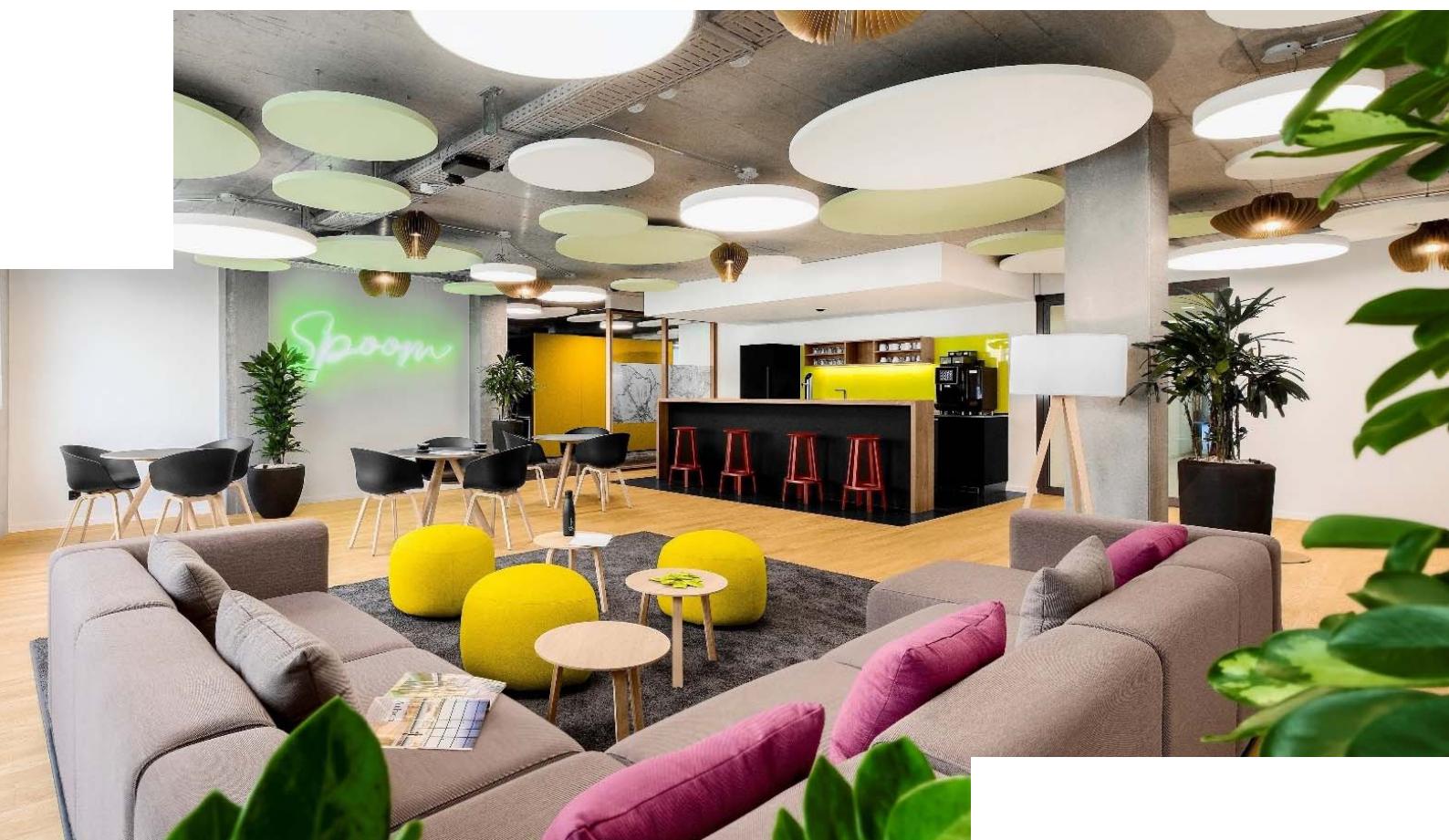




Two faces of the Swiss office market

Swiss office property market 2020 | December 2019



Demand

Demand momentum wanes

Supply

Gulf between city center and periphery

Major urban center

Detailed analysis of major urban center



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Two faces of the office market

The Swiss office space market is currently presenting two faces to the world. Whereas office space is becoming scarce in city centers and rents are rising again, the outer business districts are characterized by high supply rates and marketing challenges. The gap in prices and vacancies between Switzerland's urban centers and their peripheries is therefore likely to widen even further in the future.

Demand momentum wanes

The strong economy in 2018 made a significant contribution to the recovery in Swiss office space markets. However, with the economy currently weakening, the surplus demand for office space will decline going forward. The recovery of the office space market is therefore likely to lose momentum. In particular, this should make it difficult to find tenants for vacant premises in the outer business districts of Switzerland's major conurbations.

Good absorption of space in central business districts

The previous revival in demand for office space has resulted in healthy absorption of available office premises in central business districts in particular. Companies are increasingly renting office premises in good locations, as the competition for skilled personnel means that they are keen to offer their employees attractive places to work. With the exception of Geneva, which continues to suffer from the structural change playing out in the banking sector, the available supply has declined in the central business districts of all major conurbations. In Zurich, where the recovery of the office space market is the most advanced, prospective tenants are already having to move quickly if they want to rent premises in good locations.

Coexistence of oversupply and scarcity of supply

By contrast, the picture in the outer business districts is very different. Here demand is altogether less dynamic, which is why the marketing of available space has become a challenge. Indeed, some premises have now been on the market for years without any visible progress in finding tenants. New office premises typically spring up in locations that are very well connected – often in the middle business district, i.e. closer to the city center. This puts premises located on the periphery under pressure, which in turn forces marketers there to reduce prices. Furthermore, cheap money has fueled a number of different development projects in the office market, and these market protagonists are also courting prospective tenants. In Geneva and Lausanne in particular there is evidence of increased planning and construction activity, which is further increasing the available supply. Overall, therefore, the supply of available office space in Switzerland has risen slightly to 5.2%.

Trend reversal in vacancies

The existing – but limited – demand will not suffice for all projects. A number of construction projects will therefore be abandoned or modified for other use. Changes in the intended use of existing space are particularly apparent in Bern, where the demand for office space is the lowest of any major conurbation in Switzerland. Officially measured vacancies, which above all cover the central and middle business districts of the major cities, have declined by some 10% in 2019, thereby reflecting the positive development of the market in more central locations. Zurich and Bern have seen particularly significant declines in vacancies. In Zurich these have sunk to a level not seen for 17 years. The ongoing recovery in Swiss office markets is also reflected in a renewed rise in rental price growth. With the exception of the two large markets in French-speaking Switzerland, Lausanne and Geneva, rental prices have risen again slightly in all major centers.

Construction activity will soon slacken, ...

Over the last few years, the office space market has been characterized by an astonishingly high level of construction and planning activity, despite the various indications of oversupply. This is likely to have been one reason why the recovery in the office space market has not yet extended to all business districts equally. However, a sharp scaling-back of construction activity has recently become apparent.

... which should ensure a continuation of the recovery

The volume of approved investment in office space has declined over the last 12 months to its lowest level for 19 years. Across Switzerland as a whole it stands almost 22% below the long-term average, and almost 41% lower in the major urban centers. In the medium term, this slower conveyor belt of new space should ensure continuation of the recovery in the Swiss office market.

Demand momentum wanes

After booming in 2018, the Swiss economy normalized in 2019. Although the labor market situation remains robust, employment growth has slowed, and therefore so too has the surplus demand for office space.

Significant weakening of economic boom in 2019

After growing strongly in 2018, the Swiss economy has now normalized again. In the second quarter of 2019, gross domestic product (GDP) was only slightly (0.2%) above its prior-year level, whereas the equivalent figure for the second quarter of 2018 was a heady 3.6% (Fig. 1). The economic slowdown has above all manifested itself in the manufacturing sector rather than in the services sector.

Economic outlook for 2020 gloomy, but no recession in sight

The outlook for manufacturers is gloomy for 2020 too. The purchasing managers index (PMI) for manufacturing has been below the threshold indicating growth since April 2019 (Fig. 1). Although the PMI for the services sector has likewise declined, it remains in growth territory. Despite the weakness apparent in numerous sectors of industry, a full-blown recession looks unlikely, particularly as consumer spending remains strong. As long as the global economy does not deteriorate further, Swiss GDP can be expected to grow at a rate close to 1% both this and next year.

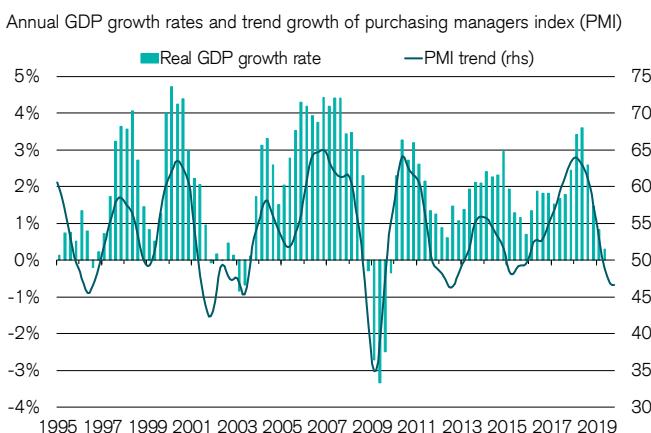
Employment growth remains positive, but momentum has slowed

The labor market situation looks comparatively robust at the moment thanks to powerful economic growth in 2018. Indeed, it has been more than ten years since Switzerland's unemployment rate was at such a low level. However, the high growth rates in Swiss employment recorded over the last few quarters have now reverted to more normal levels. Whereas employment grew by 2% year-on-year in the fourth quarter of 2018, the equivalent figure for the second quarter of 2019 amounted to just 1.2% (Fig. 2). That said, employment growth is still in positive territory, as well as remaining above the average recorded over the last five years (0.87%). This is attributable to above-average employment growth in the secondary sector (Fig. 3). By contrast, the tertiary sector has created fewer jobs over the last year than it has on average over the last five years. Overall, however, there are still more new jobs in the tertiary sector than in the secondary sector.

