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« Dear Sir / Dear Madam »,

Our year-end letter has become a 15-year-old tradition. Its initial aim was to recapitulate, once a year, certain events that might influence the economic situation in Switzerland and, in particular, its real-estate sector. But Switzerland, perhaps less than any other country!, is not an island and globalization has rapidly encouraged us to take an interest in major underlying world trends – most of which are worrying, but evolving slowly. To return this year, as we will do here and there, to the debt situation or the ageing of our population, for instance, is not yielding to the temptation of repetition. We shall also allow ourselves one or two digressions and count on your indulgence in this respect.

Just for once, however, rather than starting with *"world affairs",* we shall open by evoking a Swiss-francophone topic that could be considered local. Over the past few months, the cantons of Geneva and Vaud have been shaken by various political scandals that have a number of aspects in common: questions of conflicts of interests, acceptance of unwarranted advantages, use of public funds for private purposes, suspicions of collusion or unhealthy links with actors in the private sector. We shall share our comments on some established facts without, however, denying before doing so that we feel a little uneasy about this issue. After *"#balance ton porc"*, *"#tous pourris"* (French-speaking equivalents of the "#Me Too" movement) is a now favourite epithet in the social media. And that is a pity. The principles of expeditious popular justice and summary execution reminiscent of a Wild West age we thought was well and truly over have reappeared on today's agenda. This is worrying, since people are disgraced and dishonoured before the facts can be correctly and objectively established. In Geneva, we shall confine ourselves to the example of a national (socialist) deputy and former mayor of the City of Geneva, Manuel Tornare, who was accused of excessive travel expenditures. Tornare, however, rapidly furnished an *a priori* credible explanation for his high travel expenses while he was a member of the Administrative Council: he had had to make several trips to China for the Shanghai Universal Exhibition. Similarly, regarding restaurant expenses singled out by his critics, the former elected official explained – quite convincingly – that they related to lunches with sponsors close to the City. It is not up to us or other citizens to judge at this stage whether these explanations are sufficient or entirely truthful; that is the job of the regulatory and judicial authorities.

As far as Manuel Tornare is concerned (as just **one example** in our commentary), examination of the affair is far from completed as we pen these lines; it is in fact just beginning. Yet considerable harm has already been done to him, as he has been described in the press as *"the decade's most*

spendthrift administrative councillor". We should remember that it is not a question of whether or not we like the socialist elected representative or whether his political views suit us, but rather of whether or not he has used public funds solely for the benefit of the community.

Similarly, in the Canton of Vaud, another socialist deputy, Géraldine Savary, is currently paying a high price for her seemingly close relationship with a foreign billionaire benefiting from a lump-sum tax arrangement in Switzerland: under pressure, Mrs. Savary decided not to stand for another term of office. Objectively, the donations received to help finance her electoral campaign were rather low; she is in disgrace although her strong commitment and political action are almost universally recognized. (**1**)

We find this worrying, given our conviction that the informal channels of consultation and exchange between representatives of the private economy and the political world ought to be preserved. For example, it would not really be desirable if an elected representative no longer dared to dine or travel with a business owner or other representative of the private sector for fear of arousing suspicion or denunciation. For that matter, if the type of airtight separation some dream of actually came into being, wouldn't politicians then be reproached for being cut off from their grass roots, from the on-the-ground realities, from the private sector which contributes to the State's resources? Doesn't the strength and exemplary character of our militia system rest on the proximity of our elected representatives with civil society and citizens? (**2**)

Furthermore, since this commentary aims to ensure that the trees don't hide the forest, let us declare that **our democratic system and its institutions work very properly**: in Geneva, it was the Court of Auditors (*Cour des comptes*) which raised the problem of city councillors' expenses and it is now the Public Prosecutor who conducts the inquiry according to his institutional mandate. Let justice follow its course and let us have faith in it. Given the means employed, if public funds have been used for private ends and if dishonest management is confirmed, this could then be clearly established in due course and sanctioned (under criminal law first and subsequently in the ballot boxes).

The general feeling of betrayal and waste is no less legitimate: if an elected representative "spontaneously" reimburses tens of thousands of francs, there has surely been a problem. Within the framework of how our administrative bodies are organized, the lack of internal rules of procedure in the City of Geneva's Administrative Council, setting out what costs are covered or not by the municipality, remains incomprehensible, particularly in view of the number of lawyers employed by the municipal services. The entire Administrative Council must take responsibility for this surprising shortcoming.

Nor is it inappropriate to mention, on the subject of mismanagement, a case that clearly reveals malfunctions at various levels of the Municipal Administration. When public opinion queries the CHF 17,000-worth of annual telephone charges incurred by a single City of Geneva Councillor, this is entirely justified. But we have to look beyond this single case, even though it was logical to focus on it at first: is **no one** employed by the City of Geneva, this big ***state enterprise*** with its large executive staff, to take care of negotiating (even individual) flat-rate telephone contracts? Do we

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[1] It should be pointed out here that we are intentionally taking the examples of two socialist elected officials are cited here in order to quash any suspicion of biased analysis on our part.

[2] We are aware of taking a risk in adopting this wait-and-see position: it is quite possible that revelations or sudden confessions may *a posteriori* prove right those who have already condemned all the protagonists (whether in the social media or in solemn press editorials). Nevertheless, we think that inquiries must be carried out according to the rules (and the secrecy of investigations be respected) and that the records of costs and expenses incurred by the persons involved should always be accompanied by adequate explanations.

really need to wait two or more years for the conclusion of a global framework contract? Where are the financial directors, the internal auditors, the purchasing managers? What are they doing if they are not attending to inefficiencies and pointless expenditures? To use a common expression: many could see that the tap or pipe was leaking but no one bothered to plug the leak! It is this culture, this wasteful system and this **lack of respect for the taxpayers' money** that needs to be denounced and reformed, rather than focusing exclusively on one or two elected representatives who merely operated within a lax system – which of course does not absolve them of their responsibility. In other words, it's no use tackling the head if the body is still diseased or doesn't function. (**1**)

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For Geneva's image, the issue of expense statements is particularly disastrous, given that our canton remains by far the most spendthrift in Switzerland.

Curiously, our city with its republican protestant tradition and left-wing majority in the Executive has developed some very *"monarchical"* and vertical reflexes in its conception and exercise of power: the City Councillors (and State Councillors as well) are, in spite of themselves, perceived as little kinglets who are frequently courted in the hope of securing their good graces and whom it is unwise to contradict. They themselves are not directly responsible for this; it is the system into which they are parachuted after an election, although some have trouble putting this into perspective. The (Scandinavian?) notion of the elected official as a servant of the community thus tends to get a bit lost.

