

Swiss economy

Economic slowdown continues

Due to a combination of adverse impacts arising from the financial market crisis as well as deteriorating global economic conditions, the recent period of remarkable growth in Switzerland appears to be coming to an end. Real GDP growth rates are likely to come down from over 3.0% to 1.9% in 2008. The current economic forecasts for 2009 range from moderate growth of 1.3% to a temporary mild recession.

More moderate levels of inward migration

High levels of inward migration - especially from within the European Union - have stimulated private consumption and housing demand in recent years. Inward migration is likely to continue, although due to the economic slowdown at more moderate levels.

Employment growth is still robust but likely to slow down

Despite the current economic turbulences the overall employment situation is still robust. At 2.6%, employment growth remained relatively strong during the third quarter of 2008. However, labour demand has started to slow, a trend that is likely to continue. An increase in unemployment cannot be ruled out, however a drastic turnaround is not expected.

Consumer confidence index below long-term average

With increasing uncertainty amongst private households regarding their financial situation, consumer confidence levels have dropped considerably over recent months. The consumer confidence index stood at -17 points at the beginning of the third quarter of 2008, compared with +2 in the previous quarter. Consumer spending is likely to decline accordingly.

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 (09/2008)	2.4%	↘
Total employment (FTE, 2008, Q3)	3,297,300	↗
Share of service employment (FTE, 2008, Q3)	70.0%	→
Disposable household income (CHF, 2006*)	71,700	↘
Inflation (2007)	0.7%	↘
New variable mortgage rate (08/2008)	3.47%	↗
10-year confederation bond yield (09/2008)	2.67%	↘
Libor CHF 6 months (09/2008)	3.04%	↗
5-year CHF SWAP rate (10/2008)	3.16%	→
10-year CHF SWAP rate (10/2008)	3.58%	↗
Consumer sentiment index (2008, Q3)	-17	↘
Change in retail turnover, real (08/2008)	4.0%	→

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 still stable

With service sector employment still on an upward trend, the Swiss office market experienced another strong quarter with healthy demand and further rent rises.

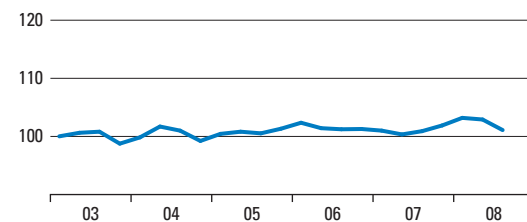
Healthy demand in Zurich

The highest price increases were observed in the Zurich office market in recent months. There was still enough momentum in the financial sector to provide support to office space demand. Office vacancies were reduced and asking prices for new office leases went up by around 5% in a year-on-year comparison. However, with the financial crisis worsening, market conditions are likely to deteriorate again.

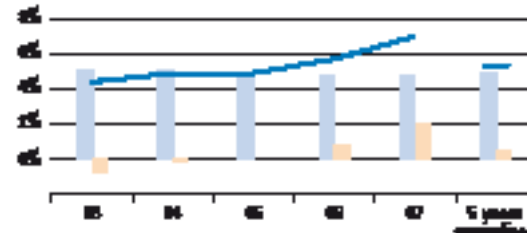
A certain price correction in real terms expected

As a result of the economic slowdown, demand for office space is set to decline. At the same time new supply will continue to come onto the market, as indicated by the still rising volumes of planning applications. A continuation of the recently witnessed levels of rental growth is therefore unlikely. Overall prices should remain stable given that overcapacities have been reduced significantly in recent years, but a certain correction in real terms is expected.

