Dear readers,

The year 2015 was a mixed one for suppliers and developers of office space. The "Wailing Wall" among landlords grew another brick higher and wider again, but this presents tenants with more and more opportunities to upgrade their locations and improve their rental-space situation. One person’s sorrow is another person’s joy.

It would be easy to employ the usual arguments to chalk this up to cyclical supply-and-demand behaviour. In reality, though, it is becoming increasingly clear that the office-space market is undergoing a major paradigm shift.

The nearly 30 past years of political and spatial-planning restrictions have almost automatically given real estate owners rent hikes year for year without having to do much to earn them. This has been true for Zurich and especially for Geneva. But the perpetual scarcity of real estate that we had faced for decades is now increasingly easing more and more visibly. “The market is tight, so rent prices are high” no longer holds today.

“Markets are efficient” – that maxim also goes for real estate markets. Although planning horizons, lease term periods and property development realizations take years or even decades, they follow the same mechanisms that apply to other markets. And suddenly it becomes obvious that the stock of inner-city real estate exhibits obsolete structures. Infrastructure such as public transportation links is migrating geographically and creating new, more efficient transportation hubs. Places outside the large cities’ political sphere of influence are developing their own strategies and are offering new, modern site concepts. And, last but not least, tenants' needs are also changing.

The paradigm shift away from scarce and cramped to open and expansive calls for rethinking on the part of office real estate owners, developers, investors and users. Properties are once again in need of a USP (unique selling point) and stand in permanent competition amid transparent market conditions that more and more tenants are able to comprehend. Our 2016 office market study examines this fact.

Alongside the big office markets of Zurich, Lausanne, Bern and Basel, this year we have concentrated on Geneva, which is not just the second-largest office market in Switzerland and the economic engine of the “arc lémanique”, but also a key growth market for JLL.

The present opening of the Geneva market and the transparency that is currently taking hold of it also signify a changing of the guard in the real estate sector. More and more market participants today expect their consultants to provide them with fair, transparent and professional service. That's what JLL stands for.

I wish you a lot of inspiration as you read your way through the different articles in this study, and I am always delighted to receive your feedback.

Sincerely,
Jan Eckert
Geneva office market: New subcentres are arising
On the basis of a scenario analysis, we forecast a mild increase in market-wide vacancies over the next five years. Along with the CEVA rail line and its accompanying real estate projects, Geneva looks destined to see new, well-connected office subcentres spring into existence. The new competition could make some non-central office sites difficult to lease. This opens up opportunities to convert them into housing.

Lease incentives and their impact on valuations and financial reporting
Lease incentives are an integral component of lease agreements today. They should be adequately factored into property valuations over the long term. From an accounting standpoint, a clear separation between core & shell rent and lease incentives would be welcomed.

Transactions: Who really is buying?
The transaction market for investment properties is currently dominated by Swiss institutional investors in the pension and life insurance sector. Foreign investors, in contrast, are hardly active any longer in light of low real estate yields.

Marketing: The rewards and risks of leases in foreign currencies
Leases denominated in a foreign currency can serve as an additional tool for marketing a property to foreign tenants. Under such leases, the landlord assumes the exchange-rate risk, but can hedge part of that risk.

New utilisation and business models for office space – coworking as a success model
Coworking is a modern work-practices business model that employs open-plan work spaces to put the concept of community in the foreground and to appeal to new demand groups.

Economic climate
Lower but positive growth prospects; the interest-rate environment remains accommodative.

Switzerland investment market
Robust demand for prime office properties; restrained demand for Class B and Class C space.

Zurich office market
Stabilisation in CBD continues, but overall it is still a tenant’s market.

Geneva office market
Downward pressure on asking rents and increased vacancies in CBD.

Bern office market
Noticeable increase in vacancies expected due to consolidation activity.

Lausanne office market
Stable outlook within the city limits due to little new construction activity in central locations.

Basel office market
Availability remains tight despite new office-space completions for landlords’ own use.

Europe office market
The dynamics of the tenant markets are picking up; unabated boom in the investment market.
Focus Topics
Geneva office market: New subcentres are arising

The general rent-price level in Geneva remains high. The completion of the CEVA rail line and its accompanying real estate projects will give rise to new office locations. The area around the Lancy – Pont-Rouge train station in La Praille – Acacias particularly may establish itself in the medium term as the new subcentre in Geneva alongside the city’s central business district (CBD). A scenario analysis indicates that the supply of office space will remain elevated over the next five years. Competition from new office locations is fuelling predatory competition in the Geneva office market. Some office properties in non-central locations could become more difficult to lease. Many such office properties are situated in attractive residential locations, opening up opportunities for building conversions.

Is the high rent-price level in Geneva sustainable?

The Geneva office market is currently in a cyclical cooling stage. Its volume of available office space expanded by around 7.2% in 2015 to 170,000 m², equating to an availability rate of 5.1%, and prime rent fell by 5.4% to CHF 875/m² per annum (see pages 33–35 for more details on the current office-market situation in Geneva). In addition to looking at cyclicity, it is also worth analysing long-term trends. Despite the recent increase in vacancies, the supply of large modern office spaces in Geneva is still tight. Consequently, asking rents for older office spaces even in non-central locations rarely lie below CHF 400/m² per annum. However, rent details in advertisements and lease contracts in Geneva often do not differentiate between core & shell rent and tenant fit-out costs. Effective rent prices, i.e. factoring in lease incentives such as rent-free periods or landlord financing of tenant fit-outs, have already dropped to CHF 300/m² per annum in individual instances.

Nevertheless, the rent-price level in Geneva for office space outside the CBD is generally very high compared to the other large cities in Switzerland, as an overview of rent-price ranges shows (Figure 1). This is partially attributable to the fact that over the past several years, the city of Geneva and vicinity have hardly seen an emergence of any major urban building development zones and new office-space subcentres (like Bern Wankdorf or Zurich West & North, for example) that are well connected with public transportation and that would thus be able to exert downward pressure on rents for existing properties in non-CBD locations. This is bound to change in the years ahead as Geneva’s local public transportation network expands.

Emergence of new, attractive subcentres thanks to the buildout of the local public transportation network

The emergence of new subcentres in Geneva, like in other cities, will proceed in line with the buildout of the public transportation network. Route frequencies on the existing network are being increased, and the new Cornavin – Eaux-Vives – Annemasse (CEVA) rail line is scheduled to be completed by the end of 2019. The idea of linking the French railway grid in the Upper Savoy region with the Swiss railway grid on the northern shore of Lake Geneva originally stemmed from the 19th century and is now finally being put into action. At a total length of more than 16 kilometres, the project encompasses the construction of the railway tracks and the expansion or newbuild construction of five stations between Cornavin and Annemasse (see Figure 2). Numerous accompanying real estate and infrastructure projects are being built around those rail stations, giving rise to new urban centres. The projects comprise a mix of new residential and commercial space, but
also include cultural facilities such as the Nouvelle Comédie theatre in Eaux-Vives. In the office-space department, the Swiss Federal Railways company plans to develop approximately 4,500 m² of usable floor space at the Eaux-Vives station and around 4,100 m² of usable floor space at the Chêne-Bourg station by sometime in 2020.

But the most important newbuild projects are envisaged to be erected around the Lancy – Pont-Rouge station. The Swiss Federal Railways company’s Pont-Rouge project aims to build approximately 100,000 m² of new office space over a number of stages over the next ten years. That equates to around 3.0% of the Geneva market’s current total stock of office space. In an initial stage, 30,000 m² of office space will be built by the end of 2018; around 50% of that space has already been pre-leased. Net asking rents for office space in the Pont-Rouge buildings mostly range between CHF 420/m² and CHF 520/m² per annum. In addition to the office space, the Pont-Rouge project also encompasses a hotel, medical facilities, apartments and numerous restaurants and shops.

Furthermore, with its master plan for the Praille-Acacias-Vernets (PAV) area, the Canton of Geneva intends to develop a new urban district over the long term around the Pont-Rouge project. Over an area totalling 230 hectares, hundreds of thousands of square metres of new housing and commercial space is slated to be built between the years 2020 and 2060. To make room for those new buildings, some of the industrial and commercial enterprises that currently reside in the PAV area are to be relocated to municipalities in the Canton of Geneva that are farther away from the city centre.

The new supply of modern office space at the CEVA stations looks destined to lastingly shape the evolution of the Geneva office market. In our opinion, the area around the Lancy – Pont-Rouge train station in La Praille – Acacias particularly has good potential to establish itself as the leading office subcentre in Geneva in the future alongside the city’s CBD.

**Demand: Medium-term absorption potential**

The supply of new office space coming onto the market can be absorbed by added demand on the part of new and existing enterprises or by company relocations within a market zone. Relocations, however, cause vacancies in other submarkets. Analogous to our 2015 office market study, with the help of a simplified scenario analysis we want to analyse the medium-term demand potential in the Geneva market to gauge the impact that the supply of new office space coming onto the market will have on vacancies. We define the Geneva market as the area comprising the municipalities Geneva, Vernier, Meyrin, Carouge and Grand-Saconnex.

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**Figure 2**

CEVA rail link – route and stations

Source: JLL
We analyse the growth component and the efficiency component of demand. The growth component conveys the added need for office space caused by increasing office employment. The efficiency component captures existing tenants’ reduced need for office space due to more efficient leasing. On the supply side, we factor in the planned pipeline of new construction activity, building demolitions and repurposings.