Finally, this psychodrama is also distressing **because a large majority of politicians and elected representatives have a true sense of the public interest** and perform demanding and time-consuming functions that imply real sacrifices in terms of quality of life – sacrifices that should be recognized and for which we ought to be grateful.

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Let us look at another example of uncontrolled expenditures in a field we know well: **the City of Geneva is the biggest owner of rental properties on its territory**, i.e., of housing managed by the Municipal Real Estate agency (*Gérance immobilière municipale* (GIM)) at a cost of 50% to 100% above private real estate agency charges. Is this useful? Is it necessary? Wouldn't this at least merit a serious and objective comparative analysis? We can note here that the argument that the GIM plays a special social role does not hold water: all the private agencies also manage social housing, whether low- (*HBM*) or medium-cost (HLM), cooperatives, foundation-owned buildings, those belonging to other social organisms or those recognized as serving the public good like the Rentes Genevoises or the General Hospice (*Hospice général*)... Which indicates that private real estate agencies could easily contract to manage housing for the City of Geneva; they would respect the social aims in the same way that they do for other public owners and many municipalities. When,

[1] Speaking of malfunctions, we could mention that when the Geneva City Council forbids its city councillors to use credit cards, this attention to ridiculous details is another sign that it has lost its way...

then, might we hope to see the door open to transparent and fair competition for such management mandates?

This suggestion was in fact made by the Court of Auditors (*Cour des Comptes*) in a similar dossier: in 2016, having found substantial malfunctions (**1**) in the organization and practices of the Office of University Accommodation and Restaurants, the Canton's second-largest provider of student housing, the Court of Auditors had recommended a study of management outsourcing – a suggestion on which, to our knowledge, no further action has been taken.

And since the Geneva Court of Auditors has been given pride of place here, let us briefly mention that on several occasions it has also highlighted a lack of clarity in how housing is allocated in several municipalities. The most controversial case related to a town councillor, a member of a far-left political party in Carouge, who benefited from the *"express allocation"* of a relatively low-rent apartment. We note that while the intervention of an external service provider does not deprive the owner of its power to choose the tenant, it generally has the merit of acting as a neutral filter that discourages certain detours or subterfuges (which is probably why certain entities are not pleased to see such external service providers intervene!).

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Now for some digressions... The theme that could have underlain a substantial part of this letter is the paradox of the visible and the invisible, of what attracts attention and what goes unnoticed, of intriguing inconsistencies or the lack of proportion between what are often minor issues that *"create a buzz"* and those which, though more important or longer-lasting, go relatively unnoticed.

We devoted lots of space last year to the digital revolution and its resulting multiple disruptions, be they at the level of the brain and human psychology, the family unit, social organization, or private life... We shall not return to this subject; the *digital train* is en route... at a stupendous pace. We shall, however, focus on a point we think is very important: weapons of war and artificial intelligence. On this topic, a "science fiction" video on "killer bees" (programmed killer mini-drones) is an absolute must-see (http://bit.ly/2PxVyeJ). This sequence seems totally realistic, plausible and absolutely chilling. It calls for an international convention banning these lethal mini-drones, as was the case with anti-personnel mines and lasers causing blindness. The short film presents a potential future that is very near for us. Let us recall that Greenpeace launched a drone over a French nuclear power station in the summer of 2018 to demonstrate the vulnerability of these installations. Greenpeace's demonstration (see https://lemde.fr/2RUvTcz) doesn't seem to have received attention proportionate to its importance.

If we examine this topic from the angle of comparative audience interest, the video on the killer bees (robot killers) has been viewed some 700,00 times on *Youtube*; that on the Greenpeace drone has been seen about 10,000 times, while videos on Kim Kardashian are often viewed between 10 and 30 million times...

Since we are talking about what attracts attention or goes unnoticed in broad daylight, we should be astonished about the worldwide impact of the assassination of an activist Saudi political journalist

[1] Apartments allocated to non-priority students or to those who fail to fulfill assistance criteria, a large turnover and staff absenteeism, among others.

inside his consulate in Istanbul. Of course, the Turkish president skilfully beat the communication drums while the indulgent media showed no surprise that the Turkish authorities possessed an audio recording of the assassination. Yet in *"comparison"*, the war in Yemen and its lot of civilian victims of all ages, yesterday, today and tomorrow, do not seem to bother our consciences... We can also mention the Ukrainian journalist Catherine Gandziuk, who was attacked with sulphuric acid last July. She died at 33 after eleven operations and months of scarcely imaginable suffering... amid general indifference.

The economy *"is booming"* in the U.S.A. (we shall come back to that; it is not as simple as it sounds.) And President Trump did better than his predecessor Obama in the mid-term elections. Immediately, the press spoke of his *"defeat"*, which was widely commented on as the person is (objectively) so divisive. Wouldn't it be more interesting/useful to analyze and understand why such an outrageous character, unanimously reviled in the media, is not massively rejected by the electorate? At the same time, Venezuela is going through a massive economic and humanitarian crisis; the country is sinking into misery (**1**), insecurity and criminality amid virtual indifference of the media (which highlighted the grotesque sham of a drone attack, most probably "manufactured" by President Maduro against himself – http://bit.ly/2zgqJAQ). Our intention here is not to take sides for or against a system or a political orientation but simply to draw attention to a curious disproportion between the attention paid by the media – which are supposed to inform and enlighten us and thus to classify news in hierarchical order of importance – to particular events rather than others.

Among the news items that we feel have passed relatively unnoticed, let us mention demonstrations by the people in Teheran, where demonstrators chanted slogans like *"Death to Palestine"* or *"Get out of Syria and think of us"*. When their national economy is in tatters, the Iranian population is apparently not in unanimous agreement with devoting considerable resources to foreign interventions, whether to support Islamist movements in Lebanon or allied regimes in Syria. Elsewhere in the world, we have heard some mentions of the troubles in Nicaragua without anyone explaining that the spark that set off a people's revolt was a timid effort to challenge the local retirement benefits system, which is ruinous because it is too generous. The collapse of the system had been announced in 2000 by a World Bank study for 2019. With 209 million inhabitants and an average retirement age of 55, Brazil is also condemned to reform its impossible-to-finance retirement benefits system. With a relatively young population, Brazil actually spends more on retirement benefits than Japan, an *"old"* country. In the public sector alone, retirement benefits account for 4% of the annual GDP! In Russia, it is also a reform of these benefits (rejected by 90% of the population), providing for the retirement age to rise progressively (from 60 to 65 for men in a country where their average life expectancy is 67...), that recently dented Vladimir Putin's popularity. These last three examples show – if proof was needed – that the subject of retirement is of worldwide interest, not only in the most developed countries. Long-term and unfinanced promises have been made everywhere; the moment of truth is approaching

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[1] Over 60% of Venezuelans now live in "extreme poverty" as opposed to 24% in 2014. Inflation will surpass the historical record of the Weimar Republic: currently 4% per day and 340,000% (!) per annum, with a projected 1,000,000% very soon.

