

Where do young people live?

Real Estate Monitor Switzerland | June 2021



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Imprint

Publisher: Credit Suisse AG, Investment Solutions & Products

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Copy deadline

May 17, 2021

Publication series

Swiss Issues Immobilien

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Contributions

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Overlooking the young?

The combined theme of “housing” and “the young” is not paid much attention by either the real estate industry or the young themselves. But this target group is worth engaging with, particularly given the current backdrop of transformation and upheaval, as young people pick up on trends and developments faster than anyone else.

Little attention paid to “the young” as real estate target group

From a technical perspective, “the young” are a non-existent target group for the real estate industry. Ever since data was first recorded back in 2004, a hunt in Google Trends for search terms in German will throw up plenty of hits for “Wohnen” (“housing/living”) and “Alter” (“old age/the elderly”), but the combination with “Jugend” (“youth/young people”) yields nothing. For every month since 2004, the search engine states that there is insufficient data for these search terms in Switzerland. While “housing for the elderly” (or a variant thereof) is frequently searched for, as well as the subject of many an article and book, the hits are few and far between for housing at the other end of the adult age spectrum. The search engine throws up a few hits in Germany, but the “Wohnen” and “Jugend” (“youth/young people”) pairing lags behind “housing” and “the elderly” at a ratio of ten to one.

Scant attention paid by the media too

In contrast to many years ago, there is also little to be found on this subject through an evaluation of current media contributions. This might perhaps be explained by the fact that only Switzerland’s major urban centers suffer from any scarcity of accommodation space nowadays, most noticeably the heavily regulated apartment market in Geneva. But are there other reasons for this low resonance? Perhaps so many young people still live with their parents that there is no need for the real estate industry to bother with this target group – or perhaps their purchasing power is so feeble that it is simply not worthwhile? Or is it a case of the young having such similar housing needs to other adults that there is simply no distinction to be made?

Move away from parental home increasingly deferred

Leaving the parental home remains the key step to an independent life. For that reason, sooner or later every young person wants to move away from the snug confines of their childhood home. However, this step entails compromises and sacrifices. For example, at 12.7%, the proportion of the 18-24 age cohort living in overcrowded accommodation is twice as high as it is for the Swiss population as a whole. Moreover, with average floor space of 66.7m², the apartments of this age cohort are among the smallest of any group (total population: 102.3m²). As an additional factor, the notion of individualization is also gaining strength among the young, which hardly creates the ideal parameters for an apartment-sharing community. As a consequence, the incentives to move away from the parental home are not exactly overwhelming, which is why there is a tendency for this step to be deferred – even if a look at the large number of vacant rental apartments would suggest that the availability of accommodation is currently greater in Switzerland than it has been for quite some time.

Focus on 16-25 age cohort

For many, the term “the young” conjures up an age spectrum of between 13 and 21. But in the survey for the Credit Suisse Youth Barometer, the findings of which we also used in this analysis, this spectrum starts and finishes some three to four years later. On the one hand this selection reflects the longer average period of education, while on the other the focus is on residential property – an irrelevant subject for the great majority of young teenagers. For that reason, the age group at the heart of this analysis are Swiss aged between 16 and 25, around half of whom come from Generation Y (born in the years leading up to the year 2000) and a half from the following Generation Z (born after 2000). Depending on the specific area of focus, we also extend the spectrum at the upper end to the “young at heart” – or to those in their mid-30s.

Target group worth engaging with

The real estate industry would be wrong to neglect “the young” as a target group. Any investor who had observed early what innovations young people were picking up on (smartphones, streaming, sharing, etc.), as well as the consequent behavioral changes, and had adjusted their investment portfolio accordingly would have been enjoyed handsome performance over the following years. There is also plenty more potential to be tapped into here. Even on its own, the new form of habitation “co-living”, which is becoming increasingly popular among young people, offers huge growth and investment potential in view of the high proportion of residential property worldwide.

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Generation Hope

Young people today have very similar goals and dreams to predecessor generations, but are confronted by major challenges. The various crises of recent years have undermined their confidence.

Bearing the brunt of the pandemic

Young people are among the worst affected by the coronavirus pandemic. True, from a health risk perspective they are much less affected than people aged 60 and above, but the price they have had to pay is nonetheless high. Specifically, the young rely disproportionately on the badly-hit hotels & catering and events sectors for employment, and many casual and temporary jobs held by young adults in particular have been wiped out by the coronavirus crisis.

Declining confidence among the young

Many countries have gotten much deeper into debt in their efforts to combat the pandemic. This too will end up on the shoulders of younger generations, as it is they who will one day have to confront the consequences of this unsustainable fiscal policy. Admittedly, the problem is less pronounced in Switzerland than it is in (say) Italy with a government-debt-to-GDP ratio of 151%, or Greece with an equivalent ratio of 213%. But in *Confoederatio Helvetica* too, it is likely to be decades before all the funds mobilized are paid back. Indeed, according to the Credit Suisse Youth Barometer, pension/retirement provision was the greatest concern of young people in Switzerland last year. And generally speaking, the proportion of young people looking to the future with confidence has been declining for years. Last year this figure stood at just 50% (Fig. 1).

Hope replaces certainty

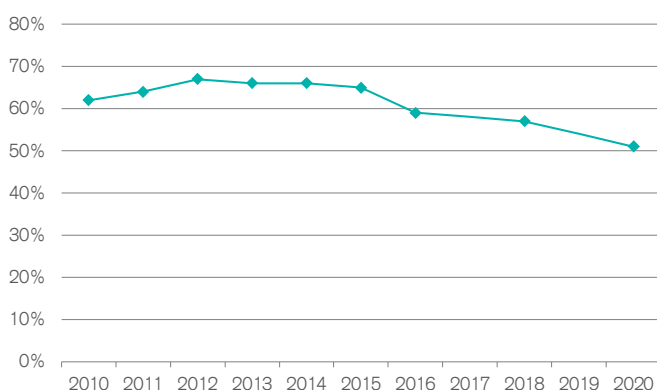
The great changes that technological advances bring in their wake inevitably go hand in hand with great uncertainties – such as over job security, levels of prosperity, and self-fulfillment. On top of this have come a series of crises, of which climate change in particular is having a lasting impact on young people. The younger generation of today therefore sees itself confronted by considerable challenges. Whereas older generations could be secure in the knowledge that they could carve out a successful path in life with the necessary dedication and drive, this certainty has faltered among today's young.

Change also brings opportunities

The current upheavals faced by young people at the moment also present opportunities, however. Rarely in the past has existing knowledge become so rapidly obsolete or established structures less enduring. As a result, all sorts of opportunities are opening up for the young. They are reacting to this environment by attaching great importance to saving and education, and adopting an optimistic stance toward change – particularly in Switzerland (Fig. 2). Accordingly, young people have also been able to take certain positives from the coronavirus crisis. In surveys, they state that their lives have become rather more relaxed thanks to the pandemic, and they do not constantly have the feeling of having missed out.