Employment growth is the single biggest driver of demand for office space. Service-sector employment in the Canton of Geneva region increased by 1.8% per annum on average between Q3 2001 and Q2 2015 (or by around 28.2% over the entire period). We assume that the employment growth rate will level off over the next five years. A softening of employment growth dynamics appears realistic. The appreciation of the Swiss franc and the political pressure to reduce immigration (including the number of cross-border commuters) will probably cause demand for office space to grow to a lesser extent than in recent years. Moreover, two key sectors of the local economy are currently facing tough challenges: the financial industry, which directly employed around 37,400 people in the Canton of Geneva in 2014, is struggling with mounting regulation and contracting profit margins, and the trade and logistics sector, with its roughly 8,000 employees in Canton Geneva, is contending with the collapse in commodity prices.

Since employment growth forecasts are always fraught with a lot of uncertainty, we will calculate different scenarios. In the baseline scenario, we project a much lower service-sector employment growth rate of 1.0% per annum for Geneva for the next five years. In the positive scenario, dynamic employment growth continues apace at an annual rate of +1.5%, whereas in the negative scenario we assume growth of just +0.5% per annum. Based on enterprise structure statistics from the Swiss Federal Statistical Office, we estimate the current number of service-sector workers in the municipalities analysed at a total of approximately 225,000 people. Under the baseline scenario, the number of people employed in the service sector will thus increase by around 11,500 by the end of 2020, which, at the prevailing office employment ratio and space usage ratio, implies added demand for around 134,500 m² of office space. We assume that the efficiency component will reduce existing tenants’ need for office space by approximately 1.3%, or 39,000 m², of the current stock of space over the next five years.

We use the current construction pipeline as a guidepost for gauging new building activity. In the baseline scenario, 90% of the planned 154,000 m² of new office space gets completed. All projects get completed in the positive scenario, whereas in the negative scenario only 80% of the planned office space comes onto the market. The amount of office space that exits the market due to building demolitions or conversions generally tends to decrease in inverse relation to the magnitude of demand for office space. Table 1 summarises the main assumptions and outcomes for the different scenarios.

Table 1
Scenario analysis for the Geneva office market for the 2016–2020 period

<table>
<thead>
<tr>
<th>Assumptions</th>
<th>Baseline scenario</th>
<th>Positive scenario</th>
<th>Negative scenario</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employment growth 2016–2020</td>
<td>5.1%</td>
<td>7.7%</td>
<td>2.5%</td>
</tr>
<tr>
<td>Annual growth rate</td>
<td>1.0%</td>
<td>1.5%</td>
<td>0.5%</td>
</tr>
<tr>
<td>Net demand for space 2016–2020 (in m²)</td>
<td>95,300</td>
<td>164,400</td>
<td>27,400</td>
</tr>
<tr>
<td>- Growth component 2016–2020 (in m²)</td>
<td>134,500</td>
<td>203,600</td>
<td>66,600</td>
</tr>
<tr>
<td>- Efficiency component 2016–2020 (in m²)</td>
<td>−39,200</td>
<td>−39,200</td>
<td>−39,200</td>
</tr>
<tr>
<td>New construction activity 2016–2020 (in m²)</td>
<td>138,600</td>
<td>154,000</td>
<td>123,200</td>
</tr>
<tr>
<td>Building demolitions or repurposings 2016–2020 (in m²)</td>
<td>−16,500</td>
<td>−8,300</td>
<td>−24,800</td>
</tr>
<tr>
<td>Existing stock of space end–2015 (in m²)</td>
<td>3,308,700</td>
<td>3,308,700</td>
<td>3,308,700</td>
</tr>
<tr>
<td>Existing stock of space end–2020 (in m²)</td>
<td>3,430,800</td>
<td>3,454,400</td>
<td>3,407,100</td>
</tr>
<tr>
<td>Available space end–2015 (in m²)</td>
<td>170,400</td>
<td>170,400</td>
<td>170,400</td>
</tr>
<tr>
<td>Available space end–2020 (in m²)</td>
<td>197,100</td>
<td>151,700</td>
<td>241,300</td>
</tr>
<tr>
<td>Availability rate end–2015</td>
<td>5.1%</td>
<td>5.1%</td>
<td>5.1%</td>
</tr>
<tr>
<td>Availability rate end–2020</td>
<td>5.7%</td>
<td>4.4%</td>
<td>7.1%</td>
</tr>
</tbody>
</table>

Source: JLL
Baseline scenario:
Mild increase in vacancies expected

Our analysis in the baseline scenario points to potential net added demand for 95,300 m² of office space in the Geneva market over the next five years. That is a little less than the net addition to the stock of office space that is expected to come onto the market over the same period. We therefore foresee a mild increase in office vacancies in the Geneva market in the baseline scenario. However, this outcome reacts very sensitively to employment growth assumptions, which explains the substantial differences between the projected availability-rate trajectories for the different scenarios (Figure 3). Our long-term analysis, though, forecasts that the supply of available office space in Geneva will remain elevated in the years ahead even under the positive scenario.

Potential winners and losers in the Geneva market

The emergence of a new subcentre around the Lancy – Pont-Rouge rail station looks destined to intensify the displacement process between and within subcentres. Within individual subcentres, in terms of marketing we are noticing that as competition intensifies, increasingly it is only office space located within short walking distance to a train station that is still enjoying good acceptance in metropolitan areas. Hence, in addition to a good macro-location, having a good micro-location also is becoming increasingly important to the leasing potential of office space.

In Geneva, the CBD market zones on the left and right banks of the Rhône and Lake Geneva are likely to retain their dominant prominence as office locations even in the medium term despite the current up tick in vacancies because the existing infrastructure there and its accessibility are simply too good. We also see intact long-term demand potential in the International Organisations district. That district benefits from an unparalleled network of worldwide organisations that anchors existing office tenants in this segment and attracts new ones. The Global Fund, for instance, will move its Geneva headquarters from the airport region to a new building on the Route de Ferney in Grand-Saconnex in 2017. However, in many cases, the buildings occupied by international organisations are not leased on the “free market”, but instead belong directly or indirectly to state owners. Within the International Organisations district, the area around the Sécheron train station also has the potential to develop into a subcentre, as evidenced by, among other things, the opening of the new JTI headquarters there last year.

Predatory competition between subcentres will intensify

In the airport market area, in contrast, some large office buildings will probably have to contend with mounting vacancy problems as a result of the new competition. However, airport proximity should guarantee a certain amount of structural demand, coming also in part from the semi-industrial and logistics sector. Furthermore, in in-between neighbourhoods and outlying communities that have suboptimal transportation connections and whose structures resemble residential areas, we see a medium-term risk of leasing problems and downward pressure on office rents. This could affect secondary sites in the Plainpalais, Charmilles, Champel and Eaux-Vives districts inside the Geneva city limits and in suburban municipalities like Versoix outside the city.
Repurposing as an option in the event of persistent vacancies

New strategies therefore need to be devised for some older office buildings with persistent vacancies and little long-term demand potential in order to successfully place them back on the market again. One option would be to repurpose them.

A public referendum in June 2015 made it easier to convert office space into housing. The referendum significantly relaxed legislation for the first time since the 1962 enactment of the Canton of Geneva’s “Loi sur les démolitions, transformations et rénovations de maisons d’habitation” tenant protection act. Fifty-eight percent of the Geneva electorate voted to allow office and commercial space to be converted into housing in the future without any caps on target rent. Even though hard evidence is still elusive, it appears that the real estate sector is already increasingly contemplating repurposing projects, albeit mostly to convert office space into high-price housing.

In collaboration with the construction firm Implenia, last autumn JLL analysed criteria for assessing the economic profitability of converting old office space into new housing in Geneva and other Swiss cities. At a rent price premium of approximately CHF 80–100/m² per annum and upward, in many cases it will probably pay to convert older office buildings in need of renovation into housing. The rent price premium is necessary to finance the higher investment expenditures required to convert rather than renovate an office building.
The average rent price premiums in most districts and neighbourhoods in Geneva are still low at present because office rents in the city are generally expensive (Figure 4). Converting old office space into housing currently would earn a considerable median rent premium of more than CHF 100/m² per annum only in the Eaux-Vives/Champel district. However, if office rents fall market-wide by CHF 50/m² per annum, office-to-residential conversions in the Plainpalais and Charmilles districts would also become worthwhile on average. If one additionally factors in the generally shorter vacancy periods and lower discount rates for new housing relative to office space, repurposings are likely to be lucrative even at lower rent price premiums.

Conclusions

We think that interesting years lie ahead for the Geneva office market. Similar to the evolution of the market in other metropolitan areas, Geneva, too, looks destined to see demand for office space concentrate more densely on ideal office locations. This trend is being accelerated by infrastructure investments aimed at building out the public transportation network. The construction of the CEVA rail line and the long-term PAV master plan could particularly enable the area around the Lancy – Pont-Rouge train station in La Praille-Acacias to establish itself as the new subcentre in the Geneva office market alongside the city’s CBD. The new competition, though, could make it more difficult to rent out office properties in other non-CBD markets. However, many such office properties are situated in attractive residential locations, which opens up opportunities for building conversions.
“Ypoquai 37/39 & Dufourstrasse 28” in Zurich.
JLL acted as the exclusive transaction manager for the seller in 2015.

“Zypressenstrasse 60” in Zurich.
JLL acted as the exclusive transaction manager for the seller in 2015.

“Grafenauweg 2” in Zug.
JLL acted as the exclusive transaction manager for the seller in 2015.
JLL has served as an independent appraiser to Allreal Holding AG since 2000.

“Vulkanstrasse 106” in Zurich (photo: Allreal).

