Current evaluation of the real estate market

Executive Summary

Market environment

The strong demand for rental apartments and home ownership is supported by the positive economic situation and immigration. Initial signs of a revival in construction activity are noticeable, but the supply remains limited.

Owner-occupied home market segment

Falling financing costs continue to drive transaction prices upward. The excess demand supports this trend, but the lending criteria of banks limit buyers' willingness to pay higher prices.

Investment property market segment

The transaction market for investment properties is experiencing an active repositioning of market participants, as fears of rising interest rates and significant price corrections have almost disappeared. While newer properties in prime locations remain in high demand, properties with location deficits and renovation needs offer potential price advantages.

Rental market segment

The mortgage reference interest rate is expected to decline soon due to falling mortgage rates, although there is no consensus on the timing. Asking rents continue to rise, and this trend is expected to persist.

Prognose

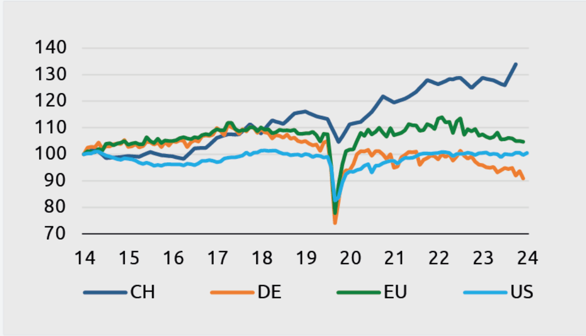
	Price development	*Demand*	*Supply*
Single-family house	↗	↗	→
Condominiums	↗	↗	→
Rental prices	↑	↗	↘
Residential yield real estate	↗	↗	↗

Source: smzh ag. The forecasts relate to a short-term period of up to 24 months.

Economic conditions

The Swiss economy continues to demonstrate resilience, recording growth of 0.50 percent in the second quarter, following a 0.30 percent increase in the first quarter. Particularly noteworthy is the performance of the industrial sectors, which contribute around a quarter to GDP. Based on the industrial production index, a positive decoupling from other economies was observed, indicating robust production activity. The service sector remained stable; however, consumer sentiment has improved compared to the previous year, pointing to optimistic prospects. Although the unemployment rate has risen slightly in recent months, it remains moderate, hovering around pre-crisis levels.

Industrial Production Index



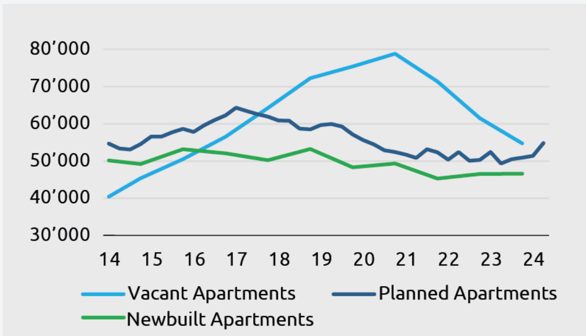
Source: Refinitiv Eikon

Supply and demand

According to the Federal Statistical Office, Switzerland surpassed the nine million resident mark by the end of June. The high demand for Switzerland as a place to live is providing positive momentum for the labor market and economy but is increasingly straining infrastructure. A key example is the housing market: the vacancy rate dropped from 1.15 percent last year to 1.08 percent. In 18 out of 26 cantons, vacancies decreased, and 21 cantons are experiencing a housing shortage. Particularly in the rental housing segment, the number of vacant units decreased by 3,800, while vacant homeownership units increased by 1,000.

On the supply side, there are no major short-term reliefs, especially in the rental market, where asking rents continue to rise. Encouraging signs, however, can be seen in the construction sector: the number of building permits increased in the second quarter. The trend of stabilizing construction costs and declining interest rates is making construction investments attractive again due to strong demand. However, this development won't immediately translate into a larger housing supply, as the building applications still need to be approved.

