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COVID-19 strengthens real estate market trends

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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

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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

Miriam Kappeler
Sinem Wiederkehr

Editorial

Dear readers

Coronavirus continues to dominate the headlines, influencing both our lives and our work. The pandemic has led to the greatest economic collapse since the 1970s oil crisis, and to considerable uncertainty over developments going forward. For that reason, many economists are attempting to obtain more information on current developments through the use of high-frequency data. For the real estate market, however, such data is less relevant. Ultimately, whether lost rental income as a result of business closures or rent waivers amounts to two, three, or even five percent this year will have precious little impact on the valuation of a property. Much more decisive is the long-term picture, to which greater attention needs to be paid in the case of real estate due to its long life cycle. In particular, the low interest environment, which is now set to become even more prolonged due to coronavirus, increases the significance of cash flows in a property's later years. At very low discount rates, cash flows from the tenth year onward determine around four-fifths of a property's value.

For investors, it is therefore much more important to know what structural changes will result from coronavirus over the longer term. This is even more true since very little is changing in the short term in the most important market of all – the housing market. Shrugging off the impact of COVID-19, property prices rose in the second quarter of 2020 too. In the rental apartment market, by contrast, it is only reasonable to anticipate lower demand. However, this will be more the result of reticent domestic demand rather than lower immigration: Despite temporary restrictions on entry into Switzerland and declining employment development, net immigration in 2020 is likely to be only marginally lower than last year: the reasons for that are visible in our highly detailed analysis of immigration on page 9.

Construction activity in the rental apartment segment also appears to be little affected by coronavirus. Although we saw a number of building site closures and a sharp decline in construction approvals in the first quarter, the volume of building permits issued for rental apartments has since made up almost all of the lost ground. We are anticipating a continuation of existing trends, which continue to paint a picture of (overly) high construction activity in the rental apartment segment at the cost of owner-occupied housing construction (page 7). Thus, it is less astonishing that rental apartment vacancy rates have experienced an increase this year again. You can find our detailed analysis in this respect on page 5.

By contrast, COVID-19 will leave visible scars on the office property market. This much is clear from the evident wariness of investors in respect of exposure to investment vehicles focusing on business premises. Presently, it is not just analysts, but also companies themselves that are very divided when it comes to how greatly the work from home trend will impact on demand for space in the future. Will we see a revolution or an evolution? Read our appraisal on page 15.

In the event of coronavirus sticking around for longer, long-term changes are quite conceivable in the residential market too. Find out where this journey might lead by engaging with our thought experiment on page 13.

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

Fredy Hasenmaile
Head of Real Estate Economics

Contents

The annual regards of the vacancy rate

The apartment vacancy rate has risen again in 2020, reaching 1.72%. COVID-19 can be expected to further increase the imbalance in the rental apartment market.

Apartment vacancy rate reaches a high 1.72%

The number of vacant apartments in Switzerland as recorded by the Swiss Federal Statistical Office (SFSO) has risen once again in the current year – for the 11th year in succession (Fig. 1). As at June 1, 2020, 78,832 apartments lay vacant across Switzerland. This equates to an apartment vacancy rate of 1.72% – a figure not exceeded since 1998. At 3,449, the increase in the number of vacant apartments has been relatively modest this year when measured against the strong rises recorded in the years 2014 to 2018, just as it was in 2019.

Coronavirus effects have not yet unfurled fully

The coronavirus crisis, which should weaken demand for apartments noticeably, had not left much of a mark on the market as per June 1. In the months leading up to the pandemic, the apartment market was still enjoying a boost thanks to the healthy economic situation of the two previous years. For example, net immigration between June 2019 and May 2020 worked out some 3.9% higher than in the prior-year period. At the same time, analysis of building permits during this period shows that an estimated 3,000 fewer apartments are likely to have been built than in the prior-year period.

2020 reference date not so representative?

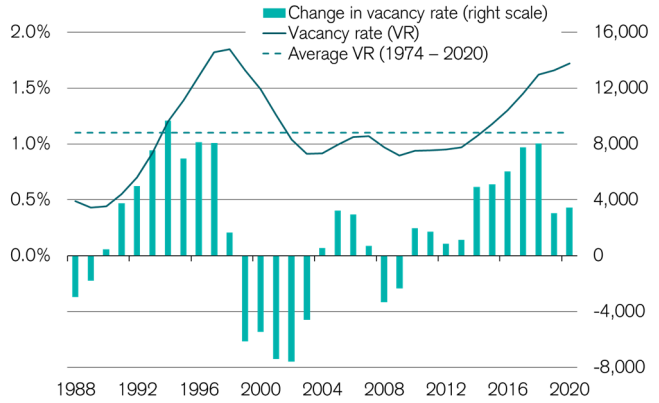
It is also possible that a number of technical survey-specific factors caused the rise in the number of vacant apartments to be underestimated in some municipalities. In many cases, the marketing of apartments was either interrupted or deferred during the lockdown period. At the end of May 2020, the number of apartments advertised on online platforms was 15% lower than it had been at the end of February. According to the definition applied by the SFSO, however, only unoccupied apartments offered for rent or sale as per the reference date of June 1 were counted in the vacancy statistics. The question that arises here is how municipalities have dealt with this unusual data situation.

2.75% of all rental apartments vacant

As in the previous year, the rise in the vacancy rate is wholly attributable to the rental apartment segment. In total, 66,320 rental apartments stood vacant as per June 1, 2020, which equates to a vacancy rate of 2.75% (Fig. 2). In recent years we have seen evidence of a structural oversupply building up in parts of the rental apartment market, a situation that is being fueled by the dearth of investments offering any real return (due to the negative interest environment). A combination of the quest for yield and the paucity of building land available has led some investors to turn their attention to agglomeration communities outside of the main urban and rural regions, including those where potential demand is limited. As a consequence, the number of vacant apartments has more than doubled within the space of seven years.

Fig. 1: Highest apartment vacancy rate since 1998

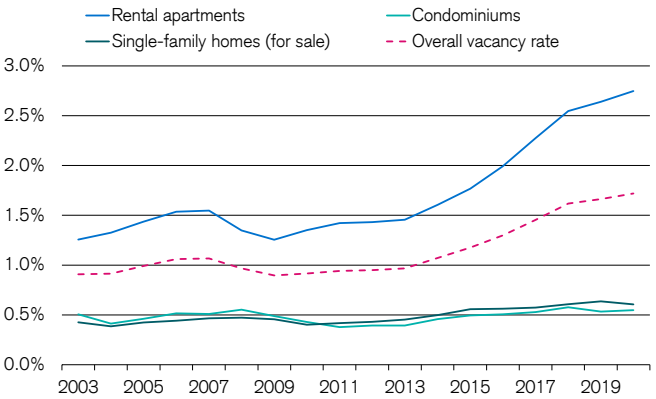
Apartment vacancy rate (LHS) and growth in vacant homes (RHS)



Source: Swiss Federal Statistical Office, Credit Suisse Last data point: 01.06.2020

Fig. 2: Vacancies primarily a rental apartment phenomenon

Vacancy rate by segment, as % of respective housing stock



Source: Swiss Federal Statistical Office, Credit Suisse Last data point: 01.06.2020

Owner-occupied housing proves stable

The situation in the owner-occupied housing segment could not be more different. A slight rise in the number of vacant condominiums (0.55%) faces a simultaneous decline in the number of vacant single-family homes (0.61%); hence, the vacancy rate has remained stable overall at 0.58% (Fig. 2). This stable development is explained by the fact that construction activity in this segment has consistently been scaled back in recent years. At most, the coronavirus crisis can be expected only to have prevented greater scarcity of supply.

