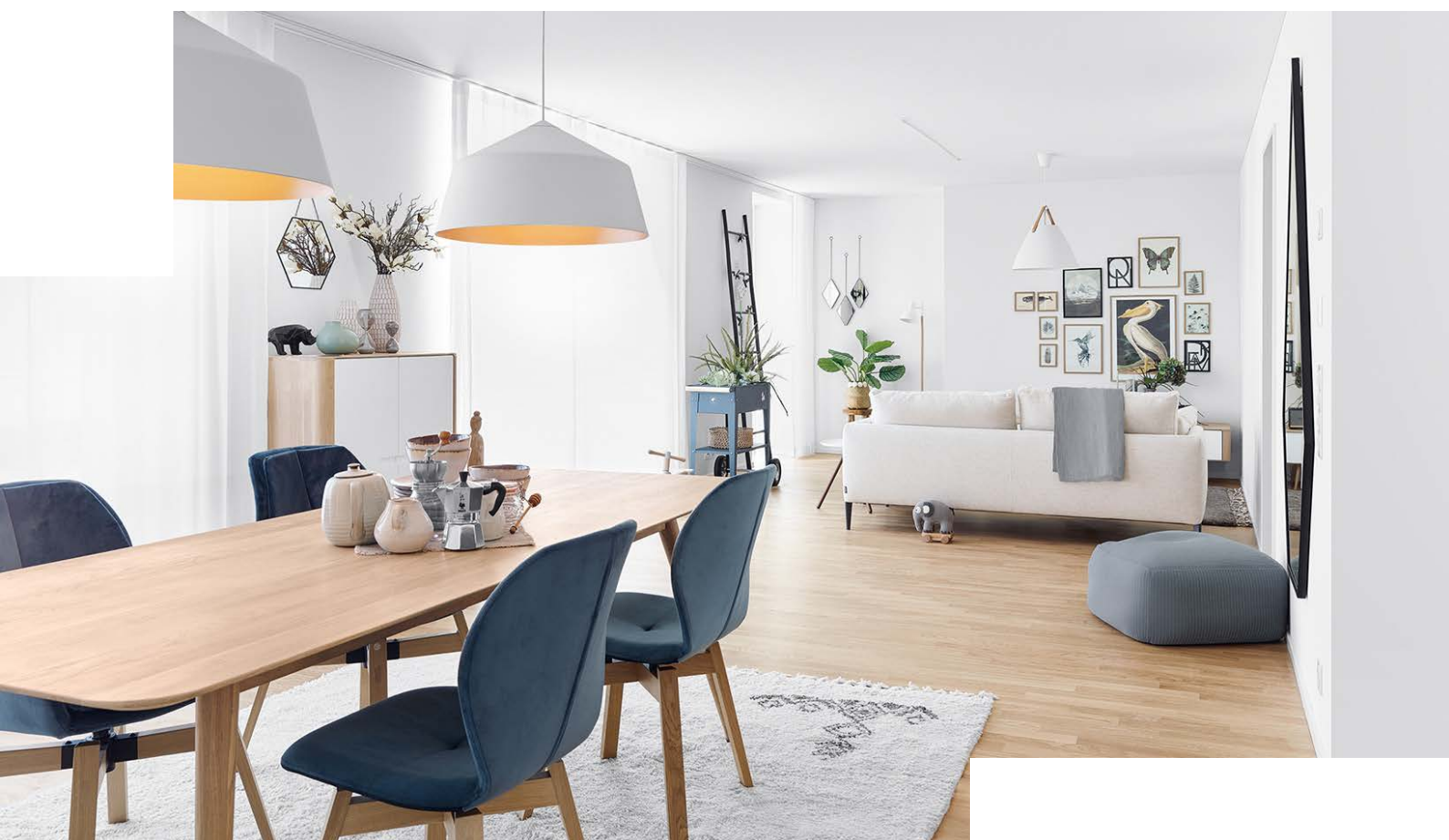


Home Sweet Home

Swiss Real Estate Market 2021 | March 2021



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Digitalization as decoder of demand

The digitalization of all walks of life opens up opportunities, allowing key information to be more easily compiled and evaluated. For example, the consequences of COVID-19 for the housing market can be better evaluated.

