Julius Bär

PROPERTY MARKET REPORT SWITZERLAND

Premium residential properties, investment properties and indirect investments

3rd quarter 2024

Current market environment

The Swiss domestic economy is developing pleasingly thanks to a robust labour market and stable rates of inflation. However, the economy as a whole continues to record only moderate growth due to weak foreign demand. On the other hand, the prospects for Swiss real estate markets look positive following the reversal of the interest rate trend.

Domestic economy supports economic growth

In the first quarter of 2024, real gross domestic product recorded a year-on-year rise of 0.8%. This represented a continuation of Switzerland's modest economic growth trajectory. Despite the tangible depreciation of the Swiss franc this year, demand from abroad has remained modest, hence the Swiss manufacturing sector has stagnated. At the same time, however, stable inflation and the dynamic labour market have supported consumer spending and therefore the domestic economy too. For 2024 as a whole, economic growth is expected to come in at the below-average level of 1.3%, even though momentum is likely to pick up somewhat in the second half of the year.

Inflation stabilises

The Swiss inflation rate stood at 1.3% in June 2024. The upward pressure on what were lower rates of inflation at the start of the year came above all from apartment rents, which recorded a year-on-year rise of 3.4% due to increases in the reference interest rate. When the development of rental prices is stripped out of calculations, the year-on-year rise in the cost of living stood at just 0.9% in June. In other words, inflationary pressure has receded noticeably, and it can be assumed that inflation will remain in the upper half of the Swiss National Bank's target bandwidth this year.

Positive stimuli for Swiss real estate markets

The environment continues to look favourable for Swiss real estate markets. Among other things, the positive development of the capital markets enabled Swiss households to record net asset growth of 3.1% last year – a development that is likely to have continued given the positive performance of the SPI so far this year. Furthermore, financing conditions for standard mortgages will improve thanks to another cut in the key interest rate in June. The prices of upmarket residential properties are therefore likely to trend upwards slightly. High-end investment property prices are likewise expected to develop positively.

Key figures at a glance

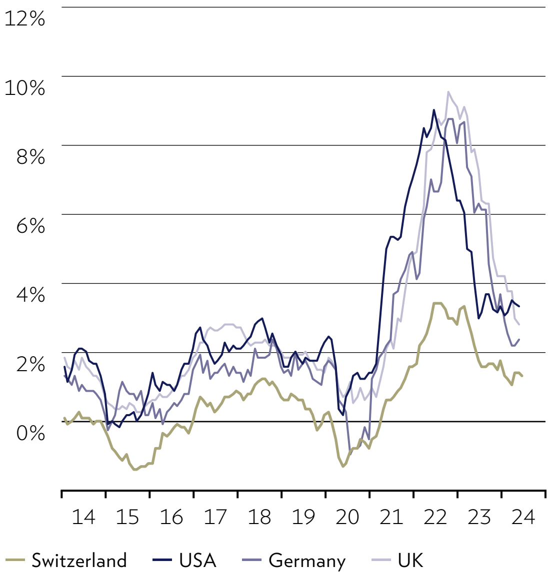
Forecast 2024

Real GDP growth	1.3%
Ø last 10 years	1.8%
Inflation	1.3%
Ø last 10 years	0.5%
Unemployment rate	2.4%
Ø last 10 years	2.8%
Growth in no. of households	1.0%
Ø last 10 years	1.3%
New-build rate (residential)	0.8%
Ø last 10 years	1.1%

As at: June 2024
Sources: Julius Bär, SNB, SECO, Wüest Partner, FSO

Inflation

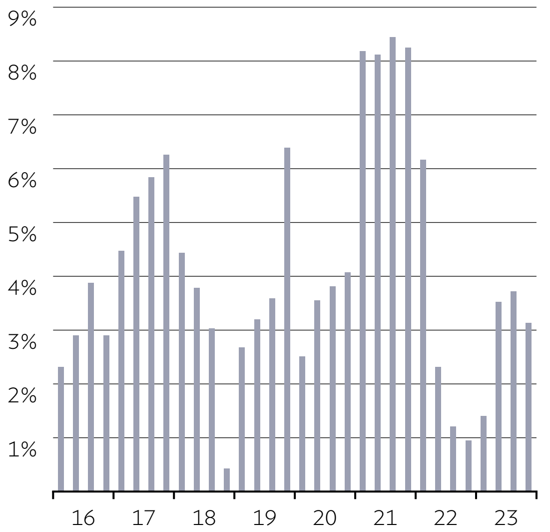
International comparison



As at: May/June 2024   Sources: FSO, OECD

Asset growth

Growth in net assets of private households, y-o-y comparison



As at: Q4 2023   Source: SNB

Interest rates

As at: May/June 2024   Source: SNB

Interest rate expectations

Base interest rates (in %)