Residential Construction Activity



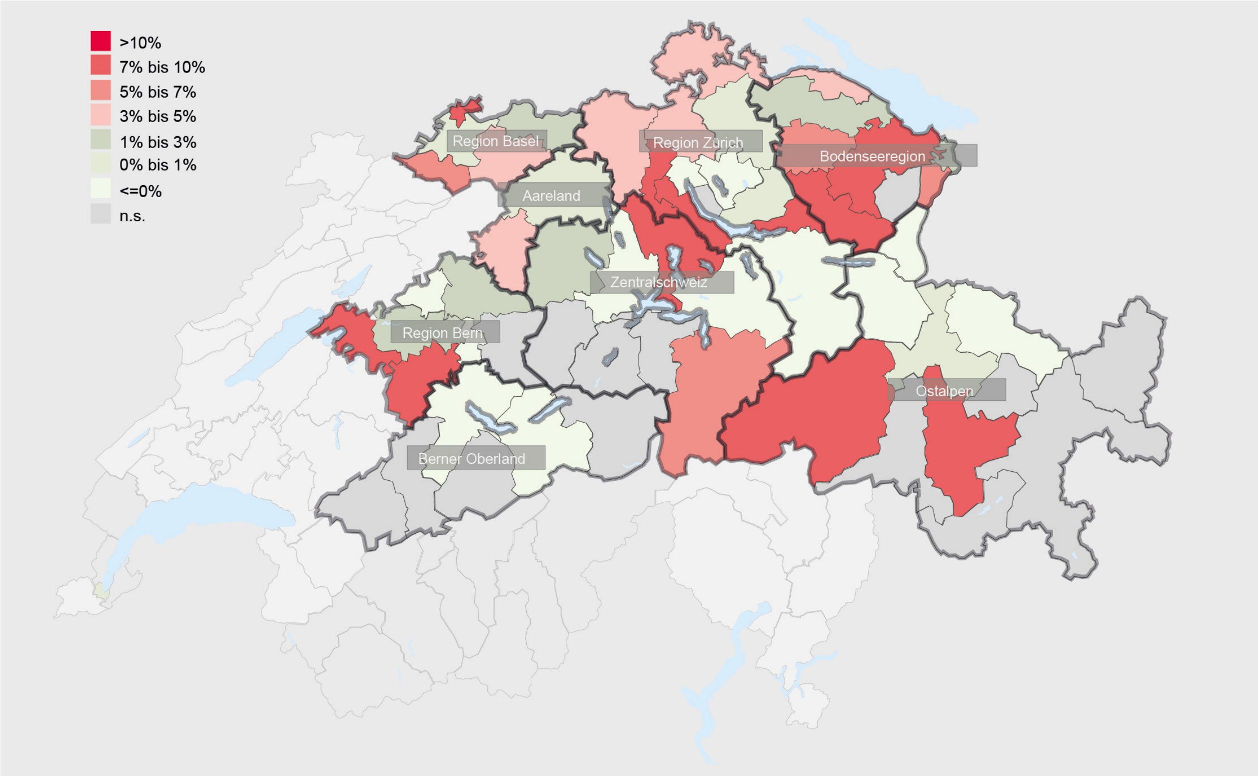
Source: Federal Statistical Office, Baublatt

Residential Properties Price Outlook

Transaction prices for single-family homes and homeownership in Switzerland increased slightly in the second quarter of 2024, while liquidity remained at the same level as the previous year. Lower financing costs and a stable economic situation are amplifying excess demand, which is expected to lead to moderately rising home prices in the coming quarters. At the same time, banks are acting more cautiously regarding affordability and valuation, which limits buyers' purchasing power. Since home prices have risen faster than incomes and savings in recent years, many are turning to condominiums, which are still more affordable. However, a single-family home remains the dream for many, which is why prices in this segment are also expected to continue rising.

Price trend for single-family homes (as at September 2024)

Percentage change in prices per square metre compared to the previous year



Source: The map is divided into labour market regions and large labour market regions according to the statistical classification method of the Federal Statistical Office. The prices are based on supply data. n.s. = not statistically significant.

