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Our ref. : TBM/mnd Geneva, December 2012

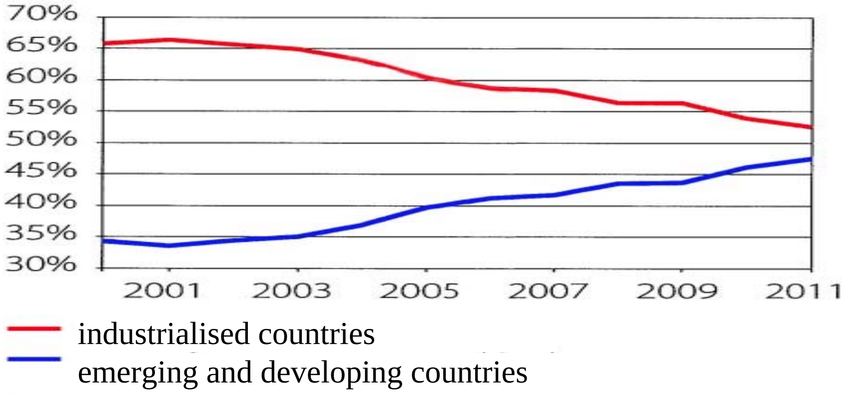
Dear Mr, Ms,

Once again, the time has come round for us to share with you some of our reflections on the year now drawing to a close and on the prospects for the year ahead.

To begin with, the world economy is still unstable. What is different now, however, is that, over and above the problems already known at this time last year - including particularly the turmoil in the euro zone and the runaway rise in the US public debt - we must now add the uncertainty as to whether the Chinese economy is heading for a soft landing or a hard one. Having said that, it is of interest to note the redistribution of world trade now in progress at the global level. Europe, "the old world", needs to be constantly reminded that it will probably never recover the leading role it used to play in the world economy. To take just one sector, namely public sales of art works, China now for the first time leads the field, taking a 40% share of the volume of world trade, ahead of the USA and Great Britain. In the same vein, out of the ten new world record prices set at auction for contemporary artists, six relate to artists from Asia, while out of the ten most expensive drawings in the world – with individual hammer prices ranging from € 107 million to € 23 million – all but one were by Asian artists virtually unknown to our general public, the sole exception being Edvard Munch's celebrated "Scream". The following graph speaks volumes about the changes in the world balance of economic power and about the existence of an important "new world" which no longer necessarily has any need of us.

**New balance of forces in world trade**

Share of world trade




Source: CNUCEDstat

In the meantime, the so-called "developed" world has been struggling to stave off depression through mind-boggling increases in the money supply. It remains to be seen whether this "remedy" will generate significant inflation over the long term. Some economists are persuaded that this will be the inevitable outcome but others have raised an interesting objection: in the absence of demographic growth, an inflationary expansion would be quite simply out of the question, as evidenced by the experience of Japan over the past twenty years (for more information on this subject, see : http://bit.ly/investorinsight). In the West, many countries are having to cope with a greying of their populations, while others are faced with an absolute decline in numbers. As an example of the latter, we can cite the cases of Germany, Poland, Bulgaria and the Czech Republic, while Austria, Belgium, Greece, Hungary and the Netherlands are just about maintaining a demographic balance.

In any event, as the western economies are engaged in a process of debt reduction/deleveraging which looks set to continue for ten to fifteen years, it seems that we will have to get used to persistent stagnation or, at best, low growth.

To sum up, we have been stuck with low to zero growth for the past five years – that is to say ever since the sub-prime crisis blew up in the summer of 2007 – and in all likelihood this macro-economic situation will persist for the next 2-3 years.

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As for Switzerland, the country finds itself in a position which, surprisingly, is relatively enviable, though difficulties, uncertainties and perils are, of course, not lacking.

