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GENÈVE

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« Dear Sir / Dear Madam »,

Our end-of-year letter had 10 pages in 2015, 12 pages in 2014, and now we have decided at a late stage to take pity on our readers (while pointing out that they are at liberty to skip paragraphs or whole pages, or not to read what we have written at all). We realise that a number of pronounced trends or findings highlighted in those earlier letters (leaving aside topics that fade away like autumn leaves) remain relevant today: the insoluble, massive and rising level of debt, the ageing population, and the spectacular emergence of the digital economy. We therefore decided to keep things shorter this year, but we have to admit that we did not (completely) succeed in our aim. But the formula has changed: the letter itself uses the same structure as in previous years, but has been streamlined in terms of illustrations and charts, and we have added an appendix entitled *Le monde à l'envers?* (A topsy-turvy world?) which focuses mainly on issues of substance (debt, zero or negative interest rates, bubbles, democracy, etc.) and a few 'gems and tongue-in-cheek remarks' that we gleaned here and there.

Among 'this year's themes', it is now fashionable to criticise the *rise of 'populism'* (Trump, Brexit, Italian referendum, etc.), which has the advantage of immediately putting the person who utters this tirade into the category of reasonable or even intelligent people. We could summarise the situation by saying that the man in the street is angry; but doesn't he have every reason to be upset? Hasn't the credibility of 'elites' and political parties been seriously tarnished in a good many democratic countries? Of course, there is the corruption on a massive scale that has been revealed in Brazil or South Africa. But there is also the contempt for taxpayers' money revealed by the presidential hairdresser charging 10,000 euro per month in France; that figure may appear insignificant, but the symbolic dimension is huge (like the image of another president who, having just recently been elected, decided to take a break on a billionaire's yacht - these two examples will suffice to show that the issue is not political in terms of 'left or right', but **a civic issue in the broadest possible terms**). Do we even have to mention the member of the French Senate who expressed his delight at the obscurity of his institution's budget (Internet links: <http://bit.ly/1zUM52h> – <http://bit.ly/2fyJICF> – <http://bit.ly/2fZuIc8>)? Is it unimportant that Ukraine is known to be an area of competency exclusively reserved for US Vice-President Joe Biden (*'Uncle Joe' sic!*), and that his son Hunter (who does not speak a word of Russian or Ukrainian) was appointed 'Chief Legal Officer' and a member of the board of Burisma Holdings, Ukraine's largest



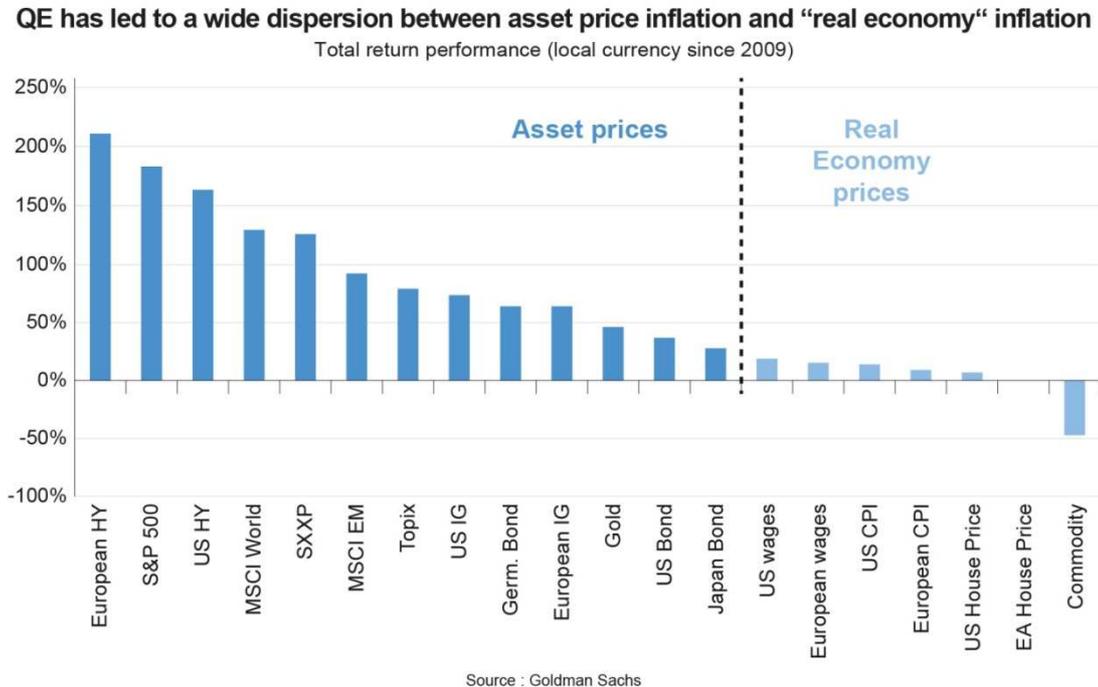
gas company, immediately after having been discharged from the US Navy for cocaine addiction (Internet link: <http://nyti.ms/1Y1uSvg>)? And what should we think of the European 'elites' who threatened the United Kingdom so vindictively after the Brexit vote, without considering for a single second that the European institutions might contemplate undertaking certain reforms? The plethora of such untoward events of varying scale and nature fuels cynicism and undermines the trust that is the foundation of the democratic system. Citizens need to feel, and are entitled to feel, that the State and the administration that are funded by their taxes, and to which in reality **they grant a mandate**, are genuinely acting on behalf of and in the interests of the people. That calls for humility on the part of elected representatives, and a sense of being a role model which is often lacking.

