

Swiss economy

Recession in Switzerland has intensified

Against the background of an intensifying global recession, the outlook for the Swiss economy has become bleaker since the first quarter of 2009. While healthy domestic output and consumer spending had initially helped sustain GDP growth and delay the downturn until the end of 2008, the Swiss retail sector is now slowing whilst exports continue to decline. As a result, the State Secretariat of Economic Affairs (SECO) recently corrected its economic forecast for Switzerland downwards. Real GDP is currently expected to decline by 2.7 percent (compared with -2.2 percent in the preceding forecast), and to contract by a further -0.4 percent in 2010. An even more pessimistic scenario of -3.3 percent and -0.6 percent respectively is provided by the KOF Swiss Economic Institute. However, there are signs that the trough of the economic crisis has been reached in most major OECD countries. As such Switzerland can be expected to make a slow recovery after 2010.

Rising unemployment until the end of 2010

Over the coming months, Swiss unemployment is set to increase. According to most recent SECO and KOF forecasts, the annual average unemployment rate is likely to peak between 5.5 and 6.0 percent in 2010.

Expansionary monetary conditions continue

In its June statement the Swiss National Bank (SNB) announced a continuation of its expansionary monetary policy throughout the economic crisis. However, with the current reference rate at 0.25, the potential for further rate cuts has been technically exhausted, unless negative interest rates are reintroduced in Switzerland.

Consumer confidence deteriorates

The consumer confidence index dropped significantly from -23 to -38 during the second quarter of 2009.

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 (06/2009)	3.6%	↗
Total employment (FTE, 2009, Q1)	3,329,400	↘
Share of service employment (FTE, 2009, Q1)	70.6%	→
Disposable household income (CHF p.a., 2007*)	75,300	↗
Monthly inflation (06/2009, year-on-year)	-1.0%	↘
New variable mortgage rate (06/2009)	2.75%	↘
10-year confederation bond yield (06/2009)	2.48%	↘
Libor CHF 3 months (06/2009)	0.34%	↘
5-year CHF SWAP rate (21/07/2009)	1.99%	↘
10-year CHF SWAP rate (21/07/2009)	2.81%	↗
Consumer sentiment index (2009, Q2)	-38	↘
Change in retail turnover, real (05/2009)	-1.4%	↘

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

Prime yield: Net initial yield for prime property.

*most recent available data.

Sources: BFS, SECO, IMF, SNB, UBS

Office market

A temporary upswing in the asking price index

The recent upswing in the Swiss office price index can be attributed to the fact that more high-grade office space is being offered on the market, as offices even in CBD areas have become available. The deepening recession is likely to cause a market correction in the coming months.

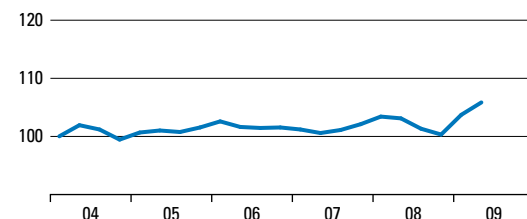
Healthy demand for prime office space in Geneva and Lausanne

Top segment demand remained intact particularly in the two French-speaking centres of Geneva and Lausanne, where prime rents tended upwards in the second quarter of 2009. In the centre of Zurich, prime rents of CHF 1,000 per sqm p.a. can still be observed. However, ongoing construction of new office space elsewhere could soon have an impact on demand even in the prime market segment.

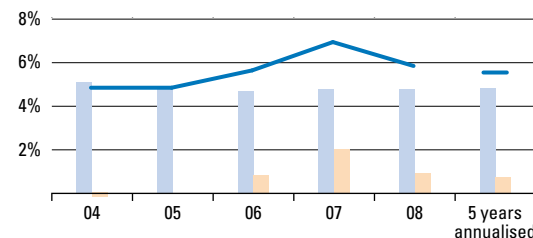
Transaction prices continue to rise

Despite moderate transaction volumes and the subdued outlook for the Swiss office market, transaction prices for commercial property in prime locations are still on the increase. This is on one hand due to continuing demand for commercial property as an investment vehicle, and on the other hand due to a limited supply of Grade A office space at prime city locations.