Fig. 1: Declining confidence of 16 to 25-year-olds

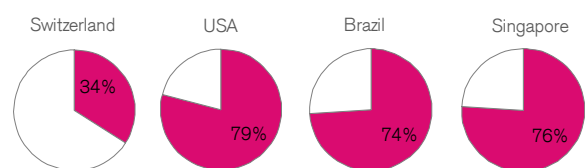
Proportion of Swiss residents who are "fairly confident" about their future



Source: Credit Suisse Youth Barometer 2020

Fig. 2: Young Swiss open to change

"I worry that my job will no longer be needed in the future", proportion of 'yes' responses



Source: Credit Suisse Youth Barometer 2018

Era of youth prolonged

Young adults are a more heterogeneous group now than ever before, and they are leaving the parental home ever later. In Switzerland, there is still potential in the provision of housing for young single households in urban areas.

“The young” – a very heterogeneous target group

The transition to full adulthood involves not just entering the world of work, but also moving out of the parental home and getting the keys to one’s first apartment. Up until a few decades ago, this process tended to evolve in a linear way in most cases. The traditional bourgeois model of growing up could perhaps be summarized – albeit rather simplistically – as follows: straight into the world of work, move away from parental home, marriage and children, acquisition of single-family home. For certain segments of today’s young, this model continues to apply. But for a variety of reasons, many teenagers and young adults now have plenty more options to choose from. Examples that might be mentioned here include digital transformation, globalization, an increase in mobility, but also gender equality and the removal of taboos over various forms of gender identity and sexual orientation. All these factors have led to greater divergences in the lifestyles and life ambitions of teenagers and young adults nowadays.

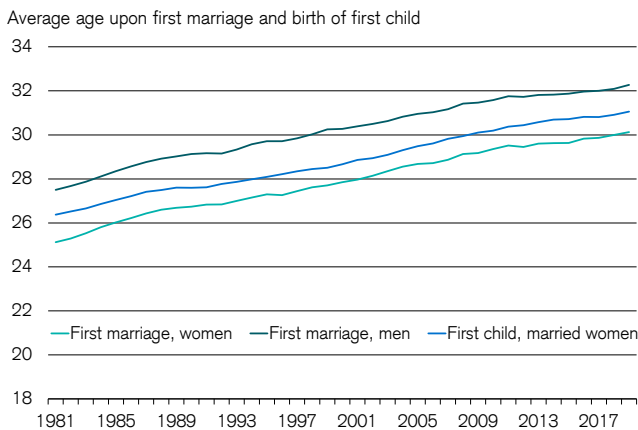
Late(r) start to professional life

The timeline of youth has also changed dramatically in recent years. On average, basic education now goes on for longer, as young people are increasingly opting for higher-level courses that take longer to complete. According to the Swiss Federal Statistical Office (SFSO), the proportion of Swiss receiving their “Matura” (school-leaving certificate, including specialized and vocational certificates) rose from 26% in the year 2000 to 41% in 2018, when it was as high as 46.5% for women. Young people also now enter the world of work and start families later. The ages of married couples and of first-time mothers and fathers have been rising steadily for many years (Fig. 3). The so-called period of post-adolescence, i.e. the (not so easily demarcated) phase of life between youth and adulthood has been extended as a result of all these factors, in some cases until people reach their early 30s.

The pull of the city

The above trends have an impact on the residential needs of older teenagers and young adults. These start with the choice of residential location. Young Swiss have made a decisive contribution to the trend of reurbanization, which began back in the early 2000s. Many young adults settle in the cities between their early 20s and early 30s (Fig. 4). Just 19.7% of the 15-19 age cohort lived in a large or medium-sized urban center in 2019. This figure rises significantly with age, peaking at 30.7% in the 30-34 age group. If the municipalities surrounding the cities are included, no less than 58.1% of this age cohort live in an urban area.

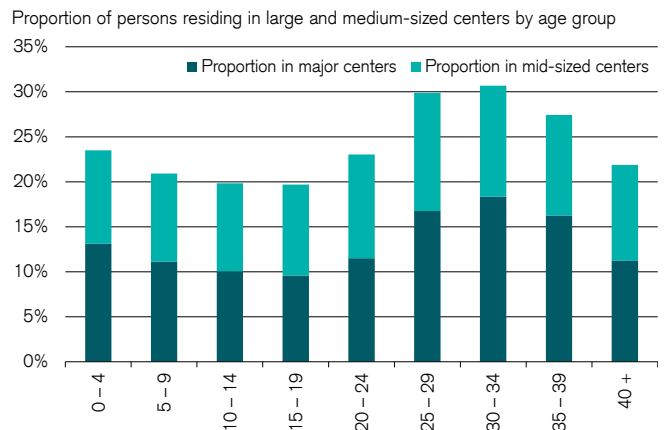
Fig. 3: Era of youth prolonged



Source: Swiss Federal Statistical Office

Last data point: 2019

Fig. 4: Many young adults are drawn to the city



Source: Swiss Federal Statistical Office, Credit Suisse

Last data point: 2019

Significant mobility between habitation and household types

The choice of habitation and household type likewise changes as the Swiss transition from teenagers to adults. The move away from the parental household is followed by the establishment of a single-person household, cohabitation with a partner, or the move to a shared apartment. The different household types often follow one another at relatively short intervals, as young adults have a particularly high tendency to move house frequently: According to a study carried out by Wüest Partner for the year 2015, almost a quarter of Swiss in their mid-20s changed their address at some point in that year.¹ In terms of the number of persons, the couple household (with or without children) is still the most popular form of habitation for young adults: Its proportion of all habitation forms rises from 10% for the 20-24 age group to 77% for the 35-39 age group (Fig. 5). The proportion of young adults living alone reaches its peak in the 30-34 age group (19.2%). When measured by number of households rather than the number of persons, single-person households have been the most frequent household size in Switzerland for decades, accounting for 36% of all households. In the cities this figure rises even higher and works out at 45% in Zurich, for example.

“Hotel Mum and Dad” very much in vogue

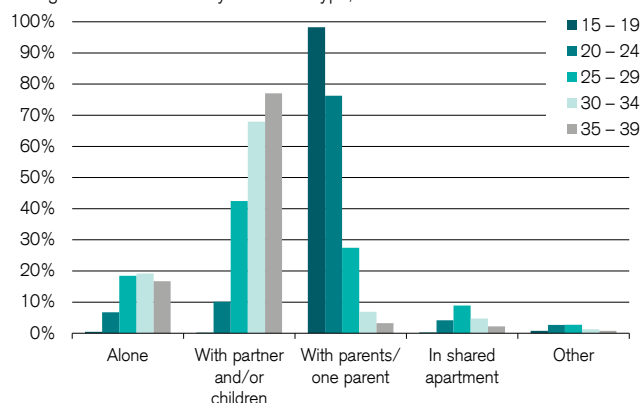
By far the most popular form of habitation for older teenagers and younger adults is the parental home (Fig. 6). In 2019, 91% of 20-year-olds still lived with their parents (or a parent). Not until the age of 25 do the majority of Swiss no longer live in the parental home (47%). By the time they reach 30, no less than 90% of young adults have started their own household. Since 2011, “Hotel Mum and Dad” has revived in popularity for those in their mid-20s in particular. But this trend clearly dates back for much longer – back in the year 2000, a census carried out by the Swiss Federal Statistical Office showed that a majority of Swiss aged 22 had left the parental home.²

