

Swiss economy

Switzerland is forecast to fall into a short recession

Due to sharply deteriorating global economic conditions and the ongoing financial market crisis, Switzerland's economy has cooled down noticeably towards the end of last year. Whilst real GDP is estimated to have grown by 1.9% in 2008, the outlook for the current year is subdued. According to the latest forecast from the State Secretariat for Economic Affairs (SECO), Switzerland is likely to fall into a recession for most of 2009, with a - 0.8% decline in GDP growth in real terms. A recovery with around 1.0% growth is expected in 2010.

Unemployment set to grow

With both domestic demand as well as export growth - particularly to Germany, Switzerland's biggest export market - set to decline, the employment situation is likely to worsen. However, with Swiss unemployment rising to a relatively moderate 3.3% in 2009 and 4.3% in 2010, there is no indication that labour market conditions should deteriorate dramatically.

A slowdown in inward migration

As a result of the predicted decline in employment opportunities, the level of inward migration that was witnessed recently is unlikely to continue.

Consumer confidence has further deteriorated

The Swiss consumer confidence index has dropped by a further 10 points to -27. Although this has not been strongly reflected in the level of retail sales yet, rising unemployment and the uncertainty regarding the length of the current downturn are likely to cause a decline in consumer spending.

Consumer price index on a downward trend

Declining oil prices have pushed down the overall inflation rate (CPI). This downward tendency is expected to continue throughout 2009.

Switzerland: Key indicators and change from last year

Population (2007)	7,591,400	↗
GDP growth, real (2008)	1.9%	↘
GDP per capita (CHF, current prices, 2008)	64,500	↘
Unemployment rate (12/2008)	3.0%	↗
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 (2008)	2.4%	↘
New variable mortgage rate (11/2008)	3.16%	↘
10-year confederation bond yield (11/2008)	2.23%	↘
Libor CHF 6 months (12/2008)	0.81%	↘
5-year CHF SWAP rate (10/2008)	2.69%	↘
10-year CHF SWAP rate (10/2008)	3.58%	↗
Consumer sentiment index (2008, Q4)	-27	↘
Change in retail turnover, real (11/2008)	2.5%	↘

Arrows indicate the year-on-year change (throughout the whole document; quarter-on-quarter change applies to prime rents and yields)

*most recent available data.

Sources: BFS, SECO, IMF, SNB, UBS

Office market

Conditions are starting to deteriorate

Over the last few years, conditions in the Swiss office market had largely improved. Existing overcapacities were reduced due to strong employment growth, and prices moved upwards. Now however, there are signs of a downturn. The significant price increases, which were observed particularly in the Zurich office market during the first half of 2008, have proven to be only temporary. In the Geneva office market, completions of office space within major development areas such as the airport and La Praille/ Acacias could soon start putting downward pressure on rental levels.

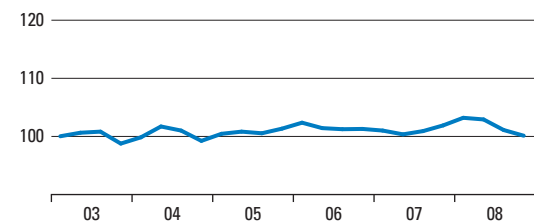
Fewer transactions of commercial property

The transaction market has slowed down considerably, as is indicated by a reduction in demand for commercial properties even in central locations.

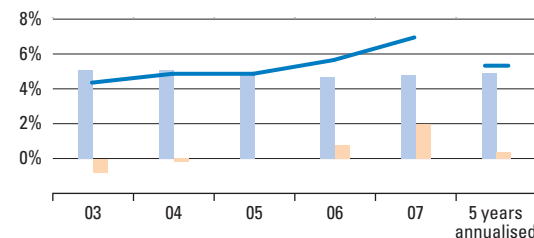
Weaker demand expected in 2009

The outlook for 2009 is subdued. Floorspace demand is likely to decline as a result of weakening economic growth. With building activity set to continue, vacancy rates could start rising again. As a consequence a moderate drop in rental levels seems possible.

