

## Swiss economy

### Economy set to slow down

Last year, the Swiss property market benefited from positive consumer sentiment and the favourable overall development of the economy. Driven by the dynamic export of services and strong private consumption GDP grew at 3.1% in 2007, above its long term average. However, prevailing conditions for Switzerland's economy have become less promising over the past months and more moderate growth of 1.9% in real terms is expected for the current year. Export activity is likely to decline due to the global economic slowdown, and the impact from the crisis in financial markets has already started to slow down employment growth in the service sector.

### The decline in unemployment is likely to come to an end

Overall employment is nevertheless expected to continue its upward trend in the medium term, albeit at a slower pace than witnessed over the last two years. Consequently the decline in Switzerland's unemployment, which currently stands at 2.3%, is likely to come to an end later this year.

### Interest rates have risen further

Due to inflationary pressures and the current crisis in financial markets, interest rates have risen further during the second quarter of 2008. Libor and SWAP rates have also increased when compared year-on-year.

### Significant drop in consumer sentiment

With consumer sentiment still positive but at its lowest level since the beginning of 2006, private consumption is expected to provide less support to general economic growth than in the recent quarters.

### Switzerland: Key indicators and change from last year

Population (2007)	7,591,400	↗
GDP growth, real (2007)	3.1%	→
GDP per capita (CHF, current prices, 2007)	69,700	↗
Unemployment rate (06/2008)	2.3%	↘
Total employment (FTE, 2008, Q1)	3,275,000	↗
Share of service employment (FTE, 2008, Q1)	70.2%	→
Disposable household income (CHF, 2006*)	71,700	↘
Inflation (2007)	0.7%	↘
New variable mortgage rate (05/2008)	3.4%	↗
10-year confederation bond yield (06/2008)	3.3%	↗
Libor CHF 6 months (06/2008)	2.97%	↗
5-year CHF SWAP rate (06/2008)	3.76%	↗
10-year CHF SWAP rate (06/2008)	3.88%	↗
Consumer sentiment index (2008, Q2)	+2	↘
Change in retail turnover, real (05/2008)	7.4%	↗

Arrows indicate the year-on-year change (throughout the whole document)  
\*most recent available data.  
Sources: BFS, SECO, IMF, SNB, UBS

## Office market

### Office market remained stable

The recovery in Switzerland's office market continued throughout the second quarter of 2008. Although employment growth in the service sector has slowed down, there is still enough momentum in economic activity to sustain demand for office space.

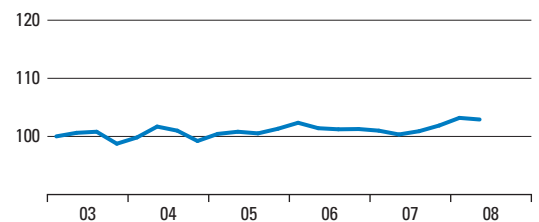
### Positive price development is levelling off

However, there are signs that the positive price development is starting to level off. Average asking prices in the Greater Zurich area, Switzerland's most important office market region, have reduced slightly during the second quarter of 2008 but remained stable in a year-on-year comparison. Prices for prime office space have largely remained unchanged since the first quarter of 2008, although a moderate decline was observed in the centres of Zurich and Basel.

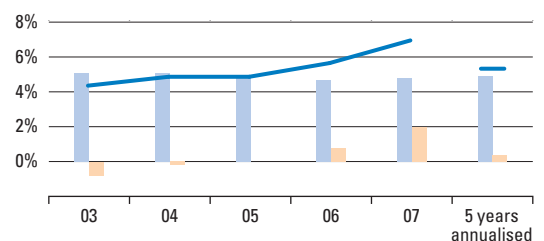
### Rising levels of office supply

Rising volumes of planning applications indicate that supply levels could expand again in the near future. With economic conditions deteriorating, an overall slowdown in office space take-up can be expected at the same time. The outlook for price increases is therefore subdued.