In fact, oracles and idols seem to be falling off their pedestal one after the other. Now it seems to be the turn of the central bankers to lose their aura of infallibility, as we find that, for at least the last fifteen years, they have not been controlling inflation (which has been coming in well below their targets), which is surely their prime role? And what can one say about the arrival of negative interest rates? While the concept may have seemed strange from the outset (*'I borrow AND I receive interest'*, which was for example the case of Italy, which is not really the most virtuous or reliable of debtors), there seemed nevertheless to be a consensus that the situation would only be temporary ... yet it is spreading like wildfire, and now it is difficult to see a way out of this practice. The aim was to give the financial system and public authorities some breathing space to undertake reform. Unfortunately, these zero (or even negative) rates have only had the effect of encouraging borrowing and, even worse, fueling new speculative bubbles; some companies seem to be manufacturing 'securitised' debt merely in response to demand. And other companies are taking on debt to buy back their own shares. To sum up, a whole financial engineering 'industry' is working flat out again to take advantage of this abnormal situation, although it is well known that by increasing debt, the fragility of the system and the risks of instability increase too. This financial activity does not provide any support to the real economy in the form of stimulating investment or consumption, and it only serves to generate asset bubbles (see chart on next page). And on the other hand, pension funds are gradually digging their own grave by investing their money long-term in investments that offer insufficient returns combined with increasing levels of risk, AND less than the retirement benefits and pensions promised to their insured. The overall philosophy of the financial system and public budget policy still remains the same: **avoiding any short-term 'hiccups'** or suffering ... even if that is at the expense of incomparably greater damage or suffering in the future.

The way in which the issue of public pension funds in Geneva has been managed is an excellent illustration of this: it was obvious that the bail-out/merger put to the people barely four years ago was merely a delusion, as much use as putting a sticking-plaster (albeit one with a price tag of 800 million!) on a wooden leg (some enlightened observers did have the courage to challenge the feeble consensus at the time); so it was not falling returns and interest rates which led to the need for a new bail-out; that merely accelerated the revelation of the latent 'financial black hole' which runs into billions (we should also bear in mind - an aggravating factor - that the deficit of the State of Geneva pension fund is calculated with equity, bond and real estate markets at their respective peaks - let us imagine for a moment what the revised situation might be with more reasonable - and lower - values that are nearer to a long-term historic average). Which brings us back to the 'angry citizens': angry because they are cynically being sold 'solutions' that are delusions; they are also angry because, in addition to having to settle for stagnant incomes, they are now facing zero returns on their savings and investments; moreover, they are beginning to understand that their retirement pensions are seriously at risk too. So the present is gloomy and uncertain, and the future is even more so.