Median asking prices (index Q1 2003 = 100)



Total return (income return; capital growth)



	Office Stock (sq m, 2007)	Planning appl. (costs in m CHF)	Vacancy rate (2008)	Supply rate (2008, Q3)	Asking prices (Median 2008, Q3)	Prime rents (2008, Q2)	Prime yields (2008, Q2)
Zurich	8,781,600 →	387.1 ↗	2.9% ↘	6.3% ↘	280 ↗	1,050 ↘	3.9% ↗
Berne	2,014,400 →	213.2 ↗	1.9% ↘	8.7% ↗	230 ↗	450 →	4.2% ↗
Basel	4,180,400 →	53.9 ↗	1.9% ↗	4.1% ↗	220 →	530 ↘	4.3% ↗
Lausanne	2,055,700 ↗	98.7 ↗	— —	4.6% ↘	250 →	400 →	4.3% ↗
Geneva	3,286,100 →	80.2 ↗	2.2% ↗	4.4% ↘	390 →	1,150 →	3.9% ↗
Switzerland	49,585,400 →	2,642.9 ↗	— —	6.1% →	190 →	— —	— —

Retail market

Favourable economic developments pushed up retail rents

The Swiss retail property market benefited from high levels of consumer confidence during the past year. Retail turnover rose considerably while the supply of advertised floorspace remained low. As a result, the retail sector experienced a period of above average rental growth.

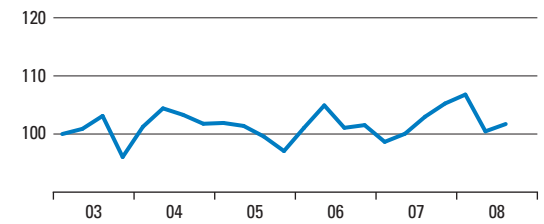
Structural problems persist

However, ongoing floorspace expansion continues to burden the retail property market, particularly in areas outside the main centres. On average, around 1.5% of floorspace are added to the Swiss retail property market each year. This means that turnover per sqm has gradually declined despite an overall increase in absolute retail turnover.

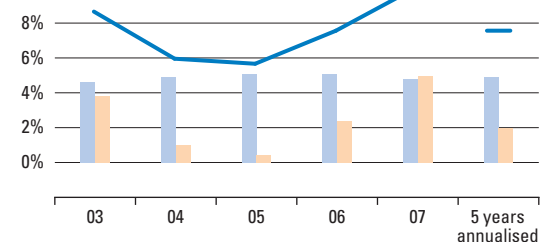
The outlook is subdued given the economic slowdown

With economic conditions deteriorating and consumer sentiment already below the long-term average, the outlook for the retail market is more subdued. As a consequence, a temporary turnaround in the development of retail rents cannot be ruled out.

Median asking prices (index Q1 2003 = 100)



Total return (■ income return; ■ capital growth)



	Retail Stock (sq m, 2007)	Planning appl. (m CHF 2008, Q3)	Vacancy rate (2008)	Supply rate (2008, Q3)	Asking prices (Median 2008, Q3)	Prime rents (2008, Q2)	Prime yields (2008, Q2)
Zurich	1,833,900 →	0.3 ↗	0.4% ↘	1.8% ↘	320 →	6,800 →	3.8% →
Berne	934,100 ↗	0.0 ↘	0.0% →	2.3% ↗	300 ↗	3,500 →	4.0% ↗
Basel	842,000 ↗	362.4 ↗	1.4% →	3.1% →	260 →	2,900 →	4.1% ↗
Lausanne	457,800 →	19.5 ↗	— —	2.3% ↘	250 ↘	2,600 →	4.3% ↗
Geneva	622,600 →	5.2 ↗	1.9% ↘	2.3% ↘	320 →	6,200 →	3.8% →
Switzerland	31,422,400 ↗	1,181.2 ↗	— —	1.3% →	230 →	— —	— —

Residential Market

Rental growth due to healthy demand and low vacancy rates

Construction activity in Switzerland's residential market remains at a high level, particularly in the multi-family housing sector. At the same time, demand for rental apartments remained strong during 2008, so that the overall vacancy rate dropped to 1.4% in this sector. As a result, the average rental level continued its upward trend in the third quarter of 2008.

