

# Zurich and Geneva Property

FOURTH QUARTER 2006

## Market Overview

### • Stabilised economic development

By international comparison, the Swiss economy is characterised by a low rate of inflation and unemployment. In 2006, GDP growth is expected to reach 2.7%. For 2007, due to the expected general slowdown in the world economy, a GDP growth of 1.7% has been forecasted. The unemployment rate is expected to reach an annual average of 3.3% in 2006, which means a decrease compared to 2005 with a rate of 3.8%. Forecasts for 2007 assume a further decrease to an average of 2.8%. Price development remains rather stable. The overall inflation is expected to reach 1.2% this year and 1.0% in 2007.

### • Zürich vacancy rate decreased for the first time since 2002

Due to the improved demand and new development focused on pre-let schemes, office vacancy decreased from 6.23% in 2005 to 4.75% in 2006. This is still way above the vacancy rate of 0.96% in 2001, the lowest rate of the last decade.

### • Geneva vacancy rate dropped further and is below 1.5%

### • Availability remains stable

In Zurich, the return to the city centre continues and CBD availability decreased again in Q4 2006. Overall, the office space availability remained unchanged.

In Geneva, the overall availability decreased slightly in Q4.

### • Improved take-up

In Zurich, take-up has been good throughout the year, absorbing the vacant space. Lettings averaged 550 sq m at CHF 410 per sq m pa. A large deal of 11'500 sq m could be signed at the end of the year.

### • Rents still stable, but not for much longer

In Zurich, as office space availability in the city centre decreases, a slight rise in the asking prices has been recorded. Overall rents remain stable, but a change could be at hand.

In Geneva, asking rents have started to increase due to a strong demand from financial and trading companies.

### • High development activity

In Zurich, close to 60% of the 2006 completions were finished in Q4 2006. The outlook for the next quarter is also strong.

Geneva has recorded a high development activity in 2006, a trend which is expected to continue in 2007.

In Zurich, the office market strengthened in 2006. Take-up was good and vacancy dropped for the first time in 5 years. New developments still concentrate on pre-let schemes.

In Geneva, office rents start to increase in the CBD, availability has further decreased and the vacancy rate is below 1.5%.

## 4<sup>th</sup> QUARTER AT A GLANCE

### Zurich

Supply →

Vacant →

Rents →

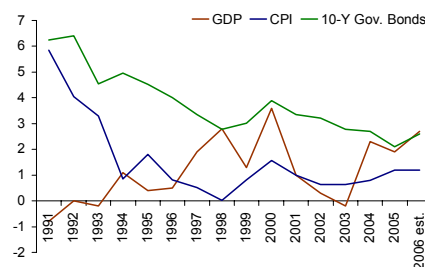
### Geneva

Supply →

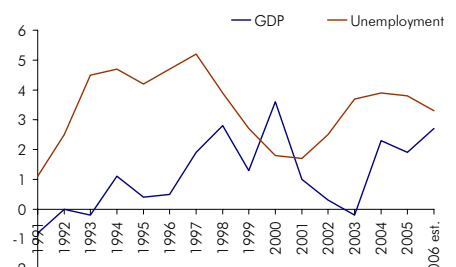
Vacant →

Rents →

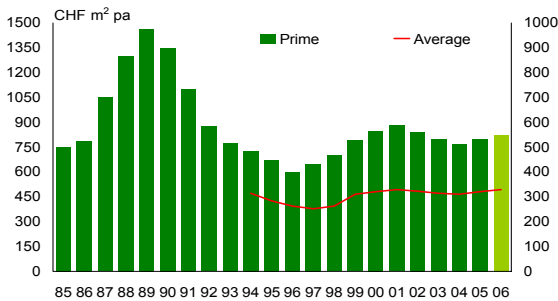
SWISS ECONOMIC INDICATORS



UNEMPLOYMENT IN SWITZERLAND

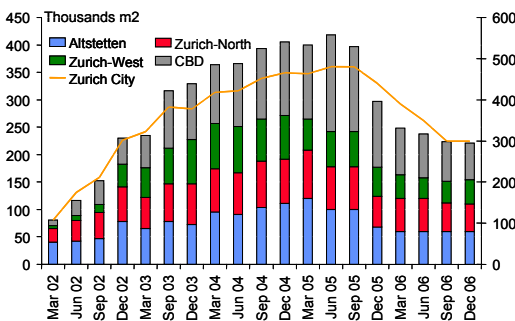


**ZURICH**  
**PRIME & AVERAGE RENTS**



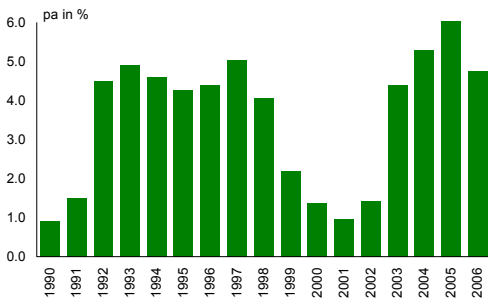
Source: CB Richard Ellis – PI Performance