JLL has served as an independent appraiser to AXA Investment Managers Schweiz AG since 2013.

“Rue Général-Dufour 20” in Geneva.

JLL serves as an international appraiser to Crédit Agricole SA.

“Rue du Stand 64–66” in Geneva.

JLL has served as an independent appraiser to BVK since 2014.

“Alte Börse” in Zurich.

JLL has served as an independent appraiser to BVK since 2014.

“Alte Börse” in Zurich.
Lease incentives are an integral component of lease negotiations and contracts today. Heavy demand for rental space had long rendered rent discounts and lease incentives unnecessary. Today, however, both are increasingly likely to become a point of negotiation when a lease comes up for renewal. This has corresponding consequences with regard to valuations on the part of landlords and financial reporting on the part of tenants. From a valuation standpoint, it is unlikely to matter much whether effective rental income gets reduced by lease incentives or by rent discounts as long as both can be adequately factored into a discounted cash flow (DCF) model. From an accounting standpoint, a clear separation between core & shell rent and lease incentives would be welcomed. Moreover, rent-free periods ought to be spread evenly across the full term of the lease to smooth one-off effects. Lease conditions with all corresponding rental incentives should – at least theoretically and under the application of identical accounting standards – be recorded in mirror-image form on the balance sheets of landlords and tenants.

The office market in Switzerland is exhibiting a competitive climate in most of the country’s business centres. Tenants are in a strong negotiating position, so there is often considerable potential for downward adjustments in the negotiation of long-term leases. Five to ten years ago, some office rents in many submarkets were much higher than they are today. During the 2006/2007 period, for instance, leases for office space on Zurich’s Bahnhofstrasse could still fetch rent prices of more than CHF 1,000/m² per annum. At the moment, though, prime rents there hardly go any higher than CHF 800/m² per annum. At a multiple of 25 times, this decrease equates to value destruction amounting to CHF 5,000 per m². Alongside rent discounts, lease incentives are also increasingly coming into play in the renewal of existing leases and the signing of new leases for office space. Lease incentives can take different forms, and they have an impact on property valuations as well as accounting implications for landlords and tenants.

**Lease incentives in the current market climate**

Prospective tenants today are primarily interested in incentives that lower their infrastructure costs during the initial fixed lease term. Rent-free periods and landlord participation in tenant fit-out costs with no repayment obligation are particularly popular incentives. In the interest of staying competitive, rent-free periods are increasingly being granted particularly for the time it takes the lessee to complete the tenant fit-out work. Tenants are also hardly willing any longer to put up with dual rent payments when moving from an old to a new location. Consequently, it is no longer rare to see a six- to twelve-month rent-free period on a five-year lease, which, mind you, equates to a 10%–20% discount.

**Six- to twelve-month rent-free periods are no longer a rarity**

Landlords that are able to finance the tenant’s share of fit-out costs gain a certain competitive edge also this way. Landlord financing of a tenant fit-out enables longer amortisation periods to be applied to long-lived tenant fit-out elements, thus offering the tenant a lower total rent burden per square metre. Since the current trend is toward ever shorter lease terms, this presents a considerable advantage for tenants. In a perfect world, such financing agreements would be transparently written into leases and disclosed. This is the only way that one can later reconstruct what the landlord and tenant agreed on, and it is the only way that a third party can account for it correctly in a financial statement or property appraisal.

Leases that neither draw a distinction between the agreed core & shell rent and fit-out rent in the form of clear line-item definitions nor differentiate between core & shell rent and fit-out financing via an interest component and an amortisation component lead, under some circumstances, to incomplete and/or incorrect accounting statements and to distorted or incorrect valuations.

The same goes for early lease termination options that allow tenants to hand back space ahead of time. Incomplete disclosure of such tenant break options in accounting statements and valuations can cause nasty surprises. Recall the collapse of the formerly publically traded Canary Wharf PLC company. The previously undisclosed lease termination option held by one of its main tenants not only caused a disastrous plunge in Canary Wharf PLC’s stock price and triggered a subsequent takeover of the company by a competitor after said tenant vacated the building, but also led to a criminal investigation of the people responsible for the failure to disclose.
Stepped-rent leases are being used less and less frequently today. Such models are appreciated mostly by start-up enterprises or companies with rapid growth potential. Another thing that hardly gets talked about any longer in the current market climate is reducing the rate of general inflation that gets passed onto rent. Indexing to the Swiss consumer price index in most cases amounts to the full 100% because, on one hand, inflation in recent years has drifted downward on average, and on the other hand, it is much more lucrative to negotiate substantial incentives in a different form.

Different preferences among landlords

Landlords handle the granting of lease incentives in lease negotiations in different ways depending on the ownership structure. Market value is a chief consideration for an institutional investor. Hence, an institutional investor is interested primarily in concessions that least affect the market value of a property. Moreover, an institutional investor normally also has the financial wherewithal to, for instance, bridge rent-free periods more comfortably than can those investors that, for example, have high ongoing financing costs or rely on regular revenue streams. This means that private owners often operate from a cash-flow-driven viewpoint. Market value plays a subordinate role for them and is thus also rather infrequently appraised. The value of the property for the owner is tied to its ongoing rental income and long-term payouts. A private owner accordingly tends to be willing to lower rent in order to secure full occupancy for as long as possible. This assertion is backed by the fact that private owners often lack immediately available financial means to finance major investments in tenant fit-outs, etc.

Lease incentives in property valuations

All of the value drivers of the earnings potential of office properties, including lease incentives, should appropriately be lastingly factored into valuation models.

Rent-free periods or stepped rent are typically depicted in DCF models in accordance with the effective cash flow expected to accrue. For example, a six-month rent-free period at the start of a lease term results in a modelled Year 1 cash flow that is 50% lower than the cash flow in subsequent years. A six-month rent-free period on a five-year lease means that the effective rental income over the entire lease term is 10% lower than it would be without the rent-free period. In place of the rent-free period, the landlord could also simply reduce the contractual rent by 10%. This would actually even lead to a very slightly higher valuation (i.e. less depreciation compared to the “old” rent) because the drop in rental income is not incurred entirely in the first year, but is instead spread out evenly over five years. Due to the discounting of cash flows, a reduction in cash flows in later years has less of an impact on present market value than an immediate lump reduction in the first year does.

Nevertheless, many landlords prefer rent-free periods over cuts in contractual rent. This is because they sometimes forget to factor in the rent-free period over the long term. In a typical DCF valuation, depending on the level of the discount rate, cash flows of the first ten years generate only around 25%–40% of the market value. The estimation of long-term market conditions including market rent prices and the rent-free period thus has a big impact on the market value of a property. The difficulty herein for an appraiser is, first, detecting whether rent-free periods were agreed upon in the lease negotiations. Such arrangements very frequently only appear in side letters and other side agreements. Second, the appraiser lets himself in for a tedious discussion with regard to what the effectively agreed-upon market rent price is in actual fact. Whoever needs to grant a 10% discount to rent out a property also has to accept that the appraiser must proceed on the assumption that the market rent amounts to 90%, not 100%. The valuation model allows many different modelling methods, but should ultimately depict the economic reality and not an incomplete contractual construction. This self-evidently also goes for revaluations and acquisition valuations.

Lease incentives need to be adequately factored in over the long term

In cases where a landlord takes over tenant fit-out costs under stipulation of a tenant repayment obligation via an interest and amortisation component, the landlord’s fit-out contribution gets fully or partially amortised via a temporary surcharge tacked on to the regular rent. Like rent adjustments or the granting of rent-free periods, the amortisation payment can be added to the cash-flow variable of the DCF valuation as additional revenue on top of the regular rent. However, this causes the market value to steadily decrease over the amortisation period as the payments wind down. This means that the
property, ceteris paribus, continually depreciates up until the lease expires. Alternatively, the fit-out contribution can be stripped out of the valuation and treated as a separate obligation (e.g. as a tenant fit-out loan) between the landlord and tenant outside of the property valuation. That eliminates the distortion of the evolution of the property value caused by the amortisation of the fit-out contribution in the DCF valuation. This alternative is also clearly preferable from an accounting standpoint because it accurately expresses each value component on the balance sheet.

Accounting for lease incentives

Under IFRS accounting standards, a lessor must recognise lease incentive costs on a straight-line basis over the lease term. If, for example, the first year of a five-year lease is rent-free, the lessor therefore nevertheless should recognise rental income on the income statement for all five years. The recognised rental income for each year equates to one-fifth of the total rental income for the five-year lease period. Since the tenant makes no actual rent payments in the first year, a deferred lease asset is recorded on the balance sheet against the rental income recognised for that year. This deferred lease asset is then depreciated over the lease term. Accounting for lease incentives in the form of pre-financed fit-out costs works in a similar way. Here, the lessor records the fit-out at the start of lease term as an asset in the form of a loan to the tenant and amortises the loan in full over the lease term. The accounting treatment of the payments from the tenant breaks them down into core & shell rent and interest and amortisation payments for the loan.

A tenant’s accounting should likewise correspondingly reflect lease incentives. Rent-free periods at the start of a lease should be recorded as a deferred liability on the tenant’s balance sheet spread equally over the entire lease term. Pre-financing of the tenant fit-out by the landlord should be recorded on the balance sheet under both assets and liabilities using a loan structure and should then be respectively written off or amortised over the lease term. This tenant accounting treatment of fit-out pre-financing in particular still gets employed far too infrequently.