Finally, citizens are also angry because, as the chart shows so well, monetary stimulus has benefited the 'rich' or those who own assets, and penalised the real economy.



In Geneva, the overall economic situation is tinged with gloom: the financial sector is undergoing a painful re-adjustment, hospitality and retailing are suffering badly, and watch and clock sales are collapsing ... yet we want to say that the glass is half-full: the fall in GDP was modest, and it has now moved back into (moderately) positive territory, the overall payroll has not fallen, unemployment has stayed stable (at 5.5% in Geneva and 3.2% in Switzerland). Total exports from Geneva (at the end of October 2016) have held their own compared with 2015, and the total number of overnight hotel stays is also steady. All of that is happening while Geneva - whose economy is largely internationally oriented - needs to digest the shock of the Swiss franc exchange rate, and adjust to a sluggish international economy. In our view, that resilience is already something of a minor miracle. It is true that there is no shortage of challenges and uncertainties: the cantonal budget is being managed disastrously (it ought to be borne in mind that Vaud, which was in the same situation as Geneva fifteen years ago, has repaid all its public debt, whereas Geneva's debt continues to grow!), the collapse of the State pension fund could not have come at a worse time, and the reform of corporate taxation, which the people will have to vote on in 2017, is a vital necessity (but one which will cost money in the short-term). **The huge issue** of this tax reform cannot be underestimated, especially as the new American president is said to be considering massive cuts in corporate taxation in the USA, which would considerably change the global tax competition situation (the Geneva tax reform was even covered by Bloomberg under the headline 'The mother of all battles' - Internet link: <http://bloom.bg/2bBguZZ>).

And since we are talking about the Geneva budget, one can but be amazed by the absence of any analysis, reflection or debate about active management of public assets, implying in the following order: an inventory, a detailed evaluation, and a process of reflection about the advisability of selling individual assets. Does the State really need to keep EVERYTHING and continue borrowing even more? Would it not make sense to take advantage of current high valuations to sell certain assets with the aim of bringing down the debt or reinvesting in infrastructures? An example: does the State really need to



remain the owner for ever of over 80% of the immense perimeter of PAV (Praille Acacias Vernets)? The very inefficient management of assets in public ownership is also addressed, from a more general viewpoint, in our appendix.

Let's take a look at real estate and related data in our area: demographic growth is slowing (we have been expecting this for eighteen months, as it is a logical corollary of economic stagnation), and the development of new homes has increased; quite logically and mechanically, this has resulted in an increase in housing vacancy rates, up from 0.15% in 2006 to 0.45% in 2016 with a constant upward trend. This vacancy rate remains low, but the trend is clear and is having an impact on prices of housing stock: housing rents are no longer increasing, or are even falling, and the statistical increase in the average rent is only due to a catching-up effect when tenants who were paying old, non-market rents move on.

A few words on housing policy in Geneva: it is still a subject of intense public debate, but it is regrettable that it is not based on any hard figures about demand! Nobody has the slightest idea of the overall demand characteristics: home-seekers are typically registered in several parallel lists (City, State, various municipalities, public or quasi-public bodies, cooperatives) and those who have found a home are not removed from the lists. A first step would be a **centralised register** for all public bodies and other entities with a similar function (foundations active in housing) which would enable consolidation and 'clarification' of demand (at least for 'social' and 'middle class' housing), and ascertain its characteristics (income, maximum rent envisaged). In the absence of such an instrument, public housing policy in Geneva is run 'blindly', based on intuitive evaluations or political bias.

