

# COVID-19 boosts demand for central locations

Swiss office property market 2021 | December 2020



Demand  
**Demand being recalibrated**  
Page 5

Focus: Location preferences  
**POI vital to locational appeal**  
Page 10

Regional office property markets  
**Detailed analysis of major urban center**  
Page 15



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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 Real Estate Economics  
+41 44 333 89 17  
fredy.hasenmaile@credit-suisse.com



## **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  
Miriam M. Kappeler



## **Contribution**

Fabian Diergardt  
Tomasz Limberger



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# Contents

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<b>Management summary – Swiss office property market</b>	<b>4</b>
COVID-19 supports central locations	4
<b>Demand in the Swiss office property market</b>	<b>5</b>
Demand being recalibrated	5
<b>Supply in the Swiss office property market</b>	<b>7</b>
Supply of space remains high	7
Planning activity fluctuates	8
<b>Market developments in the Swiss office property market</b>	<b>9</b>
Center-periphery divide widens	9
<b>Focus: Location preferences of office property tenants</b>	<b>10</b>
POI vital to locational appeal	10
<b>Regional office property markets</b>	<b>15</b>
Large and mid-sized centers	15
Zurich	16
Geneva	18
Bern	20
Basel	22
Lausanne	24

# COVID-19 supports central locations

**In view of the greater acceptance and prevalence of home working following COVID-19, demand for office space can be expected to decline, which will lead to rising vacancies given current levels of construction activity. The gap between popular central locations and the less sought-after peripheries of Switzerland's office markets will increase further.**

## **Recalibration of demand for office space likely**

For both 2020 and 2121, we expect demand for office space to decline by around 700,000 m<sup>2</sup>. Many companies are holding back from renting new premises and scrutinizing how the use of home working will impact on their office space needs. We estimate that the rise of hybrid use of office and home on the part of employees could see demand for office space decline by some 15% over the next ten years. By contrast, factors such as economic growth, digitalization, and tertiarization will boost demand, resulting in a likely stagnation in demand for space overall.

## **Great emphasis on quality of surrounding environment for office locations**

In the post-COVID-19 world, companies will be confronted with the challenge of having to coax their employees back to the office. The appeal of an office location should not be underestimated in this context – and this encompasses not just ease of accessibility, but also the attractiveness of the surrounding environment, specifically in terms of the variety of amenities it offers. Analyses show that office properties at locations with few so-called points of interest (“POI”) are often advertised to a disproportionately high degree, as they are less in demand, whereas office properties in locations with high POI densities attract larger demand, are let by landlords relatively quickly, and generate higher rents. According to our regression models, office rents rise significantly if the following criteria are fulfilled: a shorter distance to the local railway station and a higher number of POI. More important than just the number of POI, however, is the level of POI diversity.

## **Center-periphery divide**

When it comes to the supply of space, vacancies, and rent levels, the preference for attractive central locations is leading to a growing divide between the central locations and the peripheries of the office markets of the large urban centers. In central and (partly) middle business districts, supply rates are reasonably low, whereas outer business districts are struggling with oversupply. In the near future, the decline in demand for office space triggered by the coronavirus crisis can be expected to lead to a rise in advertised office space and an even wider gap between inner city and periphery. This will dash hopes of a significant reduction in the supply of space following the stronger demand of the last two to three years, as the office property supply rate has remained around the prior-year level, despite the healthy absorption of space in recent years.

## **Significant oversupply in Geneva**

There are quite significant differences in the supply situations of the individual large centers. Geneva in particular stands out with its high supply rate of 11.5%. Demand here is simply not dynamic enough to address the oversupply problem caused by the plethora of local development projects. The second-highest supply rate of the large centers can be found in Lausanne (7.9%), where the supply of available space has declined since last year thanks to robust demand. In Basel (7.7%) a large amount of office space is currently being freed up, which is feeding through into a higher supply rate. The inner cities of Zürich (7.0%) and Bern (5.7%) are characterized by a scarcity of supply, whereas the peripheries of these office markets have plenty of vacant space awaiting tenants.

## **Decline in rents expected**

Vacancies are now at a similar level to 2019. The amount of vacant space has declined over the last year above all in the city of Zurich (-23%) and in Canton Vaud (-19%). Canton Basel-Country (-19%) is currently faring better than Basel-City (+24%). Sharp rises in office vacancies – albeit from low levels – have also been recorded in Canton Neuchâtel (+74%) and the city of Bern (+78%). The more or less synchronized rise in rental prices observed in most office markets since 2018/2019 has now been halted by COVID-19. This is likely to give way to a trend of decline, as the combination of weak demand and a level of construction activity in line with the long-term average will inevitably translate into even greater surplus capacity and downward pressure on rents.

# Demand being recalibrated

**Following a massive slump in output triggered by the COVID-19 pandemic in the first half of 2020, the Swiss economy is now on a recovery path. Nonetheless, demand for office space is weak, as companies are holding back from renting new premises and reviewing the extent to which they can make long-term savings on office costs through home working.**

## Unprecedented economic slump in first semester of 2020

The year 2020 was almost entirely dominated by the COVID-19 pandemic. The lockdown from mid-March to the end of April resulted in an unprecedented collapse in Swiss gross domestic product (GDP) for the second quarter, namely a year-on-year decline of 7.8% (Fig. 1). Indeed, this slump was twice as severe as that experienced during the financial crisis of 2008/2009. It was then followed in the summer by a rapid recovery as the containment measures were eased. Among other things, this was also reflected in the resurgence in the purchasing managers index (PMI) for Swiss manufacturing, which clambered back above the growth threshold of 50 in August (Fig. 1). However, the recovery fizzled out in the fall against the backdrop of a rise in case numbers.

## Vaccines should pave the way for a return to former levels of economic output

For 2021, a huge amount of hope is now pinned on the efficacy of coronavirus vaccines. We are expecting the recovery to be sluggish initially, particularly as the widespread availability of any vaccine is still likely to be some months off. Moreover, we do not expect the recovery in 2021 to prove strong enough to restore GDP to its pre-crisis levels before the end of that year. Accordingly, we are anticipating a GDP decline of 4.0% for 2020, and predict growth of 3.5% for 2021.

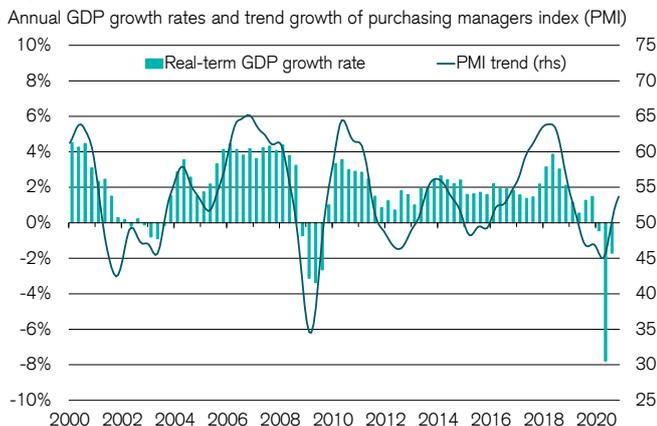
## Short-time working cushions labor market slump

Thanks to a combination of COVID-19 bridging loans and compensation for short-time working, the economic slump did not feed through into the labor market to the same extent. Employment was down just 0.06% year-on-year at the end of the third quarter of 2020. By way of comparison, Switzerland has recorded average annual employment growth of 0.84% for the last five years. The labor market situation can be expected to remain difficult until well into next year. Despite short-time working, we envisage the unemployment rate rising from 3.3% in October 2020 to around 4.0% by mid-2021. The labor market should subsequently enjoy a recovery.

## Hospitality shrinks, IT expands

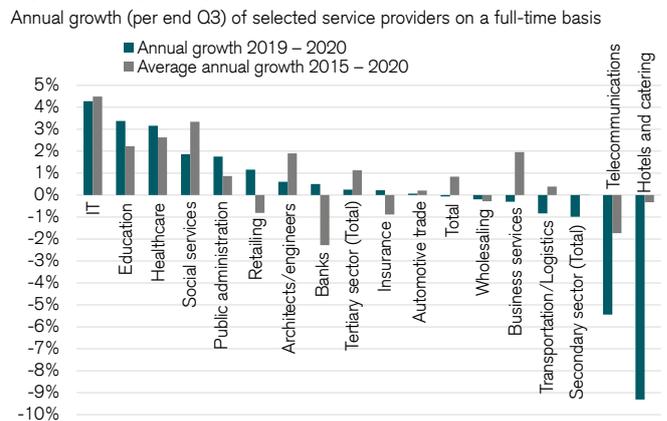
The impact of the pandemic on individual sectors of the economy has differed considerably (Fig. 2). The most significant decline in employment has been suffered by the hotels and catering industry, which was hit hard by coronavirus restrictions. In the 12 months up to the end of the third quarter of 2020, employment in this sector declined by 9.3%, equivalent to a loss of some 18,300 jobs. There were also redundancies in telecommunications (-5.4%, -1,400 jobs) and in transport and logistics (-0.8%, -1,700 jobs). By contrast, the IT industry benefited from the boost to digitalization, recording the strongest employment growth of any sector (+4.3%, +4,400 jobs).

**Fig. 1: GDP growth and PMI leading indicator**



Source: Federal Statistical Office, procure.ch, Credit Suisse. Last data point: Oct. 2020

**Fig. 2: Employment growth by sector**



Source: Federal Statistical Office, Credit Suisse. Last data point: Q3 2020

**Demand for office space currently very low**

The COVID-19 pandemic is also suppressing demand for office space. We are expecting demand to decline by some 290,000 m<sup>2</sup> this year and by some 410,000 m<sup>2</sup> next year (Fig. 3). Demand is therefore expected to fall by around 700,000 m<sup>2</sup> over a two-year period. To a lesser extent, this decline is attributable to the fact that the number of (office) employees has come down as a result of the crisis, and hence less office space is required. But the principal cause of the decline is that companies have been focusing on cost savings rather than growth since the crisis broke. For many companies, the letting of new office premises is therefore not being considered, or is at least being postponed. Large service providers in particular are looking to see how higher levels of home working can change their requirement for office space.

**Productivity initially boosted by employees working at home, ...**

When it comes to deciding the extent to which employees can work from home, a key factor is the productivity of the employees in question. Numerous surveys have shown that productivity increased during the phase of home working in the first lockdown. This finding is also backed by a scientific study<sup>1</sup> conducted by the Stanford professor Nicholas Bloom, which showed a 13% rise in productivity when employees work at home due to a combination of longer working hours and fewer distractions.

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

However, there are some doubts as to whether at-home productivity levels can be maintained at a high level over the longer term. In addition to a lack of “social control” and the possibility of dwindling motivation, many Swiss companies are also likely to be weighing up the potential for the loss of innovation-driven rises in productivity. This is where home offices can have their disadvantages. A number of studies, such as the one by Tammy D. Allen (2015),<sup>1</sup> reveal that home working can lead to isolation and a reduction in knowledge exchange. After all, ideas are frequently the product of spontaneous interaction between specialists from different company areas. For that reason, companies such as IBM and Yahoo – both of which introduced home working at an earlier point – have now abandoned this model.

**Hybrid forms of office and home working**

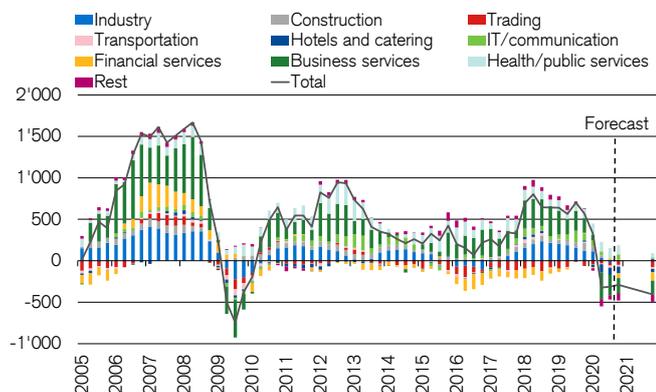
Given the arguments both for and against home working, we believe hybrid forms of office and home working will increasingly emerge. In our main scenario, we estimate the resulting long-term decline in demand for office space (*ceteris paribus*) over the next 10 years to be around -15% (Fig. 4). On the other hand, this decline will be offset by other developments such as economic growth, digitalization, and tertiarization, hence we believe overall demand for office space will only stagnate in the long term.

