

Swiss economy

Switzerland in a recession

After a prolonged period of above average growth, the Swiss economy slipped into a recession in the fourth quarter of 2008. According to the latest forecast by the State Secretariat of Economic Affairs (SECO), real GDP is expected to decline by at least 2 percent in 2009. This development is mainly due to a sharp reduction in exports – a sector which accounts for around half of Switzerland's GDP – and a decline in equipment investment. The federal government has launched a CHF 1.7 billion package (total 1st and 2nd stages) to stabilise the economy through infrastructure investment and a range of other measures.

Rising unemployment

The economic slowdown is likely to have a more significant impact on the Swiss labour market than previously assumed. The unemployment rate is forecast to rise to 3.8 percent in 2009 and a further deterioration is expected in 2010.

Inward migration set to decline in 2009

As employment opportunities have already started to dry out, the level of inward migration probably reached its peak in 2008.

Interest rates remain low

The problems in the financial sector have forced central banks around the world – including the Swiss National Bank – to ease their monetary policies. As a result, interest rates have declined further and a trend reversal is unlikely until the economy has started to pick up again.

Slight improvement in consumer confidence

The consumer confidence index remains very low but rose from -27 to -23 in the last quarter. This slight improvement is due to a more favourable assessment of households regarding their financial situation, which can be partly attributed to the decline in consumer price inflation.

Switzerland: Key indicators and change since last year

Population (2007)	7,593,500	↗
GDP growth, real (2008)	1.6%	↘
GDP per capita (CHF, current prices, 2008)	64,300	↘
Unemployment rate (03/2009)	3.4%	↗
Total employment (FTE, 2008, Q4)	3,341,900	↗
Share of service employment (FTE, 2008, Q4)	70.5%	→
Disposable household income (CHF, 2006*)	71,700	↘
Inflation (2008)	2.4%	↘
New variable mortgage rate (02/2009)	2.78%	↘
10-year confederation bond yield (03/2009)	2.18%	↘
Libor CHF 6 months (03/2009)	0.54%	↘
5-year CHF SWAP rate (04/2009)	2.04%	↘
10-year CHF SWAP rate (04/2009)	2.54%	↗
Consumer sentiment index (2009, Q1)	-23	↘
Change in retail turnover, real (02/2009)	0.2%	↘

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

A trend reversal in Switzerland's office market

The situation in the Swiss office market has changed markedly since last autumn, when demand for office space started to decline considerably as a result of the financial crisis. Employment and therefore floorspace demand is likely to deteriorate further, in line with weakening economic growth. At the same time, given the number of office projects that are still in the pipeline, the level of supply is not expected to reduce. Consequently, rising vacancy rates and price corrections of around 3 percent on average cannot be ruled out over the course of 2009, despite the temporary upswing in office rents during the first quarter.

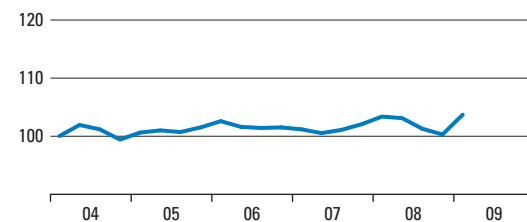
Property returns declined in 2008

According to the IPD/Wüest & Partner Annual Property Index, total returns to directly held office property declined by more than 1 percentage point to 5.9 percent in 2008.

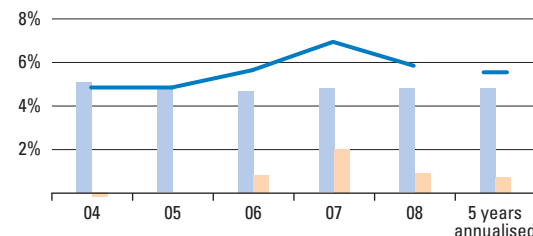
Investment activity intact amongst local investors

On the transaction side, demand for commercial property amongst local investors is still intact, however foreign investment activity has slowed considerably due to the tighter lending environment.