Asking price index (Q1 2003 = 100)



Total return (income return; capital growth)



	Office Stock (sq m, 2007)	Planning appl. (costs in m CHF, Q4)	Vacancy rate (2008)	Supply rate (2008, Q4)	Asking prices (Median 2008, Q4)	Prime rents (2008, Q4)	Prime yields (2008, Q4)
Zurich	8,781,600 →	816.6 ↗	2.9% ↘	6.6% →	280 →	1,000 ↘	3.9% →
Berne	2,014,400 →	213.2 ↗	1.9% ↘	9.6% ↗	230 ↗	450 →	4.2% →
Basel	4,180,400 →	20.0 ↘	1.9% ↗	3.8% →	220 →	520 ↘	4.3% →
Lausanne	2,055,700 ↗	38.5 ↘	— —	5.6% →	240 →	450 ↗	4.3% ↘
Geneva	3,286,100 →	71.3 ↘	2.2% ↗	5.0% ↘	400 →	1,000 ↘	3.9% →
Switzerland	49,585,400 →	2,865.0 ↗	— —	6.3% →	190 →	— —	— —

Retail market

Deteriorating market conditions

The retail sector continues to be shaped by price volatility and ongoing floorspace expansion. While at the beginning of 2008, rental levels were pushed upwards due to strong retail turnover growth and positive consumer sentiment, market conditions have recently started to become more difficult.

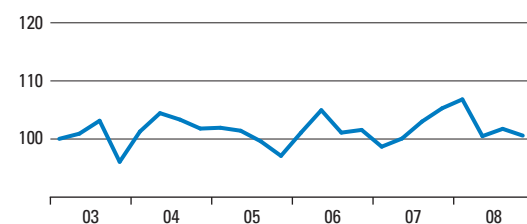
Retail sales expected to drop

In the final quarter of 2008, Switzerland's consumer confidence index dropped once again from -17 to -27. In addition, inward migration, which had provided an additional stimulus to consumer spending in the past, is likely to moderate in line with deteriorating economic conditions and rising unemployment. As such, growth in retail sales is expected to slow down in 2009.

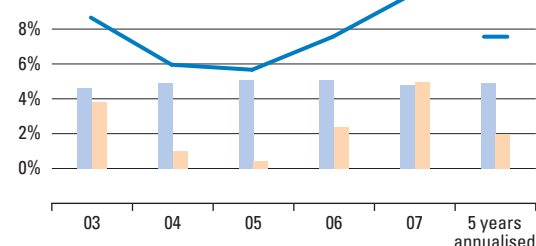
Downward pressure on asking rents

However, at the same time the still rising level of planning applications indicates that building activity in the market for retail space remains relatively strong. This could continue to drive down turnover per sqm floorspace and put downward pressure on asking rents even within the major centres.

Asking price index (Q1 2003 = 100)



Total return (■ income return; ■ capital growth)



	Retail Stock (sq m, 2007)	Planning appl. (m CHF 2008, Q4)	Vacancy rate (2008)	Supply rate (2008, Q4)	Asking prices (Median 2008, Q4)	Prime rents (2008, Q4)	Prime yields (2008, Q4)
Zurich	1,833,900 →	0.3 ↗	0.4% ↘	1.5% →	330 ↘	6,600 ↘	3.8% →
Berne	934,100 ↗	0.0 ↘	0.0% →	2.2% →	300 ↗	3,800 ↗	4.0% →
Basel	842,000 ↗	363.7 ↗	1.4% →	2.9% →	280 ↘	2,800 ↘	4.2% ↗
Lausanne	457,800 →	14.0 ↗	— —	3.3% ↘	260 ↘	2,600 →	4.3% →
Geneva	622,600 →	5.2 ↗	1.9% ↘	3.8% →	350 ↘	6,100 ↘	3.8% →
Switzerland	31,422,400 ↗	1,081.7 ↗	— —	1.4% →	220 ↘	— —	— —

Residential Market

Construction activity continues at high levels

After a sustained period of strong building activity in Switzerland's multi-family housing sector, the construction of new homes has started to plateau towards the end of last year. However, with development projects still underway, residential construction is set to remain high.