### Median asking prices (index Q1 2003 = 100)



### Total return (income return; capital growth)



	Office Stock (sq m, 2006)	Planning appl. (costs in m CHF)	Vacancy rate (2007)	Supply rate (2008, Q2)	Asking prices (Median 2008, Q2)	Prime rents (2008, Q2)	Prime yields (2008, Q2)
Zurich	8,745,500 →	368.3 ↗	4.3% ↘	8.0% ↘	280 →	1,050 ↘	3.9% ↗
Berne	2,000,700 →	213.2 ↗	1.2% →	6.7% ↘	230 ↗	450 →	4.2% ↗
Basel	4,151,700 →	51.8 ↗	1.4% ↘	4.8% ↗	220 →	530 ↘	4.3% ↗
Lausanne	2,035,300 →	99.3 ↗	—	6.2% ↗	250 ↗	400 →	4.3% ↗
Geneva	3,265,300 →	84.4 ↗	2.3% ↗	7.5% ↘	400 ↗	1,150 →	3.9% ↗
Switzerland	49,131,300 ↗	2,605.2 ↗	—	7.0% ↘	190 →	—	—

## Retail market

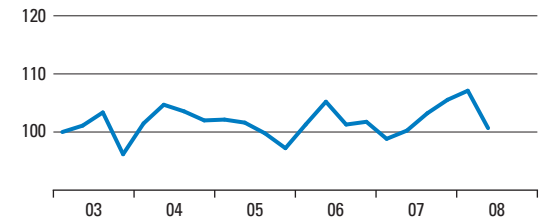
**Rents in the peripheral markets remain under pressure**

The Swiss retail sector continues to be shaped by structural changes, ongoing price volatility and regional disparities. Whilst top locations within the major centres continue to attract healthy levels of demand for retail premises, the market as a whole is saturated and retail premises in peripheral locations are being squeezed out due to the concentration of retail activities in major centres.

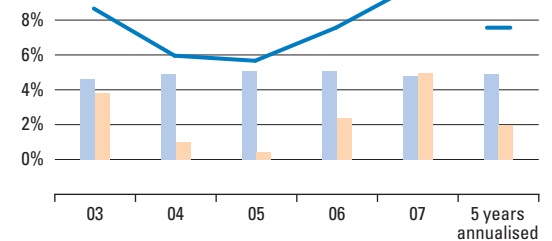
**Demand for prime space continues to support price development**

The ongoing expansion in retail floorspace has not had an impact on price development at the top end of the market, which is entirely driven by floorspace demand. Prime retail space in Zurich and Geneva remained at CHF 6,800 per sqm p. a. in Zurich and CHF 6,200 per sqm p. a. in Geneva during the second quarter of 2008. However, the drop in consumer sentiment combined with the economic deterioration could start impacting upon retail turnover growth and therefore affect the price development even at the high end of the retail market.

**Median asking prices (index Q1 2003 = 100)**



**Total return (■ income return; ■ capital growth)**



	Retail Stock (sq m, 2006)	Planning appl. (m CHF 2008, Q2)	Vacancy rate (2007)	Supply rate (2008, Q2)	Asking prices (Median 2008, Q2)	Prime rents (2008, Q2)	Prime yields (2008, Q2)
Zurich	1,817,100 ↗	0.3 ↘	1.0% ↘	1.7% →	320 →	6,800 →	3.8% →
Berne	875,700 ↗	15.1 ↗	0.2% →	2.8% ↗	320 ↗	3,500 →	4.0% ↗
Basel	830,500 ↗	10.0 ↘	2.1% ↗	3.0% ↘	260 →	2,900 →	4.1% ↗
Lausanne	457,700 →	7.5 ↗	— —	3.3% ↘	250 ↘	2,600 →	4.3% ↗
Geneva	618,700 →	0.0 ↘	2.8% ↘	5.1% ↘	330 →	6,200 →	3.8% →
Switzerland	30,995,900 ↗	880.8 →	— —	1.4% →	230 ↘	— —	— —

## Residential Market

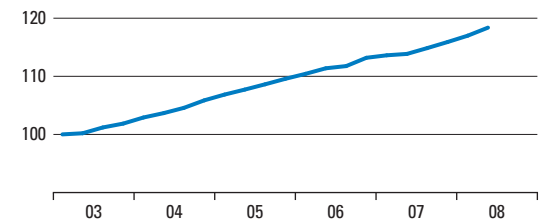
**New major developments in Zurich**

Construction activity in Switzerland's residential market is still at a high level, having peaked at 43,000 new apartments and single-family houses in 2007. The volume of planning applications indicates that housing construction will remain strong over the current year, particularly in the rental market. The city of Zurich has seen significant new construction activity, mainly concentrated around Zurich North, one of the city's major development areas.