Asking price index (Q1 2004 = 100)



Total return (■ income return; ■ capital growth)



	Office Stock (sq m, 2007)	Planning appl. (costs in m CHF, Q1)	Vacancy rate (2008)	Supply rate (2009, Q1)	Asking prices (Median 2009, Q1)	Prime rents (2009, Q1)	Prime yields (2009, Q1)
Zurich	8,781,600 →	383.6 ↗	2.9% ↘	6.3% ↘	290 →	1,000 →	3.9% →
Berne	2,014,400 →	0.0 ↘	1.9% ↘	6.9% ↘	230 ↗	450 →	4.2% →
Basel	4,180,400 →	8.0 ↘	1.9% ↗	5.1% ↗	230 →	500 ↘	4.3% →
Lausanne	2,055,700 ↗	36.5 ↘	— —	6.6% ↗	250 ↗	460 →	4.3% →
Geneva	3,286,100 →	58.5 ↗	2.2% ↗	7.8% ↗	410 ↗	950 ↘	4.0% →
Switzerland	49,585,400 →	2,099.9 →	— —	6.5% →	190 →	— —	— —

Retail market

Prices for retail floorspace have dropped considerably

Further price corrections are likely ...

... particularly in the retail market in Zurich

Moderate corrections in the prime segment

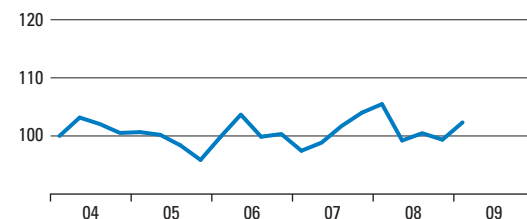
Conditions in Switzerland's retail premises market are particularly difficult, with high price volatility and a continuous downward tendency in turnover per sqm floorspace. Total returns in this sector experienced a notable drop from 10.0 percent in 2007 to 6.5 percent last year.

Over the next 12 months, growing uncertainty regarding the economic outlook is likely to have a marked impact on the demand for floorspace, while building activity is set to remain relatively strong. A decline in median asking rents of up to 5 percent is therefore possible.

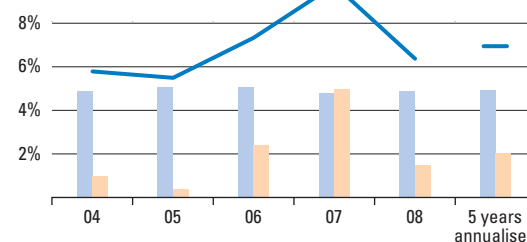
The supply of retail space increased particularly rapidly in Zurich in recent years. Consequently, retail rents in this market region could decline by as much as 5.3 percent this year.

A moderate downward correction has started to take place even in the prime segment, particularly in Geneva, Zurich and Basel. At 6,500 CHF per sqm p.a., prime rents remain the highest on Zurich's Bahnhofstrasse.

Asking price index (Q1 2004 = 100)



Total return (■ income return; ■ capital growth)



	Retail Stock (sq m, 2007)	Planning appl. (m CHF 2009, Q1)	Vacancy rate (2008)	Supply rate (2009, Q1)	Asking prices (Median 2009, Q1)	Prime rents (2009, Q1)	Prime yields (2009, Q1)
Zurich	1,833,900 →	2.2 ↗	0.4% ↘	1.3% →	350 →	6,500 ↘	3.9% →
Berne	934,100 ↗	0.0 ↘	0.0% →	2.8% →	330 ↗	3,800 →	4.1% ↗
Basel	842,000 ↗	361.3 ↗	1.4% →	3.6% →	270 ↘	2,800 ↘	4.2% ↗
Lausanne	457,800 →	14.0 ↗	— —	3.4% ↘	250 ↘	2,600 →	4.3% →
Geneva	622,600 →	5.2 ↗	1.9% ↘	2.5% ↘	350 →	6,000 ↘	3.9% →
Switzerland	31,422,400 ↗	1,035.5 ↗	— —	1.3% →	220 →	— —	— —

Residential Market

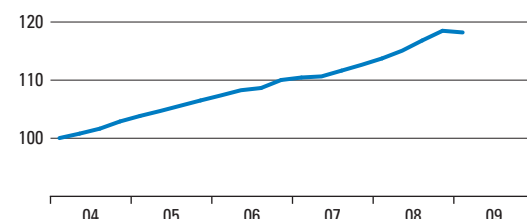
Price trend remains positive ...