Slump in growth affects temporary positions in particular

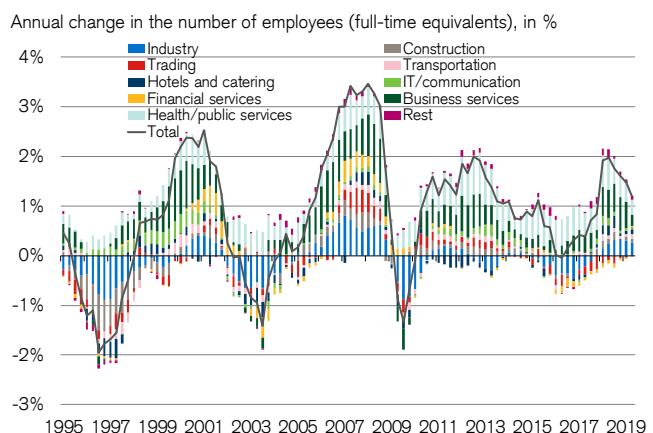
Corporate services continue to be the largest contributor to growth, even if annual growth in this sector has declined from 3.4% in the first quarter of 2019 to 1.5% in the second quarter. This decline is primarily attributable to a reduction in headcount in the temporary positions segment. It is typical for this area to be the first to suffer from an economic slowdown. Once again, health care and social services are making an impressive contribution to employment growth. By contrast, the IT sector and the hotels & catering business have recorded much lower growth compared to the previous year. In education, an increasing number of jobs were actually lost. The situation also remains challenging in wholesaling, where the rise in the volume of online purchases is forcing employers to reduce headcount.

Fig. 1: GDP growth and leading indicator



Source: State Secretariat for Economic Affairs (SECO), procure.ch, Credit Suisse; last data point: 10/2019

Fig. 2: Overall employment by business sector



Source: Swiss Federal Statistical Office, Credit Suisse; last data point: Q2 2019

Less gloomy situation for banks, insurers, and the telecoms sector

More and more people working in offices, ...

... but the amount of office space required per employee is declining

Surplus demand for office space should decline further

By contrast, the “problem industries” of last year – banks, insurers, and telecoms – have not seen any continuation of the negative employment trend (Fig. 3). In the banking sector, which has suffered for years from shrinking margins, rising regulatory costs, and new digital competition, employment declined only minimally over the last twelve months. Over the previous four years, an average of 3,470 jobs were lost each year. In the insurance industry, where employment experienced a slight average decline over the previous five years, there has been a significant pickup in employment over the last year, with the number of employed persons increasing by 667 positions. The telecoms sector has likewise experienced a return to employment growth.

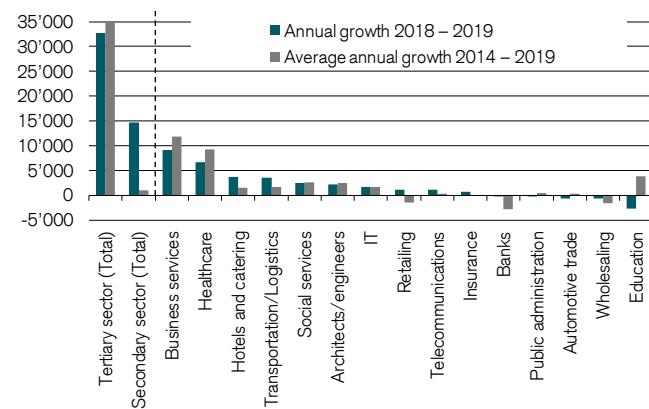
When it comes to demand for office space, it is not so much the general employment trend that matters, but the development of office employment. In almost all sectors, the proportion of office employees is rising compared to the number of employees working on the production side. One of the drivers of this development is digitalization. This phenomenon is replacing routine jobs while at the same time creating new job profiles that very often require an office workplace. For example, manufacturing businesses nowadays sell not just machinery and plant equipment, but also increasingly associated services such as apps and online services. According to our calculations, the proportion of jobs in manufacturing accounted for by office workers rose from 38% to 44% between 2010 and 2018. Even in the area of IT and communication, for example, the proportion of office-based employees rose over the same period (from an already high 84% to 88%), a trend also apparent in the construction industry (14% to 18%).

On the other hand, the amount of space required per employee is steadily declining. A number of trends – such as remote working, flexible hours, and space-saving workplace models – are making the utilization of office space significantly more efficient. In particular, the desk-sharing model and the use of flexible space structures – whereby the working infrastructure can be easily adjusted to the work processes required at any given time – are allowing companies to achieve higher workplace utilization rates. The traditional workplace is tending to shrink as a result, while areas traditionally devoted to individual space are moving into community zones or central zones, which are being upgraded accordingly.

The strong surge in office employment in 2018 led to a temporary situation of very dynamic surplus demand for office space. The greatest increase in demand was recorded in the second quarter of 2018, when surplus demand for office space amounted to some 775,000 m² compared to the previous year. The level of surplus demand has receded ever since, in keeping with the decline in employment growth. For the current year we are predicting that surplus demand will still be very strong at 486,000 m². While employment growth should then weaken further in 2020, it is still likely to remain in positive territory. We are therefore expecting a stabilization of surplus demand at a lower level of 253,000 m².

Fig. 3: Employment growth by sector

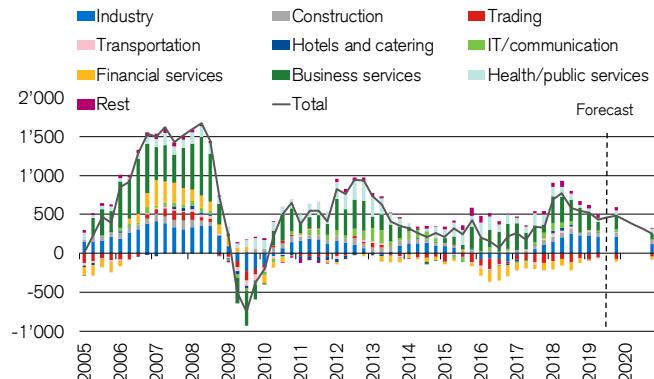
Annual growth (as per Q2) of selected service providers on a full-time basis



Source: Swiss Federal Statistical Office, Credit Suisse; last data point: Q2 2019

Fig. 4: Surplus demand for office space

Estimated surplus demand compared to prior-year quarter in 1,000 m²; Forecasts for Q4 2019 and 2020



Source: Credit Suisse, Swiss Federal Statistical Office; last data point: Q2 2019

Gulf between city center and periphery

Despite stronger demand for office space, the total volume of office space advertised for rent has once again risen slightly. The office market is currently presenting two contrasting faces: Whereas office space is in short supply in many central business districts, the space available on the periphery of major conurbations is increasing.

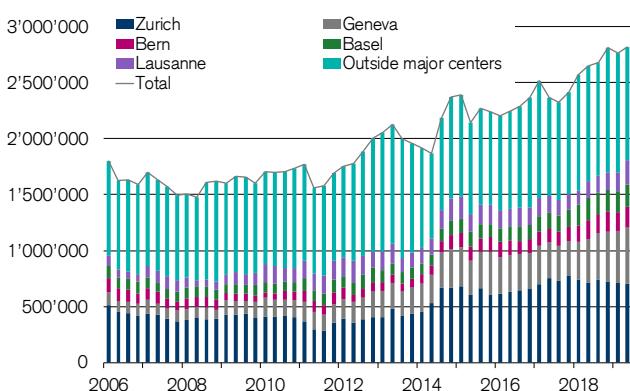
Slight increase in national supply rate

The total volume of office space advertised online across Switzerland recorded a year-on-year rise of 163,000 m² in the second quarter of 2019 to a new total of 2,814,000 m² (Fig. 5). The supply rate, which reflects the availability of space as a proportion of the total office space market, therefore rose to 5.2%. This result would appear to be rather at odds with the clear recovery of office space markets that has accompanied the economic upturn since the end of 2017. Our analysis, which takes into account not only advertisements on leading real estate platforms but also office space advertised through other channels (individual websites, real estate brokers, economic development agencies, etc.) reveals a very clear divide between Switzerland's city centers and their peripheries. While many vacant premises are managing to attract tenants in city centers and supply is becoming noticeably scarce in many cases, the problem of oversupply in outer business districts has become more pronounced. In the latter areas, premises that have been vacant for some time do not always appear on the key online platforms. But they nonetheless remain available. As an additional factor, cheap money is fueling many newbuild projects that are likewise seeking office tenants. As we take into account all available space – irrespective of the point at which it becomes available – in our aggregation, the supply rate works out higher.

Coexistence of oversupply and scarcity of supply

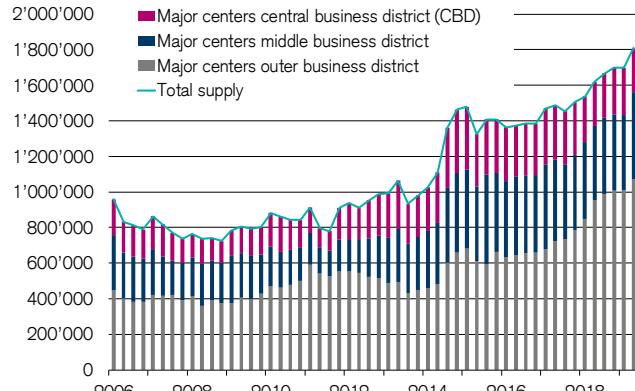
The Swiss office market is currently presenting two faces. In central business districts, the amount of space available has declined slightly. In Zurich and Bern in particular, supply rates have declined to a very low level in the central business districts. In Basel and Lausanne the supply rate has remained unchanged, and only in Geneva has it risen slightly. By contrast, the supply of available space in the outer business district of every major conurbation has increased further (Fig. 6) – and most sharply of all in Geneva and Lausanne. The superior absorption of centrally located office space is first and foremost attributable to tenant demand. In their competition to attract specialist personnel, companies are striving to provide employees with an appealing place to work – and not just in terms of location, but also with respect to layout and flexibility of use. Moreover, as companies achieve efficiency gains when they rent modern office premises, the additional expense of a top location can be offset to some extent. By contrast, because newbuilds are springing up above all in the middle and outer business districts of Switzerland's large urban office markets, the supply side is also contributing to the growing gulf between city center and periphery.

Fig. 5: Supply of available office space rises to 2.81 mn m²
Total of quarterly (online) advertised space (existing stock and newbuilds), in m²



Source: Meta-Sys AG, Credit Suisse; last data point: Q2 2019

Fig. 6: Supply of available space rises in outer business districts
Total of quarterly (online) advertised space (existing stock and newbuilds), in m²



Source: Meta-Sys AG, Credit Suisse; last data point: Q2 2019

Acceleration in construction activity increases supply rates in French-speaking Switzerland

Mid-sized urban centers typically exhibit low supply rates

We are expecting the differences in rental prices between the very centrally located offices and those in the outer business districts of the major Swiss cities to increase further in the future. The supply of available office space outside of the major conurbations, by contrast, has remained relatively stable in recent years (Fig. 5).