Much more than just convenience

But to assume that it is just convenience that explains why young people of today move out of the parental home later would be to miss the wider picture. The main reason for the later move away from home is the longer duration of education (Swiss Federal Statistical Office, 2016)². Other reasons are likely to include the expansion of the Swiss public transport network and the higher number of university and university of applied sciences locations. For example, it used to be the case that a young person living in central Switzerland would have to move to Basel, Bern or Zurich if they wanted to study economic sciences at tertiary education level. But they can now do this in Lucerne. At the same time, Switzerland has grown closer together thanks to the expansion of its public transport network, and more households are located within large urban areas. All these factors make it possible for many young adults to remain in the parental home as they attend university or enter the world of work.

Fig. 5: Couple household typically follows parental home

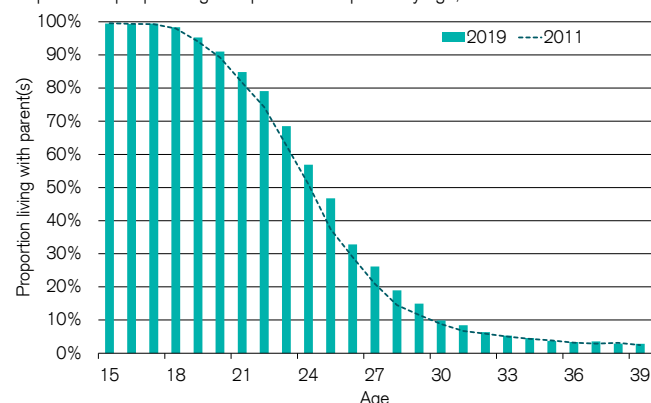
Young adults: breakdown by household type, 2019



Source: Swiss Federal Statistical Office, Credit Suisse

Fig. 6: “Hotel Mum and Dad” extends its season

Proportion of people living with parents/one parent by age, 2019



Source: Swiss Federal Statistical Office, Credit Suisse

Shared apartment as established alternative

However, it is often financial considerations that lie behind the decision to remain in the parental home. In Switzerland’s major urban centers in particular, high rents are charged for new rental agreements. Those who choose to leave the parental home nonetheless will in many cases have to seek out the cheapest possible accommodation solution. Students can choose from a growing spectrum of student-specific residential options (cf. “Student housing” section, page 14). An established – and typically cheaper – alternative to the single-person household, and one that also fits with the concept of the sharing economy, is the apartment share. While this may still be a minority type of household, it is nonetheless steadily growing in popularity (Fig. 7). For the 25-29

¹ Cf. Wüest Partner, Immo-Monitoring issue 2017/2, pp. 64 et seq.

² Cf. Swiss Federal Statistical Office, Newsletter “Information on Swiss Demographics”, 12/2016.

age cohort, the proportion of people living in an apartment-sharing situation is now 8-10%. But even for people in their mid-30s, this type of shared accommodation has become much more commonplace. A contributory factor here is the rise of various online platforms in recent years on which apartment-sharing solutions can be searched for. What's more, these are increasingly more than just advertising portals: Providers such as Yuruma, for example, try to take account of relevant preferences when bringing together those offering shared accommodation and those seeking it – similar to the way in which dating apps work.

Renting typically the only option for young adults

When it comes to the housing ownership type, there is essentially no alternative to the rental apartment for young adults under 30, irrespective of their household form. For the vast majority of younger households, the acquisition of residential property is barred by prohibitive (and rising) prices as well as Switzerland's high affordability hurdles (c.f. "Home ownership" section, page 9). Compromises will usually have to be made when hunting for a suitable rental apartment. The rent burden falls most heavily on single-person households, who naturally take up the most floor space per capita. Across Switzerland as a whole, the median amount of floor space for young tenants of this kind stands at 52 m² for the 20-24 age cohort. This figure then rises with age, for example to 65 m² for the 40-44 age group. Where location is concerned, the amount of living space shrinks significantly in major urban centers. In the 20-24 age cohort who live alone, 20% of people get by with less than 29 m² (Fig. 8). And despite the more cramped living conditions, tenants in the major centers pay higher rents. The premium paid by the 30-39 age group, for example, amounts to some 14%.

Environmentally-friendly accommodation yet to really catch on

In the "universe of values" of young people, one dimension to have taken on greater importance in recent years is the dual aspect of sustainability and climate protection. Many members of Generation Z feel compelled to lead a more sustainable lifestyle. This is apparent in areas such as shopping, nutrition, mobility behavior, and avoidance of waste, for example. Survey-based studies do suggest that there is a willingness in principle to pay more for environmentally-neutral accommodation. In the case of German representatives of Generation Z, for example, this premium amounts to some 5% of the rental price.³ But despite the significant contribution made by housing to CO₂ emissions, the environmental footprint of a residential building still does not appear to be a major factor for young adults looking for a home. For young people too, the classic attributes of location, size, and rent level are what matter most here. In the urban environment this is hardly surprising, as the search for a suitable home will not be easy for households with a limited budget. That said, younger households play their part in ensuring a modest CO₂ footprint on the accommodation front due to the relatively small amount of living space they occupy.

New habitation concepts for young adults

Looking at the needs of young Swiss and the spectrum of accommodation available, the greatest gap is probably to be found in the area of attractive and affordable housing for young professionals who would like to live on their own in an urban environment. Real estate developers have recognized this niche and come up with concepts that have already caught on in a number of cities around the world. Examples worthy of mention here include microapartments (page 12) and co-living (page 13), two residential concepts that are also gaining in popularity in Switzerland.

Fig. 7: Apartment-sharing becomes more popular

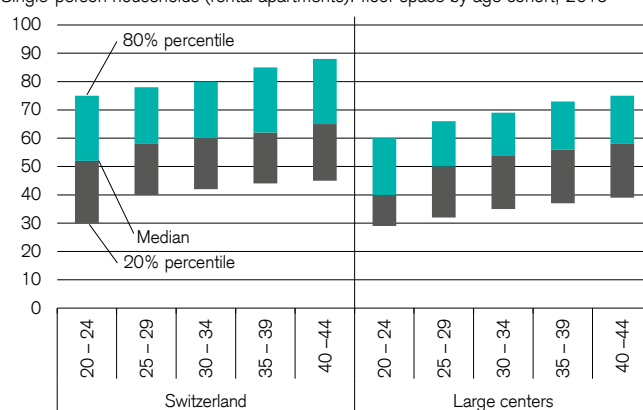
Proportion of Swiss sharing an apartment by age, 2019



Source: Swiss Federal Statistical Office, Credit Suisse

Fig. 8: Young single-person households must forgo space

Single-person households (rental apartments): floor space by age cohort, 2019



Source: Swiss Federal Statistical Office, Credit Suisse

³ Competence Center Process Management Real Estate: PMRE Monitor 2021, University of Applied Sciences for Engineering and Economics of Berlin, p. 30.

