

Zurich and Geneva Property

FOURTH QUARTER 2005

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. The new office spaces that have been built in these locations in the last five years get slowly absorbed, causing increase of vacancy in secondary locations. New office construction is done primarily on a pre-let or built-to-suit basis with a number of projects with construction permit waiting to be realised.

Nevertheless, major planning activity is underway for former industrial zones in and around Zurich. Maag, Escher-Wyss, Altstetten, Oerlikon or Löwenbräu are among the most significant development areas.

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, has grown moderately in the first half of the year. Further strengthening is expected in the first half 2006. The GDP growth is now forecasted at 1.5% in 2006. Consumer spending has grown relatively strongly but this is likely to be an effect of the weak results in 2004. The Swiss economy continues to be affected by relatively high unemployment (for Swiss standards). Unemployment rate forecasts are at 3.8% for 2005 and 3.6% for 2006. Price development remains stable. The overall inflation, however, is pushed by high oil prices and is expected to reach 1.1% this year and 1.0% next year. Interest rates remain low. The redemption yields on 10-year government bonds are below 2% since June 2005.

In Zurich, office rents stabilised, availability decreased & demand increases.

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

4th QUARTER AT A GLANCE

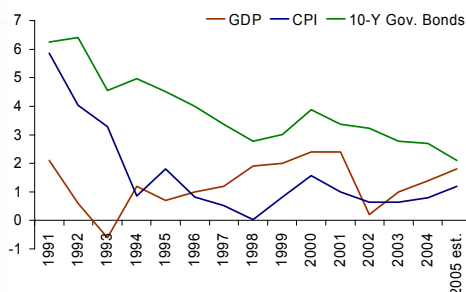
Zurich

- Supply →
- Vacant →
- Rents →

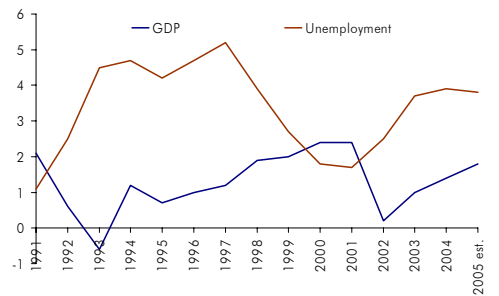
Geneva

- Supply ↑
- Vacant →
- Rents →

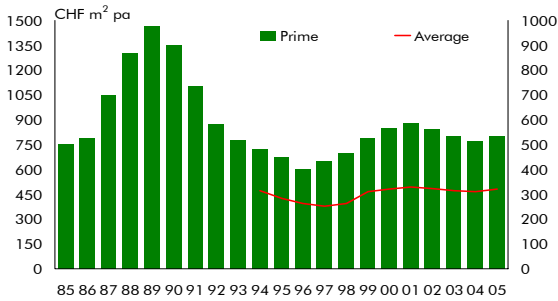
SWISS ECONOMIC INDICATORS



UNEMPLOYMENT IN SWITZERLAND

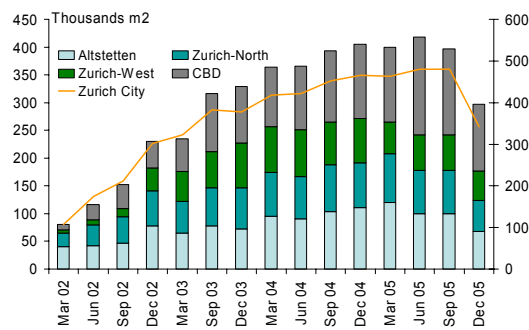


ZURICH
PRIME & AVERAGE RENTS



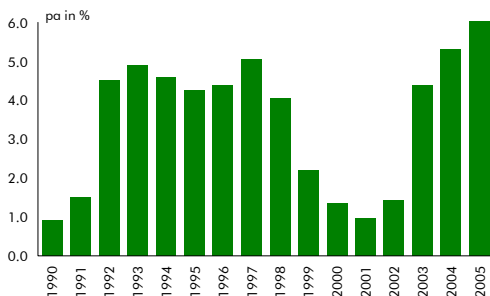
Source: CB Richard Ellis – PI Performance

ZURICH
OFFICE SPACE AVAILABILITY



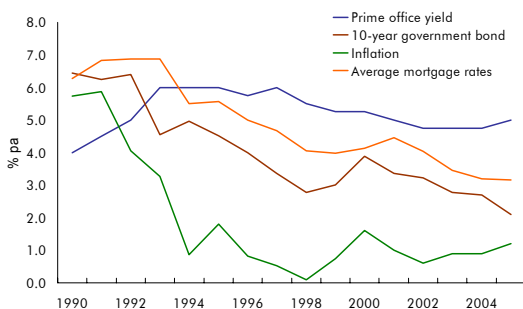
Source: CB Richard Ellis – PI Performance

ZURICH
VACANCY RATE



Source: Stat. Office City of Zurich

ZURICH
PRIME OFFICE YIELDS



Source: CB Richard Ellis – PI Performance

Office Rents

No significant change in rental levels was recorded in the 4th quarter and rents seem to remain stable. Expectations of economic upturn and demand increase could be the reason for the current development. Another reason may be the increasingly common use of tenant incentives such as rent free periods, phased rent or fit-out financing. In the 4th quarter, the top rents for the best locations in the city centre were 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 and Zurich-North, average rents remained stable at CHF 270 and CHF 245 /sq m/annum respectively. Also in Zurich-Altstetten rents are stabilised around CHF 220 /sq m/annum. The average rent for the city as a whole is around CHF 320-340 /sq m/annum.

In Geneva, the commercial property market remains stable in the 4th 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 winners in the current market situation in Zurich are potential users looking to improve their location and able to take advantage of the breadth of properties on offer. Tenants can optimise their space use by re-sizing, moving to more efficient premises and/or negotiating more favourable terms with regard to the abundant supply of properties of all sizes and rent levels currently available in the market.