... however more moderate price increases expected

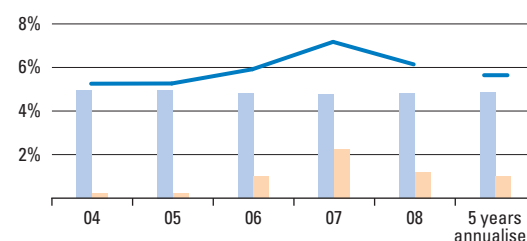
Up until now, the current recession has not had a marked impact on the price development in Switzerland's residential sector. Buoyant demand for rental apartments, which is mainly driven by population growth through inward migration, has pushed down the national vacancy rate to 1.3 percent. As a result, asking rents went up by 4 percent on average in 2008.

A continuation of the price trend observed last year is nonetheless unlikely. Inward migration is expected to slow against the background of growing unemployment. At the same time, the current level of building permits indicates that construction activity in the multi-family housing sector is set to continue. As such, a growing mismatch between supply and demand is likely to cause rental growth to slow down to just above 1 percent over the next twelve months. Indeed, asking prices already stagnated in the first quarter of 2009.

Asking price index (Q1 2004 = 100)



Total return (■ income return; ■ capital growth)



	Number of Apartm. (2007)	Planning appl. (m CHF 2009, Q1)	Vacancy rate (2008)	Supply rate (2009, Q1)	Asking prices (Median 2009, Q1)	Prime rents (2009, Q1)	Prime yields (2009, Q1)
Zurich	172,500 ↗	895.0 ↗	0.0% →	2.4% →	280 ↗	590 ↗	3.9% →
Berne	57,700 →	181.8 ↗	0.5% →	5.4% ↗	220 →	360 ↗	3.9% →
Basel	76,500 →	102.2 ↗	1.4% ↘	6.8% →	210 →	370 ↘	4.1% →
Lausanne	58,600 ↗	165.1 →	0.1% ↘	2.7% ↘	240 ↗	370 →	4.3% →
Geneva	81,400 →	197.6 ↗	0.2% →	0.8% →	320 →	660 →	3.9% →
Switzerland	2,010,600 →	15,677.8 ↗	1.4% ↘	4.9% →	190 →	— —	— —

Single-family houses

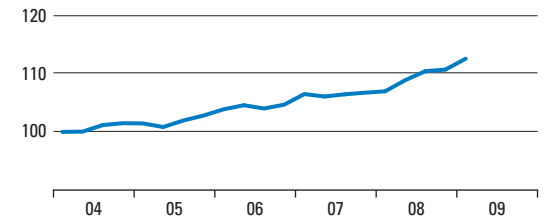
Asking prices increased last year

Unlike housing markets in many other countries, the Swiss single-family housing sector remained remarkably stable during 2008. Asking prices increased by 2.4 percent over the second half of the year.

Correction evident around Lake Geneva

However, the onset of the recession is likely to have an impact on demand for single-family houses. Price corrections are expected in areas where localised housing bubbles have recently developed. For instance, the Lake Geneva region has seen house prices rise by 8.1 percent over the last five years, compared with an increase of just below 3 percent in the Zurich region and 2.3 percent nationally.

