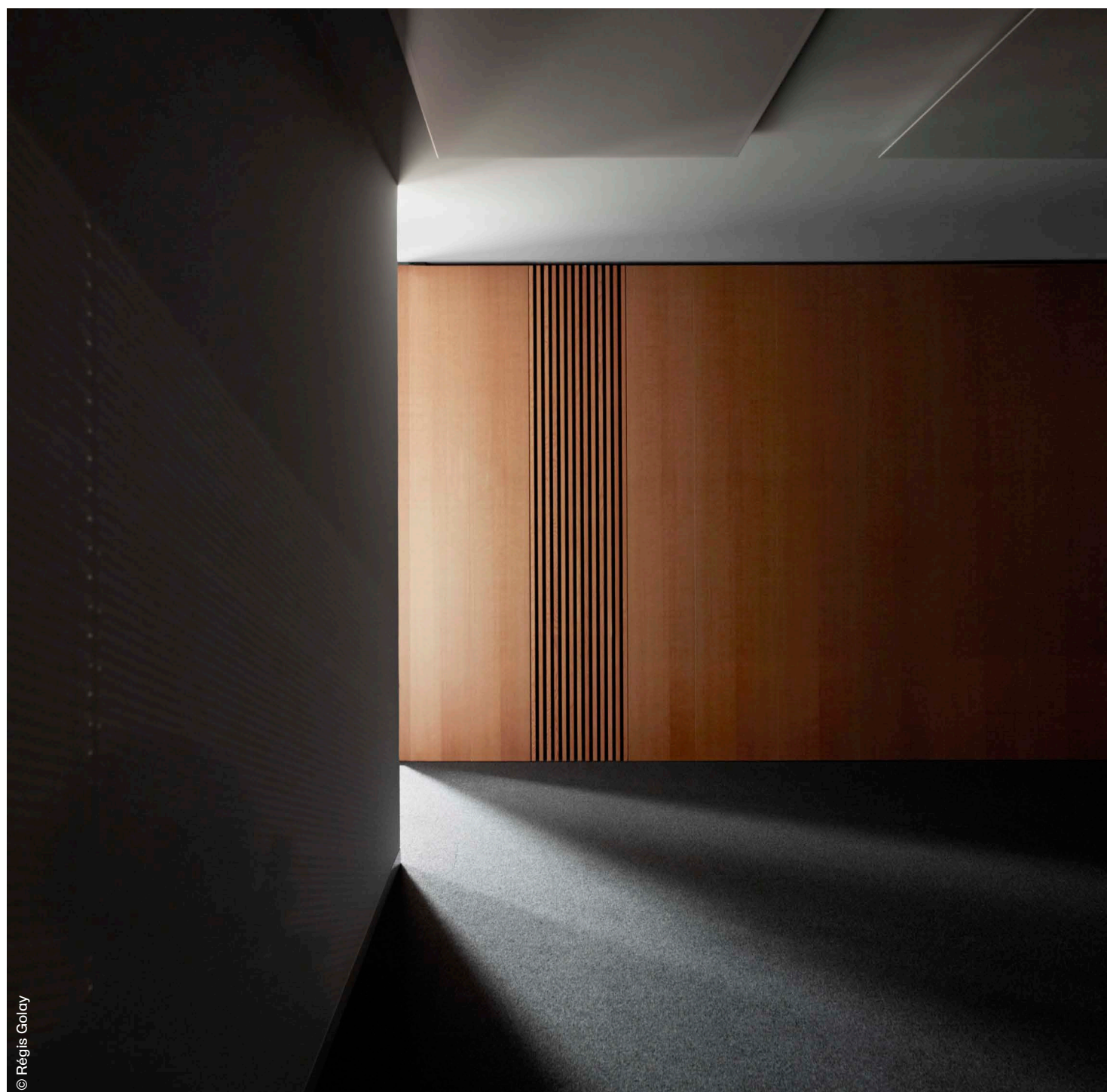


Market research Geneva and Vaud

2022

Office property market



Editorial

The pulse of the stone

Since June 16 2022, the date of the SNB's first monetary policy tightening, the natural inertia of the databases has proved more problematic. The correction mechanically induced by the regular rise in interest rates is causing concern among owners, asset managers and investors, who are destabilised by the uncertainty that reigns between two updates.

Urban redevelopment, the improvement or creation of new transport infrastructures, and the slowing or accelerating development of certain economic sectors are rapidly transforming the leasing market for office, industrial, logistics and residential space.

If we add to this a few exogenous factors, such as the Russian-Ukrainian war, significant global inflation, the end of accommodating central bank policies and the need to better integrate ESG criteria into real estate, it's easy to understand the reason why our teams are requested by our customers and partners, who want reliable, up-to-date figures at a granularity tailored to their needs.

If the statistics provide generic curves, our experts and brokers can add derivatives, highlighting trends and the pace of change in these data.

The aim of this market review and the accompanying report is to give you the pulse of the stone.

Grégory Grobon
CEO



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Economic climate in Switzerland

Russia's invasion of Ukraine, persistent inflationary pressures and the slowdown in China have worsened the Swiss economic environment in 2022. Even so, the Swiss economy has proved resilient compared with other developed countries. Compared with its European neighbours, Swiss inflation has remained moderate, employment has continued to rise, and businesses are generally satisfied with the economic climate.



Production and demand

In 2022, the Swiss economy remained in positive territory despite the deterioration in economic conditions. The quarterly growth rate of gross domestic product (GDP) averaged around 0.2% in real terms (see figure 1).

Increases in the economic barometer of the Swiss Institute for Business Cycle Research (KOF) and in the Swiss National Bank (SNB) business cycle index, which forecasts Swiss GDP, suggest that the slowdown since January 2022 should ease in the coming months.

Although the Swiss Purchasing Managers' Index (PMI) survey data for both manufacturing and services were positive until November 2022, the deterioration in this index at the end of last year points to moderate GDP growth in the first half of 2023 (see figure 2).

Exchange rates

In the first half of 2022, because of the widening interest rate differential between Switzerland and the eurozone, the Swiss franc continued to rise and appreciated strongly against the euro. The monthly average value of the euro reached an all-time low of CHF 0.96 in September, before stabilising at CHF 0.99 at the end of the year (see figure 3).

Against the US dollar, the Swiss franc showed little change from one year to the next. The two "safe havens" show a smaller range of variation than against other currencies. Having regained ground by reaching parity, the dollar fell back to CHF 0.93 in December 2022 (see figure 3).

Figure 1: Real GDP (SECO)

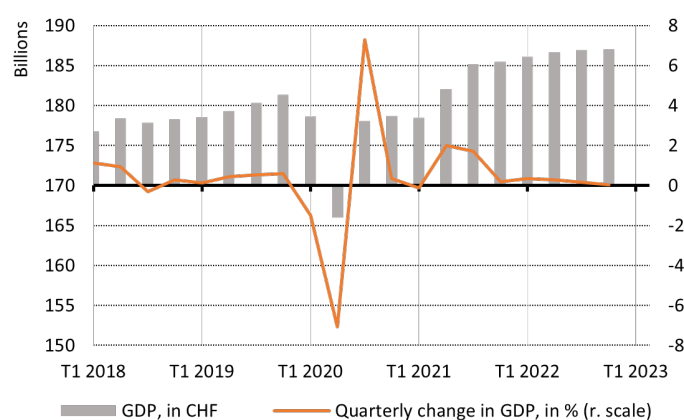


Figure 2: PMI Services and KOF Economic Barometer (CS, KOF)

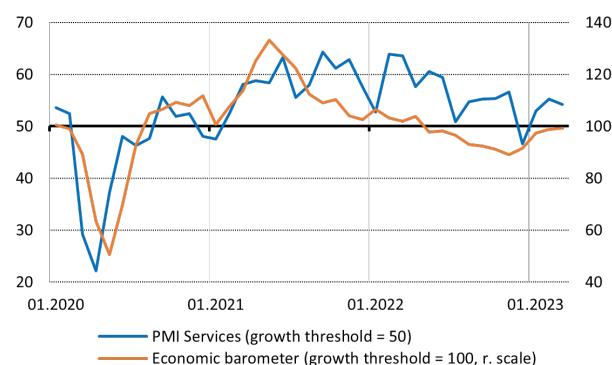
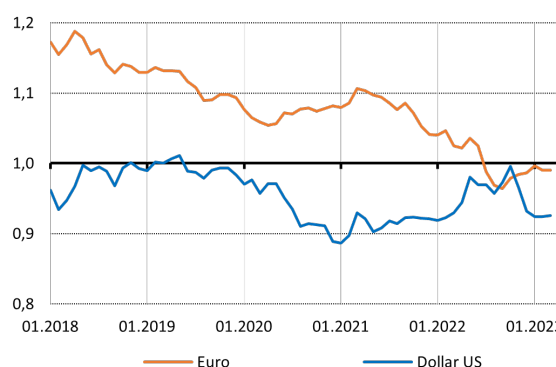


Figure 3: Swiss franc, in CHF (SNB)



Economic climate in Switzerland

"The post-pandemic "euphoria" was short-lived and was followed by a market correction correlated with the deterioration in the economic climate"

Consumer climate

Swiss consumer confidence turned negative and continued to deteriorate in 2022. The post-pandemic "euphoria" was short-lived and was followed by a market correction correlated with the deterioration in the economic climate. Although there will be a turnaround in the first quarter of 2023, consumer sentiment is likely to remain depressed throughout the year (see figure 4).

Job market

Swiss employment has risen for six consecutive quarters. At 3.2% (+127,000 jobs), employment growth over the past twelve months has been stronger than at any time since 2008. However, there has been a slowdown in the number of jobs created in the last two quarters, compared with the previous four quarters (see figure 5).

A third of the total increase in Swiss employment was recorded in the hotel and restaurant sector (+27,500), as well as in the health sector (+16,600), with a total of 44,100 new jobs created. Only the telecommunications industry saw a decline in the number of employees. This trend illustrates a post-pandemic catch-up effect.

The unemployment rate fell to record lows during 2022. After peaking at 3.9% in January 2020, it fell to 1.9% in October 2022, the lowest rate in eleven years. It stood at 2.2% at the end of the year (see figure 6).

Figure 4: Consumer sentiment index (SECO)

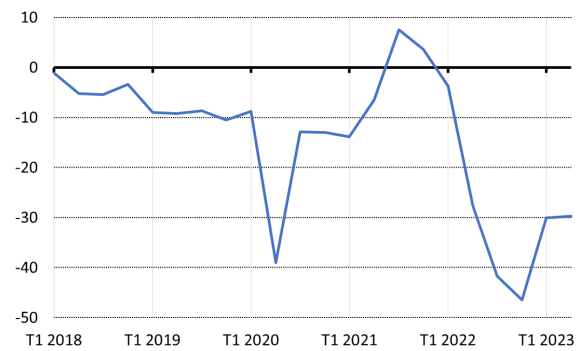


Figure 5: Quarterly change in employment (FSO)

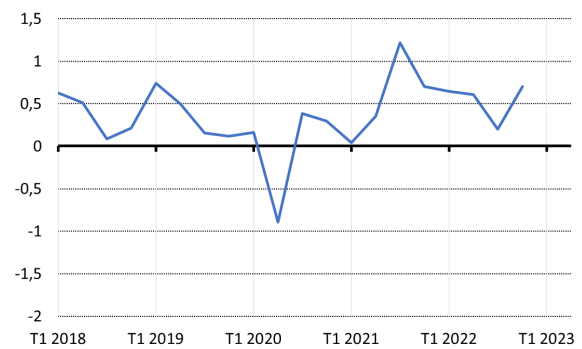
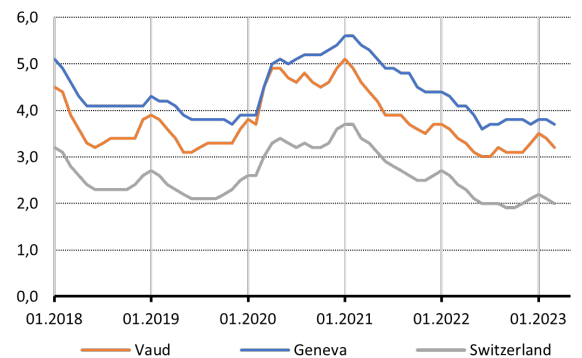


Figure 6: Unemployment rate, in % (SECO, OCE)



Economic climate in Switzerland

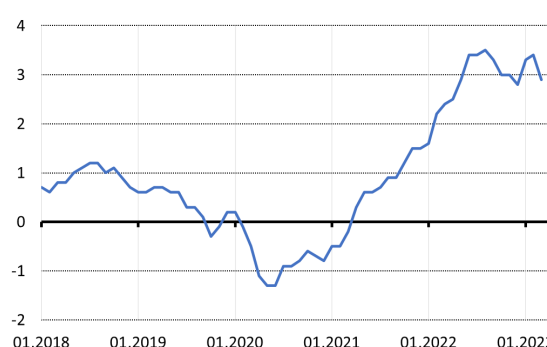
"The SNB continued to tighten monetary policy in March 2023, having raised its key rate four times since June 2022"

Consumer prices

Consumer prices in Switzerland rose sharply throughout the year. The annual change in the Swiss consumer price index (CPI) stood at 3.3% at the end of 2022, below the peak of 3.5% (August 2022). Overall, average annual inflation reached 2.8% in 2022 (see figure 7).

Even so, the year-on-year rise in prices recorded at the end of 2022 remained well below the levels seen in the European Union (9.2%) and the United States (6.5%). Steady production growth, a calmer consumer climate and the absence of generalised wage indexation have all contributed to Switzerland's economic stability.

Figure 7: CPI inflation, in % (FSO)



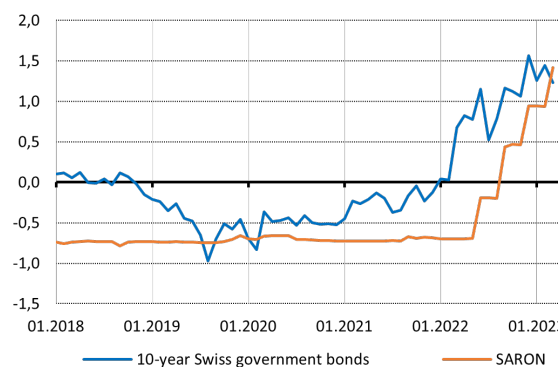
Interest rate

Money market

The SNB continued to tighten its monetary policy in March 2023, having raised its key rate four times since June 2022. The key rate was raised by 225 basis points (bp) in nine months, from -0.75% to 1.5%.

As a result of this monetary policy, short-term interest rates have soared. The SARON rose from -0.7% at the end of April to 0.94% at the end of December 2022, having remained relatively stable since 2015 (see figure 8).

Figure 8: Short-term interest rate and 10-year Confederation bonds yield, in % (SNB)



Long-term interest rates followed the same trend. The yield on 10-year Swiss government bonds returned to positive territory, which had not happened since October 2018. It reached 1.57% at the end of 2022 (see figure 8).

Economic climate in Switzerland

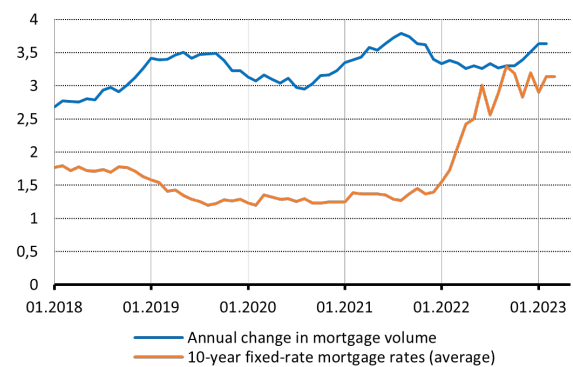
"The KOF business indicator, which captures the sentiment of Swiss business leaders, showed a slight decline in the third quarter of 2022, after peaking in June"

Capital market

In 2022, the average interest rate on fixed-rate mortgages followed the trend in money market interest rates. The ten-year mortgage rate rose from 1.4% in December 2021 to almost 3.2% in December 2022, reaching its highest level for eleven years (see figure 9).

Despite a small correction at the end of 2021, bank mortgage lending has remained stable or even increased slightly over the last twelve months. Annual growth in bank mortgage volumes in 2022 (3.5%) was 30 bp higher than in 2021 (see figure 9).

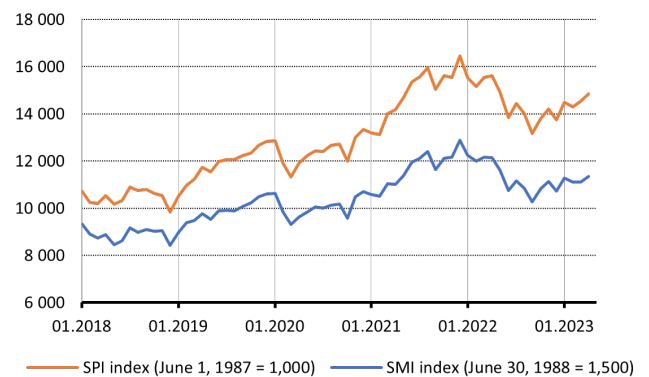
Figure 9: Mortgages and interest rate, in % (SNB)



Share price

In 2022, the Swiss stock markets lost the upward momentum of previous years. The decline that began at the end of 2021 was confirmed during the first two quarters of 2022 and lasted until the end of September. In the final quarter of 2022, the trend reversed. Even so, the SPI and SMI indices in December 2022 were still well below the previous year-end levels (-16.5% and -16.7%), which had been their all-time highs (see figure 10).

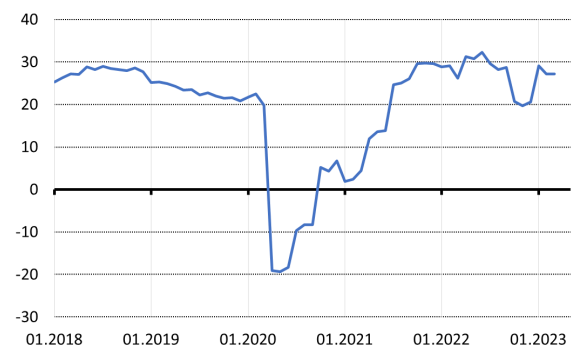
Figure 10: Swiss equity indices (SNB)



Business situation

The KOF Business Climate Indicator, which captures the sentiment of Swiss business leaders, showed a slight decline in the third quarter of 2022, after peaking in June. However, the renewed business confidence at the end of 2022 shows that business conditions remain generally favourable (see figure 11).

Figure 11: Business situation indicator (KOF-EPFZ)



Economic climate in Switzerland

"The recovery in Geneva hotels continued in the second half of 2022. The number of overnight stays has almost returned to pre-pandemic levels"



Business situation Geneva

- **Industry:** business conditions in Geneva's industry remain favourable at the end of 2022. However, business leaders remain cautious for 2023.
- **Financial services:** business conditions in the financial services sector deteriorated slightly in the final quarter of 2022. Local financial institutions expect this deterioration to ease in the months ahead.
- **Hotels and restaurants:** the recovery in Geneva hotels continued in the second half of 2022. The number of overnight stays has almost returned to pre-pandemic levels. Hoteliers expect their business to grow in the months ahead. By contrast, the business situation in the restaurant sector remains negative. Restaurant owners are not expecting any significant improvements over the next few months..
- **Real estate:** at the end of the year, the business environment in the real estate sector remained favourable. Although still at a high level, the volume of investment in construction projects has been falling since autumn 2021. For 2023, construction professionals expect this decline to continue, while property consultants expect their business to stabilise.
- **Retail trade:** the retail trade situation was very good in the food sector and satisfactory in the non-food sector. The outlook for the first half of 2023 is positive overall.
- **Other service sectors:** conditions in the other services sectors have improved from "poor" to "satisfactory". Forecasts for the next three to six months are positive.



Business situation Vaud

- **Industry:** in the Vaud industrial sector, almost all entrepreneurs consider the current business climate to be favourable or fair. However, they expect business to decline over the next months.
- **Hotels and restaurants:** most hotel and restaurant owners reveal their business situation has deteriorated in 2022. The outlook for the hotel and restaurant sector is uncertain. Inflation and the consumer climate are reducing the outlook for recovery.
- **Real estate:** in the real estate sector, the current business environment is generally positive. Nevertheless, price competition, as well as shortages of labour and materials, have had a negative influence on activity in the construction segment. Some companies are therefore expressing concern about how the market will develop.
- **Retail:** although not as favourable as last year, the business situation in the retail sector remains positive. However, half of retailers expect their performance to decline over the next months.
- **Other service sectors:** the service sector is being affected by pressure on prices and a lack of demand. Although demand is up in commercial services, it is down in transport, information and communications, and personal services. Professionals are reporting difficulties in recruiting qualified staff, which is having an impact on the smooth running of their businesses. However, they expect sustained growth in their activities in 2023.

Office property market in Geneva

The democratisation of teleworking and the slowdown in growth had aroused the fears of commercial property professionals, who spoke of a potential downturn in the market. Nevertheless, excess demand and sustained employment growth have both contributed to the recovery in the office property market.



Market of investment

Introduction

Investors have never been as active as in the post-pandemic period. In Geneva, sale and leaseback transactions, more commonly known as sale & lease-back, have generated record transaction volumes over the last five years, both in the city centre and in the suburbs.