A clear separation is needed between core & shell rent and the fit-out component in leases

Recording pre-financing of the tenant fit-out as a loan would enlarge the tenant’s balance sheet and thus lower the tenant’s equity ratio. Tenants therefore are generally less interested in recognising pre-financing on their balance sheets. Leasing consultants should be aware of the accounting impacts that lease incentives have on tenants and landlords. Furthermore, as explained above, many leases do not draw a clear differentiation between core & shell rent and fit-out components, which makes it harder to apply the correct accounting treatment. It is therefore necessary in the future to place much greater importance on transparently separating the various rent components when drawing up leases.

Philippe Frei, Senior Vice President
Daniel Schneider, Senior Vice President
Transactions: Who really is buying?

Detailed information on real estate transactions rarely gets disclosed in Switzerland. Our experience as a transaction manager enables us to draw some inferences about current bidding behaviour. The prices that individual groups of bidders are prepared to pay are determined by their return requirements. Not surprisingly, Swiss institutional investors in the pension and life insurance sector are the dominant group of bidders at the moment. Foreign investors, in contrast, are hardly active at present and are making moves, if at all, in niche segments.

Although the Swiss real estate market is becoming more transparent, the participants and the prices paid in institutional real estate transactions largely remain unknown. Very few transactions get voluntarily disclosed to the public, and only a handful of cantons require a mandatory declaration of transaction details. Private data providers as well create only sporadic transparency, so the market here is mostly obscure.

Experience from transaction management mandates

As a manager of numerous institutional real estate transactions, JLL continually gains market insight into the buying activity of market participants and the different price levels that they are willing to pay. Bidding processes, which are commonplace in the current market climate, particularly bring high transparency because most participants disclose their maximum willingness to pay. An analysis of around 160 bids received by JLL in the context of a number of transactions over the last twelve months reveals a partially expected but also partly surprising picture.

Pension and life insurance sector: Very high willingness to pay

In the current market climate, the universe of bidders is being led by Swiss institutional investors in the pension and life insurance sector (insurance companies, pension funds and investment foundations) in terms of both investment appetite and the prices they are willing to pay. Heavy investment pressure caused by fund inflows, statutory minimum rates of return (e.g. 1.25% minimum interest on occupational pension plans) and unattractive fallback alternatives in other asset classes have triggered a noticeable herd instinct that has led to sharp yield compressions and some fierce bidding contests particularly in the core investment property segment. Negative interest rates pose an additional incentive to accept low yields because otherwise the capital at stake can hardly escape the clutches of this expensive monetary policy instrument.

Real estate companies: Selective bidding behaviour

The picture among Swiss real estate companies looks different. Their bidding behaviour is more heterogeneous and more selective. Attractive dividend yields in recent years and the aim of not wanting to dilute them are limiting the price levels that real estate companies are willing to offer in bidding processes. Moreover, balance-sheet liabilities among some Swiss real estate firms are relatively expensive because they were financed years ago through long-term debt obligations. This is frequently putting tight reins on bidding contests. Young companies with fresh, less expensive debt are at a distinct advantage here. They can outbid less well-financed competitors and nonetheless still book a higher interest/return spread. Negative interest rates are not exerting a material effect on real estate companies’ bidding behaviour at present. Their cash holdings are often below the relevant thresholds, in part because they are spread across multiple banks. If necessary, real estate companies can also avoid negative interest rates by distributing special dividends.

Real estate funds: Tough situation in the core segment

The picture among Swiss real estate funds is also heterogeneous. Elevated internal costs and generous payout promises pledged by some funds are limiting the price levels they are willing to pay. Funds with large property portfolios are able to bid more aggressively because it is easier for them to offset purchase-price premiums in the context of their portfolios. The competitive acquisition market is causing occasional hardship for young real estate investment vehicles because it is forcing them to buy at high prices to quickly reach their allocation targets. Bids by real estate funds are frequently coming up short particularly in the core segment, where they are facing price competition against life insurance companies and pension funds. However, real estate funds are often successful in the non-core segment, where they lead the field of bidders because the large group of life insurance and pension companies generally steers clear of this segment voluntarily or for regulatory reasons.

Four out of five bidding processes are being won by Swiss investors
Foreign investors: Hardly active anymore

Even though the political debate about tightening the “Lex Koller” law might lead one to believe that runaway buying of Swiss real estate by foreigners is a problem that urgently needs to be addressed, in reality foreigners are playing only a subordinate role in the current market environment. Pure Swiss purchasers are on the buyer side on four out of every five transactions. The reasons for this are obvious and mainly have to do with economics. In Europe-wide comparison, Swiss real estate yields are almost universally the lowest (Figure 5). The high cost of currency hedging and a level of complexity disproportionate to the size of the Swiss market make investments in Switzerland additionally unattractive from a foreigner’s perspective. Foreign bidders are infusing urgently needed base liquidity into the market only in niche segments such as hotels and specialty properties (e.g. shopping centres, industrial properties, opportunistic investments) in which Swiss investors often are expressing no interest.

Attractive investment opportunities in the value-add segment

JLL believes that the core real estate segment will experience another year of high demand and low yields in 2016. Attractive investment opportunities are expected to increasingly arise in the value-add segment, where increasing supply is encountering a much smaller pool of capital. Foreign bidders look set to play only a subordinate role again also in 2016. Acquisition managers will continue to find it challenging in 2016 to strike the right balance between the valuation and purchase price for a property to be able to succeed in transactions in the still very competitive market.

Gregor Strocka, Senior Vice President

Figure 5

Swiss real estate is expensive in international comparison
Marketing: The rewards and risks of leases in foreign currencies

In the present era of heightened competition, leases denominated in a foreign currency can serve as an attractive additional tool for marketing a property to foreign tenants. Under such leases, the landlord assumes the exchange-rate risk, but can hedge part of that risk. Using a hypothetical example, we calculate that the cost of hedging equals approximately 2%–2.5% of the discounted rental income. Those costs ideally should be compensated or offset by a shorter vacancy period. A landlord who is contemplating leasing in a foreign currency should draft the lease proposal in collaboration with an experienced financial institution.

Marketing office space is a tough job these days. The strength of the Swiss franc and uncertainty regarding pending legislation on free cross-border movement of people and corporate tax reforms have particularly made it difficult to entice foreign companies to move to Switzerland. Innovative marketing concepts are needed in this era of heightened competition. Leases denominated in euros (EUR) or US dollars (USD) could present an interesting proposition for international companies that generate a large part of their revenue in a foreign currency.

The landlord is exposed to exchange-rate risk

Leases denominated in a foreign currency offer the advantage of potentially increasing foreign companies’ demand for office space. The major disadvantage for landlords with such leases is that they force them to assume exchange-rate risk. Under an EUR-denominated lease, the appreciation of the Swiss franc (CHF) after the scrapping of the EUR/CHF exchange-rate floor, for example, would have abruptly slashed the rental income in Swiss francs by 10%–20%. A landlord can reduce the exchange-rate risk via hedging transactions.

Currency hedging via the futures market

There are a number of different ways to hedge exchange-rate risk on the financial market. The most direct way is to hedge currency risk on the futures market via exchange-traded futures contracts or over-the-counter forward contracts on currency pairs. Figure 6 shows the forward curve for the EUR/CHF exchange rate as of October 1, 2015. According to the chart, on October 1, 2015, a market participant would have been able, free of charge, to enter into a contract that would allow him, for example, to swap a certain amount of euros for Swiss francs twelve months later (i.e. on October 1, 2016) at a forward EUR/CHF exchange rate of 1.082. The forward exchange rates in the chart are all lower than the current exchange rate, which constitutes the “price of hedging”.

A landlord with leases denominated in euros can already today convert all expected future EUR rental income into CHF cash flows at predetermined exchange rates on the futures market. On the next page we want to analyse how much such exchange-rate hedging might cost.

Sample calculation: Lease assumptions

We base the analysis on the following hypothetical lease. A property with 10,000 m² of rental space that has heretofore been offered at an annual rent price of CHF 300/m² gets newly leased out in euros at the current exchange rate. The current EUR/CHF exchange rate is 1.0906 (as of October 1, 2015), which works out to a corresponding annual rent of 275/m² in euros. The term of the lease is five years. The rent payments are payable quarter-yearly in advance and for the sake of simplicity are not indexed. Table 2 shows the basic assumptions underlying the sample lease.

The price of hedging follows the interest rate parity and approximately equals the differential between the risk-free rates of interest in both currencies. EUR interest rates are still generally higher than CHF interest rates. The higher EUR rates are offset on the currency futures market through an expected currency depreciation so that for a Swiss investor, the currency-hedged EUR asset yields approximately the same ex-ante return as a comparable CHF asset. Otherwise, arbitrage transactions would be possible.
A currency hedge does not come for free and should be compensated

Ideally, these hedging costs should be offset by a shorter vacancy period enabled by the EUR lease proposal. Alternatively, the landlord can try to pass the hedging costs onto the tenant. To do that in the example above, the annual rent would have to be increased slightly from EUR 275/m² to EUR 280/m² for a tenant paying in euros. The hedging costs can also be reduced by the landlord being willing to bear part of the exchange-rate risk out of his own pocket, i.e. by hedging only part of the exchange-rate risk.

Risks of hedging directly on the futures market

Hedging directly on the futures market via futures or forward contracts is not without risk. For one thing, one is exposed to counterparty risk on the futures market. A hedge on the futures market is only secure as long as the counterparty is able to fulfil the contract’s conditions. The same, of course, is also true with regard to the landlord. In the example above, the landlord is contractually obligated to swap 687,500 euros into Swiss francs every three months. The landlord must therefore be certain of receiving that amount of euros from the tenant on time each quarter. Finally, futures contracts require an accompanying margin account through which profits and losses on the hedging transaction must be settled every day. This can cause short-term spikes in liquidity needs, which make it harder to manage liquidity planning.

