many consumers to adopt new shopping habits more quickly than they otherwise would have done. We believe that coronavirus has shortened the process of structural change by some three years. As a consequence, the wheat is set to be separated from the chaff more rapidly in the retail property market too.

Fig. 19: Buyers flock back to Swiss shops

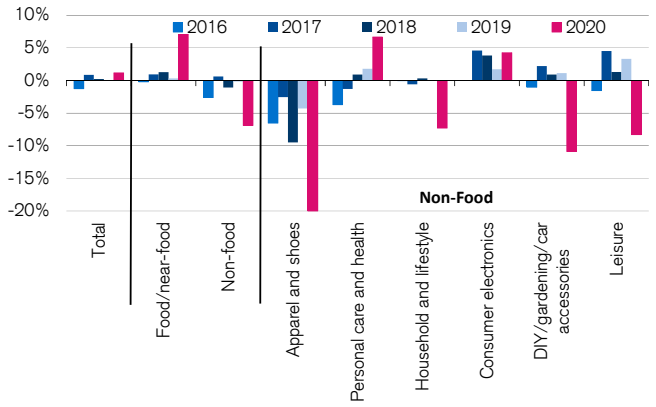
Number of uses of Swiss debit cards in stationary retail in Switzerland and abroad, per week, index: week commencing 06.01.2020 = 100



Source: SIX BBS AG, Credit Suisse — Last data point: 31.05.2020

Fig. 20: Food and health enjoy sales rises on the back of COVID-19

Year-on-year nominal growth in retail sales (seasonally and number-of-sales-days adjusted) 2016 – 2019: January – December; 2020: January – March



Source: GfK, Credit Suisse — Last data point: 03/2020

Commercial property shunned

Swiss real estate funds and shares have likewise felt the effects of the pandemic. Not for the first time, however, the former have proved to be a relatively crisis-resistant investment. Both globally and in Switzerland, investors are currently avoiding not only retail properties and hotels, but increasingly also office property.

Real estate funds recover from wave of selling

The COVID-19 crisis triggered corrections in the financial market of a speed and intensity that far surpassed even that of the global financial crisis of 2008. Despite initially holding their ground, indirect Swiss real estate investments were unable to escape the wave of selling (Fig. 21). Within the space of just one week (10.03. – 17.03.), even real estate funds experienced a slump of 17%. Such dramatic movements are extremely rare for funds, and testify to the level of stress prevailing in the markets in that week of March. But despite the reversal, Swiss real estate investments exhibited their defensive qualities. The faith of investors in the stability of real estate investments, particularly funds, only disappeared for a short period of time. From the second half of March onward, the prices of real estate funds began to recover. The recovery of real estate shares has been much more hesitant, however.

Global market suffers much greater correction*

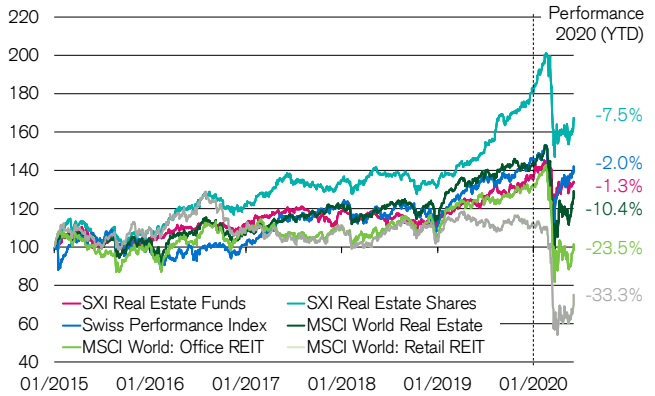
Despite this phase of recovery, the total returns on Swiss real estate funds (-1.3%) and real estate shares (-7.5%) since the start of the year are in negative territory (Fig. 21). In an international comparison, however, listed Swiss real estate investments have fared much less badly, bearing in mind that the decline for the MSCI World Real Estate Index works out at 10.4% over the same period. Swiss real estate investments are likely to have benefited from the "safe haven" effect, mirroring the less severe decline of the broad Swiss equity market (SPI: -2.0%) compared to the global equity market (MSCI World: -5.4%).