Returning to economic affairs, the U.S. economy seems to be flourishing. Growth is steady (we refer to the second-longest – 113 months – period of economic expansion since World War II!). The consumer confidence index is at its highest point in this century (**1**) and at 3.7%, unemployment is at its lowest level since 1969 (even if we know the figures, the graph at the end of this letter cannot fail to impress).

Nevertheless, there is something artificial and deceptive about this apparent vigour: while the efficiency with which the Trump administration passed its corporate tax reform merits praise, the reform is nevertheless having some effects that can be assessed very differently. On the positive side, the repatriation of substantial liquid assets held outside the country by U.S. businesses is to be welcomed but, on the other hand, this fiscal measure excessively boosts an economy that had no need of a boost and further increases what is an already-colossal budget deficit (one that nobody cares about currently, as it is what in English is called *"an elephant in the room"* (**2**). Apart from that, the repatriated liquid assets have mainly served to finance the buy-back by many companies of their own shares, thereby stimulating share prices rather than productive investments. It is true that at the same time, economic activity over the past few months has also been over-stimulated by the entry into force – announced for January 2019 – of punitive customs duties imposed by Donald Trump, mainly in relation to China. This has led several industries and importers to anticipate a certain volume of orders, thus temporarily and artificially inflating inventories (which, most probably, will result in a correlated slow-down of economic activity in the first half of 2019).

In a context close to **economic overheating**, the U.S. Federal Reserve is showing its traditional independence by progressively hiking interest rates, which could have consequences that go beyond what is desired. We should remember that as a general rule, the Fed's aim is always to avoid ruptures and sudden cyclical changes but that, in practice, it rarely succeeds in doing so. Of the 13 periods of monetary tightening since 1945, 12 were followed by recession and only one – halfway through the '90s – was followed by a soft landing.

In addition, the U.S. is currently experiencing the second-longest period of economic expansion in its history and, unfortunately, sooner or later, a reversal is only to be expected, above all when growth rests on such a shaky base: given the constant rise in the U.S. debt (private as well as public (**3**)), it can be said that the growth is financed by credit, which is neither healthy nor sustainable. Moreover, robust consumer confidence and that of other economic actors rests on a feeling of wealth that is also fragile, since it mainly reflects the very high valuation of stock markets and residential real estate (see attached graphs).

The situation of the **U.S. property market** deserves a short but specific moment of attention: house prices have again reached a level of "exuberance", having gone up continuously since 2011; they have currently reached the equivalent of the highest point recorded this century, i.e., the 2006-07 peak, just before the fall correlated to the huge 2008 financial crisis. A significant increase in mortgage rates that seems likely to break the market dynamic is thus taking place in a tense context: in recent months transactions have dropped as have the number of construction permits granted and of mortgage loan applications. To be monitored... a soft landing really cannot be guaranteed.

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[1] 62% of consumers (a rate higher than during the last stock market peak in 2007) predict a rise in share prices over the coming 12 months. It will be interesting to review this situation in a year's time...

[2] Once again, the invisible visible: an economic commentator counted the number of times the words *"inflation"* and *"budget deficit"* were mentioned on Bloomberg TV over a recent 12-month period. Inflation was mentioned 2,200 times and budget deficit barely 25 times. Proof of how little the second subject – a massive issue – doesn't worry anyone... for the time being (source: Ben W. Hunt/Epsilon Theory).

[3] The U.S. public debt rose from 60% of GDP in 2005 to 105% in 2018 and this increase continues at a constant rate – that can be perceived as frightening.

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On the international level, cracks are beginning to appear in certain important emerging economies and for a very simple and very "mechanical" reason: interest rates in U.S. dollars have remained very low over several years and a number of emerging countries were thus tempted to incur debts in U.S. dollars (which remains the benchmark currency in international commerce...). However, since interest rates in U.S. dollars are now rising, the dollar itself is on the rise. Which renders the servicing of the debt **and** the nominal amount to be repaid a lot more onerous for countries like Turkey, Argentina or Indonesia... For now, these countries are playing for time, but it is appropriate to mention here that when a debt becomes unsustainable, it will sooner or later be cancelled because it can no longer be repaid. Which brings us fairly naturally to China, a paper tiger, whose fragility no one is able to measure, although many observers are aware of this weakness while hoping, as always, that *"it will hold up"*. Here as well, a sudden correction appears inevitable at some point: an authoritarian, centrally planned economy entails massive and mistaken/inefficient allocations of resources and investments where a more liberal system naturally and progressively permits a multitude of self-corrections. China has seen her debt grow extremely rapidly on the one hand: businesses' debts in U.S. dollars have, for example, risen from almost zero in 2009 to USD 450 billion recently; household debt has tripled since 2008 and this has fuelled unrestrained speculation in real estate (90% of Chinese citizens are now property-owners as against less than 10% 20 years ago). Furthermore, the debt is largely out of control (discreetly hidden in para-bank structures) and, finally, *"demographics is destiny"* (we shall not cite the author of this affirmation since, like success, this phrase has several fathers...). If one takes a time horizon of 20 years, China's demographic structure is far more worrying and unfavourable than that of the U.S., for example, since China will age suddenly (the logical result of its *one-child* policy in force for several decades) and one can predict that it will do so before it gets rich (its total GDP places it in second position in the world while its per capita GDP remains a fraction (**1**) of the per capita GDP of the U.S).

We come now come to Europe, burdened by its bureaucracy (**2**), its weak and heterogeneous forms of government and, once more, its rather disastrous debt. Let us recall that Greece is merely stabilized, not cured (we repeat: debts that cannot be repaid will not be repaid and we will be obliged one day to go beyond the *"extend and pretend"* approach; in other words, beyond the so-called renewal of loans that can never be repaid). Behind Greece looms Italy, a country that accumulates numerous handicaps: infrastructure from another era (the collapse of the Genoa bridge unfortunately and dramatically revealed that), an ageing population (the second-oldest in the world!) that is decreasing, a ruinous and stifling bureaucracy and a debt (as a proportion of GDP, the second-highest in the EU after Greece (**3**) and which finally it will also be impossible to honour).

To sum up, the problems are more or less the same everywhere (except, undoubtedly, in Africa): the aging of populations, which weighs on growth and debt, and retirement schemes apparently based on empty promises – unrealistic and unfinanceable, which sooner or later will require a major and certainly painful overhaul. Quite a number of people and entities will have to write off claims that

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[1] Between barely 15% and 30%, depending on whether or not it is corrected on the basis of purchasing power.