Apart from the ubiquitous gap between city centers and outer business districts, the individual office markets of Switzerland's five major cities are exhibiting very different developments. Whereas the total amount of advertised space in Zurich and Basel – and in some parts of Bern – is virtually unchanged compared to the previous year, Geneva and Lausanne stand out with their significant rises in office space supply. These two office markets of French-speaking Switzerland now also have the highest supply rates, with Lausanne having recorded a year-on-year rise from 5.8% to 8.2%, and Geneva from 9.5% to as much as 11.9% (Fig. 8). Whereas demand in Lausanne remains relatively intact and the supply of available space is being fueled above all by significant construction and planning activity, the problem in Geneva is stagnant demand coinciding disadvantageously with various development projects. The trigger of this development activity in Geneva, which will result in a reshaping of locational quality, is the opening of the new Léman Express railway line. A feature common to the major urban centers of German-speaking Switzerland is the well-established trend of reduced planned investment in office space. This has only recently become true of Geneva too. In the medium term, therefore, there is unlikely to be any further increase in the supply of available space despite the less positive economic backdrop, which in turn means that the office market recovery in the major Swiss conurbations should persist – albeit more slowly than in the last few quarters.

In the mid-sized urban centers and on the periphery, the demand for office space is less dynamic, as well as being difficult to predict. For this reason, construction projects involving office properties are rarely initiated without an anchor tenant in place or high occupancy rates. The majority of mid-sized centers therefore exhibit relatively low supply rates (Fig. 8). With the increase in supply not expected to be excessive in many mid-sized centers (with the exception of Neuchâtel and Olten), this situation is also unlikely to change in the near future. The only mid-sized centers with a supply rate of more than 5% are Baden (5.4%), Lugano (5.7%), and Zug (7.4%). Whereas the supply rate in both Baden and Zug is being driven up by individual new office projects (Duplex building complex and Quadrolith project in Baar respectively), market supply in Lugano is being fueled by a large number of small office premises of less than 1,000 m². Together these account for more than 95% of all available space in Lugano's office market. The absorption of office space in Lugano appears to have hit a wall generally. The picture is very different in Zug, where the new office space that has come onto the market over the last few years has been very well absorbed. The first of two office buildings in the Quadrolith development has already been let to various tenants, including biotech company Biogen.

Lower construction activity

Construction activity is slowing in the majority of Switzerland's large and mid-sized urban centers. This should ensure a continuation of the office market recovery despite weaker demand.

Construction approval volumes lower than at any point since 2000

The investment volume of construction approvals has very rarely fallen below the level of the long-term average in recent years. Construction activity in the office property market has accordingly been relatively high, particularly given the rise in vacancy rates since 2013. The key drivers of this development were the low interest environment, low financing costs, and limited investment alternatives. However, the volume of construction approvals has fallen noticeably in recent months (Fig. 7). The annual investment volume of new construction approvals recently stood at CHF 1,505 million, or 22% below the long-term average. Not since 2000 has newbuild permit issuance languished at such a low level. This development reflects the cautious stance of investors, who are responding above all to high vacancy rates in the outer and peripheral office markets.

Low construction activity likely in the major centers – apart from in Lausanne

The individual office markets of Switzerland's mid-sized and large urban centers are illustrated in Figure 8. The vertical axis illustrates the anticipated expansion of space in the future, whereby the percentage values indicate the percentage by which construction approvals over the last two years lie either above or below the long-term average. Lausanne in particular catches the eye with its significant expansion of office space, this being the result of major site developments with integrated office space in the western part (e.g. in Bussigny). Over the last few years, Basel has also been notable for its above-average investment in office space. Just recently, however, the volume of newbuild permits here has fallen below its long-term average. Once the construction projects that are currently in the implementation phase (such as the Roche Tower 2) reach completion, construction activity in Basel is likely to decline. The same applies to Geneva, where the volume of newbuild permit issuance has likewise only recently fallen below its long-term average. In Zurich and Bern, by contrast, projected activity in connection with new office space has been relatively weak for a number of years now.

Low investment also likely in majority of mid-sized urban centers in the future

For quite a while now, the volume of investment in office space has also been languishing at below-average levels in the majority of Switzerland's mid-sized urban centers. Exceptions here are Neuchâtel and Olten, where newbuild permit issuance over the last two years is more than 50% above the long-term average in both cases. In Neuchâtel, the high volume of projected activity is attributable to a new office and commercial park (construction permit issued in November 2018). In Olten, a new office building was approved on the Usego site in December 2018, while in Wangen bei Olten an enlargement of the main bus station (including an expansion of the administration building) was approved in May 2019. By contrast, construction activity in Aarau and Baden has experienced a slump in recent years. In both mid-sized centers, the volume of building permit issuance over the last two years has been some 80% below their long-term averages.

Fig. 7: Planned expansion of office space

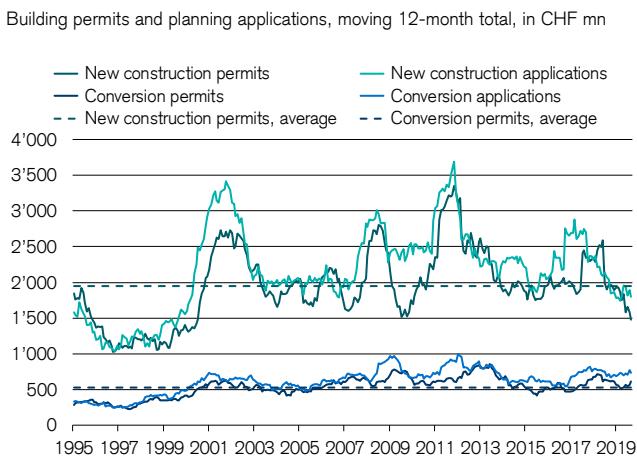
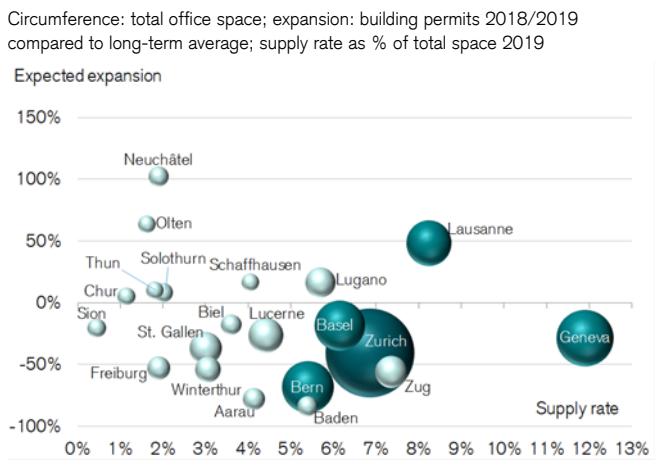


Fig. 8: Higher supply rates in the major centers



Trend reversal in vacancy rates

As a result of the vigorous demand for office space over the last few quarters, office vacancy rates have declined in most regions. A trend reversal is also apparent in the rents, which have also seen a return to largely positive development.

Office vacancy rates are for the most part falling

It required strong economic growth in 2018 and the resulting high demand for office space to bring about a trend reversal in the amount of office space standing empty. This time the trend reversal can be expected to endure. Positive economic development has led to an improvement in the vacancy situation in the office space segment in a number of cantons (Fig. 9). The current slowdown on the demand side is unlikely to alter this situation, as any imbalances are likely to be warded off by the very modest expansion expected on the supply side. If we compare the vacancy rates for June 2019 with the prior-year figures, it becomes apparent that the strongest declines have been recorded in the canton of Neuchâtel (-68%), the city of Bern (-39%), and the city of Zurich (-22%). The dramatic slump in the vacancy rate in Neuchâtel was due to an outlier surge in the equivalent figure for 2018. That notwithstanding, the current vacancy rate is 7% below the figure for 2017. Bern recorded a decline in its vacancy rate for the third year in succession, from 75,000 m² (2016) to 37,000 m² (2019). In Zurich too, a steady downward trend in office vacancies has been apparent for a number of years now. Indeed, this has almost halved from 215,000 m² in 2014 to a current level of 109,000 m². Furthermore, Canton Basel-Land has recorded a decline of 6% in vacancies, thereby breaking a steady upward trend dating back to 2015.

By contrast, vacancy rates rise in Geneva, Vaud, and Basel-City

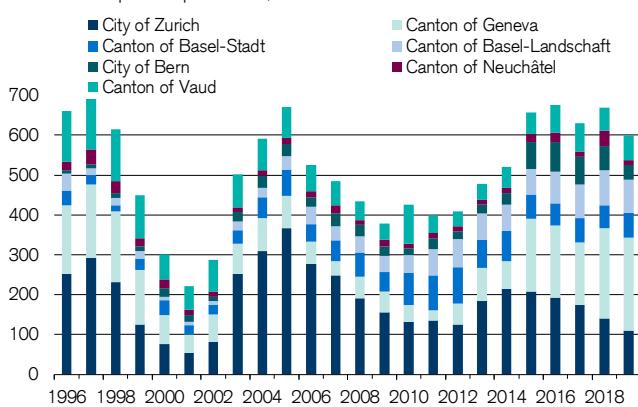
By contrast, a deterioration in the vacancy situation is apparent in the cantons of Geneva, Vaud, and Basel-City. Following a dramatic rise of 44% in vacancies in Geneva last year, this year saw another small rise of 3% to 234,000 m². Basel-City was unable to repeat the decline in vacancies recorded last year, this time reporting a rise of 6%. In Canton Vaud, the rise this year amounted to as much as 9%. This is above all attributable to the high level of vacancies reported in the districts of Nyon and Morges. In the Lausanne region, by contrast, vacancies declined by 5% due to a sharp fall in the Ouest lausannois area (-25%).

Rents recover

The strong demand for office space has also had a positive impact on office rents (Fig. 10). The sharpest fall in Swiss office rents over the last year (as per Q2 2019) was recorded by Zurich city, namely 4.3%. After a prolonged period of sideways movements, the urban areas of Basel (+3.7%) and Bern (+2.9%) likewise reported a rise in rents. In Geneva, meanwhile, the trend of falling rents has now at least been halted. Rents have declined in this French-speaking center by a total of 17% since 2013. By contrast, rental prices have risen slightly by 0.2% over the last 12 months. Only in the city of Lausanne (-3%) has the trend of falling rents not yet been broken. That said, this downward trend should come to an end soon given the healthy condition of the local office market here.