Oversupply problem worsens in the south and southwest

From a regional perspective, there is continuing evidence of four clusters with heightened vacancy rates: northeastern Switzerland, northwestern Switzerland (particularly Aargau and Solothurn), and the cantons of Valais and Ticino (Fig. 3). In a number of these regions, the vacancy rate has risen to above 4%. One striking aspect is that it is above all the cantons of Vaud, Valais, and Ticino that have been particularly affected by the recent rises. As a general trend, the vacancy rate rises have been particularly pronounced in the south and west of the country in recent years. Whereas the cantons of French-speaking and Italian-speaking Switzerland accounted for 26.6% of all vacancies back in 2015, the equivalent figure as per June 1, 2020 stood at 33.0%. In the current year, only 35 of Switzerland's 110 economic regions recorded a decline in their vacancy rate. Many of these regions are to be found in eastern Switzerland.

Supply remains scarce in urban centers

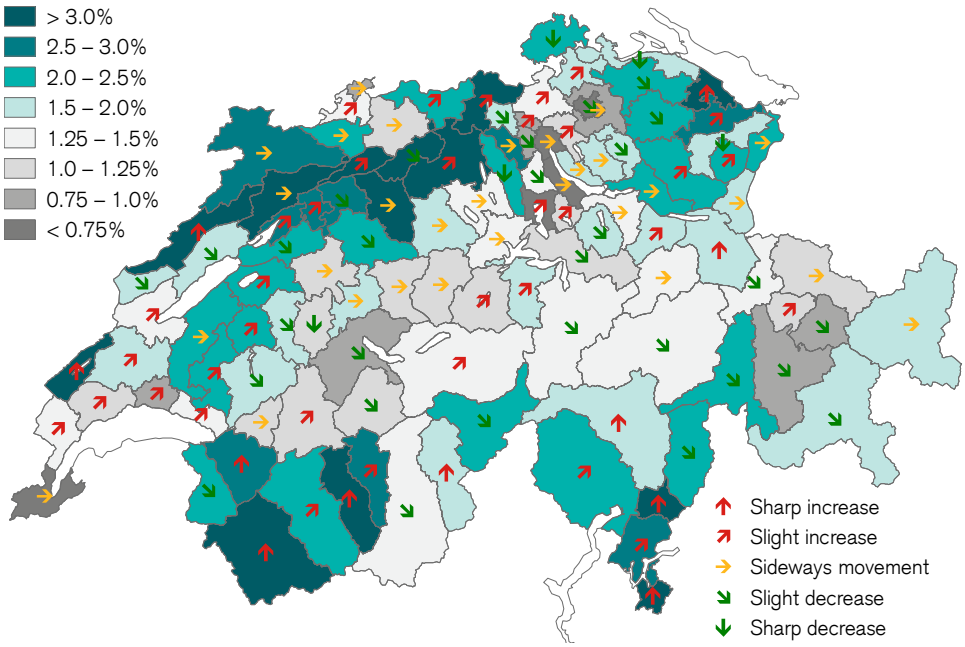
Oversupply is still largely an alien phenomenon in the major urban centers. As per June 1, the vacancy rate for Switzerland's five largest cities was virtually unchanged at 0.47% (remainder of Switzerland: 1.91%). As a consequence, the gap in the Swiss housing market between city and countryside continues to widen. The lowest vacancy rate of all continues to be reported by the City of Zurich (0.15%), followed by Lausanne (0.48%), Bern (0.56%), Geneva (0.61%), and Basel (0.95%).

No trend reversal in sight

The pace at which vacancies are rising in the rental apartment market has slowed recently. Nonetheless, we are not anticipating an improvement in the oversupply situation anytime soon. The economic effects of the COVID-19 pandemic, which are only gradually becoming clear, are likely to weigh on rental apartment demand in the coming year too (p. 9). At the same time, there is no reason to anticipate a further decline in construction activity for the time being (p. 7). Accordingly, the trend of rising apartment vacancy rates could even accelerate for a certain period of time. The anticipated decline in immigration could periodically also bring some relief to the scarcity of supply in the major urban centers. Only a significant economic recovery that also encompasses the labor market can be expected to further slow the rise in the vacancy rate. As long as the key structural driver of the oversupply situation – negative interest rates – remains in place, vacant apartment numbers are likely to remain stubbornly high. The current recession and the absence of any real inflationary pressure are both arguments against any rapid change in the direction of monetary policy. As such, the eleventh annual rise in succession is unlikely to be the last.

Fig. 3: Strongest rise in vacancies in French-speaking Switzerland and Ticino

Vacancy rate as per June 1, 2020, arrow: year-on-year change



Source: Swiss Federal Statistical Office, Credit Suisse, Geostat

Last data point: 01.06.2020

Many new rental apartments in pipeline – despite COVID-19

Construction activity in the rental apartment segment remains high, despite the COVID-19 crisis and the resulting lower demand for apartments. By contrast, owner-occupied housing construction activity continues to decline due to the ongoing negative interest rate environment.

Decline in planned construction activity exaggerated

As a direct consequence of the COVID-19 crisis and the lockdown, the number of both planning applications and issued building permits declined sharply in March and April. As an additional factor, the relevant authorities in the cantons of Geneva, Fribourg, Neuchâtel, Vaud, and Ticino ceased publishing information on projected building activity at the peak of the pandemic. As a result, the decline in the volume of planning applications and building permits was initially heavily exaggerated. All cantons are now once again supplying information on planned construction activity, and the data for the whole of the second quarter allow for the repercussions of COVID-19 for residential construction activity to be analyzed in greater detail.

Planned construction activity remains high in rental apartment segment

In the rental apartment market, COVID-19 has only had a short-term impact on construction permits. While there was a 21% decline across Switzerland as a whole in the first quarter of 2020 as compared to the previous quarter, much of this decline was then reversed during the second quarter, with a recorded rise of 15% (Fig. 4). Indeed, when looking at the moving average over four quarters, the dip in the first quarter is almost invisible. What emerges instead is an increase in the volume of building permits issued for rental apartments (+12%) since the second quarter of 2019.

Large-scale projects as driver

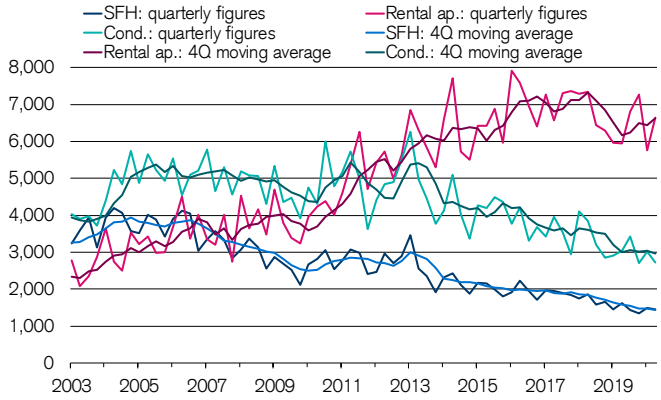
The resurgence in construction permits is also a consequence of the many large-scale projects applied for at the end of 2018 and throughout 2019, for which building permits have only recently been issued. Overall, we are expecting the total supply of rental apartment stock to increase by 1.1% over the next 6 to 18 months. By way of comparison, the equivalent figure a year ago stood at 1.0%. Aside from a number of slight delays on building sites back in spring, COVID-19 is therefore likely to bear only little consequence for the expected growth of the apartment inventory.