[2] Without even mentioning civil servants: France for instance has 600,000 **elected representatives**!

[3] The average debt in the EU is 86% of GDP; Italy's debt is 133% and that of Greece 180%.

are already more or less virtual; but isn't the loss of the benefits of an illusion in some way a real impoverishment?

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In an international environment in which everything, apparently, seems to be more or less under control (at least as far as the economy is concerned, because as far as geopolitics is concerned, it's another story), **Switzerland** also seems to be enjoying **more than favourable macroeconomic conditions**. Good economic growth (**1**), low interest rates and – this is not an illusion! – a remarkable mastery of its public finances with the Confederation boasting another record surplus budget for 2018 of 2.3 billion. The principal risk for Switzerland is well-known and very concrete: if turmoil or a serious crisis occurs, whether in emerging economies or in the European Union for example, the Swiss franc exchange rate would logically be likely to rise again rapidly, with the negative effects that we are familiar with for our export activity. Such a scenario is likely (and is also, in a way, the price to be paid for the virtuous management of the public budget in a world where recourse to debt is the rule), but it is obviously impossible to predict whether such an event will occur in 2019 already or 2020-21: elastic can stretch a long way before it snaps.

As for the **real estate market**, the most striking element on the **national level** is certainly the substantial production of rental housing, which results in a significant rise in the average vacancy rate in Switzerland (it is important to emphasize the extent to which the vacancy rate differs according to the regions, with extremes ranging from a ratio of one to three: 0.53% in Geneva; 1.08% in the canton of Vaud; and 2.37% in the Valais with the average for Switzerland being 1.62%. Production (or over-production) is evidently stimulated by the continuing very low interest rates: 10-year mortgage rates stood at 3.18% in January 2010 and at 1.42% in October 2018 (this 10-year rate fell below the 2% mark for the first time in December 2011, then rose for a short while, only to fall below this level again durably in May 2014). Fortunately, the tightening up of lending conditions in recent years has helped avoid the risk of a market bubble. This is also borne out by the fact that Switzerland does not figure, at the international level, either among the most overvalued markets, or among those having shown the biggest increase in prices over the past five years. However, it is still true that in certain regions, it will take time to find tenants for the vacant housing units for rent.

In general, **the canton of Geneva's situation** is apparently quite enviable: growth is steady and even surpasses that of the country as a whole (with estimated GDP growth of 3.1% for Geneva in 2018 as against 2.7% for Switzerland). However, this does not prevent Geneva's unemployment rate from being higher (4.3% on average in Geneva as against 2.4% on average in Switzerland). Nevertheless, unemployment is also diminishing in Geneva as well: from an average of 5.5% in 2016 to 4.3% today. We know that Geneva also benefits from its international sector, in which employment is also on the rise: the sector now represents 30,000 jobs out of an estimated total of about 330,000 posts for the whole canton; in other words, 10% of jobs are generated by the international sector (which includes the international organizations proper, but also NGOs).

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[1] With, nevertheless, a surprising reversal in the 3rd quarter: a sudden contraction which at this stage cannot be said to point to a lasting change of trend.

We should also note that “Geneva's” 34 international organizations spend 3.2 billion p.a. in Switzerland, which is not a negligible sum! There is another interesting piece of information on the employment structure: the canton is small in terms of territory and French residents occupy 29% of the posts while a further 8% of available jobs are occupied by Swiss residents living outside the canton (**1**).Thus, only 63% of the canton's employees live on Geneva's territory. Total payroll is a “*direct*” and reliable sign of economic activity: 2018 is the first year since 2013 without a single negative quarter; in addition, the growth of the total payroll has been positive in each quarter (in nominal as well as in real terms) since the third quarter of 2017.

Geneva's hotel industry has set a new record with a 4.6% increase in overnight stays between the first half of 2017 and the first half of 2018 for a total of 1,533,000 overnight stays (**2**) (the figure needs to be compared with the cantonal population of some 500,000 inhabitants). The number of passengers at the airport is also rising steadily (+5% in 2016 and 2017 and still rising in 2018 with an average of 1,500,000 passengers per month!). In terms of demographics, growth is also continuing, so that the canton has crossed the 500,000 inhabitants mark in 2018, made up of 300,000 Swiss and 200,000 foreigners – a totally atypical ratio that contributes to the specificity of Geneva.

In a rational and mechanical fashion, this sustained growth has produced a nice surprise for (predicted) 2018 state tax revenues, which has immediately led the relevant authorities to ease up on their – relative – efforts to control expenditures by re-establishing certain salary costs that had been suspended; that is, Geneva continues to live above its means, failing to recognize that the primary focus should be on debt reimbursement (don't let us forget the gaping hole in the state's pension fund, the CPEG), a particularly high debt compared to that of other cantons.

Which brings us naturally to the issue - especially important in Geneva of taxation. The subject is essential, because Geneva is the biggest “taxer” in Switzerland, the Canton that deducts the most substantial amount from its economy and its taxpayers; and also of course because the balance of public finances is more precarious here than anywhere else in Switzerland, due to a chronic inability to contain expenditures and a too-great dependence on a handful of rich taxpayers. In this fragile context, it has always been *“known”* that taxation in Geneva was very progressive and that a very small minority of rich taxpayers paid a proportionally very large share of total tax revenues (this being simply stating a fact rather than an expression of sympathy with the rich). In the same vein, it was empirically or intuitively *“known”* that the departure of rich taxpayers has increased over recent years – departures which have probably not been made up for by the arrival of new and equally wealthy figures.

It was, however, impossible to obtain data on this subject, due to its sensitivity and to the authorities' patent reluctance to communicate on this issue. The facts finally emerged from the Cantonal Department of Finance and the figures can be summarized as follows: Geneva has some 300 *“big”* taxpayers, that is, taxpayers who pay a total of over one million francs in tax per year (this figure of 300 should be compared to the total number of 300,000 taxpayers). The almost 300 (the figure is actually slightly lower) *“big taxpayers”* finance an average of 20% of the canton's total revenues from income tax and wealth tax. (**3**)

[1] It is also interesting to note another indicator of the impact of Geneva's economy on the French border regions: while the national average unemployment rate in France is 9.1%, this drops to 6.5 % in Haute-Savoie and 6.3% in Ain.

[2] Doing away with the Fêtes de Genève has apparently had no perceptible impact, at least for the moment.

[3] 300 taxpayers for an amount of 600 million francs of tax revenue out of a total of some 3 billion francs paid by private persons (2016 figures).

