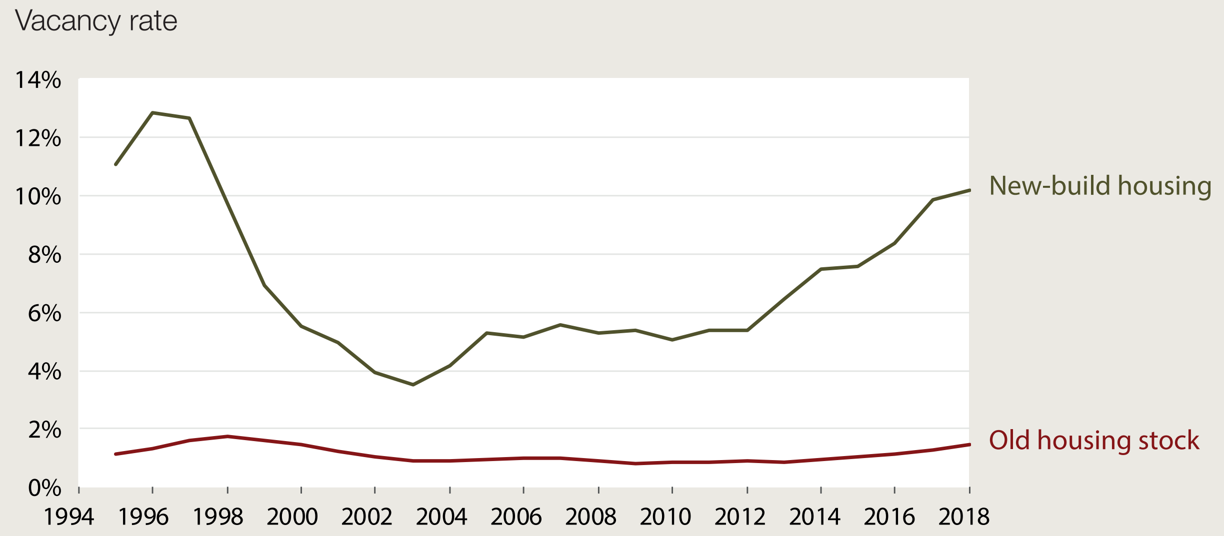
No. 3: Old structures are more economically stable

The construction industry has been warning of decay in the Swiss building stock for years and is calling for an increased renovation rate. Analyses of a building's state are seen as risk analyses: the older the property, the greater the risk that parts of the building fail – and therefore the riskier the property, according to the technical diagnosis. As the changes in vacancy rates over the last twenty years have shown, the economic reality is in fact the opposite, and nice and new buildings stand out for being expensive, in many cases too expensive.



Source: BFS, INREIM

One reason for this are tenancy laws, as existing rents can be adjusted to market developments much less than new rents can. The gap between existing rents and market rents therefore tended to increase as building ages increased. In Zurich and Geneva, this gap averages between 70% and 80% at present. That means that market rents would have to collapse to a degree barely even conceivable for the existing rents to stop being competitive.

Things are different at non-central locations, where the gap between rents is 10% to 20%. If new-build rents in these locations fall as a result of overproduction, newer but already somewhat less fashionable properties in the existing housing stock will quickly come under pressure.

This is why many apparently positive project developments and 'sustainability' renovations are barely worth the money at locations less in demand. Developments can prove advantageous in the short term since the numbers for them can be made to look better than stable, existing properties. However, value corrections may be shifted into the future by doing this.

So, what should be done? Maybe nothing at all. Buildings age entirely by themselves, and that is a disruptive business model of its own.

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