Home ownership remains a dream

More than three-quarters of all young adults in Switzerland dream of owning their own home later in life. But strict regulation, a low level of construction activity, and high prices are putting this dream out of reach for the majority.

Young adults very rarely own their own homes

In 2019, just 5% of all young adults aged 25 or less who no longer resided in the parental home lived in their own single-family home or condominium. By way of comparison, the home ownership rate in Switzerland stands at 36.4%. The small number of young homeowners is hardly surprising: As was made clear in the previous section, many young adults still live with their parents, or are taking their first independent accommodation steps in an apartment share or in their “own” rental apartment. As a consequence, owner-occupied housing as a possible accommodation solution is still a long way off.

Desire to own property nonetheless strong

It is only reasonable to ask whether owner-occupied property is actually as important for Generations Y and Z as it was for their parents. The survey of young adults in last year’s Credit Suisse Youth Barometer provides a clear answer to this question: A high 77% of young people aged between 16 and 25 would like to own their own house or apartment at some point (Fig. 9). Also worth mentioning is the fact that 76% of young adults surveyed in 2018 stated that having their own property was an explicit life objective. More recent information on this point is not available, as the most recent Youth Barometer in 2020 was heavily overshadowed by the COVID-19 pandemic, and it was decided not to ask respondents about their life objectives.

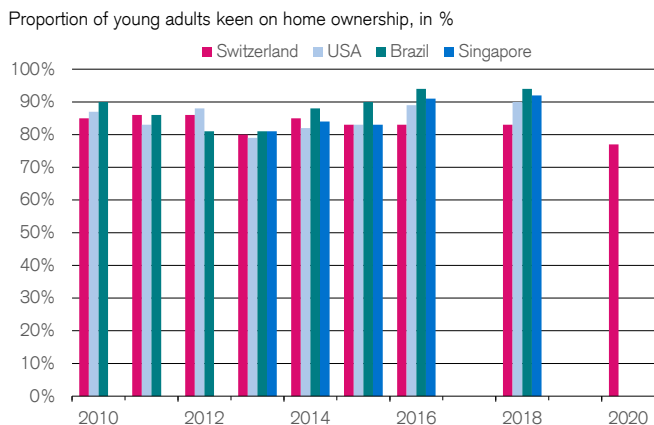
Desire for home ownership even greater in other countries

This strong desire to own residential property is nothing new. In earlier issues of the Youth Barometer, the proportion of respondents who expressed a desire to own property in the future oscillated in the bandwidth of 80%-86%. In many other countries, owner-occupied housing is perceived as even more important by young adults (Fig. 9). But in view of the fact that Switzerland has one of the lowest home ownership rates in the developed world, this affirmation of the importance of residential property by young adults is nonetheless striking.

Home ownership gains in importance from mid-30s onward

At the moment, the home ownership theme gains in importance in Switzerland from the age of 30. Whereas the proportion of young people aged 30 who own their own home stands at just 8.1%, this figure rises to 19.4% by the age of 35 (Fig. 10). By the time they reach the age of 40, as many as 30% of Swiss own their own home. Residential property in Switzerland is therefore frequently purchased quite late, even though the desire for this habitation form is very pronounced at a younger age.

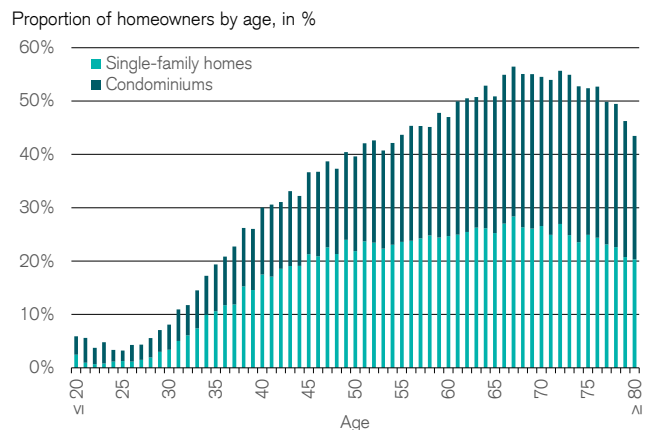
Fig. 9: Four out of every five young adults want to own their own home



Source: Credit Suisse, gfs.bern

Last data point: 2020

Fig. 10: Residential property ownership more prevalent from the age of 30



Source: Swiss Federal Statistical Office, Credit Suisse

Last data point: 2019

Need for flexibility and high prices delay acquisition

There are two main reasons for this relatively late transition to home ownership. First, young adults initially want to be flexible and discover the world, so the idea of starting their own families is typically some way off. Given this outlook, rental accommodation is the more practical form of habitation to start with. Second, high property prices present an increasing obstacle to home ownership for young adults in particular. On average, the median price of an advertised condominium in Switzerland with four rooms or more amounts to CHF 850,000.

Hurdle 1: affordability

With a debt financing ratio of 80%, Switzerland’s imputed affordability rules would require buyers to have a household income of CHF 150,000 or more for such a home to be affordable. This is above the average Swiss household income and typically out of reach for young couples in particular, as income levels usually rise only with age and increasing professional experience. For example, the median income of young adults aged between 20 and 24 stands at just CHF 58,500 per capita (Fig. 11). This rises to CHF 70,200 for the 25-29 age cohort, and continues to rise until the Swiss reach their late 40s.

Hurdle 2: lack of equity

The lower incomes of young adults are also reflected in their asset situations. On the one hand they have less potential to save money. On the other, building up a sufficient asset base takes time. Although no statistics in respect of young people’s assets exist, the amount paid into private pension (Pillar 3a) schemes is a good indicator. The proportion of Swiss paying into a private pension scheme increases with age, as do contribution amounts. But even if the maximum amount is paid in, the road to home ownership is long. In the above example, equity of at least CHF 170,000 would be required. This means that the maximum amount would have to be paid into Pillar 3a for 25 years. In other words, a 20-year-old would take until the age of 45 to save the necessary capital – even assuming no increase in the price of residential property in the meantime.

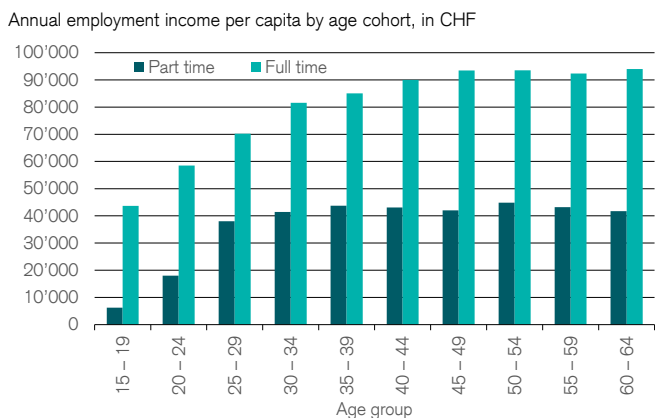
Single-family homes coveted by young adults

Contrary to what one might initially assume, younger homeowners are more frequently to be found living in their own house rather than their own apartment (Fig. 10). In the 30-40 age group, 55% of homeowners live in a single-family dwelling. A major factor here is likely to be that the baby-boomer generation has now reached an age at which a single-family home can be passed on within the family – to children or even grandchildren. As an additional factor, many young adults who either have children or would like to do so prefer the idea of a house with its own garden to a condominium.