Collaboration with banks is necessary

In addition to direct futures transactions, there are numerous other ways to hedge against currency risk, for example via options or structured products. The costs and benefits of hedging depend on the specific case at hand. A landlord who is contemplating using EUR-denominated leases as a potential marketing tool therefore should definitely draft the lease proposal in collaboration with a bank or other financial institution that can help with the hedging issue.

Martin Bernhard, Vice President
New utilisation and business models for office space – coworking as a success model

Coworking is a modern work-practices business model. Innovative freelancers, start-ups and small enterprises, often operating in creative fields or in the technology sector, work alongside each other mostly in large open-plan work spaces and can benefit each other this way. They work independently from one another, may work for different companies and projects or may even work on joint projects. In a worldwide coworking survey, a large majority of respondents reported that alongside the feeling of community, another advantage of coworking for the renter is lower costs than the expenses that one would have to pay for a fully equipped workspace in a conventional office. For real estate owners, the new coworking business model opens up new groups of customers to which to lease space.

In the aftermath of the 2008 financial crisis, a lot of offices stood empty in New York City. On the tenant side, large-scale demand for office space disappeared mainly in the financial services sector. However, there was a slow but steady increase in demand on the part of numerous innovative freelancers, small enterprises and start-up firms for flexible office spaces with shared infrastructure. The challenge was to match the large supply of space with the demand for flexible workspaces. That was the wellspring of the idea that Adam Neumann and Miguel McKelvey gave life to in 2010 when they opened the inaugural WeWork coworking office space in New York City’s SoHo district.

WeWork is one of the fastest-growing office lessees in the USA

Coworking creates a modern, open and flexible work environment

Flexible office solutions have heretofore focused on compartmentalised offices

Providing flexible office solutions, a superset that includes coworking, is not a new concept. Specialised international and Swiss companies like Regus and OBC Suisse for years have been operating very successfully as providers of business centres with flexible office solutions. However, the main focus of most business centres is still on closed offices. The changing needs of office-space users, driven by the innovative spirit and dynamism of young industries like the IT sector, has given rise in recent years also to new office offerings such as coworking spaces. A good example of successful coworking is the business model pursued by WeWork, which puts the concept of community in the foreground through open-plan work spaces.

WeWork as an example of a successful coworking concept

Like business centres, coworking space suppliers like WeWork primarily provide modern, flexible workspace environments. The workspace and the lease term can be adapted to the user’s actual needs. At WeWork, for example, a person can rent a desk for a day for a price of around USD 50 or can occupy an assigned fixed workspace for around USD 450 per month. If needed, workplace-related services such as a manned reception desk, conference rooms or a printer can also be utilised. But what’s novel about WeWork’s coworking concept is its open-plan space. Shared use of the work space and infrastructure creates a virtual community and lifestyle that the office-space users identify with. Moreover, WeWork actively promotes the concept of community through a wide array of events and workshops offered to WeWork’s roughly 40,000 members worldwide.
WeWork quickly developed into a success model. It is estimated that WeWork’s enterprise value already amounts to around USD 10 billion. On the strength of its community concept, WeWork is rated as one of the most innovative enterprises, and it undeniably ranks among the fastest-growing office-space rental start-ups. Four years after the grand opening of its first coworking office space in 2010, WeWork was already being touted as the “fastest-growing lessee of office space in New York City” and is now on its way to becoming the “fastest-growing lessee in the United States”. As of October 2015, WeWork had over 56 large-scale office sites in 17 cities, though the company’s emphasis currently is still on the USA, where it operates 44 office spaces. But with a stable of already six locations in London, four in Israel and two new office spaces in Amsterdam, WeWork is on the march also in Europe. Its expansion looks destined to continue – perhaps soon also into Swiss inner cities?

**Growing demand for space presents an opportunity for property owners**

The market entry of new coworking office space suppliers presents opportunities also for real estate owners. Suppliers like WeWork need large office spaces in attractive urban locations in order to provide their services. JLL USA, for example, leased around 10,000 m² of space at 175 Varick Street in New York City for WeWork in 2012. For property owners, the progressing professionalization of coworking is giving rise to new groups of prospective tenants for large office spaces.
Seattle – WeWork South Lake Union
“THE CIRCLE” at Zurich Airport.
JLL is the lead partner for the leasing of approximately 70,000 m² of office space for Flughafen Zurich AG.

*Bleicherweg 50* in Zurich.
JLL is leasing approximately 1,700 m² of office space for Swiss Life AG.

*Brandschenkestrasse 30* in Zurich.
JLL is leasing approximately 2,500 m² of office space for AXA Investment Managers Schweiz AG.
JLL is leasing approximately 2,600 m² of office space for the owners of the building.

Klausstrasse 4 in Zurich.

JLL is leasing approximately 8,000 m² of office space for PLAZZA AG.

Giesshübelstrasse 40+45 in Zurich.

Nüscherstrasse 1 in Zurich.

JLL is leasing approximately 2,300 m² of office space for Plutag AG.
Market Overview
Economic climate

The Swiss National Bank’s decision in January 2015 to scrap the EUR/CHF exchange-rate floor continues to shape the macroeconomic debate in Switzerland. The initial fears that this would cause Switzerland’s economy to slip into a recession fortunately have not come true. However, economic activity in Switzerland has slowed significantly.

Growth: Mildly positive

Real economic growth is likely to turn out only mildly positive for 2015 and looks set to accelerate only marginally in 2016. Swiss real GDP growth is unlikely to climb back toward its average annual rate of +2% registered over the last decade until 2017. The domestic economy remains the cornerstone of growth on the back of robust consumer and public-sector spending. Foreign trade, in contrast, is being hurt by the strong Swiss franc, as expected. Export growth completely vanished as a growth driver in 2015 and is likely to pick up only slowly going forward. The world economic climate remains mixed. The solid growth in the USA is considered the biggest ray of hope for the world economy while the slowdown in many emerging-market countries and particularly China poses the greatest risk to world GDP growth. Despite sporadic flare-ups of the euro crisis in a few peripheral eurozone countries, economic growth in Europe has probably bottomed out.

Employment market: Unemployment remains low

The unemployment rate in Switzerland stands at a seasonally adjusted level of approximately 3.2%–3.4%, which is exceptionally low in international comparison. The moderate pace of economic growth may cause unemployment to increase slightly in the months ahead.

Forecasts for Switzerland

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>GDP growth</td>
<td>1.9%</td>
<td>0.8%</td>
<td>1.2%</td>
<td>2.0%</td>
</tr>
<tr>
<td>Consumer price inflation</td>
<td>0.0%</td>
<td>−1.1%</td>
<td>−0.3%</td>
<td>0.4%</td>
</tr>
<tr>
<td>Unemployment rate</td>
<td>3.2%</td>
<td>3.3%</td>
<td>3.5%</td>
<td>3.4%</td>
</tr>
<tr>
<td>Yield on 10-year Swiss Confederation bond (avg.)</td>
<td>0.7%</td>
<td>0.0%</td>
<td>0.4%</td>
<td>1.2%</td>
</tr>
</tbody>
</table>

Source: Oxford Economics, Datastream, JLL
Monetary-policy environment: Deflation and negative interest rates

Inflation in Switzerland has averaged out to a very low 0.5% per annum over the last ten years. Consumer prices are even likely to contract for 2015 and 2016 as a result of falling import prices and the drop in the price of oil. On the interest-rate front, the Swiss National Bank (SNB) lowered its 3-month CHF LIBOR target to ~0.75% in January 2015. Given the sustained upward pressure on the Swiss franc, the SNB is unlikely to alter the short end of the interest-rate curve much in the near future. This, coupled with the deflationary tendencies and the domestic investment pressure, should also keep long-term interest rates close to their record-low level.

Differing impacts on tenants and investors

The economic environment outlined above has differing implications for the real estate market. On the tenant side, the mild economic expansion should keep demand for space growing at a moderate pace. At the same time, though, that moderate demand is coming at a time of elevated construction activity. The low inflation outlook additionally impedes price growth for market and existing rents for commercial properties. This reduces rent-growth potential and increases vacancy risk for existing properties and new building projects.

On the investment side, the low bond yields enhance the attractiveness of real estate assets. Initial yields for prime properties fell by around 30 basis points in 2015. Since market interest rates in Switzerland are unlikely to return to “normal” anytime soon, initial yields for prime office real estate are unlikely to come under downward pressure for the time being. On the other hand, the era of yield compression driven by falling long-term interest rates is probably over for the most part because market interest rates appear to be bottoming now and look headed upward.
In contrast to the rental housing market, in the office sector, properties of different quality are already being valued with much greater differentiation than before. Demand for Class A office properties with long-term leases remains vibrant even in Class B metropolitan locations, whereas properties in Class C locations and those with unattractive tenant or building structures are attracting much less interest.

**Very wide yield spread**

The introduction of negative interest rates caused estimated prime yields for Class A downtown office properties to fall by around 30 basis points in 2015 to 2.9% in Zurich and 3.3% in Geneva. Since the yield on ten-year Swiss Confederation bonds concurrently dropped by around 50–70 basis points to approximately −0.2% as of end-October 2015, the yield spread has thus widened even further and now stands at a possibly record-breaking 300–350 basis points. Upward pressure on prime property yields should stay low in the quarters ahead in view of the accommodative monetary policy environment and the sustained investment pressure facing domestic institutional investors.