Fig. 9: Development of office vacancy rates

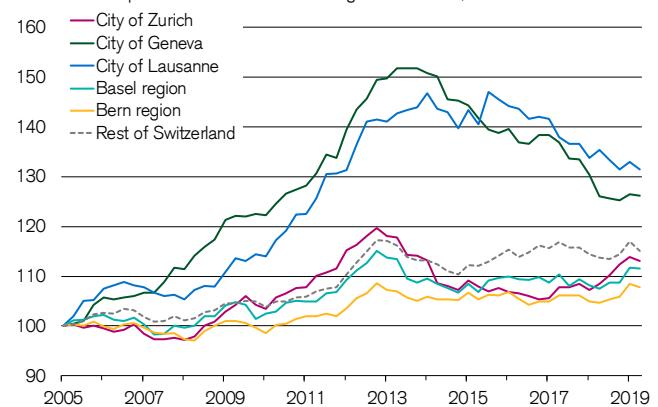
Vacant office space as per June 1, in thousand m²



Source: Various government statistical sources, Credit Suisse; last data point: 06/2019

Fig. 10: Reversal of trend in regional rents

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



Source: Wüest Partner, Credit Suisse; last data point: Q2 2019

Overview of regional office space markets

Figure 11 provides an overview of Switzerland's key office space markets. More than 65% of all existing Swiss office space is accounted for by these 21 office space markets. For the most part, supply is concentrated in Switzerland's five largest conurbations, which in the second quarter of 2019 accounted for some 64% of all available office space in the Swiss market. Together with the largest mid-sized centers listed below, these accounted for 80% of available space. At 5.2% of existing space, the supply rate for Switzerland as a whole slightly increased compared to the previous year. The expansion of office space going forward is likely to be low in the majority of large and mid-sized centers, whereas it is likely to be more dynamic in Lausanne, Neuchâtel, and Olten.

Fig. 11: Total and available space in the largest office space markets

Advertised vacant space (existing premises and newbuilds) in m² as per Q2 2019; total space as per end 2017, space-weighted average rents (net) 2019 in CHF/m²; expected expansion in 2020

| Major centers | Inventory of office space | Space available | Supply rate | Expected expansion | Average rents |
|--------------------------|---------------------------|------------------|-------------|--------------------|---------------|
| Zurich | 10'331'739 | 708'500 | 6.9% | ↘ | 270 |
| Geneva | 4'151'059 | 493'774 | 11.9% | ↘ | 360 |
| Bern | 3'487'543 | 188'867 | 5.4% | ↘ | 205 |
| Basel | 3'224'008 | 197'918 | 6.1% | ↘ | 198 |
| Lausanne | 2'660'770 | 219'243 | 8.2% | ↗ | 220 |
| Mid-sized centers | | | | | |
| Lucerne | 1'551'091 | 68'445 | 4.4% | ↘ | 209 |
| Zug | 1'343'577 | 98'948 | 7.4% | ↘ | 222 |
| St. Gallen | 1'329'527 | 40'174 | 3.0% | ↘ | 183 |
| Lugano | 1'142'865 | 65'092 | 5.7% | ↗ | 227 |
| Winterthur | 847'174 | 25'819 | 3.0% | ↘ | 209 |
| Fribourg | 660'207 | 12'638 | 1.9% | ↘ | 189 |
| Aarau | 600'256 | 24'923 | 4.2% | ↘ | 200 |
| Biel | 521'790 | 18'752 | 3.6% | ↘ | 154 |
| Baden | 503'508 | 27'226 | 5.4% | ↘ | 181 |
| Neuchâtel | 497'019 | 9'469 | 1.9% | ↗ | 195 |
| Solothurn | 448'927 | 9'026 | 2.0% | → | 163 |
| Sion | 426'588 | 1'873 | 0.4% | ↘ | 149 |
| Chur | 393'256 | 4'516 | 1.1% | → | 178 |
| Schaffhausen | 380'110 | 15'453 | 4.1% | ↗ | 166 |
| Olten | 378'858 | 6'129 | 1.6% | ↗ | 156 |
| Thun | 374'817 | 6'827 | 1.8% | → | 181 |
| Switzerland | 54'136'813 | 2'814'054 | 5.2% | ↘ | 238 |

Source: Credit Suisse, Meta-Sys AG, Baublatt

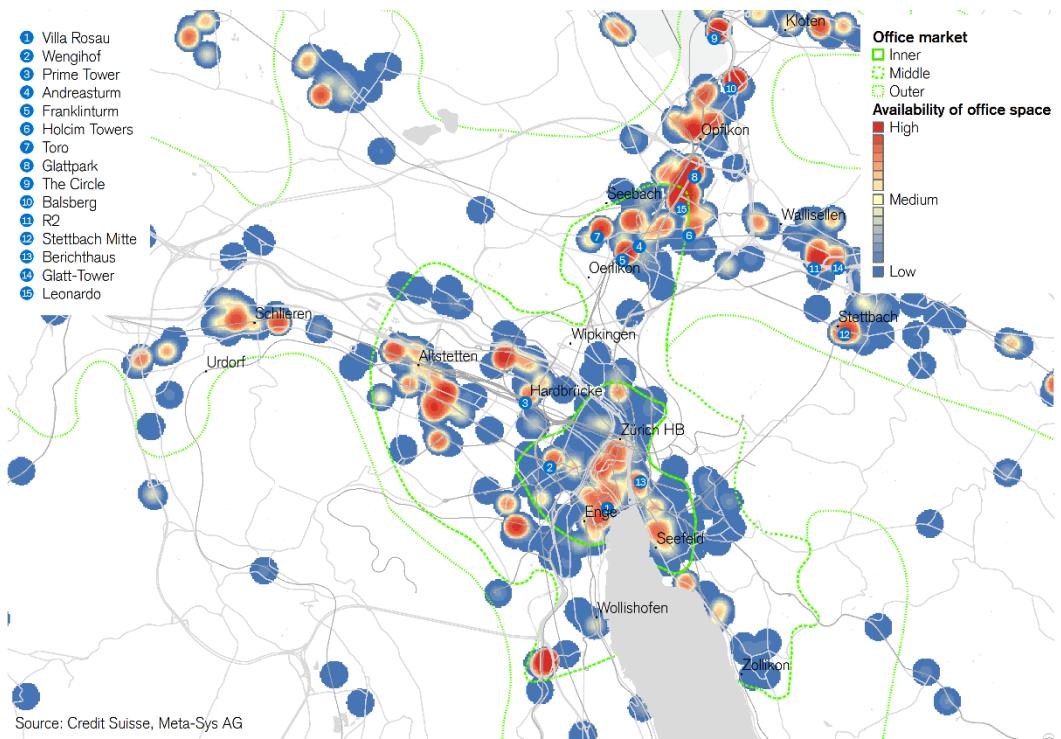
Note on available office space and supply rate:

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

Zurich

Fig. 12: Density of available office space

Office space marketed on the internet (existing stock and newbuilds) in m² per hectare as per Q2 2019



Available space declines – but only within city limits

Zurich's office space market continues to recover. While the supply rate, which encompasses all space marketed online – irrespective of the point at which it becomes available – has declined only minimally, namely from 7.0% to 6.9% in a year-on-year comparison, this decline actually conceals a number of very different developments in the sub-regions. In the central and middle business districts, which above all encompass business areas within the city limits with a local rail (S-Bahn) connection, the volume of advertised office space has declined substantially. By contrast, the available space in the outer business district, comprising office premises in the Limmattal and Glattal, as well as the lake-shore municipalities close to the city, has actually increased further.

Central business district: office space in increasingly short supply

In the city center of Zurich, the supply of space has halved since peaking back in 2017. Indeed, the available supply would have declined even further had it not been for the release of office space about to be completed (Villa Rosau) and office space returning to the market following renovation (Wengihof, historic "Berichthaus" on Münstergasse). At the time of going to print, only around half a dozen properties offering more than 2,000 m² were available for rent in the central business district. Prospective tenants who have enjoyed a strong negotiating position in recent years due to the higher level of vacancies will now have to act quickly, as available office space is becoming increasingly scarce and the average duration of advertising is shortening.

Middle business district: reduction in available office space

In the middle business district, the trend of a declining supply of office space is likewise continuing. The pace of this reduction is less pronounced, however, which is why supply here has not yet reached the levels seen in the years prior to 2014. The situation in well-frequented locations offering an S-Bahn connection remains good. Although office rental space is also temporarily available in the Prime Tower due to the consolidation of sites carried out by Zürcher Kantonalbank (ZKB), space around the Hardbrücke railway station area is being well absorbed. The newbuild on the Welti-Furrer site, which will be ready for occupation in the summer of 2020, is now fully let. The available space in city districts 3 and 4 is also being well absorbed. Up until recently, there was a considerable amount of space available near Oerlikon station. Now, however, the Andreasturm is fully let (key tenant: Amstein + Walther) apart from a small retail area on the ground floor. The former head office of Amstein + Walther, which is just around the corner, has now been taken over by FIFA, which is looking to cover an increasing number of functions in-house. The successful marketing of office premises located right by the station is also likely to have prompted SBB to

press ahead with construction of the Franklinturm, despite the letting ratio still being at a low level. As a result, the marketing of available office space that is beyond walking distance from local stations is likely to remain challenging. Site relocations and headcount reductions have left a considerable amount of free space in buildings such as the Holcim Towers and the Toro office building (formerly used by ABB), which will not be so easy to find new tenants for. A small number of construction projects such as the previously planned ps high-rise office building on Hagenholzstrasse have therefore not even got beyond the planning phase, and are instead being redesigned for residential use. This will reduce accordingly the amount of office space being marketed.

Outer business district: further increase in availability of office space

Vacancy rate within city limits at lowest level for 17 years

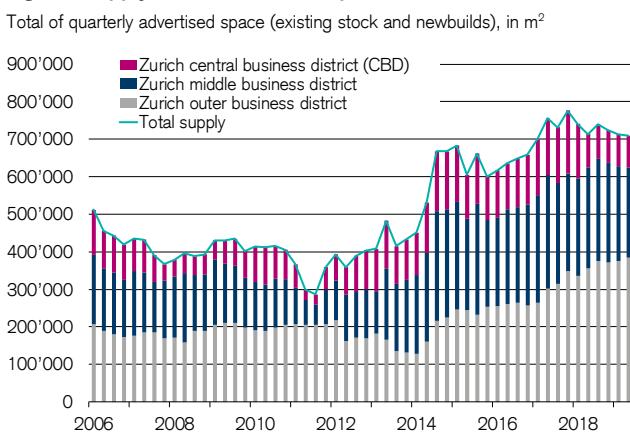
Subdued expansion going forward

Despite continued expansion in the available volume of office space in the outer business district, there are also signs of recovery in the sub-markets outside of the city limits. Even in Glattbrugg and Opfikon, where for quite a while it was almost impossible to find tenants for vacant premises, the vacancy rate has been falling. The Lightcube, Lilienthal and Portikon buildings in Glattpark are now fully let once again. "The Circle" at Zurich airport is now just under two-thirds let. The reasons why the supply of office space has still increased in the outer business district include a fall in the number of foreign companies relocating to Switzerland, the focus of tenants for space on locations close to the city center (co-working), the return of renovated buildings to the market (Glatt Tower), as well as a number of newbuilds (e.g. Balsberg vertical expansion, R2 high-rise office building in Wallisellen, Rüschlikon Business Park, Stettbach Mitte). All in all, therefore, the supply of space in the peripheral Zurich office space market continues to outstrip demand.