Planning activity on the rise once again

By contrast, submitted planning applications declined again in the second quarter. This is mainly due to subdued activity in April, when applications for fewer than 1,600 rental apartments were submitted. This equates to just 64% of the monthly average since the start of 2012. The number of planning applications has risen back above this level since May, however (Fig. 5). In other words, neither project developers nor investors are panicking about a pandemic-related demand

Fig. 4: Rise in building permit issuance in rental apartment segment

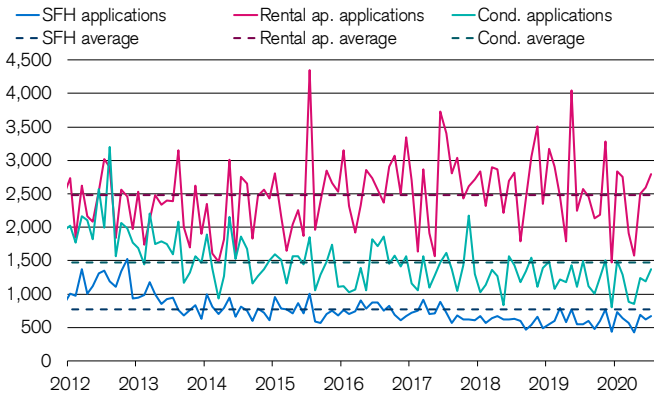
Number of approved residential units by segment, per quarter



Source: Baublatt, Credit Suisse Last data point: Q2/2020

Fig. 5: Rental apartment construction applications already back above average

Building permits, in number of residential units per month; average 2012 – 2019



Source: Baublatt, Credit Suisse Last data point: 07/2020

shock, as the negative interest environment should remain in place for some time. Given this backdrop, rental apartment investments remain attractive from an investor's perspective despite the further increases in vacancy rates.

Focus of construction activity in Zurich, Zug, and Lucerne

In 2021, the expected expansion in rental apartment supply is likely to be particularly pronounced in the Zurich, Zug, and Lucerne regions (Fig. 6). Production is set to remain at a high level in large parts of the cantons of Aargau, Solothurn, and Schaffhausen as well. Furthermore, the expected supply expansion in most of these regions is greater than it was a year ago. By contrast, in French-speaking Switzerland – with the exception of the Lake Geneva hinterlands in the cantons of Fribourg and Vaud, rental apartment construction activity is likely to be pronounced in only a few regions. In the canton of Ticino, meanwhile, where there was evidence of significant oversupply even before the onset of COVID-19, a large number of new rental apartments is planned solely for the Bellinzona region. On the other hand, there are only a few new projects in the pipeline in many rural and Alpine regions.

Negative interest environment holds back construction of owner-occupied housing

Persistent decline in owner-occupied housing construction activity

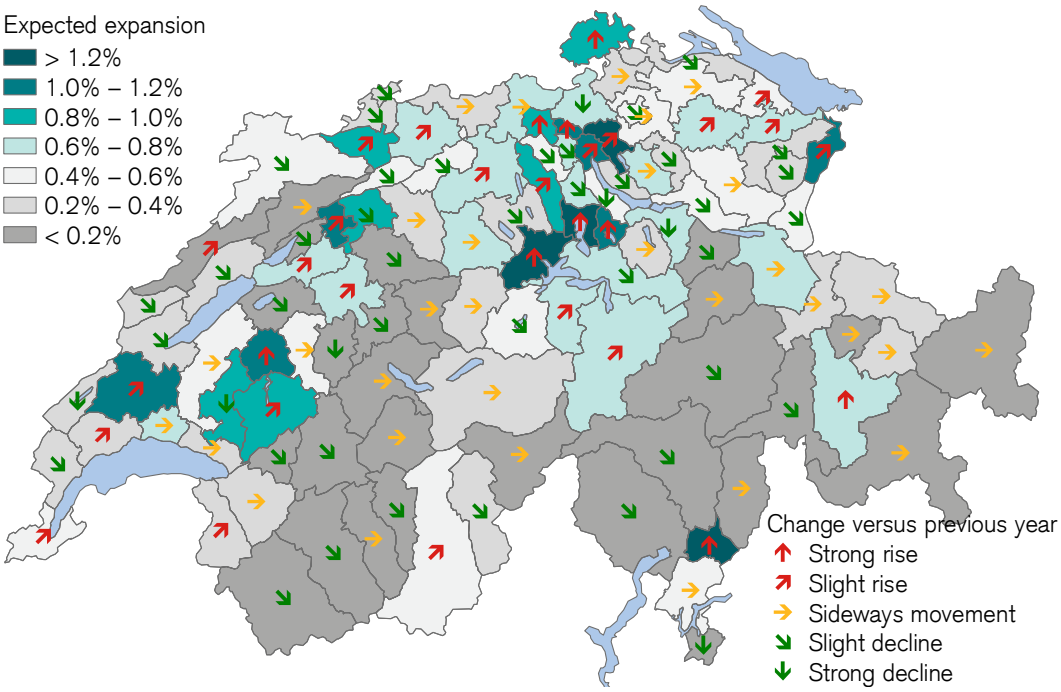
Contrary to the rental apartment market, it seems reasonable to expect a decline in construction activity for condominiums and single-family homes (SFH) over the next one to two years. Indeed, the moving four-quarter average for building permits has reached a new low (Fig. 4). Over the last 12 months, only around 11,800 condominiums and 5,750 single-family homes were approved. In other words, the anticipated expansion in the supply of owner-occupied housing is just 0.8% over the coming 6 to 18 months. The latest figures for planning applications in this segment also do not suggest a trend reversal (Fig. 5). As long as the negative interest environment persists and demand for residential investment properties remains strong, construction activity in many regions is more likely to focus on rental as opposed to owner-occupied apartments, as the former are easier for developers to build.

Owner-occupied housing: Demand outstrips supply

Unlike the rental apartment market, the current level of activity in the ownership segment is too low. For example, the number of approved residential units is now 46% lower than it was in 2008, even though the parameters affecting demand for residential property remain hugely positive. Mortgage interest rates are not far off historic lows, and the prolongation of the negative interest rate environment is unlikely to see mortgage interest rates rise from their current lows any time soon. Accordingly, the desire to purchase residential property remains strong. This is also clear from the price growth evident in the residential property segment, which has so far been immune to the repercussions of COVID-19 (page 14). The only restraining factor – both with regard to demand and price growth – is the high bar set by the affordability restrictions that lenders have to implement.

Fig. 6: Expected expansion of regional rental apartment stock

Expected expansion of rental apartment supply as percentage of existing stock



Source: Baublatt, Credit Suisse, Geostat

Last data point: 06/2020

COVID-19 slows demand

Thanks to high immigration in the first quarter and a decline in the number of people emigrating, net migration in Switzerland should decline only slightly in 2020, despite the coronavirus crisis. Nonetheless, the pandemic is likely to leave a tangible mark on demand for apartments.

Entry restrictions as part of coronavirus measures

Just like in other countries, COVID-19 led to far-reaching restrictions in public life in Switzerland. On March 16, 2020, the Federal Council declared an extraordinary situation as per the Epidemics Act. As a consequence, not only were schools, shops, and restaurants temporarily closed, but travel into Switzerland was also heavily restricted. Borders were partially closed from March 25 to June 8, 2020. For their part, Switzerland's neighboring countries likewise sealed themselves off almost entirely.

High immigration at start of year...

The coronavirus crisis exploded at a time when net immigration into Switzerland had started to rise again after two years of stagnation (Fig. 7). Net immigration of the permanent foreign residential population in the first quarter of 2020 was 30% up on the previous year's equivalent. The main reasons for this increase are likely to have been robust employment growth over the two previous years and the removal of the safeguard clause with respect to Romania and Bulgaria.