**Capital values: Moderate changes**

Yield compression has nudged up average capital values for prime office spaces in large Swiss cities. They now range between CHF 9,500/m² in Bern and CHF 24,750/m² in Zurich. In contrast, the capital values of office properties in poor locations have come under a bit of downward pressure.

**Average office-space capital values (CHF per m²)**

<table>
<thead>
<tr>
<th></th>
<th>Prime</th>
<th>A location</th>
<th>B location</th>
<th>C location</th>
</tr>
</thead>
<tbody>
<tr>
<td>Zurich</td>
<td>24,750</td>
<td>15,000</td>
<td>7,500</td>
<td>3,500</td>
</tr>
<tr>
<td>Geneva</td>
<td>23,750</td>
<td>15,500</td>
<td>8,000</td>
<td>3,750</td>
</tr>
<tr>
<td>Bern</td>
<td>9,500</td>
<td>7,500</td>
<td>5,500</td>
<td>3,000</td>
</tr>
<tr>
<td>Lausanne</td>
<td>12,000</td>
<td>7,750</td>
<td>5,500</td>
<td>3,250</td>
</tr>
<tr>
<td>Basel</td>
<td>9,750</td>
<td>7,500</td>
<td>5,500</td>
<td>3,750</td>
</tr>
</tbody>
</table>

**Solid investment volume in 2015**

According to our estimates derived from our advisory operations, the transaction volume for existing commercial properties (i.e. excluding building lots and development projects) was likely a bit smaller in 2015 than in the preceding years, but probably still surpassed the CHF 3 billion mark once again. A strong first quarter was followed by a rather quiet summer, with transaction volume then picking up again toward the end of the year. Office real estate was once again the dominant sector on the investment market for existing commercial properties in 2015. In 2014 and 2015, office properties accounted for more than half of all commercial real estate transactions.

The largest single transaction in 2015 was the sale of the prestigious office building at Rue du Rhône 8 in Geneva by UBS to Swiss Life for CHF 535 million in January. Other major office-space transactions in Geneva involved the buildings at Rue du Rhône 21, Rue du Rhône 62, Blvd. des Philosophes 20 (the headquarters of Temenos) and Rue de l’Université 4. Notable transactions in Zurich included the City of Zurich’s acquisition of two buildings in Oerlikon (Eggbühlstrasse, Airgate).
Selected office building transactions

**Geneva**
Rue du Rhône 8

- **Date**: January 2015
- **Price**: Approx. CHF 535 million
- **Rental area**: Approx. 18,000 m²
- **Buyer**: Swiss Life
- **Seller**: UBS
- **Details**: Substantial percentage of retail space

**Zug**
Grafenauweg 2

- **Date**: July 2015
- **Price**: Not disclosed
- **Rental area**: Approx. 5,600 m²
- **Buyer**: Credit Suisse REF SIAT
- **Seller**: Pramerica Property Investment GmbH
- **Details**: Fully leased office building

**Zurich**
Airgate, Thurgauerstrasse 40

- **Date**: August 2015
- **Price**: CHF 128 million
- **Rental area**: Approx. 22,000 m²
- **Buyer**: City of Zurich
- **Seller**: Private individual
- **Details**: Acquired to cover medium-term office-space needs

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**Figure 13**
Estimated commercial real estate transaction volume in Switzerland

**Figure 14**
Estimated transaction volume by sector for 2014 and 2015

Source: JLL, City of Zurich
Zurich office market

Leasing market indicators for the Zurich office market weakened further in 2015, though to a lesser extent than expected. The supply of available office space in the Zurich region increased slightly during the first ten months of 2015 by 2.0% to 398,000 m², or 5.2% of the region’s total stock of office space. Downward pressure on prime CBD rents diminished, but they nonetheless continued to fall by around 3.0% to a present level of CHF 800/m² per annum. Furthermore, some landlords are willing to grant substantial lease incentives.

Few large lease deals

Leasing of smaller-scale office-space units accounted for most of the office absorption in 2015. The large new leasings disclosed in 2015 typically involved tenant relocations within the same market area. The private bank BSI SA, for instance, will lease around 4,500 m² of office space at the former Allianz Suisse headquarters site on Bleicherweg, media company Ringier Axel Springer will lease around 10,000 m² in the Flurpark building in Altstetten, and Samsung will move a number of office units from the Binz area to consolidate them at its new corporate site on Giesshübelstrasse. One of the few new moves to Zurich in 2015 was the relocation of international drugmaker Alexion Pharmaceuticals Inc.’s EMEA headquarters to the city from Lausanne. Alexion will be occupying around 4,100 m² of office space in the same building as Samsung.

City centre: Vacancies are receding

Vacancies in Zurich’s CBD have peaked, but are still at an elevated level. The amount of available office space for rent in District 1 decreased in 2015 from 54,000 m² to 43,000 m². Law firms and small consulting and financial services firms are particularly active demand segments at the moment; they typically seek office-space units in the 500–1,000 m² range. The financial industry’s large-scale relocations away from the CBD to modern office buildings in development zones have been completed.

Overall market: High supply on the north side of Zurich

Given the sustained high volume of construction activity, the rental market throughout the Zurich region looks set to remain a tenant’s market for quite some time to come. A total of up to 300,000 m² of new office space could come onto the market in and around Zurich between 2016 and 2020. Vacancy rates in a few submarkets are already very high today, particularly on the north side of Zurich in the Opfikon/ Glattpugg municipality. The state of the market in the Zurich North

Summary statistics

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>yoy change</th>
<th>12-month outlook</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prime rent (m²)</td>
<td>800</td>
<td>-3.0%</td>
<td></td>
</tr>
<tr>
<td>Prime yield (%)</td>
<td>2.9</td>
<td>-30 bps</td>
<td></td>
</tr>
<tr>
<td>Available space (m²)</td>
<td>398</td>
<td>2.0%</td>
<td></td>
</tr>
<tr>
<td>Availability rate (%)</td>
<td>5.2</td>
<td>16 bps</td>
<td></td>
</tr>
<tr>
<td>Project pipeline (m²)</td>
<td>330</td>
<td>-</td>
<td></td>
</tr>
</tbody>
</table>

Source: JLL

Figure 15: Asking and prime rents in Zurich region

Figure 16: Supply in Zurich region
region progressively worsens the farther one moves away from the Oerlikon train station. Some office spaces are in “no man’s land” in a sense because they are not located directly adjacent to the airport but are also not close enough to the well-functioning Oerlikon train station neighbourhood. On the west side of Zurich (District 5), vacancies are running above average in the Hardturmstrasse/Förrlibuckstrasse area while there is hardly any vacant office space at all in close proximity to the Hardbrücke train station. The same goes for all of the new construction projects on the west side of Zurich. Allreal’s Schiffbauplatz building development project, for example, which features 10,700 m² of office space and is scheduled to be completed in 2017, is already fully pre-leased.

Project pipeline

Construction work commenced in 2015 on two huge office space development projects: the Ambassador House will bring around 40,000 m² of new office space onto the market in Opfikon in 2017, and the first stage of THE CIRCLE project will add around 45,000 m² of new office space to the market directly adjacent to the airport in Kloten in late 2018. Whereas none of the Ambassador House office space had been pre-leased yet as of October 2015, around 6,000 m² of office space at THE CIRCLE has already been placed with tenants. Other notable newbuild office development projects in the Zurich market region include the remaining Europaallee building lots near Zurich’s main train station, the Andreas and Franklin towers near the Oerlikon train station, the Vulcano complex in Altstetten, the Aquatikon office building in the Glattpark development area, and the Green City project’s Vergé and Bergamin buildings in Zurich’s Manegg neighbourhood. The Europaallee projects (fully pre-leased to Google), the Andreas tower (around 55% of which is pre-leased to Amstein & Walthert) and the Vulcano project will probably be completed on schedule. Deficient pre-leasing could cause construction delays in the other projects.

Figure 17

Employment structure in Zurich region (2013)

<table>
<thead>
<tr>
<th>Industry</th>
<th>Zurich region</th>
<th>Switzerland</th>
</tr>
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<tbody>
<tr>
<td>Healthcare and social services</td>
<td>15.0%</td>
<td>18.0%</td>
</tr>
<tr>
<td>Education</td>
<td>7.5%</td>
<td>7.0%</td>
</tr>
<tr>
<td>Public administration</td>
<td>8.0%</td>
<td>8.0%</td>
</tr>
<tr>
<td>Financial services</td>
<td>5.0%</td>
<td>5.0%</td>
</tr>
<tr>
<td>Information and communications</td>
<td>5.0%</td>
<td>4.0%</td>
</tr>
<tr>
<td>Hospitality sector</td>
<td>7.5%</td>
<td>7.0%</td>
</tr>
<tr>
<td>Trade, transportation and storage</td>
<td>10.0%</td>
<td>10.0%</td>
</tr>
<tr>
<td>Other services</td>
<td>20.0%</td>
<td>20.0%</td>
</tr>
</tbody>
</table>

Source: BfS, JLL

Figure 18

Zurich construction pipeline by market zone

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Rest of Zurich</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>City</td>
<td>0</td>
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Source: JLL

Figure 19

Zurich construction pipeline by status

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Source: JLL
Zurich – market areas

Rents and vacancies

<table>
<thead>
<tr>
<th></th>
<th>Asking rents (CHF/m² per annum)</th>
<th>Available space</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Quantile 0.25 0.5 0.75 Prime rent</td>
<td>Square metres</td>
</tr>
<tr>
<td>By submarket</td>
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<td></td>
</tr>
<tr>
<td>District 1</td>
<td>425 525 625 800</td>
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<tr>
<td>District 2</td>
<td>380 475 550 600</td>
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</tr>
<tr>
<td>District 3</td>
<td>190 270 340 400</td>
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<td>District 4</td>
<td>260 300 350 470</td>
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<td>District 5</td>
<td>200 320 360 400</td>
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<td>District 6</td>
<td>240 280 350 450</td>
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<td>District 7</td>
<td>310 360 440 500</td>
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<td>District 8</td>
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<td>District 9</td>
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<td>Class C</td>
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Geneva office market

The supply of available office space in the Geneva market region expanded by around 7.2% over the first ten months of 2015 to 170,000 m², which equates to an availability rate of 5.1%. Prime rents in Geneva’s CBD fell by around 5.4% year-on-year and currently stand in the vicinity of CHF 875/m² per annum. Prime rents continue to face downward pressure because vacancies have increased, particularly even in the CBD. On the whole, we expect to see solid but not magnificent demand for office space in Geneva in the quarters ahead. On the supply side, there are hardly any new office space completions scheduled for 2016.