Last year, it seemed to us that the country would not possibly escape recession in 2012. We are pleased to note that our forecast appears to have been proved wrong - for the time being at least! While it is true that growth has fallen and that the economy seems to be heading for the doldrums, there has been no real reversal or marked inversion of the curve for the moment. This is in itself remarkable given the heavy weather that we have been facing and the dire situation in the surrounding Eurozone, throughout which GDP has been falling during the first three quarters of 2012. The strength of the Swiss economy is indeed surprising right now: demographic growth continues, thanks to positive net migration; unemployment, which is already very low by international comparison, is still falling slightly; and the budget of the Confederation is firmly in the black for 2012. Whereas it had initially been forecast that the budget would be just about in balance, it now looks as though there will be a surplus of CHF 1.4 billion. Let us just hope that this windfall induces those who govern us to put the money into investment - which is what we need in order to remain competitive - rather than using it to reduce an already low level of debt. It will be noted that, in accordance with the Maastricht criteria, the current rate of indebtedness is under 19% for the Confederation, while the consolidated rate (Confederation, cantons **and** social security) stands at 35 % ! Switzerland is one of the very few countries to have reduced its public debt between 2007 and 2012.

However, this budget performance in 2012 results from a wholly exceptional situation in the money market. The Confederation is set to save more than a billion francs on debit interest alone given that, month after month, it has been able to obtain 90-day funds at a negative rate of interest. Whereas back in January 2010, the Confederation's 10-year bonds stood at 2%, this figure had been reduced to 0.6% by September 2012. Another telling if not surprising change is the fact that, for the first time in 10 years, the yield on Switzerland's 10-year treasury bond has fallen below that of the equivalent Japanese bonds. Nevertheless, difficulties and challenges remain. For example, the future of Switzerland as a financial market gives cause for particular concern (a subject dealt with in this autumn's issue of our journal *IMMORAMA*) and the down-sizing of the banking industry is under way.

A few thoughts now on the attractiveness of Switzerland for foreign residents. On the one hand, it will be noted that the predicted influx of "French tax refugees" has not taken place and it would appear, according to certain tax specialists, that they have opted for other destinations such as Belgium and Britain. On the other hand, foreign residents established in Switzerland could well be having serious thoughts about the future. It would seem that the debate over the removal of lump-sum tax assessment and the socialist initiative to introduce a federal tax on inheritances, as well as the battering suffered by the Swiss financial centre have all been creating a climate of uncertainty which is damaging to the image and attractiveness of our country. In short, this is not a time for self-satisfaction or complacency but rather for serious and rigorous efforts enabling us to demonstrate that Switzerland has a credible and solid future as a haven for individuals and for corporations.

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The development of the property market has also been a matter of general concern and, in this regard, there is no doubt that the measures introduced to curb the growth of mortgage debt can be hailed as a positive contribution to a soft landing. With effect from 1 July 2012, people have no longer been able to dip into their pension entitlement for the whole of the 20% deposit needed to acquire a property. Now, the buyer has to contribute half of the deposit directly. In addition, a new obligation to amortise the mortgage debt has been introduced so as to ensure that this does not exceed 65% of the value of the property after 20 years.

These changes are not extraordinarily restrictive but, on the contrary, measured and proportionate, helping to ensure that the property market remains healthy and reducing the risk of an abrupt downturn in the future. Moreover, they have already contributed to a reduction in the risk of overheating by damping down the speculative propensities of buyers, developers and lenders, against the background of a significant increase in recent years in the total volume of mortgage loans, up from CHF 542 billion in 2005 to CHF 800 billion in 2012. In short, these developments could effectively make a "breathing spell" look welcome.

We referred earlier to the prospect of a soft landing but this is by no means guaranteed. Some real estate projects seem to have been launched in recent years on the basis of "optimistic" or even blatantly speculative criteria and it remains to be seen what impact this will have on the market once they have been completed without necessarily being sold or rented. In any event, we will not be able to look abroad for salvation because, contrary to the advice of the Federal Council, the parliamentary committee dealing with the issue has flatly refused to relax the Lex Koller restricting the sale of holiday homes to persons domiciled abroad. In this connection, it will again be noted that mortgage interest rates have continued to fall: while the 10-year fixed rate mortgage was being negotiated at around 3 % at the end of 2009, this figure had come down to about 2.75 % by the end of 2010, to 2 % by the end of 2011 and currently stands at around 1.75 %.