... followed by a slump during lockdown

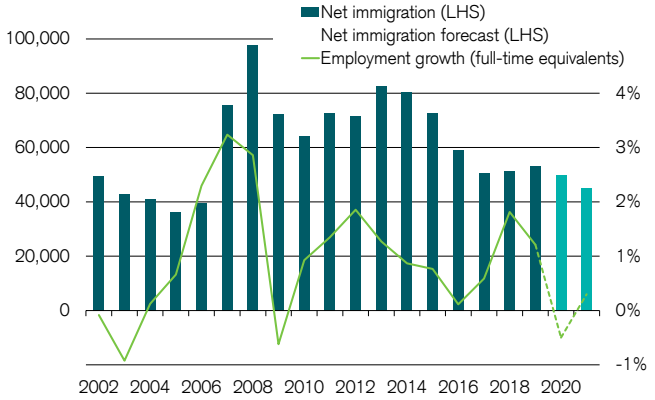
However, the border entry restrictions then were clearly reflected in immigration figures in the second quarter (Fig. 8). During this period, 6,600 fewer moves to Switzerland were recorded than in the previous year, equivalent to a decline of 22%. The fact that any immigration took place at all in April and May 2020 is explained by the exemption rules: In particular, workers from the European Union (EU) whose activity related to the supply of essential goods and services (e.g. healthcare, food, IT infrastructure) retained their right of entry.

Emigration also down significantly

However, the pandemic-related imposition of restrictions to the cross-border movement of people did not just affect immigration into Switzerland. It is also true that much fewer people left Switzerland than usual. Finding a job abroad, looking for accommodation, and actually relocating were all complicated by the pandemic, thwarting many a plan to emigrate abroad. As an additional factor, short-time working and the social security net continued to offer a certain degree of security and stability, for example in face of the threat of losing one's job in Switzerland. Overall, the number of foreign nationals turning their back on Switzerland in the second quarter of 2020 was 20% down compared to the prior-year period (Fig. 8).

Fig. 7: Declining trend in immigration

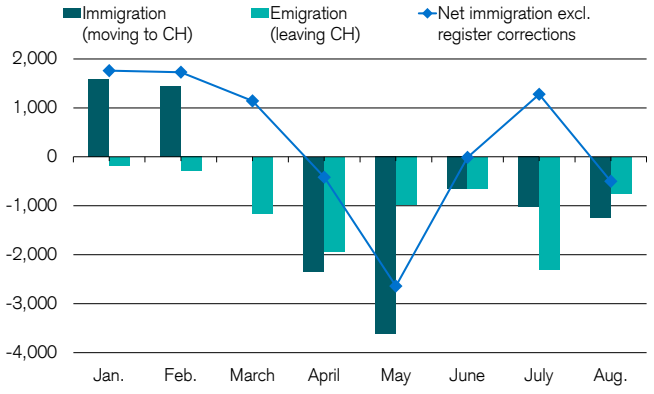
Net immigration: permanent residential population, including CH citizens, excluding register corrections (LHS) and employment growth (full-time equivalents)



Source: State Secretariat for Migration (SEM), Swiss Federal Statistical Office, Credit Suisse
Last data point: 2019

Fig. 8: COVID-19 slows both immigration and emigration

Migration movements of permanent foreign residential population; 2020 change compared to same month in prior year



Source: SEM, Credit Suisse

Last data point: 08/2020

Halving of net immigration in Q2

Overall, net migration (excluding register corrections) declined by 25% in the second quarter of 2020 compared to the prior-year period. If transfers between the temporary and permanent residential population ("changes of status") are excluded and only the actual migration movements across the Swiss border are observed, the decline amounted to as much as 50%. This is despite a countermovement already becoming apparent in June and net migration once again rising (Fig. 8). Although entry restrictions were further loosened on July 6, with the entry of workers from third countries also permitted from this point onward, the number of people moving to Switzerland fell short of the prior-year level in the first two months of the third quarter too. At the same time, numerous people who had intended to emigrate appear to have put their plans on hold for the time being, either as a result of pandemic-related uncertainties or in view of the challenges confronting the labor market in their intended country of residence.

Recession likely to slow immigration further

In the wake of the phased lifting of restrictions on entry into Switzerland, the economy will once again become the key driver of immigration. Despite clear indications of recovery, it is likely that the pandemic will weigh on growth both in Europe and worldwide in the medium term. For Switzerland, we are anticipating an overall decline in gross domestic product of 4.0% in 2020 (Fig. 9). Thanks to the relatively benign development of the pandemic so far, combined with government support measures in the form of short-time working compensation and loans to affected companies, the recession should prove less severe in Switzerland than in the Eurozone, where the economy is likely to shrink by 8.0% this year. However, Swiss demand for foreign labor can be expected to remain low for the time being, given that we are expecting a 0.5% decline in employment in 2020 (Fig. 9). In 2021 too, employment is likely to only barely recover (+0.3%), while unemployment is likely to rise further to 3.9%, which would be the highest level for 15 years. The slow recovery of the labor market should therefore impede any rapid resurgence in immigration.

Forecast for 2020: net migration of +50,000

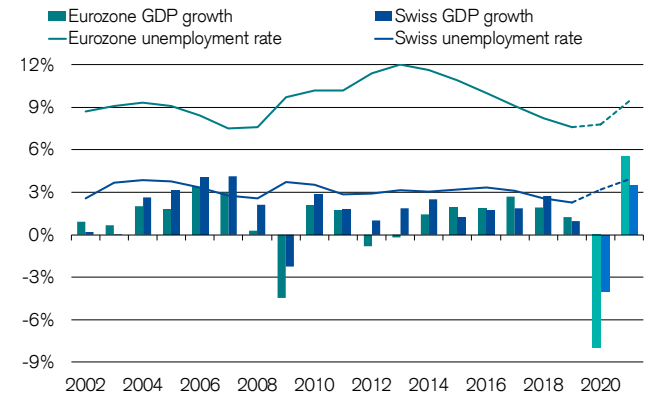
Overall, we are expecting net migration of the permanent residential population to amount to around 50,000 in 2020 (previous year (prior year: 53,000, Fig. 7). There are three reasons why the decline will not be more accentuated, despite the coronavirus crisis: First, as explained above, immigration was still extremely strong in the first quarter. Second, the pandemic led not only to a decline in immigration, but also to a significant reduction in the number of people leaving Switzerland. The number of Swiss moving abroad is also likely to have declined sharply. Third, a proportion of the effective decline in the number of immigrants only feeds through into the immigration figures of the permanent foreign residential population with a certain time lag.

Slump in number of short-term residents ...

According to the definition applied by the State Secretariat for Migration, the non-permanent residential population and persons seeking asylum do not form part of the permanent residential population – which means they are not included in the above forecast of net migration of 50,000 for 2020. The non-permanent residential population comprises persons who reside less than a year in Switzerland and hold a short-term resident's permit. For COVID-19-related reasons, the number of short-term residents has declined even more dramatically than the permanent foreign residential population. Overall, the former's net migration balance over the last 12 months amounted to 10,700 (Fig. 10).