**Post-COVID-19: more emphasis on attractiveness of place of work**

In the post-COVID-19 world, companies will be confronted with the challenge of making the corporate office an appealing place to work to employees returning from their home offices. Attractive premises that are conducive to employee interaction and central locations are likely to prove the key to success here. Thanks to a wide spectrum of local amenities, the latter make it easier for employees to deal with their private chores and offer a broader spread of leisure options at the end of the working day. Accordingly, we expect central locations to become a greater focus of demand for office property. In our focus article starting on page 10 we look in detail at how the density of supply of amenities close to the workplace correlates with office space demand.

**Fig. 3: Surplus demand for office space**

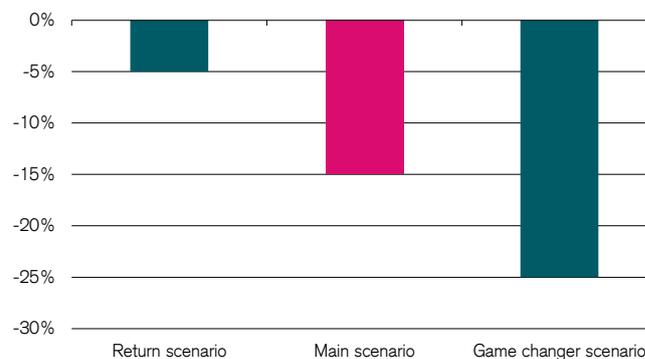
Estimated additional demand compared to prior-year quarter in 1,000 m<sup>2</sup>; Forecasts for Q4 2020 and for 2021



Source: Credit Suisse, Federal Statistical Office. Last data point: Q3 2020

**Fig. 4: Impact of home working on long-term demand for office space**

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



Source: Credit Suisse. Last data point: November 2020

<sup>1</sup> Bloom, N. (2015): “Does Working from Home Work?” and Allen, T. D. (2015): “How Effective Is Telecommuting?”

# Supply of space remains high

**Despite good absorption of space in recent years, the office property supply rate remains close to last year's level. Whereas supply has fallen in the (inner) cities, outer business districts have plenty of surplus space as they confront the consequences of the coronavirus crisis.**

## Center-periphery divide

The subdued demand for office space will lead to a rise in supply over the coming quarters. This will dash hopes of a substantial reduction of available space following the higher demand of the last two to three years. When the space primarily marketed by brokers or individual websites is also taken into account (some of which has been on the market for quite some time), the total advertised office space across Switzerland amounts to 3,043,000 m<sup>2</sup> – a similar level to that recorded in the summer of 2019 (Fig. 5). The supply rate, which reflects the availability of space as a proportion of the total office property market, therefore amounts to 5.5%. Thanks to healthy absorption of office premises in urban centers, supply differences have widened. In the five major centers in particular, there is a striking gap between inner city and peripheral office markets. The stronger demand for centrally situated office premises in attractive locations is reflected in the lower supply rates of central business districts as well as some middle business districts (particularly in Zurich, Geneva, and Lausanne), whereas the outer business districts of all large centers are struggling with oversupply (Fig. 6). This divide can be expected to widen further going forward.

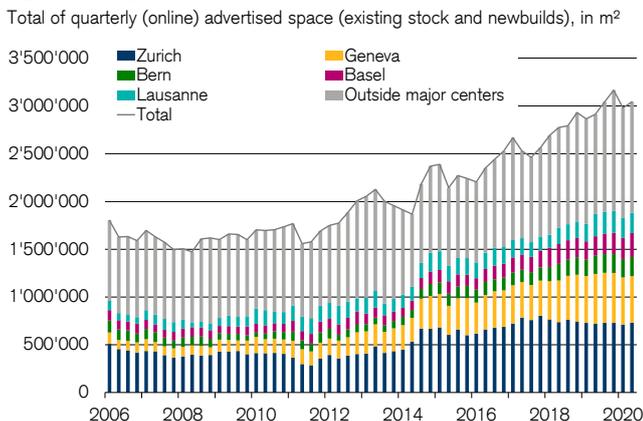
## Geneva exhibits by far the highest supply rate

There are also differences between the individual large and mid-sized centers. Geneva stands out in particular with its very high supply rate of 11.5% (Fig. 8). Demand in Geneva is not dynamic enough to address the oversupply problem. That said, the situation has improved slightly since last year, when the supply rate stood at 11.9%. The second-highest supply rate of the major centers is to be found in Lausanne (7.9%) – primarily due to the scale of office development here. A substantial amount of space is currently being freed up in Basel (7.7%), which is driving up the supply rate, whereas space is in short supply in Zurich (7.0%) and Bern (5.7%) especially in the city centers, in contrast to the plentiful space awaiting tenants on the periphery of these cities.

## Supply rates predominantly low in mid-sized centers

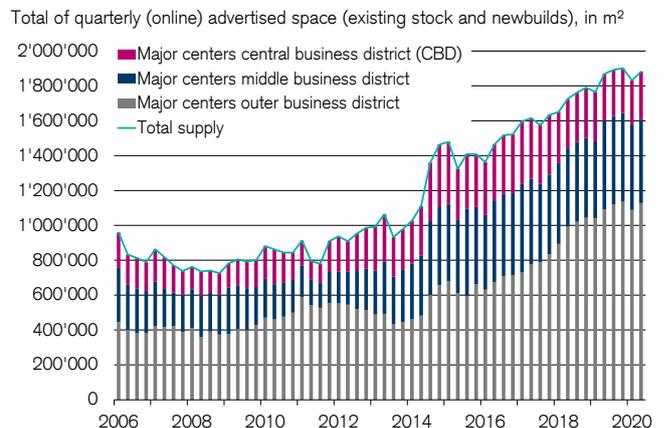
In Switzerland's mid-sized centers, supply rates are typically lower than in the large centers (Fig. 8). Office property construction projects are rarely launched there without high pre-letting rates or an anchor tenant in place, as the demand for space in these office markets is less dynamic. The only mid-sized centers with a supply rate higher than the Swiss average of 5.5% are Schaffhausen (5.6%), Lugano (5.9%), and Zug (7.8%). The consequences of the ready availability of capital are reflected even in Zug. Despite a reasonable level of demand, the market equilibrium is skewed toward the supply side, and is dominated by various large-scale projects such as the Suurstoffi site in Rotkreuz.

**Fig. 5: Supply of office space in Switzerland**



Source: Credit Suisse, Meta-Sys AG. Last data point: Q2 2020

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



Source: Credit Suisse, Meta-Sys AG. Last data point: Q2 2020

# Planning activity fluctuates

**Although building permit issuance has risen recently (albeit from relatively low levels), gloomier prospects for demand due to COVID-19 should see this fall back again.**

**Construction approvals currently in line with long-term average**

Office construction approvals paused for breath in 2019, declining to their lowest level since 2000, but have surged this year despite COVID-19. In September, the 12-month average of building permit issuance stood at CHF 2,052 mn, 6% above the long-term average (Fig. 7). The main reason for this high level of planning activity, in spite of a comparatively high supply rate, is the ongoing low-interest environment, which means lower financing costs and limited investment alternatives, thus providing a strong incentive for investors to buy into newbuild projects. For that reason, construction approvals dipped well below the long-term average only very rarely in the years prior to 2019.

**Planning activity likely to wane going forward due to COVID-19**

Ever since the onset of COVID-19, which gave a strong boost to home working, investors and developers have been fretting over the commercial viability of new office properties. Office property planning activity is thus set to slacken in the future. Moreover, it is possible that a number of planned office developments will not go ahead. That said, the current 12-month total of building permit issuance includes various major projects for large companies (e.g. Swiss Re and Helvetia) and for the federal administration in Bern, with a view to amalgamating currently dispersed workforces in single building complexes. These projects will be completed, as owner occupancy eliminates vacancy risk.

**No excessive expansion of space expected in major centers**

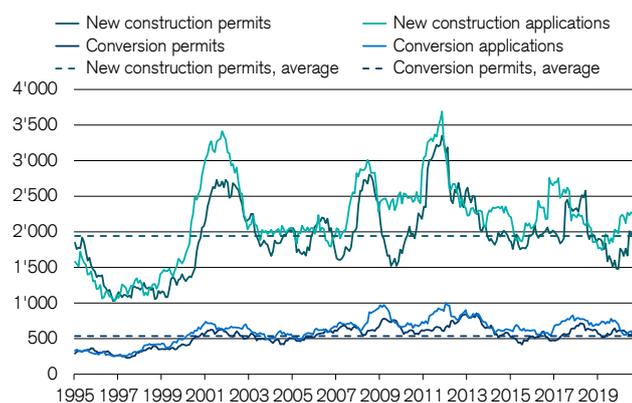
The individual office markets of Switzerland's mid-sized and large urban centers are illustrated in Figure 8. The vertical axis illustrates the anticipated future expansion of space, whereby the percentage values indicate the percentage by which construction approvals over the last two years lie either above or below the long-term average. It is apparent that the expected expansion of space in all five major centers is below average, which is above all explained by the low volume of building permits issued in 2019. Further information on the development of construction approvals in the individual major centers can be found in the corresponding detailed analysis from page 15 onward.

**Construction activity subdued in majority of mid-sized centers too**

In most mid-sized centers, planning activity has also long been languishing at low levels. The exceptions are Neuchâtel and Olten, where the anticipated expansion is comparatively high, just like last year. Furthermore, planning activity compared to last year has risen notably in the office markets of Winterthur and Zug. In Zug, for example, the two office buildings at Suurstoffi 43 and 45 in Rotkreuz and the office building in Grabenstrasse (in nearby Baar) were approved. In Winterthur, the Rieter campus (future headquarters of the eponymous textile machine manufacturer) received approval.

**Fig. 7: Planned expansion of office space**

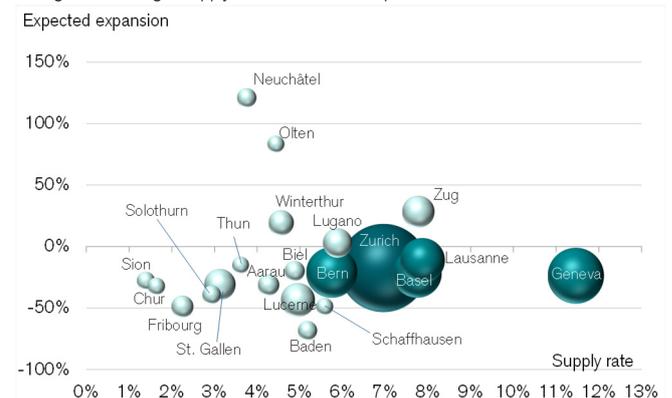
Building permits and planning applications, moving 12-month total, in CHF mn



Source: Baublatt, Credit Suisse. Last data point: September 2020

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

Circumference: total office space; expansion: building permits 2019/2020 compared to long-term average; supply rate as % of total space 2020



Source: Credit Suisse, Meta-Sys AG, Baublatt. Last data point: September 2020

# Center-periphery divide widens

**The negative repercussions of the COVID-19 pandemic have yet to really feed through into office vacancies. Overall, vacancies are at the level of the previous year, but can be expected to rise over the next few quarters.**

## Vacancies overall at 2019 level

The repercussions of the pandemic for Switzerland's office property markets are for the most part not yet visible in vacancy rates. Although the reference date (June 1) came after the lockdown, the effects of such crises typically only feed through into the office property market with a time lag. Office vacancy rates are therefore at similar levels to those of 2019 (Fig. 9). However, major differences were apparent in the regions and cities included in the statistics, with Canton Geneva publishing no vacancy data at all this year due to the COVID-19 situation.

## Significant decline in vacancies in Zurich, Lausanne, and Basel-Country

There was a decline in vacancies last year above all in the city of Zurich (-23%) and in Canton Vaud (-19%), where the market recovery in place prior to the onset of COVID-19 is quite evident. Indeed, Zurich reported the sixth decline in succession since 2014 (total decline: 61%). In central locations, vacancies typically declined even more sharply last year. In Zurich's central business district (CBD) they declined by 40%, and in central Lausanne by 27%. At the moment, Canton Basel-Country (-19%) is faring better than Basel-City (+24%). Significant rises in office vacancies were also reported in Canton Neuchâtel (+74%) and the city of Bern (+78%). However, while vacancies have surged in these cities they have done so from relatively low levels, with both areas benefiting from an impressive decline in vacancies between 2018 and 2019.