The development of the real estate market in the Lake Geneva region varies from one segment to another and the price of **investment properties** is still extremely buoyant. This is because supply is very restricted due, on the one hand, to the fact that few existing owners are selling and, on the other, that the developers of new buildings have given preference to sale on a condominium basis and because buyers, who are often under pressure to place their available funds, are accepting lower and lower returns in line with the general fall in yields.

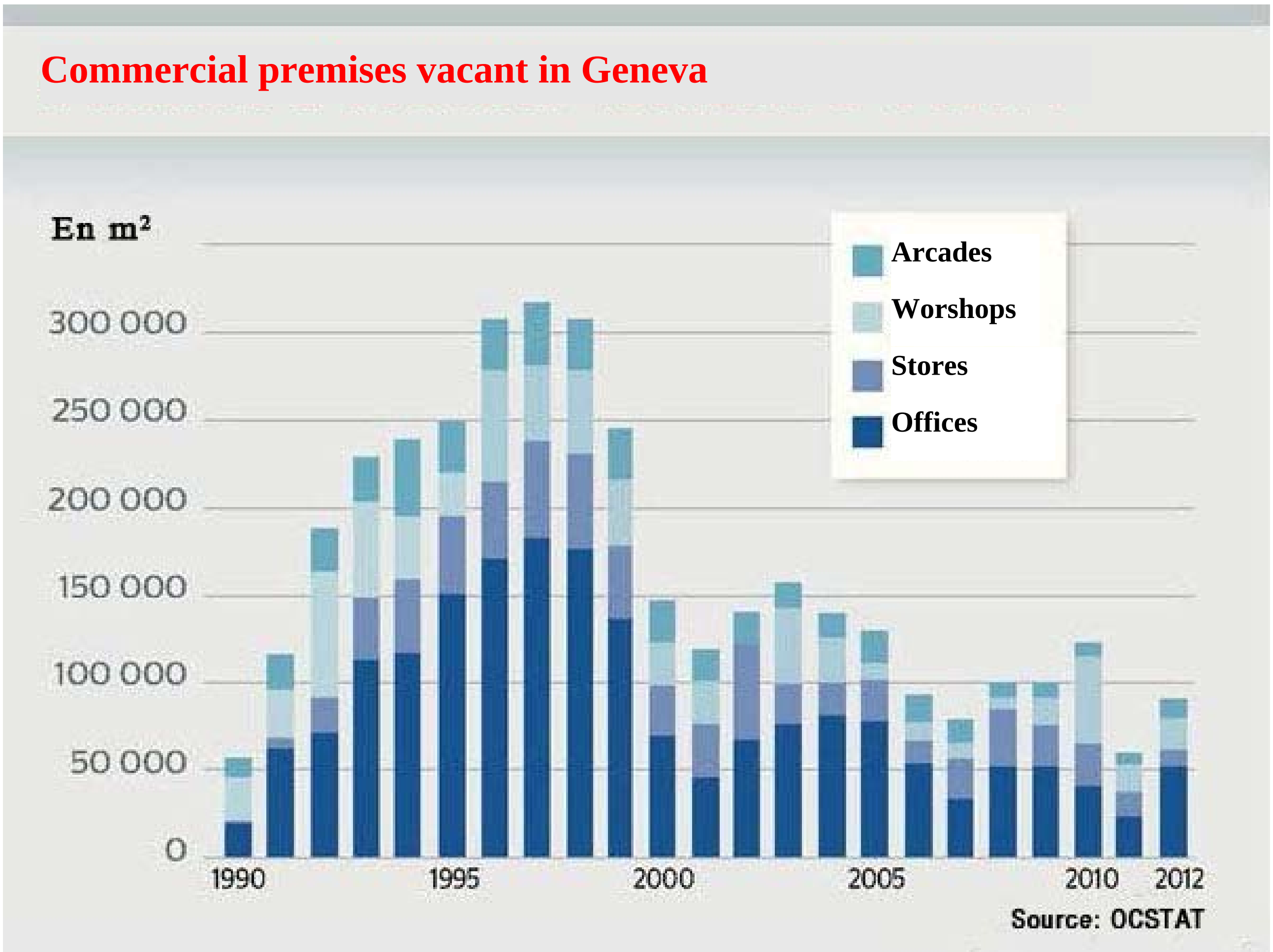
In the **residential** sector, there has been a perceptible slowdown in the sales of villas and apartments, with a shift from a situation of bidding battles to one of counter-offers. Buyers are more circumspect and financing is taking longer to arrange. Meanwhile, supply is increasing while demand is declining and, on average, transactions are taking longer to complete. No complaints though from the media, as a high volume of property advertising is maintained.