Asking price index (Q1 2004 = 100)



Major cities

	Number of houses (2007)	Market value (m CHF 2009, Q1)	Planning appl. (m CHF 2009, Q1)	Vacancy rate (2008)	Supply rate (2009, Q1)	Asking prices (Median 2009, Q1)	Transaction prices (av. object 2009, Q1)
Zurich	8,720 →	12,890 ↗	15.0 →	0.0% →	0.8% →	7,530 →	12,030 ↗
Berne	3,840 →	3,660 ↗	3.3 ↗	0.0% →	2.5% ↗	5,000 →	7,760 ↗
Basel	5,800 →	6,960 ↗	3.0 ↘	0.1% →	1.5% →	5,650 ↘	9,770 ↗
Lausanne	2,100 ↗	2,290 ↗	18.2 ↘	0.1% →	11.3% ↗	6,140 →	9,140 ↗
Geneva	770 ↗	1,430 ↗	3.0 ↗	0.1% ↘	10.8% ↘	8,890 ↗	15,130 ↗

Tourist destinations

Saanen/Gstaad	1,000 →	1,240 →	13.4 ↘	0.0% ↘	2.1% ↗	8,700 ↗	9,990 →
St. Moritz	270 →	370 ↗	22.9 ↘	0.0% →	2.2% ↗	9,720 ↗	11,360 ↗
Davos	690 →	870 ↗	9.4 ↘	0.3% →	2.6% ↘	8,760 →	10,380 →
Ascona	720 →	1,110 ↗	8.6 ↘	0.8% →	5.8% ↗	10,700 ↗	12,530 ↗
Bagnes/Verbier	2,360 ↗	3,970 ↗	40.3 ↗	0.0% →	1.2% ↘	11,110 →	13,700 ↗
Zermatt	240 ↗	290 ↗	5.2 ↗	0.0% →	9.1% ↗	8,040 →	9,820 ↗
Switzerland	904,400 ↗	695,610 ↗	7,284.6 →	0.5% →	4.3% ↗	4,790 ↗	5,720 ↗

Owner-occupied apartments

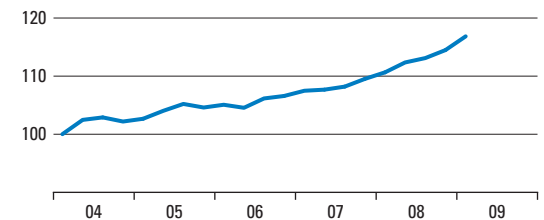
Price growth continued throughout 2008

Prices for owner-occupied apartments continued their upward trend despite the gloomy economic outlook. However, the key drivers behind this trend – population growth and a rise in real household income – are unlikely to provide the same stimulus in the coming months.

Demand is likely to reduce only moderately

On the other hand, low interest rates may help sustain demand for residential property so that, on balance, prices in this sector are expected to stagnate rather than fall.

Asking price index (Q1 2004 = 100)







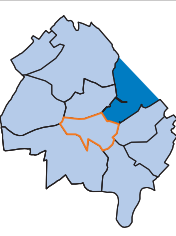
Major cities

	Number of houses (2007)	Market value (m CHF 2009, Q1)	Planning appl. (m CHF 2009, Q1)	Vacancy rate (2008)	Supply rate (2009, Q1)	Asking prices (Median 2009, Q1)	Transaction prices (av. object 2009, Q1)
Zurich	23,320 →	18,640 ↗	895.0 ↗	0.0% →	2.7% ↗	7,860 ↗	8,660 ↗
Berne	11,310 →	6,430 ↗	181.8 ↗	0.1% →	4.8% →	5,650 →	6,150 ↗
Basel	14,600 →	8,910 ↗	102.2 ↗	0.6% ↗	3.2% →	5,400 →	6,460 ↗
Lausanne	10,800 →	6,910 ↗	165.1 →	0.1% →	5.5% ↗	6,540 ↗	7,000 ↗
Geneva	20,800 →	23,010 ↗	197.6 ↗	0.2% →	3.2% ↗	10,860 ↗	12,000 ↗