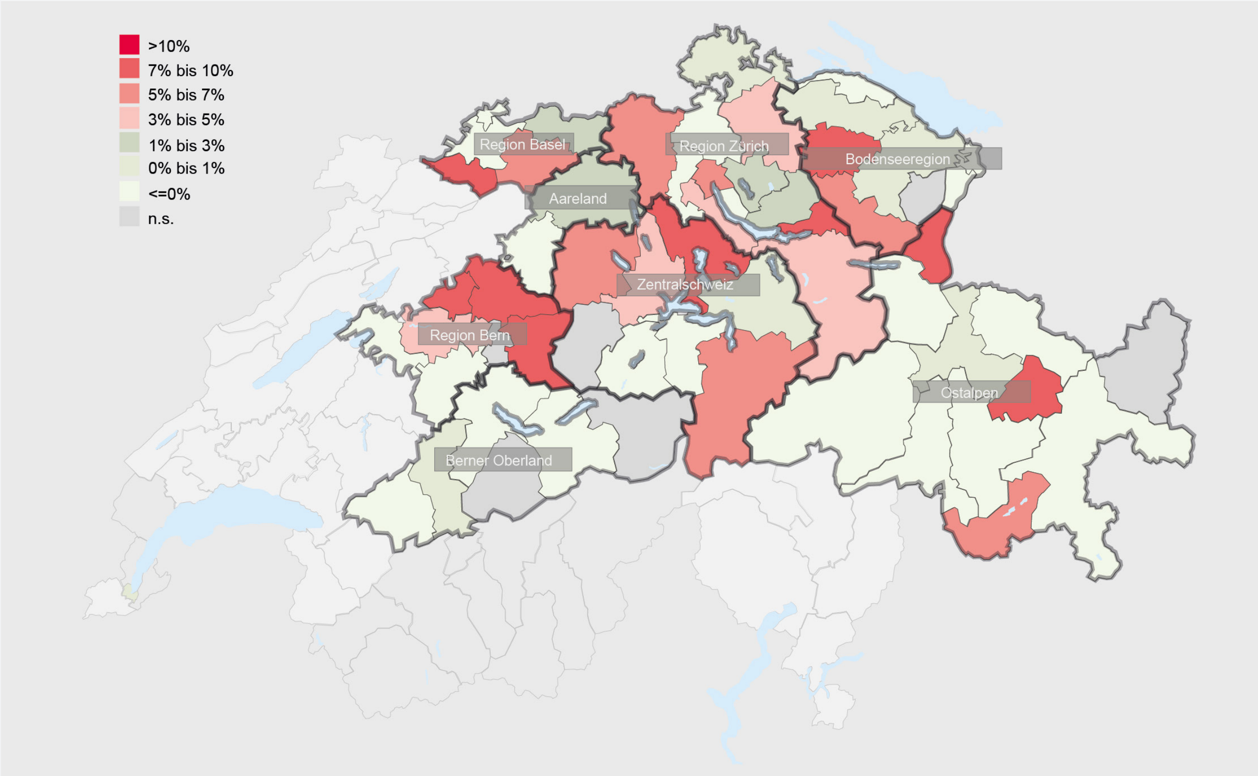
	Price trends for single-family homes			***Development offer (open adverts)***	
Major labour market region	*Price range CHF/m2 (lower midfield / median / upper midfield)*	*Change compared to previous year*	*Change compared to September 2022*	*Trend 12 Months*	*Trend 36 Months*
Central Switzerland		1%	3%	↑	↑
Zurich region		3%	8%	↑	↑
Basel region		8%	7%	↑	↑
Eastern Alps		6%	17%	↑	↑
Switzerland		5%	11%	↑	↑
Lake Constance region		4%	7%	↑	↑
Bern region		6%	12%	↑	↑
Bernese Oberland		-2%	6%	↑	↑
Aare region		4%	5%	↑	↑
	2'500 5'000 7'500 10'000 12'500	-2.5% 0.0% 2.5% 5.0% 7.5% 10.0%	-5% 0% 5% 10% 15% 20%		

Reading example: The median price for the large labor market region Zurich is 8'700 CHF. The prices per square meter of half of all advertised offers are between 7'000 CHF and 10'500 CHF (light blue area).

Source: The information shown is based on advertisement data.

Price trend for condominiums (as at September 2024)

Percentage change in prices per square metre compared to the previous year



Source: The map is divided into labour market regions and large labour market regions according to the statistical classification method of the Federal Statistical Office. The prices are based on supply data. n.s. = not statistically significant.

	Price development of condominiums			***Development offer (open adverts)***	
Major labour market region	*Price range CHF/m2 (lower midfield / median / upper midfield)*	*Change compared to previous year*	*Change compared to June 2022*	*Trend 12 Months*	*Trend 36 Months*
Zurich region		3%	7%	→	↑
Central Switzerland		6%	11%	→	↑
Eastern Alps		0.3%	7%	↑	↑
Basel region		0.7%	3%	→	↗
Bernese Oberland		0.5%	4%	→	↑
Switzerland		4%	8%	↗	↑
Bern region		4%	6%	→	↑
Lake Constance region		1%	12%	↗	↑
Aare region		5%	6%	↗	↑
	2'500 5'000 7'500 10'000 12'500 15'000	-2.5% 0.0% 2.5% 5.0% 7.5% 10.0%	-5% 0% 5% 10% 15% 20%		

Reading example: The median price for the large labor market region Zurich is 8'600 CHF. The prices per square meter of half of all advertised offers are between 7'100 CHF and 11'400 CHF (light blue area).

Source: The information shown is based on advertisement data.