	As at June 2024	Sep. 2024	Dec. 2024	June 2025
SARON	1.20	0.95	0.95	0.95
Swap 5Y	1.00	0.90	0.80	0.70
Swap 10Y	1.05	1.00	0.95	0.95

Sources: Julius Bär, SNB

Upmarket residential properties

The environment for single-family houses and privately owned apartments in the premium segment has brightened further. Low interest rates, rising private asset levels and the robust Swiss labour market are having a positive impact on demand for residential property in exclusive locations. In some areas, further price rises were recorded in the spring of 2024.

Purchase prices trend upwards slightly

The gentle upward trend for transaction prices is continuing in upmarket Swiss residential property markets. In the first quarter of 2024, the price index for high-end single-family houses in prime Swiss locations increased by 0.9% – its second quarter-on-quarter rise in succession. So even though prices remain below the corresponding prior-year levels, the signs of recovery are strengthening following last year's correction phase. The market for exclusive owner-occupied apartments continues to outpace the equivalent market for single-family houses, with the quarter-on-quarter and year-on-year changes in the first quarter of 2024 amounting to +0.8% and +1.4% respectively. However, compared to the heady price rises recorded in 2021 and 2022 – which in some cases exceeded 10% – purchase prices are only rising slightly in the luxury market segment. This development is also lagging behind the mid-range segment, with its somewhat stronger price rises of 1.6% and 3.6% for single-family houses and owner-occupied apartments respectively.

Rising transaction volumes in premium segment

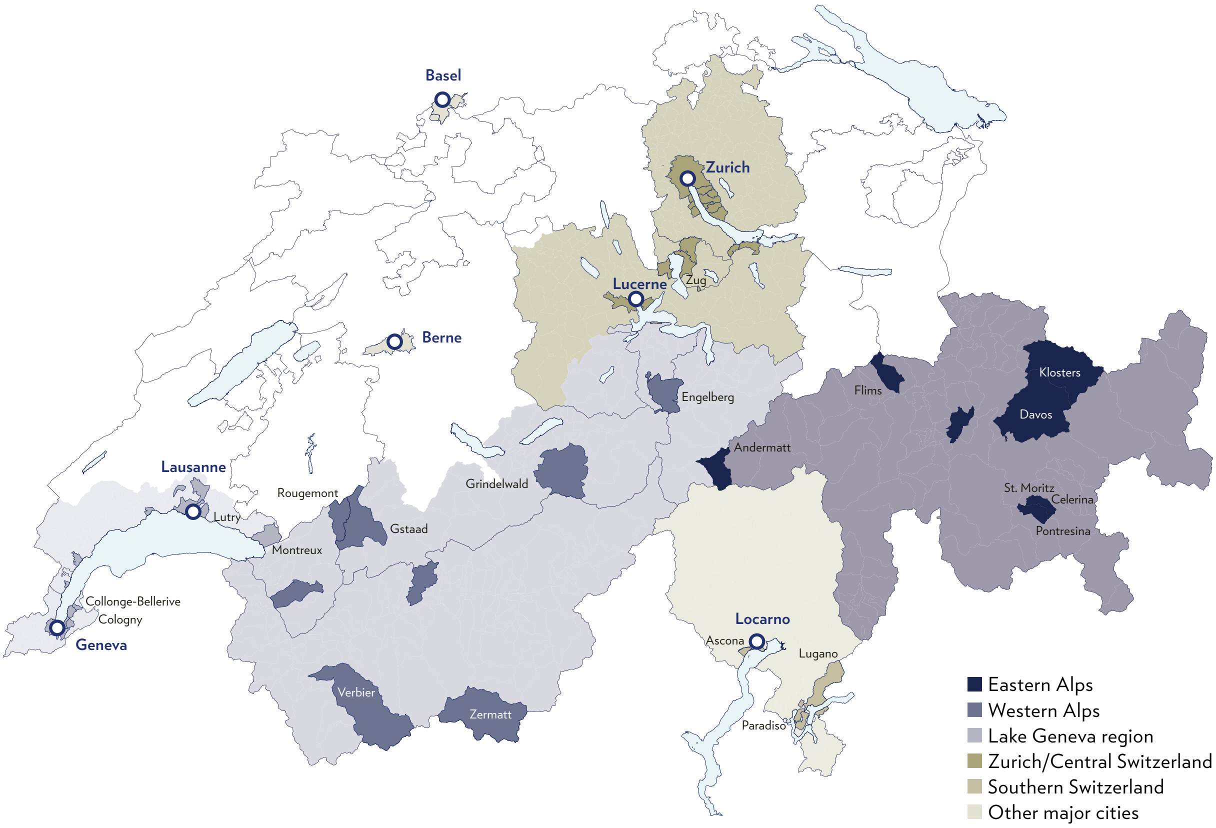
The modest but nonetheless positive overall momentum in Swiss home ownership markets is not just being driven by solid fundamental data and a lower interest rate environment. Rises in private asset levels in Switzerland, driven among other things by stock market gains of recent quarters, have been more impressive recently than in quite some time, and are likely to have fuelled demand in the premium segment first and foremost. Furthermore, thanks to their numerous locational advantages, Switzerland's top locations are attracting a persistent influx of affluent potential buyers from abroad – and given the risks attached to the international environment at the moment, the appeal of real estate investments in Switzerland can be expected to have risen further. There has also been an increase in transaction volumes in higher price categories recently: In the first quarter of 2024, there was a year-on-year increase of some 17% in the number of residential properties with a value of more than CHF 15,000 per square metre changing hands.