## An end to rent rises

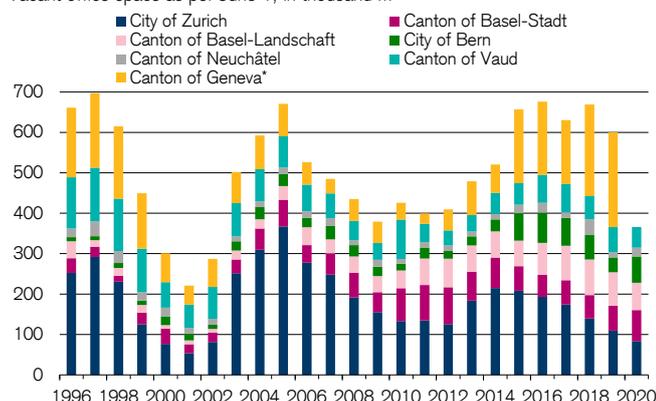
In the office markets under review, rents have developed broadly in step in recent years. Following a period of sideways movement, rents rose particularly strongly in the second half of 2019 (Fig. 10), following the recovery in office property demand in previous years. Between the second and fourth quarters of 2019, the city of Geneva recorded the strongest rise (+6.3%) and the city of Lausanne the weakest (+4.1%). In 2020, however, these upward movements came to an abrupt halt due to the COVID-19 outbreak.

## COVID-19 likely to mean higher vacancies and lower rents

Next year, the decline in demand for office property is increasingly likely to feed through into rising vacancy rates and declining rents, as construction activity broadly in line with the long-term average when demand is weak leads to overcapacity. At less central locations, an already difficult situation is only likely to worsen, particularly in the outer business districts of the urban centers. In central locations we expect the repercussions to be much less severe. As such, the already striking divide in respect of supply, vacancies, and rental prices between the centers and the peripheries of Switzerland's office markets is likely to widen further over the next few years.

**Fig. 9: Office vacancies**

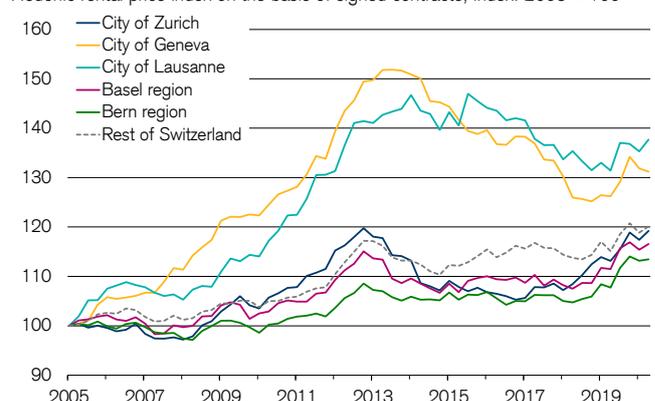
Vacant office space as per June 1, in thousand m<sup>2</sup>



\* Canton Geneva has published no vacancy data in 2020 due to COVID-19.  
Source: Various public statistical sources, Credit Suisse. Last data point: June 2020

**Fig. 10: Regional office rents**

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



Source: Wüest Partner, Credit Suisse. Last data point: Q2 2020

# POI vital to locational appeal

**When companies choose their office premises, in addition to ease of accessibility, the quality of the immediate environment should not be underestimated as a criterion. Office properties in locations with a high density of so-called “points of interest” are more sought after and achieve higher rents.**

## What makes central locations so popular?

It was more noticeable than in previous economic cycles that the healthy economic environment in prior to the onset of COVID-19 was triggering a surge in demand for centrally located Swiss office space in particular. This phenomenon was clearly evident in Zurich, where advertised space in easily accessible locations was becoming scarce and rents were rising. By contrast, peripheral office markets in all major urban centers have struggled with oversupply and declining rents. The strong focus of demand on central locations in recent years calls for more detailed investigation.

## Proximity to railway stations desired

The importance of easy accessibility is beyond dispute. Figure 11 shows the percentage-based frequency distribution of all office properties in Zurich, as well as the office properties advertised in 2019, in terms of their distance from the nearest station. This reveals that office properties close to stations are comparatively less frequently advertised, which suggests they are easier to find tenants for. By contrast, properties situated more than 1,200 m from a station are advertised to a disproportionately high degree. A similar picture emerges when we look at Lausanne (Fig. 12).

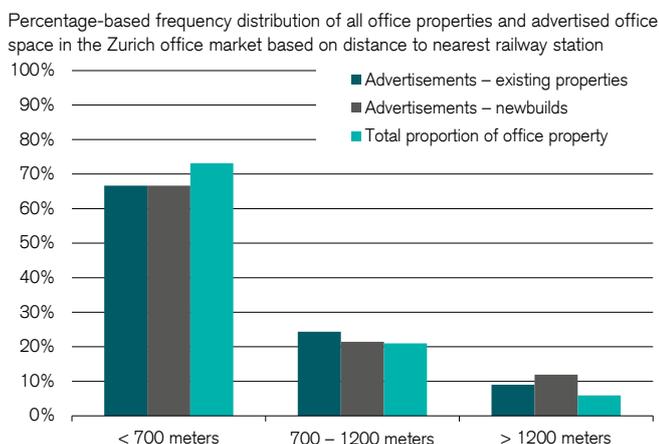
## Inner city exodus was a trend until very recently

But easy accessibility and the proximity of stations do not guarantee high demand on their own. According to a survey of all office tenants conducted by Commerz Real AG, rent levels were a decisive criterion for 77% of respondents. Indeed, it was this cost factor that lay behind the exodus of many Swiss companies from city centers – a phenomenon that began around 10 years ago and involved a large number of companies relocating their back-office departments to easily accessible locations, typically close to stations on the urban railway network outside of the main business districts. The consequence? A rise in vacancies in overpriced city centers.

## Needs of employees emerge as important factor for companies

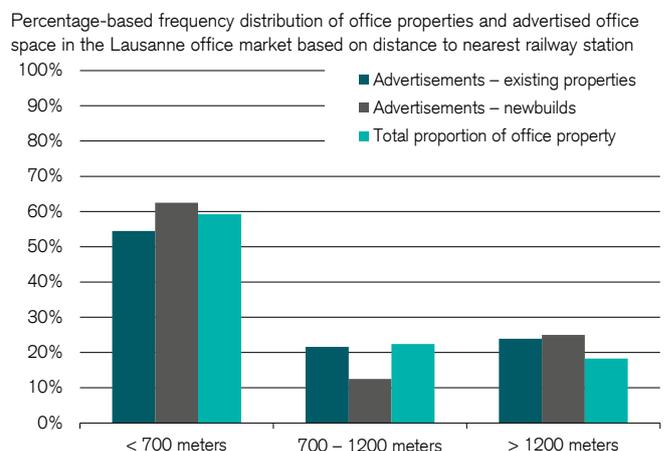
The trend has now reversed, however. Properties with central locations are attracting tenants, while properties away from the heart of the city are now more difficult to let. Both in Zurich and Lausanne, the available supply of office property is dominated by the peripheral regions. This suggests that there is currently a paucity of demand for offices in these locations. Although the cost of premises remains a key issue, the Commerz Real AG study reveals that location (73%) and easy accessibility (65%) remain key decision-making criteria, occupying second and third place respectively. These two factors are particularly important to employees – and indirectly to companies too, as the increasing shortage of specialist labor means that employers are increasingly focusing on the needs of employees in the battle to attract the best talent.

**Fig. 11: Office premises near railway stations less frequently advertised**



Source: Swiss Federal Statistical Office, Meta-Sys AG, Credit Suisse. Last data point: 2019

**Fig. 12: Many office newbuilds in Lausanne are a long way from a station**



Source: Swiss Federal Statistical Office, Meta-Sys AG, Credit Suisse. Last data point: 2019

## Social trends boost importance of quality of environment

Employees appreciate central locations as these typically exhibit a superior quality of environment. In a survey on employee satisfaction conducted in 2018 by co-working provider Mindspace, 1,000 office workers were asked what factors they rated most highly when choosing a place to work. After salary (78%), career opportunities (23%), and perks (17%), a central location offering easy access to restaurants and shops (14%) was a significant satisfaction factor. The traditional demarcation between work and leisure time is increasingly evaporating, with employees instead looking to use their time in the most efficient possible way. In particular, flexible working hours make it easier for employees to do their own thing in lunchbreaks or at each end of the day. Moreover, the greater proportion of women in the workplace in the modern era means that there is often no one at home during the day to execute essential everyday tasks. A good offering of leisure-time opportunities and local services close to the workplace therefore increases quality of life. Furthermore, younger workers attach greater importance to quality of life generally.

## POI boost quality of environment

Opinions differ when it comes to defining the reason for the inherent appeal of central locations. But there is agreement that a greater density of so-called points of interest (POI) is generally more appealing. Quite what the spectrum of locally available amenities needs to contain to make a valuable contribution to locational quality and quality of life is a more open question, however. Everyone would probably answer this question differently depending on his or her individual preferences. But what is clear is that a wide variety of POI is important, so every offering that contributes to quality of environment can be seen as an additional POI in this context. POI can essentially be broken down into five groups. Public transport services, particularly railway stations, make it easier for people to commute. Food outlets (restaurants, supermarkets, etc.) are key to the ability of office workers to sustain themselves. General services close to the workplace (medical practices, banks, pharmacies, post offices, etc.) are useful above all if working hours overlap with the corresponding opening times. In addition, a broad retail offering (clothing, electrical, sports stores, etc.) and a multi-faceted offering of recreational activities (sports centers, parks, museums, theaters, etc.) close to the workplace help employees to unwind and are prized accordingly.

## Significant densities of POI in city centers and close to railway stations

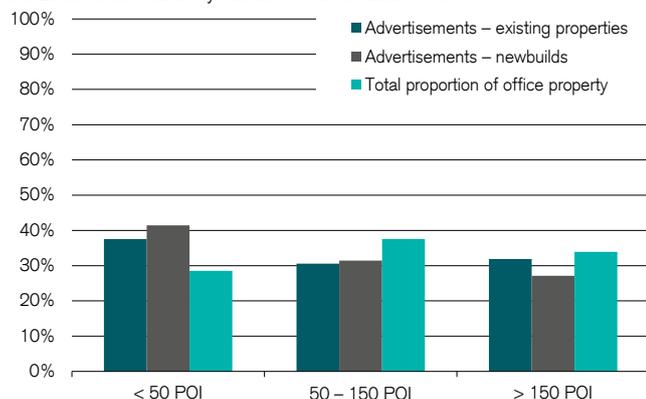
High POI densities exist primarily in city centers and close to key railway stations. In the section containing detailed analysis of the office markets of Switzerland's five large urban centers starting on page 15, this can be evaluated for each city on the basis of map illustrations. For office workers, POI within a radius of 400 m are most relevant, as analyses<sup>2</sup> show that greater distances are not considered to not be within walking distance. Looking at all office properties in Zurich, the most commonly found POI within a radius of 400 m are medical services (31 on average), restaurants (24), banks (14), and clothing stores (13). Given the growing importance of digital channels, however, the weighting within POI can be expected to shift heavily toward fitness and catering offerings, along with basic groceries. Railway stations are particularly popular not only because they guarantee easy accessibility, but also because they coincide with a high density of POI.

## Offices in locations with numerous POI more coveted

Figure 13 shows the frequency distributions of all office properties in Zurich and the properties advertised in the last year, broken down by total POI within a radius of 400 m. What is striking about the Zurich office market is that the proportion of advertised existing stock at locations with fewer than 50 POI (38%) clearly exceeds the number of such properties as a proportion of existing

**Fig. 13: Locations with only a few POI appear to be less popular**

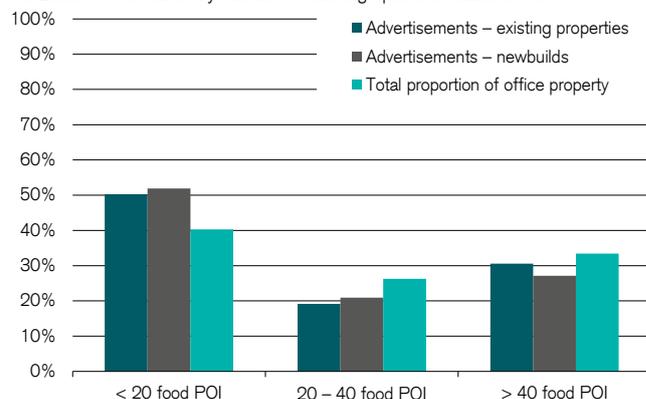
Percentage-based frequency distribution of office property and advertised space in the Zurich office market by number of POI in radius of 400 m



Source: HERE, Federal Stat. Office, Meta-Sys, Credit Suisse. Last data point: 2019

**Fig. 14: Locations offering few food outlets more often advertised**

Percentage-based frequency distribution of office property and advertised space in the Zurich office market by number of catering options in radius of 400 m



Source: HERE, Federal Stat. Office, Meta-Sys, Credit Suisse. Last data point: 2019

<sup>2</sup> Dinkel (2014): Der Einfluss der Nahmobilität auf Immobilienpreise in urbanen Räumen. [The impact of local mobility on real estate prices in urban areas.] Dissertation.

stock (29%). Looking at advertised newbuilds, the proportion is as high as 41%. This shows that office properties at locations with few POI are often advertised to a disproportionately high degree, as they are less in demand. The disproportionately high supply of office space at locations with a low POI density therefore means greater supply rates at these locations.