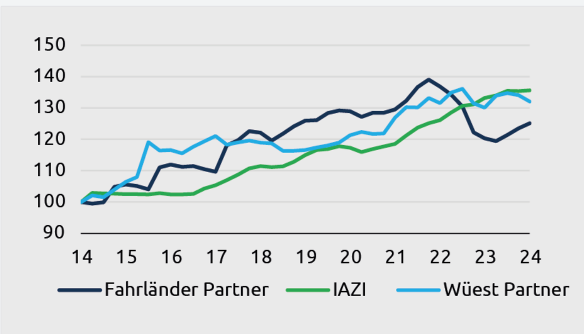
Investment property

The transaction market for investment properties is experiencing an active repositioning of market participants, as fears of rising interest rates and significant price corrections have almost disappeared. After a year in which uncertainties greatly hindered capital increases, some indirect real estate investment vehicles, such as funds and investment foundations, are strategically taking advantage of the current market situation to pursue their growth objectives. Successful capital increases have already been realized, with many more announced. These funds are primarily being directed towards portfolio expansion, the acquisition of new properties, and the optimization of debt financing.

While newer properties in prime locations remain in high demand and command high prices, properties with location deficits and renovation needs offer potential price advantages. This trend is expected to continue due to sustained buyer interest. Investors committed to sustainability criteria must decide whether to sell unsuitable properties or invest in them, which carries risks related to process, approval, and construction costs. Where renovation is economically viable, it is often undertaken. However, if the risks outweigh the benefits, portfolio managers tend to dispose of such properties and invest in newer ones, in line with the “capital recycling” strategy. Private investors, who are subject to less stringent criteria, often emerge as potential buyers for less sustainable but economically profitable properties.

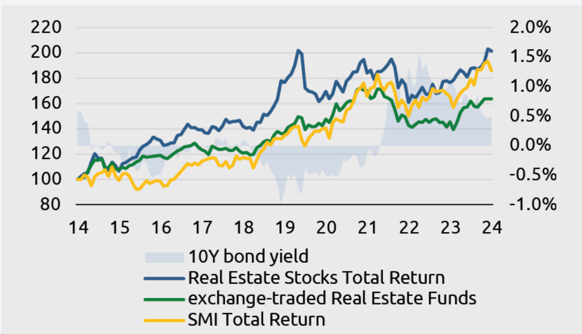
Price indices for direct residential investment properties indicate stable price trends. Similarly, the traded shares of listed real estate investments have recovered significantly. The decline in interest rates, especially for long-term durations, along with positive macroeconomic fundamentals, suggests an attractive stock market year for many investments.

Price indices for residential investment properties



Source: Fahrländer Partner, IAZI, Wüest Partner, SNB

Performance of Indirect Real Estate Investments



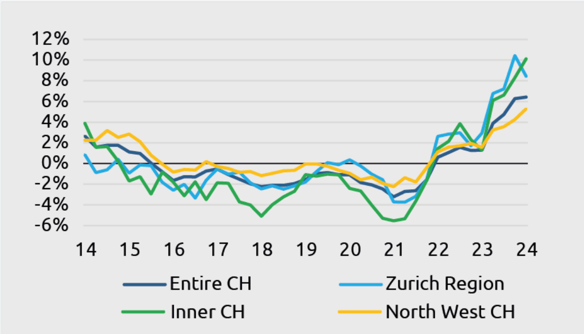
Source: SIX Group AG, SNB

Rental Property Market

The gap between offered and existing rents is likely to continue widening, which could financially benefit current tenants. The mortgage reference interest rate remains at 1.75 percent in September, while the average interest rate stands at 1.67 percent. Due to declining mortgage rates, a reduction in the reference rate to 1.50 percent is expected. However, there is disagreement about the timing: for example, ZKB forecasts an adjustment in 2026, while Raiffeisen expects it no later than March 2025—a view we share. Tenants could then request a rent reduction of around 3 percent.

For tenants looking to move, the growing disparity is unfavorable. The intensified lock-in effect is preventing many from changing apartments, exacerbating the misallocation of housing and making the search for a new home even more difficult. Affordable rental offers remain rare, and despite a possible increase in construction activity, supply is unlikely to meet demand. This excess demand is causing offered rents to continue rising. In the second quarter, Wüest Partner's rental index for offered rents recorded a 1.2 percent increase compared to the previous quarter, equating to an annual growth rate of 6.4 percent—particularly strong in regions like Zurich and Central Switzerland.

Rental Price Development by Region



Source: Wüest Partner, SNB

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