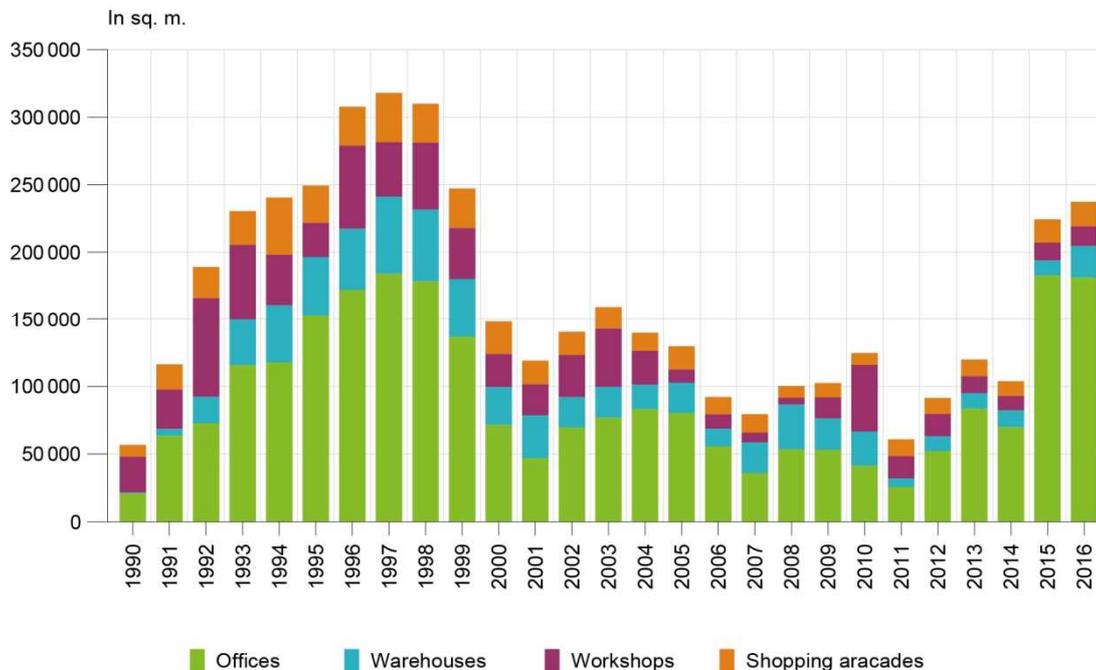
Our internal statistics (SPG portfolio under management) also provide interesting data: the turnover rate for apartments (number of leases terminated) is increasing significantly; the proportion of homes re-let at lower rents is also growing. The average vacancy period between two tenants remains stable and that average duration is greater for studio flats and large apartments (from six or seven rooms upwards) than for intermediate categories. We also keep statistics on the reasons for termination of leases, which reveal interesting results: almost half of tenants who terminate their lease are going abroad, and only 10% do so because they have bought a home.

Vacant commercial property (offices and industrial premises) is also increasing, but a large proportion of the increase is due (unfortunately, this has not been properly explained in the media) to the **change in the accounting method**, affecting two points in particular: until 2014, certain companies specialising in the rental and re-letting of business premises were not surveyed by OCSTAT, the Cantonal Statistical Office (this was the case of SPG Intercity); the Statistical Office only surveyed traditional property letting agencies, and therefore there was no input about the 'grey market', or office space that is for rent but without being put on the market openly or publicly. Secondly, the statistics not only record space vacant at a point in time 't', but now take account of the concept of space that will be available in future. It is true that part of the increase in the vacancy rate is nevertheless due to the stagnant overall economic situation. But the situation must be put into context: current vacancy rates, even with the new calculation method, remain lower than the rates experienced during the severe recession in the years 1996-1998 (see chart on next page). Prices are holding up due to the low cost of carry for owners, and also due to the fact that the fall in the market mainly affects small, poorly-equipped or situated spaces, which are in any case rather uncompetitive and unattractive. Our internal statistics show a total of square metres of office space actually let or re-let that is significantly higher for 2016 (already by mid-November), at a slightly lower average price compared with 2015.



The conclusion has to be that 2016 has not been a bad year for our commercial rentals department, but it is true that the difficulties in the overall economic situation have tended to benefit sound, experienced businesses which are then consulted more systematically.