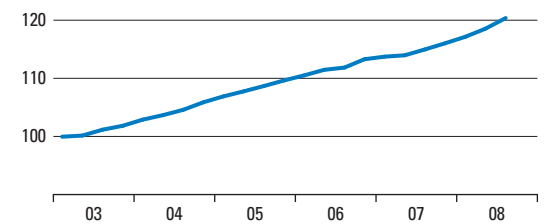
Above average rent increases in Zurich

The residential market is shaped by regional disparities. The city of Geneva, which had experienced the highest price increases in recent months, has seen a certain cooling-off in the rental market although the overall price trend remains positive. At the same time, vacancy rates in the city of Zurich have dropped to zero percent. As a consequence, rental levels have risen at a rate well above the long-term average.

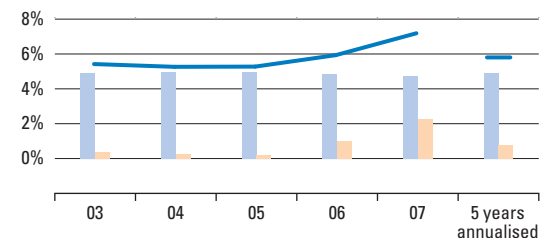
Demand is likely to slow down

Inward migration and as such demand in the residential sector is likely to decline. While rental growth is expected to continue on a positive trendline it is unlikely to be as strong as recently observed.

Median asking prices (index Q1 2003 = 100)



Total return (■ income return; ■ capital growth)



	Number of Apartm. (2007)	Planning appl. (m CHF 2008, Q3)	Vacancy rate (2008)	Supply rate (2008, Q3)	Asking prices (Median 2008, Q3)	Prime rents (2008, Q2)	Prime yields (2008, Q2)
Zurich	172,500 ↗	993.7 ↗	0.0% →	2.2% →	280 ↗	600 ↘	3.9% ↗
Berne	57,700 →	191.9 ↗	0.5% →	4.8% →	220 →	340 →	3.9% ↗
Basel	76,500 →	94.0 ↘	1.4% ↘	6.9% →	210 ↗	380 →	4.1% ↗
Lausanne	58,600 ↗	117.0 ↘	0.1% ↘	3.1% ↘	240 ↗	370 →	4.3% ↗
Geneva	81,400 →	209.3 ↗	0.2% →	0.9% →	320 ↗	650 →	3.8% →
Switzerland	2,010,600 →	15,156.2 →	1.4% ↘	4.6% →	190 →	— —	— —

Single-family houses

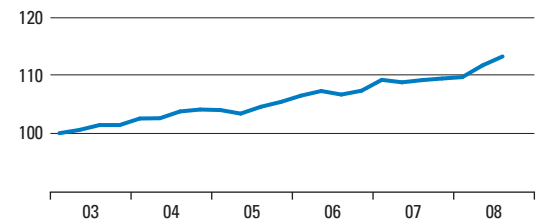
Price trend remains positive but is likely to slow down

Prices for single-family houses continued their upward trend during the third quarter of 2008 despite rising levels of supply, indicating strong demand in this sector. However, given the growing uncertainty amongst households regarding their financial situation, demand is expected to slow down in the near future.

Geneva region continues to attract investment

The French-speaking parts of Switzerland, particularly areas around Lake Geneva, have seen the highest price increases in the past year. Transaction prices for an average single-family house in the City of Geneva now exceed CHF 14,000 per sqm.