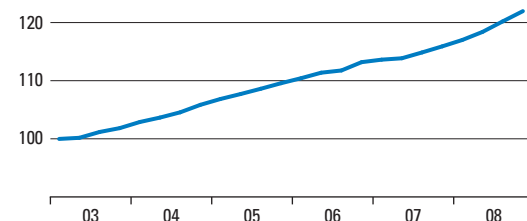
Further rent increases due to strong take-up

At 1.4%, the overall vacancy rate in the rental market is still low. Furthermore, given that supply rates remained largely stable during the fourth quarter of 2008, take-up of rental apartments appears to be robust. As a consequence, the price index edged up once again. The cities of Geneva and Lausanne have recently experienced the highest price increases.

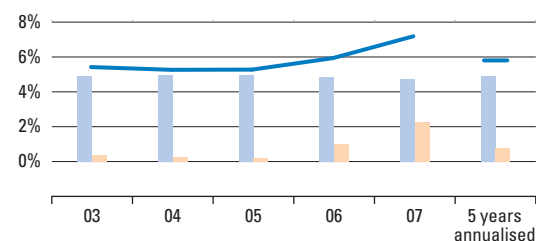
Price trend set to moderate but no turnaround expected

Over the next few quarters, the expected decline in inward migration is likely to have a negative impact on rental growth. This will be particularly noticeable in Zurich and Geneva, the two centres that have so far witnessed the highest rates of inward migration. A reversal in the overall price trend is nevertheless unlikely, given that there is still excess demand for rental apartments in Switzerland.

Asking price index (Q1 2003 = 100)



Total return (■ income return; ■ capital growth)



	Number of Apartm. (2007)	Planning appl. (m CHF 2008, Q4)	Vacancy rate (2008)	Supply rate (2008, Q4)	Asking prices (Median 2008, Q4)	Prime rents (2008, Q4)	Prime yields (2008, Q4)
Zurich	172,500 ↗	1,033.4 ↗	0.0% →	1.9% →	290 ↗	580 ↘	3.9% →
Berne	57,700 →	142.0 ↗	0.5% →	4.2% →	220 →	350 ↗	3.9% →
Basel	76,500 →	104.3 →	1.4% ↘	6.2% →	210 ↗	390 ↗	4.1% →
Lausanne	58,600 ↗	149.4 ↘	0.1% ↘	2.5% ↘	240 ↗	370 →	4.3% →
Geneva	81,400 →	207.3 ↗	0.2% →	0.8% →	320 ↗	660 ↗	3.9% ↗
Switzerland	2,010,600 →	17,134.8 ↗	1.4% ↘	4.1% →	190 →	— —	— —

Single-family houses

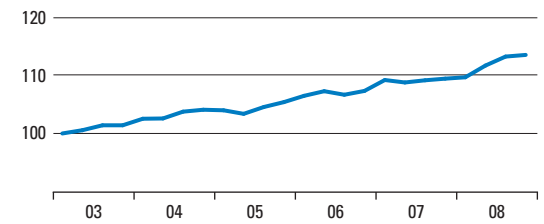
Price trend remains positive

The overall price trend in the single-family housing sector moderated somewhat towards the end of 2008. Due to the growing uncertainty regarding the scale and length of the economic slowdown, prospective buyers have started to become more cautious regarding property investments.

Low interest rates should stabilise demand

However, as interest rates have been reduced considerably against the background of the financial market crisis, this should help to sustain demand in the forthcoming period. Conditions in the single-family housing sector are therefore likely to remain relatively stable.