**Vacant non-residential space, according to use,
in the Canton of Geneva, since 1990 (status as of 1 June, in sq. m.)**



Source: OCSTAT - Vacant premises statistics

From the legislative viewpoint, we should mention the entry into force - after many vicissitudes - of a law seriously restricting the possibilities of buying an apartment in a condominium in a development area ('zone de développement'): henceforth, the buyer will be **obliged to live in the apartment personally**, for a verified ten-year period. This significantly restricts the circle of potential buyers, and will encourage property developers to become cautious again in this segment, probably resulting in a reduction in the number of condominiums built in development areas.

Concerning the Canton of Vaud, we draw your attention to the changes in the law as from 1 January 2017 on the Cantonal Building Energy Certificate (CBEC®). From that date on, if the property is sold, a CBEC will have to be drawn up for rental buildings and those in the form of condominiums. In the latter case, it is the sale of the first batch of condominium apartments which will trigger the obligation to produce a CBEC for the whole building. Replacement of an existing heating system is also subject to drawing up of a CBEC. It should be noted that if the result of the CBEC is type F or G (poor energy performance), it will then be necessary to draw up a CBEC Plus. This certificate is produced by certified experts, and can cost between CHF 500 and CHF 1,000. In the case of a condominium, this certificate is requested by the property management agent, and its cost is shared between all the co-owners like the other charges (www.cecb.ch).

We should mention the forthcoming referendum on the new Rental Housing Stock Preservation and Development Act (Loi sur la Préservation et la Promotion du Parc Locatif - LPPPL) due to take place on 12 February, which is aimed, in theory, at combating the housing shortage. The most controversial



aspect in the context of this referendum is the pre-emptive right which will enable the State to make a compulsory purchase of land, houses and other buildings put up for sale instead of the buyer chosen by the owner/vendor. Although there are a few exceptions, the municipality would have a 40-day period to act in the buyer's place, after which the State would be granted a second period of 20 more days to in turn position itself for the purchase of the property. Finally, as far as renovations are concerned, the State would have the possibility of opposing these on a case-by-case basis, applying its own criteria.

The acceptance by the Swiss people of the Urban and Regional Planning Act (Loi sur l'Aménagement du Territoire – LAT) revised in 2012 by 62% of the voters introduces binding new urban planning requirements. At present in the Canton of Vaud, any new extension of building zones is frozen until the Cantonal Master Plan is approved by the Federal Council. The Canton of Vaud is drawing up a new version (4th revision). The ensuing uncertainty is a cause of concern for quite a few owners; the SPG-RYTZ Group's experts are there to propose solutions for you.

We end with some news about our company. As some people will have read, the renovation of our head office won the *Prix Bilan de l'Immobilier* award for the best renovation. We are delighted to have received this award, first of all for our architects (Sincretica S.r.l. run by Giovanni Vaccarini in association with Fossati-Architectes) who designed and completed an ambitious concept, but also for the building owner: it was an expensive project, but our ambition was to give Geneva an innovative, high-quality image, and which varies significantly depending on whether you see it in the daytime or at night (we recommend those readers who have not had the opportunity to see the building at night to go that way some time, because we think the effect of the night-time illumination, produced in cooperation with the Simos Lighting Design and R2D2 companies, is rather spectacular and attractive).

Just to tell an anecdote, our renovation project was at last being finalised with the layout of the small garden in front of the south-west façade, when we were faced with ... a shortage of Vals stones. Delivery of the final consignment needed (which had been ordered well in advance) had already been postponed twice, without any guarantee of the new forecast delivery date ... at the end of January! Apparently, the supplier is keen to prioritise new market opportunities abroad, at the expense of Swiss customers, which we find a pity. Our ambition in this renovation project was also to significantly improve the **energy efficiency of the building** and the result has surpassed our expectations: 65% lower heating energy consumption per square metre, and 50% less electricity consumption per square metre! In concrete terms, the Heating Cost Index (Indice de chauffage – IDC) of the building **went down from 840** (the original building dated from 1989) **to 270**.

And since we are talking about energy, we are also pleased that this year, we were able to complete a 84-home development '*Les Plages de Dardagny*' on the banks of the Rhône, for which the energy concept verges on 100% renewable (without being able to achieve that target entirely): heat pumps using the thermal energy of the water in the water table of the Allondon cover all the heating requirements and half the hot water requirements for the buildings, while the other half is covered by thermal solar panels. The thermal envelope of the building was improved by 17% in comparison with the Minergie® requirements. All the apartments in this development have been either sold or let.

