Zurich and Geneva Property

SECOND QUARTER 2006

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In Zurich, office rents remain stable, availability decreased & demand increases.

In Geneva, office rents remain stable throughout the city, vacancy rate is below 2%.

Market Overview

Zurich and Geneva, Switzerland's two largest economic centres, offer leading financial institutions and service-providers key advantages: a highly qualified workforce, proximity to universities and research centres and to international financial institutions. These cities also have excellent international travel connections and a high standard of living. For these reasons, not mentioning the tax advantages, Zurich and Geneva can compete with top business locations throughout the world.

The commercial property markets in each of these two cities differ considerably. In Zurich, the annually measured vacancy rate increased further in 2005. The centre of the city was particularly strongly hit, as tenants were optimising their space use, taking advantage of lower rent levels and quality space available outside of the city. Banking and insurance back-office relocations from the CBD to locations such as Zurich–West, Altstetten, Oerlikon or the Glatt Valley were the feature of the market. However, we have again observed availability decrease in this calendar quarter. This could signal a turn in the market situation and create good conditions for new development. In the past two years, new office construction has been done primarily on a pre-let or built-to-suit basis. There is a number of projects with construction permit waiting to be realised.

The currently occuring absorption of the vacant space and the demand increase could mean that at least some of them might soon be realised.

In Geneva, the vacancy rate has decreased further in regard to the last quarter. Supply and demand are well balanced and new demand for large office space can only be satisfied with development projects. Planning activity is underway in major sub-markets and the airport region. The construction of these developments will only start with pre-lets in place.

Swiss economy, supported by foreign as well as domestic demand and industrial sector growth, has continued to grow in the first quarter. Further strenghtening is expected in 2006, followed by a slow-down in 2007. The GDP growth is now forecasted at 2.0% in 2006 and 1.5% the year after. The unemployment rate has dropped and the forecasts are at 3.4% for 2006 and 3.1% for 2007, compared to 3.8% in 2005. Price development remains stable. The overall inflation continues to be pushed by high oil prices and is expected to reach 1.1% this year and 0.9% in 2007. Interest rates increased slightly, but remain low in a long-term comparison. The redemption yields on 10-year government bonds increased by 30 percentage points to just over 2%.

2nd QUARTER AT A GLANCE

Zurich

Supply ↘

Vacant ↘

Rents →

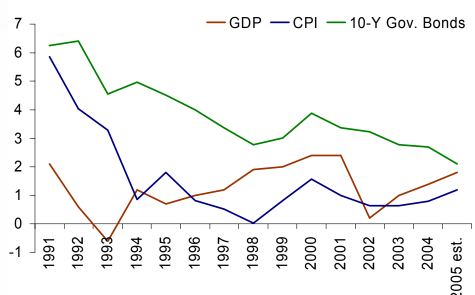
Geneva

Supply →

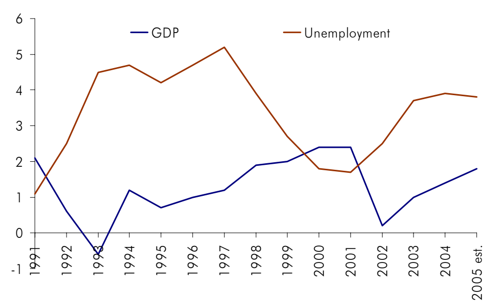
Vacant →

Rents →

SWISS ECONOMIC INDICATORS



UNEMPLOYMENT IN SWITZERLAND



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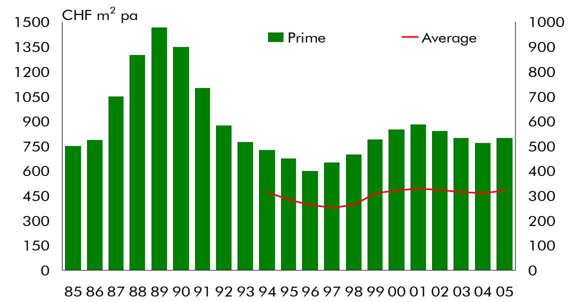
ZURICH
PRIME & AVERAGE RENTS



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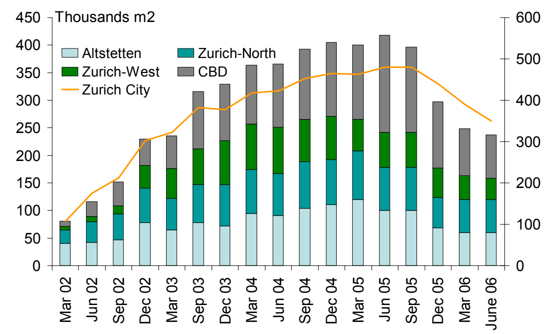
ZURICH
OFFICE SPACE AVAILABILITY