Asking price index (Q1 2004 = 100)



Total return (income return; capital growth)



	Office Stock (sq m, 2007)	Planning appl. (m CHF, 2009 Q2)	Vacancy rate (2008)	Supply rate (2009, Q2)	Asking prices (Median 2009, Q2)	Prime rents (2009, Q2)	Prime yields (2009, Q2)
Zurich	8,781,600 →	331.5 →	2.9% ↘	6.3% ↘	300 ↗	1,000 →	4.0% ↗
Berne	2,014,400 →	0.0 ↘	1.9% ↘	3.2% ↘	230 →	440 →	4.3% ↗
Basel	4,180,400 →	8.0 ↘	1.9% ↗	4.9% →	230 ↗	450 ↘	4.4% ↗
Lausanne	2,055,700 ↗	10.4 ↘	— —	4.1% ↘	240 →	480 ↗	4.4% ↗
Geneva	3,286,100 →	31.8 →	2.2% ↗	7.9% →	420 ↗	1,000 ↗	4.1% ↗
Switzerland	49,585,400 →	2,133.6 →	— —	6.3% ↘	190 →	— —	— —

Retail market

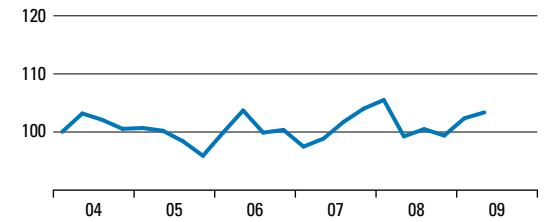
Overall increase in asking prices ...

Once again the overall asking price index for the Swiss retail property market edged upwards in the second quarter of 2009. Particularly the cities of Zurich, Berne and Geneva saw average year-on-year prices rise by up to 10 percent, while retail rents in Basel have come under pressure due to rising supply levels and ongoing construction of new floorspace.

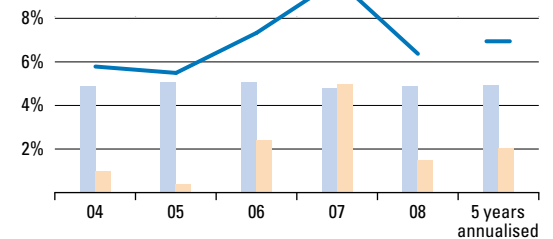
... but conditions are set to worsen

However, as conditions in Switzerland's retail sector have recently started to deteriorate, demand for retail premises is likely to reduce in the coming months. Retail turnover is 1.4 percent down on the previous year. In addition to that, consumer spending is expected to weaken further over the next few quarters in response to concerns about job security and rising unemployment. Given that construction activity is set to continue, as indicated by the level of planning applications for retail developments, a price correction - particularly in fringe areas - cannot be ruled out.

Asking price index (Q1 2004 = 100)



Total return (income return; capital growth)



	Retail Stock (sq m, 2007)	Planning appl. (m CHF 2009, Q2)	Vacancy rate (2008)	Supply rate (2009, Q2)	Asking prices (Median 2009, Q2)	Prime rents (2009, Q2)	Prime yields (2009, Q2)
Zurich	1,833,900 →	2.2 ↗	0.4% ↘	1.2% →	350 ↗	6,300 ↘	4.0% ↗
Berne	934,100 ↗	0.0 ↘	0.0% →	1.5% ↘	350 ↗	4,000 ↗	4.1% →
Basel	842,000 ↗	351.3 ↗	1.4% →	5.3% ↗	260 →	2,400 ↘	4.3% ↗
Lausanne	457,800 →	12.0 ↗	— —	3.7% →	260 →	2,400 ↘	4.3% →
Geneva	622,600 →	5.2 ↗	1.9% ↘	3.0% ↘	350 ↗	5,800 ↘	4.0% ↗
Switzerland	31,422,400 ↗	954.4 →	— —	1.2% →	240 ↗	— —	— —

Residential Market

Rental levels have remained stable until now ...