In 2022, the investment market faced a change in trend resulting from three factors:

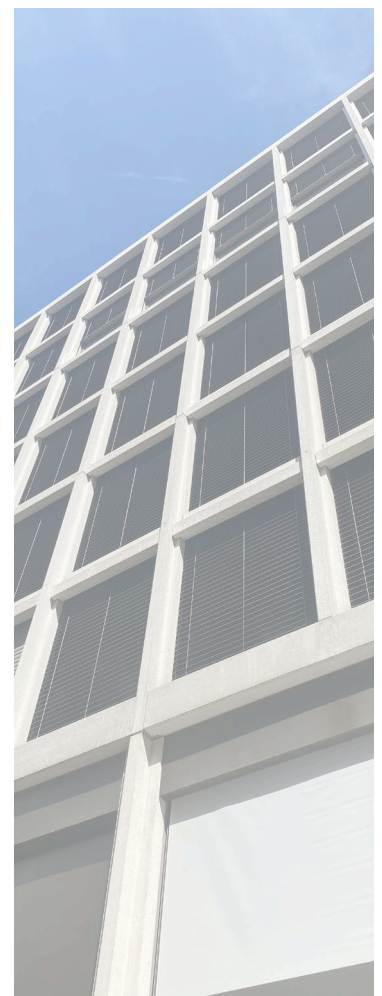
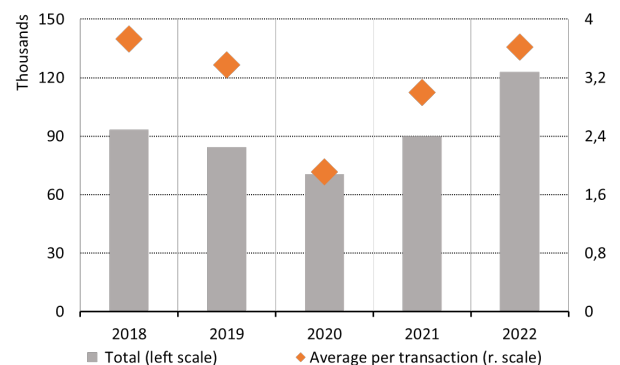
- Rising interest rates offer alternatives to property investments. The yield differential between property investments and 10-year government bonds is narrowing,
- The economic downturn and rising discount rates are exerting progressive pressure on the prices of investment properties,
- New energy standards and ESG criteria are having an increasingly tangible impact on investment decisions.

Against the backdrop of a worsening economic outlook, the market has lost some of its momentum. Nevertheless, thanks to the correlation of rental income to the consumer price index, property investments offer an advantage over other investments such as bonds. The yield differential can therefore prove attractive, depending on investors' ability to pass on the additional costs.

Volume of investment

Despite a tumultuous start to the year, the resilience of the Swiss economy kept investment markets buoyant. The Geneva investment market showed some strength. For the third year running, both the total volume of space traded and the average area per transaction increased. The estimated total leasable area of administrative building transactions reached an absolute level of around 123,000 sqm in 2022, 37% more than the previous year (see Figure 12).

Figure 12: Transaction volume in the canton of Geneva, in sqm (FAO, SPGI)



Office property market in Geneva

"Several large transactions have led to a significant volume of investment in 2022"

As a result, the volume of office space traded has not lost its post-pandemic momentum, despite concerns about the global economy and rising financing costs. This dynamism is the result of significant excess demand and the resilience of the office rental market.

Nevertheless, there has been a clear deterioration in general market sentiment in recent months, which is influencing price expectations. For example, the average volume per transaction fell by 24% in 2022. It stood at CHF 37.3 million, below the levels recorded in 2018, 2019 and 2021 (see figure 13).

The total volume of investment also fell for the year, after an exceptional post-pandemic year. As a reminder, two major transactions were carried out in 2021, one for CHF 615 million and the other for CHF 270.3 million. These sales and leasebacks, carried out by Pictet and BNP Paribas respectively, resulted in a record annual volume of CHF 1.48 billion (see figure 13). In 2022, investment in office space was around 14% lower than in the previous year. The total volume was CHF 1.27 billion. The sale and leaseback of Credit Suisse's landmark building at Rue du Rhône 2 for CHF 203 million boosted the year's statistics (see figure 13).

Main transactions

Several large transactions led to a significant investment volume in 2022. In addition to the purchase of the Credit Suisse building by the Turidomus investment foundation, the second major sale involved a mixed-use building in the Florissant district. This building, which accommodates, among other things, the offices of the American commodities trading company Bunge, was sold to the ASGA pension fund and the Swiss Prime investment foundation for CHF 197 million (see table 1).

Figure 13: Total transaction volume in the canton of Geneva, in CHF (FAO, SPGI)

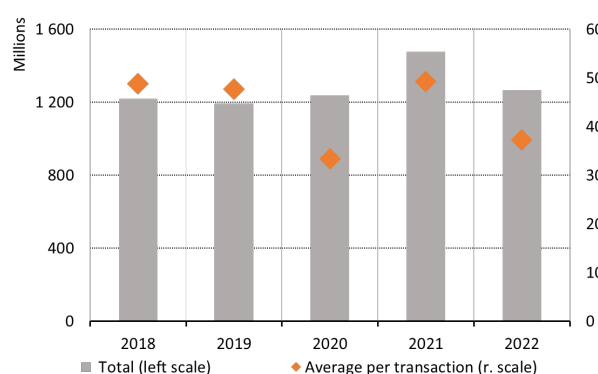


Table 1: Top 5 transactions in the canton of Geneva, 2022 (FAO, SPGI)

Building	Area (sqm)	Price (CHF)	Purchaser
Credit Suisse , Rue du Rhône 2	6 439	203 000 000	Anlagestiftung Turidomus
Rue de Contamines 18 / Rte de Florissant 11-13	14 800	197 000 000	Swiss Prime Anlagestiftung & ASGA Pensionskasse
Alpha Business Centre , Av Louis Casai 71	21 767	121 800 000	Credit Suisse Anlagestiftung
P&G , Rte de Saint Georges 43-47	30 845	115 272 342	P&G International (internal transfer)
Bd de la Tour 8-10 (700.82/1000)	9 265	102 000 000	Caisse de prévoyance de l'Etat de Genève

Office property market in Geneva

"The dependence of Geneva's office property market on large-scale transactions means that investment volumes are highly volatile. This type of sale creates significant differences in volume"

In 2022, around CHF 739 million, or 58% of the annual volume, was invested in 5 properties worth more than CHF 100 million. 37% of the investment volume was devoted to properties worth between CHF 10 and 100 million, representing a cumulative amount of around CHF 467 million (see figure 14).

Over the past five years, the Geneva office property market has seen a large number of large-scale transactions. Overall, 17 out of 151 transactions, or 57% of the total volume, involved properties worth CHF 100 million or more. 38% of transaction volume, or a total of close to CHF 2.46 billion, was accounted for by transactions between CHF 10 and CHF 100 million.

The Geneva office property market's dependence on large-scale transactions means that investment volumes are highly volatile. This type of sale creates significant differences in volume from year to year, and is not always indicative of a market trend. In fact, some decisions to sell buildings are the result of a combination of factors specific to the owner's business and independent of the property market.

On average, over the last five years, 65% of the sales volume came from the top 5 largest transactions of their respective year. The combined value of the five largest transactions in 2022 accounted for 58% of annual volume, below the average for the previous four years. By way of comparison, in 2021, the five largest transactions accounted for 80% of total volume (see figure 15).

From 2018 to 2022, the five largest sales on the market accounted for a total of around CHF 1.8 billion, or 28% of the overall volume. The acquisition of Pictet's headquarters in the Acacias district for CHF 615 million by German investor Deka Immobilien is an all-time record for the Geneva property market (see Table 2). This transaction is still well above the CHF 535 million paid by Swiss Life in 2015 for the block at rue du Rhône 8.

Figure 14: Transaction volume by selling price range in the canton of Geneva, in CHF (FAO, SPGI)

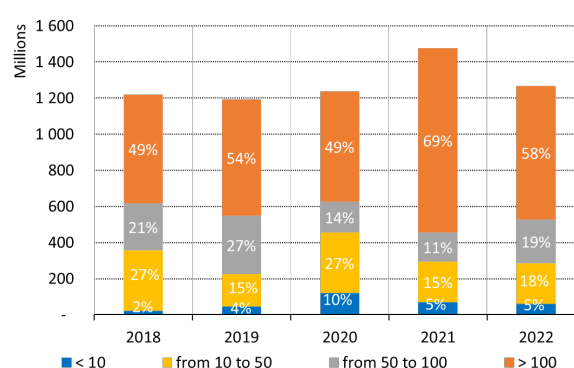


Figure 15: Weight of the top 5 annual transactions in the canton of Geneva, in CHF (FAO, SPGI)

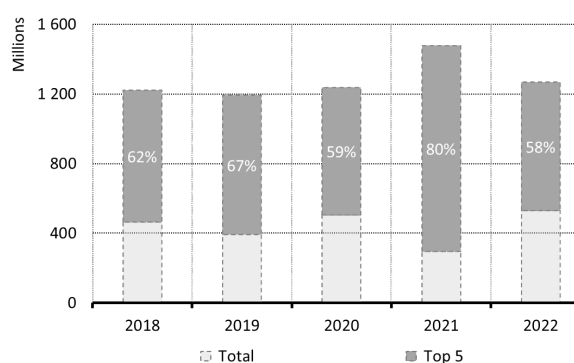


Table 2: Top 5 transactions in the canton of Geneva, 2018- 2022 (FAO, SPGI)

Building	Area (sqm)	Price (CHF)	Purchaser
Pictet , Rte des Acacias 60-62	26 693	615 000 000	Deka Immobilien
Crédit Suisse , Rue de Lausanne 11-19	17 143	300 500 000	Schroder Investment Management
Lombard Odier , Geneva portfolio	25 672	298 810 000	Axa Investment Management
UBS , Rue de la Confédération 2	10 661	295 000 000	PSP Swiss Property
BNP Paribas , Place de Hollande 2	11 369	270 255 555	Place de Hollande SA

Office property market in Geneva

"In 2022, as in previous years, the city of Geneva recorded the bulk of transactions in the administrative sector"

Behind this record sale was the sale by Credit Suisse to Schroder Investment Management of the building at rue de Lausanne 11-19 for CHF 300.5 million. In third place was Axa Investment Management's purchase of Lombard Odier's Geneva property portfolio for CHF 298.8 million (see table 2).

The trends that have emerged in the investment market over the last five years reflect the desire of companies to dispose of a quality asset at the most opportune time, to free up the equity needed for their projects. By way of illustration, the five most important transactions were all sale & lease-back operations carried out by companies from the banking sector and linked to a corporate strategy.

Geographical breakdown

In 2022, as in previous years, the city of Geneva accounted for the bulk of transactions in the administrative sector, with around 77% of the annual volume, or more than CHF 974 million. In total, 80% of the investment volume (CHF 5.08 billion) recorded in the canton of Geneva since 2018 consisted of properties located in the city. However, the total volume of sales on the outskirts of Geneva exceeded CHF 200 million the last two years (2021 and 2022) (see figure 16).

The geographical distribution of the volume of office property investment over the last five years has also been significantly influenced by large-scale transactions. The Praille - Acacias - Vernets (PAV) area on the outskirts, for example, recorded two major transactions that put this sector in third place among the geographical zones, with a market share of 10% (see figure 17).

The Left bank business district, more commonly known as the Left bank CBD, and the banking district are undoubtedly the sectors with the highest sales volume, accounting for 32% and 14% of overall volume respectively. This attractiveness is due to the high level of demand for prime locations (see figure 17).

Figure 16: Transaction volume in the suburbs and city of Geneva, in CHF (FAO, SPGI)

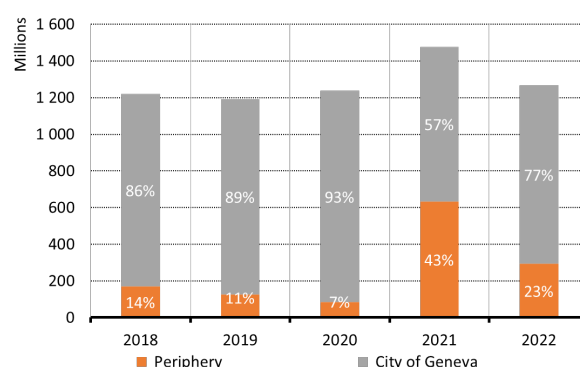
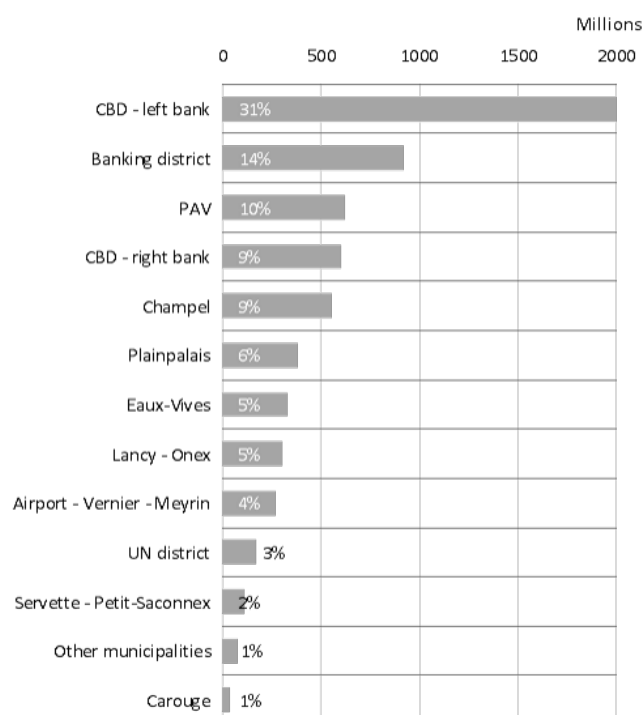


Figure 17: Transaction volume by geographical sector in the canton of Geneva, 2018-2022, in CHF (FAO, SPGI)



Office property market in Geneva

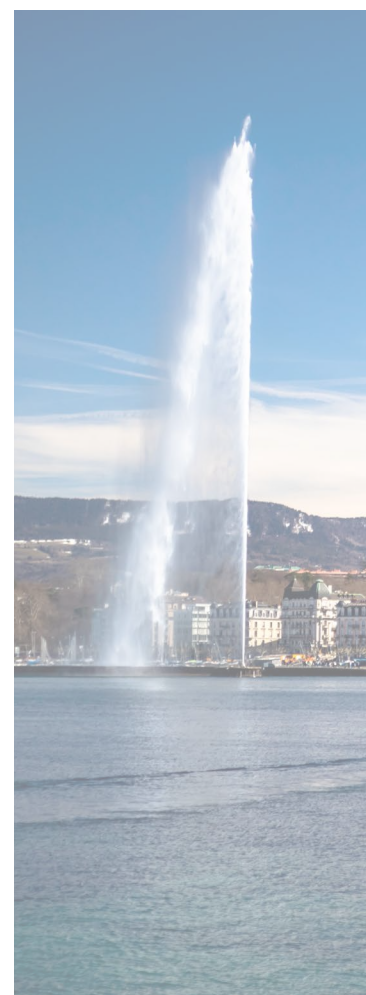
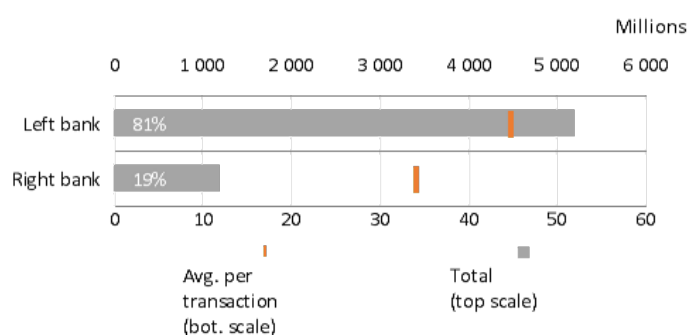
"The geographical breakdown of transaction volumes shows a marked difference in attractiveness between the right and Left banks"

Except for the Nations district and the Servette - Saconnex area, the other areas of the city of Geneva, such as the Right bank CBD (10%) and the Champel district (9%), are in the top half of the ranking. Overall, the Right bank undergoes a lack of attractiveness due to the greater rental risk perceived by investors. This is especially true on the outskirts, particularly in the Airport - Vernier - Meyrin sector, where rental indicators are not very comforting (see figure 17).

The geographical breakdown of transaction volumes shows a marked difference in attractiveness between the right and Left banks. With a relatively small share of total investment volume (19%), the Right bank is disadvantaged by a more challenging rental market in outlying areas, due to a high availability rate and low rent levels (see figure 18).

In contrast, the Left bank, in particular the city centre and its immediate surroundings, remains the most dynamic area in the canton of Geneva, with investment accounting for 81% of the overall volume. This phenomenon has been accentuated in recent years by the development of projects such as Pont-Rouge and the launch of the Léman-Express rail link, which has significantly improved public transport services (see figure 18).

Figure 18: Transaction volume by bank in the canton of Geneva, 2018-2022, in CHF (FAO, SPGI)



Office property market in Geneva

"The type of property traded, and the expected level of return have maintained an already favourable environment for Swiss investors"

Breakdown by type of buyer

Overall, foreign investors, whose most notable representative is Deka Immobilien, have accounted for only 10% of sales volume over the last five years. The low proportion of foreign investors can be explained by the following reasons:

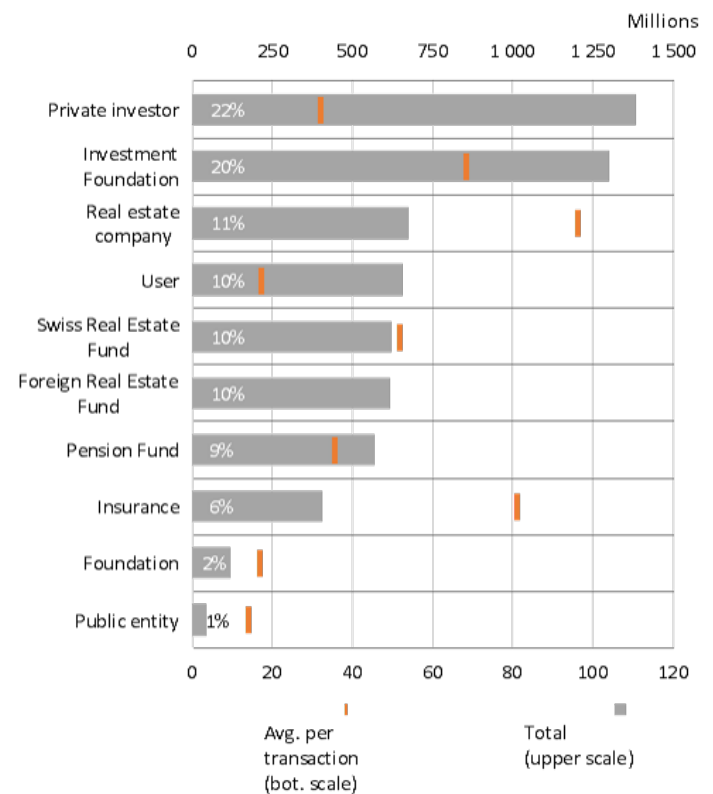
- Property yields in other European markets were and remain more attractive than those in Geneva,
- The strengthening of the Swiss franc against other currencies, particularly the euro, has reinforced the overall feeling that the Swiss and Geneva markets are expensive, and is exposing foreign investors to currency risk,
- Most foreign investors are focused on value-add properties, which did not account for the largest share of transaction volume in Geneva.

The type of property traded and the expected level of return maintained an environment that was already favourable to Swiss institutional investors. 90% of the volume of transactions involving office buildings was carried out by Swiss investors.

With almost CHF 1.39 billion and CHF 1.30 billion of capital invested, i.e., 22% and 20% of the total volume, private investors and investment foundations were the two most active categories of investors in the Geneva market (see figure 19).

Swiss real estate companies came third in the ranking, with total acquisitions of CHF 675 million, i.e., a market share of 11%. If we except the one-off acquisition by Deka Immobilien, Swiss real estate companies acquired, on average, the most expensive properties in the canton (see figure 19).

Figure 19: Transaction volume by type of buyer in the canton of Geneva, 2018-2022, in CHF (FAO, SPGI)



Office property market in Geneva

"Insurance companies are among the investor groups with the highest volume of space per transaction"

Users (CHF 658 million) and Swiss property funds (CHF 623 million) have respectively contributed 10% of the overall transaction volume (see figure 19). Pension funds, insurance companies, foundations and public bodies invested a cumulative CHF 1.14 billion, or 18% of the total volume (see figure 19).

The current low activity of insurance companies in the Geneva commercial market over the past two years is no doubt due to the already high proportion of commercial assets in their portfolios. In addition, the mediocre performance of properties acquired by insurance companies and located on the outskirts of the city has discouraged this category of investor from taking any additional risk.