**ZURICH**  
**OFFICE SPACE AVAILABILITY**



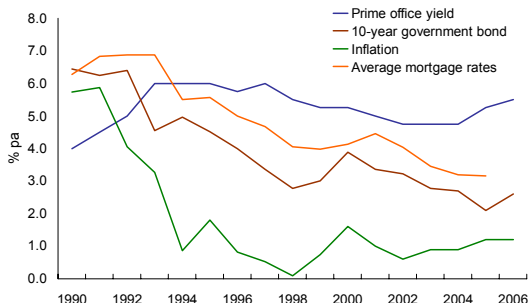
Source: CB Richard Ellis – PI Performance

**ZURICH**  
**VACANCY RATE**



Source: Stat. Office City of Zurich

**ZURICH**  
**PRIME OFFICE YIELDS**



Source: CB Richard Ellis – PI Performance

**Office Rents**

In quarter four, the rents overall continue to be stable. Prime rents and the prime rental values remain at the quarter three level. However, continued demand could begin to put upward pressure on rents, especially in the city centre. The top rents for the best locations in the city centre remained stable between CHF 780 and 800 sq m pa and the highest asking rents reached CHF 850 sq m pa for properties on Bahnhofstrasse. In Zurich-West and Zürich-North, average asking rents remained stable at around CHF 250 sq m pa. In Zurich-Altstetten, they remained around CHF 220 sq m pa. The average rent for the city as a whole remains also stable at around CHF 320-340 sq m pa.

In Geneva, the commercial property market remains stable in the 4<sup>th</sup> quarter. Rents in the city centre and other areas have slightly increased during the last quarter as a result of both restricted supply of office space but sustained demand from multinationals, the finance sector and organisations related to the United Nations. CBRE-PI estimates that the top rent in the city centre is currently around CHF 720 sq m pa; the highest asking rents reach CHF 1'000 sq m pa for premises located in the heart of the CBD. In the rest of the city, the average rent is around CHF 320 sq m pa.

**Office Demand**

After the exodus caused by extremely high rents in unfavourable economic conditions, tenants are moving back to the CBD. As rents still remain at a much more affordable level and space is still more readily available, many have chosen to return or to expand here. Demand for historical, prestigious buildings with excellent infrastructure increased. Finance, consultancy and IT-companies rented space in prime location such as Fraumünsterstrasse (1'700 sq m), Badenerstrasse (1'000 sq m) and Werdstrasse (3'000 sq m). On the Hurliman site, a multi-use business and leisure area, Google has taken 11'500 sq m for its new headquarters. Out of town, Kraft Foods are moving their European headquarters from Vienna to the newly finished Light Cube with 13'500 sq m and Helsana took about 10'000 sq m in the 2Sides development.

The market in Geneva remains liquid and positive. Geneva is one of the top cities for relocation projects and financial activities. Strong demand continues to be shown by multinationals, the financial and public sector. Supply and demand are evenly balanced. Especially CBD and airport locations are demanded, which could lead to a rent increase within the next 6 months. The main demand is for properties in the 300 to 1'500 sq m range. However, space requirements over 10'000 sq m can be satisfied only from specially designed new buildings.

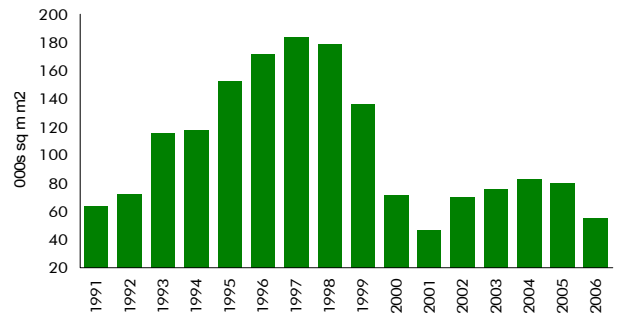
## Office Supply

In Zurich, around 300'000 sq m were available at the end of quarter four. Compared to quarter three, overall availability has stabilised. In CBD, availability decreased strongly by 6'000 sq m. Also Zürich-North experienced further availability decrease. In Zurich-West the availability has grown again, even though space has been taken in Technopark and in Hardturm area, due to the new development completions. In Altstetten availability remains high, especially for recently built office space.