Up until now, the residential market has been relatively robust throughout the current economic crisis. Average rental levels have remained largely stable in the major cities, with only the top end of the market experiencing some downward pressure on rents.

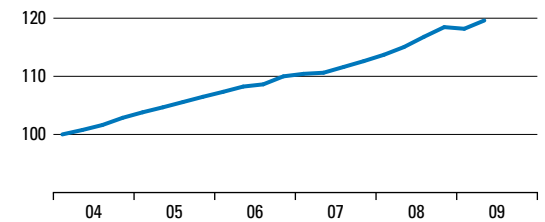
... but downward pressure can be expected

However, a delayed reaction to deteriorating conditions in the Swiss labour market - and as a consequence a decline in inward migration - can be expected. Indeed, as preliminary figures by the Federal Statistical Office indicate, the level of inward migration to Switzerland has already started to slow. Cities that have seen the highest demand for rental apartments from foreigners, most notably Zurich and Geneva, are likely to be most affected.

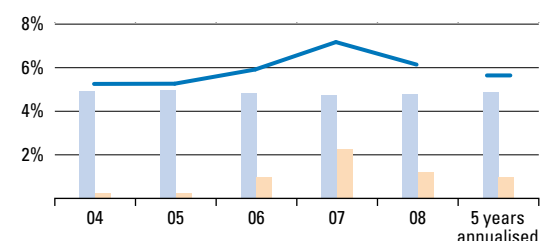
Less transactions in large scale developments

Whilst investment activity in large residential schemes has declined considerably, several transactions of smaller properties particularly in the Greater Zurich region have been observed in recent months.

Asking price index (Q1 2004 = 100)



Total return (income return; capital growth)



	Number of Apartm. (2007)	Planning appl. (m CHF 2009, Q2)	Vacancy rate (2008)	Supply rate (2009, Q2)	Asking prices (Median 2009, Q2)	Prime rents (2009, Q2)	Prime yields (2009, Q2)
Zurich	172,500 ↗	838.2 ↘	0.0% →	2.6% ↗	280 →	560 ↘	3.9% →
Berne	57,700 →	138.6 ↗	0.5% →	6.1% ↗	220 →	360 →	3.9% →
Basel	76,500 →	87.1 ↘	1.4% ↘	7.6% ↗	210 ↗	400 ↗	4.1% →
Lausanne	58,600 ↗	249.9 ↗	0.1% ↘	2.9% ↘	240 →	390 ↗	4.2% ↘
Geneva	81,400 →	213.8 ↗	0.2% →	1.1% →	320 ↗	600 ↘	3.9% →
Switzerland	2,010,600 →	15,246.4 ↗	1.4% ↘	5.1% →	190 →	— —	— —

Single-family houses

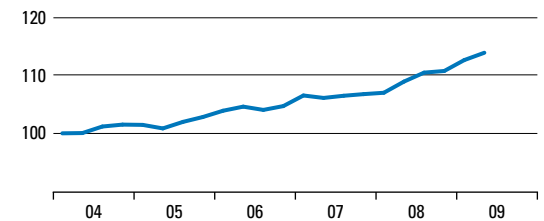
House prices still on an upward trend

The overall price trend in Switzerland's single-family housing sector remained positive during the second quarter of 2009. In Geneva, a region which experienced signs of an overheating housing market last year, both asking and transaction prices increased further in a year-on-year comparison. The current low interest rate level is likely to help sustain demand for residential property.

Slowdown in some tourist regions continues

The slowdown in the asking price development in tourist hotspots such as Bagnes/Verbier, which started at the end of 2008, continued throughout the last quarter.