And while the cantonal authorities have always denied that Geneva has lost its attractiveness and that there has been a trend of big taxpayers leaving the canton, the figures finally revealed tell the opposite story: over the period 2010-2018, Geneva registered **69 departures and 34 arrivals of big taxpayers**, which adds up to a net loss of 35 big taxpayers (incidentally, one can estimate that the former actually had an average annual tax bill above that paid by the new arrivals, so that the real loss surpasses the proportional average). However that may be, there can be no argument that more than 10% of big taxpayers have disappeared in less than a decade, a very substantial figure that deserves examination!

It is not a matter here of questioning the principles of solidarity, or of *"giving gifts to the rich"*, but simply of ensuring a realistic and reasonable fiscal policy that allows Geneva to maintain its attractiveness, finance its high standard of living and its social policies. It should be noted that presenting the *"tax shield"* (which limits municipal and cantonal taxes to 60% of taxable incomes) as a *"gift to the rich"* is a fallacy since it is simply a matter of avoiding a confiscatory tax system that could otherwise in certain concrete cases exceed 100% of taxable income! Today, even taking into account the tax shield, certain taxpayers are required to transfer to the State – in all its forms – over 80% of their taxable income (if we include the AVS, direct federal tax and the supplementary property tax). A reality that is probably unfamiliar even to the elected representatives who debate public budgets.

To close this fiscal section, let us simply remind ourselves that after a first failure, Geneva must bring its reform of corporate taxation to a successful conclusion in 2019. The Republic and Canton live with a provisional and uncertain taxation regime and a high tax rate on profits (24%) in comparison with the neighbouring canton of Vaud, which will apply a rate reduced to 13.75% in January 2019.

In this context, the proposed increase – 20% all the same (**1**) – of fiscal property values (**2**) is not a very wise decision, to put it mildly. And it is a measure that seems to be tinged with cynicism: as in France, captive taxpayers are attacked (but the Macron government has been smarter, since although it has kept the taxation of property values, it has done away with the wealth tax, with the result that today, France is more attractive for well-to-do taxpayers than Geneva). This property taxation, which is very specific and targeted, sends the wrong signal to a category of taxpayers whose taxes already increase continually in any case, due to the drop in interest rates that increases mechanically *"on paper"*, the property values taken into account for tax purposes.

The **situation of the property market in Geneva** does not require a long discourse: general activity continues to be buoyed by extremely (and abnormally) low interest rates, population growth and the favourable economic context. Nevertheless the situation is a bit less rosy for retail premises (which are called *"arcades"* in Geneva), due to the specific difficulties of the retail trade (**3**); rental prices remain stable, but *"key money"* is tending to disappear or has been seriously downsized, which is not a bad thing.

[1] The cantonal parliament reduced this increase to 7% in its vote of 22 November.

[2] Two other sections of the re-valuation of property taxation concern, respectively, the 4.7% indexing of rental values (a federal tax, which, let it be said in passing, is conceptually crazy since it consists in taxing a notional rental income of an owner who inhabits his own property) and an increase in the value of rental buildings via a decrease in the determining rate of capitalization.

[3] The figure of 22,000 m² of empty shops in 2018 represents an increase of 21% on 2015, for example. The situation can nevertheless be put into perspective by the vacancy rate that is now 1.5%, which remains a moderate rate.

On the increase in vacant retail space, we should also mention the *“crippling”* effect of the City of Geneva's Ground Utilization Plans (PUS), a typically *“bad good idea”* regulation voted by the City Council quite some time ago in the framework of an *“emotional impulse”* – even if the triggering element was itself a real problem. Let us recall the facts: a long time ago, a certain number of (not only left-wing) people got all worked up about the disappearance of some mythical downtown public establishments: the Cristallina coffee bar in the rue du Rhone in particular; the Relais de l'Entrecôte restaurant, still present in the rue du Rhône, was also threatened.

Based on these two cases, some persons had deduced that public establishments as a whole were threatened and condemned to systematic *“replacement with luxury boutiques”*. This led the City to introduce its Ground Utilization Plans (PUS), which certainly pursue a worthy objective (of maintaining business activity and animation in the streets, in particular in the city centre), but do so by means of extremely rigid regulations that restrict excessively the type of business that can be conducted in particular premises. Take a simple example: a cafe-restaurant could only be replaced by... a cafe-restaurant. As it happens, Geneva already has a surplus of those and the effect of the PUS regulation is that the number of cafe-restaurants is bound to grow inexorably, thereby increasing the difficulties of this sector. For owners, the result is a lack of flexibility in the choice of prospective tenants for their *arcades*, regardless of the specific location of the latter. Without wishing to question the PUS and its respectable aim of preserving the life and attractiveness of city neighbourhoods, it obviously would seem desirable to introduce a bit of flexibility and at least some provision for exemptions, leaving the enforcement authority with some leeway in its assessments.

A frequent subject of conversation has been the considerable increase in the amount of available **office space**. (Didn't a daily paper recently headline *“Offices vacant: watch out!”*? Obviously, alarmist headlines have a better chance of grabbing attention.) It is true that the total office surface area announced as vacant is both substantial and growing sharply, with a figure of 226,000 square metres in 2018. And yet the reality on the ground is much more diverse: demand, notably in the city centre, is constant (for example, it is difficult to find there a surface area of more than 1,000 m^2 and the prices observed are rising slightly). Apart from that, the office premises vacancy rate in Geneva is around 4.86%, which corresponds to the “norm” in cities like Paris (6.5%) and London (4.5%). Note also that over 50% of well-designed new projects are rented even before construction work starts (as is the case with Pont-Rouge, for example). An indication that, as we see it on the ground, the market is far from sluggish; in other words, the increase in the stock stems from currently sustained production (which won't last forever) that meets a demand that is also rather dynamic. We should also underline that a vacancy rate of 5% is preferable to a vacancy rate of 1% rate, because a certain level of supply is indispensable if businesses already based in Geneva are to evolve and develop by benefiting from the necessary fluidity and flexibility.

We wish to point out (and already did so several years back when supply was insufficient and the market *booming*) that an inadequate supply does not allow the city to be attractive and competitive when it comes to attracting new businesses. To summarize, the present level of stock cannot be compared with the 1990s and their environment of pronounced recession, which then caused a significant contraction of demand, which we do not observe today.

For the rest, if property transactions are reported to be decreasing (-19% in numbers and -15% in volume) in the third quarter of 2018 in comparison with the third quarter of 2017, this is largely due to a considerable drop in the number of transactions involving condominium apartments due to the short supply (the present priority being production of buildings with apartments for rent, partly for political reasons). The rate of empty apartments for rent remains low (0.53% as at 1 June), especially in comparison with the Swiss average (1.6%), but this low vacancy rate has nevertheless been slowly rising since 2010 (when it stood at 0.23 %). Out of historical interest we can note that

the last significant peak of vacant apartments in Geneva goes back to 1994, with a 1.66% vacancy rate.