Key figures: upmarket segment

Owner-occupied apartments: price growth 1st quarter 2023 – 1st quarter 2024	1.4%
Prior-year figure	3.3%
Owner-occupied apartments: mean advertising period in days, 1st quarter 2024	82
Single-family houses: price growth 1st quarter 2023 – 1st quarter 2024	–0.7%
Prior-year figure	6.8%
Single-family houses: mean advertising period in days, 1st quarter 2024	78

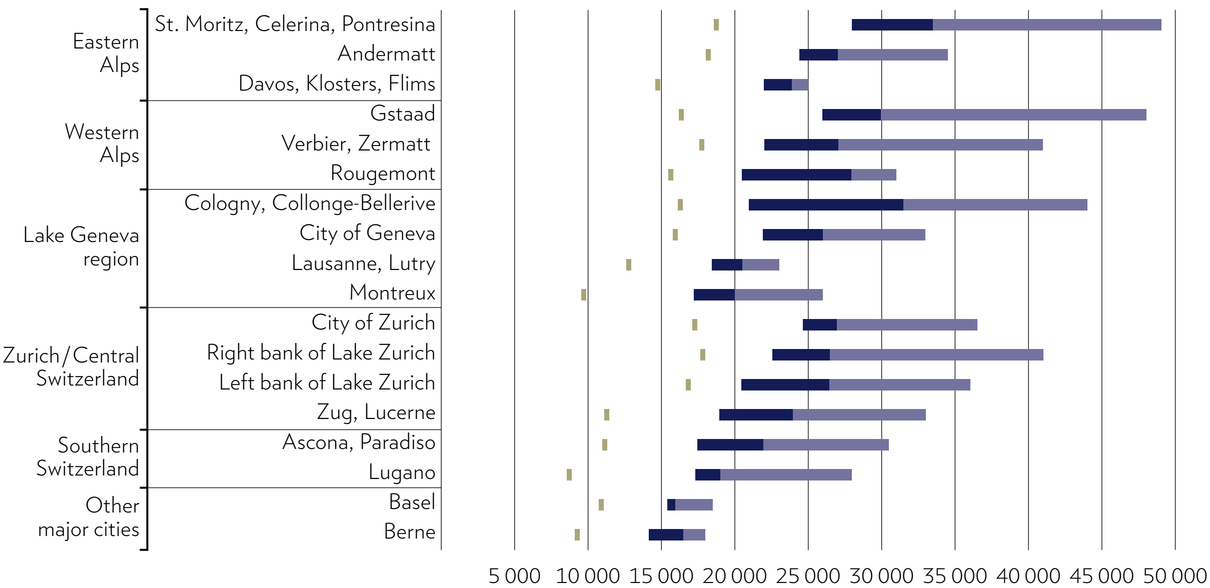
Source: Wüest Partner

Focal municipalites with upmarket residential properties, by region



Price range for residential properties

in CHF per m² living area, 1st quarter 2024



Median ■ High-end segment (90th to 95th percentile) ■ Top segment (95th to 99th percentile)