Demand data has been a long time coming

Lots of information has long been available on housing supply, but demand has remained largely in the shadows. For decades, demand preferences were mostly only indirectly measurable (e.g. via vacancy data). While statistics such as the structural survey of the Swiss Federal Statistical Office provide indications on household living space, they suffer from the problem that households do not necessarily have the amount of living space that they would like. In addition, the time lag between survey and publication of the corresponding data is often significant. Surveys on demand behavior – such as the NZZ's Real Estate Barometer – are helpful up to a point, but are based on small sample sizes and thus make regional conclusions difficult to draw.

From the analysis of clicks ...

The precursors of digitalization in the real estate market were property websites. As these made huge inroads into the residential property advertising market around the turn of the millennium, new data analysis opportunities started opening up, particularly as home seekers left a trail in these digital channels. Analysis initially focused on what online searchers were clicking on. This allowed conclusions to be drawn as to what was eliciting interest. The information remained incomplete, however, as in the absence of the desired offer, there was nothing to click on. Moreover, this approach did not yield information on a searcher's price ceiling.

... to the evaluation of online property search registrations

The growing number of residential property advertisements then gave rise to registrations for online property searches, as these give users rapid and customized information on properties of interest. Users have to enter their true preferences to obtain meaningful information. The Swiss proptech company Reamatch360 was the first company to perceive the value of this information: Since February 2014, it has been (anonymously) analyzing the search registrations of the largest Swiss property websites and promptly making this data available to clients. More than a million active search profiles are now investigated every day, facilitating detailed regional analyses. The specific focus here is the data available on the rental and owner-occupied housing markets.

Data cleansing a challenge

But in order for meaningful results to be arrived at, a number of challenges needed to be cracked. To identify and "cleanse" (i.e. correct) missing, duplicate, and misleading information, smart algorithms are required. The dreamer searching for a large, modern, single-family home in the city of Zurich for less than CHF 700,000 tells us nothing about actual demand or real price ceilings. In addition, real estate marketers and brokers who themselves maintain property search registrations in order to observe the market need to be removed from the dataset. Ultimately, only around 200,000 search profiles are really used every day.

Data extremely up to date

Modern data processing methods allow property demand data to be made available promptly. For example, Reamatch360 updates its products on a weekly basis, and for good reason: Around 10,000 adjustments to property search registrations are made across Switzerland every day (new registrations or adjustment/deletion of existing registrations). On average, these run for between two and three months for rental property and at least twice that long for property to buy.

Case study 1: Demand shifts due to COVID-19

The COVID-19 pandemic showed how important it is to access data as rapidly as possible when evaluating a situation. Thanks to the valuable assessment of search profiles, statements backed by real data can now be made on whether and how COVID-19 has changed demand for housing. For example, there has been an increase in searches for apartments and houses to buy, and fewer for rentals (Fig. 17).

“Home sweet home” reigns supreme

Moreover, a shift in preferences is also evident within individual segments. Demand is increasingly focused on medium-sized and large homes (rental/condominium: ≥ 3 rooms, single-family home: ≥ 5 rooms) (Fig. 17). In other words, aspirations have risen, meaning less frequent searches for cheaper properties compared to those in the middle and upper price segments. Furthermore, the desire for rental apartments to have outside space (balcony/terrace) spiked briefly following the lockdown. Explicit demand for parking spaces with property to buy or rent has also become more common. All of this suggests that as people have spent more time at home since the onset of COVID-19, there has been a marked increase in the desirability of properties that meet specific user needs, are compatible with changed user behavior (more time spent at home, home working), and deliver that feel-good factor.

COVID-19 has also produced spatial shifts

Since the outbreak of the pandemic, residential property hunters have shown greater interest in municipalities outside of the large centers and surrounding urban areas (Fig. 18). However, as 50.4% of all searches remain focused on rental apartments in a large center or surrounding area, with the decline in demand amounting to just 1.9 percentage points here, it can hardly be said that people are looking to move out of the city. Where buyers are concerned, by contrast, the move toward the periphery is more pronounced. As we explain in the “Owner-occupied housing” section (page 9 f.), this trend could even become more accentuated due to high real estate prices in central locations and the paradigm shift toward home working.

Demand tracking essential

The COVID-19 pandemic has changed demand preferences, at least temporarily. The sustainability of such trends will not become clear for several quarters or even years, however. It will therefore remain crucial to observe demand continuously, rather than drawing false conclusions based on snapshot pictures.