### Low demand for locations offering few food options

If, instead of the total number of POI, we look just at the number of food options (Fig. 14), it is clear there is a similar discrepancy between advertised office space and total existing office building stock. Whereas 40% of existing office property stock in Zurich can be found in locations offering fewer than 20 food options within a radius of 400 m, 50% of all advertised existing property stock – and as much as 52% of advertised newbuilds – are in these areas. Office buildings in locations that offer limited food options therefore seem to be more difficult to let. This pattern is repeated when we focus on POI relating to retail and recreational offerings. Only in the case of general services and particularly medical services does this seem not to be the case. In other words, proximity to medical facilities does not appear to be a significant criterion when it comes to renting office space in Zurich.

### Same patterns to be found in Lausanne too

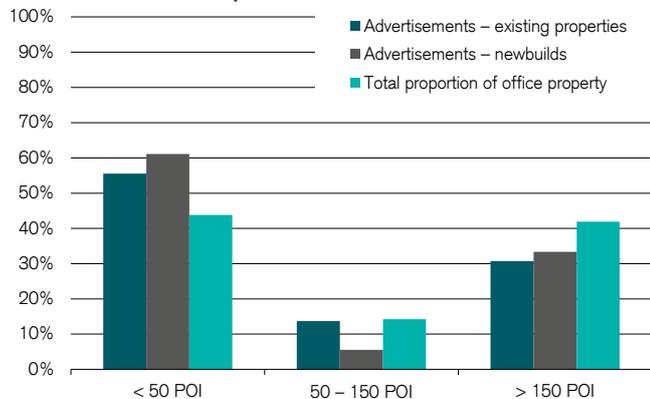
In other Swiss cities such as Lausanne, for example, the same correlations emerge. In areas exhibiting low POI density (fewer than 50 POI within a radius of 400 m), supply rates are disproportionately high. As shown in Figure 15, this in turn feeds through into higher proportions of advertised existing office property stock (56%) and advertised newbuilds (61%) that far outstrip the proportion of all office space available (44%) at such locations. When looking at the five POI categories, a similar picture emerges for all categories. In contrast to Zurich, however, the supply of medical services does appear to be a relevant factor in Lausanne.

### High supply rates almost always correlate with low POI densities

Logically, the phenomenon of lower demand for office premises in locations offering few POI is prevalent in Lausanne too. This is also reflected in supply rates at per-hectare level. With a few exceptions, high supply rates are restricted to those hectares that exhibit a weak POI offering within a radius of 400 m (Fig. 16). By contrast, hectares that boast a large POI offering very rarely have high supply rates. A similar situation exists in Zurich.

**Fig. 15: Advertising time is short for locations with high POI density**

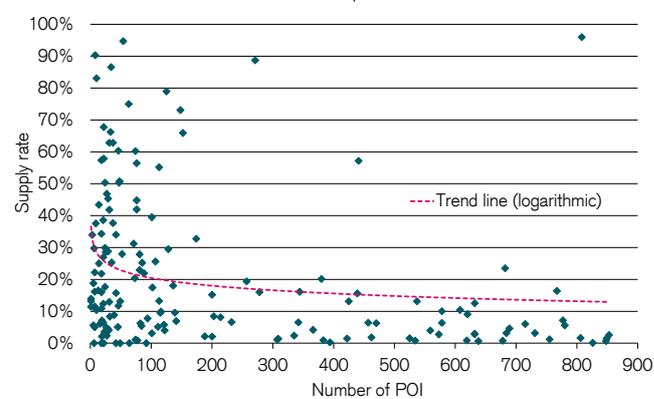
Percentage-based frequency distribution of office property and advertised space in the Lausanne office market by number of POI within a radius of 400 m



Source: HERE, Federal Stat. Office, Meta-Sys, Credit Suisse. Last data point: 2019

**Fig. 16: High supply rates almost always correlate with fewer POI**

At hectare level in Lausanne, only hectares with at least one advertisement in 2019, number of POI within 400 m of hectare mid-point



Source: HERE, Federal Stat. Office, Meta-Sys, Credit Suisse. Last data point: 2019

### Comprehensive POI offering accelerates marketing process

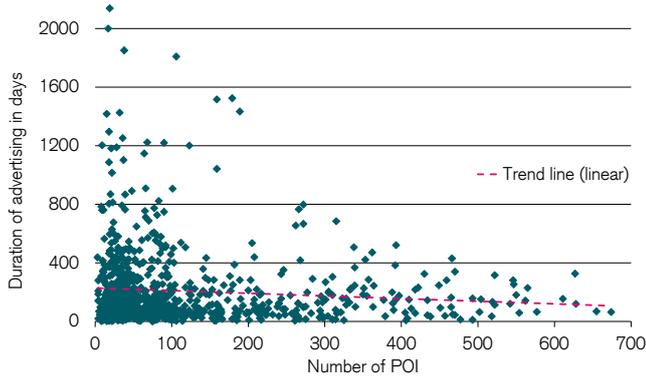
Further evidence that office premises based in locations offering a low POI density are more difficult to let emerges from the average duration of advertised office space in Zurich (Fig. 17). Offices in business districts with a high number of POI find tenants relatively quickly. At the moment, the office premises that are difficult to find tenants for are almost exclusively located in environments offering only a small number of POI. Figure 19 shows a map of local POI identities and duration of advertising for office space available to let in Zurich in 2019. Office properties in the brown-colored districts with high POI densities are typically advertised for a shorter period of time. The fact that this phenomenon is not restricted to areas with better railway connections is evident from the example of Stettbach. Although this suburb can be reached from Zurich Hauptbahnhof (main station) in just eight minutes on the local urban rail network, and from Zurich-Stadelhofen in just four minutes, a number of office properties are advertised for a long time. The low density of POI provides a possible explanation. It can sometimes take quite a while for a sufficient density of POI to accumulate even in a well-connected location like this. By contrast, office premises in the neighboring town of Dübendorf, where the POI density is significantly higher, are let more quickly.

**POI and short distances to stations drive up rents in Zurich**

Given that many POI are often located close to stations, the question nonetheless arises as to whether companies are attracted to POI, stations, or both? One answer to this question is given by a regression analysis. Among other things, the level of demand for office property is expressed in the level of rental prices. In a simple regression model in which the level of gross rents (per m<sup>2</sup>) per advertised office property in Zurich is explained by distance to the nearest station and the total number of POI within a radius of 400 m, both these variables have a significant impact. Combined, these factors can explain 35% of the variation in individual rental prices. Each additional POI increases the rent by CHF 0.64, and with every additional meter of distance from the nearest station the rent declines by CHF 0.06. This positive correlation between the number of POI within 400 m and the level of advertised office rents also emerges clearly from a scatterplot (Fig. 18).

**Fig. 17: Offices surrounded by high density of POI easier to let**

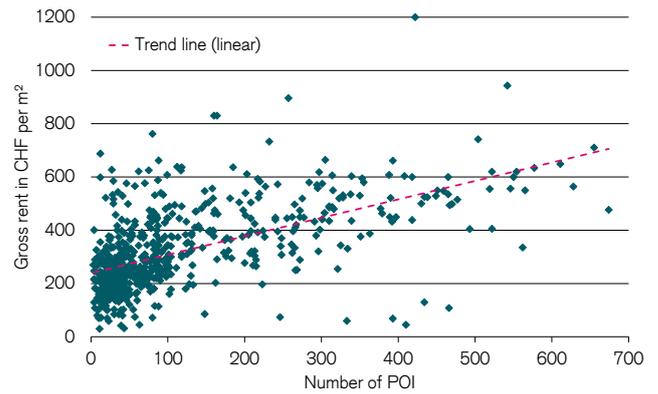
Average duration of advertising at hectare level in Zurich, only hectares with at least one advertisement in 2019, number of POI within 400 m of hectare mid-point



Source: HERE, Meta-Sys AG, Credit Suisse. Last data point: 2019

**Fig. 18: Breadth of local POI offering goes hand in hand with rising rents**

Average gross rents at hectare level in Zurich, only hectares with at least one advertisement in 2019, number of POI within 400 m of hectare mid-point



Source: HERE, Meta-Sys AG, Credit Suisse. Last data point: 2019

**Breadth more important than number of individual POI**

If we repeat the regression analysis above, replacing the total number of POI with the frequencies of the corresponding five POI categories, the significant factors for rental prices are on one hand the distance to the nearest station (negative effect), and on the other the extent of the local services offering (positive effect) and recreational offering (positive effect). By contrast, in this model specification the total number of catering outlets and retailers had no significantly positive impact on the level of rents. Further analyses with 40 individual POI types suggest that it is above all the overall number of POI – i.e. their breadth – that matters. A large number of different offerings increase the appeal of a location more greatly than a large offering skewed toward one POI type.

**Higher rents in richer cultural environments in Zurich**

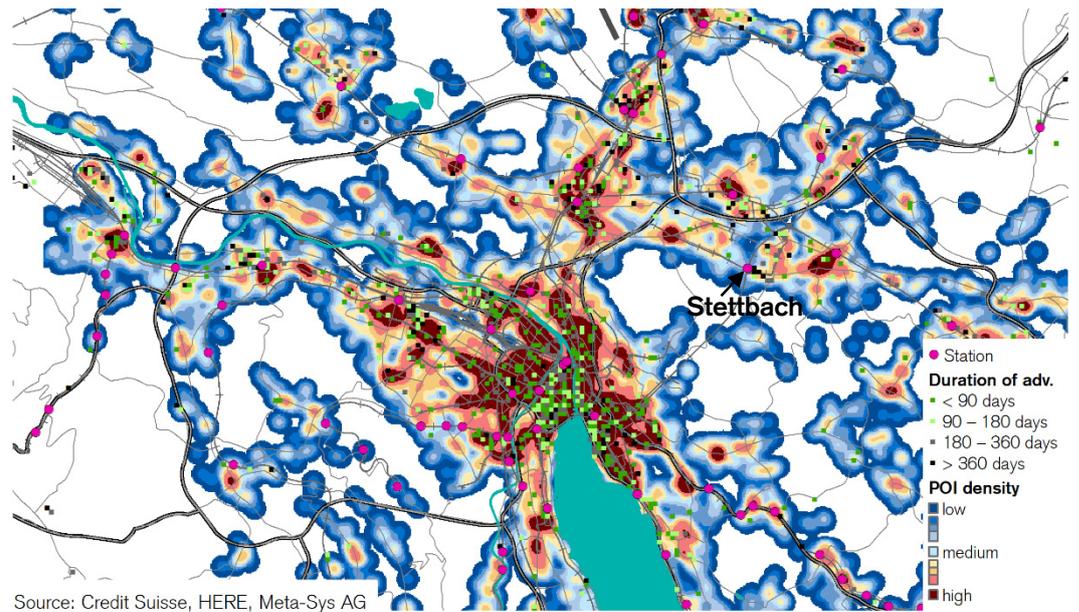
Nonetheless, individual POI types are also associated with higher office rents. For example, rents in areas offering a rich cultural environment are high, as theaters and libraries go hand in hand with higher rents. By contrast, rents in areas close to cinemas are statistically lower. In addition, offices located near supermarkets and other consumer markets tend to have higher rents, whereas rents near shopping malls tend to be lower. However, as the frequencies of many POI types are strongly correlated, such as in the case of restaurants and theaters, it is difficult to clearly demarcate their specific influence on rents and distinguish between pure correlation on the one hand and the actual causal effects of individual POI on rents on the other.

**Summary**

The analysis shows that it is not any individual POI type alone (e.g. restaurants) but the great breadth of different POI that makes an important contribution to quality of life and locational quality. This aside, the distance of an office building from the nearest station should not be underestimated as an important factor. However, office buildings only become truly valuable if they are within striking distance of a station while at the same time offering a wide range of services and other POI that enhance the quality of the urban environment.