Fig. 9: Slump in economic output likely to be lower in Switzerland than elsewhere in Europe

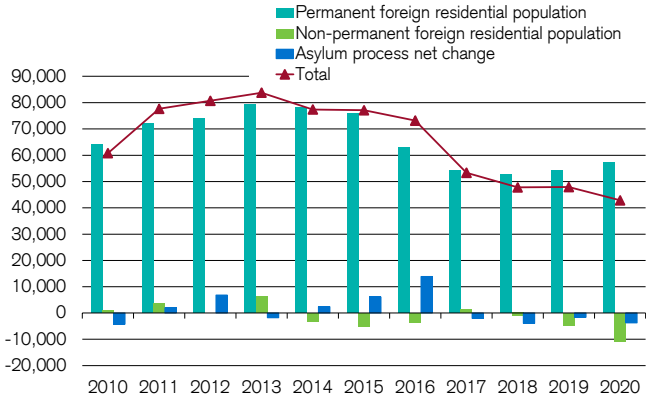
Economy and labor market in Switzerland and Eurozone; 2020/2021: forecasts



Source: SECO, OECD, Credit Suisse — Last data point: 2019

Fig. 10: Effective decline in immigration stronger than implied by permanent residential population

Overall picture of immigration in foreigner and asylum seekers area, 12-month totals as per month of June



Source: SEM, Credit Suisse — Last data point: 08/2020

However, a proportion of these immigrants (typically around a quarter) will end up staying in Switzerland in the longer term, and will receive the corresponding resident's permit after a certain period of time. In other words, these immigrants undergo a change of status as they switch from the non-permanent to the permanent residential population. The latest decline in the number of short-term residents will therefore feed through into the numbers of the permanent residential population after a delay of a few quarters.

... and in number of asylum seekers

Furthermore, the statistics on foreigners in Switzerland only capture recognized refugees, but not persons seeking asylum or temporarily admitted persons. The number of asylum seekers, which had already been in decline since the European refugee crisis of 2015/2016, has reached a new low as a result of the COVID-19 pandemic. Indeed, in the second quarter of 2020, the equivalent figure was 60% below that of the prior-year period. Accordingly, the number of persons undergoing the asylum-seeking process is also declining (Fig. 10). This decline can likewise be expected to feed through negatively into immigration figures (foreigner statistics) with a few quarters' delay.

Forecast for 2021: net migration of +45,000

Some of the direct repercussions of the COVID-19 pandemic will therefore not become apparent in the "official" immigration numbers until after a certain time lag. As an additional factor, even in the event of a favorable development of the pandemic, the labor market is likely to recover from the crisis only very sluggishly. Accordingly, we are anticipating a further decline in net immigration to a level of around 45,000 persons for 2021. This would bring net migration below the 50,000 mark for the first time since the introduction of the full freedom of movement for workers in 2007.

Decline in rental apartment demand of 5,000 expected

Although the decline in immigration is expected to be fairly modest this year, the rental market is nonetheless likely to be confronted by a sharp decline in demand. We are expecting the market to absorb around 20,000 apartments over the course of 2020 – 5,000 fewer than in the previous year (Fig. 11). Demand can then be expected to recover slightly in 2021 (+500), although it should still remain far below the level reported in 2019.

Demand from abroad is slowing...

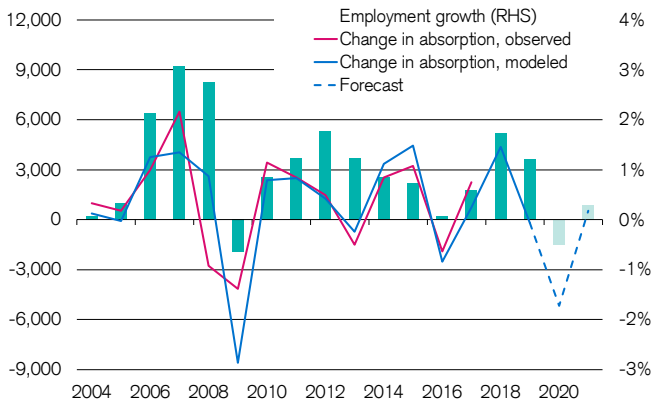
The magnitude of the expected decline in demand is attributable on one hand to the decline in immigration. Here, the sharp decline in the number of short-term residents and persons seeking asylum should also have some effect. Although some of these people stay in company or asylum accommodation, a number of them are also housed in normal rental apartments (rented directly by the occupant or by companies or the local municipality). The immigration-related decline in demand is therefore likely to be rather more pronounced in 2020 than the decline in net immigration (from 53,000 to 50,000) would suggest.

... but so too is domestic demand

On the other hand, a large proportion of the expected slump in demand is explained by weaker domestic demand. Although the July survey of consumer confidence painted a clear picture of recovery compared to April, fears over job security appeared to be even more pronounced (Fig. 12). The increased uncertainty can be expected to prompt young adults to postpone their flight from the parental nest, and thereby temporarily reduce the number of new households being created.

Fig. 11: A heavy weight on demand for rental apartments

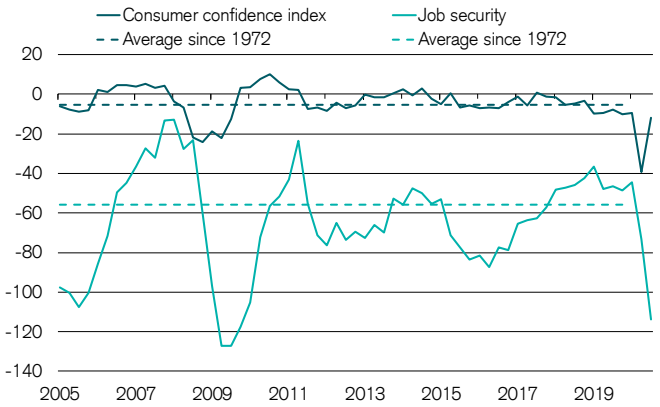
Annual change in absorption of rental apartments and employment growth (full-time equivalents), 2019: estimate, 2020/2021: forecast



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

Fig. 12: Collapse in perceived job security

Index of consumer confidence and job security subcomponent



Source: SECO, Credit Suisse Last data point: 07/2020

Tenants have the upper hand

Outside of the main centers, the Swiss rental apartment market is set to remain a tenant market for the next few years, with rising vacancy rates (p. 5) and declining offered rents. Flagging demand is coming up against persistently high construction activity, which is set to increase even further over the next year (p. 7). Relaxation, to some extent, is temporarily expected in the large urban conurbations as well, where the resurgence of immigration is likely to be most keenly felt.

Only labor market recovery will bring about trend reversal

The development of rental apartment demand beyond 2021 will depend on the further development of the pandemic and the nature of the economic recovery. In the event of very hesitant development with a continued rise in unemployment, a stronger decline in immigration cannot be ruled out. On the other hand, until labor markets elsewhere in Europe recover, the number of foreign workers in Switzerland returning to their home countries is also likely to be subdued, thereby limiting the decline of net migration.

Immigrants replace baby boomers

Net immigration is also affected by the demography-related decline in employment activity. The approaching retirement wave on part of the high birth rate cohorts of the baby boomer generation will leave a major gap in the labor market. At the end of the 2020s, a net total of up to 10,000 persons or more is likely to exit the labor market every year. These workers are at least partly likely to be replaced by workers recruited abroad, thereby supporting immigration. In the event of economic development in keeping with potential growth, we believe the most likely overall scenario for the coming years is average net migration of just over 50,000 persons. Thus, rental apartment demand can be expected to benefit greatly from immigration in the future too.

Home working as long-term drag on demand?

Still largely unanswered is the question of whether – and how – the coronavirus crisis might change the rental apartment market in the longer term. Given our expectation that the trend toward home working will continue at least to some extent (p. 15), this factor could act as a negative influence on rental accommodation demand. Workers who now only have to be in the office two or three times a week are less likely to tolerate the costs of a “pied-à-terre”, and the temptation to give that up will be considerable. Couples who have previously lived apart due to different work locations could decide to move in together. And those who have long dreamed of owning their own four walls, but have not been able to afford such a step due to commuting distances, could be prompted to buy their own home in a rural area. Quite what influence such effects will have can hardly be gauged from today’s standpoint, however.