Conclusion: Home ownership a popular goal, but also one that is increasingly difficult to attain

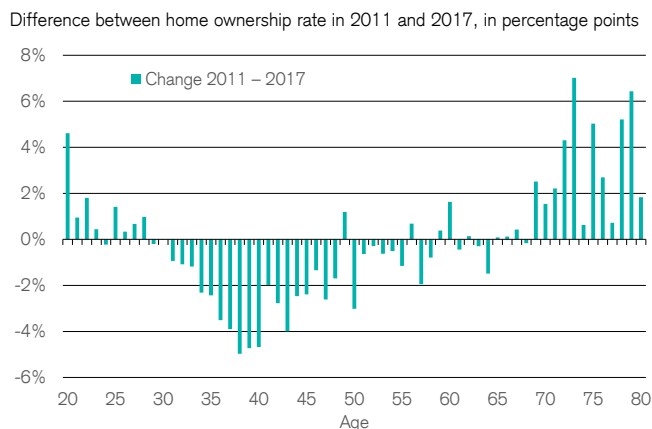
In summary, it may be said that home ownership is very much on the agenda of young Swiss adults. This desire is increasingly difficult to satisfy, however. Given current price levels, the age of first-time buyers has risen in recent years, and will likely rise further in the future. This has only a minor impact on teenagers and young adults directly, as their life situation rarely lends itself to home ownership, and only a very few would be able to find the necessary funds. But what is new is that their ownership dream will be increasingly difficult to realize even when they are older. The development of the home ownership rate shows that increasingly few Swiss aged between 30 and 50 can afford to buy residential property at all (Fig. 12). For Generations Y and Z, this means that the home ownership dream is likely to remain just that in many cases.

Fig. 11: Low incomes a hurdle for property acquisition at an early stage



Source: Swiss Federal Statistical Office, Credit Suisse
Last data point: 2019

Fig. 12: Declining home ownership rate of young adults



Source: Swiss Federal Statistical Office, Credit Suisse
Last data point: 2017

Operator models in vogue

New forms of habitation for young adults have emerged in recent years, and have caught the eye of investors looking for alternatives. Up until now, these have been found predominantly in very central locations, and often involve operator concepts.

New forms of habitation tally with the zeitgeist of young adults, ...

In many cases, young adults are prepared to forgo individual living space in order to be able to reside at the heart of the city. Over the next few pages, we look at three habitation forms that are geared around this target group: microapartments, co-living, and student housing. These new types of living arrangement are very similar residential concepts that have arisen from the same trends, and are difficult to distinguish from where living space is expensive and in short supply. The efficient use of scarce living space is therefore a constant in all these variants. This ensures that these offerings ultimately remain affordable for users thanks to their lower consumption of space per capita, while at the same time providing incentives for investors to get involved in this segment.

... as they provide answers to various trends

The new habitation forms incorporate a number of trend themes and evolve with the age. Specifically, the mantra “less is more” has been gaining in popularity for quite some time, particularly as this living concept also takes into account the need for sustainability. Furthermore, digitalization makes it possible for people to get by with less space: In the age of streaming and sharing, many goods no longer need to be physically possessed, which saves on space. However, perhaps the most important trend remains digitalization itself, which is impacting our lives much more strongly than we might sometimes think. The digital interfaces of new housing constellations offer tenants straightforward contractual arrangements, rapid processing, and a great deal of flexibility – which is very much the order of the day. In addition, tenants can also be offered many additional and for the most part customized services, as in the era of apps tenants have become used to obtaining an increasing number of goods and services at the touch of a button. They therefore expect this benefit from an apartment too.

Not just for the young

Although the new forms of habitation have initially found their market in younger homeseekers in particular, there is absolutely no reason why they should be restricted to this target group. Young people are often the ones to first pick up on new trends. Moreover, as digital natives they are easier to attract for such offers via digital sales channels. However, older age cohorts are also subject to the same trends, and should therefore likewise be receptive to offers of this kind. When it comes to acceptance, it is not so much the age of the individual as their attitude and outlook that makes the difference. Accordingly, larger target groups and those with greater purchasing power are also a fit for these concepts.

Investors gratefully buying into new concepts

In an environment of low and even negative interest rates, investors are looking for alternatives to conventional apartment blocks, where the downward pressure on yields has already reached a very advanced stage. They have therefore picked up on these new niche segments with alacrity, launching an increasing number of projects in this highly promising market. They are doing this in the knowledge that simply making living space available is no longer enough in many cases. These new forms of habitation therefore provide an opportunity to gain greater experience of operator models. The coronavirus crisis is also likely to have acted as a catalyst, particularly as numerous commercial premises are confronted with higher vacancy risks, and hence a number of interesting use conversion options are being exploited in favor of these new forms of habitation.

Lower rent thanks to minimum space

Microapartments reduce living costs in expensive central locations. This makes this form of habitation very interesting for young adults, providing an answer to the call for more affordable accommodation in the urban environment.

Maximum function, minimum space

Microapartments are increasingly becoming a smart alternative to conventional small apartments in central locations. Microapartments typically offer floor space of between 20 m² and 30 m². Despite offering minimal space, the tenant can nonetheless be offered a fully equipped apartment with bathroom, kitchen, and sleeping/living area. A functional and smart setup helps to exploit the little space available to best effect. A popular new feature – as offered by the MOVEMENT interior design concept, for example – is the electronically slidable module that can adjust the area available to the desired living situation at the press of a button. In keeping with this design concept, such properties are also often fully or at least partially furnished.

Focus on individuality

In many cases, concepts of this kind can expand the limited private space available through shared space elements – such as roof terraces, fitness rooms, and lounges that open up social contact possibilities. In contrast to the co-living and cluster apartment concepts, however, the focus of microapartments is on the resident's independence and flexibility, rather than any community concept.