**Fig. 19: Office premises in areas with great breadth of POI typically require shorter advertising periods**

Density of POI (points of interest) and average length of advertising in days per hectare in the Zurich office market



Source: Credit Suisse, HERE, Meta-Sys AG

Source: HERE, Meta-Sys AG, Credit Suisse. Last data point: 2019

# Large and mid-sized centers

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

## Overview of regional office property markets

Figure 20 provides an overview of Switzerland's key office property markets. 65% of existing Swiss office space is accounted for by these 21 office space markets. For the most part, supply is concentrated in Switzerland's five largest conurbations, which in 2020 accounted for some 62% of all available office space in the Swiss market. Together with the largest mid-sized centers listed below, these accounted for 79% of available space. At 5.5% of existing space, the supply rate for Switzerland as a whole has recorded a slight year-on-year rise. 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 relatively high in Zug, Winterthur, Neuchâtel, and Olten.

**Fig. 20: Total space and advertised space in the largest office property markets**

Advertised vacant space (existing premises and newbuilds) in m<sup>2</sup>, 2020; total space as per end 2018, space-weighted average rents (net) 2020 in CHF/m<sup>2</sup>; expected expansion in 2021

Major centers	Inventory of office space	Space available	Supply rate	Expected expansion	Average rents
Zurich	10'547'050	733'890	7.0%	↘	275
Geneva	4'239'056	485'667	11.5%	↘	368
Bern	3'484'515	199'907	5.7%	↘	193
Basel	3'232'916	250'098	7.7%	↘	236
Lausanne	2'699'624	212'597	7.9%	↘	200
<b>Mid-sized centers</b>					
Lucerne	1'568'346	77'744	5.0%	↘	189
Zug	1'395'595	108'363	7.8%	↗	191
St. Gallen	1'328'225	41'576	3.1%	↘	191
Lugano	1'159'161	68'126	5.9%	→	224
Winterthur	864'358	39'517	4.6%	↗	238
Fribourg	646'354	14'506	2.2%	↘	193
Aarau	612'199	26'075	4.3%	↘	197
Biel	543'148	26'526	4.9%	↘	120
Neuchâtel	500'656	18'811	3.8%	↗	187
Baden	499'603	25'813	5.2%	↘	221
Solothurn	463'045	13'569	2.9%	↘	169
Sion	433'215	5'987	1.4%	↘	161
Chur	399'549	6'523	1.6%	↘	176
Schaffhausen	391'872	21'900	5.6%	↘	172
Olten	384'498	17'047	4.4%	↗	147
Thun	375'670	13'515	3.6%	↘	198
<b>Switzerland</b>	<b>55'006'668</b>	<b>3'043'314</b>	<b>5.5%</b>	<b>→</b>	<b>236</b>

Source: Credit Suisse, Meta-Sys AG, Baublatt

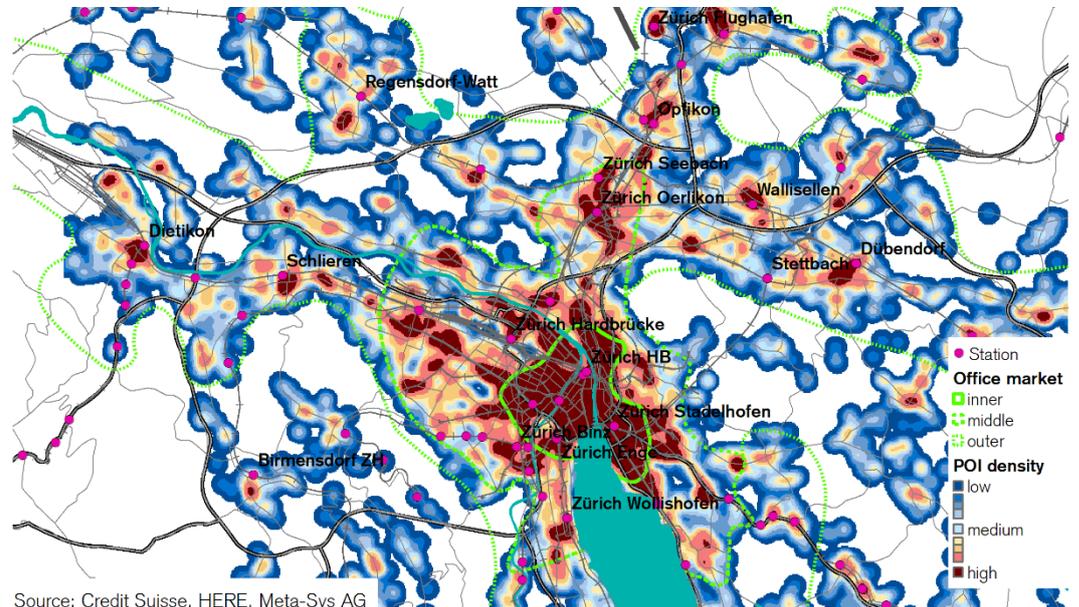
### Note on advertised office space and supply rate:

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 already 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. 21: POI density in the Zurich office property market**

Number of POI (points of interest) per hectare, 2019



Source: Credit Suisse, HERE, Meta-Sys AG

## High POI density not limited to central business district

In Zurich, the focus of office property demand in recent years has been on the central business district (CBD). This can primarily be explained by the almost ubiquitously high density of points of interest (POI, Fig. 21) here. Locations exhibiting this feature are attractive places to work. Outside of the CBD, the attractive locations with a high POI density stretch along the main transport axes in the middle business district in practically all directions. In terms of POI density, Oerlikon boasts the strongest credentials of any suburb within the city limits. By contrast, the outer business district has only a few hubs with high POI densities – typically in small urban centers or close to key stations of the urban railway network (“S-Bahn”), where high footfall exercises a “pull effect” on POI. However, it can take a while for a robust POI density to emerge close to an S-Bahn station. The best example of this is Stettbach station: Although this hub continues to develop, it does not yet have a sufficiently high local density of POI. By contrast, the number of POI in Glattpark is already very promising, which is likely to facilitate the letting of nearby office premises. Another interesting area is fashionable Binz in Zurich’s District 3, where the success of the local office property market is due not least to a high POI density. The same is true of the Hardbrücke area.

## Decline in supply of space comes to an end

The slight decline in the available supply of office space in Zurich, which was a feature of the previous two years, came to an end in 2020 (Fig. 22). The total volume of available space has risen slightly to 734'000 m<sup>2</sup>, taking the supply rate to 7.0%. For many years, this space has largely related to around 150 properties that together account for 75% of available supply. Almost a third of this space was not advertised on the usual online portals during the survey period (Q2 2020), but was being marketed via proprietary websites and/or via brokers. The majority of these properties have managed to reduce their vacancy rates over the last twelve months. However, in addition to sporadic newbuilds, the completion of various property renovations has led to a certain amount of space that had temporarily been withdrawn from the offered supply returning to the market. For example, over the next few months the occupancy of the headquarters of Zurich Insurance Group on Mythenquai and the totally renovated headquarters of KPMG opposite the Kalkbreite Cooperative in District 4 presage a rise in vacancies generally, as the occupancy of these buildings will free up space elsewhere that will then have to be marketed.

## Central business district: almost no available space

Zurich’s office market remains characterized by a sharp divide between center and periphery. Whereas the available space in the central business district remains in short supply at 2.8%, almost four times as much space, or 11.6% – as a proportion of total building stock – is available for rent in the outer business district. In other words, the market for rentable office premises in Zurich differs greatly depending on the location. The scarcity of supply in the CBD is also reflected

in official vacancy figures. Just 24,000 m<sup>2</sup> of space is vacant in this part of the city, which is just a quarter of the figure recorded as recently as 2014. Two areas that contributed in particular to the year-on-year decline are the inner-city Districts 1 (City) and 2 (Enge).

**Middle business district: slight rise in available space**

In the middle business district, available space has risen slightly to 6.3%. Here too, renovated properties (such as the office building at Friesenbergstrasse 75 in Zurich-Wiedikon) have contributed to the rise in available space. More space has also emerged due to cost-saving measures (e.g. the SRG Nordring building at the TV studio) and sporadic newbuilds such as the Franklinturm at Oerlikon station. The suburb of Oerlikon has emerged as something of an office hotspot this year. Even before the recent spate of building projects, office space near to the station had been well absorbed. Moreover, the last year has also seen a decline in vacancies in office properties located rather further from the station (newTORO, Airgate, Holcim Towers). Based on officially recorded vacancies, no other city district recorded a greater decline in its vacancy rate in 2020 than Oerlikon.

**Outer business district: no change in volume of available space despite Circle**

Plenty of observers who were aware of the general preference of tenants for offices in inner-city locations followed the planning of the major project “The Circle” at Zurich airport with skepticism. Although the volume of office space encompassed by this project was downsized to 65,000 m<sup>2</sup> (from 75,000 m<sup>2</sup>), this is not uncommon in a project of this magnitude. At the time of opening in November 2020, 90% of the office space was let, which should be viewed as a respectable achievement. The high POI density right by the airport and its excellent transport connections no doubt contributed to this success. But the consequences of the major expansion of space at the airport are now being felt elsewhere: The new big-name tenants – SAP, Microsoft, Raiffeisen, Abraxas, and Novo Nordisk – will leave behind a significant amount of empty space at their previous locations in Regensdorf, Wallisellen, Dietikon, Zurich City, and the Leutschenbach district. The owners of these buildings find themselves confronted with much more hostile market conditions, hence the absorption of the newly freed-up space is likely to prove difficult.

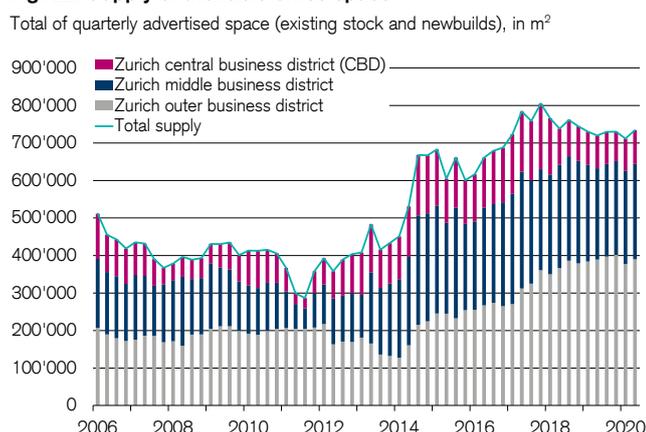
**Evidence of shift from older properties to newbuilds**

The phenomenon of tenants moving from older properties to newbuilds dates back a long way. But since it became more difficult for foreign companies to set up a base here, the first occupants of new properties have typically been companies already located in the Zurich area. As such, letting successes have come at the cost of existing buildings. Tenants moving out of an older building typically have their eye on more modern premises. The re-letting of these older buildings is then a problem, particularly in less central locations, as the demand trend in the outer business district too favors more central office space, as the example of “The Circle” shows.

**Low future expansion of office space**

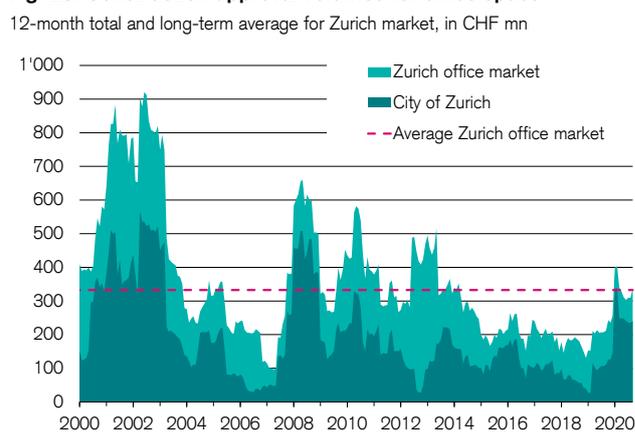
The coronavirus crisis did not catch the Swiss office property market in a phase of great space expansion, particularly in Zurich (Fig. 23). Between April 2014 and February 2020 – i.e. for almost six years – the volume of office space approved for construction was below the long-term average. “The Circle” was probably the last project to have been opened on the basis of approval received at an earlier date. Given this background, the expansion of office space in Zurich over the next few years is likely to prove modest. Apart from anything else, the resurgent current level of planning activity is likely to recede rapidly due to the uncertainty triggered by COVID-19. As such, the consequences of the coronavirus pandemic should be felt by the Zurich office market less keenly.