Asking price index (Q1 2003 = 100)



	Number of houses (2007)	Market value (m CHF 2008, Q4)	Planning appl. (m CHF 2008, Q4)	Vacancy rate (2008)	Supply rate (2008, Q4)	Asking prices (Median 2008, Q4)	Transaction prices (av. object 2008, Q4)
Major cities							
Zurich	8,720 →	13,000 ↗	11.1 ↘	0.0% →	1.0% →	7,540 ↗	12,060 ↗
Berne	3,840 →	3,660 ↗	3.3 ↗	0.0% →	1.9% →	5,090 ↗	7,710 ↗
Basel	5,800 →	7,140 ↗	1.0 ↘	0.1% →	1.3% →	5,690 →	9,960 ↗
Lausanne	2,100 ↗	2,290 ↗	18.3 ↘	0.1% →	10.2% ↗	6,080 ↗	9,080 ↗
Geneva	770 ↗	1,390 ↗	6.0 ↗	0.1% ↘	13.3% →	8,770 ↗	14,670 ↗
Tourist destinations							
Saanen/Gstaad	1,000 →	1,240 ↗	10.3 ↘	0.0% ↘	0.9% →	8,390 ↗	9,930 ↗
St. Moritz	270 →	370 ↗	25.6 ↗	0.0% →	1.1% ↗	9,460 ↗	11,320 ↗
Davos	690 →	890 ↗	8.3 ↗	0.3% →	2.2% ↘	8,440 →	10,520 ↗
Ascona	720 →	1,100 ↗	4.4 ↗	0.8% →	3.9% →	10,660 ↗	12,390 ↗
Bagnes/Verbier	2,360 ↗	4,040 ↗	75.7 ↗	0.0% →	1.3% ↘	11,320 →	13,860 ↗
Zermatt	240 ↗	290 ↗	13.2 ↗	0.0% →	4.1% ↗	8,190 ↗	9,730 ↗
Switzerland	904,400 ↗	694,520 ↗	7,399.2 ↘	0.5% →	4.0% →	4,780 ↗	5,690 ↗

Owner-occupied apartments

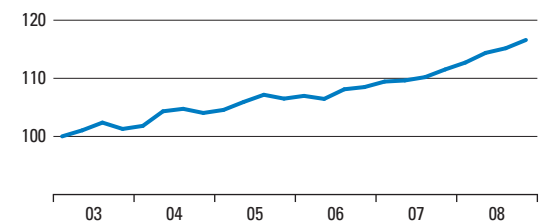
Sustained price growth

During the fourth quarter of 2008, asking prices for owner-occupied continued to rise at about the same pace as in the previous quarters. Switzerland's tourist regions such Zermatt, Bagnes and St. Moritz recorded the highest transaction price increases in a year-on-year comparison.

Moderate slowdown expected






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

Asking price index (Q1 2003 = 100)



	Number of houses (2007)	Market value (m CHF 2008, Q4)	Planning appl. (m CHF 2008, Q4)	Vacancy rate (2008)	Supply rate (2008, Q4)	Asking prices (Median 2008, Q4)	Transaction prices (av. object 2008, Q4)
Major cities							
Zurich	23,320 →	18,450 ↗	1,033.4 ↗	0.0% →	2.6% →	7,390 →	8,390 →
Berne	11,310 →	6,440 ↗	142.0 ↗	0.1% →	4.4% →	5,390 ↗	6,040 ↗
Basel	14,600 →	8,820 ↗	104.3 →	0.6% ↗	2.8% ↘	5,570 →	6,410 →
Lausanne	10,800 →	6,880 ↗	149.4 ↘	0.1% →	6.4% ↗	6,040 ↗	6,780 ↗
Geneva	20,800 →	22,480 ↗	207.3 ↗	0.2% →	3.2% ↗	10,080 ↗	11,480 ↗
Tourist destinations							
Saanen/Gstaad	3,200 ↗	2,860 ↗	54.0 ↘	0.8% ↘	0.9% →	9,230 ↗	9,620 ↗
St. Moritz	3,300 ↗	3,700 ↗	23.2 ↗	0.0% →	2.2% →	11,320 ↗	11,870 ↗
Davos	5,700 ↗	4,150 ↗	100.6 ↗	1.2% →	7.5% ↘	6,920 ↗	7,680 ↗
Ascona	2,800 ↗	2,210 ↗	25.2 ↘	0.0% →	9.2% ↘	7,620 ↗	8,550 ↗
Bagnes/Verbier	5,200 →	6,110 ↗	26.7 ↗	1.2% →	1.5% →	12,230 ↗	12,560 ↗
Zermatt	3,400 ↗	3,210 ↗	33.6 ↘	0.0% →	1.3% →	9,540 ↗	10,010 ↗
Switzerland	911,800 ↗	493,640 ↗	17,134.8 ↗	0.5% →	5.6% →	4,620 ↗	5,520 ↗

