

# Where does the Swiss commercial real estate market stand today?

A talk with Giacomo Balzarini, CEO of PSP Swiss Property.



*Interview with Giacomo Balzarini, CEO PSP Swiss Property*

*Mr. Balzarini: How satisfied are you with the 2023 annual result?*

**Balzarini:** Very satisfied. We were able to significantly improve the operating result. In particular, we increased rental income by 5% to 331 million francs. The value of the portfolio rose from 9.4 billion to 9.6 billion francs and the vacancy rate was a low 3.6% at the end of 2023.

*Nevertheless, there was a portfolio devaluation by 161 million francs.*

**Balzarini:** This was due to external factors: Due to the rise in interest rates since autumn 2022, discount rates for real estate investments have also increased to a certain degree, which has led to valuation corrections in the market. However, these fluctuations are not so rele-

vant for us. We have enough substance to absorb and cushion such valuation fluctuations.

*How has the real estate market developed in recent months?*

**Balzarini:** In our two most important market segments, the business centers in Zurich and Geneva, demand for attractive rental space remained intact. However, the market remained challenging for older office properties in B and C locations as well as non-food retail space in secondary locations. However, this is not relevant for us – we have always focused on top quality in prime locations.

The transaction market for quality properties in good inner-city locations has hardly changed in 2023 in terms of

prices and initial yields. The yields required for such investment opportunities remain very low, despite higher interest rates. Despite the fact that the number of completed transactions has fallen significantly, there were enough to keep valuation levels stable.

*As you mentioned, you concentrate on properties in top locations in the most important economic centers. Are purchases in cities such as St. Gallen or Lucerne out of the question for you?*

**Balzarini:** Interesting properties are certainly coming onto the market time and again, in medium-sized cities as well. However, the question is what the situation will be like in such locations in five or ten years' time when it comes to follow-up rentals or new lettings. We

have decided to concentrate on the central business districts of Zurich, Geneva, Bern, Basel and Lausanne. This is where we see the most secure and greatest potential in the long term. We tend to sell properties in B cities rather than buying new ones. However, we are under no pressure to sell anything. We take our time. If an interesting opportunity presents itself, we buy or sell, otherwise we leave it alone. Our goal is always to continuously improve the quality of our portfolio and its resilience.

*What do you mean by improving or strengthening the portfolio's resilience?*

**Balzarini:** Our operating business is going extremely well. However, as a real estate company, we are, of course, also exposed to forces beyond our control – the interest rate environment, for example, or the general economic environment. The better we work on an operational level and the better we position our portfolio, the easier it is for us to absorb external shocks. Our portfolio is already extremely resilient to external influences; we saw this during the coronavirus pandemic, for example, which we overcame without any major problems. Ultimately, strengthening resilience means continuously improving the quality of our properties, optimizing the quality of our locations across the entire portfolio and attracting top tenants.

*To what extent could the takeover of Credit Suisse by UBS have an impact on your rental space?*

**Balzarini:** While the banks often have branches in close proximity to each other, our portfolio will hardly be affected by branch closures and corresponding vacancies.

*TX Group, which includes the Tamedia newspapers, has announced that it will close all its printing plants in Zurich, Bern and Lausanne in a few years' time. Are there any buying opportunities for you there?*

**Balzarini:** From today's perspective, this is unlikely. The locations are not what we are looking for. In addition, parts of some of the buildings are used for residential purposes, which doesn't fit in with our strategy either. Conversions would involve substantial invest-

## PSP Swiss Property

PSP Swiss Property is one of the leading real estate companies in Switzerland. The company owns a real estate portfolio of 162 properties and 11 development projects in the most important Swiss economic centers. The total value of the portfolio is 9.6 billion francs. The market value at the end of 2023 was around 5.2 billion. PSP Swiss Property is considered a "Great Places to Work" with around 100 employees in Zug, Zurich, Basel and Geneva.

In 2023, PSP Swiss Property received the award for the best growth strategy in the real estate sector in Switzerland from "Capital Finance International" due to its sustainable business orientation.

ments. I can't imagine that we could generate added value for our shareholders by buying these properties.

*Sustainability is one of the pillars of your business policy. Are there any new developments here?*

**Balzarini:** Last year, we once again achieved significant improvements at the property and the portfolio level. For example, we were able to reduce the specific CO<sub>2</sub> emissions of our portfolio by a further 13.3% per square meter of rental space compared to the previous year. In the 2023 annual report, we are now reporting for the first time in accordance with the requirements of the Taskforce on Climate-Related Financial Disclosures (TCFD), and we are communicating more detailed information on our assessment of the physical risks associated with climate change. Furthermore, our analysis (based on the assumptions of the Carbon Risk Real Estate Monitor CRREM) has shown that, from today's perspective, we are well on track with our portfolio to make our contribution to meeting the climate target of a maximum warming of 1.5°C. We have committed ourselves to achieving the net-zero target by 2050.

In addition, as per 1 January 2024, the variable, performance-related remuneration of the executive board was supplemented by an ESG factor. This is intended to align the performance-related remuneration also with our green asset portfolio and the sustainability goals of our business strategy in the long term.

*What does PSP Swiss Property's capital structure look like?*

**Balzarini:** As at 31 December, 2023, we had equity of 5.2 billion francs, corresponding to an equity ratio of just over 53%. Our loan-to-value is just under 35%. We therefore continue to have a very solid equity base. We currently have unused credit lines of 1.1 billion francs at our disposal. We have an A3 issuer rating from Moody's and an A3 senior unsecured rating with a stable outlook.

*What do you expect for your business in 2024?*

**Balzarini:** We are expecting another good year. In particular, we expect rental income in 2024 to be even higher than in 2023. This will be in part due to the indexation of rental agreements. But there will also be income from lettings in our development projects. Additional income will flow from the acquired "Westpark" office property in Zurich-West. Financial expenses will increase slightly due to the higher interest rate levels. The valuation of the properties will depend to a large extent on the transaction market, although we currently expect a stable development. We will continue to be selective in the market and take advantage of opportunities, if they offer the prospect of added value. We continue to expect a low vacancy rate of less than 4% at the end of 2024 – all in all, a good basis for our further development. This will allow us to continue our long-standing dividend policy with steadily slightly increasing distributions.

[giacomo.balzarini@psp.info](mailto:giacomo.balzarini@psp.info)  
[www.psp.info](http://www.psp.info)