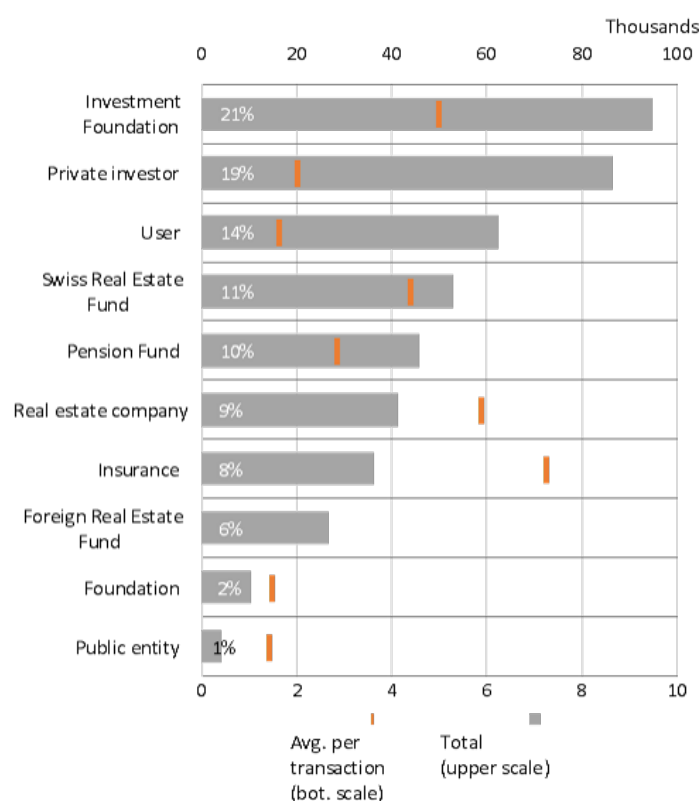
In terms of surface area, the picture is much the same as in terms of transaction volume. Investment foundations (94,723 sqm) and Swiss real estate funds (52,766 sqm) accounted for a third of the total volume of office space exchanged in Geneva over the five years under review (see figure 20).

Despite the key role played by a few large Swiss institutional investors, such as investment foundations, particularly in large-scale transactions, private investors (86,572 sqm) and users (62,458 sqm) acquired another third of the volume of office space sold (see figure 20).

Contrary to generally accepted ideas, and despite being in third place with 14% of space acquired, the statistics show that the user segment remains a niche market. On the other hand, users tend to acquire "small" areas (an average of 1,644 sqm per transaction), alongside foundations (1,481 sqm per transaction) and public bodies (1,414 sqm per transaction) (see figure 20).

At 7,247 sqm, insurance companies are among the investor groups that acquire the largest volume of space per transaction, behind foreign real estate funds (26,693 sqm). They are followed by Swiss property companies (5,887 sqm) and investment foundations (4,985 sqm) (see figure 20).

Figure 20: Transaction volume by type of buyer in the canton of Geneva, 2018-2022, in sqm (FAO, SPGI)



Office property market in Geneva

"The values of office buildings are now also dictated by sustainability criteria, more so than any other type of asset"

Yields and prices

The era of negative interest rates has considerably boosted demand in the property investment market and led to significant increases in selling prices. This model, which had been in place for several years, coupled with the relative size of the Geneva market, had led to a compression of yields, particularly on the city's Left bank.

In 2021, the prime yield, i.e., the yield measured on prime office property transactions, had reached an all-time low of 2.6% (see figure 21).

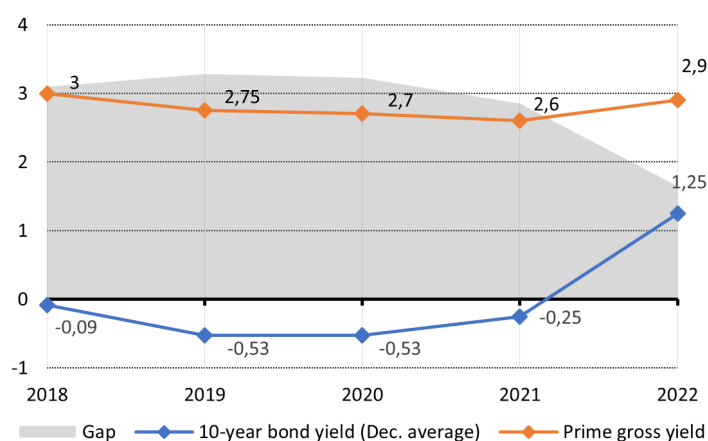
The rise in inflation and the return of interest rates to positive territory by the SNB in June 2022 brought price movements to a halt. The gross premium yield recorded in 2022 was 2.9% (see figure 21).

The yield spread between 10-year Swiss government bonds and prime real estate investments is now only 165 bp, around 120 bp lower than in 2021 and 170 bp lower than in 2019 (see figure 21).

In addition to a less favourable capital market environment, Geneva's prime investment market underwent a paradigm shift initiated by the pandemic and stimulated by the implementation of the new Energy Act (REn).

The values of office buildings are now also dictated by sustainability criteria, more so than any other type of asset. Indeed, the assumptions of office property investors are focused on the long term, and on structural factors such as the energy transition, as well as social and technological change. In other words, investors are still much more sensitive to location and to environmental, social and governance criteria.

Figure 21: Gross prime yield in the canton of Geneva and 10-year Confederation bonds yield, in % (SNB, FAO, SPGI)



Office property market in Geneva

"Nevertheless, the good outlook for the rental market has enabled median yields to stay on course in 2022"

This is especially true given that the value of commercial properties located in secondary areas or whose characteristics are no longer in line with current expectations in terms of sustainability. Some categories of investor have even opted out of this type of property, due to the less attractive risk/return ratio.

Nevertheless, the positive outlook for the rental market has enabled median yields to stay on course in 2022. Values of "standard" office space are more resilient to cyclical pressures, thanks to a simultaneous increase in net rents. Despite a certain offset, increases in financing costs and inflation-induced costs could be passed on to tenants, due to the scheduled rise in the benchmark mortgage interest rate.

The median gross yield on transactions carried out over the last five years in the canton of Geneva was 3.6%. This was below 2.7% for 10% of transactions (10% quantile) and below 3.1% for a quarter of them (25% quantile). The top quarter and top 10% (75% and 90% quantiles) of transactions recorded in the canton showed minimum returns of 4.5% and 5.9% respectively (see table 3).

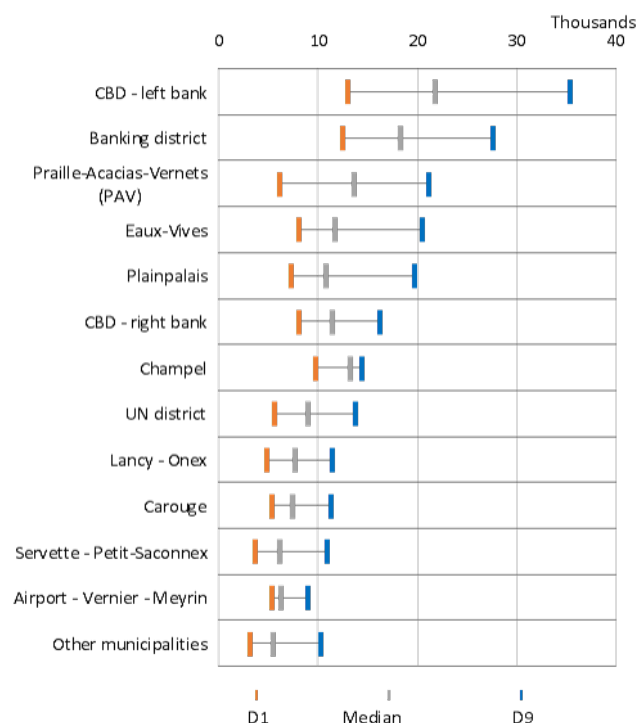
The median selling price observed between 2018 and 2022 for office property exchanges was CHF 13,000 per sqm. Half of the office space transactions justified a selling price ranging from CHF 8,192 to CHF 17,946 per sqm (see table 3).

Geographically, only the Left bank of the city-centre recorded a median sale price above the overall upper quartile (75% quantile, i.e., CHF 17,946 per sqm). The median sale price was CHF 21,758 per sqm in the Left bank CBD and CHF 18,333 per sqm in the banking district. The two purchases in the PAV sector achieved a median sale price of CHF 13,650 per sqm (see figure 22).

Table 3: Gross yield and selling price per sqm in the canton of Geneva, 2018-2022 (FAO, SPGI)

Quantile	Gross yield	Selling price per sqm
10%	2,71%	CHF 5 596
25%	3,08%	CHF 8 192
Median	3,60%	CHF 13 038
75%	4,51%	CHF 17 946
90%	5,91%	CHF 27 424

Figure 22: Selling price per sqm by geographical sector in the canton of Geneva, 2018-2022, in CHF (FAO, SPGI)



Office property market in Geneva

"Many capital increases carried out by Swiss investment funds have not achieved the expected results"

The Eaux-Vives, Right bank CBD, Champel and Plainpallais sectors displayed median sale prices close to CHF 11,000 per sqm. The Airport-Vernier-Meyrin sector came bottom of the league table, with a median sale price of CHF 6,282 per sqm (see figure 22).

Outlook

In 2023, the Swiss office property investment market can expect to face some headwinds. Contributions to office property seem to have peaked in 2021.

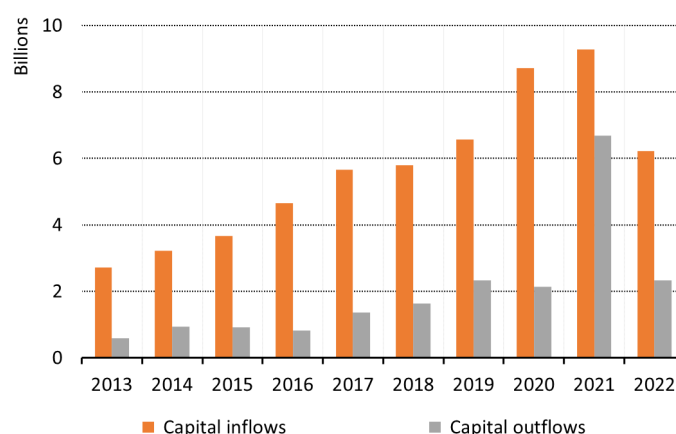
Depending on economic trends and the weight of property in the portfolios of institutional investors, some owners may eventually find themselves overweight commercial property, leading to properties being put up for sale. This could lead to an increase in the supply of office property during 2023.

Demand is likely to remain relatively strong for properties with good locations and satisfactory rental security. However, value-add properties in poor locations, which are largely vacant and need to be repositioned on the market, could face a further fall in demand.

Many capital increases conducted by Swiss real estate investment trusts did not achieve the expected outcomes. With a cumulative amount of CHF 6.22 billion, capital inflows have lost the momentum of previous years and have fallen by 33% in 2022 (see figure 23). As a result, the 91 Swiss REITs will have less investment capacity in 2023.

In addition, the growing importance of ESG or sustainability criteria in investors' acquisition strategies is leading to the adoption of more restrictive investment policies. Some institutional investors are even reluctant to invest in buildings that do not have an energy label, are not easily accessible, or whose tenant profile does not meet the defined criteria.

Figure 23: Capital inflows and outflows in Swiss real estate investment trusts (REITs), in CHF (SNB)



Office property market in Geneva

"In 2022, demand for office space was mainly fuelled by the very good situation on the labour market"

Finally, rising interest rates and economic uncertainties will lead to an inevitable correction in risk premiums of around 15 to 30 bp compared with the end of 2022. Combined with increased supply and selective demand, the rise in yields will tend to pull down market values.

Rental market

Introduction

Despite a downturn in the global economy, the office rental market showed sustained demand in 2022. The resilience of the Swiss economy and growth in employment contributed to the recovery in the sector, leading to a fall in availability in various parts of Geneva.

Nevertheless, the democratisation of teleworking has weighed on the absorption of new space delivered in suburban areas, so that the overall supply of office space in the canton has increased slightly. Today, the availability rate is at the same level as in 2015 and 2016.

Demand

In 2022, demand for office space was fuelled mainly by the very good situation on the labour market. After the pandemic restrictions, catch-up effects and rapid employment growth temporarily generated a very high demand for office space. The number of employees in the service sector rose by 4.2% year-on-year, and by 12.9% since the second quarter of 2015 (see figure 24).

From 2015 to 2020, health and social work (+18%), professional, scientific, and technical activities (+12%), and information and communication (+13%) all contributed to the overall increase in employment. Of all the sectors of activity combined, small businesses with fewer than 2 employees and large companies with more than 250 employees have seen the biggest increase over the last five years (see figure 25).

Figure 24: Change in full-time equivalent (FTE) employment in the tertiary sector in the canton of Geneva, Q2 2015 = 100 (OCSTAT)

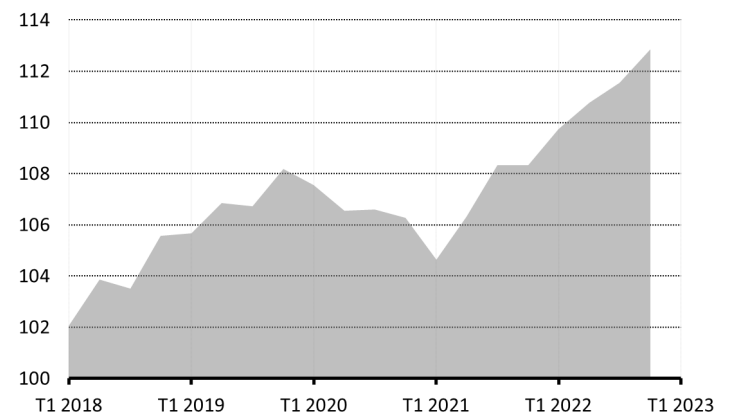
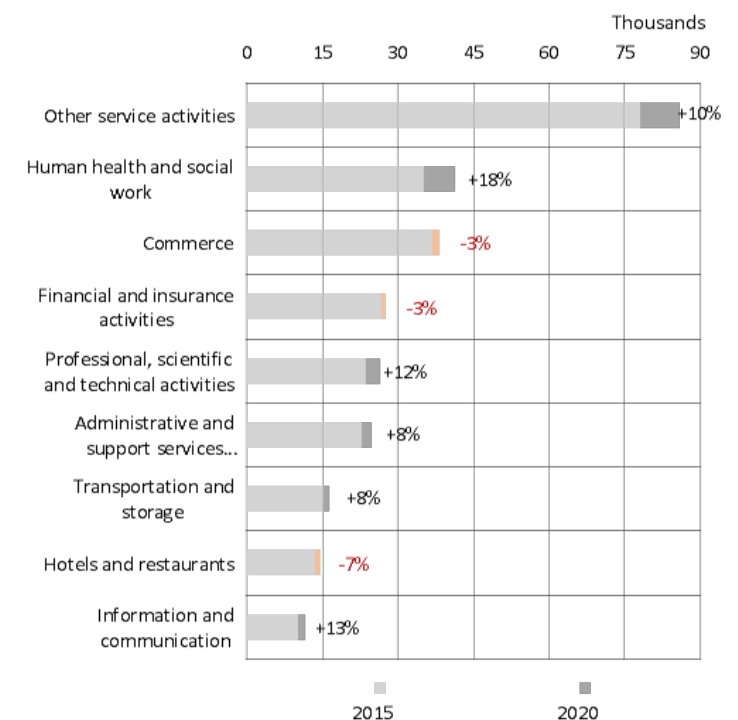


Figure 25: FTE employment by tertiary activity in the canton of Geneva, 2020 (OCSTAT)



Office property market in Geneva

"Despite strong demand, the increasingly flexible working environment due to the popularity of teleworking has had an impact on tenants' needs"

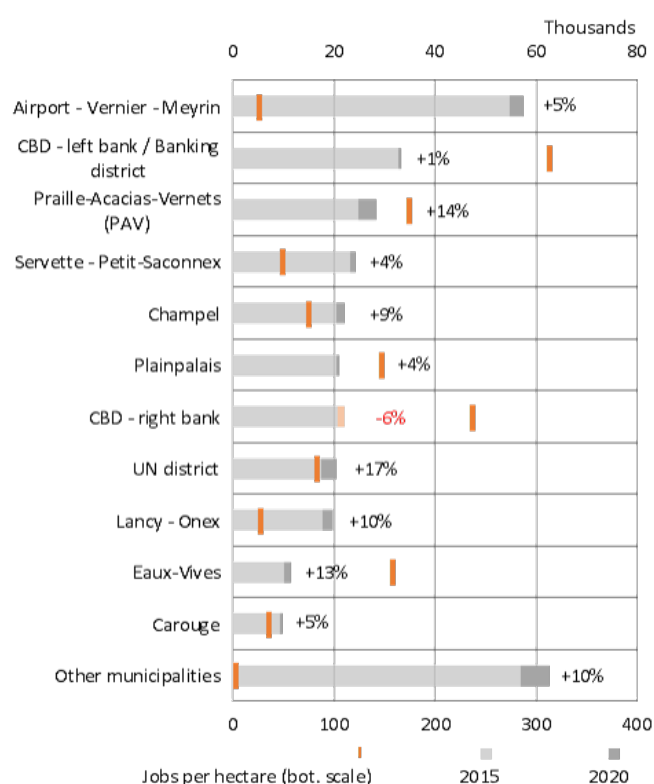
Employment growth in Geneva showed a certain dynamism in the secondary business districts before and during the pandemic period. This is particularly true of the sub-sectors close to the CEVA stations. By way of example, the Nations (+17%), PAV (+14%) and Eaux-Vives (+13%) sectors have seen particularly strong growth up to 2020 (see figure 26).

The number of employees did not increase in the CBD, and even fell in the Right bank CBD and the Banking district (-6%) (see figure 26). Indeed, the decline in the hotel and catering (-7%), retail (-3%) and financial services (-3%) sectors greatly tarnished the picture in the city centre during the pandemic (see figure 25).

Despite strong demand, the more flexible working environment created by the democratisation of teleworking has had an impact on tenants' needs. Many employers are now offering more flexible working arrangements to attract and retain employees in a market where there is a temporary shortage of skilled labour.

The phenomenon of partial presence of employees in offices is a new factor that is being taken into consideration by companies. The workplace is increasingly becoming a place of contact and exchange, as individual tasks can now be carried out from home. There is therefore a growing need for modern facilities, as well as offices close to public transport, shops, and services, which will help to increase employee presence.

Figure 26: FTE employment by geographical sector in the canton of Geneva, 2020 (OCSTAT)



Office property market in Geneva

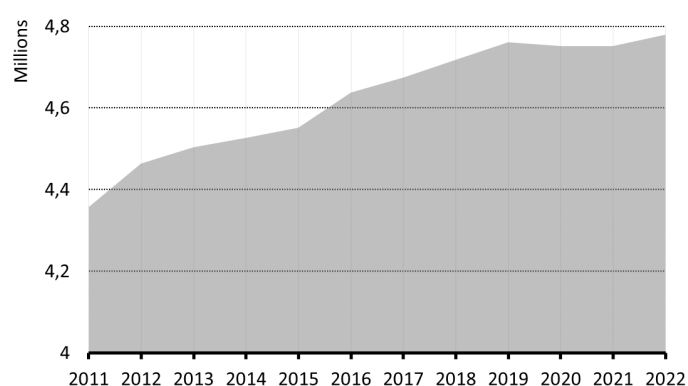
"The canton has struggled to absorb the construction activity and currently has one of the highest availability rates in the country"

Offer - Stock

Since 2015, several major projects have been launched in the canton of Geneva, particularly on the outskirts of the city, such as the major office developments at Les Nations, in the PAV and in the Airport-Vernier-Meyrin sector. Following a significant increase in the stock of office space up to 2019 (+9.3% in 10 years), it has stabilised in 2020 and 2021.

In 2022, part of the office space in the Quartier de l'Etang project (Les Fabriques and Le Belvédère) and the O'Vives project (O'Parc), i.e., 29,000 sqm, was added to the stock of office space in the canton of Geneva, which reached 4,780,000 sqm (+0.6%) at the end of the year (see figure 27).

Figure 27: Change in stock in the canton of Geneva, in sqm (OCSTAT, SPGI)



Offer - Availability

In 2021, in the wake of the economic expansion, the growing demand for office space was at the root of a low availability rate in key sectors of the canton of Geneva. With the good business situation and rising employment, many real estate professionals had predicted that the overall supply of office space would stagnate in 2022.

Despite this, the availability rate rose overall from one year to the next. The canton has had difficulty absorbing the construction activity, and currently has one of the highest availability rates in the country. At the end of 2022, the estimated total available office space was 315,000 sqm, equivalent to an availability rate of 6.6%.

The "two-tier" trend in the rental market has thus been confirmed. While Geneva's left bank benefited from companies' desire to optimise employee comfort in terms of location and layout, the right bank and suburban areas suffered from a lack of access to public transport and a reduced number of shops. Coupled with the digitalisation of business activities and economic uncertainties, some companies have postponed their plans to move due to a lack of availability in the city centre, despite the development of their contingent.

Office property market in Geneva

"Similarly, structural changes in the labour market have influenced trends in demand for office space on the outskirts of Geneva"

In the Left bank CBD and the Banking district, the amount of available office space has fallen considerably. Thanks to sustained demand, availability rates have fallen sharply to 1.75% and 2.0% respectively by the end of 2022 (see figure 28).

The Eaux-Vives, Champel and Plainpalais districts are also showing a degree of dynamism and are experiencing a shortage of space that meets the new standards for layout and location. Availability rates have fluctuated between 2.5% and 4% in these areas (see figure 28).

