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SWITZERLAND

OFFICE MARKET OUTLOOK
Q1 2016



OCCUPIER TRENDS

INVESTMENT TRENDS

MARKET OUTLOOK

KEY FINDINGS

Zürich and Geneva remain the most popular office locations in Switzerland.

The removal of the CHF/EUR exchange rate ceiling in January 2015 noticeably impacted occupiers and investors, particularly those from the Eurozone area, during the first half of 2015.

Prime office rents in Zürich and Geneva are expected to come under some downward pressure in the coming months as vacancy rates continue to tick upwards.

Despite currency limitations, commercial investment in Switzerland reached approximately CHF2.3 billion in 2015, down 31% on 2014 but in line with the five-year average.

Prime office yields are forecast to remain low, but stable, during the first half of 2016.

OCCUPIER MARKET

Although economic conditions in Switzerland weakened at the start of 2015, they have since stabilised, enabling Zürich and Geneva's office sector to remain relatively active, particularly during the second half of the year.

The office markets of Switzerland's major cities have seen significant development activity in recent years, however there is still a high volume of low quality office buildings throughout the country. With the economy now stabilising, and negative interest rates of -0.75% remaining in place throughout 2015, development opportunities are beginning to look a lot more attractive than they have done in recent months, particularly in Zürich and Geneva, Switzerland's largest office markets.

Zürich has seen the highest level of recent development, with about 75,000 sq m entering the market in 2015. This caused the city-wide vacancy rate to increase slightly to 2.9% at the end of the year, up 20 bps in twelve months. Although low in a European context, the vacancy rate remains relatively high when compared to the previous lows seen before the financial crisis.

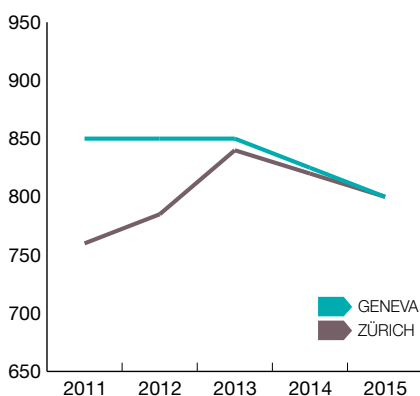
Although new development for 2015 was high, there is still a great deal of low-quality stock in the city. Nevertheless, the new deliveries brought with them some relatively large occupier deals – Samsung Electronics and Alexion Pharmaceuticals both leased space in an office building at

Giesshübelstrasse 30, occupying the 2nd and 3rd floors respectively.

In contrast, office development in Geneva was lower, with completions totalling approximately 30,000 sq m in 2015. However, like Zürich, vacancy rates in the city reached high levels of 5.3% in Q4 2015, compared to previous lows of just 1% five years ago. The rising vacancy rates in both cities have not only been because of the slowdown in development but also because office demand is beginning to shift towards the secondary cities of Bern and Basel, where the lower rents and occupancy costs appear more favourable for tenants.

Prime office rents in Zürich and Geneva remain the highest of the major Swiss cities, both at CHF800 per sq m per annum in Q4 2015. Rents in both cities declined on the same period in 2014, particularly in Q1 after the CHF/EUR exchange rate ceiling was lifted in January. Although rents in Swiss Franc decreased, Euro values rose. While this did not affect Swiss occupiers who pay rents in the local currency, rents were approximately 15% higher, at the end of 2015, for European firms who are quoted rents in Francs, but opt to pay in Euros.

FIGURE 1
Prime office rents
CHF per sq m per annum



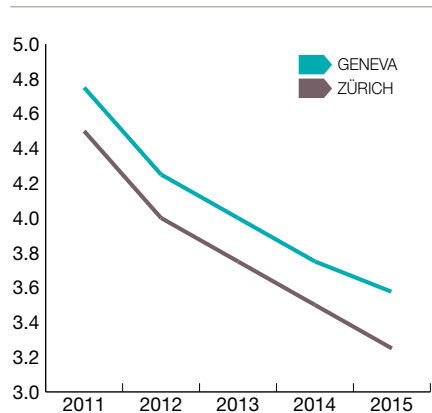
Source: Knight Frank Research / Partner Real Estate