Nevertheless, the average rent hike (mainly due to the effect of catching up when there is a change of tenants) is low and has slowed down. This testifies to a re-balancing between a more abundant supply, and demand. Over the past few years, this has also resulted in a quite pronounced drop in high rents when apartments are re-let. This trend is confirmed by a significant rise in the average duration of re-lets where there has been a change of tenant. The proportion of housing re-let at a level lower than the previous rent is growing. Let us, finally, note that the construction of new housing in Geneva is presently at a historically high level (+2225 dwellings for the three first quarters of 2018); the same applies to construction sites; this should therefore contribute to the current downward trend in rents (aside from the above-mentioned catching-up effect when there is a change in tenants).

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As far as our company is concerned, we shall limit ourselves to a few key remarks.

This year, we are proud to celebrate the 30th anniversary of the association between the Société Privée de Gérance in Geneva and Rytz & Cie SA in Nyon and Lausanne. This union was established on 1 January 1988. It has allowed both partners to develop harmoniously and steadily; it has also demonstrated the strength of our human values, as evidenced by the fact that the management teams in place at that time are still here and collaborating smoothly today (with Yves Rytz and Gérald Morand as directors of Rytz & Cie SA and the (left-hand) undersigned as chief executive officer of SPG and a director of Rytz & Cie SA). For us, this illustrates an essential principle: an acquisition or merger of companies must not be an act of conquest or destruction, but rather a union in a spirit of respect and collaboration. We are proud to have provided tangible proof of this principle. It is, moreover, in the same spirit that the estate agencies Unger & Gonseth, and then Souvairan were taken over; their respective bosses kept their offices on our premises until an age far beyond that of retirement.

Finally and in the same spirit, we are happy to mention the family-owned nature of our business from time to time, concretely illustrated by the integration in the SPG-Rytz group management team of Marie Barbier-Mueller, a third-generation family representative and granddaughter of the Société Privée de Gérance founder, Jean Paul Barbier-Mueller. We shall not go into the details of Marie Barbier-Mueller's curriculum vitae (available in any case on our web site) here, but simply say that she completed most of her training abroad, then in the real estate sector in Zurich, and that today within the SPG Group, where she is responsible in particular for strategy and information systems - and thus of digitalization of tools and processes - and for communication and sustainable development while simultaneously assisting/training with her father, Thierry Barbier-Mueller.

This is also an opportunity to emphasize that the fair representation of women in the management team was not a problem at SPG even before her arrival: the executive management team had boasted full male-female parity for many years and, since Marie Barbier-Mueller's arrival, women are henceforth in the majority (although, once again, this issue is not a theme in itself for us: only skills and competency should be taken into consideration when assigning responsibilities.)

And because life in general, including the life of a company and its projects, consists of a great variety of *“important things”* and more modest day-to-day accomplishments, we would like to briefly mention the ***Watt d'Or***, a prize we were awarded this year by the Swiss Federal Office of Energy, in recognition of our measures to improve efficiency in managing building heating systems; we do indeed attach great importance to the action we take, year after year, in the fields of environment and energy.

We would like to conclude by wishing you and your families a very happy end-of-year festive season.

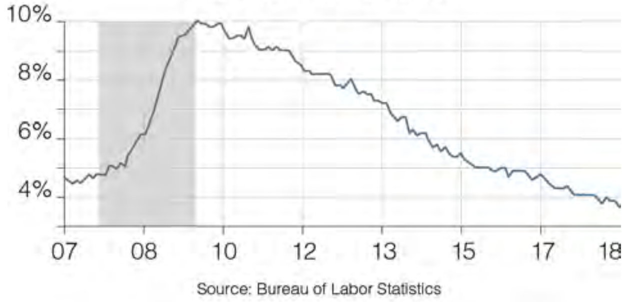
SOCIÉTÉ PRIVÉE DE GÉRANCE

T. Barbier-Mueller	M. Barbier-Mueller
Chief Executive Officer	Head of Strategy

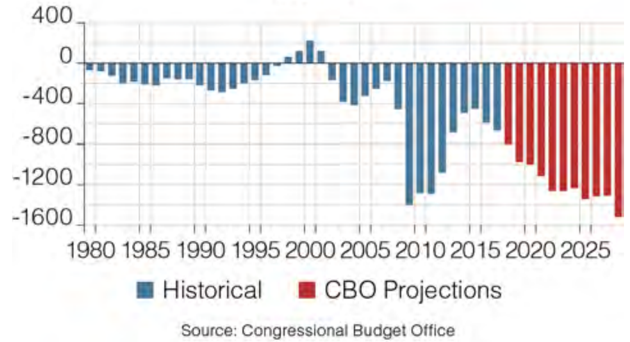
P.S. Some of our readers are not overly fond of graphs while others appreciate them as long as they don't disrupt the fluidity of the text. Which is why we have regrouped a number of graphs below; one after another and each is accompanied by a brief explanatory comment. This should, we hope, satisfy our various categories of readers, including those who are not interested in graphs and who will thus be able to completely skip this section.

P.P.S. Last year, we received a fairly substantial number of comments and feedback from our readers. This gave us much pleasure and allowed us to make some changes to this year's letter. So, please do not hesitate to write to us at the following email address: direction@spg.ch !

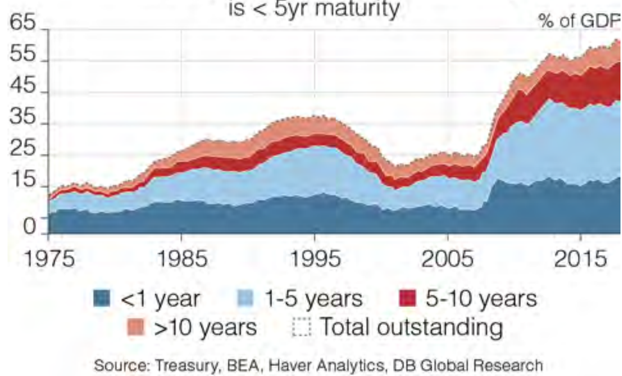
Appendices as mentioned.



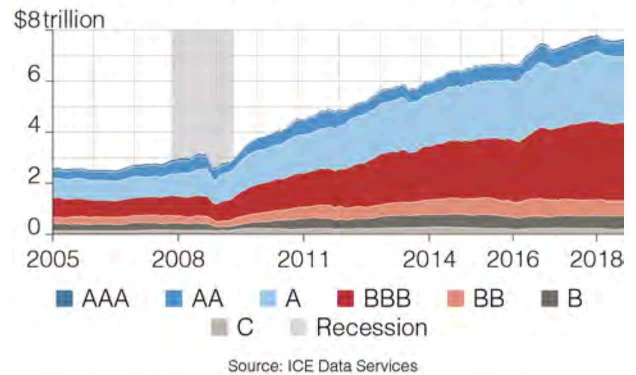
01. The spectacular drop in unemployment in the U.S. since the massive crisis of 2008...