What if…

… COVID-19 were to affect our working lives and leisure time for even longer? Let's assume that the coronavirus restrictions remain with us for a further four to five years. On the basis of this hypothesis, we explore the structural consequences that such a scenario could entail for the Swiss housing market.

Coronavirus – the extreme scenario

In our extreme scenario, repeated waves of the pandemic would assail Switzerland and other countries with great frequency. Periods of relief would prove only temporary, coinciding with infection numbers falling back again. Due to the confused nature of the situation worldwide, travels would be reduced to the minimum. By necessity, home working would establish itself as standard working practice, and only a third of a company's workforce would be operating at most – and on a rotating basis – at a centrally located office.

Idyllic micro locations would gain in importance

In such a scenario, attractive micro locations would become much more important when choosing a place to live. The much more intensive use of the home would increase occupants' need for natural light, tranquility, proximity to local recreational areas, views, and existing infrastructure. By contrast, proximity to public transport connections – the most important factor over the last two decades – would be just one criterion among many. Consequently, the gap in prices within municipalities would become one of the new factors driving demand.

Outside space and floorplan quality as key factors

The trend toward smaller but more centrally located apartments has been evident for many years, but this preference would become less pronounced. Thanks to cost savings on commuting, on eating and drinking out, and on wardrobe requirements, extra funds would be available for more spacious accommodation, particularly as prices are in any case lower on urban peripheries. External space such as that afforded by balconies, terraces, and gardens has always been important, but would become an overriding priority in a world dominated by coronavirus. Apartments with no suitable outside space would suffer significant price falls. Floorplan qualities would likewise acquire greater significance, particularly the ability to seal off working areas. Also sought after would be commonly used (external) areas in order to combat the deficit in social contact.

Peripheral and low-tax locations would benefit

With the lapsing of the general requirement to be present in the office, time spent commuting would on average fall to between one and two days a week. As a result, criteria other than proximity to work or to a train station would become decisive when choosing the ideal place to live. Demand for accommodation would rise particularly strongly in rural and low-tax municipalities and cantons, due to the lower living costs and tax advantages. Whereas previously a longer commute would deter workers from moving away from the predominantly high-tax central locations close to their place of work, this disadvantage would now become much less obvious. By contrast, households on middle and low incomes or with a preference for urban living would increasingly consider locations from where work could be easily reached by e-bike, conventional bike, or scooter so as to avoid using public transport.

Run on owner-occupied housing on the periphery

Residential property in peripheral locations would likewise become much more sought after, as its poorer accessibility would no longer be perceived as such a problem. Despite the existing financial hurdles, there would be an increased shift to owner-occupied housing, as residential property prices for average households are still fairly affordable on the periphery, and persistently low mortgage interest rates offer considerable cost savings. For households that nonetheless prefer an urban environment, mid-sized centers would be a good compromise, and a way of escaping the high prices of Switzerland's major centers. With cars increasingly being preferred to public transport due to the much lower risk of infection, residential locations on less congested routes would be coveted. Second homes or "pieds-à-terre" in municipalities close to the office would lose their appeal due to the flexibility offered by home working, whereas holiday homes could well become more popular.

Price trends would reflect new preferences

As a consequence of the reduced pressure on major urban locations, the price gap between city and country would narrow. Rents in the mid-sized centers would rise, and the price of owner-occupied housing on the periphery in particular would surge.

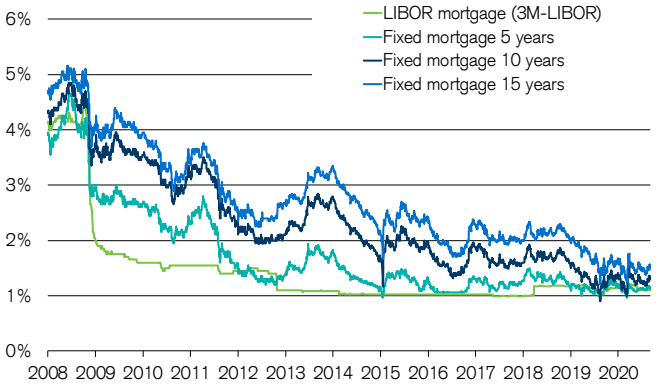
Owner-occupied housing

Mortgage interest rates remain at very low levels

The Swiss National Bank is highly unlikely to increase its key interest rate before the end of 2021. The interest rates on LIBOR and SARON mortgages are therefore likely to remain at, or close to, their lows for the next 12 months. By contrast, interest rates for fixed mortgages rose briefly as a direct consequence of the coronavirus crisis, before then falling back in the summer when the flight to liquidity subsided. Due to the considerable economic uncertainty, the development of fixed mortgage rates has been volatile. As long as the economic recovery continues, we are expecting these mortgage rates to trend slightly higher over the coming 12 months.

Fig. 13: Mortgage interest rates for different terms

Interest rates for new mortgages in %



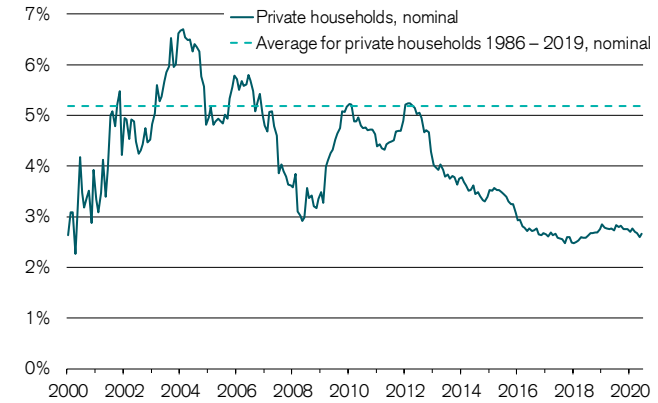
Source: Credit Suisse — Last data point: 03.09.2020

Mortgage demand barely affected by COVID-19

Demand for residential property was hit only briefly – for the period directly after the lockdown – by COVID-19. The market gradually recovered from mid-May onward. Accordingly, growth in the volume of mortgages held by private households declined only slightly between the end of 2019 and May 2020, namely from 2.75% to 2.6%. The decline was halted in June, and growth has since picked up again slightly to 2.66%. Over the next few months, demand for residential property should gradually get back to its pre-crisis level. However, the potential for a further growth spurt is likely to be very limited given the high equity and theoretical affordability requirements that continue to apply.

Fig. 14: Growth in private household mortgage volumes

Nominal growth



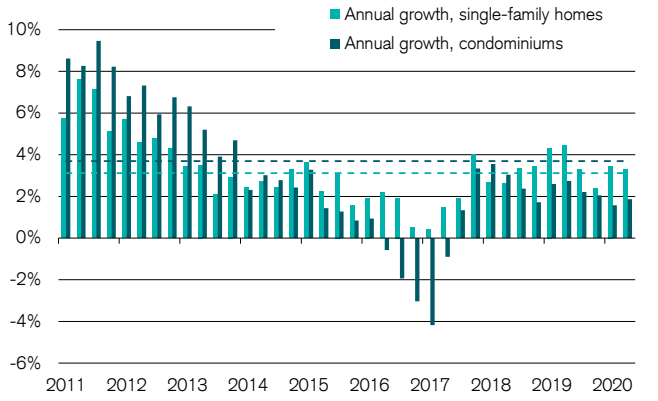
Source: Swiss National Bank, Credit Suisse — Last data point: 06/2020

Residential property price growth still positive

Recent price development remains unaffected by the COVID-19 crisis. The latest price increases, which were more pronounced than expected, appear to have been driven by a combination of a further decline in construction activity and very low mortgage interest rates. Indeed, the prices of single-family homes and condominiums recorded year-on-year rises of 3.3% and 1.9% respectively in the second quarter. We are expecting the current price momentum to weaken as the year draws to a close due to the persistently difficult economic situation. That said, given the ongoing scarcity of supply we are expecting property purchase prices to rise over the year as a whole.