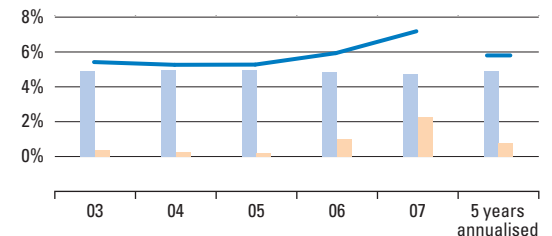
**Demand for prime rental apartments is slowing down**

Demand for rental apartments remained stable during the last quarter and has kept the average price development on a positive trend line. However, a cooling off in the top segment, particularly in Zurich, can be observed. Due to the gradual slowdown of employment growth in the service sector there is less demand for prime rental apartments that are aimed at skilled workers and expatriates from abroad. As a result, prime rents in Zurich have reduced from CHF 630 per sqm p. a. in the first quarter of 2008 to currently around CHF 600 per sqm p. a, but remained stable in all other major cities.

**Median asking prices (index Q1 2003 = 100)**



**Total return (■ income return; ■ capital growth)**



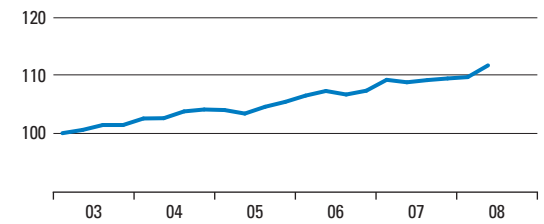
	Number of Apartm. (2006)	Planning appl. (m CHF 2008, Q2)	Vacancy rate (2007)	Supply rate (2008, Q2)	Asking prices (Median 2008, Q2)	Prime rents (2008, Q2)	Prime yields (2008, Q2)
Zurich	170,800 →	1,106.0 ↗	0.1% →	1.8% ↘	280 ↗	600 ↘	3.9% ↗
Berne	57,400 →	138.9 ↗	0.6% →	4.7% →	210 →	340 →	3.9% ↗
Basel	76,400 →	162.3 ↘	1.7% →	6.8% →	200 ↗	380 →	4.1% ↗
Lausanne	57,900 →	186.1 →	0.3% →	4.4% ↘	230 →	370 →	4.3% ↗
Geneva	80,900 →	184.0 ↗	0.2% →	1.1% →	310 ↗	650 →	3.8% →
Switzerland	1,989,000 →	15,891.5 →	1.6% ↗	4.8% →	190 ↗	— —	— —

## Single-family houses

### Price trend remains positive

Demand for single-family houses continued throughout the second quarter of 2008 despite rising interest rates. Against the background of low vacancy rates and stable supply levels, the average price trend for single-family houses remained positive in all major cities.

### Median asking prices (index Q1 2003 = 100)



### Geneva and Bagnes/Verbier at the top of the table

Geneva continues to be Switzerland's most expensive city, with prices for an average single-family house approaching CHF 14,000 per sqm. Amongst Switzerland's tourist destinations, Bagnes/Verbier has seen both the highest house prices and fastest price increase in recent months.