Investments that focus on commercial premises under pressure

A striking development at the moment is the much weaker performance of investments focusing on areas of real estate that have been particularly hard-hit by coronavirus. If we look at the global REIT indices published by MSCI, which are broken down by sector, the greatest losers are retail property (-33.3%), hotels (-30.8%), and office property (-23.5%), whereas residential property has slumped by "only" 14.0%. As far as the global markets are concerned, the winners of the coronavirus crisis are the logistical and industrial property segments, which even delivered a clearly positive return since the beginning of the year (+8.9%). This pattern reflects the expectations of investors regarding the repercussions of COVID-19 for rental income and value gains in the various segments.

Fig. 21: Global correction to real estate investments

Total performance of Swiss real estate investments in an international comparison*; indices: 01.01.2015 = 100, in local currency

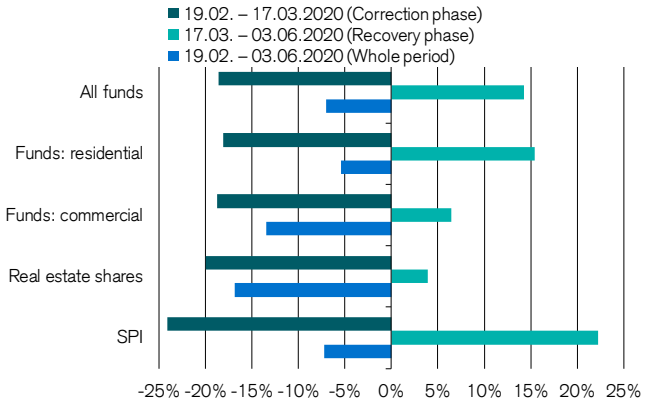


* Historical performance data and financial market scenarios are no reliable indicator of future results.

Source: Datastream, Credit Suisse — Last data point: 03.06.2020

Fig. 22: Residential real estate funds stage impressive recovery

Magnitude of correction and recovery in the various Swiss real estate investment classes (listed investments, total performance)*



* Historical performance data and financial market scenarios are no reliable indicator of future results.

Source: Datastream, Credit Suisse — Last data point: 03.06.2020

Investors put faith in residential real estate funds during crisis …

A similar pattern emerges when it comes to Swiss real estate investments (Fig. 22). In an initial phase, the majority of listed Swiss real estate investments were also dragged down by the strong market correction triggered by the coronavirus crisis. For example, between February 19 and March 17, real estate funds with a focus on commercial property (-18.7%) suffered losses similar to residential real estate funds (-18.1%). Investors were simply selling their holdings across all asset classes in favor of cash. Fast-forward a couple of months, and greater differentiation on the part of investors is evident when it comes to the income outlook of individual securities and market segments. The prospects for residential property are now much more positively evaluated than the prospects for commercial property. As a result of coronavirus, the outlook for the hotel and retail segments, which were already suffering from structural change, look much worse. Where office property is concerned, there is a risk of not just an economy-related dip in demand, but also a structural demand slowdown due to the tailwind behind home office working (cf. p.12). Although apartments are also likely to experience a temporary decline in demand (cf. p.10), the underlying cash flows of this segment are considered to be much more secure. Accordingly, real estate funds with a residential focus have bounced back by 15.4% since March 17, whereas commercial property funds have recovered by just 6.5%.

… and reveal a preference for real estate shares with a high residential component

Swiss real estate shares, which started the current year with very lofty valuations, have only weakly recovered from the coronavirus setback. That said, considerable deviations are apparent in the performance of individual shares (Fig. 23): Here too the same tendency applies: the higher the residential component, the stronger the performance. Investors in real estate shares are avoiding not only retail properties, but also office properties. As the index heavyweights have a particularly strong focus on commercial property, the overall index of real estate companies is lagging well behind the corresponding index of real estate funds.