Notes: Much higher prices are observable in isolated cases; median values are not comparable with previous values due to adjustments in the data basis.

Source: Wüest Partner

Strong upward momentum in Eastern Alps

Once again, it is the Eastern Alps that stands out from a regional perspective, with year-on-year price rises for high-end owner-occupied apartments coming in at 5.4% and 6.5% respectively. Despite continually rising prices, buyer interest in second homes in exclusive mountain regions is exceeding the available supply. Newer properties that meet the high standards of wealthy buyers remain coveted. While prices have risen in almost all the analysed municipalities, Andermatt stands out with growth rates in double-digit territory. However, the most expensive region in the upmarket segment remains St. Moritz, with properties in the high-end segment changing hands for upwards of CHF 28,000 per square metre.

Positive momentum in Zurich/Central Switzerland

In the Zurich/Central Switzerland region, an upturn in what had been only modest price momentum was evident at the start of 2024, with quarterly growth rates coming in slightly higher at 1.5% for single-family houses and 1.3% for privately owned apartments. The economic strength and high quality of life in the wider Zurich area along with the tax appeal of central Swiss locations are proving highly attractive to high earners. In the upmarket segment, further slight rises in residential property prices look likely due to the pronounced scarcity of supply.

Signs of stabilisation in parts of Western Alps and Southern Switzerland

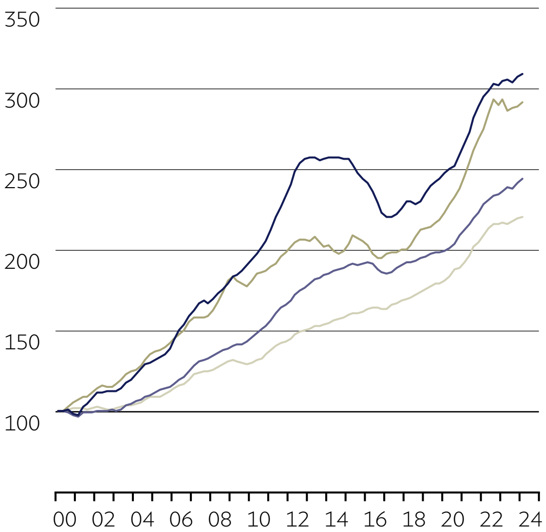
On Lake Geneva and in the Western Alps, prices are stabilising following the corrections of the previous year, with slight price rises even apparent in a few cases, most notably for owner-occupied apartments. In exclusive locations in Southern Switzerland, the supply overhang in the prime residential segment continues to weigh on the prices of single-family houses. One stabilising factor here over the long term is likely to be the recent decision to cut the top cantonal tax rate, which should increase the influx of affluent individuals and therefore strengthen demand for exclusive residential property.

Current environment for upmarket residential property

Brisk population growth, a dynamic labour market and the recent improvement in the financing environment are all supporting demand for high-end residential properties in top Swiss locations. What's more, thanks to its attractive parameters Switzerland continues to enjoy considerable international appeal. Supply remains scarce in many areas, among other things due to low newbuild activity. Further price rises can be anticipated, particularly in locations where vibrant buyer interest far outstrips the limited supply.