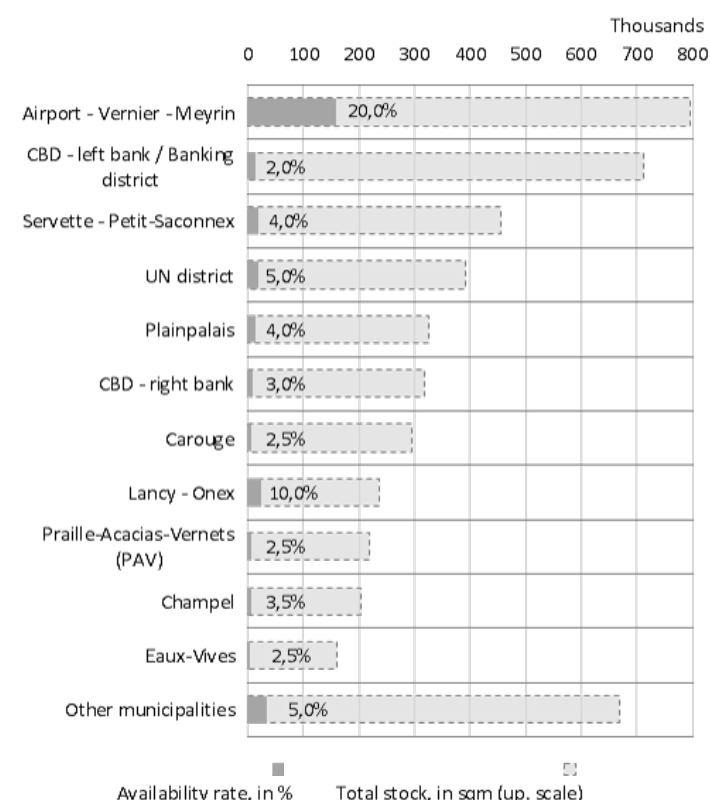
Except for the Right bank CBD, which still has a rather low availability rate (3%), the other sectors on the city's right bank, such as Nations and Servette - Petit-Saconnex districts, have experienced a slowdown in the search for office space, due to the flexibility of the international organisations' teleworking policy.

Similarly, structural changes in the labour market have influenced trends in demand for office space on the outskirts of Geneva. The supply of office space has increased more in suburban areas, such as Airport-Verrier-Meyrin (20%) and Lancy-Onex (10%) (see figure 28).

The Quartier de l'Étang project near the airport has added to the list of office space available for rent in the area. This is in addition to existing office space that has been unoccupied for several years.

In the first ring around the city, the amount of office space available has not changed much over the last twelve months. For example, the availability rate in the PAV sector has even fallen slightly, thanks to the saturation of the city centre.

Figure 28: Stock and availability rate by geographical sector in the canton of Geneva, 2022 (OCSTAT)



Office property market in Geneva

"Rising demand and limited supply have put pressure on rents"

Levels of rents

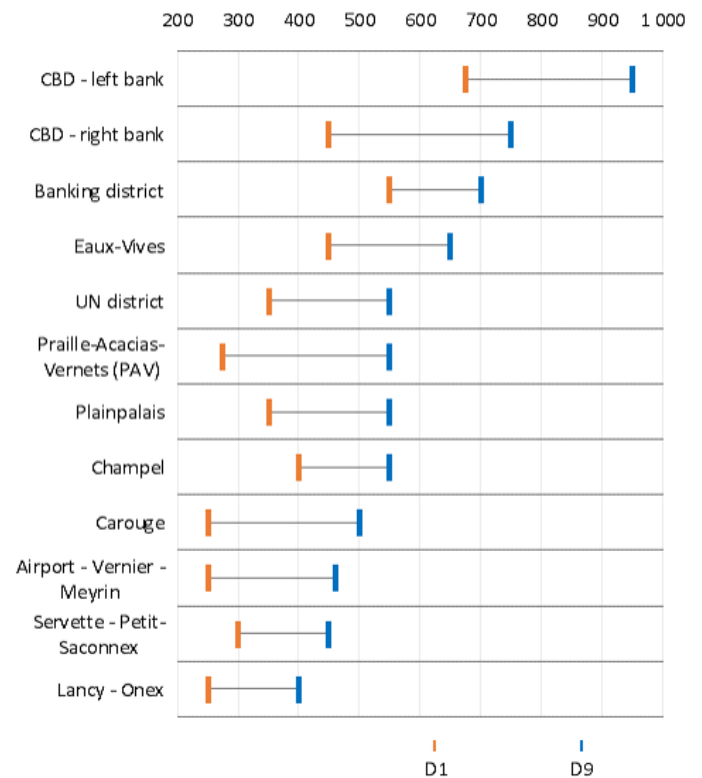
The trends observed in terms of availability also apply to rents. The structural imbalance in the property market has created a “two-tier” system, with the CBD and nearby areas benefiting from new rental criteria and strong employment. Overall, office rents in Geneva stabilised in 2022.

Advertised rents for office space rose significantly in Geneva city centre, particularly on the left bank. Rising demand and limited supply have exerted leverage on rents. Many companies are more willing to pay for flexible, energy-efficient space close to the centre.

Reported rental growth was around 4%, putting Geneva slightly below the average for Switzerland's major centres. Nevertheless, demand for office space is expected to remain strong until at least next year, allowing rents to continue to rise due to the shortage of available properties.

Naturally, the highest rents were recorded in the key areas of the city of Geneva. The Left bank CBD enjoys high rents, reaching up to CHF 950 per sqm per annum, with a threshold of CHF 675 per sqm per annum. The banking district and, to a certain extent, the Eaux-Vives district also offer high annual rents, at CHF 700 and CHF 650 per sqm respectively. In the Champel and Plainpalais areas, the higher availability rates and the characteristics of the available space mean that rents rarely exceed the ceiling of CHF 550 per sqm (see figure 29).

Figure 29: Rent level by geographical sector, in CHF/sqm/year (SPGI)



Office property market in Geneva

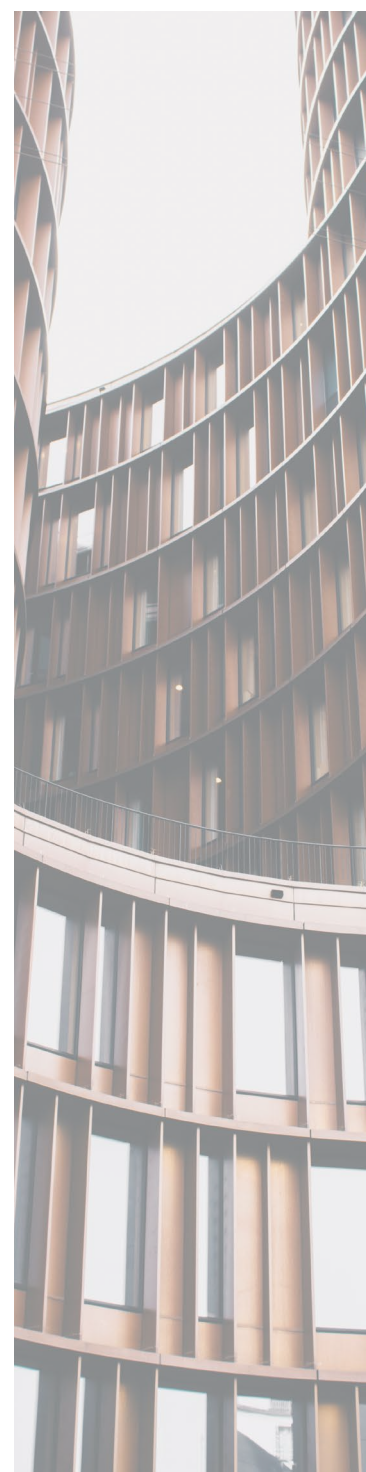
"The year-on-year fall in rents shows that the rental market in the outlying areas of Geneva is in a turning point"

The year-on-year fall in rents shows that the rental market in Geneva's outlying areas is in a state of flux. Nevertheless, new developments and a resilient labour market mean that secondary business districts are able to meet some of the demand from a saturated market in the city centre.

The PAV sector has been particularly attractive, thanks to its good public transport infrastructure and the large number of retail outlets. The sector's rental market was driven mainly by the development of the Pont-Rouge district, with rents close to CHF 550 per sqm, very good accessibility and a degree of flexibility in terms of space planning for tenants (see Figure 29).

The municipality of Carouge has also managed to retain a certain dynamism. However, rents in Carouge have generally stagnated, or even fallen for ageing properties that do not benefit from a good location. At that time, the municipality offered a wide range of rents, from CHF 250 to CHF 500 per sqm per annum, depending on the property's characteristics (see figure 29).

As in previous years, demand for office space in the Airport-Vernier-Meyrin sector remains limited. Similarly, the Lancy-Onex sector has suffered from a low take-up rate and increasing availability in recent years, following the relocation of large companies. In terms of rents, office space in areas on the outskirts of the city, excluding PAV and Carouge, has been rented at a maximum of CHF 400 and CHF 460 per sqm per annum, with rents as low as CHF 250 per sqm for dilapidated premises with limited public transport links.



Office property market in Geneva

"On the supply side, a growing number of office buildings located in less well-served areas and far from city centres will continue to encounter marketing difficulties"

Outlook

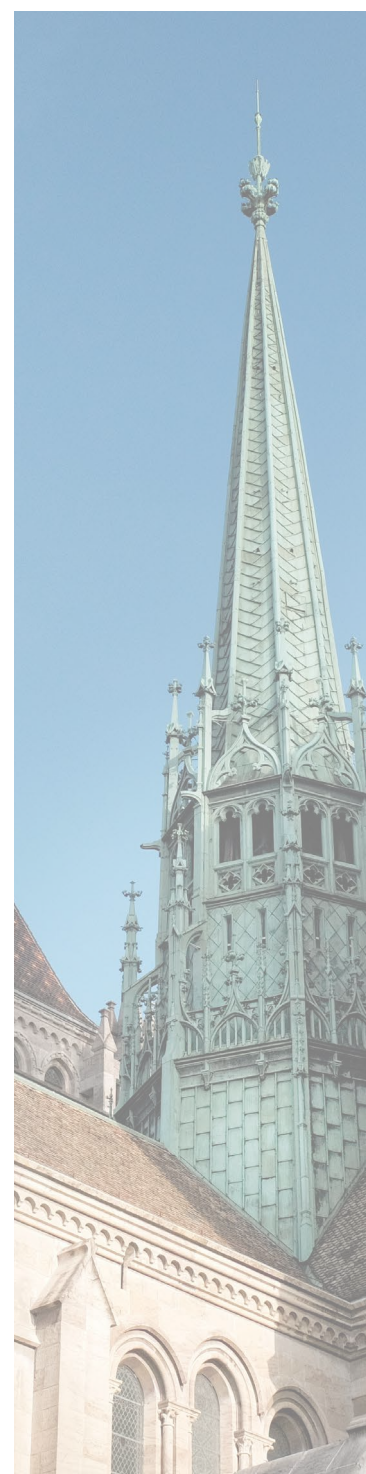
The resilience of the Swiss economy will ensure that demand for office space remains robust in 2023. GDP and employment growth will maintain a positive climate in the rental market for prime space and locations. The canton's leading employment indicator predicts that growth will continue over the coming months.

On the supply side, a growing number of office buildings located in less well-served areas and far from city centres will continue to face marketing difficulties. This model will undoubtedly put landlords on the back foot, so that the possibility of redeployment will become increasingly feasible.

Moreover, an increase in the availability rate is to be expected in the secondary sectors, given the construction projects underway and planned in the canton. Additional space is expected to be delivered in 2023 and beyond, in the PAV sector, in Meyrin and in the Les Nations district.

As in the investment market, the sustainability aspect will continue to grow in importance over the next few years, confirming the "two-speed" market in which buildings that do not guarantee certain ESG criteria suffer from a lack of attractiveness on the rental market.

On the other hand, given the good prospects for growth in key sectors of the economy, such as business services, financial services, real estate and light industry, rents for offices located in business districts or meeting the new criteria of location and comfort should rise slightly.



Office property market in the canton of Vaud

The upturn in demand seen in 2022, due to strong employment growth, has increased the rental of office space while reducing availability. Nevertheless, teleworking has led to a structural change in the office property market, weakening the correlation between job creation and demand for space.



Investment market

Introduction

In 2022, the office property investment market in the canton of Vaud showed some strength, partly due to the overall stability of the Swiss property market and the resilience of its economy. The region's reputation as a good place to do business, together with its strong economy and highly skilled workforce, make it an attractive destination for both domestic and foreign investors.

The Vaud office property market is one of the largest in Switzerland. It is divided into three main regions - Lausanne, Nyon and Morges - and outlying regions that include Vevey, Aigle and Yverdon.

Overall, the trend in recent years has been to invest in high-end office space in central locations, particularly in Lausanne.

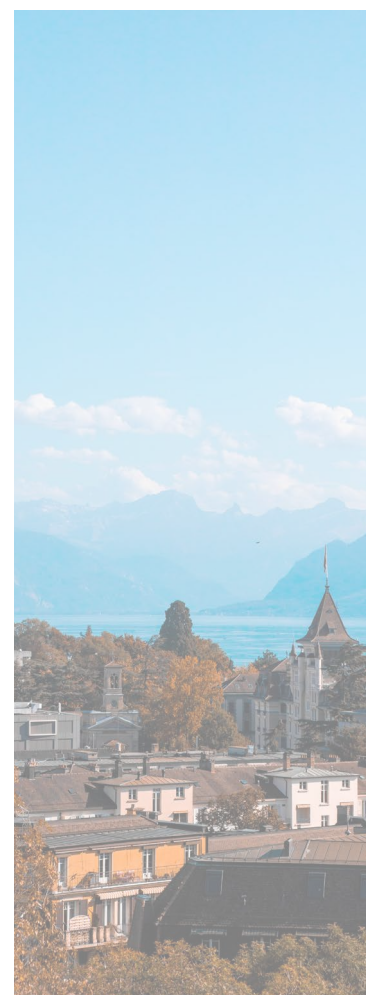
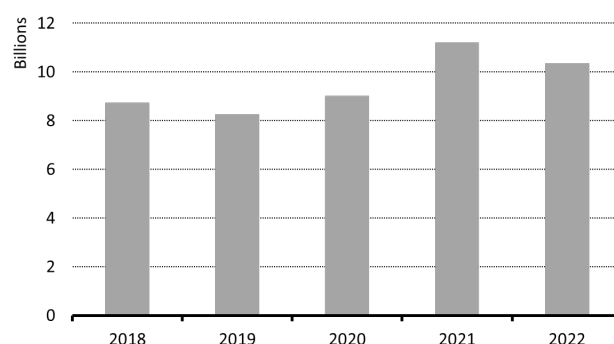
Transaction volume

In 2022, the financing conditions of recent years and excess demand played a key role in the property investment market. Interest rates in Switzerland were very low at the start of last year, which made it easier to finance investment in the canton. However, as in the canton of Geneva, the last nine months have seen a relatively marked slowdown in the market, with a marked decline in office property transactions.

Lausanne

The office property investment market in the Lausanne region has been very active in recent years, with a wide range of local and international investors focusing on properties with good micro-locations and good public transport links.

Figure 30: Transaction volume (any building typology) in the canton of Vaud, in CHF (STATVD)



Office property market in the canton of Vaud

"Because of the strong rental market in the city centre and therefore the low rental risk, Lausanne is an attractive destination for investors"

In the Lausanne region, the market has been boosted by several factors, including the city's status as a major economic hub, its strong transport links and its reputation as a prime location for technology companies.

The market was characterised by stable prices from one year to the next and yields that were slightly higher than those observed in the city of Geneva, by around 25 basis points. The strength of the rental market in the city centre, and therefore the low rental risk, make Lausanne an attractive destination for investors.

Nyon / Morges and surrounding areas

The investment market in Nyon, Morges and peripheral areas remained relatively stable in general at the start of 2022, before declining in the second half of the year. In addition to rising interest rates, peripheral areas are suffering from greater locational risk, which is having a negative impact on the attractiveness of certain sectors.

Main transactions

Our analysis of the office transaction market over the past five years shows that many transactions were taking place in Lausanne and the surrounding area. Most of the major transactions were the result of large companies implementing new real estate strategies, in particular sale & lease-back processes.

Breakdown by type of buyer

Given the size of the buildings, and unlike Geneva, the office property investment market attracted local players. As in other major Swiss cities, the past few months have shown that office transactions are mainly being led by end-users and not REITs.

Table 4: Top 5 transactions in the canton of Vaud, 2022 (SPGI)

Sector	Area (sqm)	Price (CHF)	Type of purchaser
Lausanne Centre (Saint-François)	5 000	80 000 000	Fondation de placements
Lausanne Lac (Substation)	6 000	72 500 000	Fondation de placements
Nyon (Grens)	7 500	70 200 000	Fonds immobilier suisse
Lausanne Lac (Substation)	7 550	70 000 000	Fonds immobilier suisse
Lausanne Lac (Substation)	7 500	46 000 000	Fondation de placements

Table 5: Top 5 transactions in the canton of Vaud, 2018-2022 (SPGI)

Sector	Area (sqm)	Price (CHF)	Type of purchaser
Renens (Station)	16 370	135 000 000	Fonds immobilier suisse
Lausanne Centre (Bel-Air)	12 000	101 350 000	Caisse de pensions
Lausanne Centre (Saint-François)	5 000	80 000 000	Fondation de placements
Lausanne Lake (Substation)	7 550	72 500 000	Fondation de placements
Nyon (Grens)	7 500	70 200 000	Fonds immobilier suisse

Office property market in the canton of Vaud

"The market conditions in the outlying areas of the Lausanne conurbation are very different from those in Lausanne, with a wide variety of asset types"

Over the last five years, the profile of investors in the Vaud administrative property market is diversified, with a significant proportion of Swiss investors, such as property funds and large institutional investors.

Domestic investors tended to focus on properties in prime locations, while international investors were more likely to invest in value-add or opportunistic properties in emerging areas.

The weighting of purchasers is relatively the same as in the canton of Geneva. One notable difference is the greater presence of local investors (property funds and private investors), who are particularly active in outlying areas.

Lausanne

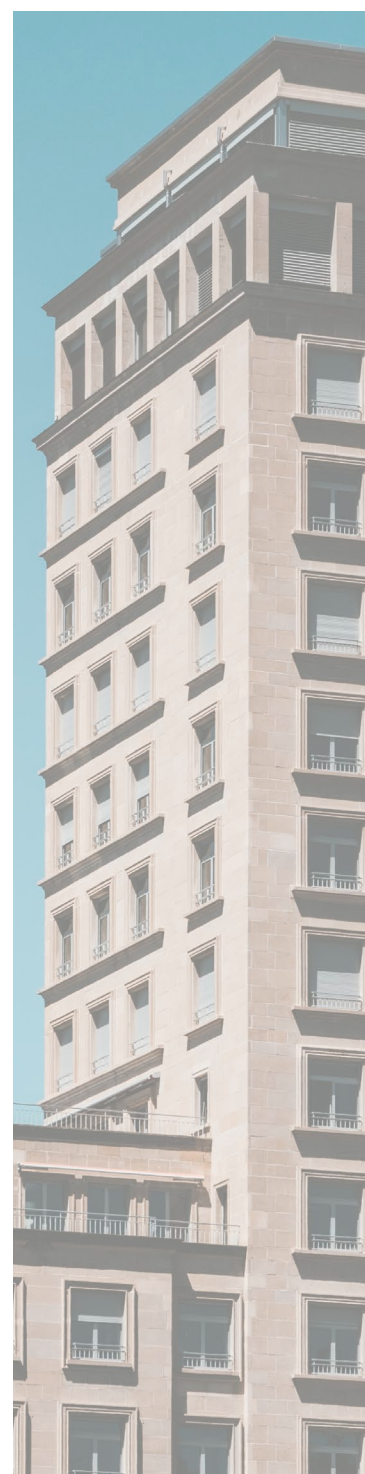
Lausanne's office investment market is dominated by a few major players, including Mobimo and Swiss Prime Site, which own several prime office buildings in the city. Institutional landlords such as investment foundations have gained prominence by acquiring large office buildings with high rental security.

Nyon / Morges and surrounding areas

Market conditions in the outlying areas of the Lausanne agglomeration are very different from those in Lausanne, with a wide variety of asset types. In these regions, our analysis shows that a wider range of buyers play an important role, such as local investors and end-users.

Yields and prices

Yields on commercial property in the canton show a wide permissible range, illustrating the canton's large size and the considerable regional heterogeneity of the market. Over the last twelve months, as in other cantons, sustainability issues have begun to have an impact on market prices and yields.



Office property market in the canton of Vaud

"Like yields, office property prices in the canton have generally remained stable, with moderate growth in prime locations"

Overall, despite the deterioration in economic conditions, particularly the rise in interest rates, the market was characterised by a stable trend in yields from one year to the next.

The upper range of gross yields, or prime yields, for office property transactions in the canton of Vaud was estimated at 3.3% in 2022. By comparison, the average yield on ten-year federal bonds for December 2022 was 1.25%, a difference of 205 basis points. The risk premium on administrative assets in Vaud therefore fell sharply in 2022 (see figure 31).

Like yields, office property prices in the canton have generally remained stable, with moderate growth in prime locations. Indeed, prices for prime office buildings in city centres and along the lake remain positively supported by low rental risk, reflected in very low availability rates. Favourable conditions in the labour market are helping to keep demand high among companies.