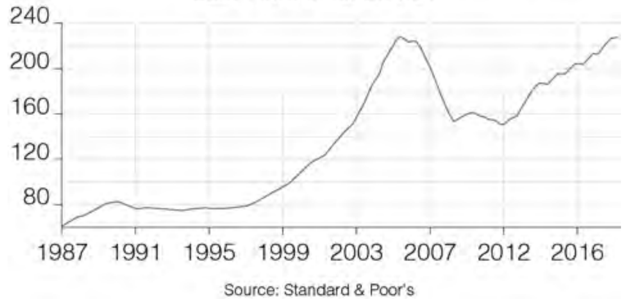
02. The US budget deficit completely out of control.



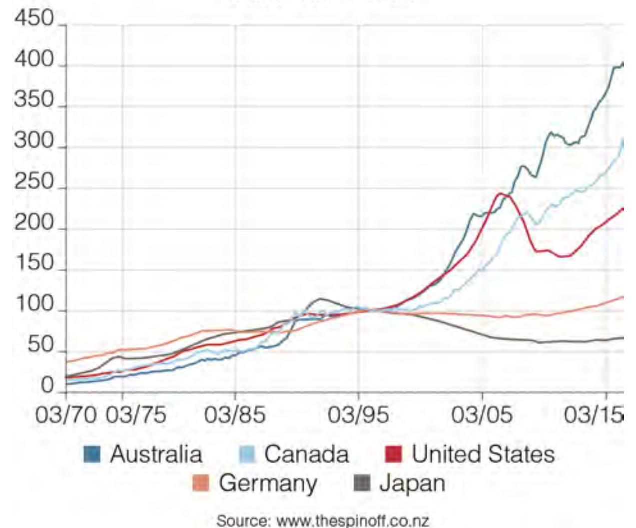
03. Not only is the U.S. government heavily indebted, but the lion's share of the debt is financed on a relatively short-term basis (5 years or less) and will be impacted by the rise in interest rates.



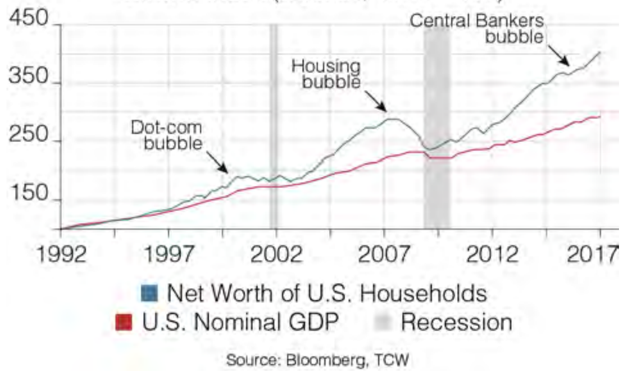
04. The low interest rates have also encouraged U.S. businesses to go heavily into debt. In addition, this debt is already currently of mediocre quality, in view of the large proportion of bonds whose rating is below “A”.



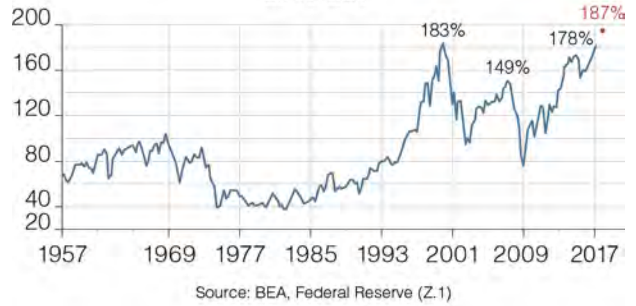
05. U.S. residential real estate: entering a danger zone?



06. While US residential real estate may seem fragile because it has again reached the peak attained before the 2008 crisis, the overheated situation is even more spectacular and troubling in Australia and Canada…



07. In principle, the increase in the value of assets and household wealth should follow the economic growth curve; if they separate, this generally indicates a bubble that will deflate sooner or later...



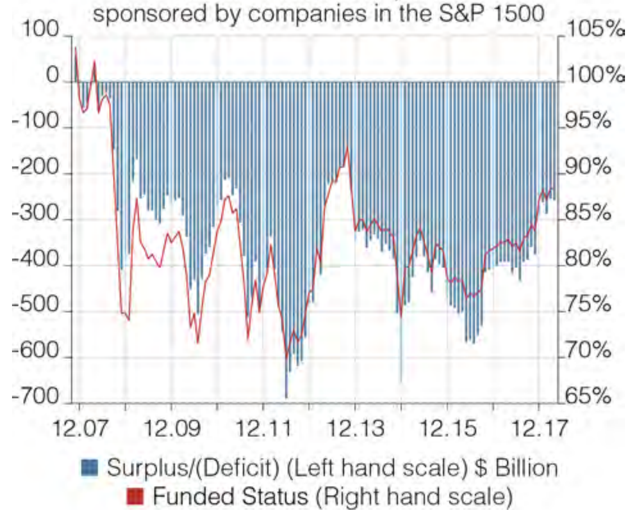
08. An indication of probable over-valuation: total stock market capitalization is at a very high historical level and is significantly decorrelated from GDP.

Bull Markets

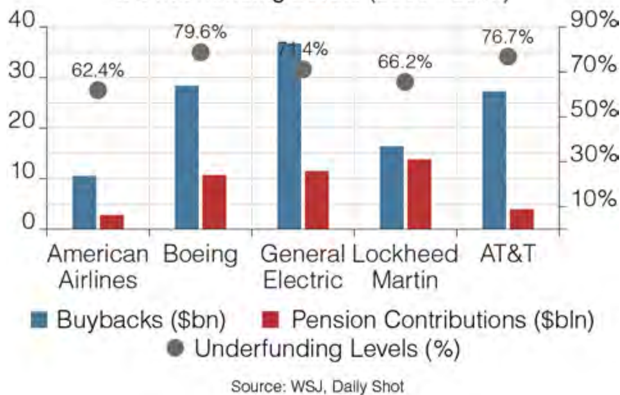
	# of Months	% Gain	Subsequent Drop
1990-2000	117	473%	-49%
Present	103	277%	??
1921-1929	97	396%	-86%
1949-1956	70	249%	-22%
1982-1987	60	201%	-34%
2002-2007	60	105%	-57%
1932-1937	56	266%	-60%
Average	76	291%	-51%

Source: MacroMavens

09. Another indication of a possible end of the cycle: current stock market growth is the second-longest-lasting in the past 100 years; it is also interesting to consult (far-right column) the percentage decrease in end-of-cycle stock markets, following the different bull market phases.