Premiums largely justified by low interest rates*

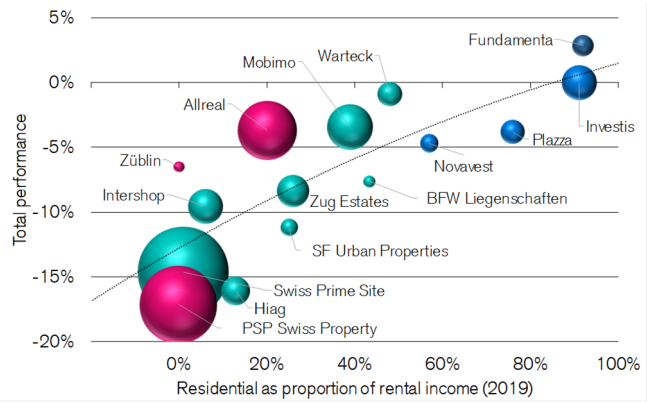
In keeping with this development, the premiums of real estate shares, which at the start of the year were at times more than 50%, have now fallen back to 17.6% (as per end of May) which is much closer to the long-term average (Fig. 24). The agios of funds, which briefly dipped to below 15%, have recovered much more strongly and now stand at 27.5%. The most appealing window of opportunity for buyers is therefore likely to have closed for now. However, valuations still look reasonable given the persistently low interest rate environment. This is also true of the valuation difference between real estate shares and funds.

Demand likely to persist

Negative interest rates – the key performance driver of recent years – are likely to be around for quite a while longer. The high return premiums that result are continuing to attract plenty of investor capital, despite rising pressure on rental income. Rising net asset values – another key source of return for real estate funds in recent years – are likewise being supported by negative interest rates. The annual growth of these funds is increasingly likely to lose momentum, however, particularly in the case of vehicles focusing heavily on commercial property. Overall, more defensive real estate investments that focus on residential property and have good geographical diversification are likely to generate comparatively attractive yields for the foreseeable future.

Fig. 23: Real estate shares with commercial property focus under pressure

Residential space as proportion of rental income and total performance* since 01.03. 2020, bubble size: market value; blue: focus on residential, red: office: green: mixed

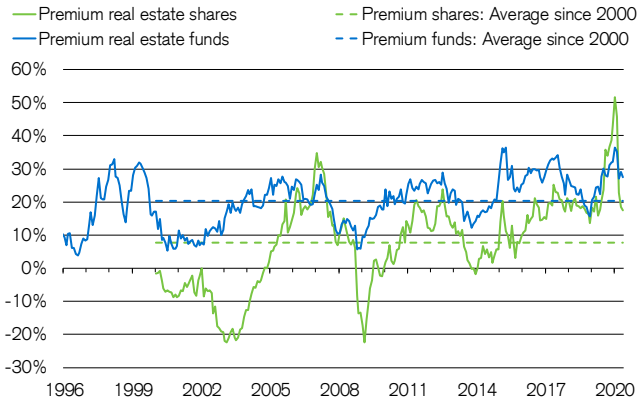


* Historical performance data and financial market scenarios are no reliable indicator of future results.

Source: FuW, Datastream, Credit Suisse — Last data point: 03.06.2020

Fig. 24: Valuations of real estate companies once again much lower

Agios/premiums of listed real estate funds and shares, as per month end*



* Historical performance data and financial market scenarios are no reliable indicator of future results.

Source: Datastream, Credit Suisse — Last data point: 05/2020

Important Information

This report represents the views of the Investment Strategy Department of CS and has not been prepared in accordance with the legal requirements designed to promote the independence of investment research. It is not a product of the Credit Suisse Research Department even if it references published research recommendations. CS has policies in place to manage conflicts of interest including policies relating to dealing ahead of the dissemination of investment research. These policies do not apply to the views of Investment Strategists contained in this report.

Risk warning

Every investment involves risk, especially with regard to fluctuations in value and return. If an investment is denominated in a currency other than your base currency, changes in the rate of exchange may have an adverse effect on value, price or income.

For a discussion of the risks of investing in the securities mentioned in this document, please refer to the following Internet link:
https://investment.credit-suisse.com/gr/riskdisclosure/

This document may include information on investments that involve special risks. You should seek the advice of your independent financial advisor prior to taking any investment decisions based on this document or for any necessary explanation of its contents. Further information is also available in the information brochure "Special Risks in Securities Trading" available from the Swiss Bankers Association.