We estimate that around 32'000 sq m of new office stock has been delivered onto the market in quarter four. This constitutes 60% of the total 2006 completions in the city. In addition, some major developments have been completed in the greater Zürich area. In Opfikon, 13'500 sq m Light Cube and in Dübendorf 20'000 sq m 2Sides developments have been completed and leased.

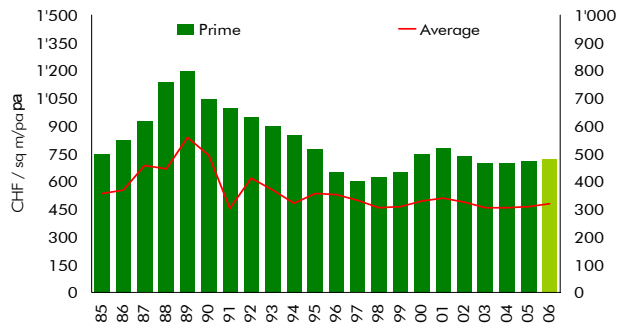
In Geneva, the availability has further decreased in regard to the last quarter. Mainly small to medium premises are vacant, though there are also some spaces of over 1'000 sq m. The total office space available is 59'300 sq m for the city and 60'400 sq m for the canton (excluding city). In the next 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 141'100 sq m of office space under construction. Although 77'000 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

	AVAILABILITY		PRIME / AVERAGE RENT	DEVELOPMENT SUPPLY PIPELINE		
	Q3 2006	Q4 2006	Q4 2006	Total Completions 2006	Under Construction	Expected Completions 2007
Zurich City Centre	73 000	67 000	850/500	16 800	7 000	5 000
Zurich West	39 000	44 000	355/250	15 000	-	-
Zurich North	52 000	50 000	350/250	3 000	-	1 300
Zurich Altstetten	60 000	60 000	330/220	4 000	6 000	6 000
<b>Total City of Zurich</b>	<b>300 000</b>	<b>300 000</b>	<b>320 – 340</b>	<b>53 000</b>	<b>50 000</b>	<b>30 000</b>
Geneva City Centre	30 500	29 500	720/440-480	0	53 600	50 000
Canton of Geneva (incl. City)	117 000	119 700	250-290	46 500	114 100	96 100
<b>Total City of Geneva</b>	<b>61 400</b>	<b>59 300</b>	<b>320</b>	<b>46 500</b>	<b>91 100</b>	<b>87 500</b>

## DEVELOPMENT AREAS

**Zurich-West:** The Josef office building with 15'000 sq m has been completed. Prime Tower, Switzerland's second highest building with 42'000 sq m of office space, has been approved for construction and looks for pre-lets. Significant planning activity is under way on surrounding industrial zones Escher-Wyss, Löwenbräu, Coop and Maag, where whole new city quarters are being planned.

**Zurich-North:** Tailor-made buildings and pre-lets dominate the market in this part of the city. New office completions were negligible in quarter four. No change is expected in the next 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. There were no new completions in quarter four. A large mixed use development is being planned at the train station.

**Zurich-South:** Sihlcity, an ambitious shopping, leisure and commercial development (18'000 sq m of office space) on a former industrial site will be completed in March 2007. On the Huerlimann brewery site, further phase of the City-South development with 14'800 sq m has been completed at the end of the year.

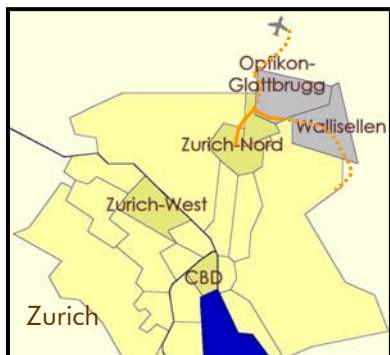
**Glattal:** Two major office developments (2Sides, Light Cube) with 34'000 sq m are now complete. Planning activity is intensive in this part of the agglomeration with a total number of projects being planned or waiting for pre-lets reaching 90'000 sq m. The Glatt valley is the area with Switzerland's greatest economic development potential. The core of this development area, the Glattpark, is being developed with a mixture of residential and office buildings as well as a park and an artificial lake. The Glattal rail link is under construction and going into its second phase.

**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) are under construction 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 which will be operational in January 2007 (50'000 sq m).

**Golden Rectangle:** a cross-border development area of 170 hectares between Switzerland and France is a potential for the expansion of Geneva in the long-term.



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