**Fig. 22: Supply of available office space**



Source: Meta-Sys AG, Credit Suisse. Last data point: Q2 2020

**Fig. 23: Construction approval volumes for office space**

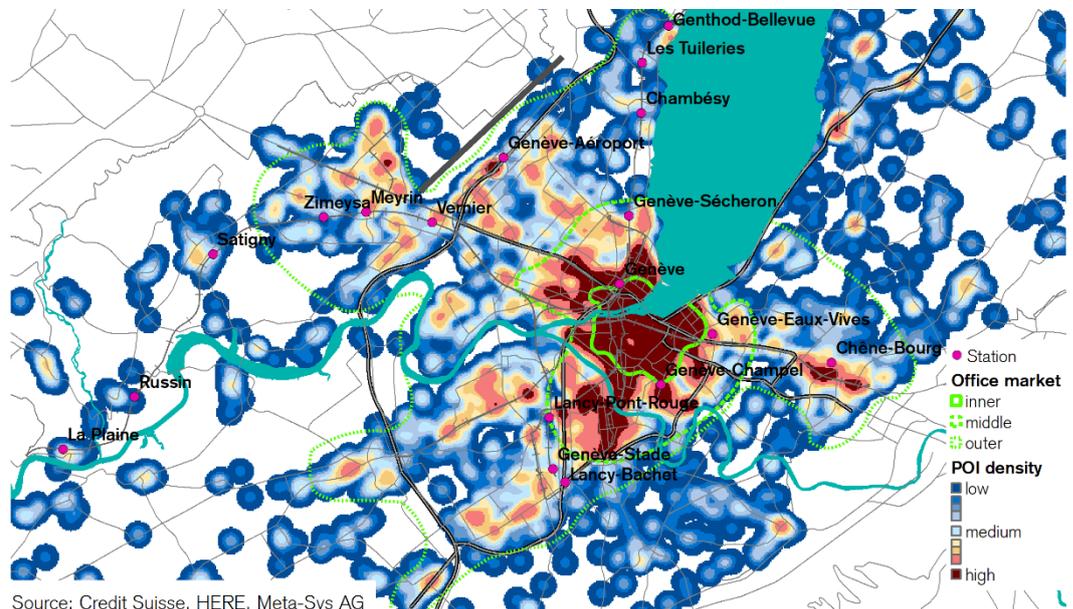


Source: Baublatt, Credit Suisse. Last data point: September 2020

# Geneva

**Fig. 24: POI density in the Geneva office property market**

Number of POI (points of interest) per hectare, 2019



Source: Credit Suisse, HERE, Meta-Sys AG

## Very few areas exhibit high POI density in outer business district

In Geneva, the areas that exhibit a high number of points of interest (POI) are mainly to be found in the central business district (CBD) and its offshoots in the neighboring middle office district (Fig. 24). Elsewhere, only Petit-Lancy, Chêne-Bourg, and Thônex can really claim to have a high density of POI. In Chêne-Bourg, the new Léman Express railway station will actually broaden and strengthen the existing high POI density. It is therefore unsurprising that the office premises created near the station here as part of the “Tour Opale” project were very rapidly let. Disproportionately high absorption rates are also likely to be achieved by the other locations home to a Léman Express station, particularly Pont-Rouge, where both POI density and current development activity are very high. There are other areas with high POI densities such as Vernier and Meyrin, close to the airport, and to the south (e.g. Plan-les-Ouates), but these are not so pronounced.

## Lasting decline in supply of available space?

The strong rise in the supply of space in the Geneva office property market over a period of many years has been halted in recent quarters – and even slightly reversed – thanks to strong economic growth in 2018/2019. Advertised space in the Geneva office market overall has fallen to 486,000 m<sup>2</sup> since last year (Fig. 25). The supply rate, which includes all space advertised online – irrespective of when it becomes available – has declined from 11.9% to 11.5%. Bearing in mind the repercussions of the coronavirus crisis, this decline looks unlikely to continue.

## Central business district: changes in the banking district

In Geneva’s central business district (CBD), the advertised supply of space has recorded a year-on-year decline to just under 100,000 m<sup>2</sup>. This still leaves the supply rate at a high 7.4%. Smaller premises of less than 1,000 m<sup>2</sup>, which make up the majority of available space in the CBD, have been the main contributors to the reduction. Very few premises offer more than 2000 m<sup>2</sup>, although these are substantial and include La Tour Lombard, which remains on the market with unlet space of 7,000 m<sup>2</sup>. This is attributable to BNP Paribas having moved out as part of a planned reduction of its Swiss headcount, which is why the French bank is unlikely to be seeking new office premises in the region. Lombard Odier will likewise exit the CBD by 2023, amalgamating the employees of its five different locations under a single roof on the urban periphery (Bellevue). The bank’s existing headquarters are to be renovated and will then continue to be used for internal events. The most capacious premises currently being advertised in the CBD – Confédération Centre, at 8,000 m<sup>2</sup> – will become vacant in the fall of 2021. In contrast, new lettings as well as re-lettings close to the stations of Eaux-Vives and Cornavin have helped to bring down the vacancy rate.

**Middle business district: development shows increased absorption**

Available office space has declined most noticeably in the middle business district, namely to 102,000 m<sup>2</sup>. The supply rate has thus fallen to 6.7%, below that of the CBD. The supply of office space is distorted upward by some 30,000 m<sup>2</sup> of office space at the Alto Pont-Rouge development and the Esplanade 3 project right by Lancy-Pont-Rouge station, which now serves the Léman Express. Completion of building work is not expected before the summer of 2023, however.

**Outer business district: increase in oversupply**

As in previous years, the supply of space in the outer business district has risen sharply. At just under 285,000 m<sup>2</sup>, almost 60% of all available office space in Geneva relates to this district. The current supply rate of 20.5% is higher than in any other corresponding Swiss sub-market. Among other things, the latest rise can be attributed to waning demand momentum and the ongoing Quartier de l'Étang newbuild project. The area around Geneva airport, which already has an oversupply problem, will see additional office space of more than 46,000 m<sup>2</sup> come onto the market in stages from the spring of 2021. Meanwhile, a number of absorption successes have been recorded in the southern development hub of Plan-les-Ouates. For example, the vacancy level of the property "Stellar 32" has been brought down significantly thanks to new Japanese anchor tenant JSR Life Sciences. Although the first tenants have moved in, the marketing of the Espace Tourbillon site, which is largely aimed at industrial companies, has lost momentum recently.

**Fiercer competition drives down rents**

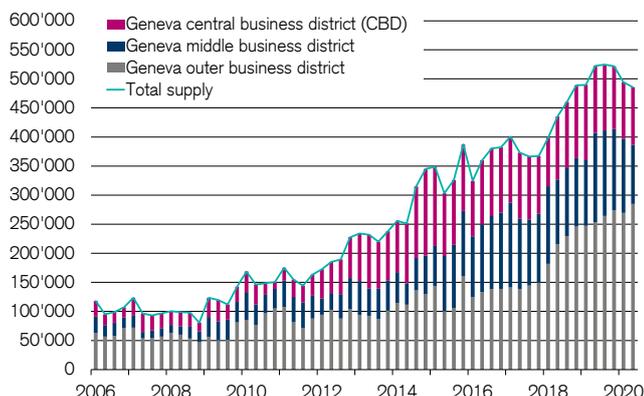
Due to the high volume of available space, contractual rents in Geneva have continued on their long-term downward trajectory. Although a brief upward trend emerged in 2019 – later than in the German-speaking office markets – this has already ended in 2020. In addition to capacious supply, price pressure has also come from the reordering of locational quality following the opening of the Léman Express. Properties in the best city center locations now have more competition from office premises close to the stations served by the Léman Express, and will have to make further price adjustments. As a result, the very strong performance of Geneva office rents over the period 2005-2013 compared to the Swiss average is increasingly likely to be eroded. This also has its positives, however. Lower rents and a greater supply of easily accessible office space make Geneva attractive for company relocations, particularly as the city now has one of the most attractive tax regimes in Switzerland.

**Many new office properties planned**

There is likely to be a persistent increase in the amount of office space in the Geneva area over the coming years, as the current 12-month total of building permits issued is 17% above the long-term annual average (Fig. 26). The sharp rise from June 2020 is primarily due to the Quai Vernets development, which is part of the massive Praille Acacias Vernets (PAV) urban planning project. This involves the construction of numerous office premises, in addition to apartments. The planned 90m-high Pictet headquarters in Carouge – the Pictet de Rochemont campus, which is likewise part of the PAV – is expected to receive the go-ahead in the spring, and will offer space for 2,500 workers from 2025. Assuming that future demand for office property weakens going forward as a result of the pandemic-driven surge in home working, the local supply situation – particularly in the outer business district – is likely to continue to be characterized by excess capacity for many years yet, despite Geneva's excellent location qualities.

**Fig. 25: Supply of available office space**

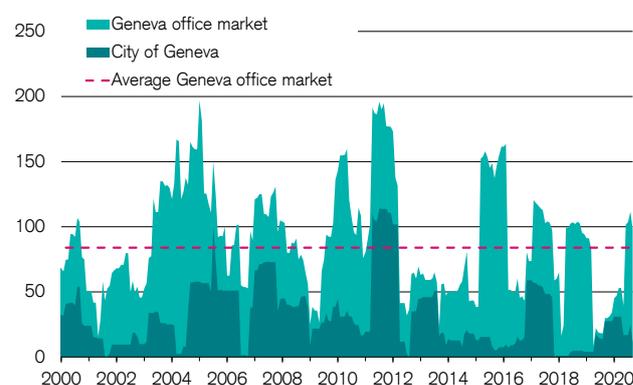
Total of quarterly advertised space (existing stock and newbuilds), in m<sup>2</sup>



Source: Meta-Sys AG, Credit Suisse. Last data point: Q2 2020

**Fig. 26: Construction approval volumes for office space**

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

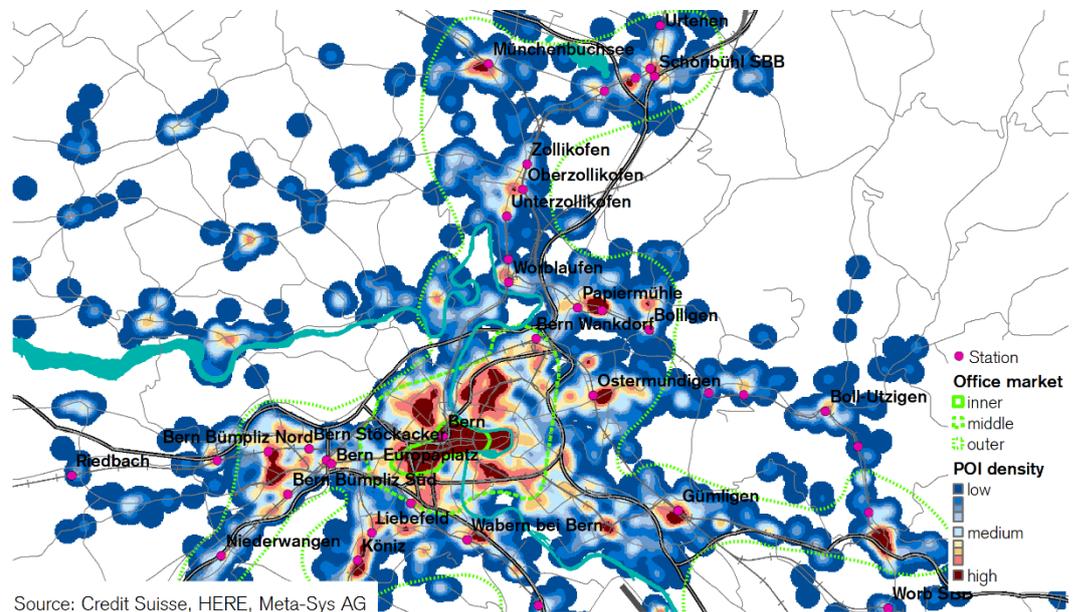


Source: Baublatt, Credit Suisse. Last data point: September 2020

# Bern

Fig. 27: POI density in the Bern office property market

Number of POI (points of interest) per hectare, 2019



Source: Credit Suisse, HERE, Meta-Sys AG

## Numerous satellites with high POI densities

The highest POI density in Bern's office property market is almost exclusively to be found in the central business district (CBD – old city center and Monbijou district) (Fig. 27). The middle business district features a mix of areas with high and low POI densities. Many POI are based in and around the Breitenrain, Lorraine, Länggasse, and Kirchenfeld districts. By contrast, the POI density in Wankdorf City, where thousands of jobs have been created in a large number of new office buildings in recent years, remains very low. This can be expected to change in the next few years, however. In time, places where a large number of people work attract urban amenities such as restaurants, gyms, and shops. Depending on the situation, however, this can take many years. Unlike Geneva, there are a number of locations in Bern with high POI densities in the outer business district (e.g. Bümpliz, Köniz, Wabern, Gümligen, Ostermundigen, and Ittigen). These are typically found near key urban railway stations, which attract additional POI. That said, the stations of Zollikofen and Bern-Bümpliz cannot yet claim high POI densities.