Past performance is not an indicator of future performance. Performance can be affected by commissions, fees or other charges as well as exchange rate fluctuations.

Financial market risks
Historical returns and financial market scenarios are no reliable indicators of future performance. The price and value of investments mentioned and any income that might accrue could fall or rise or fluctuate. Past performance is not a guide to future performance. If an investment is denominated in a currency other than your base currency, changes in the rate of exchange may have an adverse effect on value, price or income. You should consult with such advisor(s) as you consider necessary to assist you in making these determinations.

Investments may have no public market or only a restricted secondary market. Where a secondary market exists, it is not possible to predict the price at which investments will trade in the market or whether such market will be liquid or illiquid.

Emerging markets
Where this document relates to emerging markets, you should be aware that there are uncertainties and risks associated with investments and transactions in various types of investments of, or related or linked to, issuers and obligors incorporated, based or principally engaged in business in emerging markets countries. Investments related to emerging markets countries may be considered speculative, and their prices will be much more volatile than those in the more developed countries of the world. Investments in emerging markets investments should be made only by sophisticated investors or experienced professionals who have independent knowledge of the relevant markets, are able to consider and weigh the various risks presented by such investments, and have the financial resources necessary to bear the substantial risk of loss of investment in such investments. It is your responsibility to manage the risks which arise as a result of investing in emerging markets investments and the allocation of assets in your portfolio. You should seek advice from your own advisers with regard to the various risks and factors to be considered when investing in an emerging markets investment.

Alternative investments
Hedge funds are not subject to the numerous investor protection regulations that apply to regulated authorized collective investments and hedge fund managers are largely unregulated. Hedge funds are not limited to any particular investment discipline or trading strategy, and seek to profit in all kinds of markets by using leverage, derivatives, and complex speculative investment strategies that may increase the risk of investment loss.

Commodity transactions carry a high degree of risk, including the loss of the entire investment, and may not be suitable for many private investors. The performance of such investments depends on unpredictable factors such as natural catastrophes, climate influences, hauling capacities, political unrest, seasonal fluctuations and strong influences of rolling-forward, particularly in futures and indices.

Investors in real estate are exposed to liquidity, foreign currency and other risks, including cyclical risk, rental and local market risk as well as environmental risk, and changes to the legal situation.

Private Equity
Private Equity (hereafter "PE") means private equity capital investment in companies that are not traded publicly (i.e. are not listed on a stock exchange), they are complex, usually illiquid and long-lasting. Investments in a PE fund generally involve a significant degree of financial and/or business risk. Investments in private equity funds are not principal-protected nor guaranteed. Investors will be required to meet capital calls of investments over an extended period of time. Failure to do so may traditionally result in the forfeiture of a portion or the entirety of the capital account, forego any future income or gains on investments made prior to such default and among other things, lose any rights to participate in future investments or forced to sell their investments at a very low price, much lower than secondary market valuations. Companies or funds may be highly leveraged and therefore may be more sensitive to adverse business and/or financial developments or economic factors. Such investments may face intense competition, changing business or economic conditions or other developments that may adversely affect their performance.

Interest rate and credit risks
The retention of value of a bond is dependent on the creditworthiness of the Issuer and/or Guarantor (as applicable), which may change over the term of the bond. In the event of default by the Issuer and/or Guarantor of the bond, the bond or any income derived from it is not guaranteed and you may get back none of, or less than, what was originally invested.

Investment Strategy Department

Investment Strategists are responsible for multi-asset class strategy formation and subsequent implementation in CS's discretionary and advisory businesses. If shown, Model Portfolios are provided for illustrative purposes only. Your asset allocation, portfolio weightings and performance may look significantly different based on your particular circumstances and risk tolerance. Opinions and views of Investment Strategists may be different from those expressed by other Departments at CS. Investment Strategist views may change at any time without notice and with no obligation to update. CS is under no obligation to ensure that such updates are brought to your attention.