When it comes to **top-of the-range lets**, the slowdown is very marked. With demand falling and the budgets of potential tenants also growing smaller, rents are often the subject of tough negotiation.

As far as **luxury residences** are concerned, this is an area of the market of which we have specialist knowledge through our company SPG Finest Properties, an affiliate of Christie’s International Real Estate. In this sector, demand is thin and the number of completed transactions small (in this regard our remarks on page 3 concerning the attractiveness of Switzerland are pertinent). It will be noted, however, that this is a niche market, with only a small number of sales from one year to the next. On this subject, we took the trouble to quantify the volume of sales of villas and apartments in Geneva with a price of over CHF 10 million. We found that, from 2009 to 2012, this amounted to a sales volume in the order of CHF 200 million to CHF 330 million per annum, generated from between 15 and 20 transactions a year. In the light of these figures, it is clear that the significance of this market has always been overestimated. The media, as one might expect, rejoice in the stir that can be created by the announcement of a sale worth CHF 74 million but, upon closer inspection, it can be seen that there was only one residential property transaction of over CHF 50 million between 2009 and 2012. (Incidentally, this statistical analysis also showed that SPG Finest Properties enjoys a significant share of the market in this sector).

The market for the letting of **offices** and other commercial and professional properties has also undergone a trend reversal, with the volume of vacant units having more than doubled in a year, an increase due to the number of new buildings completed. Meanwhile, as office construction is still on the increase, the overall stock is set to grow in the years to come.

Though this trend might appear spectacular, we must not be deceived by first appearances. The vacancy rate of between 1% and 1.5% would be the envy of any city in western Europe and, as may be seen from the chart below, the vacancy level is still far below the figures prevailing around the turn of the century.




Finally, this development is not necessarily a bad thing as it makes Geneva more attractive as a location for new companies.

Let us conclude with the question of housing construction, a vital topic in a canton which has always suffered from a shortage of accommodation. The number of housing units under construction (over 3500) is historically high and the figures for completions during the first three quarters of 2012 are also well above those for preceding years. Indeed, the figures for the last two quarters are the highest for seven quarters. While this could mean some relief, it is necessary to bear in mind that the population continues to grow at much the same rate as in the past.

As always, town and country planning remains a sensitive issue in Geneva but, though we were concerned last year about the possible blockage of certain development projects, we are now pleased to welcome the satisfactory resolution of the "Grands Esserts" project at Veyrier. The compromise found is an intelligent one as it does not sacrifice the total constructible potential of the zone. The State, in other words, did not agree to a decrease in density but simply to the construction being staggered over time so as to permit the district to "digest" the new arrivals and to complete the necessary infrastructures gradually. The new head of the town planning department, François Longchamp, did not take long to put in place this solution, which opens up a potential for 800 housing units and has the crucial advantage of not sacrificing the future or wasting any land. Furthermore, the State as the guarantor for the implementation of town planning procedures in the canton has sent a loud and clear message to the districts and to the population, namely that, while there is room for negotiation on the development timetable, there will be no compromise on the principle and content, including particularly population density.