## New premises coming onto market drive up supply rate

In recent years, the growing popularity of offices in locations with high POI densities has become particularly apparent in the CBD. Available space is in short supply here, whereas it has increased in the middle and outer business districts. Overall, however, the need for additional office space has declined since the outbreak of the COVID-19 pandemic. Furthermore, a number of new office buildings have been constructed in Bern, particularly in connection with the concentration of personnel by the Federal Administration, which has freed up office space in previously used buildings. The overall supply rate for the Bern office market, which includes all space advertised online (irrespective of the point of availability), has thus risen slightly over the last year, from 5.4% to 5.7%. Overall, more than 200,000 m<sup>2</sup> of office space is currently available for rent (Fig. 28).

## Central business district: scarcity of space ceases to be a problem

Available office space in the CBD became scant in 2019, with the supply rate falling to as little as 1.4% at one point. This year, however, the volume of advertised space has leapt from 12,600 m<sup>2</sup> to 19,000 m<sup>2</sup> (supply rate: 2.1%). This is primarily due to the Bubenbergzentrum newbuild at Bern station, where SBB is advertising not only retail and catering premises but also some 4,000 m<sup>2</sup> of office space for occupancy from 2024 onward. In addition, an area of some 1,000 m<sup>2</sup> has been freed up this year in an existing building on Zieglerstrasse in the Monbijou district. Apart from a property close by offering some 2,000 m<sup>2</sup> that has been available for some time, CBD supply is typically made up of small premises of less than 1,000 m<sup>2</sup>. In order to avoid excess office capacity arising in the Monbijou district, the former headquarters of EY at Belpstrasse 23 is being converted into small furnished apartments.

**Middle business district: newbuilds drive up supply**

In the middle business district, the increase in available office space evident last year has continued. Over the last year, the supply rate has risen from 2.6% to 2.7%. However, a number of premises have been successfully absorbed. For example, the 4,300 m<sup>2</sup> of space still available in the Twist Again office building and the TRIO skyscraper in Wankdorf City has now been let. In addition, the number of available premises offering less than 1,000 m<sup>2</sup> has declined sharply. The increase in supply is primarily attributable to the planning of the Bern 131 office building in Wankdorf, which is expected to complete at the end of 2023. Moreover, the first plans have now been submitted for a residential and office quarter as part of the last phase of the Wankdorf City project, and in 2021 work is set to begin on the next construction phase of the Federal Administration center on Guisanplatz. In the summer of 2019, the Federal Office of Police (among others) moved into the building as part of the first phase, freeing up some 8,000 m<sup>2</sup> of office space on Nussbaumstrasse. The phase two buildings will be ready for occupancy in 2026 by the administrative units of the Federal Department of Defense, Civil Protection and Sport (VBS).

**Outer business district: supply rate remains at a high 10%**

With available space of around 152,000 m<sup>2</sup>, the outer business district is in a similar state to last year. The supply rate of 10.2% is far higher than in the central and middle business districts. That said, there has been a significant reduction in supply in a number of office buildings. These include the Lindenpark business center in Worblaufen, where more than 7,000 m<sup>2</sup> was suddenly freed up in 2019 as a result of the relocation of SBB IT personnel to Wankdorf. The available space is now just 1,700 m<sup>2</sup>. A number of other office complexes are still seeking tenants for their available space, however, such as the BusinessPoint B3322 in Urtenen-Schönbühl, Freiburgstrasse 572 in Niederwangen, and Project ZOWO in Zollikofen. In the Liebefeld business park, as much as 26,000 m<sup>2</sup> has recently become available following Swisscom's decision to integrate the corresponding personnel into its existing sites in Ittigen, Worblaufen, and Bern. In addition, a new administration building on the UVEK campus in Ittigen has been occupied since the summer by (among others) the Federal Roads Office (ASTRA), which has vacated its Murifeld office complex. The latter has already been let to flexoffice, an office space provider offering flexible contracts and now actively marketing these premises.

**Vacancy rate within city limits rises sharply**

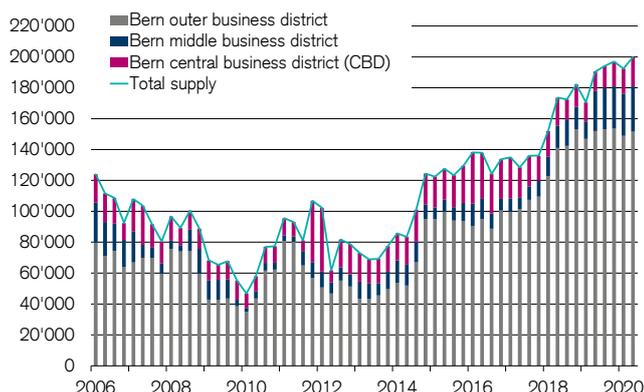
The increase in the supply of space in the central and middle business district is also reflected in the city's official vacancy figures. Following a decline in available space from 60,500 m<sup>2</sup> in 2018 to 36,800 m<sup>2</sup> in 2019, a rise in 2020 has taken this figure back to 65,400 m<sup>2</sup>. The trend of rising office rents in the Bern region dating back to 2018 has therefore flattened off. With the rise in available space and the coronavirus crisis, no further rent increases are likely in the coming years.

**Project pipeline filling up once more**

Following a period of weak planning activity, the volume of building permits suddenly surged above the long-term average in the summer of 2020 (Fig. 29). This is attributable to expansion of the Zollikofen campus. In 2023, the Federal Department of Foreign Affairs (FDFA) will move into a third building, freeing up space at its existing premises next to Europaplatz station. Moreover, more office projects are already at the early planning stage. For example, Energie Wasser Bern (EWB) is planning to erect an office, services, and residential complex with four buildings next to Europaplatz station by the end of 2024. The office space will be let to third parties, as well as being used by the company itself. Given this significant expansion, it will be difficult for Bern to reduce its supply rate over the coming years, particularly in locations with a weak POI offering.

**Fig. 28: Supply of available office space**

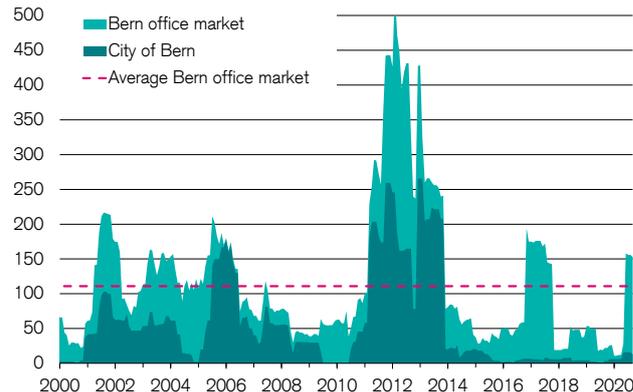
Total of quarterly advertised space (existing stock and newbuilds), in m<sup>2</sup>



Source: Meta-Sys AG, Credit Suisse. Last data point: Q2 2020

**Fig. 29: Construction approval volumes for office space**

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

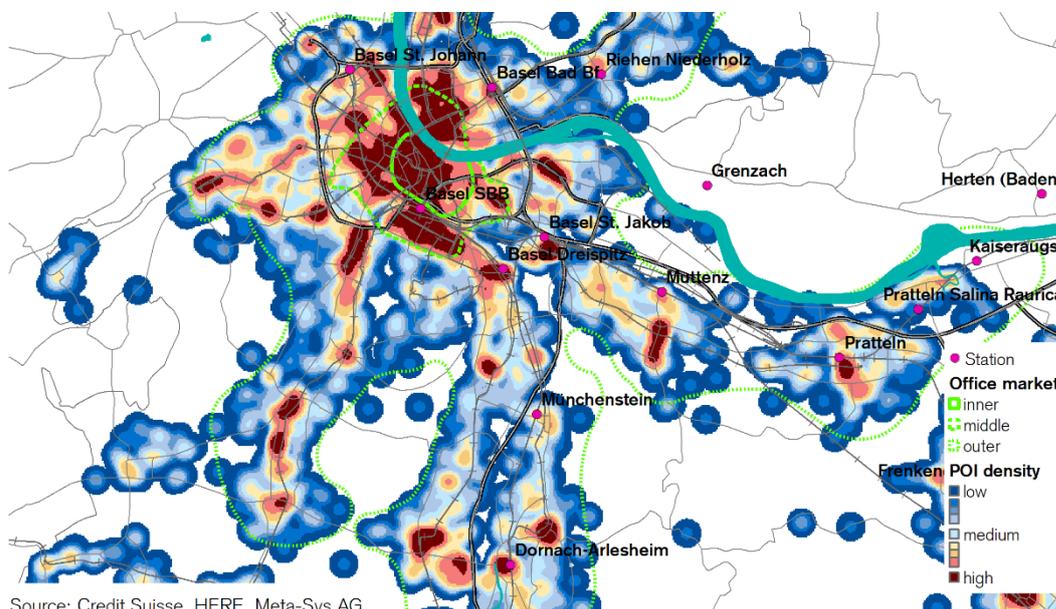


Source: Baublatt, Credit Suisse. Last data point: September 2020

# Basel

**Fig. 30: POI density in the Basel office property market**

Number of POI (points of interest) per hectare, 2019



Source: Credit Suisse, HERE, Meta-Sys AG

## High POI densities in central and middle business districts

In terms of the distribution of POI (points of interest), the picture in Basel resembles that of other major urban centers: The central and middle business districts are almost entirely characterized by high POI densities (Fig. 30). In the outer business district, by contrast, these are found only sporadically. High POI concentrations are sometimes found in locations with SBB stations, such as Pratteln and Dornach-Arlesheim. However, there are also stations that do not yet exhibit much diversity of local amenities – such as Muttentz and Münchenstein, and the area around Badischer Bahnhof. On the other hand, high POI densities can be found around the historic village centers, such as along the high street to the south of central Muttentz and in larger settlements to the south of Basel from where the city center can easily be reached by tram (e.g. Reinach, Oberwil, Allschwil).

## Supply of office space rises in all three sub-markets

Greater demand for office space in recent years led to a recovery of local office markets, with the result that supply rates declined above all in the central and middle business districts, home to an elevated level of POI density. However, the pandemic triggered a decline in demand in all three sub-markets (central, middle, and outer business districts). In addition, Basel-based pharma giant Roche and insurance group Bâloise are both concentrating their workforces in major newbuild complexes, freeing up space in other urban office buildings. The supply rate for the Basel market as a whole, which includes all space advertised online (irrespective of the point of availability), has thus risen over the last year to 7.7%. Overall, some 250,000 m<sup>2</sup> is currently available for rent (Fig. 31).

## Central business district: unexpectedly strong rise in supply of available space

Basel's central business district (CBD) is relatively small, accounting for just 24% of all space in the Basel office market. This explains why available space here has been rapidly let in recent years. For example, the marketing of premises in Bâloise Park, the headquarters of Bâloise opened in September 2020, is proceeding well. Of the 11,600 m<sup>2</sup> of office space available to third-party tenants, only 2,696 m<sup>2</sup> is still on the market. However, a number of office premises offering more than 1,000 m<sup>2</sup> have come onto the market in the CBD this year. For the most part this comprises existing office premises that have become vacant, such as in the Aeschenvorstadt or along the Innere Margarethenstrasse. In addition, the relocation of part of Panalpina's workforce to Copenhagen has freed up a significant amount of space in the Peter Merian building. That said, various premises have come onto the office property market for the first time, such as the Wildensteinerhof in the St. Alban-Vorstadt (a former private school converted to create more than 2,000 m<sup>2</sup> of office space). Accordingly, the CBD supply rate recorded a sharp rise to 6.1% between 2019 and 2020.

**Middle business district: slight rise in available space**

Basel’s middle business district has proved highly popular in recent years, with many vacant premises finding tenants shortly after coming onto the market. However, the supply of available space has risen slightly over the last 12 months (+3,000 m<sup>2</sup>), albeit not to the same degree as the CBD (+17,000 m<sup>2</sup>). Between 2019 and 2020, the supply rate rose very slightly to 4.2%. On the other hand, a number of office buildings have reduced their volume of vacant space further, including the Meret Oppenheim tower and the B CITY building. That said, the latter in particular is still advertising more than 4,000 m<sup>2</sup> of space. In addition, new premises have come onto the market to the west of Basel SBB station. More than 3,000 m<sup>2</sup> of space is being advertised in White Plaza, the former group headquarters of Panalpina, while a further 1,800 m<sup>2</sup> is being advertised in Margarethenstrasse, where an old industrial building has been converted for residential and office use.