Price development

Upper segment and overall market, index 1st quarter 2000 = 100

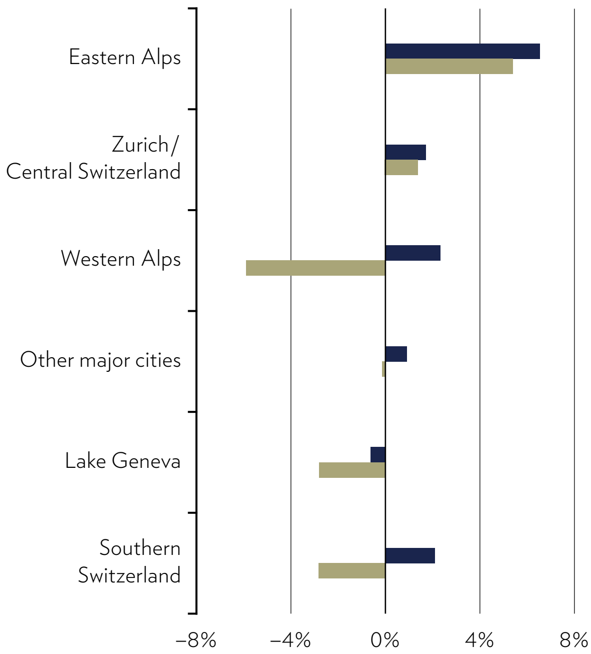


Upmarket segment (Julius Bär Index):
— Owner-occupied apartments
— Single-family houses
Middle segment (Swiss overall market):
— Owner-occupied apartments
— Single-family houses

Source: Wüest Partner

Regional price development

Upper segment, 1st quarter 2023 to 1st quarter 2024

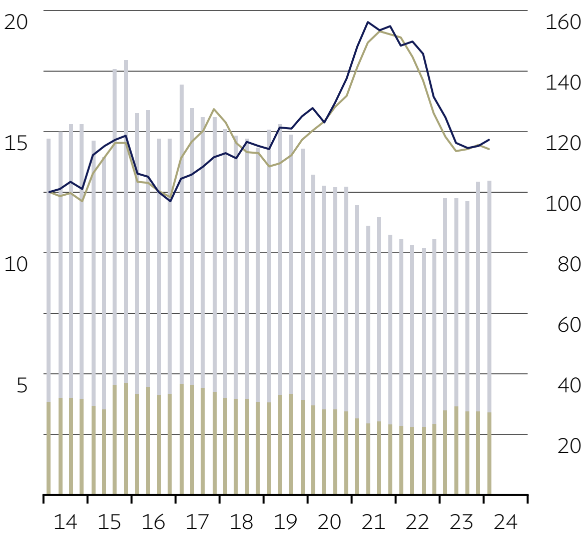


— Owner-occupied apartments — Single-family houses

Source: Wüest Partner

Owner-occupied housing: offers and transactions

Overall market, focal municipalities only



Left scale: number of offers (in thousands)
Owner-occupied apartments
Single-family housesr

Right scale: transactions (Index Q1 2014 = 100)
— Owner-occupied apartments
— Single-family houses

Source: Wüest Partner

Investment properties

The investor-side interest in the Swiss real estate market is solid, even if a certain degree of restraint is still evident at the moment. In the residential segment, the positive outlook on the income side is buoying investor appetite. Where commercial properties are concerned, demand is predominantly focused on ESG-compliant buildings in prime locations.

Residential properties

In the Swiss rental apartment market, both the supply rate and the vacancy rate are languishing at a low level. There are still no signs on the horizon of any significant increase in construction activity in the residential area, hence the shortage of housing is likely to become even more acute. The Swiss-wide deficit is expected to amount to 35,000 apartments by the end of 2024 alone. The problem of scarcity is most pronounced in the two major cities, Zurich and Geneva, where vacancy rates stand at just 0.1% and 0.5% respectively, but in the highly coveted Canton Zug too there are almost no rental apartments on the market.

Sharp rises in advertised rents

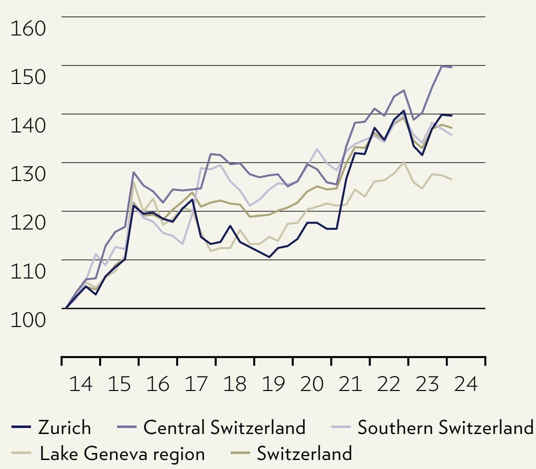
The discrepancy between supply and demand is increasingly feeding through on the price side. The asking prices of advertised rental apartments rose more sharply in the first quarter of 2024 than they have done for many years, coming in at an average 6.3% above the prior-year level across Switzerland as a whole. Against the backdrop of continued strong immigration and stuttering residential construction, advertised rents will continue to rise significantly. By contrast, existing rents will not be rising further following the most recent rental increases in April 2024. In June the key reference interest rate was left at 1.75%, and a further rise looks unlikely given the broader trend of falling interest rates.