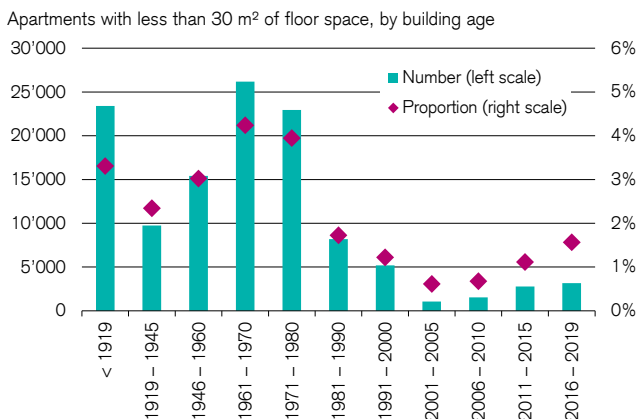
Rise in construction of mini-apartments

The rise in demand for mini-apartments has not been matched by supply, which remains limited. Only in the last few years has there been a rise in construction activity for apartments offering less than 30 m² of floor space (Fig. 13). However, many of these newly built properties are still traditional one-room apartments rather than functional microapartments. The largest offering of apartments with less than 30 m² of floor space is to be found in major centers (Fig. 14). The many properties of this kind located in tourist regions are typically used as staff apartments by local hotels.

Structural change increases conversion potential

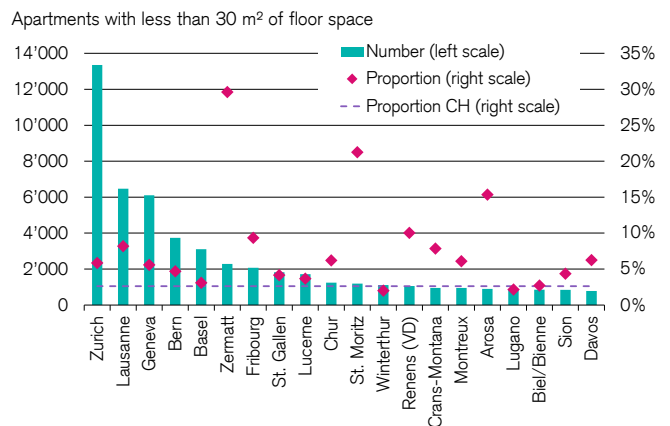
We see potential for microapartments first and foremost in cities, where prices are high and vacancy rates low. The target group includes young career starters, “business nomads”, and individuals with a minimalist lifestyle. Crucial to success are a central location and very good public transport connections. In view of the accelerated structural change in commercial property, where high vacancy rates are often a major factor, the conversion of properties into microapartments may be an elegant way of making these buildings commercially viable in the future. However, local zoning regulations and codes will have to be taken into account, and these will differ from municipality to municipality.

Fig. 13: Increasing construction activity for mini-apartments



Source: Swiss Federal Statistical Office Last data point: 2019

Fig. 14: Many mini-apartments located in cities and tourist municipalities



Source: Swiss Federal Statistical Office Last data point: 2019

New habitation form on the up

Co-living is a modern habitation form in which tiny private apartments are combined with community areas, and the community – just like with co-working – is the key to social interaction.

Focus on community

Co-living describes a combination of privately used apartments with 1-2 rooms (frequently fitted with a bathroom and kitchenette) that are connected to community areas – such as a kitchen, living room, hobby room or roof terrace – where the community interacts. A distinction can be made between two principal types: commercial co-living spaces and cooperative cluster apartments. The former offer a worry-free package for a fixed period of time with furnished apartments, quasi-hotel services (WLAN, cleaning, power, etc.) and communal events organized by the community managers, but at higher prices. By contrast, cooperative cluster apartments facilitate cost-effective living, as the apartments are not furnished and the individual households organize themselves.

Growing demand for communal forms of living

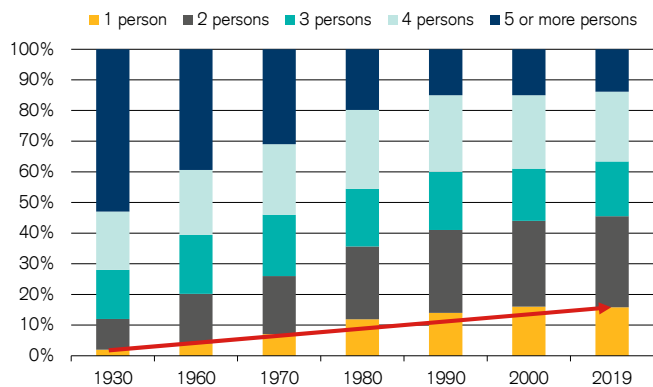
These new living arrangements, which combine private small apartments with life within a community, are very much in keeping with the spirit of the age. Over the last few decades, there has been a gradual trend away from large traditional households to smaller households of 1-2 persons (Fig. 15). At the same time, the desire for greater community is on the rise not just among millennials, but also in other generations. Co-living offers a fitting solution in this respect. In addition, commercial co-living spaces with their fixed-term, uncomplicated all-in rental agreements meet the growing need for greater flexibility. They offer people the ability to live comfortably and in an untethered way, while at the same time having social contacts and not having to waste time finding living space. The tenant structure of co-living arrangements can be very multifaceted, potentially comprising not just singles and freelancers but also the elderly, for example (Fig. 16). For that reason, demand for co-living solutions can be expected to rise further over the coming years.

From hotel to co-living space

However, commercial co-living spaces remain a recent phenomenon in Switzerland. Although the first cooperative cluster apartment was realized in a newbuild back in 1995 (residential cooperative "Kraftwerk 1" in Zurich-West), commercial co-living spaces have taken a decisive step forward during the coronavirus pandemic. While similar recreation spaces existed prior to the pandemic in the Alpine region (e.g. Grimentz, Bourg-Saint-Pierre), it was only in the last year that co-living spaces came onto the market in Swiss cities (Zurich, Basel, Lugano). Due to the dire situation in city tourism during the coronavirus crisis, hotels were increasingly being converted to co-living spaces (e.g. X-TRA in Zurich, Fly Away in Kloten), while other hotels expanded their offering to include co-living (e.g. Hyve in Basel, Allegra Lodge in Kloten). In addition, further co-living offerings are now springing up in other cities (e.g. City Pop in Lausanne, Geneva and Bern).

Fig. 15: Growing proportion of one-person households

Persons in households, by size of household

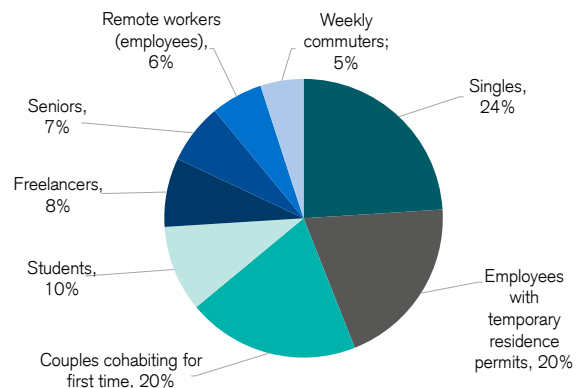


Source: Swiss Federal Statistical Office, Credit Suisse

Last data point: 2019

Fig. 16: The highly multifaceted user structure of co-living

Residential structure of co-living provider City Pop at Swiss locations



Source: City Pop

Cheap housing wanted

Students are a rapidly growing source of demand for living space in the city. However, as their financial means are limited, so too are the forms of habitation that can be offered to them.