CBD: Significant increase in available office space

The office-space availability rate on the left-bank side of Geneva’s central business district increased year-on-year from around 4.4% in 2014 to 5.3% in 2015. There are currently around ten buildings on the Rue Du Rhône alone that have 250 m² or more of vacant office space advertised for lease. Asking rents per annum in the CBD Left Bank/Old Town submarket accordingly have likewise come under downward pressure and are now around CHF 50/m² lower on average than a year ago.

Available space is being freed up in part by consolidation moves being undertaken by financial institutions, which need less space in the future and favour modern large-area premises. Due to the constrained possibilities for erecting new structures, there are hardly any new office buildings in Geneva’s CBD, and the floor spaces in the city’s stock of historic buildings are generally small and inefficient. Luxury retailers and family offices are keeping demand intact for smaller Class A office spaces in the CBD. It is becoming increasingly difficult, in contrast, to lease out Class B buildings.

<table>
<thead>
<tr>
<th>Summary statistics</th>
<th>2015</th>
<th>yoy change</th>
<th>12-month outlook</th>
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<td>−5.4%</td>
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<td>Prime yield (%)</td>
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<td>−30 bps</td>
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<tr>
<td>Available space (1,000 m²)</td>
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<td>7.2%</td>
<td></td>
</tr>
<tr>
<td>Availability rate (%)</td>
<td>5.1</td>
<td>24 bps</td>
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</tr>
<tr>
<td>Project pipeline (1,000 m²)</td>
<td>180</td>
<td>–</td>
<td>↑</td>
</tr>
</tbody>
</table>

Source: JLL
Switzerland Office Market – 2016

Overall market: High availability in airport region

There are still plenty of large vacant office spaces in Geneva’s non-CBD submarkets, particularly in the area around Cointrin airport. A combined total of around 7,000 m² of office space is available for example, in the ICC and WTC II buildings. The Blandonnet buildings likewise have thousands of square metres of unoccupied floor space up for rent, and leasing there is progressing sluggishly. After undergoing a total renovation, the Nations Business Centre at Rue du Pré-de-la-Bichette 1 in Geneva’s UN quarter still has 4,000 m² of its total of 12,000 m² of office space available for rent. Duracell, for instance, signed a new lease for approximately 1,000 m² of office space in the building in 2015. Finally, in the Champel/Eaux-Vives submarket, nearly 9,000 m² of office space on Avenue Eugène-Pittard is available for lease, some of which is fully fitted-out office space.

Project pipeline

The current construction pipeline indicates that around 178,000 m² of new office space may come into being in and around Geneva by the end of 2022. Many of the pending projects are slated to be built at the future CEVA rail line stations by the Swiss Federal Railways company. The biggest single project is the Pont-Rouge complex near the Lancy – Pont-Rouge train station in La Praille, which envisages the development of a new residential and commercial quarter with a total of around 110,000 m² of office space over the next ten years. In the first stage of the Pont-Rouge project, approximately 30,000 m² of office space is to be erected on building lot B1 by the end of 2018; roughly 50% of that floor space is pre-leased (to tenants including KPMG). The second stage of the project envisages the development of around 12,000 m² of office space on building lot B4–B5 by 2020.

Besides pure office-space newbuilds, there are also a few projects underway in Geneva in the semi-industrial segment under the aegis of the FTI (Fondation pour les terrains industriels de Genève) initiative. FTI projects are not factored into the composition of the project pipeline.
Geneva – market areas

Rents and vacancies

<table>
<thead>
<tr>
<th>By submarket</th>
<th>Quantiles</th>
<th>Asking rents (CHF/m² per annum)</th>
<th>Available space</th>
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<tbody>
<tr>
<td></td>
<td>0.25</td>
<td>0.5</td>
<td>0.75</td>
</tr>
<tr>
<td>CBD right bank/main train station</td>
<td></td>
<td>400</td>
<td>500</td>
</tr>
<tr>
<td>CBD left bank/old town</td>
<td>550</td>
<td>650</td>
<td>750</td>
</tr>
<tr>
<td>International organisations</td>
<td>350</td>
<td>400</td>
<td>450</td>
</tr>
<tr>
<td>Plainpalais, Charmilles</td>
<td>380</td>
<td>490</td>
<td>580</td>
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<td>Airport</td>
<td>390</td>
<td>450</td>
<td>500</td>
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<tr>
<td>Eaux-Vives/Champel</td>
<td>400</td>
<td>490</td>
<td>500</td>
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<tr>
<td>La Praille-Acacias</td>
<td>280</td>
<td>340</td>
<td>430</td>
</tr>
<tr>
<td>City of Geneva</td>
<td>430</td>
<td>500</td>
<td>600</td>
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<tr>
<td>Geneva region</td>
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<td>450</td>
<td>560</td>
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By quality of location and space

<table>
<thead>
<tr>
<th>Classification</th>
<th>Quantiles</th>
<th>Asking rents (CHF/m² per annum)</th>
<th>Available space</th>
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<td>700</td>
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<tr>
<td>Class B</td>
<td>360</td>
<td>460</td>
<td>570</td>
</tr>
<tr>
<td>Class C</td>
<td>280</td>
<td>340</td>
<td>440</td>
</tr>
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</table>

Source: JLL
Bern office market

The supply of available office space in the Bern region expanded significantly by around 50,000 m² over the first ten months of 2015 to approximately 63,000 m², but the ratio of available space to the region’s estimated total stock of office space remains low at 2.2%. Most of that supply is located in Bern’s Mattenhof/Weissenbühl district (more or less unchanged year-on-year) and Bümpilz/Oberbottigen district (+7,000 m² year-on-year). The rent-price range for office space has barely changed in recent months and currently stands at CHF 180–280/m² per annum. Prime office space can cost up to CHF 380/m² per annum to rent.

Noticeable increase in vacancies expected

The Bern office market is being shaped at the moment by consolidations of federal agencies and quasi-state enterprises in modern office buildings in peripheral locations. In 2015, the Swiss Post moved into its new headquarters with its roughly 34,000 m² of office space in Bern’s Wankdorf quarter, and the Swiss Federal Office of Public Health moved into a new administrative building in Köniz that features around 36,000 m² of office space. They thus followed on the heels of Swisscom and the Swiss Federal Railways company, which respectively relocated to newly constructed office buildings in Ittigen and Bern Wankdorf in 2014. Additionally planned for the years ahead is a 100,000 m² administrative centre to be built in stages on the site of the former federal armoury in the Wankdorf neighbourhood and the new construction of two administrative buildings for 900 personnel in
Ittigen. Given the newbuild office space and enterprise relocations, we think that vacancies in the Bern office market will noticeably increase in the years ahead, particularly in existing buildings.

**Completion of first stage of Wankdorf City**

The new “twistagain” office building in Bern’s Wankdorf quarter is expected to be ready for tenants to move into in mid-2016. Ninety percent of the building’s 16,500 m² of total office space is pre-leased, with the main tenants being Losinger-Marazzi and the health insurance firm KPT. The completion of the “twistagain” building will mark the end of the first development stage of the new Wankdorf City district. The second development stage is slated to encompass the construction of more space for residential use, though additional newbuild office space is also envisaged. The Swiss Federal Railways company, for example, plans to build another service-centre building for approximately 1,800 IT employees.