Median asking prices (index Q1 2003 = 100)



	Number of houses (2007)	Market value (m CHF 2008, Q3)	Planning appl. (m CHF 2008, Q3)	Vacancy rate (2008)	Supply rate (2008, Q3)	Asking prices (Median 2008, Q3)	Transaction prices (av. object 2008, Q3)
Major cities							
Zurich	8,720 →	12,880 ↗	10.9 ↘	0.0% →	1.2% →	7,370 →	12,000 ↗
Berne	3,840 →	3,580 ↗	0.5 ↗	0.0% →	2.6% ↗	5,190 ↗	7,560 ↗
Basel	5,800 →	7,110 ↗	5.7 ↘	0.1% →	1.4% →	5,800 ↗	9,960 ↗
Lausanne	2,100 ↗	2,230 ↗	20.9 →	0.1% →	8.3% ↗	6,200 ↗	8,880 ↗
Geneva	770 ↗	1,350 ↗	3.5 →	0.1% ↘	17.5% ↗	8,730 ↗	14,250 →
Tourist destinations							
Saanen/Gstaad	1,000 →	1,230 ↗	1.3 ↘	0.0% ↘	0.6% →	8,220 →	9,940 ↗
St. Moritz	270 →	370 ↗	25.6 ↗	0.0% →	1.5% ↗	9,650 ↗	11,120 ↗
Davos	690 →	900 ↗	7.5 ↘	0.3% →	2.2% →	8,600 →	12,640 ↗
Ascona	720 →	1,070 ↗	2.8 ↘	0.8% →	3.1% ↘	10,650 ↗	11,100 ↗
Bagnes/Verbier	2,360 ↗	4,020 ↗	63.9 ↗	0.0% →	1.6% ↘	11,550 →	13,860 ↗
Zermatt	240 ↗	280 ↗	14.7 ↗	0.0% →	2.5% ↗	8,350 ↗	9,470 →
Switzerland	904,400 ↗	690,620 ↗	7,690.7 →	0.5% →	4.1% ↗	4,670 →	5,770 ↗

Owner-occupied apartments

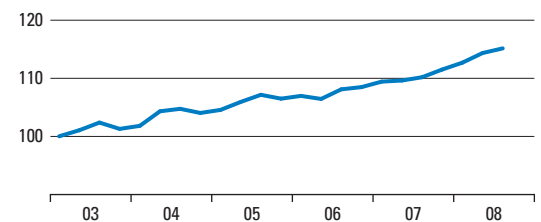
Ongoing price increases around Lake Geneva

Prices for owner-occupied apartments were pushed up once again during the third quarter of 2008. Having recovered from their lowest levels in 1998, apartment prices around Lake Geneva have almost doubled, giving rise to concerns about the property market overheating.

Demand is likely to slow down






With ongoing building construction in the multi-family housing sector and a likely slowdown in housing demand, the price trend is expected to remain positive but to moderate somewhat.

Median asking prices (index Q1 2003 = 100)



	Number of houses (2007)	Market value (m CHF 2008, Q3)	Planning appl. (m CHF 2008, Q3)	Vacancy rate (2008)	Supply rate (2008, Q3)	Asking prices (Median 2008, Q3)	Transaction prices (av. object 2008, Q3)
Major cities							
Zurich	23,320 →	18,600 ↗	993.7 ↗	0.0% →	2.6% →	7,390 →	8,540 ↗
Berne	11,310 →	6,250 ↗	191.9 ↗	0.1% →	5.3% ↗	5,390 ↗	5,920 ↗
Basel	14,600 →	8,750 ↗	94.0 ↘	0.6% ↗	2.8% ↘	5,570 →	6,420 ↗
Lausanne	10,800 →	6,780 ↗	117.0 ↘	0.1% →	5.4% ↗	6,040 ↗	6,750 ↗
Geneva	20,800 →	21,780 ↗	209.3 ↗	0.2% →	2.5% →	10,080 ↗	11,250 ↗
Tourist destinations							
Saanen/Gstaad	3,200 ↗	2,810 ↗	30.0 ↘	0.8% ↘	0.8% →	9,230 ↗	9,560 ↗
St. Moritz	3,300 ↗	3,670 ↗	16.3 →	0.0% →	2.5% →	11,320 ↗	11,900 ↗
Davos	5,700 ↗	4,120 ↗	91.4 ↗	1.2% →	6.1% ↘	6,920 ↗	7,700 ↗
Ascona	2,800 ↗	2,190 ↗	42.6 ↘	0.0% →	9.2% ↘	7,620 ↗	8,390 ↗
Bagnes/Verbier	5,200 →	6,050 ↗	22.3 ↘	1.2% →	1.0% ↘	12,230 ↗	12,560 ↗
Zermatt	3,400 ↗	3,120 ↗	42.3 ↘	0.0% →	0.9% →	9,540 ↗	9,860 ↗
Switzerland	911,800 ↗	486,835 ↗	15,156.2 →	0.5% →	5.5% →	4,620 ↗	5,090 ↗