By contrast, within the city limits the clear rise in demand has seen the volume of vacant office space decline by some 30,000 m² to its lowest level since 2002. Overall, just 109,373 m² of office space is currently available, which equates to a mere 1.7% of existing stock. The vacancy rate stood at 2.1% in 2018, and was as high as 3.2% back in 2015. The sharpest decline has been recorded in the city center. Available space in city district 1 has more than halved, and now stands at just 1.3%. Vacancies have likewise declined sharply in city districts 2 to 6, as well as city district 9. By contrast, the vacancy situation remains uncomfortably high in city district 11 (Affoltern, Oerlikon and Seebach) at 4.1%. Moreover, the vacancy rate in city district 8 (2.4%) is significantly higher than it was only last year (1.5%). The recovery of the office space market in Zurich is also apparent in the rents recorded on the basis of contractual agreements. According to Wüst Partner, rents have risen by 7% since the start of 2017.

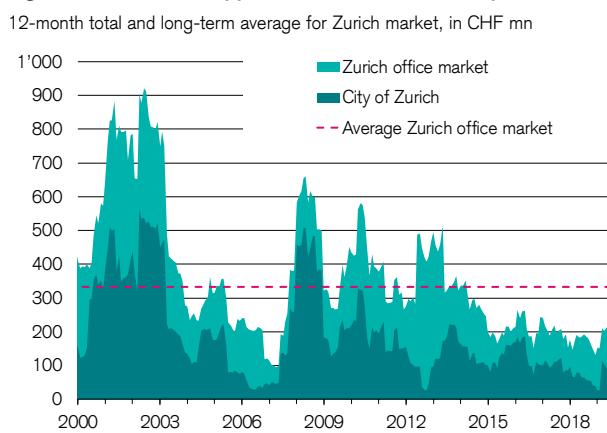
Even if the surplus demand for office space were to taper off in the future due to the weaker economic situation, the trend of a decline in available office space for the market as a whole and a reduction in vacancies is likely to continue. A low level of construction activity is the underlying driver of this trend. The volume of building permit issuance has declined steadily since 2013, and by the start of 2019 had reached its lowest level since 2007 (Fig. 14). A slight increase has been apparent since March due to construction approval being issued for two replacement newbuilds – with apartments as well as commercial and office space – in city district 9, close to Letzigrund Stadium. Nonetheless, the current 12-month total of CHF 207 million is still well below the long-term annual average (CHF 333 million). In other words, a declining level of surplus demand will be coming up against a minimal increase in surplus supply, which is why Zurich's office space market overall is likely to remain in equilibrium, with even a gradual, ongoing decline in oversupply being a distinct possibility. However, a growing gap is likely to become increasingly apparent between the city center and the periphery when it comes to the availability of office space, vacancy rates, and rental price developments.

Fig. 13: Supply of available office space



Source: Meta-Sys AG, Credit Suisse; last data point: Q2 2019

Fig. 14: Construction approval volumes for office space

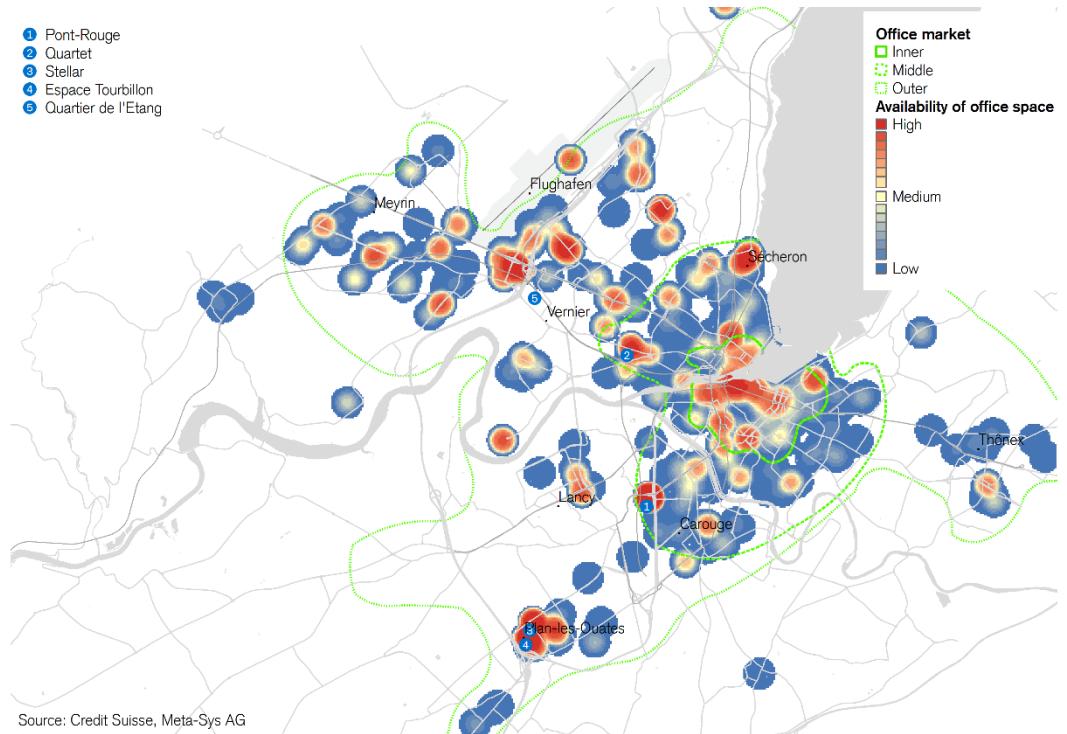


Source: Baublatt, Credit Suisse; last data point: 09/2019

Geneva

Fig. 15: Density of available office space

Office space marketed on the internet (existing stock and newbuilds) in m² per hectare as per Q2 2019



Unbroken rise in supply of office space

The supply of space in the Geneva office market continues to rise incessantly. The supply rate, which encompasses all space marketed online – irrespective of the point at which it becomes available – has broken through the 10% barrier and now stands at 11.9%. The rise in employment growth, which only took hold in Canton Geneva in late 2018, has clearly not yet fed through into the office space market to any meaningful degree. Many offers of office space that were first advertised a year ago are still being offered with the same area of space in square meters. In the city's outer business district in particular, the absorption of available space has been very sluggish. The vacancy rate has therefore continued to rise. The total current advertised offering of 490,000 m² (Fig. 16) is being augmented further, either by projects in the construction phase or by planned future developments. Moreover, unlike other Swiss urban centers, Geneva is barely seeing any transformation of empty commercial property to apartments. The main reasons for this are overly rigorous regulation and the high level of office space supply outside of the city center that is unsuitable for residential use.

Central business district: high density of supply attributable to many vacant smaller premises

In Geneva's central business district, the total advertised supply of space has recorded a 14% year-on-year rise to 103,000 m². The supply of available space has increased for two reasons: the trend of major financial service providers scaling back their office space needs on the demand side, and a greater volume of advertised premises with an area of less than 1,000 m² on the supply side. These small space offerings are a dominant feature of Geneva's central business district, and are also currently dominating the supply of available space (Fig. 15). By contrast, the number of advertisements for office space with more than 2,000 m² can be counted on two hands.

Middle business district: parameters being reshaped

In the city's middle business district, the available supply of space has risen to more than 142,000 m², having languished at around 100,000 m² for the last two years. This increase in supply is above all attributable to the future phases of the major Pont-Rouge project now reaching the marketing stage. Indeed, some 26,000 m² of this project, situated right next to Lancy-Pont-Rouge station (where the Léman Express will stop from mid-December 2019), has already been fully let. As a result, the space of later phases of this development – amounting to more than 40,000 m² – is now being advertised for the first time. The newbuild project Quartet, which is currently under construction in phases in the district of Charmilles, is also located not far from the city center. The reshaping of Geneva's office space market, which is being augmented by premises outside of the

central business district that are mostly easily accessible by rail, is now starting to have a concrete impact. The density of supply is currently also high in Sécheron, where a number of premises encompassing more than 4,000 m² are currently on the market in a number of different buildings.

Outer business district: highest supply rate at approx. 18%

The supply of available space in Geneva's outer business district is dominated by two areas: Plan-les-Quates and the area around the airport. A third of office space currently being advertised relates solely to major premises offered in Plan-les-Quates, where construction is almost complete (Stellar, Espace Tourbillon). In the airport district, by contrast, supply mainly comprises existing properties. One area holding up relatively well is the center of Lancy, which has yet to feel any real competition from the development next to Lancy-Pont-Rouge station. As is the case in other Swiss office markets, the greatest supply of advertised space – or some 250,000 m² (18.2% of available space) – is currently to be found in the outer business district.

By contrast, little rise in vacancies

The supply rate is being boosted above all by planned new premises or properties only just completed. These will only feed through into the vacancy statistics with a time lag. The vacancy rate in Canton Geneva has therefore continued its upward trend only modestly in 2019 (+3% compared to the previous year), following a significant rise in 2018 (+44%). The amount of office space actually vacant has risen to 234,500 m², which equates to 5.0% of all existing stock. This rise has above all been felt within the city limits and in close proximity to the airport (Meyrin and Vernier). By contrast, the level of vacancies in Lancy has recorded a sharp decline. Viewed overall, the vacant office space in Canton Geneva is currently some 144% above the 20-year average. Moreover, the average vacancy duration has risen from 16 to 19 months. In 2012 it amounted to just nine months. Compared to the previous year, vacancies rose above all in buildings constructed prior to 1947 (+13,800 m²). By contrast, vacancies in buildings completed between 2001 and 2010 declined by 19,000 m². This suggests that vacancies are becoming more prevalent for premises whose age and condition make them less well-suited to modern needs.

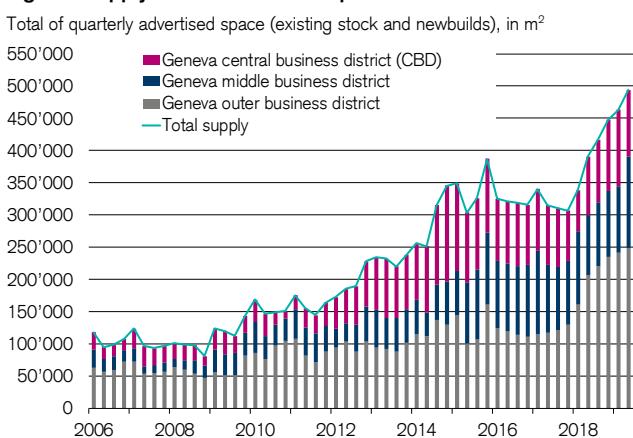
Decline in rents halted for the time being

According to Wüest Partner, after years of sharp rental price declines in both the city and the canton as a whole, agreed rents in Geneva have stabilized at a lower level over the last four quarters. This follows a slump in rents of 17% in the city itself and 9% in the Lake Geneva region following the peak of the market in 2013. Although the level of rents remains among the highest in Switzerland, things have become rather more attractive for office tenants. While peak rents in the top locations have actually increased somewhat once again, we are not expecting to see any trend reversal in rental prices for the market as a whole, as the supply of available space is simply too great. However, when combined with the lower rents, the ample supply of premises offers a good starting point for companies attracted by the advantages of Geneva as a location.