Key office leasing transactions in 2015

City	Address	Tenant	Size (sq m)
Zürich	Flurpark Altstetten	Ringier Axel Springer	10,000
Zürich	Bleicherweg 19	BSI Bank SA	4,500
Zürich	Giesshübelstrasse 30	Samsung Electronics	4,500
Zürich	Giesshübelstrasse 30	Alexion Pharmaceuticals	4,200
Geneva	Pont Rouge	Ecole Club Migros	6,500
Geneva	Pré de la Bichette 1	Deloitte	3,600
Geneva	Chemin du Château-Bloch 11	Groupe Gerofinance	3,227
Geneva	Pont Rouge	KPMG	3,000

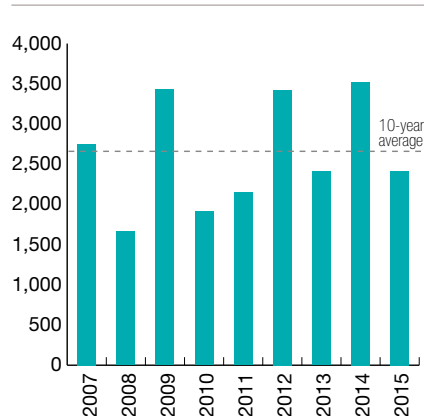
Source: Knight Frank Research / Partner Real Estate

FIGURE 2
Prime office yields
%



Source: Knight Frank Research / Partner Real Estate

FIGURE 3
Switzerland commercial* investment volumes
CHF million



Source: Knight Frank Research / Partner Real Estate / Real Capital Analytics

*Office, retail, logistics and hotel

INVESTMENT MARKET

Commercial investment in Switzerland has been somewhat subdued in recent years, however 2014 performed exceptionally well with volumes exceeding CHF3.5 billion, owing to multiple large-scale deals across all sectors. By contrast, commercial volumes in 2015 fell to CHF2.3 billion, due to an absence of such large deals. However, the Swiss real estate market is relatively opaque, with many deals going unreported, making it difficult to assess the true performance of the market.

In 2015, a handful of deals in excess of CHF100 million were announced in Switzerland, the largest and most publicised being the acquisition of the former UBS building in Geneva by Swiss Life for CHF535 million in January. The top three deals were from the office sector, which performed best during the year, taking a 61% share of annual commercial investment volumes.

Cross-border investment remains at low levels, accounting for just 27% of total commercial investment in the country. Only two non-Swiss investors purchased in the office market in 2015 – US equity fund Colony Capital acquired a small office portfolio for CHF175 million, in addition to AXA’s acquisition on Rue du l’Université for CHF40 million. The lack of cross-border interest was mainly attributed to the currency change, pricing out some buyers, and the low levels of investment stock.

In comparison to other European cities, where higher yields are generally achieved, prime office yields remain low across all the major Swiss cities. At the end of 2015, yields in Zürich and Geneva stood at 3.25% and 3.5% respectively. Prime yields in both cities have fallen gradually over the last four years and are now equal to, or lower than, the larger office markets of Paris and London.

Key office investment transactions in 2015

City	Address	Seller	Buyer	Approximate price (CHF)
Geneva	Rue du Rhône 8	UBS	Swiss Life	535,000,000
Geneva	Rue du Rhône 62	EUNATE Real Estate	Swiss Life	170,000,000
Zürich	Airgate, Oerlikon	Barana	City of Zürich	128,000,000
Geneva	Rue du Rhône 21	LGT Bank	Rhône Immobilien	124,300,000
Geneva	Chemin Grenet 21	Hôtel Industriel des Galants	Crédit Suisse Funds	106,650,000
Zürich	Eggbühlstr. 21-25	Allreal Group	City of Zürich	81,000,000
Zürich	Kuoni HQ	Kuoni	Zürich Cantonal Bank	75,000,000

Source: Knight Frank Research / Partner Real Estate / Real Capital Analytics



The former UBS building in Geneva sold for CHF 535 million

KNIGHT FRANK VIEW

With office development in Zürich and Geneva looking relatively active for the next few years, prime rents are likely to continue in their downward trend as landlords compete to attract more tenants. Current occupiers, whose contracts are up for renewal in the coming months, may be able to take advantage and renegotiate contracts as a result of the rising vacancy rates, which may rise further in the short-term.

With many investment deals concluded privately, Switzerland remains a challenging market for all investors, particularly given the high competition faced for publicly available assets. Nevertheless, commercial real estate investment sentiment is expected to remain positive in 2016, with the negative interest rates and government bond yields making borrowing funds for assets a lot more desirable, even for the lower-yielding opportunities.



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