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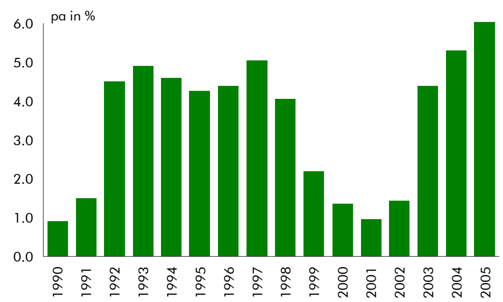
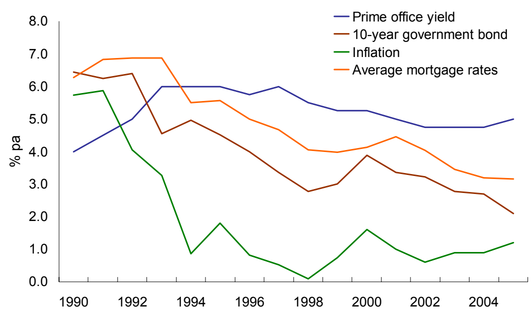
ZURICH
VACANCY RATE



Source: Stat. Office City of Zurich

ZURICH
PRIME OFFICE YIELDS



Source: CB Richard Ellis – PI Performance

Office Rents

In the 2nd quarter the rents still remain stable, even though the prime rental values start to increase. Economic upturn and demand increase could begin to cause rental growth later this year. In the 2nd quarter, the top rents for the best locations in the city centre remained stable between CHF 780 and CHF 800 /sq m/annum and the highest asking rents reached CHF 850 /sq m/annum for properties on Bahnhofstrasse. In Zurich-West, average asking rents remained stable at around CHF 260-270 /sqm/annum, in Zurich-North, they have increased slightly from CHF 240 /sq m/annum to around CHF 250 /sq m/annum. In Zurich-Altstetten, average asking rents reached again around CHF 220 /sq m/annum. The average rent for the city as a whole remains stable at around CHF 320-340 /sq m/annum.

In Geneva, the commercial property market remains stable in the 2nd quarter. Rents in the city centre and other areas remained unchanged during the last quarter as a result of both restricted supply of office space but sustained demand from multinationals, governmental and non-governmental organisations related to the United Nations. CBRE-PI estimates that the top rent in the city centre is currently around CHF 710 /sq m/annum; the highest asking rents reach CHF 900/ sq m/annum for premises located in the heart of the CBD. In the rest of the city, the average rent is around CHF 310 / sq m/annum.

Office Demand

The current market situation in Zurich remains convenient for tenants looking to improve their location and able to take advantage of the favourable rental conditions. Tenants can still optimise their space use by re-sizing, moving to more efficient premises and/or negotiating more favourable terms with regard to the tenant incentives and rent levels currently available in the market.

The trend of a picking up demand for office space has continued in the 2nd quarter. Especially CBD locations such as Bahnhofstrasse and Enge show an unchanged high demand for office space. This trend could cause a rental growth later this year.

The market in Geneva remains liquid and positive. Geneva is one of the top cities for relocation projects. Supply and demand are evenly balanced. Keen interest continues to be shown by multinationals, the financial and public sector. The main demand is for properties in the 300 to 1’000 sq m range. However, space requirements of up to 20’000 sq m can be satisfied only from specially designed new buildings.

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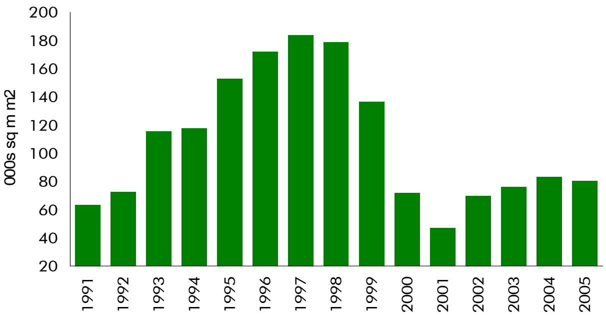
Office Supply

In Zurich, around 350'000 sq m or 5.9% of the total office stock were available at the end of Q2. Availability decreased again compared to the last quarter. The strongest availability decline has again occured in CBD, but also Zurich-West shows a clear availabilty decline, the existing vacant space gets slowly absorbed. In Zurich-North and Zurich-Altstetten the availabilty has remained more or less stable.

We estimate that around 40'000 sq m of new office stock will be delivered to the market in Zurich in the next two quarters. The developments are schemes which have been started in 2004 and 2005, some with pre-lets in place. Furthermore, development planning has continued, especially in former industrial areas such as Maag, Escher-Wyss, Löwenbräu or Zurich-North.