Relatively high expansion of supply in future

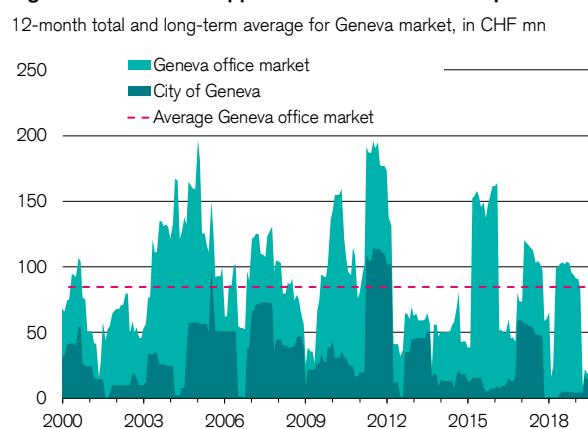
The 12-month total of building permit issuance may be well below its long-term average, but there have nonetheless been a number of major projects approved in recent years that have yet to come to the market. These include developments along the new railway line of the Léman Express, where projects are being implemented to take advantage of the improved accessibility of this area. Another focal point of development activity is the Quartier de l'Etang in Vernier, not far from Geneva airport, where the volume of building permit issuance rocketed in April 2018. In contrast to the likes of Zurich, for example, where construction approvals have encompassed only small volumes in recent years, the marketing situation in Geneva is therefore likely to remain challenging due to the significant increase in supply in the near future.

Fig. 16: Supply of available office space



Source: Meta-Sys AG, Credit Suisse; last data point: Q2 2019

Fig. 17: Construction approval volumes for office space

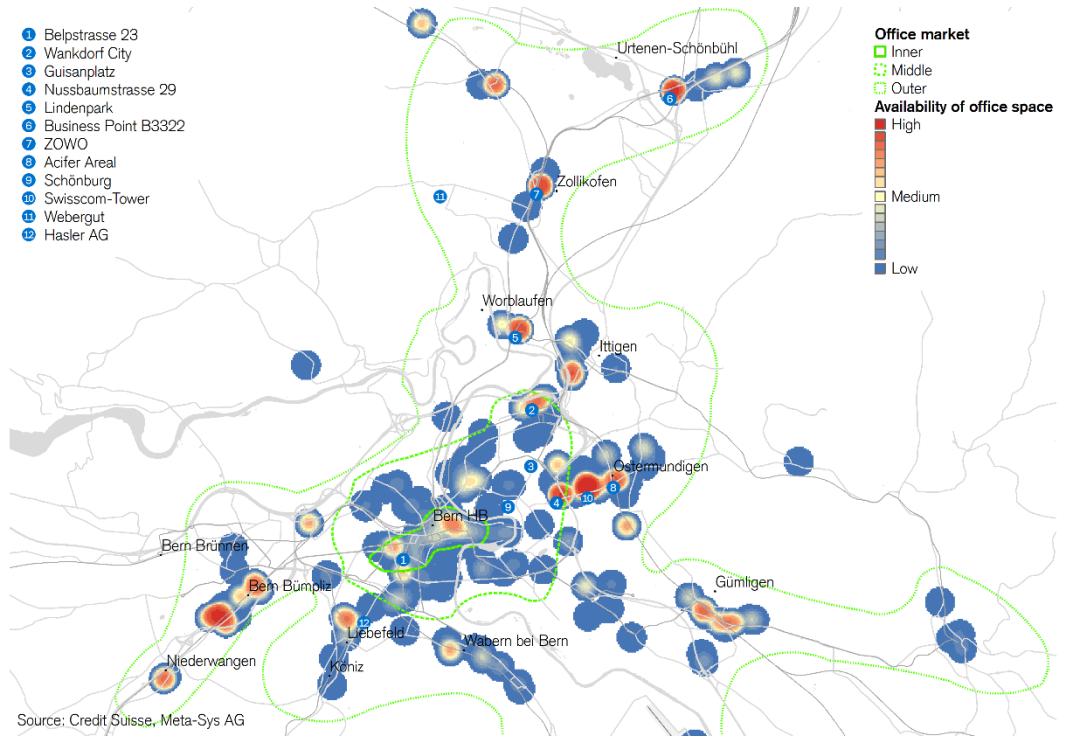


Source: Baublatt, Credit Suisse; last data point: 09/2019

Bern

Fig. 18: Density of available office space

Office space marketed on the internet (existing stock and newbuilds) in m² per hectare as per Q2 2019



Virtually no office space available in city center despite higher overall market supply

Central business district: scarcity of supply making itself felt

Middle business district: newbuilds mean vacancies elsewhere

The Bern office market recorded a significant rise in the supply of advertised office space in 2019 – just as it had done the previous year. In 2018, the supply rate, which encompasses all space advertised online – irrespective of the point at which it becomes available – leapt from 3.5% to 4.8%. In 2019 this rise continued to 5.4%, which equates to 188,900 m² of total office space on offer (Fig. 19). In the central business district there is virtually no office space available – this year it was new space coming onto the market in the middle business district that drove up the supply rate. Just as in the previous year, however, the outer business district was also responsible for the higher rate. A key driver of the expansion in the supply of office space is the completion of administrative premises for the federal government, which has resulted in vacancies elsewhere. But as, apart from that, little new space has come onto the market, the renewed increase in supply can be attributed to only a low level of demand for larger premises outside of the city center.

Demand for office space remains strong in the central business district, and supply is becoming increasingly scarce as a result. Compared to the prior year, the available office space declined by 43% to just 12,000 m². With a single exception, all the space available relates to premises comprising less than 700 m² (Fig. 18). Larger offices offering space between 1,000 and 2,000 m² that were still on the market last year have now been let. The supply rate declined accordingly to 1.3%. Contributing factors to this tight situation include a low level of newbuild activity in respect of office properties, as well as a number of conversions of office space into highly popular small apartments – such as at Belpstrasse 23, for example, where small furnished apartments are set to hit the market following the relocation of EY to the PostParc.

The supply of office space in the middle business district also remains fairly limited, with a supply rate here amounting to 2.6%. Over the last few years, new office premises have sprung up in WankdorfCity in particular. Some 2,600 m² of office space is still being offered here in the new three-part "TRIO" building complex from February 2020. In the neighboring office newbuild "Twist Again" too, premises were available here until very recently. Another striking development is the various relocations and regroupings of federal staff. The staggered relocation of government employees, including those of the Federal Office of Police, has now begun with the conclusion of the first building phase of the administration center on Guisanplatz. This has given rise to vacancies elsewhere, as is clear from a total of 8,700 m² of office space at Nussbaumstrasse 29 coming

back onto the market. The imminent move of SBB's IT division to the new "Byte" office building in WankdorfCity is also already casting a vacancy shadow: As a result of this relocation, some 7,300 m² of office space has become vacant in Lindenpark in Worblaufen, boosting the available supply of space in the outer district market accordingly.

Outer business district: supply of space increases, but not as strongly as in 2018

There is little sign of any recovery in demand for office premises in Bern's outer business district. The volume of space advertised on the internet has increased further to 150,900 m². The supply rate now stands at 9.6%, which contrasts strongly with the low supply rates at the heart of Bern's office market. Although the outer business district accounts for just 45% of total space in this market, it now accounts for 80% of all advertised space supply. This is attributable on the one hand to newbuild projects – such as the BusinessPoint B3322 in Urtenen-Schönbühl, the ZOWO in the heart of the Zollikofen business district, and the new services building on the former Acifer site close to Ostermundigen station. The latter has already found a principal tenant in the form of Touring Club Switzerland, which will be consolidating its administrative sites in German-speaking Switzerland here, which means that a majority of the 18,000 m² on offer will be occupied from 2021. On the other hand, there are still a number of large office buildings that have yet to find tenants after years on the market. High density of supply is above all evident in Bern-Bümpliz, Gümligen and Ostermundigen. Sooner or later, these prolonged vacancies will force the owners to apply for a change in use. Both Schönbürg, once home to Swiss Post, and the former Swisscom Tower, which is close to the dividing line between the city limit and Ostermundigen, have been (or are being) converted into apartments. Other examples of so-called "interim use" following vacancy include the "Webergut" in Zollikofen and the former office building of Hasler AG in Liebefeld.

Vacancies evaporate within city limits

The extremely low level of vacancies in much of the central and middle business districts is now also reflected in the official vacancy figure within the city limits, which has fallen for the third year in succession after peaking back in 2016. Compared to last year this figure has fallen from some 60,500 m² to 36,800 m², i.e. virtually halving. The challenging situation in the outer business district, which is for the most part excluded from vacancies within the city limits, is not reflected in this figure. Nevertheless, according to Wüest Partner contractual rents for the entire Bern region have been exhibiting a slightly rising trend (+3% in the last year) following a period of sideways movement dating back to mid-2013.

Modest expansion of supply, but also demand is weak

There is no reason to expect any strong expansion in the supply of office space in Bern over the next few years. The 12-month total of construction approvals has been well below its long-term average almost across the board ever since 2014 – and particularly within the city limits (Fig. 20). Most construction activity is the result of the federal government's Rehousing Concept 2024, which envisages administrative units of the government being concentrated at specific locations in the Bern region. This explains the rise in construction approvals in November 2016 and June 2018, when new administrative buildings in Ittigen (including for the Swiss Federal Roads Authority) and Zollikofen (for the Federal Office of Information Technology, Systems and Telecommunication) received the corresponding permits. These new buildings are leading to new vacancies in the previously occupied properties. The marketing of the latter is likely to prove tough going, particularly as the rejection of the tax reform at the end of 2018 and the announced downsizing plans of PostFinance and the SBB suggest that demand for office premises in Bern will be weak.