Cautiously positive outlook

Even if investment appetite remains subdued and the transaction market is currently characterised by portfolio adjustments, the market for residential investment properties is developing robustly. After a brief correction phase, the transaction prices for Swiss multi-family houses have once again been predominantly trending upwards since the middle of last year, and in the first quarter of 2024 were on average some 2% above the prior-year level. However, the buoyant market is being driven almost exclusively by very high-quality properties in good locations, whereas the market prices of older residential buildings that do not meet modern standards are typically declining. As such, it is above all in the prime locations of Zurich and Geneva that net initial yields are persisting at low levels, namely 1.7% and 2.3% respectively.

Transaction price development

Multi-family houses, index 1st quarter 2014 = 100



Source: Wüest Partner

Commercial properties

The income situation in the Swiss office property market is more challenging than it is in the multi-family house segment. Structural changes in the labour market, including the rising prevalence of remote working and models such as desk sharing, are leading to a more efficient use of office space. At the same time, however, robust employment growth and the considerable stability of the Swiss economy in an international comparison are fuelling persistent demand for well-positioned office premises. In the traditional office-based sectors in particular, there are still numerous unfilled vacancies.

Healthy outlook for newer properties

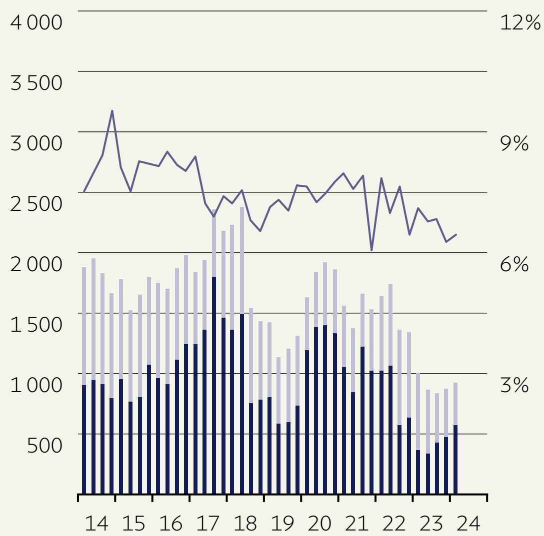
Construction activity in the Swiss office property market continues to develop very weakly. Although the number of newbuild permits issued for office premises rose slightly in the first quarter of 2024, the total planned volume approved – CHF 930 million – is well below the long-term trend. Among other things, reticence on the part of developers is likely to be attributable to the fact that vacancy rates have increased slightly in many places, while advertised rents remain under pressure generally. That said, well-located newbuilds are much less affected than buildings in peripheral locations that are significantly in need of renovation. For modern office properties at prime inner-city locations, the prospect of finding tenants remains good and the peak rents achievable in the major centres are still high.

Interesting investment opportunities

Despite the challenging environment, the Swiss office property market offers genuinely interesting opportunities for investors looking to enter the market. Higher yields are once again achievable in this segment, not least thanks to the downward price adjustments of recent years. However, it is important for investors to keep a close eye on the risks involved and scrutinise the income situation of individual properties carefully. Fully-let, modern properties in very good locations with long-term rental agreements in place offer the prospect of rising rental income and are likely to remain attractive investments over the longer term too.

Construction activity

New-build permits (office space, in CHF m) and supply



Left-hand scale:
Rest of Switzerland
Major centres incl. conurbations

Right-hand scale:
Office supply rate for whole of Switzerland

Adjusted for special effect due to major project in Geneva (Palais des Nations).