Prices in the major cities (2008 Q3)

	Percentile	Office	Retail	Rental apartments	Single-family houses	Owner-occupied apartments
 Zurich	10 th percentile	230 ↘	250 →	230 →	4,890 ↘	6,040 ↗
	50 th percentile	460 →	680 →	360 ↗	8,250 ↘	10,250 ↗
	90 th percentile	660 →	1,330 ↗	540 ↗	14,860 ↘	16,600 ↗
	10 th percentile	160 ↗	160 ↘	220 ↗	4,330 →	4,830 →
	50 th percentile	280 ↗	320 →	280 ↗	7,370 →	7,390 →
	90 th percentile	500 ↗	710 →	400 ↗	13,320 →	11,700 ↗
 Berne	10 th percentile	210 ↗	270 ↘	200 →	4,650 ↗	4,740 ↗
	50 th percentile	290 ↗	540 →	270 →	7,230 ↗	7,490 ↘
	90 th percentile	390 ↘	1,280 →	380 →	11,310 ↗	11,340 ↘
	10 th percentile	140 ↗	170 ↗	170 →	3,340 ↗	3,450 ↗
	50 th percentile	230 ↗	300 ↗	220 →	5,190 ↗	5,390 ↗
	90 th percentile	360 ↗	900 ↗	290 →	8,120 ↗	9,010 ↗
 Basel	10 th percentile	170 →	190 ↗	180 ↗	3,330 ↗	5,040 ↗
	50 th percentile	240 →	300 ↗	220 ↗	5,010 ↗	6,550 ↗
	90 th percentile	310 →	780 →	280 ↗	7,970 ↗	9,510 ↗
	10 th percentile	150 →	140 →	170 ↗	3,910 ↗	4,180 ↗
	50 th percentile	220 →	260 →	210 ↗	5,800 ↗	5,570 →
	90 th percentile	300 →	510 ↘	260 ↗	9,210 ↗	8,040 →
 Lausanne	10 th percentile	160 →	170 →	190 →	3,800 →	5,660 ↗
	50 th percentile	250 ↗	270 ↗	250 →	6,000 →	7,510 ↗
	90 th percentile	340 ↗	490 ↗	320 →	10,020 ↗	11,130 →
	10 th percentile	160 →	120 ↘	180 ↗	3,920 ↗	4,710 ↗
	50 th percentile	250 →	250 ↘	240 ↗	6,200 ↗	6,040 ↗
	90 th percentile	350 ↗	460 →	310 →	10,380 ↗	8,910 ↗
 Geneva	10 th percentile	360 ↗	290 ↗	240 →	4,860 ↗	8,110 ↗
	50 th percentile	620 ↗	560 ↗	350 →	8,320 ↗	11,550 ↗
	90 th percentile	860 ↗	1,360 ↗	530 ↘	13,500 ↗	17,370 ↗
	10 th percentile	230 ↘	200 →	230 ↗	5,090 ↗	6,560 ↗
	50 th percentile	390 →	320 →	320 ↗	8,730 ↗	10,080 ↗
	90 th percentile	660 →	660 →	480 ↗	14,160 ↗	14,880 ↗
Switzerland	Median	190 →	230 →	190 →	4,670 →	4,620 ↗

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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