Fig. 19: Supply of available office space

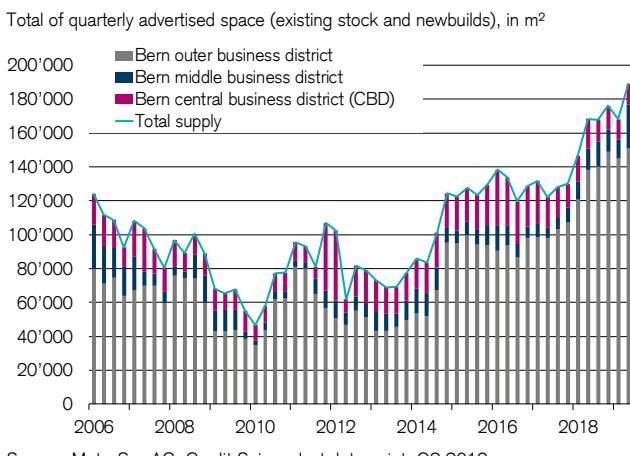
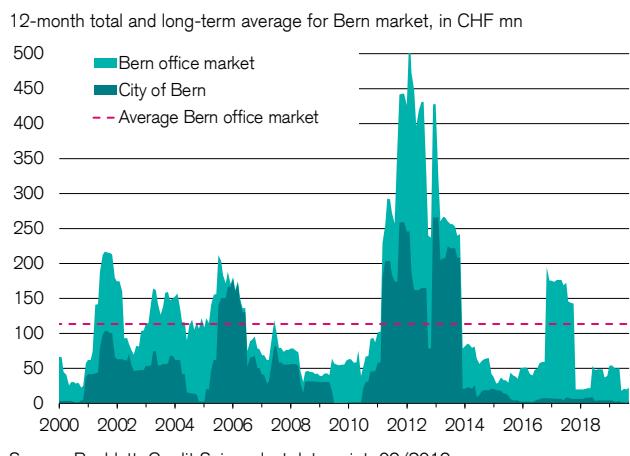


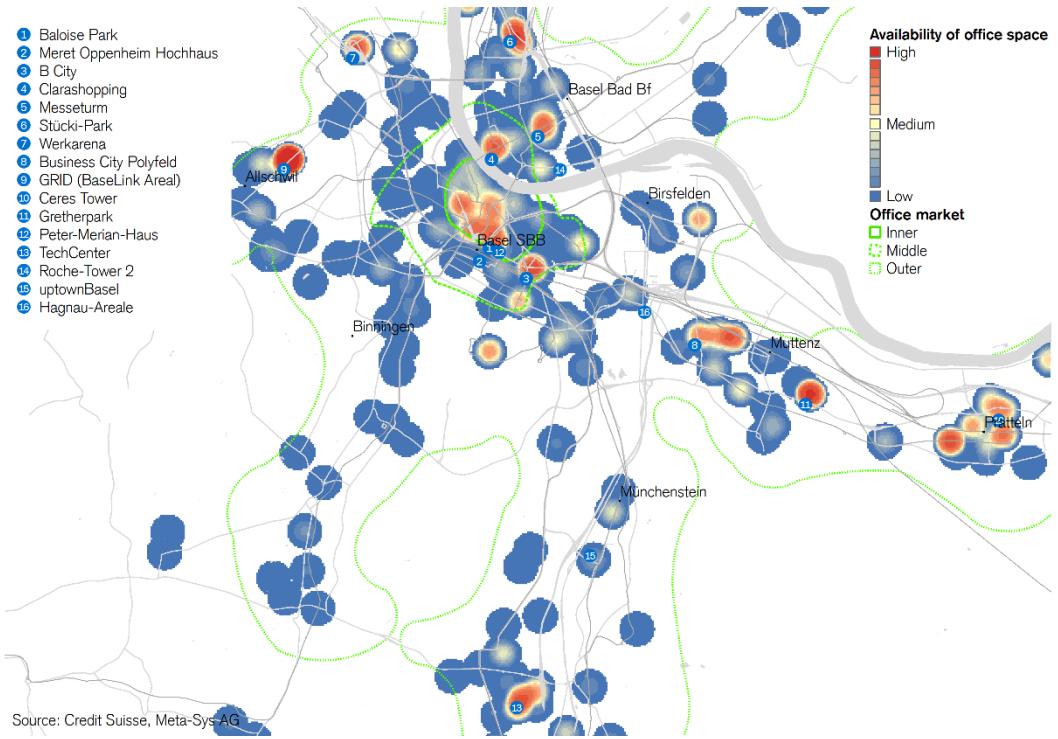
Fig. 20: Construction approval volumes for office space



Basel

Fig. 21: Density of available office space

Office space marketed on the internet (existing stock and newbuilds) in m² per hectare as per Q2 2019



Scarcity of supply in heart of city – oversupply in outer business district

Central business district: supply rate declines again

Middle business district: good absorption of new office space

The situation in Basel's office space market has improved recently, particularly in the heart of the city. While the supply rate, which encompasses all space marketed online – irrespective of the point at which it becomes available – surged from 4.4% to 6.4% between 2017 and 2018, it has fallen back to 6.1% in 2019. This improvement has taken place in the central and middle business districts. By contrast, the rise in the supply of space in the outer business district has continued unchecked. Overall, more than 197,000 m² of office space is available for rent (Fig. 22).

The central business district is relatively small, and home to just 23% of all office market space in Basel. It is therefore not surprising that there has been little office space available in the city center for many years. In 2017 the supply rate stood at 2.7%. Thanks to the newbuilds in Baloise Park, which will provide 11,600 m² of space for third-party tenants from 2020 onward, together with further space being advertised in existing buildings, the supply rate leapt up to 4.1% in 2018. Now, however, more than 50% of the office space in Baloise Park has been let (particularly in Baloise Park West), while new tenants have also been found for premises that have come back on the market in other existing buildings, such as the centrally located Peter-Merian-Haus. The supply rate has therefore fallen to 3.6% in 2019. The greatest amount of available office space in the city center is currently to be found in the area between Basel's main railway station and the Grossbasel old town on the left bank of the Rhine (Fig. 21). As demand for easily-accessible office premises in central locations is very strong, any space coming onto the market in the central business district is likely to be snapped up quickly.

The city's middle office market has seen the strongest recovery. The amount of advertised office space has recorded a 7.8% year-on-year decline to its lowest level since the start of 2014. Here too, the supply rate now stands at 3.6%. Areas that are easily accessed by public transport are seeing good absorption of any office space that comes onto the market. The Gundeldingen district is benefiting greatly from its proximity to Basel's main railway station, as can be seen by the rising occupancy rate of the Meret Oppenheim high-rise building. The only available premises offering more than 2000 m² are to be found in the B City office building on Grosspeterstrasse. However, here too a significant proportion of the total space of 6,500 m² dedicated to office use has now been let. Greater density of supply can also be found in Kleinbasel (right bank of the Rhine), where office premises are available for let in both the Clarashopping and Clarahuus buildings.

Outer business district: rise in available supply of space not yet at an end

The outer business district accounts for 60% of all space in the Basel office market, making it the largest sub-market of all. This area was confronted with a significant rise in supply (+247%) between 2014 and 2018. Although this upward trend has not been halted over the last twelve months, it has at least slowed somewhat. Three-quarters of all office space advertised for rental in Basel now relates to this outer business district, which has a supply rate of 7.9%. As in Switzerland's other major urban centers, prospective office tenants prefer a central location with good transport connections. One area in which new office space is being absorbed well is the Rosental district, thanks to its central location and proximity to Basel Bad station, even though there is still a relatively large amount of vacant space available here. The relocation of numerous Roche employees to Kaiseraugst has resulted in a significant supply of available space in the Messeeturm (trade fair high-rise building). Compared to the previous year, however, the amount of advertised space has more than halved. Due to the limited amount of available space in the city center, a number of new office projects are being developed at a considerable distance from the center, and the marketing of this space is becoming more difficult. For example, office premises of considerable size are being marketed in the expanded Stücki Park, in the Werkarena in northern Basel, in the BusinessCity Polyfed complex in Muttenz, and for the first time in the GRID innovation complex in Allschwil. Large-scale office premises are also awaiting tenants in the Ceres Tower in Pratteln, in the Gretherpark in Muttenz, in the Widen Business Center in Aesch, and in the TechCenter in Reinach.

Rents just started to slightly rise again

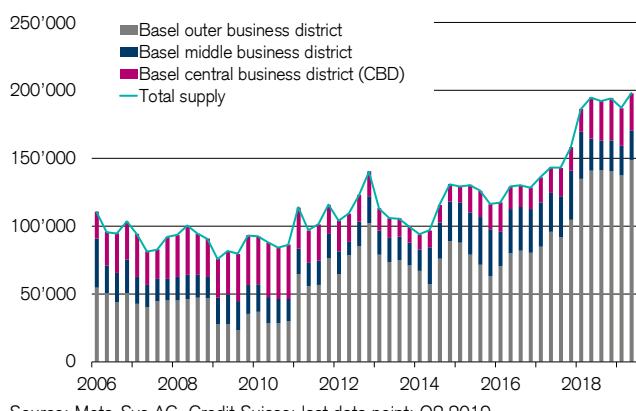
The improvement in the supply situation in the central and middle business districts of Basel is also reflected in the rents payable by tenants. In the middle of 2013 these districts embarked on a period of sideways movement before then beginning to rise slightly at the start of 2019 (+3.7%). Vacancies in Basel's office property market have not developed in a uniform way in recent years. The level of vacancies in Canton Basel-City as a whole has remained more or less unchanged since 2015, although a slight rise (+6%) to 61,700 m² has been recorded this year. By contrast, the level of vacancies in Basel-Country experienced a steady upward trend from 2015 that continued right up to the start of 2019. The vacancy rate here has declined by 6% to 82,800 m² this year, although that is still well above the long-term average (since 1995) of 44,800 m².

Plentiful supply of office space set to come onto the market in the periphery

A considerable number of new office premises in Basel will come onto the market over the next few years, as projected activity in the office property sector has been at an above-average level for the last few years. In particular, the Roche Tower (Building 2) triggered a dramatic rise in the 12-month total of construction approvals when the corresponding building permit was issued in July 2017 (Fig. 23). This office building will have a usable area of 80,000 m² and could result – when occupied in mid-2022 – in vacant space becoming available in the office buildings previously used by Roche elsewhere in Basel. Over the last year too, the 12-month total of building permit issuance has remained close to the long-term average. In other words, the numerous impending site developments make it unlikely that the upward pressure on supply outside the city will abate noticeably over the next few quarters. These developments include the uptownBasel project in Arlesheim (due to complete at the end of 2020), numerous projects on the BaseLink site in Allschwil, and a whole new district (including office space) springing up on the various Hagnau sites in Muttenz.