Asking price index (Q1 2004 = 100)



Major cities

	Number of houses (2007)	Market value (m CHF 2009, Q1)	Planning appl. (m CHF 2009, Q2)	Vacancy rate (2008)	Supply rate (2009, Q2)	Asking prices (Median 2009, Q2)	Transaction prices (av. object 2009, Q2)
Zurich	8,720 →	12,890 ↗	17.9 ↗	0.0% →	1.3% →	7,690 ↗	12,140 →
Berne	3,840 →	3,660 ↗	2.8 ↗	0.0% →	2.6% ↗	4,900 ↘	7,710 →
Basel	5,800 →	6,960 ↗	3.0 ↘	0.1% →	1.7% →	5,850 →	9,460 →
Lausanne	2,100 ↗	2,290 ↗	12.0 ↘	0.1% →	10.7% ↗	6,150 →	9,290 →
Geneva	770 ↗	1,430 ↗	0.0 ↘	0.1% ↘	11.0% ↗	9,330 ↗	15,500 ↗
Tourist destinations							
Saenen/Gstaad	1,000 →	1,240 →	14.9 ↗	0.0% ↘	1.1% →	9,100 ↗	10,300 →
St. Moritz	270 →	370 ↗	3.4 ↘	0.0% →	1.5% ↗	9,690 →	11,530 ↗
Davos	690 →	870 ↗	9.5 ↗	0.3% →	2.5% ↗	8,500 ↗	10,470 →
Ascona	720 →	1,110 ↗	8.6 ↗	0.8% →	7.1% ↗	10,750 ↗	13,090 ↗
Bagnes/Verbier	2,360 ↗	3,970 ↗	35.4 ↘	0.0% →	1.4% ↘	10,870 ↘	13,170 →
Zermatt	240 ↗	290 ↗	4.2 ↘	0.0% →	8.3% ↗	7,870 →	9,590 ↗
Switzerland	904,400 ↗	695,610 ↗	8,011.5 →	0.5% →	4.6% →	4,900 ↗	5,720 ↗

Owner-occupied apartments

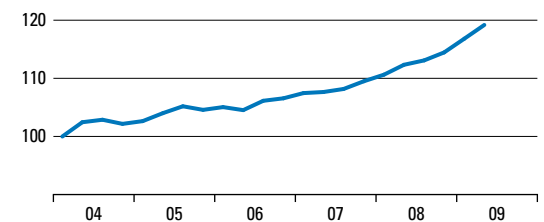
No signs of a housing bubble in Switzerland

In an international comparison, prices for owner-occupied apartments in Switzerland have risen only moderately over the last few years, even in the boom regions of Zurich and Geneva. Any foreseeable price corrections are therefore likely to be moderate. Stronger declines are expected in the Swiss tourist regions, where recent price hikes were driven by transactions for secondary homes.

Overall price trend still positive so far

However, given an overall price increase of 6 percent year-on-year, demand for apartments still appears to be intact.






Asking price index (Q1 2004 = 100)



Major cities

	Number of houses (2007)	Market value (m CHF 2009, Q1)	Planning appl. (m CHF 2009, Q2)	Vacancy rate (2008)	Supply rate (2009, Q2)	Asking prices (Median 2009, Q2)	Transaction prices (av. object 2009, Q2)
Zurich	23,320 →	18,640 ↗	838.2 ↘	0.0% →	2.6% →	7,780 ↗	8,600 ↗
Berne	11,310 →	6,430 ↗	138.6 ↗	0.1% →	4.0% ↘	5,320 →	6,110 ↗
Basel	14,600 →	8,910 ↗	87.1 ↘	0.6% ↗	3.4% ↘	5,600 →	6,450 →
Lausanne	10,800 →	6,910 ↗	249.9 ↗	0.1% →	5.2% →	6,510 ↗	6,980 ↗
Geneva	20,800 →	23,010 ↗	213.8 ↗	0.2% →	3.1% →	10,810 ↗	12,190 ↗
Tourist destinations							
Saenen/Gstaad	3,200 ↗	2,930 ↗	59.2 →	0.8% ↘	0.9% ↘	10,160 ↗	9,870 ↗
St. Moritz	3,300 ↗	3,700 ↗	20.5 ↗	0.0% →	2.4% ↗	11,370 →	11,990 ↗
Davos	5,700 ↗	4,140 ↗	88.9 ↗	1.2% →	6.5% ↗	7,530 ↗	7,790 ↗
Ascona	2,800 ↗	2,230 ↗	14.4 ↘	0.0% →	10.0% ↗	7,690 →	8,220 ↗
Bagnes/Verbier	5,200 →	6,010 ↗	19.1 →	1.2% →	1.8% →	12,260 ↗	12,210 ↗
Zermatt	3,400 ↗	3,170 ↗	18.0 ↘	0.0% →	2.3% ↗	9,680 →	9,770 ↗
Switzerland	911,800 ↗	492,470 ↗	15,246.4 ↗	0.5% →	6.1% →	4,950 ↗	5,220 ↗