From time to time, Investment Strategists may reference previously published Research articles, including recommendations and rating changes collated in the form of lists. The recommendations contained herein are extracts and/or references to previously published recommendations by Credit Suisse Research. For equities, this relates to the respective Company Note or Company Summary of the issuer. Recommendations for bonds can be found within the respective Research Alert (bonds) publication or Institutional Research Flash/Alert – Credit Update Switzerland. These items are available on request or from https://investment.credit-suisse.com. Disclosures are available from www.credit-suisse.com/disclosure.

Global disclaimer/important information

This document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject CS to any registration or licensing requirement within such jurisdiction.

References in this document to CS include Credit Suisse AG, the Swiss bank, its subsidiaries and affiliates. For more information on our structure, please use the following link: http://www.credit-suisse.com

NO DISTRIBUTION, SOLICITATION, OR ADVICE: This document is provided for information and illustrative purposes and is intended for your use only. It is not a solicitation, offer or recommendation to buy or sell any security or other financial instrument. Any information including facts, opinions or quotations, may be condensed or summarized and is expressed as of the date of writing. The information contained in this document has been provided as a general market commentary only and does not constitute any form of regulated financial advice, legal, tax or other regulated service. It does not take into account the financial objectives, situation or needs of any persons, which are necessary considerations before making any investment decision. You should seek the advice of your independent financial advisor prior to taking any investment decisions based on this document or for any necessary explanation of its contents. This document is intended only to provide observations and views of CS at the date of writing, regardless of the date on which you receive or access the information. Observations and views contained in this document may be different from those expressed by other Departments at CS and may change at any time without notice and with no obligation to update. CS is under no obligation to ensure that such updates are brought to your attention. **FORECASTS & ESTIMATES:** Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. To the extent that this document contains statements about future performance, such statements are forward looking and subject to a number of risks and uncertainties. Unless indicated to the contrary, all figures are unaudited. All valuations mentioned herein are subject to CS valuation policies and procedures. **CONFLICTS:** CS reserves the right to remedy any errors that may be present in this document. CS, its affiliates and/or their employees may have a position or holding, or other material interest or effect transactions in any securities mentioned or options thereon, or other investments related thereto and from time to time may add to or dispose of such investments. CS may be providing, or have provided within the previous 12 months, significant advice or investment services in relation to the investments listed in this document or a related investment to any company or issuer mentioned. Some investments referred to in this document will be offered by a single entity or an associate of CS or CS may be the only market maker in such investments. CS is involved in many businesses that relate to companies mentioned in this document. These businesses include specialized trading, risk arbitrage, market making, and other proprietary trading. **TAX:** Nothing in this document constitutes investment, legal, accounting or tax advice. CS does not advise on the tax consequences of investments and you are advised to contact an independent tax advisor. The levels and basis of taxation are dependent on individual circumstances and are subject to change. **SOURCES:** Information and opinions presented in this document have been obtained or derived from sources which in the opinion of CS are reliable, but CS makes no representation as to their accuracy or completeness. CS accepts no liability for a loss arising from the use of this document. **WEBSITES:** This document may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the document refers to website material of CS, CS has not reviewed the linked site and takes no responsibility for the content contained therein. Such address or hyperlink (including addresses or hyperlinks to CS's own website material) is provided solely for your convenience and information and the content of the linked site does not in any way form part of this document. Accessing such website or following such link through this document or CS's website shall be at your own risk. **DATA PRIVACY:** Your Personal Data will be processed in accordance with the Credit Suisse privacy statement accessible at your domicile through the official Credit Suisse website https://www.credit-suisse.com. In order to provide you with marketing materials concerning our products and services, Credit Suisse Group AG and its subsidiaries may process your basic Personal Data (i.e. contact details such as name, e-mail address) until you notify us that you no longer wish to receive them. You can opt-out from receiving these materials at any time by informing your Relationship Manager.