Our Property Sales and Valuations department is proud to have been in charge of what is probably the largest real estate transaction of the year: the sale of the emblematic Saint Georges Center in Geneva for CHF 141.25 million. The process took a total of five months, and was handled via a perfectly managed two-stage call for competitive tenders. Our service has enormous experience in this field, having managed the sale of other prestige buildings (such as the headquarters of the Swiss National Bank, or the building at 43, rue du Rhône, as well as more modest properties such as an apartment building on



route de Malagnou). This type of process (call for tenders) guarantees equal opportunities among buyers, and obviously creates an emulation that can be positive for the vendor, but it is important for the process to be perfectly managed on a formal level.

Our efforts in the **field of training** are continuing, since the SPG-RYTZ Group currently employs nine apprentices, six of whom are at SPG alone, which is also the member company of the USPI Geneva which is training the largest number of apprentices.

Moreover, this year we wanted particularly to pay tribute to our janitors, following a large-scale survey which enabled us to select twelve of them (out of the 268 that we employ in Geneva). These twelve janitors have really excelled not only by their work or their technical abilities but also due to their **human qualities**. We cannot resist giving a few examples and testimonials: one of them, on his own initiative, organises a Christmas lunch at his home for elderly people living alone; another takes pride in carrying out a large number of minor repairs, even in tenant's apartments, to keep their costs down; a third systematically does many favours for elderly people living in the building, and even goes to do their shopping. Finally, all twelve have received the lasting gratitude of their tenants due to their politeness, friendliness and readiness to help. These men and women **deserve our gratitude and recognition** for their humanity and the devotion with which they do their work. We were pleased to share some time with them on Friday, 30 September 2016 on the newly renovated terrace of our head office (see photo below).



Ceremony: twelve janitors employed by SOCIETE PRIVEE DE GERANCE rewarded for their soft skills and their know-how.

We have developed a new extranet platform for our property owner clients: www.spgrytz.online. Owners can access all their property management data 24/7 in total transparency (rental situation, payments received, maintenance contracts, etc.). The look and feel have been modernised and made more spacious, and the data available has been supplemented. We hope that this platform will meet our property owner clients' expectations, and would be delighted to receive their feedback, whether favourable or critical. To obtain a login and for any comments, please contact the Management Department: for SPG in Geneva: Philippe Buzzi, Director (philippe.buzzi@spg.ch); for RYTZ & Cie SA in Canton of Vaud: Laurent Decrauzat, Director (laurent.decrauzat@rytz.com).

Before closing, we would like to devote a few lines to an essential component of our corporate identity, which is the family culture. We are very keen on the values connected with that family mentality,



i.e. **personal responsibility and commitment, long-term vision**, the quest for a **balance between corporate social responsibility in the broadest sense and profitability**. At a time when a Geneva real estate agency with a long-standing reputation has joined a French group (for perfectly respectable reasons due to the absence of an internal succession), we wish to emphasise both the family and local character of the ownership and management of the SPG-RYTZ Group, and state that the transition process between the second and third generation is already in place (ideally, such a process should happen over a five to ten-year period). We believe that some people may find this kind of information useful, since it is only to be expected that our partners (clients, employees or suppliers) should be able to look to the future in terms of the relationship that has been built up over the years.

All that remains is to thank you for putting your trust in our Company throughout the past months, and present to you and your family our best wishes for the New Year ahead.

We thank you for reading this letter, and remain.

Yours truly

SOCIÉTÉ PRIVÉE DE GÉRANCE

T. Barbier-Mueller
Chief Executive Officer

P. Buzzi
Director

PS: In future, we would like to send you this letter by e-mail. If that option appeals to you, please let us know by sending us your e-mail address at the following address: for SPG: info@spg.ch – for RYTZ & Cie SA: info@rytz.com.

Appendix as mentioned

For information, this letter is also available in French and German.