Lausanne

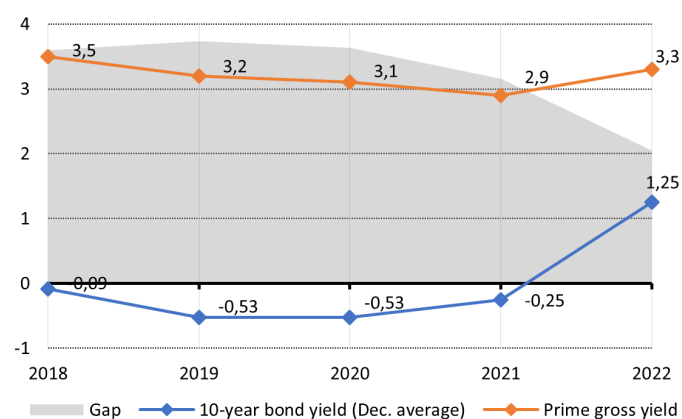
Estimated yields on transactions of administrative properties in Lausanne have been favourable overall, with prime properties offering gross yields ranging from 3.0% to 3.5%, from 2018 to 2022. This is in line with other major European cities and reflects the stability and strength of Lausanne's commercial property market (see figure 31).

Nyon / Morges and surrounding areas

In peripheral areas, the heterogeneity of properties and the greater or lesser rental risk depending on the sector generate a very wide range of market yields.

In Nyon and Morges, a robust rental market, a dynamic economy and good transport infrastructure, particularly good public transport links, mean that gross yields are in the region of 4.25% to 5.00%. However, for more outlying areas, which are less dynamic and have a higher rental risk, gross yields are higher, at between 5.50% and 6.50%.

Figure 31: Gross prime yield in the canton of Vaud and 10-year Confederation bonds yield, in % (SNB, SPGI)



Office property market in the canton of Vaud

"The most popular office spaces in Lausanne are coworking spaces and serviced offices, which offer flexible and affordable options for startups and small businesses"

Outlook

Overall, the canton of Vaud is characterised by a diversity of property types, with an attractive risk/return ratio and solid framework conditions. Because of its highly heterogeneous nature, the Vaud property investment market is likely to experience a variety of trends, depending on the sector. Lausanne and the surrounding area should continue to be attractive and dynamic. On the other hand, some outlying areas could experience a decline in attractiveness and a greater supply of properties, leading to a rise in market yields and an overall fall in prices.

Rental market

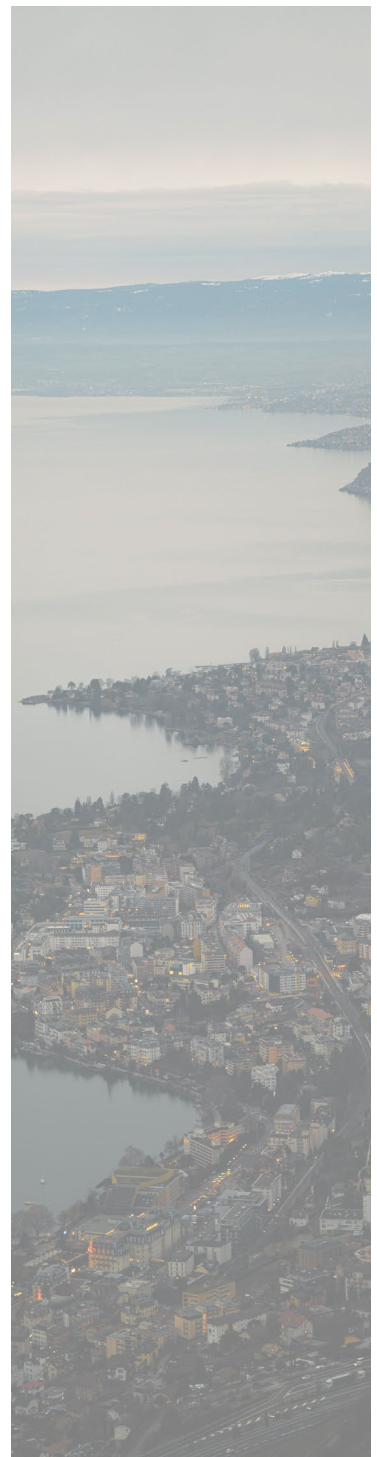
Introduction

The office rental market in Vaud varies greatly from region to region. Overall, it has grown steadily in recent years, with increasing demand from both local and international companies.

Above all, companies have been looking for office space that offers a balance between location and layout, with an emphasis on flexibility and functionality of space, as well as good transport links. The most popular office spaces in Lausanne are coworking spaces and serviced offices, which offer flexible and affordable opportunities for start-ups and small businesses.

Demand

Overall, the canton enjoys a solid reputation for innovation and technology and is home to several leading companies in fields such as biotechnology, pharmaceuticals and finance. The region's universities and research establishments contribute to the demand for office space, as they provide a pool of highly skilled labour and attractive research facilities for companies.



Office property market in the canton of Vaud

"Demand for office space in the canton of Vaud is mainly driven by companies looking to set up in the Lausanne region"

Like many other office property markets, Vaud has been partially impacted by the economic slowdown. However, the general trend in recent years has been one of growth, particularly in Lausanne. There has been a significant increase in demand for prime office space in the city, particularly from large corporations.

Overall, the number of workers in the canton of Vaud has continued to rise. Despite the impact of the pandemic on employment between the third quarters of 2019 and 2020, the years 2021 and 2022 returned to growth. The increase in employment (in FTEs) in the tertiary sector in the canton of Vaud was around 3% over the last two years and 18% over ten years (see figure 32).

Demand for office space in the canton of Vaud is mainly driven by companies looking to set up in the Lausanne region, as well as by existing companies looking to expand their activities in the other urban areas of the Lake Geneva region.

The sector with the highest number of employed people in the canton of Vaud is the health and social cohesion sector. Over the past five years, the sector has continued to grow (+18%) and has made a major contribution to the overall increase in the number of people employed in the canton, particularly due to the pandemic (see figure 33).

Other important sectors in the canton of Vaud are commerce, public administration, and real estate. The specialised scientific and technical activities sector has seen the strongest growth (+31%) over a five-year period (see figure 33).

Figure 32: Change in FTE employment in the tertiary sector in the canton of Vaud, Q2 2015 = 100 (STATVD)

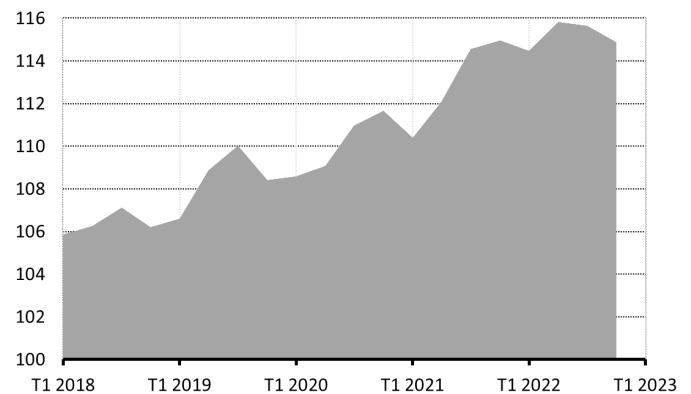
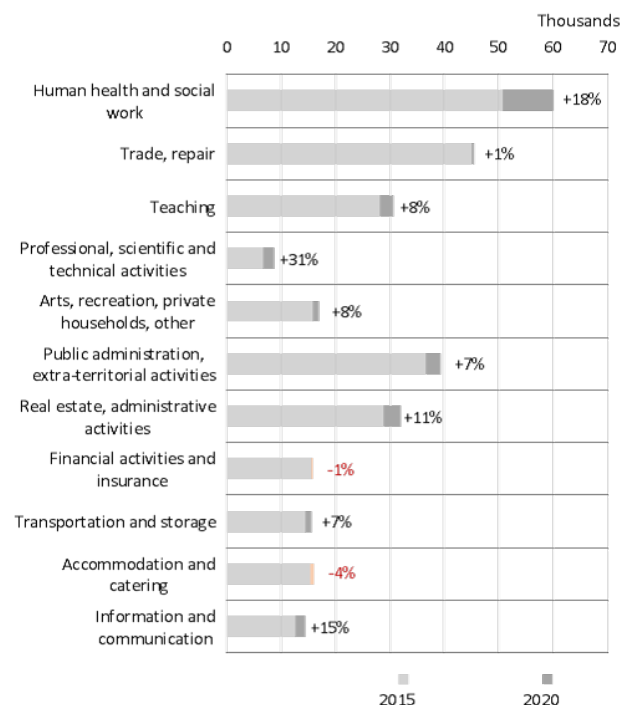


Figure 33: FTE employment by tertiary activity in the canton of Vaud, 2020 (STATVD)



Office property market in the canton of Vaud

"The city of Lausanne is known for its strong presence in the health and life sciences sectors, with leading companies and research institutes based in the region"

In 2020, the Lausanne region accounted for half of the canton's tertiary sector workforce, with around 150,500 jobs (in FTEs), representing an increase of around 7% over a five-year period. Over the same period, the regions of Aigle, Yverdon and Morges saw significant growth in the number of people employed in the tertiary sector, with increases of 21%, 16% and 10% respectively (see figure 34).

Other regions, such as Vevey, have seen more modest growth in the number of people in work (+2%) over the last five years. The Nyon region, on the other hand, grew by 7% (see figure 34).

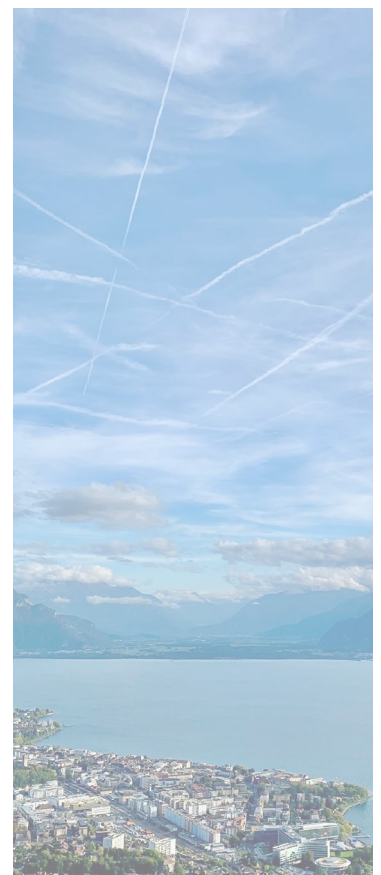
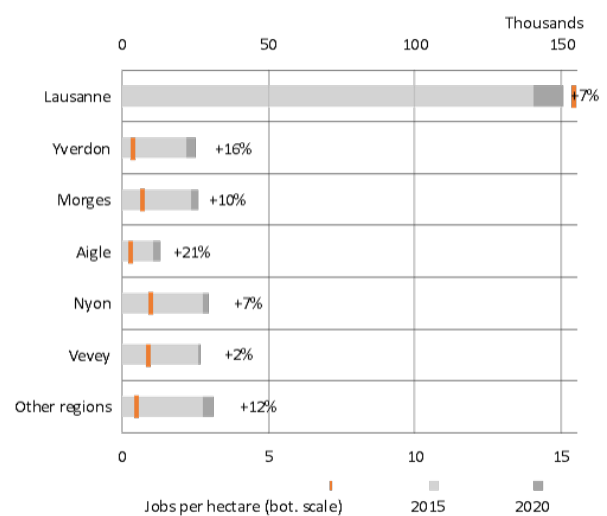
It is important to note that the pandemic had a significant impact on employment in 2019 and 2020, and it is likely that the data for 2021 and beyond may show more positive changes in the trends observed.

Lausanne

The city of Lausanne is known for its strong presence in the health and life sciences sectors, with leading companies and research institutes based in the region. As a result, there is significant demand for office space from companies linked to these industries, particularly in the city centre and along the lake. Other industries with a significant presence in Lausanne include finance, technology, tobacco, and sport.

Demand for office space in Lausanne is diverse in terms of size. Both small start-ups and large companies are looking for administrative space in the region. However, there is a sustained demand for smaller, more flexible office space from start-ups and small businesses, as well as open spaces that can accommodate new ways of working.

Figure 34: FTE employment in the tertiary sector by geographical sector in the canton of Vaud, 2020 (STATVD)



Office property market in the canton of Vaud

"Many companies prefer to be located in the city centre or along the lake, as these areas offer optimal access to public transport links, a range of amenities and a prestigious address"

Indeed, the most popular types of office space in Lausanne are coworking spaces and serviced offices, which offer flexible and affordable options for start-ups and small businesses. These spaces offer entrepreneurs and small businesses access to a range of amenities and services, such as meeting rooms, reception services and high-speed internet.

In recent years, Lausanne has established itself as a centre for innovation and entrepreneurship, with a growing ecosystem of start-ups that includes several incubators, accelerators and coworking spaces. The region is also home to many international organisations.

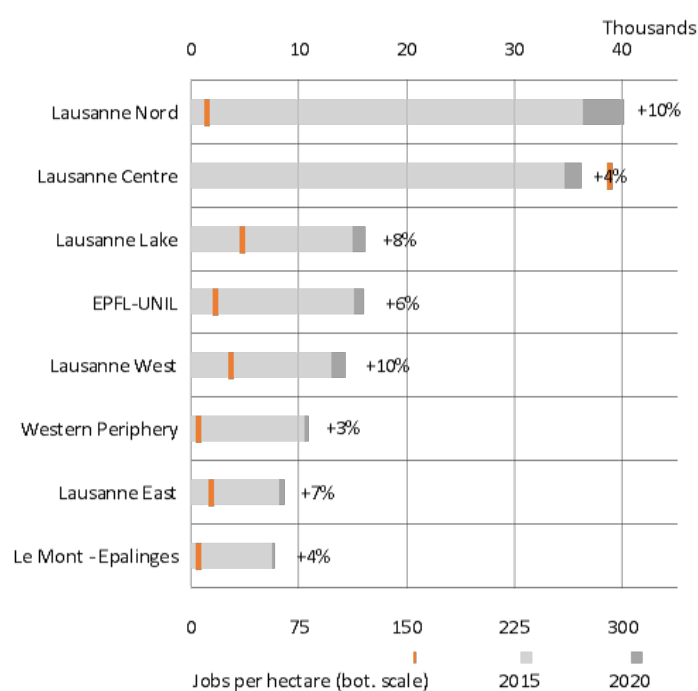
Office location is also an important consideration for companies in the Lausanne region. Many companies prefer to be located in the city centre or along the lake, as these areas offer optimal access to public transport links, a range of amenities and a prestigious address.

However, there is also demand for office space in outlying areas, particularly from companies looking for affordable options and new space.

In the city of Lausanne (including the sub-sectors of Lausanne Nord, Lausanne Centre, and Lausanne Lac), the number of employees (in FTEs) in the tertiary sector rose to around 93,000 in 2020, representing an increase of 8% over a five-year period.

Over the same period, the Lausanne West sub-sector (including the municipality of Prilly) has seen the greatest increase in employment, with a rise of around 10%. Nevertheless, the EPFL-UNIL sub-sector (including the municipality of Ecublens) remained the fourth largest in terms of employees (in FTEs) in the region (see figure 35).

Figure 35: FTE employment in the tertiary sector by geographical sub-sector in the Lausanne region, 2020 (STATVD)



Office property market in the canton of Vaud

"Morges is a particularly attractive location for companies because of its proximity to Lausanne and its location on the shores of Lake Geneva"

Nyon

The demand for office space in the Nyon region is directly linked to the variety of economic activities, particularly in health, technology, and finance, creating a demand for additional office space and attracting new players.

The Nyon region is a major economic hub in the canton of Vaud. It is situated between the cities of Geneva and Lausanne, making it an attractive location for companies seeking access to these major economic centres while remaining outside the major urban centres.

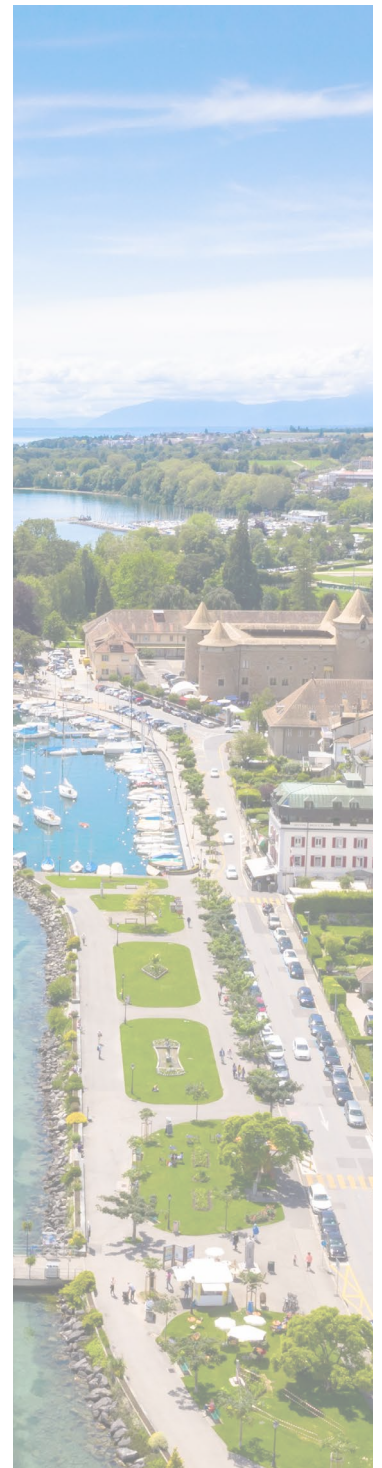
However, the limited supply of office space in the region can make it difficult for companies to find large-scale, quality office space. This is particularly true for large companies or those with specific requirements in terms of location or technical features.

Morges

Demand for office space in the Morges area is generally driven by a mix of local and international companies, with a particular focus on industries such as technology and finance.

The town of Morges is a particularly attractive location for businesses because of its proximity to Lausanne, as well as its location on the shores of Lake Geneva. The town also offers a range of amenities and services, including shops, restaurants, and cultural sites.

The surrounding communities are home to a few research institutes and universities, including the Swiss Federal Institute of Aquatic Science and Technology (Eawag) and the Swiss Federal Institute of Technology Lausanne (EPFL). This has created a demand for office space from companies and organisations that work closely with these institutions.



Office property market in the canton of Vaud

"However, demand is still mainly driven by local players motivated by the proximity of certain customers or suppliers, or the availability of certain commodities"

Outside the city of Morges, demand for office space is generally driven by multinational companies in areas such as manufacturing, logistics and healthcare. Examples include Ferring International Center, Vale International and Chiquita Brands International, which are in the 'Littoral Parc' in Etoy and Saint-Prex.

Companies operating in these suburban communities in the Morges region are looking for office space that offers a certain quality of facilities and services, such as parking spaces, meeting rooms and canteens or restaurants on site or nearby. The availability of these amenities can be a key factor in the decision-making process, given the distance to train stations and shops.

Outlying regions

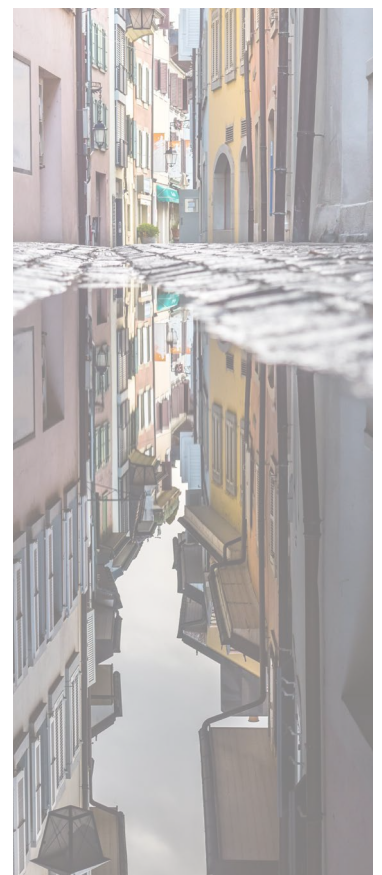
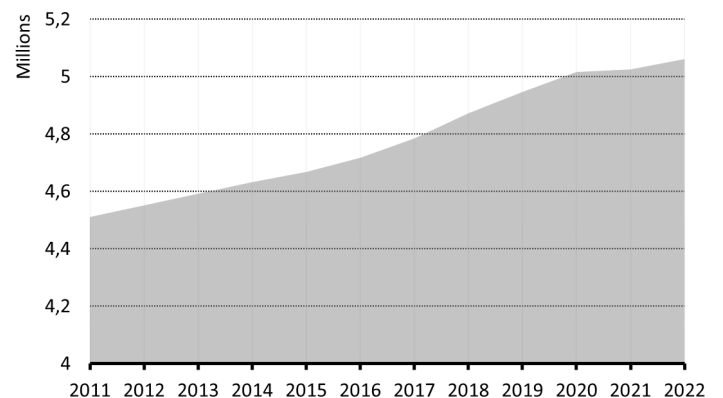
In outlying areas, such as Yverdon, Vevey and Aigle, demand was driven by several factors, including low rents in town centres and the desire for more space for employees.

However, demand is still mainly driven by local players motivated by the proximity of certain customers or suppliers, or the availability of certain commodities. It is therefore volatile and directly dependent on the smooth running of small and medium-sized enterprises (SMEs) and regional players.