Prices in the major cities (2009 Q2)

	Percentile	Office	Retail	Rental apartments	Single-family houses	Owner-occupied apartments
 Zurich	10 th percentile	270 ↗	290 ↗	240 ↗	5,320 ↗	6,260 ↗
	50 th percentile	520 ↗	690 →	390 ↗	8,490 →	11,740 ↗
	90 th percentile	860 ↗	1,480 ↗	580 ↗	16,070 ↗	17,390 ↗
	10 th percentile	170 ↗	190 ↗	210 →	4,780 ↗	5,050 ↗
	50 th percentile	300 ↗	350 ↗	280 →	7,690 ↗	7,780 ↗
	90 th percentile	530 ↗	760 ↗	400 →	14,610 ↗	12,590 ↗
 Berne	10 th percentile	210 →	230 ↘	200 →	4,330 ↘	4,910 ↗
	50 th percentile	280 ↘	520 ↘	270 →	6,810 ↘	7,850 ↗
	90 th percentile	360 ↘	1,240 →	380 →	10,870 ↘	12,270 ↗
	10 th percentile	130 ↘	190 ↗	170 →	3,120 ↘	3,410 →
	50 th percentile	230 →	350 ↗	220 →	4,900 ↘	5,320 →
	90 th percentile	350 →	1,000 ↗	290 →	7,830 ↘	9,140 →
 Basel	10 th percentile	170 →	230 ↗	180 →	3,270 ↘	5,240 ↗
	50 th percentile	240 →	320 ↗	220 →	4,780 ↘	6,540 →
	90 th percentile	320 →	830 →	280 →	7,730 ↘	9,300 ↘
	10 th percentile	160 ↗	140 →	180 ↗	3,940 →	4,230 →
	50 th percentile	230 ↗	260 →	210 ↗	5,850 →	5,600 →
	90 th percentile	320 ↗	490 ↘	270 ↗	9,440 →	7,890 →
 Lausanne	10 th percentile	170 →	180 →	200 ↗	3,790 →	5,400 →
	50 th percentile	260 →	290 →	260 ↗	6,060 →	7,600 ↗
	90 th percentile	360 →	570 ↗	340 ↗	9,600 ↘	10,590 ↘
	10 th percentile	150 ↘	130 →	180 →	3,840 →	5,040 ↗
	50 th percentile	240 →	260 →	240 →	6,150 →	6,510 ↗
	90 th percentile	350 →	480 →	310 →	9,760 ↘	9,540 ↗
 Geneva	10 th percentile	330 ↘	350 ↗	220 ↘	5,030 ↗	8,590 →
	50 th percentile	610 →	660 ↗	330 ↘	8,410 →	11,840 →
	90 th percentile	880 →	1,450 →	520 ↘	13,500 ↘	17,060 ↘
	10 th percentile	260 ↗	210 ↗	230 ↗	5,660 ↗	7,120 ↗
	50 th percentile	420 ↗	350 ↗	320 ↗	9,330 ↗	10,810 ↗
	90 th percentile	720 ↗	670 →	490 ↗	15,460 ↗	15,060 →
Switzerland	Median	190 →	240 →	190 →	4,900 ↗	4,950 ↗

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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