Students an important target group

There are around 265,000 students in Switzerland. 52.8% of them are under 25, which makes them an important source of demand for living space for the young. During their studies, many students work either only part-time or not at all. And while 73% are in gainful employment parallel to their studies, they only work 9.7 hours per semester week on average. As a consequence, the median student has just CHF 2,048 (2016) available a month, of which 39% is employment income. 52% of their financial support comes from family.

“Hotel Mum and Dad” the most popular option

Their low income is also reflected in their residential situation: In 2020, 41% of all students still lived with their parents (Fig. 17). This proportion has risen steadily since 2005. Accordingly, 59% of students look for residential accommodation on the open market. In 21% of cases they opt for an apartment share, which in 2016 came at a monthly cost of CHF 647 per student. While the proportion of apartment-sharing students has been declining steadily for the last 15 years, the number living in student halls of residence over the same period has more than doubled, and currently stands at 10%. The monthly living costs here amounted to CHF 568 in 2016. Another 10% lived alone, paying on average a much higher monthly rent of CHF 938.

Growing demand segment

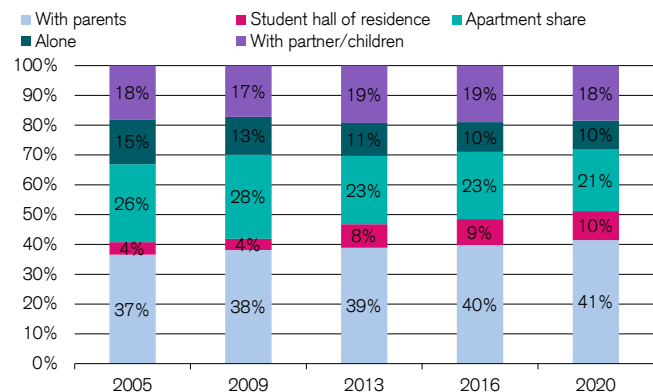
Over the last few years, it has not just been associations and cooperatives that have targeted students with furnished small apartments and halls of residence, but increasingly also private and institutional investors. However, cheap living space remains in short supply in the vicinity of many tertiary education institutions. What’s more, demand from this segment is set to increase further over the coming years. According to the reference scenario of the Swiss Federal Statistical Office, the student community is likely to swell by an additional 30,680 young people between 2020 and 2029 (Fig. 18).

Restrict investment focus to major urban centers

Thanks to rising demand and a limited offering, student housing will remain an interesting niche for real estate investment. However, the spectrum of possible investment locations is restricted to just a few cities that are home to a university, a university of applied science, or a teacher training college. Accordingly, we recommend focusing only on the larger tertiary education locations for two reasons: First, the potential at smaller locations is likely to be only limited, which brings with it the risk of high vacancy risks if there is competition from other projects. Second, it is basically only in the major cities that Switzerland has a shortage of living space, which is an important driver of demand for rooms in student halls of residence.

Fig. 17: Student housing in Switzerland gains in significance

Forms of student habitation, proportions in %

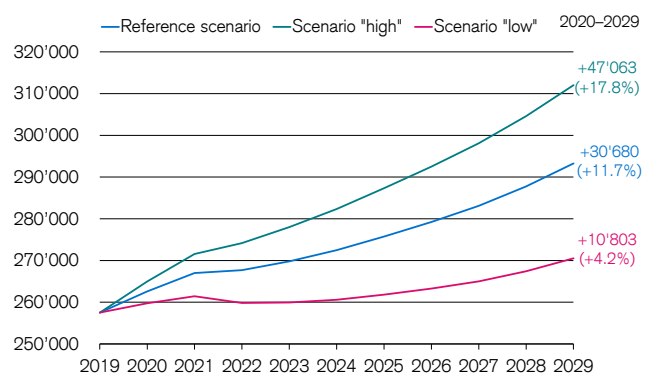


Source: Swiss Federal Statistical Office

Last data point: 2020

Fig. 18: Number of students likely to rise further

Expected development of number of students; 2020 to 2029: forecast



Source: Swiss Federal Statistical Office

Last data point: 2019

Residential real estate market

Owner-occupied housing sees unbroken price growth

The momentum of owner-occupied property prices accelerated further at the start of the year. Within the space of 12 months, the prices of single-family homes rose by 5.5% and those of condominiums by 5.9%. The reason for this strong growth lies in the surge in interest for owner-occupied housing as a result of the pandemic, combined with the decline in supply over the last few years. This situation is unlikely to change any time soon. However, upside price potential is limited by Switzerland's strict regulatory financing requirements. We are therefore expecting price momentum to flatten off. For the year as a whole, we are expecting the prices of single-family homes and condominiums to rise by 4% and 3% respectively.

Newbuild activity continues to decline

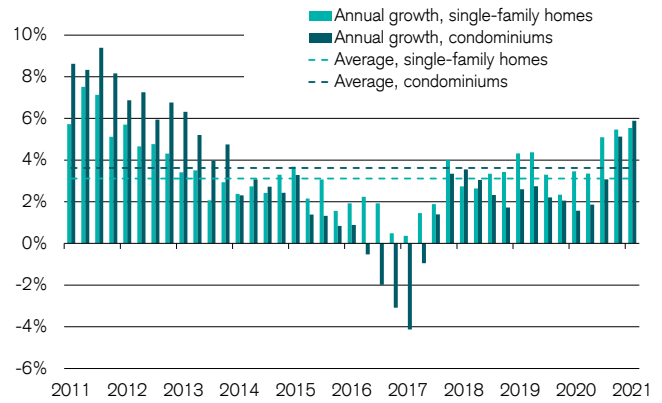
The boom in rental apartment construction of the last few years has definitively passed its peak. Within the space of a year, the number of approved apartments declined by a further 2.4%. At -13.1%, the decline in the number of submitted planning applications was even greater, which suggests this trend is set to accelerate. That said, rental apartment construction activity remains brisk in many places. By contrast, building permit issuance has recently stabilized at a very low level for condominiums (+0.1%) and single-family homes (+1.0%). However, current planning application volumes point to an imminent resumption of the downward trend for both condominiums (-9.6%) and single-family homes (-2.1%).

Advertised rents under pressure

The downward pressure on rents has accelerated in the wake of the coronavirus crisis. According to Wüest Partner, advertised rents declined by 2.4% in the first quarter of 2021. The index published by the Swiss Federal Statistical Office, which reflects rental price developments for the entire stock of rental accommodation, has increased only slightly (+0.4%). The main reason for the waning of rental price dynamism is likely to be the economic uncertainty felt by many households. Given the clear evidence of economic recovery, robust immigration, and a gradual slowdown in construction activity, we are expecting rental price development to stabilize over the remainder of the year.