Distributing entities

Except as otherwise specified herein, this report is distributed by Credit Suisse AG, a Swiss bank, authorized and regulated by the Swiss Financial Market Supervisory Authority. **Austria:** This report is distributed by CREDIT SUISSE (LUXEMBOURG) S.A. Zweigniederlassung Österreich (the "Austria branch") which is a branch of CREDIT SUISSE (LUXEMBOURG) S.A., a duly authorized credit institution in the Grand Duchy of Luxembourg with registered address 5, rue Jean Monnet, L-2180 Luxembourg. The Austria branch is subject to the prudential supervision of the Luxembourg supervisory authority, the Commission de Surveillance du Secteur Financier (CSSF), 283, route d'Arlon, L-2991 Luxembourg, Grand Duchy of Luxembourg, as well as of the Austrian supervisory authority, the Financial Market Authority (FMA), Otto-Wagner Platz 5, A-1090 Vienna, Austria. **Bahrain:** This report is distributed by Credit Suisse AG, Bahrain Branch, authorized and regulated by the Central Bank of Bahrain (CBB) as an Investment Business Firm Category 2. Related financial services or products are only made available to professional clients and Accredited Investors, as defined by the CBB, and are not intended for any other persons. The Central Bank of Bahrain has not reviewed, nor has it approved, this document or the marketing of any investment vehicle referred to herein in the Kingdom of Bahrain and is not responsible for the performance of any such investment vehicle. Credit Suisse AG, Bahrain Branch, a branch of Credit Suisse AG, Zurich/Switzerland, is located at Level 21-22, East Tower, Bahrain World Trade Centre, Manama, Kingdom of Bahrain. **DIFC:** This information is being distributed by Credit Suisse AG (DIFC Branch). Credit Suisse AG (DIFC Branch) is licensed and regulated by the Dubai Financial Services Authority ("DFSA"). Related financial services or products are only made available to Professional Clients or Market Counterparties, as defined by the DFSA, and are not intended for any other persons. Credit Suisse AG (DIFC Branch) is located on Level 9 East, The Gate Building, DIFC, Dubai, United Arab Emirates. **France:** This report is distributed by Credit Suisse (Luxembourg) S.A. Succursale en France (the "France branch") which is a branch of Credit Suisse (Luxembourg) S.A., a duly authorized credit institution in the Grand Duchy of Luxembourg with registered address 5, rue Jean Monnet, L-2180 Luxembourg. The France branch is subject to the prudential supervision of the Luxembourg supervisory authority, the Commission de Surveillance du Secteur Financier (CSSF), and of the French supervisory authority, the Autorité de Contrôle Prudentiel et de Résolution (ACPR) and of the Autorité des Marchés Financiers. **Germany:** This report is distributed by Credit Suisse (Deutschland) Aktiengesellschaft regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht („BaFin"). **Guernsey:** This report is distributed by Credit Suisse AG Guernsey Branch, a branch of Credit Suisse AG (incorporated in the Canton of Zurich), with its place of business at Helvetia Court, Les Echelons, South Esplanade, St Peter Port, Guernsey. Credit Suisse AG Guernsey Branch is wholly owned by Credit Suisse AG and is regulated by the Guernsey Financial Services Commission. Copies of the latest audited accounts are available on request. **India:** This report is distributed by Credit Suisse Securities (India) Private Limited (CIN no. U67120MH1996PTC104392) regulated by the Securities and Exchange Board of India as Research Analyst (registration no. INH 000001030), as Portfolio Manager (registration no. INP000002478) and as Stock Broker (registration no. INZ000248233), having registered address at 9th Floor, Ceejay House, Dr. Annie Besant Road, Worli, Mumbai – 400 018, India, T- +91-22 6777 3777. **Italy:** This report is distributed in Italy by Credit Suisse (Italy) S.p.A., a bank incorporated and registered under Italian law subject to the supervision and control of Banca d'Italia and CONSOB. **Lebanon:** This report is distributed by Credit Suisse (Lebanon) Finance SAL ("CSLF"), a financial institution incorporated in Lebanon and regulated by the Central Bank of Lebanon ("CBL") with a financial institution license number 42. Credit Suisse (Lebanon) Finance SAL is subject to the CBL's laws and regulations as well as the laws and decisions of the Capital Markets Authority of Lebanon ("CMA"). CSLF is a subsidiary of Credit Suisse AG and part of the Credit Suisse Group (CS). The CMA does not accept any responsibility for the content of the information included in this report, including the accuracy or completeness of such information. The liability for the content of this report lies with the issuer, its directors and other persons, such as experts, whose opinions are included in the report with their consent. The CMA has also not assessed the suitability of the investment for any particular investor or type of investor. Investments in financial markets may involve a high degree of complexity and risk and may not be suitable to all investors. The suitability assessment performed by CSLF with respect to this investment will be undertaken based on information that the investor would have provided to CSLF and in accordance with Credit Suisse internal policies and processes. It is understood that the English language will be used in all communication and documentation provided by CS and/or CSLF. By accepting to invest in the product, the investor confirms that he has no objection to the use of the English language. **Luxembourg:** This report is distributed by Credit Suisse (Luxembourg) S.A., a duly authorized credit institution in the Grand Duchy of Luxembourg with registered address 5, rue Jean Monnet, L-2180 Luxembourg. Credit Suisse (Luxembourg) S.A. is subject to the prudential supervision of the Luxembourg supervisory authority, the Commission de Surveillance du Secteur Financier (CSSF). **Mexico:** Banco Credit Suisse (México), S.A., Institución de Banca Múltiple, Grupo Financiero Credit Suisse (México) and C. Suisse Asesoría México, S.A. de C.V. ("Credit Suisse Mexico"). This document is elaborated for information purposes only and does not constitute a recommendation, advice or an invitation to execute any operation and does not replace direct communication with your relationship manager at Credit Suisse Mexico before the execution of any investment. The people who elaborated this document do not receive payment or compensation from any entity of the Credit Suisse Group other than the one employing them. The prospectuses, offering documentation, term sheets, investment regimes, annual reports and periodical financial