Offer - Stock

The Vaud office property market is large, with a total of around 5.1 million square metres of office space across the canton (see figure 36). Most of this space is in Lausanne, which is the largest city and a major business centre. The Olympic city is home to several major multinationals and many start-ups and SMEs.

Figure 36: Stock in the canton of Vaud, in sqm (SPGI)



Office property market in the canton of Vaud

"Total office space in the Lausanne area is estimated at around 3 million square metres, with a low availability rate"

Lausanne

Office properties in Lausanne is concentrated in the city centre and along the lake. The city centre is home to many of the region's most prestigious office buildings, while the lakeside is known for its large, modern commercial buildings with views over Lake Geneva.

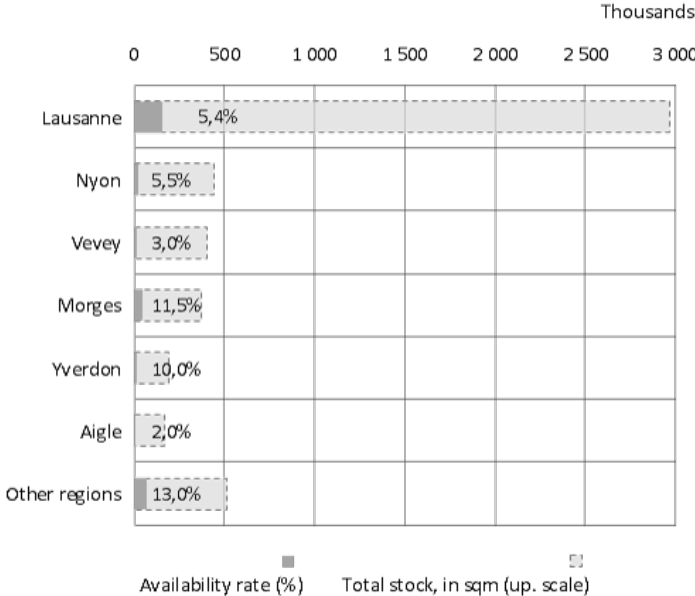
The size of the office space available in Lausanne also varies considerably, from small shared coworking spaces to large administrative areas spread over several floors. This diversity of options means that businesses of all sizes can find a space that suits their needs and budget.

Some of the historic buildings in the city centre have been carefully restored to provide modern, flexible office space. On the other hand, many of the new office buildings in the lakeside area are stylish, modern structures with state-of-the-art technology and facilities.

The total office stock in the Lausanne region is estimated at around 3 million square metres, with a low availability rate (see figure 37). This suggests a relatively tight office market, with limited availability of high-end office space. However, there are some notable office development projects, particularly in the Lausanne West and Western Periphery sub-areas.

Despite the tightness in the office property market, several new business property developments are under way in the western suburbs of the Lausanne region. These include Cocoon in Bussigny, which will offer 38,000 sqm of business and service space by 2023, Central Malley in Prilly, which will offer 23,700 sqm of additional office space by 2024, and the unlimitrust campus in Prilly, comprising a total of 27,000 sqm of office space.

Figure 37: Stock and availability rate by geographical sector in the canton of Vaud, 2022 (SPGI)



Office property market in the canton of Vaud

"Some assets are stand-alone buildings, while others are part of larger developments that may include commercial or residential components"

Overall, these new developments are likely to help address the limited availability of high-end office space in Lausanne, providing new options for businesses and entrepreneurs looking to establish a presence in the region.

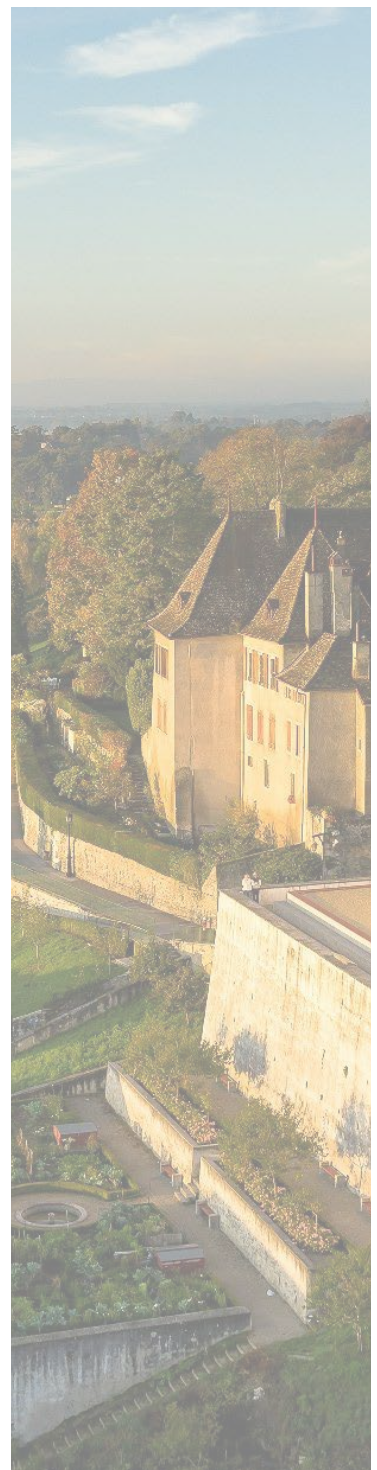
The EPFL-UNIL sub-sector offers more modern and environmentally friendly office buildings, as many companies are prioritising sustainability and energy efficiency in their operations. Several new business buildings have been constructed in the area in recent years, including the Swisstech Convention Center, the Rolex Learning Center, and the UNIL-EPFL Innovation Park, which offer state-of-the-art facilities to companies and organisations. Phase 1 of the EPFL's Ecotope project will complete the office stock in 2026.

The Le Mont-Epalinges sector to the north of the city of Lausanne has a much smaller stock of office space (around 50,000 sqm) than some of the more urban areas of the Lausanne region. The main feature of this sector is the presence of the Biopôle complex, which is mainly dedicated to medical and research and development (R&D) activities. Four additional business buildings, totalling 33,200 sqm, will be built here between now and 2024.

Nyon

The range of office space available in the Nyon region is diverse, with several types of surface area. While the town centres of Nyon, Gland and Rolle are home to many historic buildings, the peripheral areas of these towns have large, modern office complexes, such as Business Park Terre Bonne in Eysins and A One Business Centre in Rolle.

Some assets are stand-alone buildings, while others are part of larger developments that may include commercial or residential sections. The range of space available reflects the diverse demand for office space in the region, with different companies looking for different locations and amenities.



Office property market in the canton of Vaud

"The town of Morges is home to a number of high-quality office buildings, including several modern developments offering a range of services"

The town of Rolle has undergone significant administrative development, with the construction of commercial buildings. The main development currently in the pipeline is the Schenk site near Rolle railway station. This project consists mainly of housing, but also includes a few commercial activities, public facilities, and craft premises.

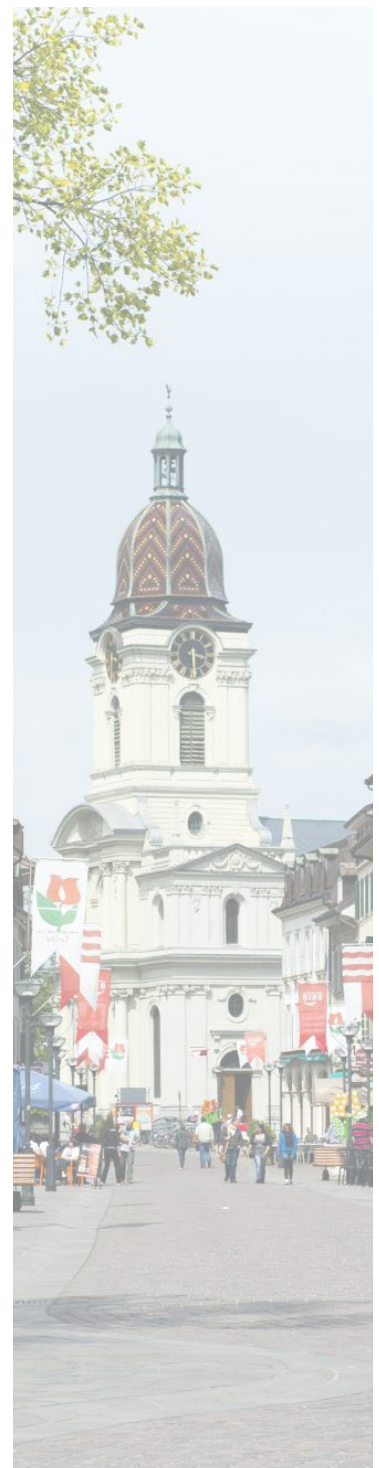
Morges

The Morges region is mainly made up of small towns and villages, with limited commercial development. Indeed, the region has a relatively low level of new office development, with most new construction concentrated on residential and mixed-use buildings. As a result, office space is largely concentrated in the town of Morges.

The town of Morges is home to several high-quality office buildings, including modern developments offering a range of services, such as the Halles district opposite the railway station and Ilot-Sud near Lake Geneva.

Outside the town of Morges, there is a mixture of modern and old office buildings. Over the last fifteen years, many users have moved to the "Litorral Parc" business park, led by the tax advantages offered by the "Bonny" decree.

Since 2005, the municipalities of Allaman, Aubonne, Etoy and Saint-Prex have undergone significant development. Companies such as Parker, Ferring and Sunstar have set up their administrative headquarters in the area. The latest development in the area is the iLife project, consisting of a mix of commercial and residential areas.



Office property market in the canton of Vaud

"However, the gap between the city centre and outlying areas is widening, particularly because of the growing number of new development projects"

Offer - Availability

The development of flexible working solutions sets city centres in a better position to benefit from higher absorption rates. The supply of office buildings is mainly concentrated in the city of Lausanne and its western suburbs, i.e., Bussigny, Crissier and Renens.

There is also a large amount of office space located around Morges, in an area covering part of La Côte. Most of the available office space is in modern buildings, some of which are not easily accessible by public transport, which has a major impact on their attractiveness. For some of these buildings, there is also a certain mismatch between supply and demand, i.e., an availability of large office space and a demand from local companies for small or medium-sized premises.

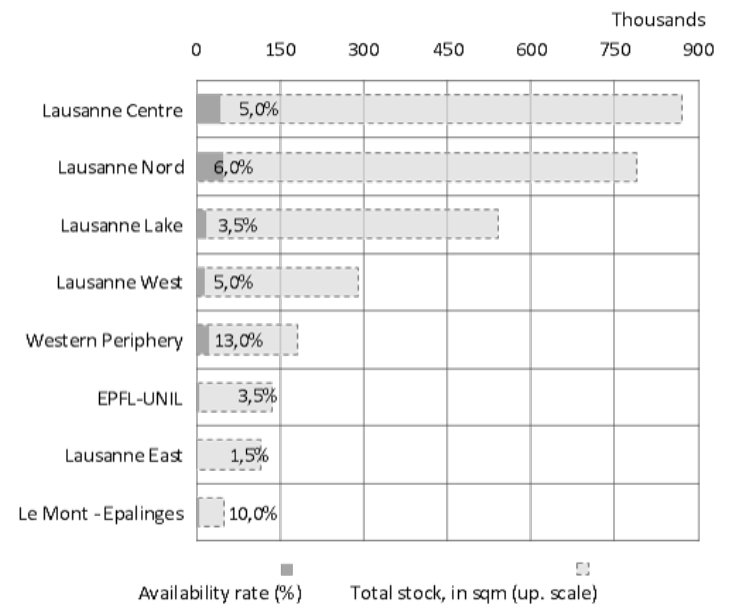
Lausanne

The supply of office space in Lausanne is limited, particularly in prime locations such as the city centre and along the lake. Despite strong construction activity, particularly on the outskirts, demand for office space is high, which has led to a fall in availability to 5.4% (see figure 37).

The limited availability of high-end office space in prime locations such as the city centre and along the lake has been an opportunity for the surrounding suburbs, providing attractive relocation alternatives with good public transport accessibility. The attractiveness of these areas to businesses is further enhanced by the efficiency of the new or refurbished buildings built around railway stations and major roads in Bussigny, Crissier, Renens, Prilly and Ecublens.

However, the gap is widening between the city centre and the outlying areas, particularly because of the growing number of new development projects contributing to the increase in available space outside Lausanne city centre (see figure 38).

Figure 38: Stock and availability rate by geographical sub-sector in the Lausanne region, 2022 (SPGI)



Office property market in the canton of Vaud

"In general, the centres of Nyon, Gland and Rolle have benefited from low availability, with few new surfaces built in these areas"

Nyon

The overall supply of office space in the Nyon region is relatively limited, especially compared to the neighbouring Morges region, with an availability rate of 5.5%. This can make it difficult for companies looking for office space in the region, particularly those with specific requirements in terms of location or layout (see figure 37).

The supply of office space in the Nyon area benefited from the excess demand in 2021. Some landlords chose to delay or cancel their relocation plans, while others waited for the economic turmoil to subside.

In general, the centres of Nyon, Gland and Rolle have benefited from low availability, with little new surfaces built in these areas. Nevertheless, coworking solutions provide small businesses with access to office space in prime locations.

Morges

In the Morges area, including part of La Côte, many large international companies have switched to remote working, which has had an impact on demand for traditional office space. This has led to an increase in the supply of office space. Today, the Morges region has the highest availability rate in the canton, at 11.5% (see figure 37).

The large amount of office space available in business parks in the region's peri-urban areas is dragging down the statistics. Most of this space is in modern buildings that are gradually being vacated by multinational companies that prefer to work remotely. Moreover, the new buildings constructed in recent years to meet the specific needs of users lack flexibility and do not offer optimal public transport links.



Office property market in the canton of Vaud

"Moreover, the level of availability of office space depends directly on the development of the large companies' activities such as Nestlé in Vevey"

Following a period of growth, brought about by the "Bonny" law, which exempted newly established companies from corporation tax for a period of ten years and was abolished in 2009, a certain decline in the market was observed. This drop-in activity has led to a significant increase in the amount of space available. The effects of this change in legislation are still being felt today, with a pronounced imbalance between supply and demand, depending on the municipality.

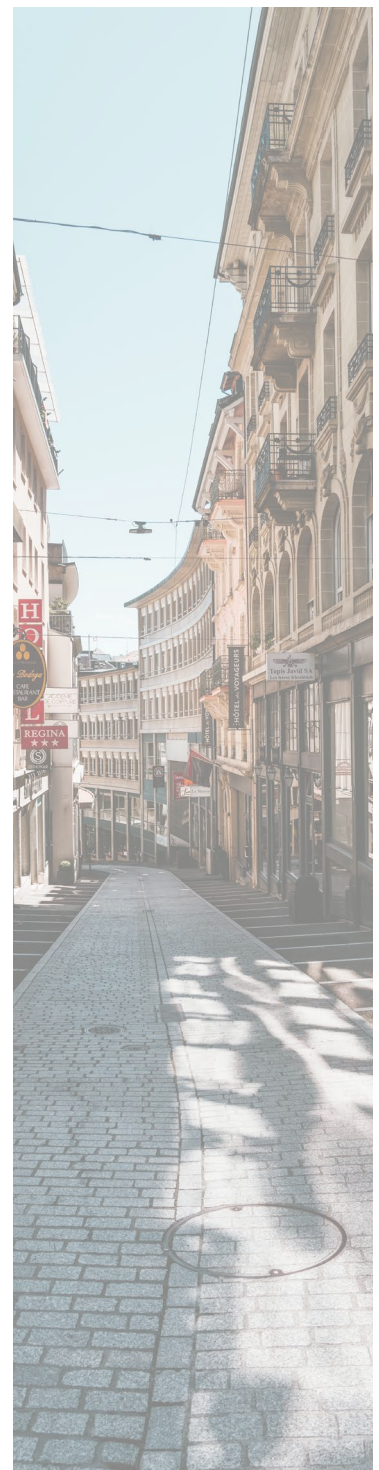
Outlying regions

Due to the steady demand from local companies, mainly SMEs, and the limited supply of office space in the Aigle and Vevey areas, the availability rates for office buildings in the region are generally low, at between 2.0% and 3.0%. In addition, the level of availability of office space depends directly on the development of the large companies' activities such as Nestlé in Vevey (see figure 37).

In Yverdon, despite competitive rental conditions, the rental market remains sluggish. The property developments of recent years have therefore naturally pushed the availability rate towards levels close to 10.0% (see figure 37).

Levels of rents

Rent levels vary according to the location, quality, and size of the office space. Rents for the largest and most modern buildings in Lausanne's business districts are generally the highest, while office space in smaller towns and villages can be more affordable.



Office property market in the canton of Vaud

"Overall, the cost of renting office space in the canton of Vaud ranges from CHF 200 to CHF 500 per square metre per year"

The most expensive regions for renting office space in the canton of Vaud include Lausanne, Nyon and Morges, while other regions such as Yverdon-les-Bains and Aigle offer more affordable rental rates. Overall, the cost of renting office space in the canton of Vaud ranges from CHF 200 to CHF 500 per square metre per year, depending on the location and quality of the office space (see figure 39).

Lausanne

Despite the strong dynamism in Lausanne, the office rental market faces several challenges. One of the main ones is the limited supply of high-end office space in prime locations, which can lead to high rental prices and very limited availability.

Office rents in the Lausanne area are relatively high compared with other parts of the canton, reflecting the high quality of life and the high concentration of the canton's economic activity. In 2022, average rents for office space in the city centre were around CHF 400 per square metre per year, while rents in the surrounding suburbs were slightly lower, averaging between CHF 250 and CHF 300 per square metre per year (see figures 39 and 40).

Nyon

Rents for office space in the Nyon region vary widely depending on the micro-location but remain rather high for a medium-sized town. However, compared with neighbouring cities such as Geneva and Lausanne, Nyon and the surrounding area offer more affordable prices, making it an attractive location for companies looking for quality space with good access at affordable rents.

Figure 39: Rent level by geographical sector in the canton of Vaud, in CHF/sqm/year (SPGI)

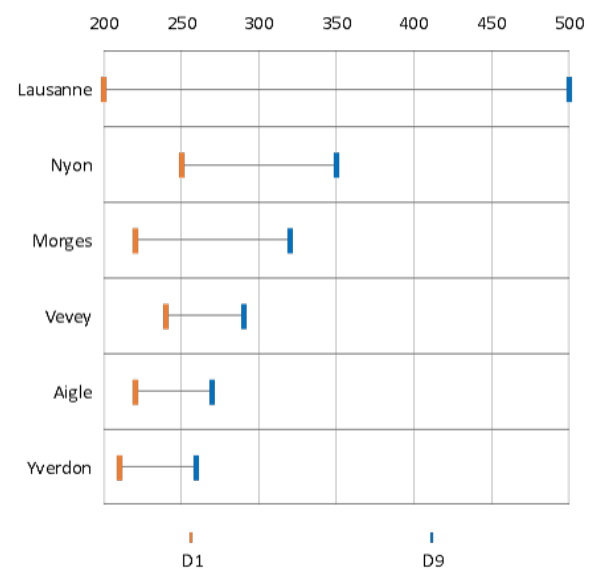
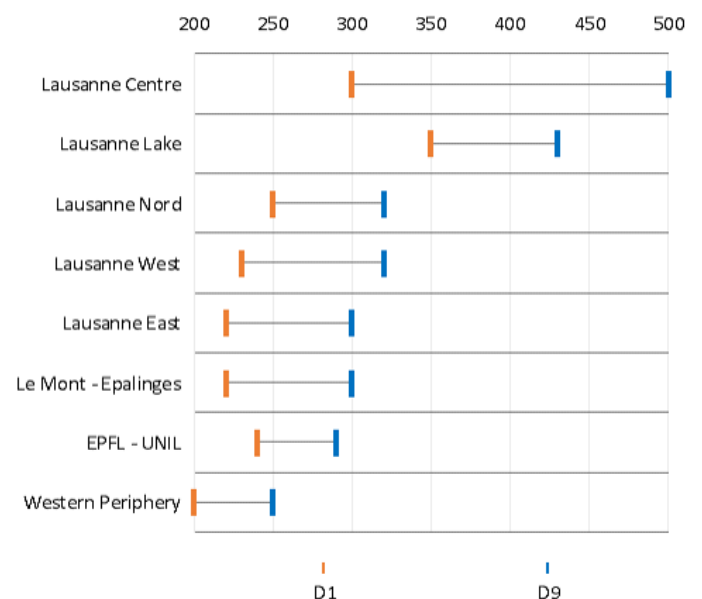


Figure 40: Rent level by geographical sub-sector in the Lausanne region, in CHF/sqm/year (SPGI)



Office property market in the canton of Vaud

"In general, older buildings tend to have lower rents, reflecting the lower demand for this type of property"

In general, older buildings tend to have lower rental levels reflecting the lower demand for this type of property, while newer space in business parks or other emerging areas can have higher rental rates due to their quality of development and good transport links.

Rents also vary according to the size of the property, with larger properties generally commanding lower rates per square metre than smaller properties. Overall, rents in the Nyon region range from CHF 250 to CHF 350 per square metre per year (see figure 39).