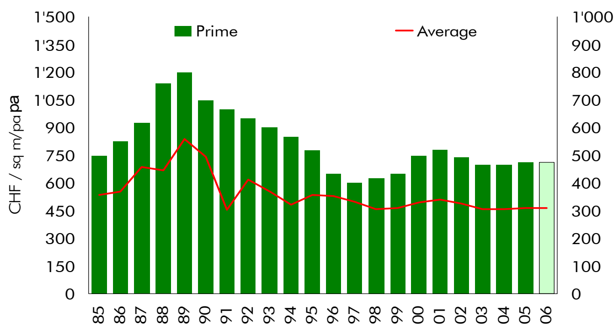
In Geneva, the annual vacancy recorded (measured at mid-year) decreased further from 2.0% in 2003/2004 to 1.93% in 2004/2005. Mainly small to medium premises are vacant, though there are also some spaces of over 1'000 sq m. The total office space available is 62'400 sq m for the city and 61'600 sq m for the canton (excluding city). In the next 6 to 12 months (2007), approximately 45'000 sq m of existing office space will become available on the letting market. However, for spaces over 10'000 sq m, can only be offered to potential tenants by developments with approximately 158'600 sq m of office space under construction. Although 141'500 sq m of this is already pre-let or for owner occupiers, planning permission has been granted for a further 45'500 sq m of office space in the Geneva region.

GENEVA VACANT SPACE



Source: OCSTAT

GENEVA PRIME & AVERAGE RENTS



Source: CB Richard Ellis – PI Performance

	AREA AVAILABLE	STOCK *	SHARE	PRIME / AVERAGE RENT	NEW CONSTRUCTION		
	2Q06 Sq m	Sq m	%	2Q06 Sq m	Completions 2004 Sq m	Completions 2005 Sq m	Outlook 2006 Sq m
Zurich City Centre	79 000	1 840 700	4.3	850/520	5 000	-	15 000
Zurich West	38 000	628 000	6.1	260 – 270	10 000	-	15 000
Zurich North	60 000	640 400	9.4	240 – 250	8 000	20 600	2 800
Zurich Altstetten	60 000	489 500	12.3	215 – 225	10 400	37 000	4 600
Total City of Zurich	350 000	5 899 580	5.9	320 – 340	46 600	57 600	51 000
Total City of Geneva	62 400	2 560 000	2.4	310	17 000	7 000	51 500
Geneva City Centre	37 500	1 077 000	3.4	710/430-450	-	-	-
Canton of Geneva (incl. City)	124 000	4 160 000	2.9	260-280	99 000	7 000	68 000
*Source Stat. Office City of Zurich / OCSTAT							

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DEVELOPMENT AREAS

Zurich-West: The Josef and Heinrich mixed-use development is one of the largest currently under construction in the area. It includes 15'000 sq m of office space. Significant planning activity is under way for major projects in former industrial zones such as Escher-Wyss, Löwenbräu or Maag, where Switzerland's highest office tower (Prime Tower) with 35'000 sq m is beeing planned.

Zurich-North: Tailor-made buildings and pre-lets dominate the market in this part of the city.

Zurich-Altstetten: The UBS mixed-use development of Luwa Areal (13'500 sq m) is currently the largest office scheme under construction in this part of the city. A mixed use building, the Greenpark Letzi has been completed this quarter. Another mixed use building (Hof zur roten Buche) which was expected to be finished this quarter will not be completed until the next quarter.

Zurich-South: Construction continues on Sihlcity, an ambitious shopping, leisure and commercial centre project. Completion is planned for early 2007. On the former Huerlimann Area, further phase of the City-South development with 10'000 sq m in Building DL3 is scheduled for completion in autumn 2006.

Glattal: Two major office developments (2Sides, Light Cube) with 34'000 sq m are currently underway in the area. Planning activity is intensive in this part of the agglomeration with a total number of projects being planned or waiting for pre-lets reaching 90'000 sq m. The Glattvalley is the area with Switzerland's greatest economic development potential. The core of this development area, the future Glattpark, is intended for mixed use, with residential and office buildings as well as a park and an artificial lake. The first phase of the planned Glattal rail link is under construction and will become operational in 2006.

Geneva: expanded Airport region: Geneva's biggest market area, with development as the Blandonnet III & IV project (30'000 sq m) the Lumion II et III (15'000 sq m), the l'Arc building (13'000 sq m). The construction of the Casai58 project (7'000 sq m) and the Patio Plaza (12'000 sq m) have started with completion in Q1 2007.

Acacias/Lancy: the future headquarter of Pictet & Cie Bank, with 40'000 sq m of service space, will be operational at the end of 2006 and a tailor made building with 20'000 sq m entirely pre-let to Procter & Gamble is currently under construction (completion in 2007). Several development projects requiring re-zoning are projected in this area.

Cornavin (station): The submarket is dominated by the Serono office building near completion (50'000 sq m).

Golden Rectangle: a cross-border development area between Switzerland and France is a potential for the expansion of Geneva in the long-term.

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