As regards regulatory matters, the rules for hazardous substances in the built environment were amended in July 2012. In future, before the owner of any property in Geneva built prior to 1991 can start demolition, renovation or rebuilding works, he must obtain a prior attestation from a state-authorised expert certifying that there is no asbestos in the affected areas. In this regard, it will be recalled that asbestos, the use of which has been prohibited in Switzerland since 1991, was very widely employed and is to be found in many building materials such as, to name but a few, tile grouting, window joints, fusebox insulation, the agglomerate in parquet and other floor coverings like linoleum and in PVC and other elements used in heating. It may also be necessary to take samples and analyse materials before renovating an apartment that has become vacant. Furthermore, if the presence of asbestos is confirmed, this can result in an increase exceeding 20% to 30% in the cost of the renovation budget.

Further if the diagnostic procedure is conducted on a case-by-case basis, it can be very time-consuming and result in apartments having to be left vacant for a longer period. Where applicable, therefore, we would suggest you consider having a one-off report done on your whole building to save yourself time, money and trouble.

The cost of analysing a whole building of around 20 apartments plus common areas could come to between CHF 10 000 and CHF 15 000. We are presently in consultation with specialist companies to obtain a flat-rate group price which will take into account the size of our portfolio under management. This could be of interest to all our clients and we will get back to you on this subject at a later date.

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More generally, though the economy in Geneva has held up very well overall, it looks as though the situation for the year ahead will be rather on the negative side though not all of the leading indicators are pointing in the same direction: the population is growing; unemployment is falling while the total wage bill is diminishing, the GDP of the canton is contracting somewhat and the public accounts are worsening, reflecting partly a drop in the income of the taxpayers. In particular, it is likely that the downsizing of the financial and banking sector (second only to the public sector in the canton) will weigh heavily on Geneva's economy in 2013.

Another subject of importance not only for the cantonal economy but also for the image of Geneva and its financing capacity will be the problem of the consolidation of the cantonal public pension funds, namely the CIA (fund for teachers and civil servants) and the CEH (fund for the personnel of the medical establishments). This issue will be put to a referendum in March 2013, the result of which is less foreseeable than ever, as evidenced by the fact that the far left and the conservative right have joined forces to reject the consolidation, though for diametrically opposed reasons, the left because the civil servants will be penalised by the reform of their retirement conditions, the right because the reform upholds excessive privileges which bear no comparison with the private sector, particularly as the employer, i.e. the State, pays two thirds of the occupational pension (LPP) contributions.

This is an extremely important debate since the community envisages bearing the total cost of the recapitalisation of CHF 7 billion over 40 years, by comparison with which the rescue of the Cantonal Bank of Geneva was a mere trifle. However, there is a fundamental question here which must not be overlooked: how did we ever get into this position, i.e. a rate of cover of only 47% in May 2012 for one of the pension fund concerned?

Though the State may have proved to be merely reactive - not to mention tardy - in the question of the consolidation of its pension funds, it at least demonstrated a sense of tactical anticipation in the field of corporation tax. It will be recalled that Switzerland and Geneva are under pressure from the European Union to put an end to the differentiated (i.e. favourable) tax regimes applied to certain foreign corporations (auxiliary and domiciliary companies). To satisfy the EU requirements, the plan of the government of Geneva will consist in a plan for a new single rate of tax on profits of 13% which will mean a very modest rise for the companies presently on the most favourable rate of 11% but a significant reduction for all of the others which are subject to a rate of 24%. The implementation of this plan is not yet assured and, in any event, it would not come into force for some time yet (2017-2018). Nevertheless, whatever the outcome, our government deserves to be congratulated for launching a concrete proposal and avoiding keeping a major sector of the economy – foreign companies representing 20 000 direct jobs in our canton - in a state of uncertainty and even unease as to their future tax burden. And for anyone who might think that this reduction in tax comes at a bad time given the budget difficulties of the Canton, let it be recalled that Geneva is the Canton with the highest taxes in the whole of Switzerland and it is high time this trend was reversed.