Demand for office space appears to have picked up toward the end of the year. Most significant take-up occurred in the CBD, where companies with smaller numbers of employees take advantage of lower rents and expand into larger premises or relocate from outskirts to more prestigious locations.

The market in Geneva shows more positive signs. 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.

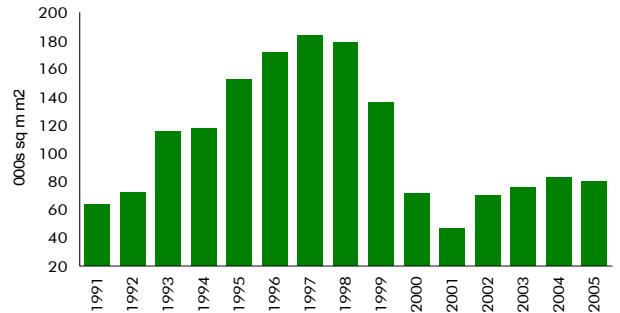
Office Supply

In Zurich, around 480'000 sq m or 5.8% of the total office stock were available at the end of Q4. Availability decreased strongly compared to the last quarter. The annual vacancy (measured annually at mid-year) recorded further increase from 5.3% in 2003/2004 to 6.23% in 2004/2005. In areas such as Zurich West (7.8% to 11.0%), City (3% to 6%), Seefeld-Mühlebach (1.6% to 4.7%) or Seebach (11.7% to 14.4%) the increase was most pronounced. There were few submarkets where vacancy decreased; most notably Oerlikon (8.5% to 7.4%) or Enge (4.9% to 3.5%).

57'600 sq m of new office stock were delivered to the market in Zurich in 2005. Despite the subdued state of the market during most of the year, development and planning continues especially in former industrial areas such as Maag, Escher-Wyss, Löwenbräu or Zurich-North. At the same time, speculative development is limited and majority of schemes under construction have pre-lets in space. Those with permits in place postpone the construction start until pre-lets have been secured.

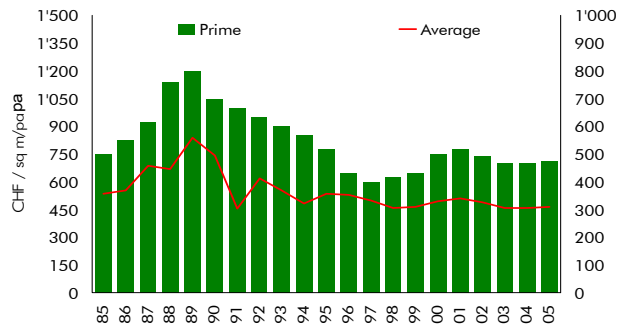
In Geneva, the annual vacancy recorded (measured at mid-year) decreased further from 2.0% in 2003/2004 to 1.93% in 2004/2005. Mainly small to medium premises are vacant, though there are also some spaces of over 1'000 sq m. The total office space available is 66'500 sq m for the city and 62'700 sq m for the canton (excluding city). In the next 12 to 18 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 Elli – PI Performance

	AREA AVAILABLE	STOCK *	SHARE	PRIME / AVERAGE RENT	NEW CONSTRUCTION		
	4Q05 Sq m	Sq m	%	4Q05 Sq m	Ready 2004 Sq m	Completions 2005 Sq m	Outlook 2006 Sq m
Zurich City Centre	120 000	1 840 700	6.5	800/550-530	5 000	-	15 000
Zurich West	53 000	628 000	8.4	260-280	10 000	-	15 000
Zurich North	56 000	640 400	8.7	240-260	8 000	20 600	2 800
Zurich Altstetten	68 000	489 500	13.9	220-240	10 400	37 000	4 600
Total City of Zurich	342 000	5 899 580	5.8	320 - 340	46 600	57 600	51 000
Total City of Geneva	66 500	2 560 000	2.6	310	17 000	7 000	63 000
Geneva City Centre	37 000	1 077 000	3.4	710/430-450	-	-	-
Canton of Geneva (incl. City)	129 200	4 160 000	3.1	260-280	99 000	7 000	68 000

*Source Stat. Office City of Zurich / OCSTAT

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 with 35'000 sq m is being planned.

Zurich-North: Tailor-made buildings and pre-lets dominate the market in this part of the city. There were no new completions in the last quarter.

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.

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 of space in Building DL3 is scheduled for completion in Autumn 2006.

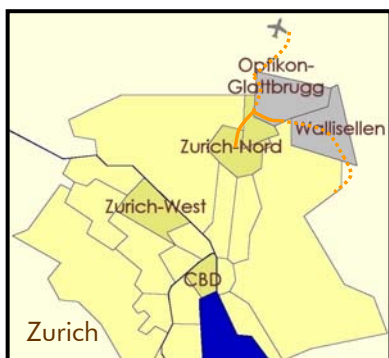
Glattal: Two major office developments (2Sides, Light Cube) with 34'000 sq m are currently underway in the area. Planning activity is intensive in this part of the agglomeration with a total number of projects being planned or waiting for pre-lets reaching 90'000 sq m. The Glattvalley is the area with 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 – which will greatly increase the attraction of the region – is under construction and will become operational in 2006.

Geneva: expanded Airport region: Geneva's biggest market area, with development offering large office spaces as the Blandonnet III & IV project (30'000 sq m) the Lumion II et III (15'000 sq m), the Patio Plaza (12'000 sq m) and the l'Arc building (13'000 sq m). The construction of the Casai 58 project (7'000 sq m) has started with completion in 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).

Cornavin (station): The submarket is dominated by the Serono office building under construction (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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