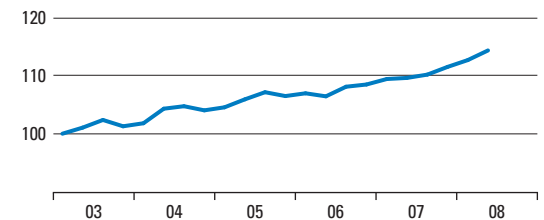
	Number of houses (2006)	Market value (m CHF 2008, Q2)	Planning appl. (m CHF 2008, Q2)	Vacancy rate (2007)	Supply rate (2008, Q2)	Asking prices (Median 2008, Q2)	Transaction prices (av. object 2008, Q2)
<b>Major cities</b>							
Zurich	8,650 →	12,650 ↗	13.9 ↗	0.0% →	1.2% →	7,170 ↗	11,900 ↗
Berne	3,840 →	3,470 ↗	0.5 ↘	0.0% →	2.1% →	5,260 ↗	7,360 ↗
Basel	5,800 →	6,960 ↗	8.7 ↗	0.2% →	1.9% →	5,880 ↗	9,770 ↗
Lausanne	1,970 ↗	2,100 ↗	30.2 ↗	0.0% →	9.9% →	6,060 ↗	8,700 ↗
Geneva	750 →	1,270 ↗	4.7 ↘	0.5% →	9.5% ↘	8,590 ↗	13,820 →
<b>Tourist destinations</b>							
Saanen/Gstaad	1,000 →	1,220 ↗	4.4 ↘	1.0% ↗	0.6% →	8,340 →	9,870 ↗
St. Moritz	270 →	350 ↗	33.6 ↗	0.0% ↘	0.8% ↗	9,420 ↗	10,780 ↗
Davos	680 ↗	880 ↗	6.8 ↘	0.1% →	1.9% ↘	8,720 →	10,490 ↗
Ascona	720 →	1,010 ↗	3.3 ↘	0.7% →	3.6% ↘	10,440 ↗	11,510 ↗
Bagnes/Verbier	2,330 ↗	3,900 ↗	81.2 ↗	0.0% →	2.9% ↗	11,700 →	13,630 ↗
Zermatt	240 ↗	270 ↗	18.3 ↗	0.0% →	1.3% ↗	8,100 ↗	9,120 ↗
<b>Switzerland</b>	892,410 ↗	676,270 ↗	8,190.4 →	0.5% →	4.3% ↗	4,650 →	5,600 ↗

## Owner-occupied apartments

### Prices continue to rise due to healthy demand

Despite increasing levels of supply in the cities of Berne, Lausanne and Geneva throughout the first two quarters of 2008, the average price trend for owner-occupied apartments remains positive.

### Median asking prices (index Q1 2003 = 100)








### Bagnes/Verbier remains most expensive location

Developments in Switzerland's tourist regions are largely driven by demand for secondary homes. Saanen/Gstaad and St. Moritz have seen the highest price increases during the second quarter of 2008, whilst Bagnes/Verbier remains Switzerland's most expensive tourist destination.

	Number of houses (2006)	Market value (m CHF 2008, Q2)	Planning appl. (m CHF 2008, Q2)	Vacancy rate (2007)	Supply rate (2008, Q2)	Asking prices (Median 2008, Q2)	Transaction prices (av. object 2008, Q2)
<b>Major cities</b>							
Zurich	23,310 →	18,900 ↗	1,106.0 ↗	0.0% →	2.6% ↘	7,400 →	8,590 ↗
Berne	11,380 →	6,330 ↗	138.9 ↗	0.1% →	6.4% ↗	5,430 ↗	5,900 ↗
Basel	14,720 →	8,780 ↗	162.3 ↘	0.3% →	4.4% →	5,590 ↗	6,450 ↗
Lausanne	10,780 →	6,950 ↗	186.1 →	0.0% →	5.5% ↗	6,140 ↗	6,720 ↗
Geneva	20,890 →	21,720 ↗	184.0 ↗	0.0% →	3.2% ↗	9,830 ↗	11,020 ↗
<b>Tourist destinations</b>							
Saanen/Gstaad	3,100 →	2,770 ↗	54.8 ↗	1.5% →	1.6% ↗	9,000 ↗	9,490 ↗
St. Moritz	3,160 ↗	3,490 ↗	14.8 ↘	0.1% →	1.8% ↘	11,300 ↗	11,700 ↗
Davos	5,620 ↗	4,070 ↗	55.8 ↘	1.1% →	5.4% ↘	7,060 ↗	7,680 ↗
Ascona	2,740 ↗	2,170 ↗	70.0 ↗	0.0% →	8.4% →	7,700 ↗	8,380 ↗
Bagnes/Verbier	5,140 ↗	6,070 ↗	26.4 ↘	1.1% →	2.0% →	11,750 →	12,520 ↗
Zermatt	3,360 ↗	3,020 ↗	63.8 ↗	0.0% →	1.5% ↗	9,520 ↗	9,530 ↗
<b>Switzerland</b>	901,570 ↗	485,600 ↗	15,819.5 →	0.5% →	6.1% →	4,560 ↗	5,000 ↗