Sources: Wüest Partner, Baublatt Information Service

Current environment for investment properties

Investor interest in the Swiss property market remains intact thanks to the healthy income outlook, even though transaction markets have yet to truly pick up since last year's slump. Due to their extremely low vacancy risks and strong user-side demand, residential investment properties remain the primary focus of investors. However, very well-located commercial properties that exhibit secure long-term income potential can once again deliver decent returns with relatively modest risks.

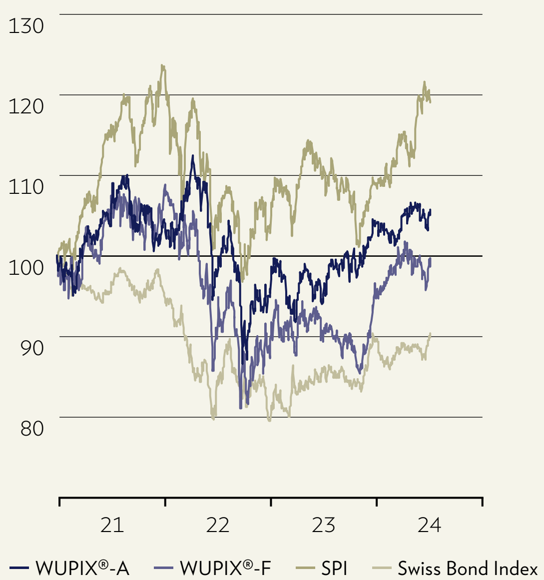
Indirect real estate investments

Successfully placed capital increases have weighed on fund prices. More rights issues are planned for the third quarter, which is hardly an argument for rising prices in the short term.

Real estate funds have delivered a total return of some 5% over the year to date, thereby outperforming real estate shares, which are up by around 1% on the year to date. The average premium has increased to 20% since the start of the year. Whereas the performance of funds in the first quarter of the year was as much as +6%, the volume of new issues into the market – predominantly placed with institutional investors – has amounted to more than CHF 1 billion recently, and this has weighed on fund prices.

Indirect investment vehicles

Development of performance (Index 4 January 2021 = 100)



Equity indices of listed real estate companies (WUPIX-A) and real estate funds (WUPIX-F)

As at: June 2024 Sources: Wüest Partner, Thomson Reuters, SIX

The issuance volume announced for the second half of 2024 is also set to be significant (just under CHF 1 billion), which makes further price gains look unlikely for the time being.

Positive development of net income

The half-year reports published by real estate funds as at March 31, 2024 show a positive trend where net income development is concerned. Positive effects from reference interest rate increases, higher index-driven rental income, and lower vacancy rates have led to increases in rental income. This higher income has more than compensated for higher debt servicing costs. However, this is only true of funds that were pursuing a longer-term financing strategy before the interest rate trend reversal. Those funds can now benefit from interest rate hedging and attractive average interest rates of between 0.9% and 1.4%. Given the continuing positive trend in earnings, we are expecting first-class residential portfolios to exhibit stable value development this year. By contrast, further valuation corrections to commercial investment vehicles as well as residential portfolios with properties requiring renovation cannot be ruled out in the first half of 2024. These differing value-development expectations are likely to have already been factored into the prices of real estate funds and real estate companies. Indeed, first-class residential funds are now once again trading at premiums of more than 30% to net asset value.

Consolidation in the fund landscape expected

The takeover of Credit Suisse by UBS will change not only the Swiss fund landscape generally, but also the real estate fund landscape in the medium term.