Rapid delivery of findings – thanks to simple tools

Detailed analysis of search profiles can also throw up fascinating results regarding local demand. However, developers and brokers frequently do not have the time to conduct their own analyses. Simple (web) apps such as the one we describe below can provide these market participants with the information they desire with just a few clicks of the mouse.

Case study 2: Identifying price ceilings

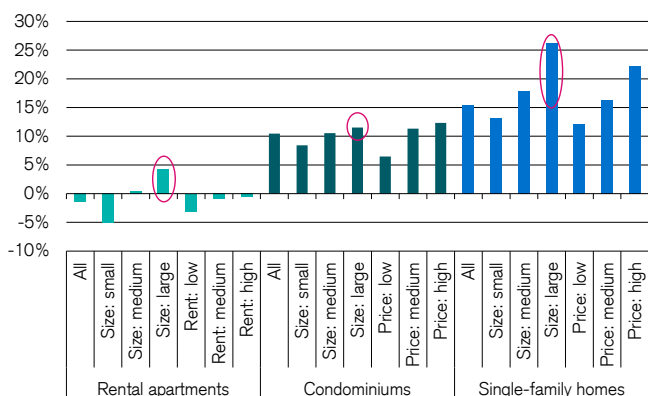
As mentioned earlier, search registrations provide local information on what residential property hunters can afford to pay. As just a few francs more or less per square meter can make the difference between how easy or difficult it is to rent out a property, precise information is gold dust for owners, property developers, marketers, and brokers. And thanks to modern web apps, this need can be met. We demonstrate this below using the example of Realmatch360’s “Pricesetter”, an application that gives information on searcher’s willingness to pay.

Identifying “price cliffs”

Figure 19 shows local affordability (as per Pricesetter) of a rental apartment with four rooms in Zurich Oerlikon, Uster, und Wetzikon. This shows that a targeted gross rent of CHF 2,500 will reach 68.7% of all online searchers in Zurich Oerlikon. The proportion sinks to 37.7% in Uster, and to just 17.6% in Wetzikon. What matters here are so-called “price cliffs”, where the proportion of searchers suddenly drops dramatically with just a slight rise in price. In Zurich Oerlikon, price cliffs of this kind can be observed above CHF 3,000 and CHF 3,500 (Fig. 19). In other words, significantly fewer home-seekers will get to see a property advertisement that is only slightly more expensive.

Fig. 17: Large apartments in greater demand since COVID-19

Change in demand indices: 02/2020 – 12/2020

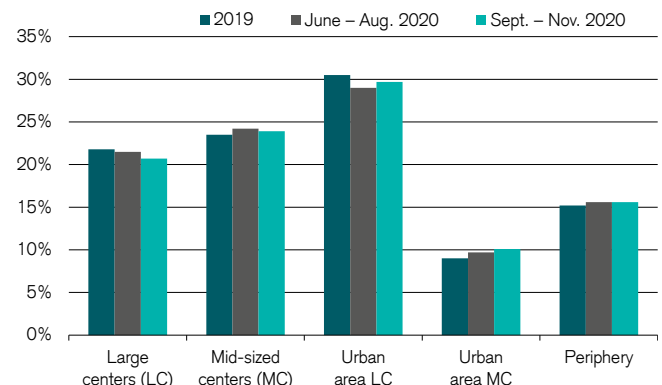


Source: Realmatch360

Last data point: 12/2020

Fig. 18: Large centers (incl. wider urban areas) less in demand since COVID-19

Distribution of rental property search registrations by municipality type



Source: Realmatch360

Last data point: 11/2020

Ascertaining the optimum rent

If additional information on the marketed property is provided – such as age, condition, area, location, and fitout/features – the optimum rent can be ascertained. This involves use of a hedonic price model that takes into account a property’s qualitative features. Figure 20 illustrates this using an example of a four-room rental apartment in the town of Bienne. For a newbuild offering 110 m² of living space in an average micro-location with standard features, a gross monthly rent of CHF 1,850 is recommended. By contrast, the optimum newbuild rent in a very good micro-location with upscale features is CHF 2,090.

