

COMMERCIAL REAL ESTATE

SWITZERLAND



Continuing with our feature report on Commercial Real Estate, *Lawyer Monthly* here speaks to Dr Wolfgang Müller MBA, partner and Dr Christian Eichenberger LL.M., MRICS, senior associate in Meyerlustenberger Lachenal's real estate department. Both have in-depth experience in the areas of real estate law. As one of Switzerland's leading law firms with offices in Zurich, Geneva, Zug and Lausanne, Meyerlustenberger Lachenal is present in the most important economic centres in Switzerland, as well as operating an office in Brussels to assist clients with their needs as related to EU regulation.

Cushman & Wakefield's European Real Estate Loan Sales Market Report has stated that there was €12.2 billion of closed European commercial real estate loan and real estate owned transactions in Q1 2015. Have you witnessed a rise in activity in Switzerland recently?

The situation in Switzerland was different than in other European countries; in Switzerland, it was always possible to get a reasonable mortgage, even during and immediately after the financial crisis of 2008/2009. However, some banks tended to lend money too easily. Consequently, concerns were raised that the expansive mortgage credit policy of some banks could contribute to a bubble in the real estate market. For this reason and given the persistence of the low interest rate environment certain measures were introduced by the Swiss National Bank (SNB), in particular aiming at the residential property market. Hence, banks were in the recent past and are expected to be even more so in the future forced to be more reluctant to lend money. The anticipated and desired result of such reluctance – a slowdown – is at least for some areas of the residential property market widely considered to be a positive development.

However, investor appetite for real estate continues to be strong in Switzerland. This is especially true against the backdrop of the fact that the SNB has recently imposed an interest rate of -0.75% on sight deposit account balances at the SNB, i.e. a negative interest, with the aim of taking the three-month Libor into negative territory. Especially on the part of institutional investors such as pension funds and insurance companies, such imposition of negative interest rates is likely to contribute to an increase in demand for real estate investments, since – for the time being – the returns still look attractive compared to bonds with good credit ratings.

To sum up, although real estate markets in other European countries have certainly taken up speed, demand for Swiss properties is expected to remain strong.

What are the biggest challenges facing the Swiss commercial real estate market currently?

There is a risk of overproduction in some sectors of commercial real estate in certain areas in and around big cities (such as Zurich). Strong construction activity has already resulted in increased vacancies and such overproduction could lead to more vacancies, falling rents and, ultimately, higher loan defaults.

How do you help clients overcome these challenges?

We assist our clients with tailor-made advice which we provide not only based on our in-depth knowledge of the law, but also based on our first-hand knowledge of the real estate industry and recent trends in such industry. Last but not least, we also put our clients into a position in which they can take advantage of our broad real estate network.

How has the market changed since you were called to the Swiss bar in 1993?

After a boom phase in the 1980s the Swiss real estate market was in a deep crisis in the 1990s. In 1993 mortgage rates were as high as 6 to 7 % pa. Today, we are maybe at the top of a real estate boom that lasted almost 15 years. Interest rates are historically low and it has become more and more difficult for investors to find suitable targets for real estate transactions at reasonable prices.

What attracts buyers to look to commercial property in Switzerland as an investment?

On the one hand – as already mentioned – returns still look attractive compared to other asset classes. On the other hand, the volatility of such an investment is also appealing because vacancies are rather predictable (and compared to other countries still low) in most areas and sectors of the commercial real estate market in Switzerland.

Have there been any recent regulatory changes that have affected your work?

Yes, there have been many changes recently and we

expect the activity of legislators to persist in the future. Recent changes in legislation were related to such important issues like environmental law, second homes and planning and zoning law.

Do you see the need for any changes? If so, please explain.

Over the past years some popular initiatives on a federal level have been voted on that likely infringed not only with fundamental human rights to different extents but potentially also had an adverse impact on the real estate industry.

One of the latest examples is the Peoples' Party's initiative against "Mass Immigration" which was accepted by the Swiss electorate in an extremely tight vote on 9 February 2014. The initiative commands the Swiss government to renegotiate the bilateral EU-Swiss "Treaty on the freedom of movement of persons" within three years and it demands the return to the system of limited immigration quotas which was in place earlier. It is needless to say that this initiative could have a negative impact on the Swiss economy in general and the real estate industry in particular.

In our view the introduction of stricter checks and/or higher hurdles (e.g. increase of the number of signatures to be collected) for the launch of popular initiatives on a federal level should become a top priority on the political agenda. Such stricter checks and/or higher hurdles for the launch of popular initiatives could contribute to preserve one of Switzerland's great strengths which is to provide investors with stability and predictability as to changes in the regulatory framework.. **LM**



Contact:

Dr. Wolfgang Müller MBA - Partner
wolfgang.muller@mll-legal.com

Dr. Christian Eichenberger, LL.M., MRICS
christian.eichenberger@mll-legal.com

Meyerlustenberger Lachenal
Forchstrasse 452, Postfach 1432
8032 Zürich, Switzerland

T +41 44 396 91 91
F +41 44 396 91 92
www.mll-legal.com

meyerlustenberger | lachenal