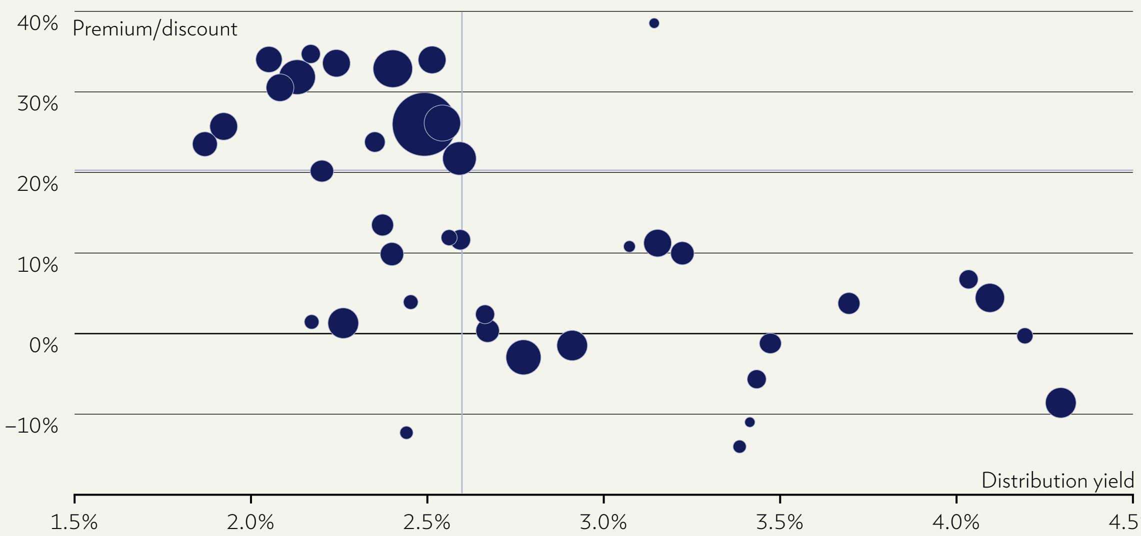
With the merger of the two Swiss fund management companies of CS and UBS, which completed at the end of April 2024, a key step has been taken that paves the way for fund mergers to be implemented by Switzerland's largest market participant. We are expecting the first mergers of real estate funds with similar strategies and structures to take place once fund contracts have been adjusted and the necessary tax rulings obtained next year.

REIDA facilitates transparent comparison of environmental metrics for first time

Following the rating comparison in the last Property Market Report, in this issue we are looking at a further ESG dimension of real estate funds, namely greenhouse gas emissions. According to the guidelines set out by the Asset Management Association, real estate funds must now calculate their emission intensity using the methodology of the Real Estate Investment Data Association (REIDA). The REIDA benchmark currently comprises 61 property portfolios of Swiss investors with a total value of CHF 173 billion. Thanks to this uniform calculation methodology, comparisons of the progress of individual portfolios towards the goal of zero emissions can now be made for the first time. However, when making such comparisons it is important to distinguish between different forms of use. Residential property funds typically report higher emission figures than commercial funds. One positive finding is that Swiss greenhouse gas emission intensity has improved in the latest REIDA benchmark study – from 14.3 kg/m^2 in 2022 to 13.5 kg/m^2 in 2023. In other words, institutional investors are at least generally headed in the direction of the net zero emission target. On the other hand, the still low proportion of renewable energy sources in portfolios (just 30%) will probably call for energy-driven renovations to be stepped up. If Switzerland's net zero target is to be achieved by 2050, the public sector is also going to have to expand district heating systems. Your client advisor or the advisory team at Julius Baer (email: markus.waeber@juliusbaer.com) will be pleased to provide recommendations.

Listed Swiss real estate funds

Comparison of distribution yield and premium/discount



Average ● Circle sizes are in proportion to net assets

As at: June 2024 Source: Alphaprop

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Authors

This is a whitelabelled publication that was authored by Wüest Partner AG in cooperation with the Julius Baer & Co Ltd. Real Estate team.

Sources

The data was sourced from the Swiss Federal Statistical Office (FSO), the State Secretariat for Economic Affairs (SECO), the Swiss National Bank (SNB), the Baublatt Information Service, Realmatch360, Thomson Reuters, SIX Swiss Exchange, Alphaprop and the databases of Wüest Partner AG and Bank Julius Baer & Co. Ltd.

Explanatory notes

Transaction price index for upmarket residential properties
The transaction price index for upmarket residential properties was created by Wüest Partner AG in collaboration with the real estate team from Bank Julius Baer & Co. Ltd. This hedonic price index based on real-life transactions shows price trends for upmarket privately owned apartments and single-family houses in selected Swiss municipalities with a high proportion of owner-occupied properties in the top price segment (see map on page 5). The figures posted show the price trends for a standardised property of very high quality and standard, occupying a prime site within the local municipality.

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Julius Bär

JULIUS BAER GROUP

Head Office
Bahnhofstrasse 36
P.O. Box
8010 Zürich
Switzerland
Telephone +41 (0) 58 888 1111
Fax +41 (0) 58 888 1122
www.juliusbaer.com

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