information contained useful information for investors. Such documents can be obtained without any cost, directly from the issuer of securities and investment fund managers or at the securities and stock market web page, as well as from your relationship manager at Credit Suisse Mexico. The information herein does not substitutes the Account Statements, the INFORME DE OPERACIONES or/ and confirmations you receive from Credit Suisse Mexico pursuant to the General Rules applicable to financial institutions and other persons that provide investment services. C. Suisse Asesoría México, S.A. de C.V., is an investment advisor duly incorporated under the Securities Market Law ("LMV") and is registered before the National Banking and Securities Commission ("CNBV") under folio number 30070 and therefore is not a bank, is not authorized to receive deposits nor to custody any securities, is not part of Grupo Financiero Credit Suisse (México), S.A. de C.V.. Under the provisions of the LMV, C. Suisse Asesoría México, S.A. de C.V. is not an independent investment advisor pursuant to its relationship with Credit Suisse AG, a foreign financial institution, and its indirect relationship with Grupo Financiero Credit Suisse (Mexico), S.A. de C.V. The people who produced this document do not receive payment or compensation from any entity of the Credit Suisse Group other than the one employing them. **Netherlands:** This report is distributed by Credit Suisse (Luxembourg) S.A., Netherlands Branch (the "Netherlands branch") which is a branch of Credit Suisse (Luxembourg) S.A., a duly authorized credit institution in the Grand Duchy of Luxembourg with registered address 5, rue Jean Monnet, L-2180 Luxembourg. The Netherlands branch is subject to the prudential supervision of the Luxembourg supervisory authority, the Commission de Surveillance du Secteur Financier (CSSF), and of the Dutch supervisory authority, De Nederlansche Bank (DNB), and of the Dutch market supervisor, the Autoriteit Financiële Markten (AFM). **Portugal:** This report is distributed by Credit Suisse (Luxembourg) S.A., Sucursal em Portugal (the "Portugal branch") which is a branch of Credit Suisse (Luxembourg) S.A., a duly authorized credit institution in the Grand Duchy of Luxembourg with registered address 5, rue Jean Monnet, L-2180 Luxembourg. The Portugal branch is subject to the prudential supervision of the Luxembourg supervisory authority, the Commission de Surveillance du Secteur Financier (CSSF), and of the Portuguese supervisory authority, the Comissão do Mercado dos Valores Mobiliários (CMVM). **Qatar:** This information has been distributed by Credit Suisse (Qatar) L.L.C., which is duly authorized and regulated by the Qatar Financial Centre Regulatory Authority (QFCRA) under QFC License No. 00005. All related financial products or services will only be available to Business Customers or Market Counterparties (as defined by the QFCRA), including individuals, who have opted to be classified as a Business Customer, with net assets in excess of QR 4 million, and who have sufficient financial knowledge, experience and understanding to participate in such products and/or services. Therefore this information must not be delivered to, or relied on by, any other type of individual. **Saudi Arabia:** This information is being distributed by Credit Suisse Saudi Arabia (CR Number 1010228645), duly licensed and regulated by the Saudi Arabian Capital Market Authority pursuant to License Number 08104-37 dated 23/03/1429H corresponding to 21/03/2008AD. Credit Suisse Saudi Arabia's principal place of business is at King Fahad Road, Hay Al Mhamadiya, 12361-6858 Riyadh, Saudi Arabia. Website: https://www.credit-suisse.com/sa. **South Africa:** This information is