**Outer business district: Increase in supply continues**

In the outer business district, the trend of a sharply rising supply of available space in recent years has continued. Between 2019 and 2020, advertised office space rose by around 26,000 m<sup>2</sup>, increasing the supply rate to 9.6%. On the one hand, this rise is due to the fact that many tenants favor premises located in the inner and central business districts, where a greater prevalence of amenities is to be found. On the other, a large amount of new office space is springing up away from the city center – such as on the BaseLink campus in Allschwil, at uptownBASEL in Arlesheim, and in the Werkarena business park to the north of Basel. More office space will also be created by the transformation of the large Klybeck site into a new urban district. The former administration and production buildings of Chemische Industrie Basel will be converted into new space for residential, office, and leisure use over the coming decades. Currently in the planning phase, various buildings – such as Ciba-Geigy’s one-time administration building “WKL-147” on Dreirosenbrücke with just under 9,000 m<sup>2</sup> – have been advertised for interim use until 2024. It is likely that the “Campus Bildung Gesundheit” will move here temporarily from the Spenglerpark in Münchenstein while this is being completely renovated. Due to the rise in supply, owners of office buildings are increasingly reacting by applying for conversions to residential use, as is the case with another former administrative building of Ciba on Klybeckstrasse, and the former administration building of the cantonal Environmental Protection and Energy Agency after the latter’s relocation to Spiegelgasse.

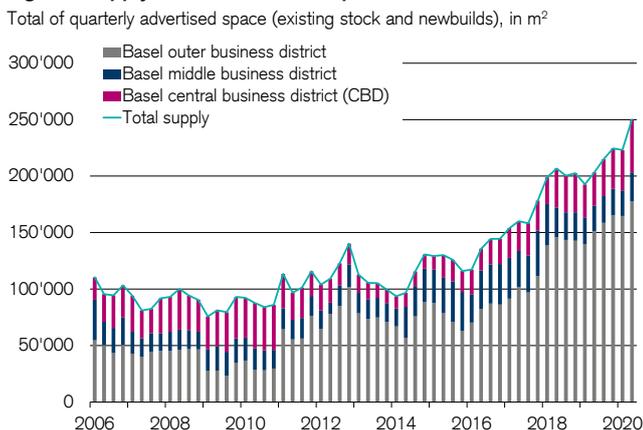
**Rise in rental prices comes to an end**

Despite the increase in available space in the outer business district, vacant office space in Canton Basel-Country has declined for the second year running, from 83,000 m<sup>2</sup> in 2019 to a current level of 67,000 m<sup>2</sup>. This shows that the rise in the supply of space is largely attributable to the development of new office premises. By contrast, in line with the increase in supply, vacancies in Canton Basel-City have risen by 14,000 m<sup>2</sup> to 76,000 m<sup>2</sup>. As a result, the strong rise in office rents witnessed in the Basel region in 2019 (+7.6%) came to an abrupt end in 2020. Given the increasing supply of space, pressure on rents over the next few years can be expected to be downward.

**No let-up in planning activity for new office buildings**

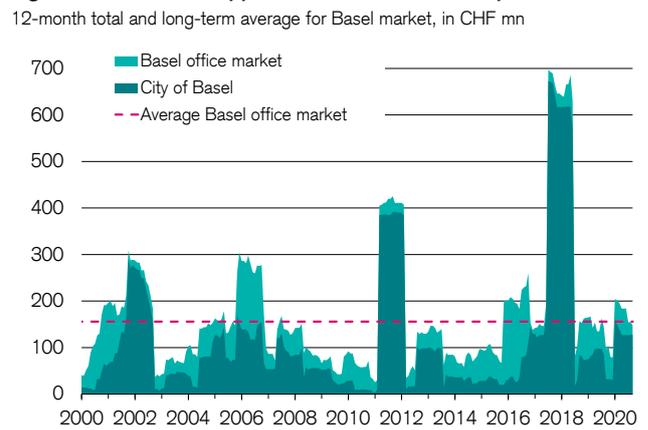
A look at building permits (Fig. 32) reveals that office construction activity will remain high in the coming years. The increase in the 12-month total of construction approval volumes in January 2020 is attributable to the Helvetia Campus Basel, which will bring together employees currently split between six different buildings and should be ready for occupancy by 2023. In addition, Roche has announced the start of planning for a third Roche Tower, following on from the second Roche Tower that sent construction approval volumes surging back in 2017.

**Fig. 31: Supply of available office space**



Source: Meta-Sys AG, Credit Suisse. Last data point: Q2 2020

**Fig. 32: Construction approval volumes for office space**



Source: Baublatt, Credit Suisse. Last data point: September 2020

# Lausanne

**Fig. 33: POI densities in the Lausanne office property market**

Number of POI (points of interest) per hectare, 2019



## Highest POI density in (extended) CBD and the many nearby hubs

In Lausanne, just 10% of all available office space relates to the central business district (CBD). Available space in the CBD has been very scarce for the last 15 years. To a certain extent, this has also been true of the middle business district, which together with the CBD exhibits the highest POI density (Fig. 33). One striking aspect is that the POI density on the lakeshore promenade – with the exception of the narrow strip between the city center and the lakeside Ouchy district – is relatively low. This is not unusual insofar as affluent districts in high-end locations typically have a low density of POI in other cities too. The highest POI densities in the outer business district are to be found in areas close to Pully, Renens, and Morges stations. These are followed by areas such as Bussigny, Crissier, Epalinges, Chailly, and Lutry, all of which have a high density of amenities and are therefore attractive office locations.

## Decline in available supply suggests absorption capacity is intact

For a good year now, the supply of office space in Lausanne has been bloated by a number of major development projects. Both the large-scale Cocoon project in Bussigny and the office premises created by the Central Malley development project are seeking tenants. The first premises will not be ready for occupancy until 2024 at the earliest. Nonetheless, the total supply of available space has recorded a year-on-year decline to 213,000 m<sup>2</sup>. The supply rate, which encompasses all advertised space irrespective of the point of availability, has therefore declined to 7.9% of existing stock (Fig. 34). The occupancy of many smaller existing properties in the CBD and in the outer business district have contributed to this decline. All in all, the Lausanne office market has so far proved to be relatively crisis-proof during the pandemic.

## Central business district: supply scarce in heart of city

In the tightly packed central business district, just 20,700 m<sup>2</sup> of office space is available – the lowest figure in years. Accordingly, the city center had a supply rate of just 3.3% as per mid-2020, similar to the levels recorded in Bern and Zurich. Almost a third of this relates to office space in two historic buildings being renovated close to Lausanne station, which mark the start of the new La Rasude quarter in the city center. In the long term, this project will add an additional 50,000 m<sup>2</sup> of office space to the market, right by the station, thereby alleviating the dearth of major office premises in the heart of the city.

## Middle business district: supply of space at record high

In contrast to the city center, the advertised supply of office space in the middle business district – 68,000 m<sup>2</sup> – has risen to its highest level since record-keeping began in 2006. The primary driver of this trend is the marketing of the planned space of the above-mentioned Central Malley project, which envisages total office space of 23,600 m<sup>2</sup> springing up to the south of Prilly-Malley station. However, the middle business district's high 8.4% supply rate is also explained by the relocation

(to new offices in the suburb of Vidy) of the International Olympic Committee (IOC), thereby freeing up a fair amount of space at its former premises at Avenue Général-Guisan 70, and by the move of Nespresso's global headquarters to Vevey, which has freed up just under 11'000 m<sup>2</sup> at the Point Rive development. In addition, the relocation of the largest tenant in the World Trade Center Lausanne (close to Blécherette airport) has freed up space of 2,000 m<sup>2</sup>.

**Outer business district: relatively good absorption**

As in other major centers, the majority of available office space in Lausanne (58%) is to be found in the outer urban belt, which is largely characterized by major projects. In contrast to the situation faced by the outer business districts of other major centers, however, total supply of available space in Lausanne has declined since last year, and now amounts to some 124,000 m<sup>2</sup>, or a supply rate of 9.9%. In the outer business district, a significant proportion of advertised premises are still at the construction or planning stage. The continually growing Biopôle technology park in Epalinges is currently advertising some 8,500 m<sup>2</sup> for companies active in life sciences. In Renens, which boasts one of the highest POI densities outside of the city center, a large amount of space has already been pre-let in the Parc du Simplon; the only available office space remaining is some 2,500 m<sup>2</sup> that will be ready for occupancy from 2023. By contrast, the marketing of office space for the Quai Ouest project at Renens station is proceeding more sluggishly. As in 2019, just 37% of office space has been let. The high supply of space to the west of Lausanne, which is easily accessible and offers a high POI density in certain places, is sucking a certain amount of demand away from the city center. This is also confirmed by the vacancy statistics, which show that vacant office space in the Ouest lausannois district has declined at a similar rate to space within the city limits.

**Dwindling vacancy rate causes rents to rise**

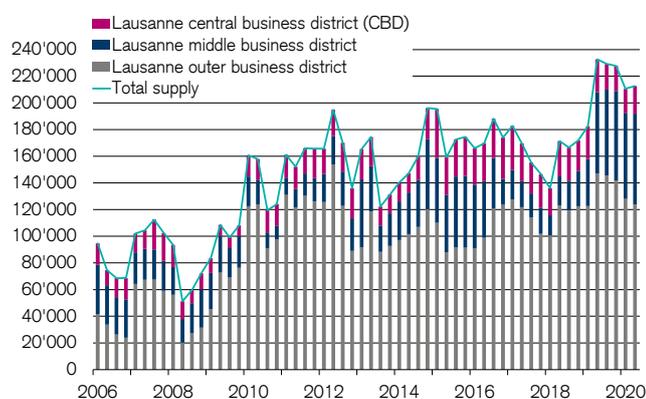
In Canton Vaud, the volume of space officially recorded as vacant fell to 51,000 m<sup>2</sup> in 2020 (-19%). In the Lausanne region, vacancies recorded an even higher year-on-year decline of 26% to less than 25,000 m<sup>2</sup>, taking them significantly below the long-term average (since 2005). The shortage of large office premises within the city limits is also reflected in rent levels. While the numerous development projects resulted in asking prices declining by some 7% between 2016 and 2018, the growing scarcity of space has seen rents rise since 2019. Asking prices continued this upward trend in the first half of 2020. While this trend can hardly be expected to continue against the backdrop of the coronavirus crisis, it does testify to the intact absorption capacity of the Lausanne office market.

**Building permit issuance reflects strong development activity**

The volume of approved office space has been at an above-average level almost continuously since the end of 2015 (Fig. 35). This is partly a consequence of brisk development activity, particularly to the west. The existing railway station projects in Morges (Quartier des Halles, Îlot Sud) and Renens (Parc du Simplon, Quai Ouest) will soon be joined by the above-mentioned projects Central Malley and La Rasude. To this list of new office space we can add the just completed OASSIS project in Crissier (ground floor), the QG complex under construction in Bussigny, and a further expansion of Biopôle in Epalinges. Although Lausanne has so far shown impressive absorption capacity, the overall volume of advertised space should prove difficult to absorb fully. This in turn means that not every planned project is likely to be realized.

**Fig. 34: Supply of available office space**

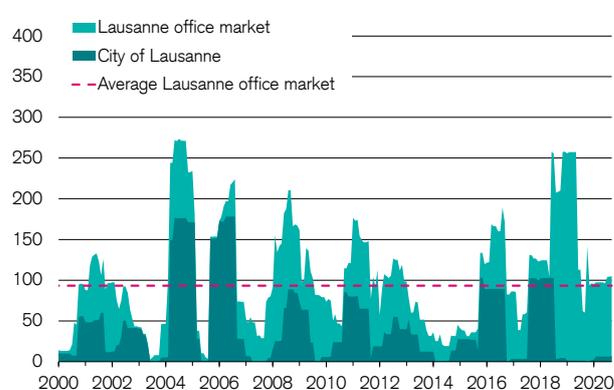
Total of quarterly advertised space (existing stock and newbuilds), in m<sup>2</sup>



Source: Meta-Sys AG, Credit Suisse. Last data point: Q2 2020

**Fig. 35: Construction approval volumes for office space**

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



Source: Baublatt, Credit Suisse. Last data point: September 2020

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