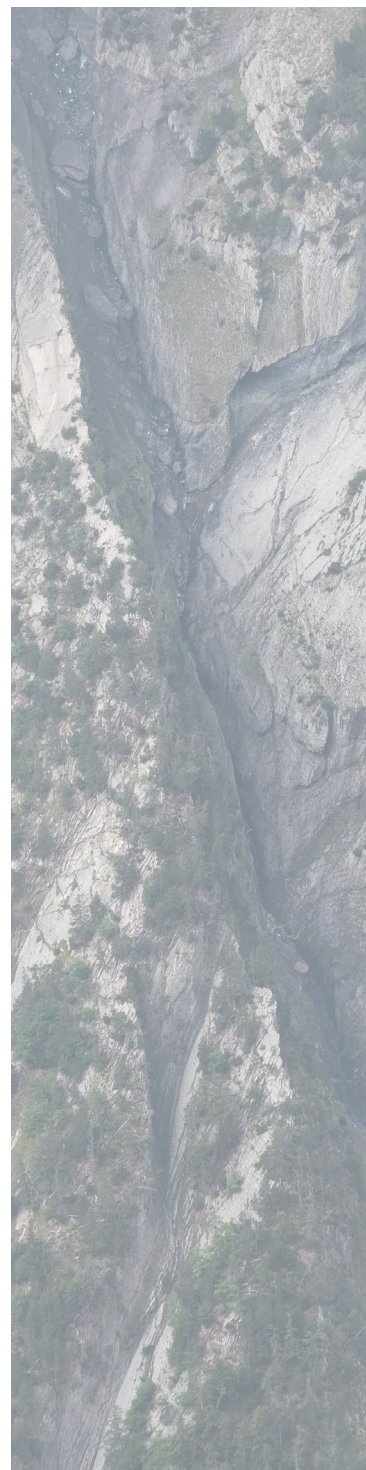
Morges

Like Nyon, office rents in the Morges area can vary considerably depending on factors such as location, building quality and facilities. In general, properties located in the town of Morges tend to command higher rents than surrounding areas, often reaching CHF 320 per square metre per annum by 2022 (see figure 39).

On the other hand, average office rents in peri-urban areas such as the neighbouring Littoral Parc have fallen in line with demand, and now stand at between CHF 220 and CHF 270 per square metre per year (see figure 39).

Outlying regions

Overall, rents in the peripheral regions of Vaud are generally competitive compared with the canton's other business centres. Office space in Vevey, Yverdon and Aigle charges rents laying between CHF 210 and CHF 290 per square metre per year (see figure 39).



Office property market in the canton of Vaud

"The trend towards teleworking and flexible office arrangements is likely to lead to the reallocation of certain administrative buildings"

Outlook

The office rental market, particularly in peripheral areas, could face some challenges in the short term, as the pandemic has led to an increase in teleworking and a decrease in demand for traditional office space. This trend may lead to an increase in availability rates for certain older premises or those located in less sought-after areas.

In addition, the trend towards teleworking and flexible office arrangements is likely to lead to the reallocation of some office buildings. This represents both a challenge and an opportunity for owners to convert under-utilised office space to other uses, such as residential or hotels.

Overall, the office market in the canton of Vaud should continue to adapt to changing economic and business trends, as well as to expectations of sustainability and changing working patterns.

Lausanne

The Lausanne market is expected to keep a positive trend, driven by a combination of factors, including the region's reputation as a centre of innovation and technology, its robust framework conditions, and its central location in Switzerland. Demand is expected to grow for modern, flexible office space that can meet the changing needs of companies and their employees.

Nyon

Demand in the Nyon region is expected to grow over the next few years, particularly as the area expands and the supply of office space increases. Nyon is well connected to Switzerland's major economic centres and offers a high quality of life, which can help to attract and retain businesses in the region.



Office property market in the canton of Vaud

"In the absence of a dense economic fabric, peripheral regions are subject to the development of SMEs, craftsmen and other local players"

Morges

The rental market for office property in the Morges area is expected to remain stable over the coming years, buoyed by the economic development of several local and international companies already established in the area. With its competitive real estate supply and rental rates, Morges should remain an attractive location for companies looking to set up in the canton.

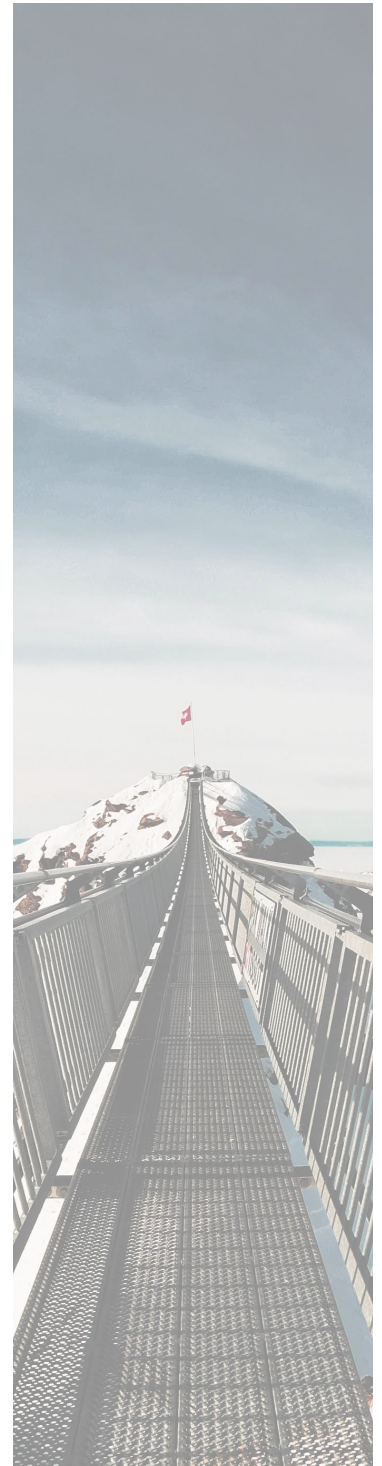
On the other hand, the future looks more uncertain in certain sectors on the Côte close to the town of Morges. A deterioration in rental conditions is envisaged because of the greater availability of office space, due to the reorganisation of the activities of certain companies, and a fall in demand because of the concentration on areas with better public transport links and a wider range of services.

Outlying regions

The rental market for office property in peripheral regions could well suffer from new market trends. As companies become increasingly aware of their employees' quality of life, they will be more inclined to favour urban centres and proximity to key transport routes.

In the absence of a dense economic fabric, peripheral regions are subject to the development of SMEs, craftsmen, and other local players. It will therefore be essential to adapt to the changing needs of local businesses and ensure a balance between supply and demand.

As for Vevey, the town could benefit from its proximity to Lausanne, which is one of the most dynamic cities in Switzerland in terms of innovation and research. This proximity could create synergies between the two cities and help make the region more attractive to technology companies and start-ups. The region already benefits from a diversity of sectors, including agri-food, tourism, and services.



Office conversion into housing: a question of value

4

In a real estate context that is increasingly geared towards sustainable development, the conversion of buildings as an alternative to demolition or re-construction has been the subject of numerous publications in recent months. Given the low vacancy rate and the very tight situation in some cantons, most studies focus on the conversion of commercial buildings into residential accommodation.

This alternative is not new, and such strategies are already being promoted in various cantons. The most notable example is the canton of Geneva, where the LDTR was relaxed in 2015. To combat an endemic housing shortage in the canton, the aim of the more flexible legislation is to encourage the conversion of office space into residential accommodation without applying the provisions on rent setting. This means that owners of office space can convert it into residential accommodation without any rent restrictions. They also have the option of converting their residential units back into office space.

In 2014 and 2015, during the heated debates with the opposition, the supporters of this relaxation projected a theoretical potential for the creation of 220 housing units per year over 5 years, i.e., 1,100 additional housing units. Nearly eight years later, it must be said that the results have unfortunately not lived up to the ambitions of the time.

Although no statistics have been published specifically on the increase in the number of apartments brought about by this new version of the LDTR, the figures produced by the OCSTAT speak for themselves. Between 2016 and 2020, i.e., the 5 years following the implementation of this relaxation, the gain in residential units linked to conversion work (excluding attic conversion work and raising work) was 300 units, i.e., an average of 60 dwellings per year. Only part of this gain relates to the conversion of offices into rental apartments. The remainder is made up of conversion work to create condominiums or villas.

Should this relaxation be seen as a false good idea? Certainly not. The results of our discussions with institutional owners such as Axa (see interview below with Michel Roberti) show that these new provisions are likely to encourage owners to consider such conversion work. However, as in so many other areas, theory must come to terms with practice, and in this case with the reality of the property market:

- The first difficulty, of course, lies in limiting the number of areas that are potentially suitable for development because of environmental and nuisance standards, such as noise sensitivity. We will not deal with this subject in this article, as it has already been covered extensively in other publications in recent months,
- The second stumbling block concerns the 'economic' aspect of such a conversion project. Over and above the scale of the work involved in the conversion, every owner must solve a highly complex equation, which is to maintain or even increase the market value of their property. Indeed, what private or institutional owner would embark on a complex and costly project that would result in a fall in market value?

In the context of a project to convert office space into residential accommodation, the main profitability factors to be considered are as follows:

- In general, a loss of rental surface area must be considered, leading to a reduction in the surface area likely to generate rental income,
- Rents for residential units should be fair at best, and generally below those for renovated offices,
- A lower market yield for an apartment building than that expected for an office building.

Office conversion into housing: a question of value

Based on this general observation, we have analysed various sectors of the canton of Geneva that include office buildings, with the aim of comparing the conversion of administrative space into accommodation with the reality of the figures and, more specifically, with current property market conditions in different areas.

We have therefore taken as our base a "standard" office building with a lettable area of around 2,750 sqm, which is the average size resulting from all office transactions carried out between 2018 and 2022 in the canton of Geneva. If converted into office space, it would have a theoretical lettable area of around 2,500 sqm, i.e., a loss of almost 10%, corresponding to the ratio generally observed for such projects. According to our projections, this building could theoretically accommodate 9 three-room flats, 12 four-room flats and 10 five-room flats, giving a total of 31 flats corresponding to 125 rooms. On this basis, we considered the following settings:

- An estimate of the rental market for office space, by sector, based on current data for renovated and developed office space,
- An estimate of the market rental status of the dwellings, based on the housing mix described above and taking account of "new" dwellings, which are therefore in the upper range of acceptable market rents,
- Structural vacancy rates by sector for offices and residential units, determined based on estimated availability rates,
- Operating expense ratios that consider the fact that renovation work to convert to office space or conversion would meet the "HPE Renovation" criteria with an additional tax exemption for 20 years,
- Capitalisation rates for net rental income determined based on transaction market data and taking account of renovated, let properties and without taking account of rental risk, which is already reflected in structural vacancy.

By taking these various factors into account, we were able to estimate the market value of the same property for each sector of the canton of Geneva and for the of-

fice vs. residential alternatives. Our results and calculation assumptions are presented in the table appended to this report and highlight several points:

- Firstly, rental income from residential property, which also takes account of structural vacancies, is lower than that from office space in most sectors. On average, income from residential property is 10% lower than that from office space. This is an important first consequence for landlords, as converting offices to residential units is likely to lead to a fall in annual rental income,
- The difference in market value is very small on average (1% in favour of housing), demonstrating that the yield differential can be sufficient in certain sectors to offset the fall in rental income,
- The profitability of such a conversion operation varies greatly depending on the concerned geographical sector. In most areas of the city of Geneva, converting office space into residential accommodation is unattractive because of the difference of rental income and yield between residential and office space. The figures are particularly eloquent for the city centre/Left bank, Eaux-Vives and Plainpailais. On the other hand, in outlying areas of Geneva, a conversion project appears to be more profitable, with a theoretical increase in the market value of the property converted into residential units in all the municipalities considered.

Office conversion into housing: a question of value

These figures illustrate that for such an alternative to be in line with economic reasoning in terms of value maintaining, the following conditions must be met:

- In both scenarios, the owner is obliged to carry out a complete renovation to continue to operate the asset on a normal basis. This is because of the small difference in market value between the two alternatives,
- Landlords must be prepared for a fall in their annual rental income, at least in the short to medium term. This can be an obstacle for many property owners. In fact, it is difficult for an institutional investor, who also must guarantee the payment of annuities to its policyholders, to envisage a fall in its cash flow,
- The conditions on the office rental market in the building sector are such that the owner is taking a very high current or future rental risk by keeping his office building, even if it is renovated and sold at market rents.

Our analysis shows that the economic aspect of the project, and more particularly the perfectly legitimate aim of maintaining the value of the asset, requires pre-conditions, which will automatically reduce the number of projects likely to be carried out. Moreover, converting offices into residential units is a rational strategy for owners with a long-term or very long-term holding perspective, where a slight fall in rental income is offset by a sharp reduction in rental risk.

Will this lack of "enthusiasm" on the part of homeowners continue over the next few years? We believe that the development of the property market may lead owners to consider conversion projects.

- The adoption of the new provisions of the Geneva Energy Law during 2022 is already having a major impact on the transaction and leasing market. Most homeowners are now obliged to carry out an energy audit and the necessary renovation or optimisation work. In such a context, where such work is ultimately compulsory, some owners could seize this opportunity to consider converting the space into housing, in view of the long-term use of their assets.
- The various events of the last 5 years, such as the Covid-19 pandemic, negative interest rates, eco-

nomic uncertainties, inflationary pressures, and geopolitical tensions, are all factors that illustrate the volatility of the commercial property market in terms of vacancy rates, rents, and yields, as well as the more rapid obsolescence of administrative premises, particularly in peripheral areas. With a view to rebalancing risks within real estate portfolios and securing rental income over the long term, renovation of certain property assets combined with conversion to residential use should represent a suitable solution for a growing proportion of property owners.

Interview with Mr. Michel Roberti

Head Real Estate AM Romandie
AXA Investment Managers Schweiz AG

5

While the number of projects to convert office buildings into residential space is relatively low in Geneva, one institutional player is making a name for itself. With three projects to convert office buildings into residential space, AXA is leading the way in the canton of Geneva. Michel Roberti, Head of Real Estate AM Romandie at AXA Investment Managers Schweiz AG, describes the genesis of these projects, the experiences and his vision as a representative of a large institutional large institutional owner.

Nearly 8 years after its implementation, the relaxation of the LDTR has not had the desired effect in terms of housing creation. How would you explain this situation?

First, we need to remember the context at the time and the highly political nature of the subject. The plan to make the LDTR more flexible was based on the following observation: "The office rental market is weaker, with a significant increase in the number of vacant administrative premises in the canton of Geneva. To combat the chronic shortage of housing, a relaxation of the LDTR will mean that any owner of vacant office space will have to convert it into housing". There is no doubt that this legislative change was welcome. However, its implementation had to contend with two realities of the Geneva property market:

- *The first is that, despite a few ups and downs, the office market in Geneva functions relatively well and is even particularly buoyant in certain sectors. As a result, the owner of a well-located office building in good condition can easily find tenants and does not face such a rental risk that conversion to residential use must be considered,*
- *The second reason relates to the profitability of the operation, i.e., the rental differential. For example, if you have offices that are let or that you can market at CHF 600/sqm/year and that the market rent after conversion into housing is CHF 450/sqm/year, it becomes problematic for an owner to consider a*

conversion into housing as profitable and capable of maintaining the market value of the asset.

You currently have three projects to convert office buildings into housing in the canton of Geneva. What was the initial motivation or trigger that led you to think about converting offices into housing?

The relaxation of the LDTR adopted in 2015 is obviously a key factor. In fact, this change in legislation has made such alternatives realistic from a purely economic and administrative point of view, by making it easier to obtain planning permission.

Secondly, several cumulative conditions must be met:

- *The property must be in an area with good/very good residential appeal,*
- *The size of the building and its location entail a certain rental and vacancy risk for office use, both in the marketing phase and in the future operation of the property,*
- *The building must be in such a state that major renovation work is necessary, both technically and in terms of interior fittings, to ensure that it can be used in the future. In fact, it must be emptied of its tenants in order to be renovated,*
- *In connection with the previous factor, the building must be preserved for various reasons: listing or classification of the property, impossibility of preserving the same number of sqm through demolition / reconstruction.*

Interview with Mr. Michel Roberti

Head Real Estate AM Romandie
AXA Investment Managers Schweiz AG

Have you looked at other alternatives for using the buildings?

We have analysed several alternative uses for our current projects and for other buildings. For example, 5 years ago we studied the possibility of converting a large administrative building in the city centre into a hotel. Its location, size and large central atrium made it very attractive as a hotel. Then came the Covid-19 pandemic. The pandemic was not the only reason this opportunity was lost. The fact remains that this crisis demonstrated the cyclical nature of certain activities, which is hardly compatible with a long-term perspective on property ownership and risk minimisation. Let's not forget that we manage our policyholders' 2nd and 3rd pillars funds, and that the risk factor is central to our decision-making.

What administrative complexities have you had to deal with?

As I said earlier, the various projects underway involve properties that cannot be demolished, for a variety of reasons. Some buildings, such as the rue de la Corraterie 16-18-20-22 block, are subject to heritage conservation measures, and this element is central to the feasibility of the project. We have exchanged and collaborated extensively with the CMNS (Commission des monuments, de la nature et des sites) to find solutions that not only preserve the interior and exterior architectural features but also ensure the feasibility of the various projects.

The second crucial point is the management of potential tenants for buildings earmarked for conversion. Even if practice shows that these properties are emptied because of their "natural" lack of attractiveness compared with the competition, it is important to anticipate the move-out phase for these tenants.

What specific technical complexities did you encounter (depending on the building type)?

This is an important factor, which should also be considered in relation to the heritage aspect mentioned above. Some of the buildings were originally designed for residential use, and the configuration of these buildings means that conversion to residential use is relatively easy and even optimal from a structural point of view. Moreover, in the case of the buildings on rue de la Corraterie, we were keen to recreate the original housing. In other cases, the situation is more complex. For example, we have a large building earmarked for conversion to residential use that was originally built as an administrative building and is protected.

Within this building, and in addition to the interior elements to be preserved, we were faced with a problem relating to natural light. The width of the building meant that certain areas of the planned apartments, such as the kitchen, lacked natural light. As a result, we had to redesign the layout of the flats, going beyond the "standard" design usually seen in Geneva, but it's very innovative and interesting. Regarding future commercialisation, we plan to provide tenants with an interior designer who will be able to advise on the future use of the apartments.

All these technical and heritage conservation factors must certainly lead to a loss of rental space. Based on your experience, what is the loss ratio when offices are converted to residential use?

This ratio depends directly on the initial characteristics of the building and the type of apartments planned. As a rule, we anticipate a loss of around 10% when converting an office building into residential accommodation.

Interview with Mr. Michel Roberti

Head Real Estate AM Romandie
AXA Investment Managers Schweiz AG

As an institutional owner, what are the benefits of these transformation projects?

Such projects, particularly large-scale ones, are particularly well suited to institutional owners such as AXA, whose vision is to hold property assets for the long term and whose mission is to guarantee the pensions and retirement of their members. In this context, the conversion of office space into residential accommodation meets a key concern, which is to minimise rental risk over the medium and long term. On some sites, the stability of the income and value of the property clearly speaks in favour of housing.

Given the complexity of these projects, their costs, and the conditions of the Geneva property market, what financial criteria do you use when considering a conversion of offices into housing?

You are right to point out the significant costs involved in such projects. This factor is even more important for us given that we do not envisage partial conversion projects, where for example only 50% of the surface area is converted and the other half remains as offices. Our conversion approach is always part of a total renovation/refurbishment of the asset, which automatically requires us to empty the building of its tenants.

From a financial point of view, and as I indicated at the beginning of our conversation, the economic viability of such a project only makes sense for old and "end-of-cycle" properties requiring total renovation and generating low rental income in relation to the market. If, for example, you have a 15-year-old building in good condition and currently let, with an imminent total or partial vacancy, it will always be more attractive to carry out lighter or even cosmetic work and perhaps have to slightly adjust the rent downwards than to carry out major conversion work.

To be perfectly clear, the sine qua non for us is to generate an increase in the market value of the asset through the conversion project. If we end up with a value that is less than or equal to that of the office building, the project cannot go ahead as it stands, and we will either rethink our plans or consider a scenario other than converting the building into residential accommodation.