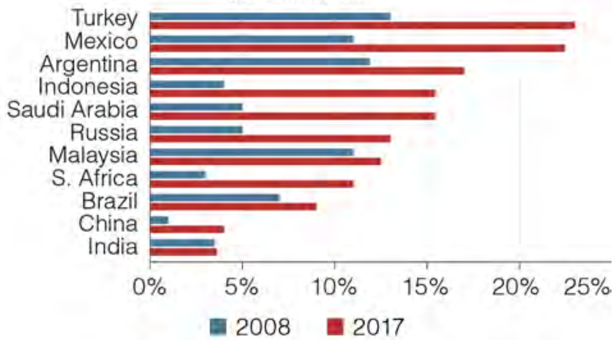


10. Retirement financing in the U.S.: persistence of very high rates of under-funding in the pension funds of S&P 1500 companies.

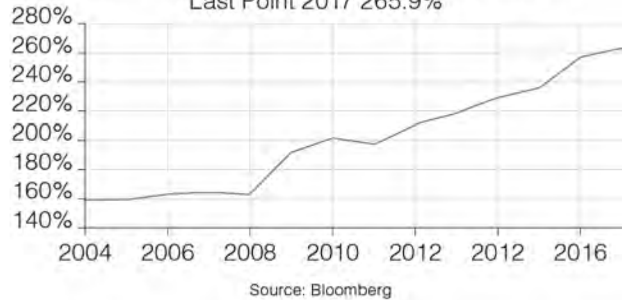


11. From the example of five very large U.S. companies, we see the weight of liquid assets allocated since 2009 either to reimburse their shareholders through stock buybacks (in blue) or to finance contributions to their pension funds (in red). It is quite shocking: an average of 20 billion dollars was devoted to stock buybacks as compared to an average of 8 billion that went to finance pension funds, when the latter are under-funded in proportions of 62% to 79% (gray dots). The conflict of interests is patent when we recall that the governing bodies (board of directors and top management) of these companies generally benefit directly from the rise of share prices brought about by stock buybacks.

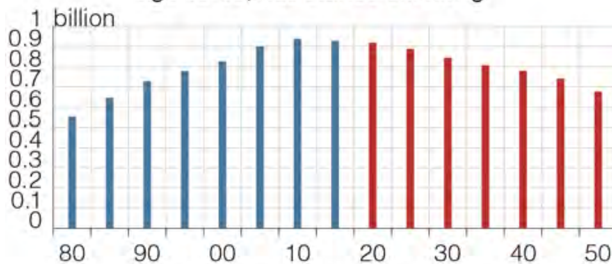
12. This graph illustrates another dimension of the same phenomenon: the liquid assets of companies listed on the stock exchange (S&P 500 in this case) were mainly devoted to payments made to shareholders rather than to productive investments...



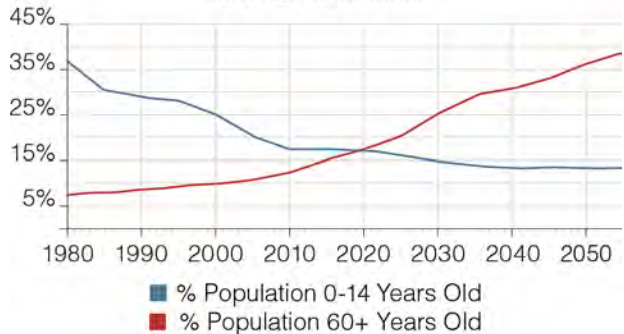
13. Almost all the emerging economies have considerably increased their dollar-denominated debts, thus amplifying their vulnerability in the event of an increase in the value of that currency and related interest rates.



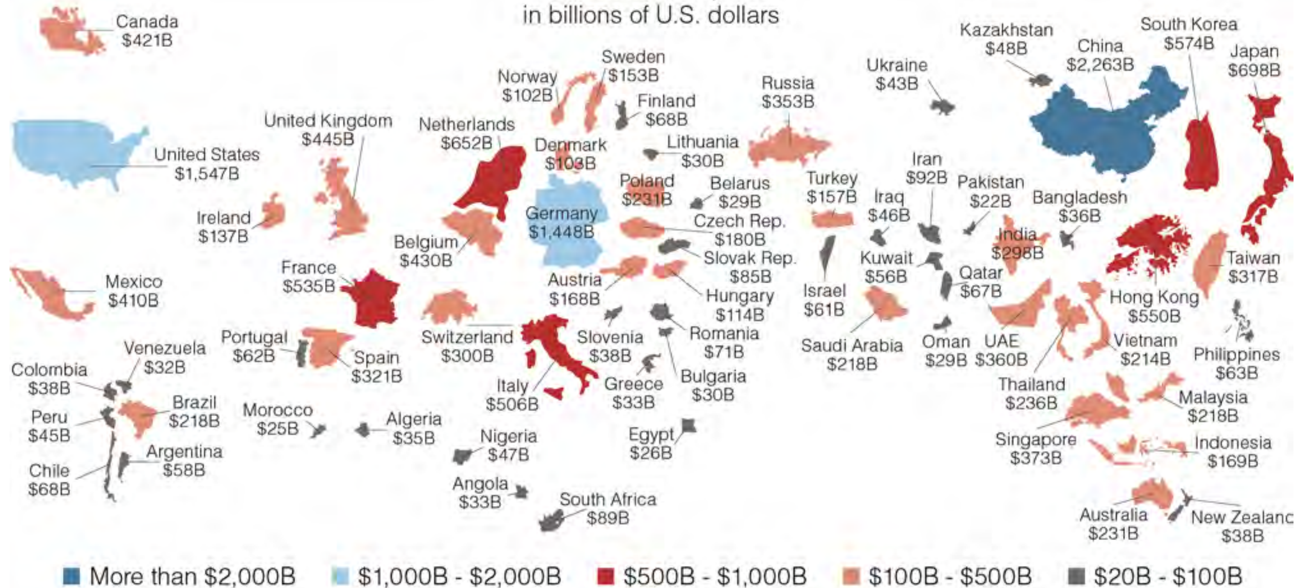
14. Sustained growth of China's (estimated) debt...



15. These two graphs illustrate well, on the one hand, the start of a fall in the number of working people in China (those who generate economic activity and finance retirement pensions) and the rapid growth of the number of retirees. The second graph (no.16) shows that the curves are now intersecting, and at a pronounced angle...



16.



17. This interesting illustration shows each country's relative weight based on the total value of its exports compared with those of other exporting countries.