Fig. 22: Supply of available office space

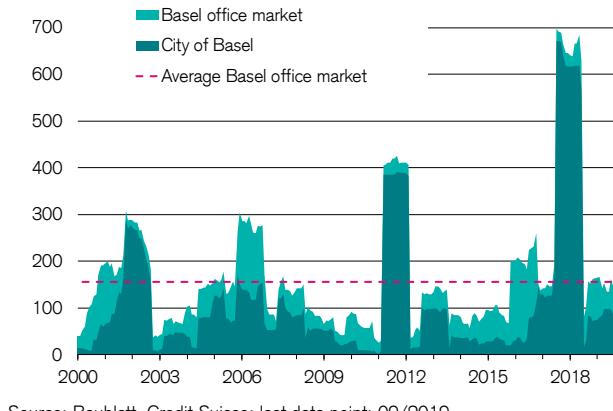
Total of quarterly advertised space (existing stock and newbuilds), in m²



Source: Meta-Sys AG, Credit Suisse; last data point: Q2 2019

Fig. 23: Construction approval volumes for office space

12-month total and long-term average for Basel market, in CHF mn

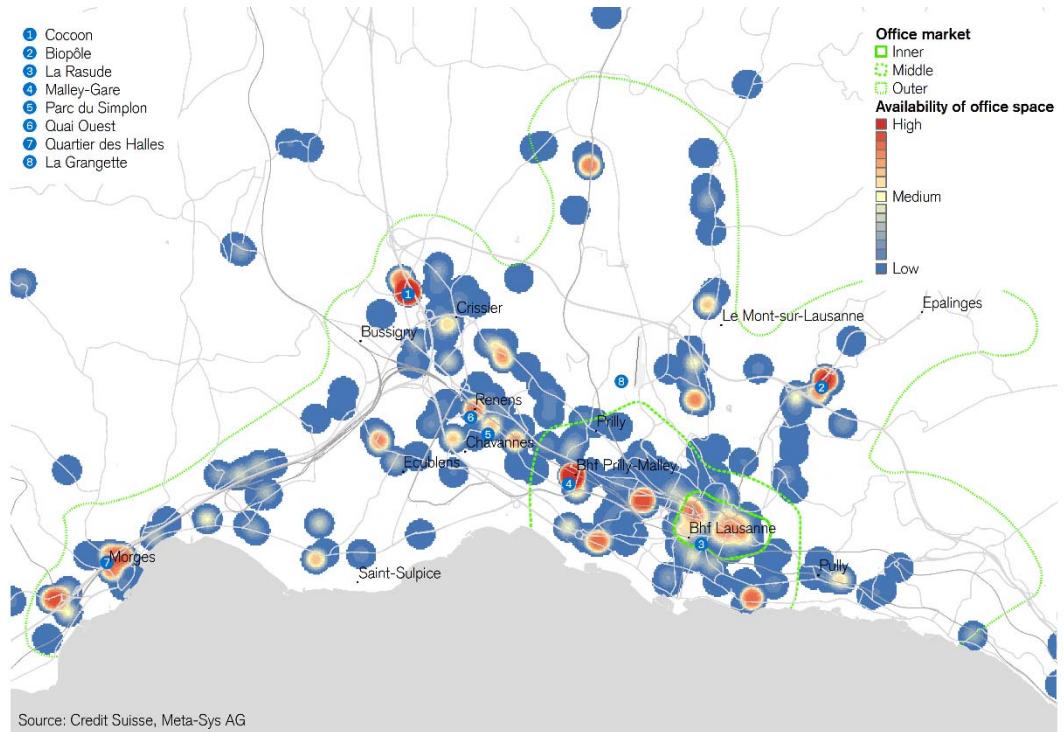


Source: Baublatt, Credit Suisse; last data point: 09/2019

Lausanne

Fig. 24: Density of available office space

Office space marketed on the internet (existing stock and newbuilds) in m² per hectare as per Q2 2019



High level of construction and planning activity expands supply of office space

A high level of construction and planning activity over the course of the reporting year has led to a significant rise in the advertised supply of office space in Lausanne, taking it to a new total of 219,000 m² (Fig. 25). The supply of space is being fueled by the development of entire districts close to railway stations in Morges, Renens, and Malley, as well as by projects for campus-type building complexes in Bussigny (Project Cocoon) and additional developments such as the Biopôle life sciences cluster in Epalinges (Fig. 24). In 2019, the supply rate, which encompasses all advertised space – irrespective of the point at which it becomes available – has risen to 8.2% of all existing office space. The drivers of this increase have been the middle and outer business districts, but not the central business district, where the supply of office space remains scarce.

Central business district: office premises remain in short supply

The advertised space relating to the central business district accounts for just 10% of the total supply of space available in Lausanne's office market. Indeed, there are currently just three sets of office premises with more than 1,000 m² on the market in the city center. In addition to strong demand for centrally-located offices, co-working businesses are another reason for the good absorption of space in the heart of Lausanne. At 21,500 m², the absolute supply of space for the second quarter of 2019 is therefore more or less unchanged compared to the prior-year quarter. This equates to a low supply rate of 3.5%. Given the scarcity of supply, prospective tenants on the hunt for a significant amount of office space are likely to struggle to source the right premises, and will instead have to seek out properties outside of the city center. The central business district is unlikely to see any great expansion of supply until the completion of the La Rasude project, which encompasses an area amounting to 50,000 m² earmarked for office space. This building complex will be sited right next to the railway tracks on the east side of Lausanne station, and is likely to appeal to both nationally and internationally active companies given its ideal location.

Middle business district: significant rise in available space

The amount of advertised space in the middle business district represents 26.2% of the total office space available in Lausanne. In 2019 there was a major leap in the supply of space in this sub-market to 57,500 m². Whereas the supply rate here stood at a remarkably low 2.4% just a year ago, it has now shot up to 7.2%. The reason for this increase is the start of the tender process for office space coming onto the market as part of the first phase of the major Malley-Gare project, where a new district encompassing a total area of 280,000 m² is springing up close to

Outer business district: supply dominated by numerous office premises near stations

Low level of vacancies in Ouest lausannois

Moderate expansion of project pipeline

Prilly-Malley station. The office space currently being advertised here amounts to 23,700 m², and is spread across five buildings. However, none of these premises are likely to be ready for occupancy until 2024 onward. Had it not been for the office space relating to this project, the supply rate in Lausanne's central business district would have risen to just 4.2%.

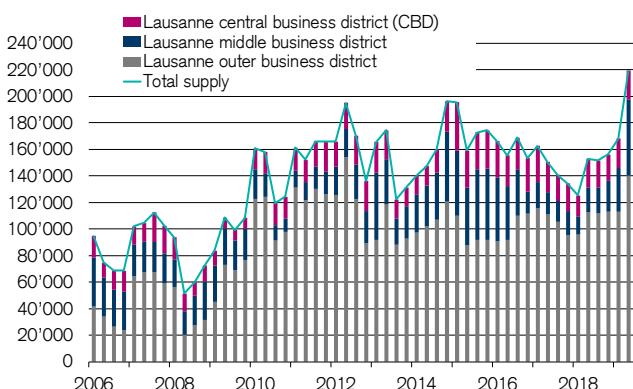
Just like in Switzerland's other major urban centers, the majority of office space (64%) currently being advertised in Lausanne relates to the outer business district, where the supply picture is dominated above all by large-scale projects. The total available supply here amounts to 140,200 m², which equates to a supply rate of 11.3%. Almost a half of the available space is either under construction or still in the planning phase. Investors in real estate projects are easy to find due to the prevailing low interest rate environment. By contrast, attracting sufficient tenants for the additional space is more of a challenge. For example, while the available space in the Parc du Simplon now has a healthy occupancy rate of 88%, the marketing of premises is proceeding rather more slowly for the Quai Ouest project next to Renens station and for the Quartier des Halles project on the south side of Morges station. In addition, more than 5,000 m² of existing office space has unexpectedly come back onto the market following the closure of the Monsanto site to the east of Morges station. One project likely to prove popular with prospective tenants is the building currently under construction in the Biopôle life sciences park in Epalinges, up on the hill above Lausanne. With the exception of a very small area, the existing campus premises of 45,000 m² are fully let. The total supply of space here is set to rise to some 85,000 m² in the future. The large number of new projects to the west of Lausanne in particular is driving the supply rate to ever-higher levels, which should also translate into a higher vacancy rate in the medium term.

On the up-and-coming western side of the city in particular (Ouest lausannois), however, the amount of office space officially classified as vacant actually declined in 2019 (-25%). The space available here encompasses an area of just 13,200 m², compared to 31,000 m² just two years ago. By contrast, the total supply of vacant office space across Canton Valais as a whole has recorded a year-on-year rise of 9% to 62,600 m², pushing this figure back slightly above its long-term average (since 2005). This increase has been fueled first and foremost by the urban areas of Nyon (+56%) and Morges (+45%), and less by Lausanne itself (+16%). The rather higher level of vacancies, together with the many newbuilds on the western side of Lausanne, is likely to be the reason why the trend of declining rents in the city has not yet come to an end. Overall, rents are some 11% lower than at the peak of 2015. Last year alone they declined by 3%.

Lausanne is likely to see a steady expansion of its existing office space market over the next few years, as building permits have been issued for a number of different major projects recently. The 12-month total of approved investment in office space has predominantly been above the long-term average ever since 2016 (Fig. 26). Driven in particular by the Cocoon project in Bussigny, which is expected to be accessible by tram from 2024, the volume of approved investment shot up in June 2018 by some CHF 153 million. The volume of planned construction investment had previously risen by CHF 99 million in August 2017 thanks to two projects in the city of Lausanne receiving construction approval, including the La Grangette project located directly opposite Lausanne-Blecherette airport. The ECA is planning to relinquish its current Pully site and relocate to the above-mentioned building instead. This will see the company invest some CHF 72 million in office premises that are scheduled for occupancy from the start of 2021. Although this site is currently poorly served by public transport, it will be accessible via the M3 Metroline in the future.

Fig. 25: Supply of available office space

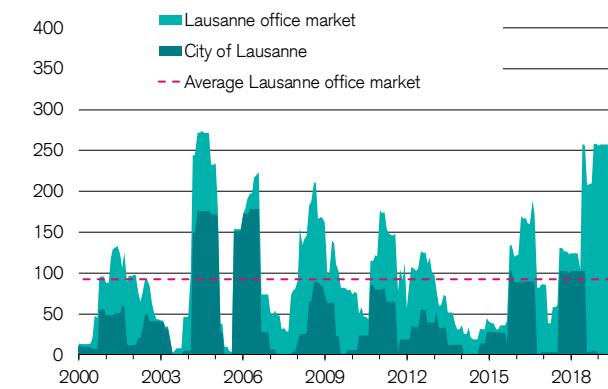
Total of quarterly advertised space (existing stock and newbuilds), in m²



Source: Meta-Sys AG, Credit Suisse; last data point: Q2 2019

Fig. 26: Construction approval volumes for office space

12-month total and long-term average for Lausanne market, in CHF mn



Source: Meta-Sys AG, Credit Suisse; last data point: Q2 2019

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