Fig. 19: Residential property price growth, mid-range segment

Annual growth rates; dotted lines: average 2000 – 2020

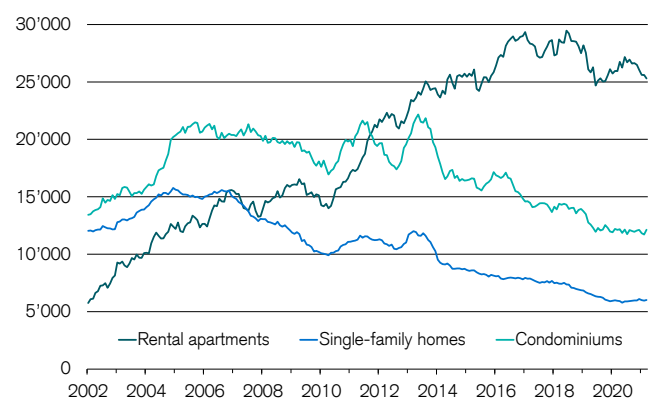


Source: Wüest Partner

Last data point: Q1/2021

Fig. 20: Building permits by segment

Moving 12-month total, number of residential units

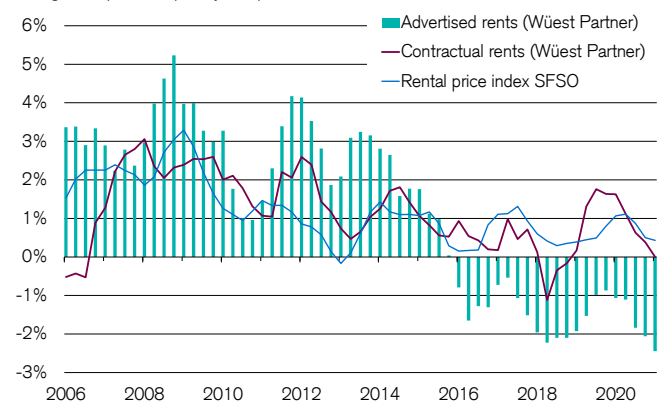


Source: Baublatt, Credit Suisse

Last data point: 03/2021

Fig. 21: Development of rents

Change compared to prior-year quarter



Source: Wüest Partner, Swiss Federal Statistical Office

Last data point: Q1/2021

Commercial real estate market

Demand for premises weak despite stable office employment

Annual employment growth was in negative territory (-0.4%) in the fourth quarter of 2020. This was primarily attributable to the decline in employment in the hotel and catering industry as a result of COVID-19 restrictions. By contrast, a number of sectors with a relatively high proportion of office workers – such as financial services, IT/communication, and health/public services – recorded a rise in headcount. Nonetheless, demand for office premises remains very weak, as many companies are not yet in a position to precisely define their future space requirements following the breakthrough of the home office, which is why they are also refraining from signing new leases.

Building permit issuance too high given subdued long-term demand

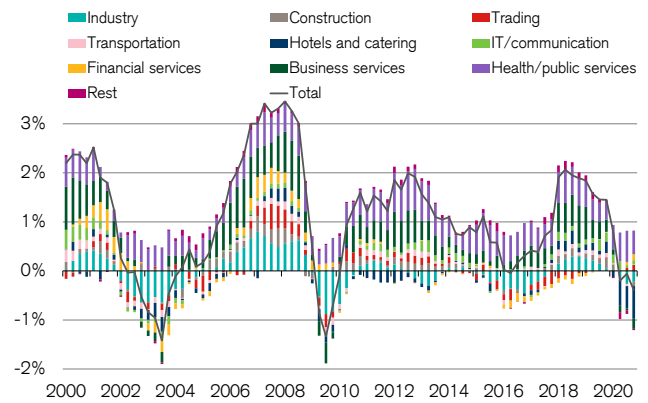
At CHF 1,859 million, the 12-month total of building permits issued for office projects has once again fallen below its long-term average. In the medium term, however, we believe even this level is a bit too high in view of the likely weakness of long-term demand for office space. For that reason, vacancies can be expected to rise and rents to decline for quite some time. Particularly affected by this development are the less sought-after office markets of the urban periphery. By contrast, demand for properties in central locations is likely to be affected less severely. Companies will increasingly prefer central office locations as a way of encouraging employees to return to the office as much as possible after the pandemic.

Clothing stores suffer most from the pandemic

In the first three months of 2021, the retail trade was heavily overshadowed by the renewed closure of restaurants and shops selling non-essential goods. Compared to the situation prior to the pandemic (2019), the sectors that benefited most from lockdown were DIY/garden/auto accessories (+31%), home electronics (+20%), and food (+17%). Just like last year, the big losers were clothing and shoe retailers. This sector can be expected to benefit from certain catch-up effects as the COVID-19 situation improves. However, a proportion of sales has migrated permanently from brick-and-mortar retail to the online trade, which is why retail operators will continue to find life tough even after the pandemic.

Fig. 22: Overall employment by business sector

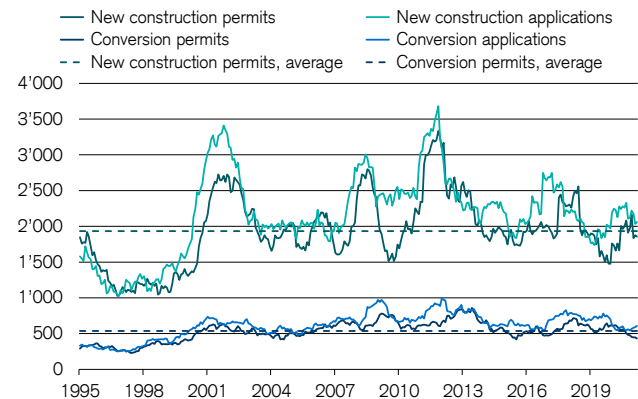
Annual change in the number of employees (full-time equivalents), in %



Source: Swiss Federal Statistical Office, Credit Suisse Last data point: Q4/2020

Fig. 23: Planned expansion of office space

Building permits and planning applications, moving 12-month total, in CHF mn

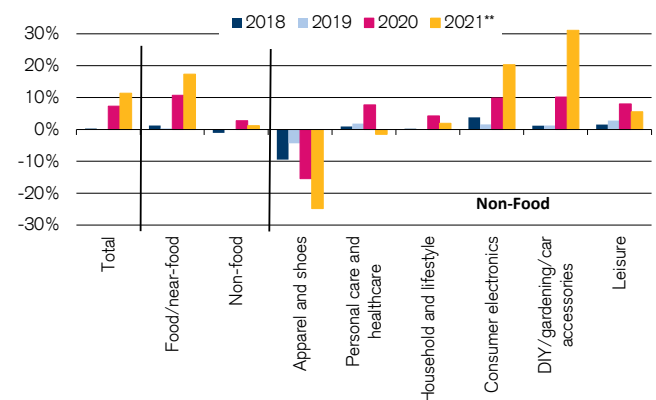


Source: Baublatt, Credit Suisse

Last data point: 03/2021

Fig. 24: Retail sales of major retailers

Nominal growth of retail sales in year-on-year comparison*



* season and sales-date adjusted

** January – March 2021 compared to January – March 2019 (due to 2020 lockdown)

Source: GfK, Credit Suisse

Last data point: 03/2021

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