Fig. 15: Price growth for residential property of medium segment

Annual growth rates; dotted lines: average 2000 – 2019



Source: Wüest Partner — Last data point: Q2/2020

Revolution or evolution?

Home working initially offers the prospect of greater productivity, but the office is likely to be a better environment for innovation.

Return to office proceeding only sluggishly

Following the COVID-related requirement to work at home, employees in Switzerland are returning to their offices only slowly. At Credit Suisse, office staffing levels are still only 40% of the figures recorded at the start of the year. A similar picture is painted at other large companies by the number of transactions recorded in staff restaurants of two nationwide canteen service providers (Fig. 16).

Companies divided on merits of home working

However, we are still in an exceptional situation. Key here are the long-term repercussions of this abrupt change: Many companies want to retain home working to a significant degree, in order to save on expensive office premises and improve employee quality of life. Prominent examples here include Twitter, Facebook, Siemens, and Novartis. By contrast, companies such as Microsoft, Stadler, and Ems have adopted a more or less hostile stance to the idea of permanent home working, as they value personal collaboration at the office. Many other companies have yet to make up their minds.

Initial productivity boost from working alone at home, ...

Key in the decision to encourage home working is productivity. Surveys show that productivity has risen during the recent phase of home working. In a Deloitte survey of 1,500 Swiss in April 2020, 41% reported a rise in productivity from home working, while 31% reported no change and just 25% sensed a decline. This cannot be explained solely by leisure activity restrictions during lockdown, as a study drawn up by Stanford Professor Nicholas Bloom in 2015 showed that productivity is boosted by 13% by home working due to an increase in desk time and fewer distractions.

... but human interaction in the office is better for innovation

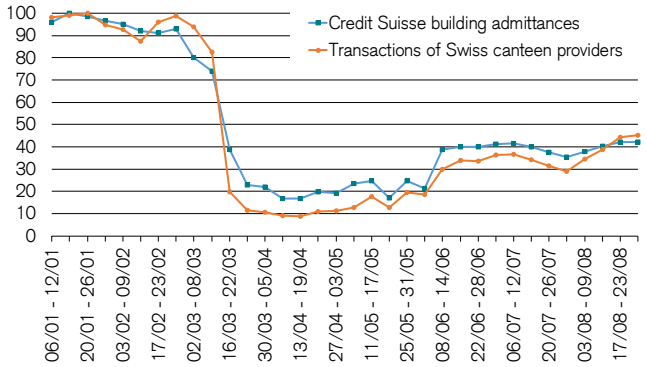
However, productivity increases as a result of innovations play a major role at many Swiss companies. And this is where the drawbacks of home working become apparent. A number of studies, such as one by T. D. Allen (2015), reveal that home working can lead to isolation and reduction in knowledge exchange.[1] After all, ideas are frequently the product of spontaneous interaction between specialists from different company areas. It is no coincidence that the highest value creation is to be found in regional clusters (e.g. Silicon Valley, Crypto Valley in Zug, Basel's pharma cluster). For that reason, companies such as IBM and Yahoo, which once introduced home working, have abandoned this model due to its perceived limitations in respect of creativity and innovation.

Hybrid forms of home/office working

Given the arguments both for and against home working, we believe hybrid forms of office and home working will emerge. In our main scenario, we estimate the resulting long-term decline in demand for office space (*ceteris paribus*) to be around 15% (Fig. 17). On the other hand, this decline will be offset by other developments such as economic growth and tertiarization, which is why we anticipate only a stagnation in demand for office space in the long term.

Fig. 16: Employees return to office only gradually

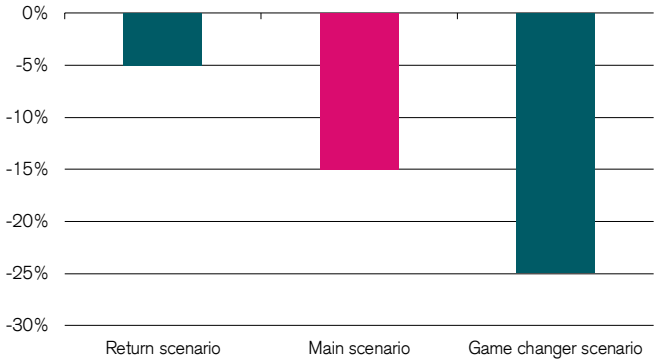
Building admittances at Credit Suisse and transactions at two major Swiss-wide canteen service providers, indices (highest figure = 100)



Source: Two Swiss canteen service providers, CS Last data point: 30.08.2020

Fig. 17: Home working likely to weigh on demand for office space

Scenarios for long-term change in demand for office space (*ceteris paribus*) due to home working (10-year horizon)



Source: Credit Suisse Last data point: 09/2020

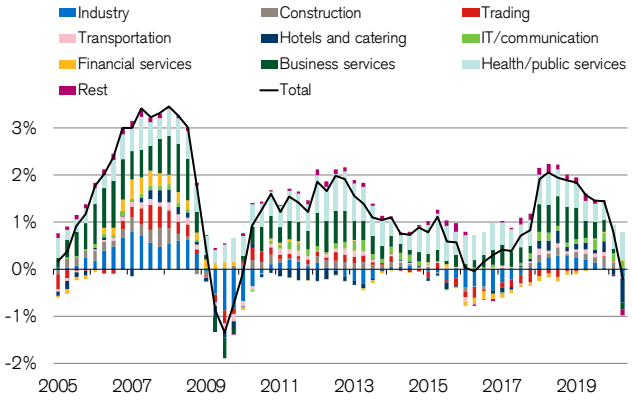
[1] See: Bloom (2015): «Does Working From Home Work?» and Allen (2015): «How Effective Is Telecommuting?»

COVID-19 leaves its mark on the labor market

Employment growth slid into negative territory in the second quarter of 2020, namely -0.2% compared to the prior year. As expected, hotels & catering (-0.5%) is the most badly affected sector due to limited tourism. However, the slump has been mitigated by the instrument of short-time working. By contrast, typical office sectors such as financial services (+0.01%) were less affected by a decline in employment. On the other hand, there were redundancies in connection with temporary workers and business services, which is an important sector for office space demand. The highest growth in employment was recorded in the healthcare/public services area.

Fig. 18: Overall employment by business sector

Annual change in the number of employees (full-time equivalents), in %



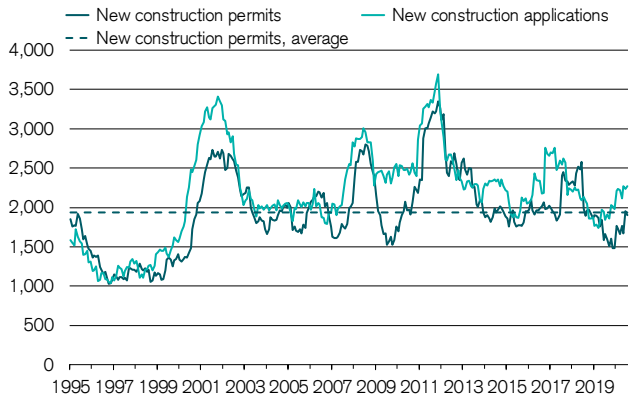
Source: Swiss Federal Statistical Office, Credit Suisse Last data point: Q2/2020

Building permits for offices likely to recede again in the medium term

After a comparatively low volume of building permits were issued in 2019, a significant rise in both office planning applications and the corresponding approvals has been recorded since the start of this year. The volume of planning applications submitted over the last 12 months is 23% higher than for the prior-year period. This is the result of growing demand for office space in recent years (prior to COVID-19). In view of these current structural changes, such as a pronounced shift toward home working and the corresponding threat of lower demand for additional office space, planning activity can be expected to fall back very soon.