## Prices in the major cities (2008 Q2)

	Percentile	Office	Retail	Rental apartments	Single-family houses	Owner-occupied apartments
 <b>Zurich</b>	10 <sup>th</sup> percentile	240 ↘	250 ↗	230 →	5,100 ↘	5,550 →
	50 <sup>th</sup> percentile	460 →	670 ↗	360 ↗	8,360 ↘	9,850 ↗
	90 <sup>th</sup> percentile	650 →	1,260 ↗	530 ↗	14,920 ↘	15,030 →
	10 <sup>th</sup> percentile	160 ↘	160 ↘	210 ↗	4,330 →	4,850 →
	50 <sup>th</sup> percentile	280 →	320 →	280 ↗	7,170 →	7,400 →
	90 <sup>th</sup> percentile	500 →	720 ↗	390 ↗	12,830 →	11,560 ↗
 <b>Berne</b>	10 <sup>th</sup> percentile	210 ↗	280 →	200 →	4,780 ↗	4,610 ↗
	50 <sup>th</sup> percentile	290 ↗	540 →	270 →	7,330 ↗	7,470 ↘
	90 <sup>th</sup> percentile	390 ↘	1,260 ↘	380 →	11,580 ↗	11,150 ↘
	10 <sup>th</sup> percentile	140 ↗	170 ↗	170 →	3,230 ↗	3,450 ↗
	50 <sup>th</sup> percentile	230 ↗	320 ↗	220 →	5,260 ↗	5,430 ↗
	90 <sup>th</sup> percentile	350 ↗	930 ↗	290 →	8,320 ↗	8,900 ↗
 <b>Basel</b>	10 <sup>th</sup> percentile	180 ↗	190 →	180 →	3,380 ↗	5,070 ↗
	50 <sup>th</sup> percentile	250 ↗	310 →	210 →	5,070 ↗	6,620 ↗
	90 <sup>th</sup> percentile	330 ↗	810 →	270 →	8,080 ↗	9,880 ↗
	10 <sup>th</sup> percentile	150 →	130 →	170 ↗	3,980 ↗	4,190 ↗
	50 <sup>th</sup> percentile	220 →	260 →	210 ↗	5,890 ↗	5,590 ↗
	90 <sup>th</sup> percentile	310 →	510 →	260 ↗	9,380 ↗	8,090 ↗
 <b>Lausanne</b>	10 <sup>th</sup> percentile	170 →	180 →	180 →	3,770 →	5,550 ↗
	50 <sup>th</sup> percentile	260 ↗	290 ↗	240 →	5,940 →	7,320 ↗
	90 <sup>th</sup> percentile	350 ↗	500 ↗	320 →	9,910 ↗	10,960 →
	10 <sup>th</sup> percentile	160 ↗	130 ↘	180 →	3,840 ↗	4,790 ↗
	50 <sup>th</sup> percentile	250 ↗	250 ↘	230 →	6,060 ↗	6,140 ↗
	90 <sup>th</sup> percentile	350 ↗	470 →	310 →	10,130 ↗	9,020 ↗
 <b>Geneva</b>	10 <sup>th</sup> percentile	365 ↗	280 ↗	250 →	4,700 ↗	8,400 ↗
	50 <sup>th</sup> percentile	626 ↗	550 ↗	350 →	8,440 ↗	11,780 ↗
	90 <sup>th</sup> percentile	870 ↗	1,400 ↗	550 ↘	13,940 ↗	17,980 ↗
	10 <sup>th</sup> percentile	244 →	190 →	230 ↗	4,790 ↗	6,340 ↗
	50 <sup>th</sup> percentile	400 ↗	330 →	310 ↗	8,590 ↗	9,830 ↗
	90 <sup>th</sup> percentile	671 →	670 ↗	470 ↗	14,200 ↗	14,710 ↗
<b>Switzerland</b>	Median	190 →	230 →	190 →	4,650 →	4,560 ↗

**Sources** This market survey is based on a broad internal data pool. It also draws on data provided by the Federal Statistics Office as well as cantonal and local statistical offices (vacancy rates), the Baublatt Info-Dienst (planning applications for single-family houses and apartment blocks) and IPD (performance indices). The cartographic illustrations are based on the generalised municipal boundaries (BFS Geostat/L+T).

**Notes** Commercial rentals in CHF per sqm usable area p. a.; rented apartments: net rentals in CHF per sqm usable area; owner-occupied apartments and single-family houses: market prices in CHF per sqm usable area. Arrows indicate the year-on-year change (throughout the whole document).

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