being distributed by Credit Suisse AG which is registered as a financial services provider with the Financial Sector Conduct Authority in South Africa with FSP number 9788 and / or by Credit Suisse (UK) Limited which is registered as a financial services provider with the Financial Sector Conduct Authority in South Africa with FSP number 48779. **Spain:** This report is distributed in Spain by Credit Suisse AG, Sucursal en España, legal entity registered at Comisión Nacional del Mercado de Valores. **Turkey:** The investment information, comments and recommendations contained herein are not within the scope of investment advisory activity. The investment advisory services are provided by the authorized institutions to the persons in a customized manner taking into account the risk and return preferences of the persons. Whereas, the comments and advices included herein are of general nature. Therefore recommendations may not be suitable for your financial status or risk and yield preferences. For this reason, making an investment decision only by relying on the information given herein may not give rise to results that fit your expectations. This report is distributed by Credit Suisse Istanbul Menkul Degerler Anonim Sirketi, regulated by the Capital Markets Board of Turkey, with its registered address at Levazim Mahallesi, Koru Sokak No. 2 Zorlu Center Terasevler No. 61 34340 Besiktas/ Istanbul-Turkey. **United Kingdom:** This material is distributed by Credit Suisse (UK) Limited. Credit Suisse (UK) Limited, is authorized by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Where this material is distributed into the United Kingdom by an offshore entity not exempted under the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 the following will apply: To the extent communicated in the United Kingdom ("UK") or capable of having an effect in the UK, this document constitutes a financial promotion which has been approved by Credit Suisse (UK) Limited which is authorized by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority for the conduct of investment business in the UK. The registered address of Credit Suisse (UK) Limited is Five Cabot Square, London, E14 4QR. Please note that the rules under the UK's Financial Services and Markets Act 2000 relating to the protection of retail clients will not be applicable to you and that any potential compensation made available to "eligible claimants" under the UK's Financial Services Compensation Scheme will also not be available to you. Tax treatment depends on the individual circumstances of each client and may be subject to changes in future.

UNITED STATES: NEITHER THIS REPORT NOR ANY COPY THEREOF MAY BE SENT, TAKEN INTO OR DISTRIBUTED IN THE UNITED STATES OR TO ANY US PERSON (within the meaning of Regulation S under the US Securities Act of 1933, as amended).

20C013A_IS

Other publications from Credit Suisse

Monitor Switzerland
Q2 2020

The Monitor Switzerland contains analysis and forecasts for the Swiss economy.

June 15, 2020

Swiss Construction Index
Q3 2020

The quarterly Swiss Construction Index provides up-to-date information about the economy in the construction industry and contains estimates and background information regarding sales performance in the construction sector.

August 26, 2020

Swiss Real Estate Monitor
Q3 2020

The Real Estate Monitor provides an update on all market developments related to the real estate sector three times a year, thereby supplementing the fundamental analyses and special topics addressed in the annual Credit Suisse Real Estate Study.

September 29, 2020

Subscribe to our publications directly from your relationship manager.

CREDIT SUISSE AG
Investment Solutions & Products
Postfach
CH-8070 Zürich
credit-suisse.com