Prices in the major cities (2008 Q4)

	Percentile	Office	Retail	Rental apartments	Single-family houses	Owner-occupied apartments
 Zurich	10 th percentile	240 ↗	270 ↗	240 ↗	4,890 ↘	5,930 →
	50 th percentile	470 ↗	710 →	370 ↗	8,090 ↘	10,640 ↗
	90 th percentile	690 ↗	1,440 ↗	550 ↗	14,750 ↘	16,590 ↗
	10 th percentile	150 →	180 →	220 ↗	4,520 →	5,000 →
	50 th percentile	280 →	330 ↘	290 ↗	7,540 ↗	7,670 ↗
	90 th percentile	490 →	710 ↘	410 ↗	13,790 ↗	12,320 ↗
 Berne	10 th percentile	200 →	280 ↘	200 →	4,560 →	4,830 ↗
	50 th percentile	280 →	560 ↘	270 ↘	7,090 ↗	7,690 →
	90 th percentile	370 ↘	1,300 ↘	370 ↘	11,080 →	11,890 ↗
	10 th percentile	130 ↗	170 ↗	170 →	3,270 →	3,350 ↗
	50 th percentile	230 ↗	300 ↗	220 →	5,090 ↗	5,290 ↗
	90 th percentile	350 ↗	830 ↗	300 →	7,960 →	9,000 ↗
 Basel	10 th percentile	170 →	210 ↗	180 ↗	3,210 ↗	5,170 ↗
	50 th percentile	240 ↘	320 →	220 ↗	4,910 →	6,490 →
	90 th percentile	310 ↘	820 →	280 ↗	7,840 →	9,450 ↘
	10 th percentile	150 →	140 ↘	170 ↗	3,760 →	4,170 →
	50 th percentile	220 →	280 ↘	210 ↗	5,690 →	5,560 →
	90 th percentile	310 ↘	540 ↘	260 ↗	9,060 →	7,960 →
 Lausanne	10 th percentile	160 →	170 ↘	190 ↗	3,690 ↘	5,680 ↗
	50 th percentile	250 →	260 ↘	250 ↗	5,880 ↘	7,520 ↗
	90 th percentile	340 →	490 ↗	330 ↗	9,650 ↘	11,120 ↗
	10 th percentile	150 →	140 ↘	190 ↗	3,800 ↗	4,860 ↗
	50 th percentile	240 →	260 ↘	240 ↗	6,080 ↗	6,260 ↗
	90 th percentile	350 ↗	490 ↘	320 →	9,990 →	9,160 ↗
 Geneva	10 th percentile	350 ↗	320 ↗	240 →	4,960 ↗	8,160 ↗
	50 th percentile	630 ↗	580 ↗	350 →	8,160 ↗	11,490 ↗
	90 th percentile	880 ↗	1,410 ↗	540 →	12,870 ↗	16,750 →
	10 th percentile	240 ↘	210 ↘	230 ↗	5,240 →	6,660 ↗
	50 th percentile	400 →	350 ↘	320 ↗	8,770 ↗	10,450 ↗
	90 th percentile	670 →	710 ↘	480 ↗	14,010 ↗	15,040 ↗
Switzerland	Median	190 →	220 ↘	190 →	4,780 ↗	4,670 ↗

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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