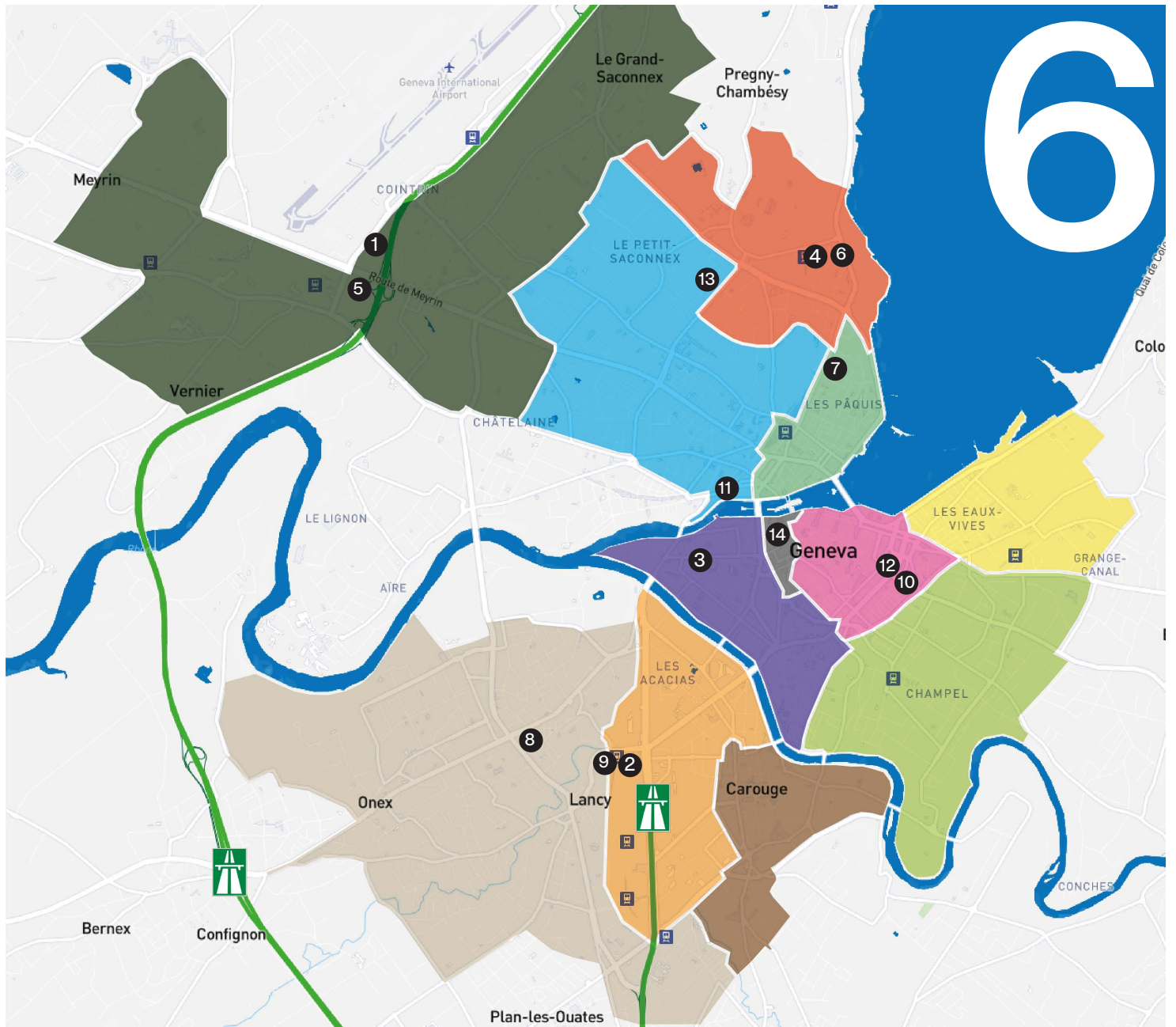
This criterion of increase in value seems intuitively difficult to achieve when moving from an office building to a flat block?

This is true, which is why such a transformation scenario can only be implemented on certain assets. Our approach is to compare the values generated by different alternatives for using the property: offices as they are, renovated offices and conversion to residential accommodation. In general, we find that the yield differential between office and residential space and the reduction in maintenance costs contribute significantly to an increase in value and offset the costs of conversion. In addition, the risk of vacancy (whether one-off or structural), the longer absorption period and the incentives all have a negative impact on the value of office use.

Do you have any other projects of this type (converting office/commercial space into housing) in other cantons?

To my knowledge, we have no other projects of this type elsewhere in Switzerland. This is because we have a very large office portfolio in Geneva, particularly compared with our residential portfolio. Moreover, as I said earlier, these projects are only envisioned in cases where the buildings cannot be demolished. In contrast, and to take another major Swiss city as an example, there are many more demolition or reconstruction projects in Zürich. Of course, there are plans to replace office buildings with housing, but the financial and technical complexity of maintaining a building does not exist. These conversion projects are therefore primarily specific to Geneva, because of the cantonal legislation in force and the conditions on the residential and commercial property markets.

Maps: GE / Rental market indicators



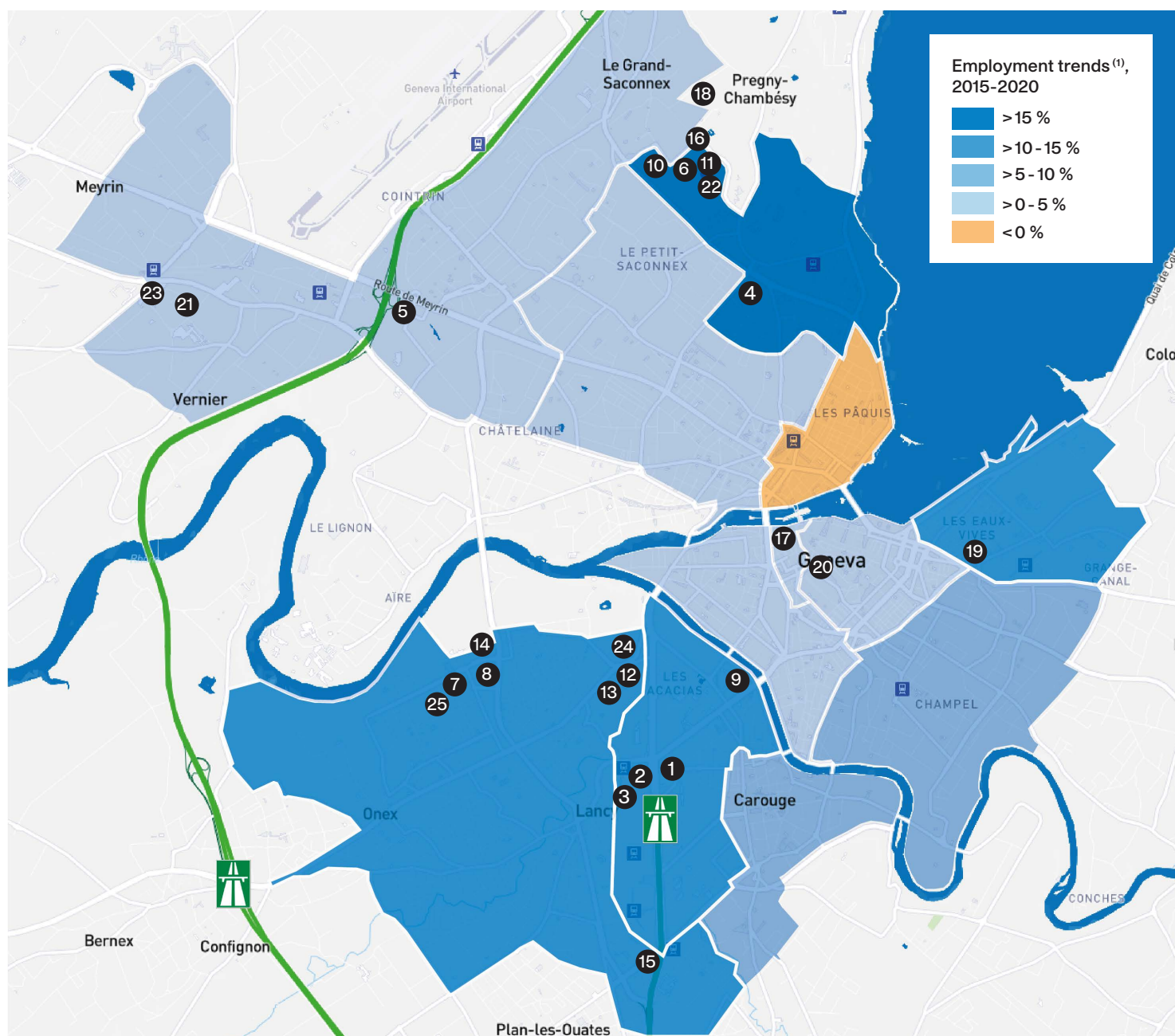
RENTS (CHF) AND AVAILABLE OFFICE SPACE (SPGI)

1.	Route de Pré-Bois 20	340.-/sqm/yr	14'500 sqm
2.	Esplanade de Pont-Rouge 3	460.-/sqm/yr	10'000 sqm
3.	Boulevard de Saint-Georges 16	550.-/sqm/yr	8'000 sqm
4.	Rue Kazem-Radjavi 1-3	360.-/sqm/yr	4'120 sqm
5.	Chemin de Blandonnet 8	460.-/sqm/yr	4'000 sqm
6.	Avenue de la Paix 5	515.-/sqm/yr	3'600 sqm
7.	Rue de Lausanne 80	465.-/sqm/yr	3'000 sqm
8.	Chemin des Oliquettes 10	400.-/sqm/yr	2'200 sqm
9.	Place de Pont-Rouge 2	430.-/sqm/yr	2'200 sqm
10.	Rue Ferdinand-Hodler 23	565.-/sqm/yr	850 sqm
11.	Quai du Seujet 10	485.-/sqm/yr	660 sqm
12.	Cours de Rive 10	950.-/sqm/yr	400 sqm
13.	Pré-de-la-Bichette 1	560.-/sqm/yr	387 sqm
14.	Rue du Stand 60-62	300.-/sqm/yr	300 sqm

MARKET RENTS (CHF/SQM/YEAR) AND AVAILABILITY RATES

■	CBD - Rive gauche	de 675 à 950.-	1.8 %
■	Quartier des Banques	de 550 à 700.-	2.0 %
■	CBD - Rive droite	de 450 à 750.-	3.0 %
■	Eaux-Vives	de 450 à 650.-	2.5 %
■	Champel	de 400 à 550.-	3.5 %
■	Quartier des Nations	de 350 à 550.-	5.0 %
■	Servette - Petit-Saconnex	de 300 à 450.-	4.0 %
■	Plainpalais	de 350 à 550.-	4.0 %
■	Carouge	de 250 à 500.-	2.5 %
■	PAV (Praille-Acacias-Vernets)	de 275 à 550.-	2.5 %
■	Lancy - Onex	de 250 à 400.-	10.0 %
■	Aéroport - Vernier - Meyrin	de 250 à 460.-	20.0 %
■	Autres communes	de 250 à 350.-	5.6 %

Maps: GE / Construction market indicators



CONSTRUCTION PROJECTS IN PROGRESS/PLANNED 307,000 SQM ⁽²⁾

1.	Campus Pictet de Rochemont	50'900 sqm	2025
2.	Esplanade 3	34'000 sqm	2023
3.	Alto Pont-Rouge	31'200 sqm	2023
4.	UIT, Varembe 6	24'700 sqm	2026
5.	Quartier de l'Étang, Les Atmosphères	19'300 sqm	2023
6.	Green Village, Kyoto	14'100 sqm	2024
7.	Les Fabriques des Morgines (ZDAM)	13'050 sqm	2025
8.	Small City (ZDAM)	12'100 sqm	2025
9.	Quai Vernets	11'000 sqm	2026
10.	Passage Morillons, Bât. B	3'750 sqm	2024
11.	Green Village, Stockholm	8'000 sqm	2027
12.	Surville, Tour 2	7'200 sqm	2025
13.	Surville, Tour 1	7'450 sqm	2025
14.	CP du Pont Butin (ZDIA)	6'150 sqm	2025
15.	Trèfle d'Or	5'750 sqm	2023
16.	Mission de l'Inde	4'100 sqm	2023
17.	Rhône 1	2'400 sqm	2023
18.	Pregny Park	1'750 sqm	2023
19.	Frontenex 31	1'350 sqm	N/D

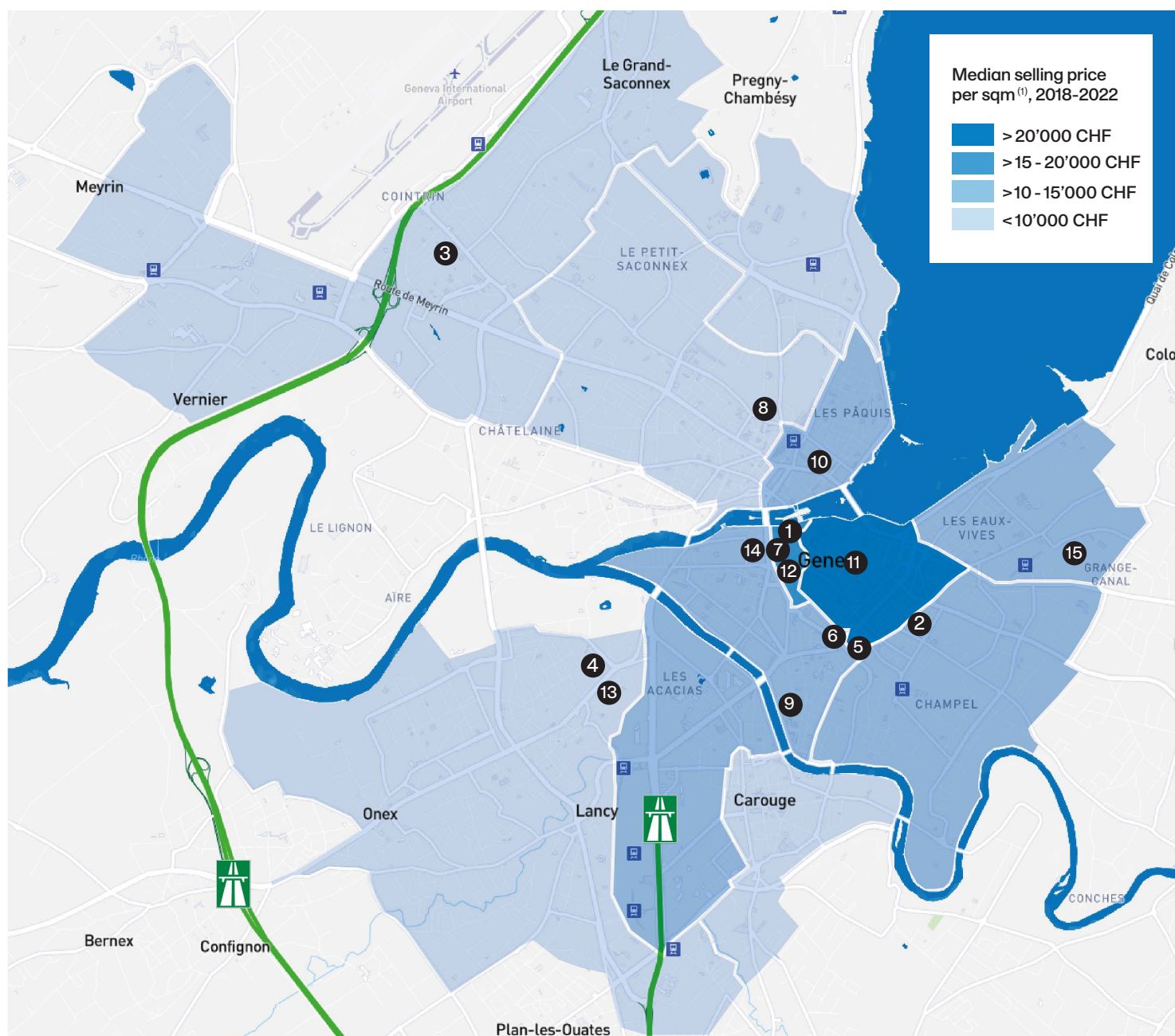
20.	Vieux-Collège 3	1'250 sqm	N/D
21.	Bergère 10 (ZDIA)	600 sqm	2024
22.	OIT, Morillons 4	min. 500 sqm	N/D
23.	Pré-de-la-Fontaine 2B (ZIA)	900 sqm	N/D
24.	Fief-de-Chapitre 9A	850 sqm	2023
25.	Tour Saint-Marc	400 sqm	2023
26.	Belle-Terre (hors carte)	6'500 sqm	N/D
27.	Lombard Odier (hors carte)	37'850 sqm	2024

BUILDING PROJECTS UNDER STUDY 245'000 SQM ⁽²⁾

⁽¹⁾ Employment in full-time equivalents (FTE), all sectors of activity combined (SITG, SPGI)

⁽²⁾ Gross floor area of offices according to initial plans (SAD)

Maps: GE / Investment market indicators



TOP 15 REGISTERED TRANSACTIONS, 2022

1. Credit Suisse, Rhône 2
2. Florissant 11-13 / Contamines 18
3. Alpha Business Centre, Casai 71
4. P&G, Saint 43-47 (transfert interne)
5. Tour 8-10
6. Philosophes 20 / École de Chimie 4
7. Jean Petitot 4-6
8. Grand Pré 54-58
9. Battoirs 7
10. Berne 6
11. Robert Céard 10 / Neuve du Molard 10
12. Théâtre 6
13. Surville, Tour 2
14. Stand 56
15. Rosemont 8

CHF 203'000'000.-
 CHF 197'000'000.-
 CHF 121'800'000.-
 CHF 115'272'342.-
 CHF 102'000'000.-
 CHF 68'195'500.-
 CHF 64'000'000.-
 CHF 60'500'000.-
 CHF 51'000'000.-
 CHF 39'741'955.-
 CHF 32'500'000.-
 CHF 31'000'000.-
 CHF 24'684'000.-
 CHF 24'000'000.-
 CHF 16'655'000.-

SALES PRICES PER SQM AND MEDIAN GROSS YIELDS, 2018-2022

CBD - Rive gauche	CHF 21'758.-	3.1 %
Quartier des Banques	CHF 18'333.-	3.5 %
CBD - Rive droite	CHF 11'368.-	3.6 %
Eaux-Vives	CHF 11'644.-	3.2 %
Champel	CHF 13'214.-	3.6 %
Quartier des Nations	CHF 9'028.-	4.9 %
Servette - Petit-Saconnex	CHF 6'123.-	4.5 %
Plainpalais	CHF 10'809.-	3.9 %
Carouge	CHF 7'411.-	4.5 %
PAV (Praille-Acacias-Vernets)	CHF 13'650.-	4.9 %
Lancy - Onex	CHF 7'625.-	5.3 %
Aéroport - Vernier - Meyrin	CHF 6'282.-	5.1 %
Autres communes	CHF 5'480.-	5.1 %

⁽¹⁾ Rental space (SITG, SPGI)

Maps: LS / Rental market indicators



RENTS (CHF) AND AVAILABLE OFFICE SPACE (SPGI)

1.	Route de Chavannes 35	300.-/sqm/yr	8'500 sqm
2.	Rue du Caudray 2	240.-/sqm/yr	4'000 sqm
3.	Chemin de Brillancourt 4	360.-/sqm/yr	3'000 sqm
4.	Chemin des Lentillières 24	265.-/sqm/yr	2'000 sqm
5.	Route de la Corniche 6-8	320.-/sqm/yr	1'500 sqm
6.	Rue du Lac 33	240.-/sqm/yr	920 sqm
7.	Route de la Chaux 4	240.-/sqm/yr	800 sqm
8.	Rue du Centre 172	380.-/sqm/yr	617 sqm
9.	Avenue de Rhodanie 48	340.-/sqm/yr	523 sqm
10.	Place Saint-François 5	400.-/sqm/yr	448 sqm
11.	Grand-Chêne 2	380.-/sqm/yr	400 sqm
12.	Place Chauderon 16-18	376.-/sqm/yr	372 sqm
13.	Avenue de Rhodanie 58	400.-/sqm/yr	215 sqm
14.	Rue de Bourg 17	320.-/sqm/yr	118 sqm
15.	ZA La Pièce (hors carte)	260.-/sqm/yr	10'000 sqm
16.	Chemin de Prévèyres (hors carte)	220.-/sqm/yr	9'000 sqm
17.	Rte d'Allaman 120 (hors carte)	275.-/sqm/yr	2'000 sqm
18.	Rte de la Longeraie 9 (hors carte)	300.-/sqm/yr	1'670 sqm
19.	Rte Suisse 8A (hors carte)	260.-/sqm/yr	500 sqm

MARKET RENTS (CHF/SQM/YEAR) AND AVAILABILITY RATES

Lausanne Centre	de 300 à 400.-	5.0 %
Lausanne Lac	de 350 à 400.-	3.5 %
Lausanne Nord	de 220 à 300.-	6.0 %
Lausanne Est	de 250 à 300.-	1.5 %
Le Mont - Epalinges	de 220 à 300.-	10.0 %
EPFL - UNIL	de 240 à 290.-	3.5 %
Lausanne Ouest	de 230 à 280.-	5.0 %
Périphérie Ouest	de 200 à 250.-	13.0 %

Maps: LS / Construction market indicators



CONSTRUCTION PROJECTS IN PROGRESS/PLANNED 160'000 SQM⁽²⁾

1.	Cocoon	38'000 sqm	2023
2.	Campus unlimitrust	27'000 sqm	2023
3.	EPFL Ecotope, Phase 1	25'000 sqm	2026
4.	Central Malley, Bâtiments A1, A3 & B2	23'700 sqm	2023
5.	Biopôle, Bâts. Valine, Arginine & Trypto	23'000 sqm	2024
6.	Quartier Horizons	11'250 sqm	2024
7.	Pulse (ZI)	10'800 sqm	2025
8.	Biopôle, Leucine	9'500 sqm	2023
9.	Veillon-Bussigny, Lot B.	9'400 sqm	N/D
10.	Le Closel	6'000 sqm	2024
11.	Ley Outre Ouest	5'000 sqm	2023
12.	L'Orée, Phase 1	4'300 sqm	2023
13.	CôtéGare	2'950 sqm	2024
14.	Quai Ouest, TRAVIS	2'950 sqm	2023
15.	CONNEXION	2'800 sqm	2024
16.	MixCity (ZI)	1'700 sqm	2025
17.	Y-Parc, Cassiopée (hors carte)	4'600 sqm	2023

BUILDING PROJECTS UNDER STUDY

160'000 SQM⁽²⁾

⁽¹⁾ Employment in full-time equivalents (FTE), tertiary sector (STATVD, SPGI)

⁽²⁾ Gross floor area of offices according to initial plans (SPGI)

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