Property-seekers typically enter a higher price ceiling than they can afford

Statistical models such as those used in Pricsetter have their limits, however. For example, they are ill-suited to evaluating luxury or “must-have” properties. When it comes to what searchers’ willingness to pay, it should also always be borne in mind that people typically enter a ceiling that is somewhat above what they can or want to afford. On average, the maximum price entered in property searches is 6.7% above what is feasible. Why? Because people do not want to miss out on their dream home just because it was slightly beyond their budget.

Only integration untaps full potential

While an app can provide valuable services for individual inquiries, using such tools manually is time-intensive for high data volumes, and often inexpedient. What’s more, with the inexorable rise of digitalization, an ever-increasing number of tools may offer companies interesting services, but they frequently remain stand-alone applications. In other words, such tools cannot communicate with one another, and the results can often only be integrated into proprietary data holdings manually.

API solutions increase value of data

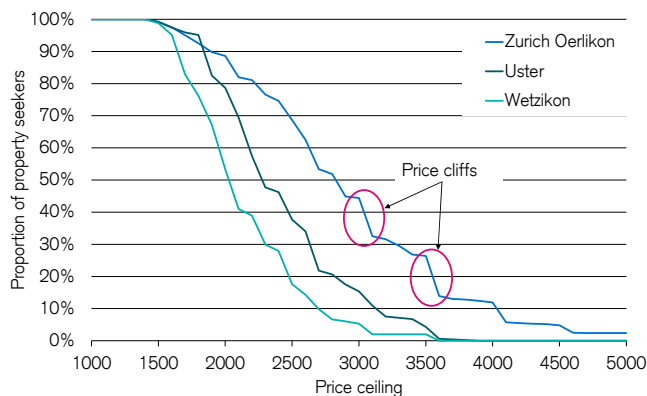
For this reason, large companies in particular expect such products to be made available via a so-called application programming interface – API. This facilitates the automated execution of inquiries and the transfer of results to proprietary systems, thereby avoiding system discontinuities. Realmatch360 already offers precisely such APIs. For example, a bank can use the Pricsetter application automatically for the risk monitoring of mortgage loans. If the price ceiling in a particular municipality falls below a defined threshold, this automatically triggers an alarm for properties in this location, and the bank can then seek out the underlying reasons.

Conclusion: Digitalization closes knowledge gaps

Digital analysis of demand behavior can act as a “third eye” – alongside supply and market data – to eliminate knowledge gaps in project planning and marketing. However, local property market expertise remains irreplaceable and other indicators should also be taken into account. Thanks to the increasing spread of APIs, the linking of different data sources is becoming easier, thus increasing the value of data analyses significantly and opening up new linking possibilities. Specifically, there is plenty of research left to be done in the area of demand behavior. For example, integration of the “Sinus-Milieus” (social/target group typology developed by the Sinus Institute) will help to deliver more precise analysis of the target audience. Furthermore, thanks to modern techniques such as machine learning and the incorporation of additional sources of data, it should be possible to generate new findings from search behavior – including for other segments. This is very much to be welcomed, particularly as – given the growing challenges facing the office and retail property markets – it is becoming increasingly important to learn more about demand behavior in these areas too.

Fig. 19: Identification of price cliffs

Price ceiling (gross rent in CHF/month) for four-room apartments

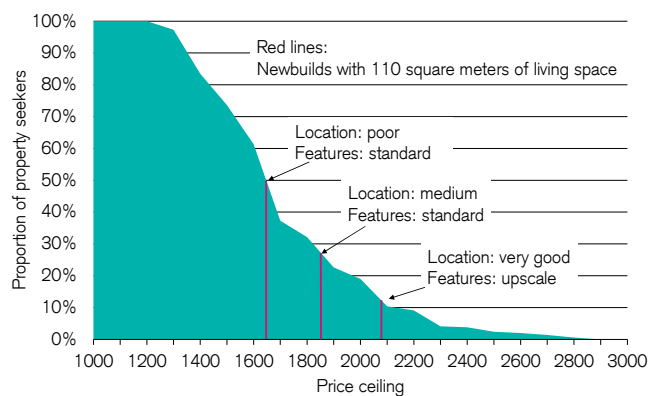


Source: Realmatch360, Credit Suisse

Last data point: 12/2020

Fig. 20: Determining the optimum rent

Price ceiling (gross rent in CHF/month) for four-room apartments in Bienne



Source: Realmatch360

Last data point: 12/2020