Tourist destinations

Saanen/Gstaad	3,200 ↗	2,930 ↗	52.5 ↗	0.8% ↘	1.0% ↘	9,960 ↗	10,100 ↗
St. Moritz	3,300 ↗	3,700 ↗	25.2 ↘	0.0% →	3.0% →	11,440 ↗	12,160 ↗
Davos	5,700 ↗	4,140 ↗	119.0 ↘	1.2% →	8.7% ↗	7,290 ↗	7,830 ↗
Ascona	2,800 ↗	2,230 ↗	14.6 ↗	0.0% →	9.3% ↗	7,800 →	8,640 ↗
Bagnes/Verbier	5,200 →	6,010 ↗	21.9 ↘	1.2% →	1.8% →	12,320 ↗	12,620 ↗
Zermatt	3,400 ↗	3,170 ↗	22.0 ↗	0.0% →	1.7% →	9,460 ↗	10,120 ↗
Switzerland	911,800 ↗	492,470 ↗	15,677.8 ↗	0.5% →	6.1% ↗	4,880 ↗	5,770 ↗

Prices in the major cities (2009 Q1)

	Percentile	Office	Retail	Rental apartments	Single-family houses	Owner-occupied apartments
 Zurich	10 th percentile	250 ↗	280 ↗	240 →	5,050 ↘	5,860 ↗
	50 th percentile	490 ↗	700 ↘	370 ↗	8,090 ↘	11,110 ↗
	90 th percentile	760 ↗	1,450 ↗	550 ↗	14,710 ↘	16,430 ↗
	10 th percentile	170 →	180 ↗	220 ↗	4,660 ↗	5,130 ↗
	50 th percentile	290 →	350 →	280 ↗	7,530 →	7,860 ↗
	90 th percentile	520 →	720 ↘	400 ↗	13,730 ↗	12,630 ↗
 Berne	10 th percentile	210 ↗	260 ↘	200 →	4,440 →	4,930 ↗
	50 th percentile	280 →	540 ↘	270 →	6,960 →	7,820 →
	90 th percentile	370 ↘	1,260 ↘	380 →	10,830 →	12,260 ↗
	10 th percentile	130 ↗	170 →	170 →	3,190 →	3,470 ↗
	50 th percentile	230 ↗	330 ↗	220 →	5,000 →	5,400 ↗
	90 th percentile	360 ↗	970 ↗	290 →	7,780 →	9,320 ↗
 Basel	10 th percentile	170 →	230 ↗	180 →	3,150 ↘	5,200 →
	50 th percentile	250 →	330 →	220 →	4,820 →	6,650 →
	90 th percentile	320 →	830 ↘	270 →	7,700 →	9,700 ↘
	10 th percentile	150 →	140 →	170 →	3,720 ↘	4,230 →
	50 th percentile	230 →	270 ↘	210 →	5,650 ↘	5,650 →
	90 th percentile	320 →	500 ↘	260 →	9,050 →	8,040 →
 Lausanne	10 th percentile	180 ↗	170 →	190 ↗	3,620 ↘	5,650 ↗
	50 th percentile	270 ↗	270 ↘	250 ↗	5,780 ↘	7,490 ↗
	90 th percentile	360 ↗	530 ↗	330 ↗	9,310 ↘	10,960 →
	10 th percentile	160 →	130 ↘	190 ↗	3,840 →	5,050 ↗
	50 th percentile	250 ↗	250 ↘	240 ↗	6,140 →	6,540 ↗
	90 th percentile	360 ↗	470 →	320 ↗	9,920 →	9,480 ↗
 Geneva	10 th percentile	350 ↘	340 ↗	230 ↘	4,940 ↗	8,430 ↗
	50 th percentile	630 →	610 ↗	340 →	8,010 →	11,710 ↗
	90 th percentile	900 ↗	1,430 →	530 →	12,740 →	17,020 →
	10 th percentile	240 →	210 ↗	230 →	5,340 ↗	6,910 ↗
	50 th percentile	410 ↗	350 →	320 →	8,890 ↗	10,860 ↗
	90 th percentile	680 →	690 →	480 ↗	14,400 ↗	15,260 ↗
Switzerland	Median	190 →	220 →	190 →	4,790 ↗	4,880 ↗

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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