Fig. 19: Planned expansion of office space

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



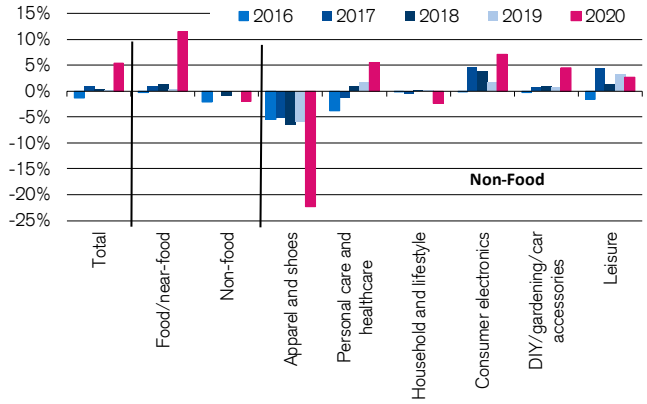
Source: Baublatt, Credit Suisse Last data point: 07/2020

Strong retail sales but with major discrepancies

Over the first seven months of this year, retail sales provided a positive surprise by rising 5.5% compared to the prior-year period. However, the lion's share of this growth is attributable to the online trading boom and not to bricks-and-mortar retailing, which is why retail premises are likely to remain under pressure. In particular, the food, home electronics, and garden/auto accessories areas recorded strong sales growth. As a result of the pandemic, more was also spent on hygiene and healthcare products. By contrast, demand declined above all for apparel/shoes, household products, and immovable items (e.g. furniture).

Fig. 20: Development of retail sales

Nominal growth of retail sales in year-on-year comparison*



*Seasonally and number-of-sales-days adjusted, 2016–2019: Jan.–Dec.; 2020: Jan.–Jul.
Source: GfK, Credit Suisse Last data point: 31.07.2020

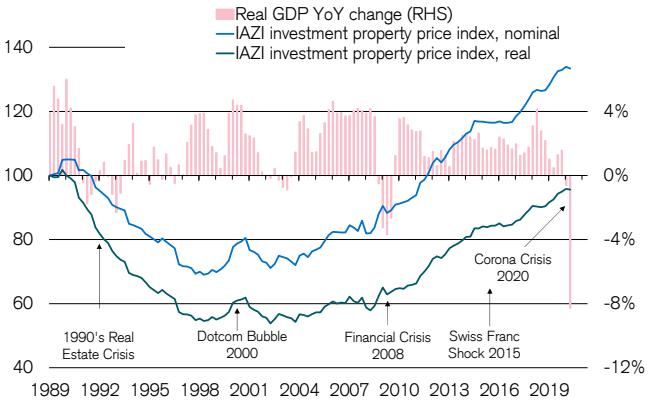
Real estate investments

Neither financial nor coronavirus crisis capable of halting cycle

The prices of investment properties have been rising for more than 15 years. Indeed, direct investments came through the financial crisis of 2008 and the franc shock of 2015 almost unscathed, as they benefited from the persistent trend of declining interest rates. However, the real price level is still below that recorded just prior to the real estate crisis in the 1990s, which almost led to a halving of real prices. The coronavirus crisis is unlikely to trigger any correction of this kind, as there is no expectation of either significant rises in interest rates or a wave of selling. That said, the capital growth return, which has amounted to 3.8% (nominal) on average over the last 10 years, is likely to be lower initially for commercial properties.

Fig. 21: Investment property transaction price index

Residential and mixed-use investment properties (index: Q1/1989 = 100)



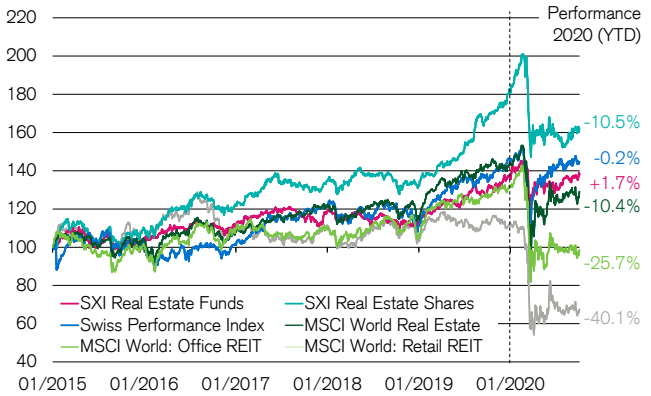
Historical performance data and financial market scenarios are no reliable indicators of future results.
Source: IAZI, SECO, FSO, Credit Suisse — Last data point: Q2/2020

Swiss real estate shares relatively resilient

Listed Swiss real estate funds have recovered from the pandemic-induced slump, and are now exhibiting a slightly positive overall return of 1.7% since the start of the year. By contrast, the overall return of listed Swiss real estate shares still lies deep in negative territory (-10.5%). Only a strong start to the year prevented a greater loss. At a global level, real estate shares have declined by 10.4% over the year to date. Investments shunned by investors include the shares of office REITs (-25.7%), hotel REITs (-38.1%), and retail REITs (-40.1%). By contrast, REITs specializing in manufacturing and logistics premises have in some cases benefited from the crisis (+19.9%).

Fig. 22: Total performance of indirect real estate investments

Indices: 01.01.2015 = 100, in local currency



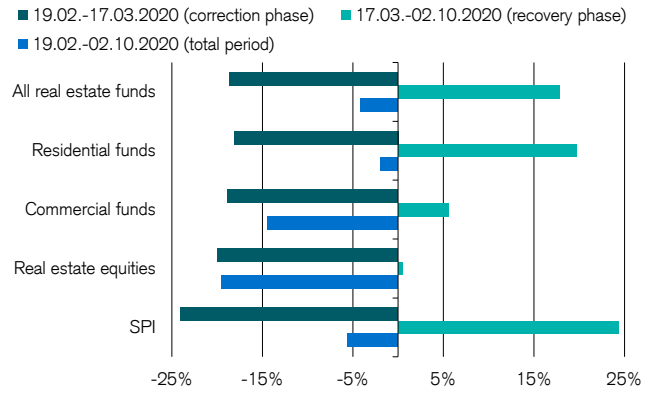
Historical performance data and financial market scenarios are no reliable indicators of future results.
Source: Datastream, Credit Suisse — Last data point: 02.10.2020

Real estate funds have largely recovered from the slump

Listed Swiss real estate securities likewise did not escape the financial market turbulence at the start of the coronavirus crisis – at times, they recorded negative overall performance of up to -20% before the recovery took hold. Investors continue to view commercial real estate funds and real estate investment companies with skepticism. By contrast, the prices of real estate funds that focus on residential property have recovered. Overall, real estate funds are once again exhibiting a high average premium of 31.9%. On the other hand, this masks considerable performance discrepancies: Whereas some funds are trading premiums of up to 50%, others – such as vehicles that primarily focus on commercial premises – are actually trading at a discount.

Fig. 23: Performance of Swiss real estate investments in the coronavirus era

Magnitude of correction and recovery (overall performance of listed investments)



Historical performance data and financial market scenarios are no reliable indicators of future results.
Source: Datastream, Credit Suisse — Last data point: 02.10.2020

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