**Bern – market areas**

![Bern market areas map](source)

**Rents and vacancies**

<table>
<thead>
<tr>
<th>Submarket</th>
<th>0.25</th>
<th>0.5</th>
<th>0.75</th>
<th>Prime rent</th>
<th>Square metres</th>
<th>Availability rate (%)</th>
</tr>
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<tbody>
<tr>
<td>City centre</td>
<td>250</td>
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<td>330</td>
<td>380</td>
<td>8,500</td>
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<tr>
<td>Länggasse/Felsenau</td>
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<td>230</td>
<td>280</td>
<td>310</td>
<td>9,300</td>
<td>2.8</td>
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<td>Kirchenfeld/Schosshalde</td>
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<td>240</td>
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<td>6,600</td>
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<td>Mattenhof/Weissenbühl</td>
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<td>240</td>
<td>300</td>
<td>350</td>
<td>14,900</td>
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<td>340</td>
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<td>0.3</td>
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<tr>
<td>Bümppliz/Oberbottigen</td>
<td>160</td>
<td>200</td>
<td>230</td>
<td>280</td>
<td>20,100</td>
<td>11.0</td>
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<td>City of Bern</td>
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<td>280</td>
<td>380</td>
<td>60,600</td>
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<tr>
<td>Ittigen</td>
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<td>200</td>
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<td>230</td>
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<td>Bern region</td>
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<td>230</td>
<td>280</td>
<td>380</td>
<td>62,600</td>
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</table>
Lausanne office market

The supply of available office space in the city of Lausanne and the adjacent central business area expanded over the first ten months of 2015 by around 1.9% to 35,100 m². However, office-space availability in the Lausanne market remains tight at an availability rate below 2%. Most of the vacant space is concentrated around Lausanne’s train station and in areas close to the lake. In Lausanne’s CBD, for example, there is still around 2,700 m² of available office space for lease starting in April 2016 in the completely renovated Bel-Air Tower. Asking rents in Lausanne have generally edged up from a year ago and now typically range between CHF 200/m² and CHF 360/m² per annum. Prime rents have drifted downward from CHF 500/m² to CHF 480/m² per annum.

Thin near-term project pipeline

A restrained volume of new office space is expected to come onto the Lausanne market over the next two to three years. For the period through 2018, the central Lausanne market region is merely likely to see the completion of new buildings that each offer only 2,500–3,000 m² of new office space (e.g. Pallin 4 in Pully, projects in the Le Flon quarter of the CBD, Rhodanie 58 in Vidy). Major new construction projects that could lastingly shape the Lausanne office market are unlikely to be undertaken until sometime in the next decade.
Mobimo Holding AG, for example, intends to team up with the Swiss Federal Railways company to develop a big new mixed-use commercial centre on the roughly 19,000 m² Rasude (La Poste) site adjacent to the Lausanne train station. The current planning envisages the construction of close to 50,000 m² of office space. Construction work is scheduled to commence in around the year 2020 and should take three to five years to complete. Given the excellent location of the Rasude site, this new competition looks destined to put other locations in Lausanne under pressure in the long term.

**Stable outlook for the office-leasing market**

The expected small volume of office-space completions should keep vacancy rates from changing much in the city of Lausanne in the near term. Lausanne’s relatively tight supply of available office space compared to other Swiss cities should therefore stay on the tight side, underpinning rent prices. We expect to see more or less stable office rents in Lausanne’s central market districts in 2016.

**Lausanne – market areas**

**Rents and vacancies**

<table>
<thead>
<tr>
<th>By submarket</th>
<th>Quantile</th>
<th>0.25</th>
<th>0.5</th>
<th>0.75</th>
<th>Prime rent</th>
<th>Square metres</th>
<th>Availability rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lausanne CBD</td>
<td>250</td>
<td>340</td>
<td>430</td>
<td>480</td>
<td>15,100</td>
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<td>220</td>
<td>280</td>
<td>360</td>
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<td>310</td>
<td>360</td>
<td>450</td>
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<td>400</td>
<td>0</td>
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<td>200</td>
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<td>380</td>
<td>500</td>
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<td>480</td>
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<td>270</td>
<td>360</td>
<td>480</td>
<td>35,100</td>
<td></td>
<td>1.9</td>
</tr>
</tbody>
</table>
Basel office market

Office vacancies in the city of Basel decreased again in 2015. The supply of available office space there tightened from 46,800 m² to 41,100 m² and the availability rate slipped below 2.0%. Modern office spaces larger than 1,000 m² are particularly in short supply in central locations. The rent-price range for office space in the city of Basel hasn’t changed much in recent months and currently stands at CHF 190–270/m² per annum. Prime office rents are running at approximately CHF 400/m² per annum.

Basel is now home to Switzerland’s tallest high-rise

In autumn 2015, the 178-metre-high Roche Tower, with its work space for 2,000 personnel, was completed. It thus overtook Zurich’s Prime Tower as Switzerland’s tallest building, but only temporarily because Roche has announced plans to build a second tower on the same grounds by sometime in 2021. This second tower will reportedly measure 205 metres in height and will provide office space for 1,700 personnel. Roche is not the only large Basel-based company that is erecting new buildings for its own use. The Baloise insurance group, for example, plans to construct three replacement buildings next to its current Aeschengraben headquarters site by sometime in 2020. In addition to housing a hotel, the three new buildings are slated to encompass approximately 30,000 m² of office space, roughly 60% of which is reserved for Baloise’s own use.
Other high-rise projects whose utilisation concepts include office space are the Grosspeter Tower, the Meret-Oppenheim Tower and the Claraturm high-rise development that was approved by Basel’s electorate in 2015.

### Basel – market areas

![Basel Map]

**Office space likely to remain scarce in the near term**

Even though they are intended for the landlord’s own use, the completion of the new buildings should ease the supply situation a bit in the Basel office market in the medium term. Since companies are mainly consolidating existing personnel into the new office premises, office space will get freed up elsewhere in the city of Basel or in adjacent municipalities. However, for 2016 we expect to see at most a mild uptick in market-wide vacancies. Basel thus looks destined to remain a tight office market for the near future.

### Rents and vacancies

<table>
<thead>
<tr>
<th>By submarket</th>
<th>Quantile 0.25</th>
<th>0.5</th>
<th>0.75</th>
<th>Prime rent</th>
<th>Square metres</th>
<th>Availability rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>City centre</td>
<td>250</td>
<td>270</td>
<td>310</td>
<td>400</td>
<td>7,800</td>
<td>1.2</td>
</tr>
<tr>
<td>Breite/St. Alban</td>
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<td>230</td>
<td>290</td>
<td>340</td>
<td>5,000</td>
<td>1.3</td>
</tr>
<tr>
<td>Gundeldingen</td>
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<td>220</td>
<td>270</td>
<td>300</td>
<td>4,900</td>
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</tr>
<tr>
<td>Bachletten/Gotthelf</td>
<td>200</td>
<td>230</td>
<td>280</td>
<td>300</td>
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<td>0.0</td>
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<td>Iselin</td>
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<td>260</td>
<td>300</td>
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<td>270</td>
<td>400</td>
<td>41,100</td>
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</table>

*Source: JLL*
Europe office market

Tenant markets: Recovery gaining breadth

The data and figures for the European office market speak for themselves: the recovery of the eurozone economy and the relatively sound outlook are significantly boosting tenant sentiment and leasing activity. Europe-wide office take-up volume totalled 11.5 million m² for the whole of 2015, marking an 8% increase compared to 2014. The growth looks set to continue in the quarters ahead because more markets are bound to benefit from better economic data and attendant increased demand for office space. The JLL European office rent price index rose again in the third quarter of 2015. On the heels of slower growth in the second quarter (+0.3%), the index gained 1.2% over the months from July through end-September 2015. London, Paris, Dublin, Barcelona, Madrid and Milan were the biggest drivers of the rent-price growth, but prime rents tend to be rising more than falling in many other office markets as well. This is illustrated by the JLL Office Property Clock (Figure 38), which shows a large number of markets positioned in the two left-hand “increasing rent price” quadrants.

Transaction markets: The boom continues

Given the zero-interest-rate environment, real estate remains one of the most preferred asset classes also outside Switzerland. This is reflected in the transaction market, which has seen prime yields drop significantly again in almost all markets. The aggregate investment volume in European commercial real estate increased further over the first nine months of 2015. For the whole of 2015, JLL projects a Europe-wide investment volume of approximately EUR 225 billion, which equates to an 8% increase over 2014. German real estate in particular is attracting avid investor interest.
Figure 37
Office rents, yields and vacancy rates in Q3 2015

The clock diagram illustrates where JLL estimates that each office market stands in its respective rent-price cycle as of end-September 2015. The local markets can move around the clock in different directions and at different speeds. The clock diagram is a method of comparing the relative position of markets in their rental cycle. Their position is not necessarily representative of the investment and project-development market. Their position refers to prime rental values. Some markets do not follow conventional cycles and tend to move only between the “hours” of 9 and 12 o’clock, with 9 o’clock in such cases representing an increase in rent prices following a period of stability.
Methodology

The cut-off date for the data points in this study is October 31, 2015.

Supply-side data for rents and vacancies are based on statistical analyses of all rental spaces greater than 250 m² in the JLL database and on the market expertise of JLL's internal transaction and leasing consultants. The supply of available office space is computed as of the cut-off date, and asking rents are compiled over a twelve-month period. The term “available space” in this study denotes the sum of all immediately leasable office space plus all of the office space that will become available within six months after the cut-off date. The JLL rent-price range is determined by the 25% and 75% quantiles of the analysed asking rents in a market area. Prime rent denotes a typically chargeable rent price for a Class A office space in the best submarket.

The analysed market areas and submarkets do not always correspond to administrative city limits, but extend beyond them in most cases. The quality classification of an office space is determined through a combination of the property’s location quality and building quality. The existing stock of office space was estimated with the aid of statistics on employment and construction activity.

The estimated investment volume is based on an extrapolation of the transactions registered by JLL over the time period. Capital values and initial yields are ascertained by analysing actual transactions, current valuations and latest company reports. Prime office yields are calculated on a net basis and apply to Class A office properties in prime locations that are fully leased at current prime rent prices to tenants with good credit ratings on long-term contracts.

The project pipeline is composed of new building projects currently under construction plus known building projects in a draft or planning stage that are scheduled to be completed by end-2021, minus office space slated to exit the market over the same period. Office space is considered “pre-leased” if it is no longer available for rental as of the cut-off date or is being built for the landlord’s own use.
Introduction

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