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As regards the activities of the SPG Group, our SPG Asset Development department in charge of promotion operations, delivered some 8 500 $m^2$ of offices in the Saint-Georges Center to the tenant on time and on budget. Let there be no false modesty – we are proud of the building and particularly of the fact that we were able to persuade the owner to allow us to organise an international competition to promote the finest aspects of its architectural quality. The property was conceived not only for appearance but down to the smallest details of the interior design and, of course, the energy performance reflected in the Minergie label. The night lighting system was also meticulously studied not only in terms of aesthetics but also with a view to power consumption, which has been kept to a minimal 8 000 to 13 000 kWh p.a. (for an annual cost of around CHF 2 000), an amount largely covered by the installation of photovoltaic panels on the roof. Let it be noted in conclusion that, for our part, we see the provision of an aesthetically pleasing architecture as a civic duty that has nothing to do with cost or mere whim. After all, shouldn't we all want to do whatever we can to make our city more beautiful?

It was this same ambition which prompted us to organise another architectural competition for the renovation-conversion-superelevation of our head offices at 36, route de Chêne. From the point of view of planning permission and dealings with the administration, the addition of two floors of around 380 $m^2$ each was no simple matter. However, the works finally got under way this summer and are set to last for around thirty months. The work will result in a total transformation of the heating and ventilation system, a new facade, a two-floor increase in height and a substantial improvement in the energy performance of the building, which will acquire the Minergie label.

The project is of considerable strategic importance for the company as it will enable us to bring our residential sales office back under the roof of head office and, at the same time, provide us with room for another fifty work places, sufficient to cover the needs of the various scenarios for future expansion.

The year 2012 has also seen the opening of new branches of our group in Lausanne, namely Rytz & Cie SA for the management, brokerage and control of property development projects and SPG Finest Properties for top of the range residential property. A further branch of SPG Finest Properties was opened simultaneously in Nyon. We should now like to set forth the strategic vision we have for the development of our group: we firmly believe that growth is not an end in itself, which is why we resolutely reject any suggestion of pursuing *volume*. For the same reason, we have refused the temptation to spread ourselves too thin. However, the Geneva-Lausanne axis corresponds to a sort of metroplex, a conurbation which is bound to become ever more integrated with the passage of time. For us, therefore, the time is right to secure a firm base in both cities, a move which judiciously complements our presence in the *Côte vaudoise* with Rytz & Cie SA.

This geographical expansion of our network has been accompanied by a wider distribution of our publications. For example, the print run of our review *L'INFORMATION IMMOBILIERE* has increased this year by almost 30% to its current total print run of 95 000 copies. During the same period, the print run of *IMMORAMA*, a general distribution magazine with high quality editorial content, has increased by 40% to 300 000 copies, making it the biggest property advertising publication in French-speaking Switzerland. These publications are a powerful marketing tool which we make available exclusively to the clients of our group. At this point, a few words are in order about our marketing strategy, a subject we keep constantly in mind in the interest mainly of selling and renting the properties entrusted to us. Our publications represent "hard copy", a dimension which, even now in the digital age, still needs to be maintained and developed in order to be able to deliver information physically to the client's door though he may not be in active search mode. At the same time, of course, we invest heavily in digital communication, as is borne out by the makeover not only of our websites www.spg.ch and www.rytz.com, but also by the mobile phone versions of these sites and the "SPG" and "RYTZ" apps available free of charge at the Apple Store. In addition, it goes without saying that the properties we have for sale or to let are also advertised on the main Swiss websites dedicated to the property market.

Finally, we should like to remind our landlord-clients that, for their convenience, we provide SPG-online and Rytz-online, a secure-access service available 24 hours a day 7 days a week for direct consultation not only of all the building management accounts, but also of rents received, leases concluded or in progress and the contracts relating to each property. This is a mark of the total transparency we seek in the fulfilment of the management mandates entrusted to us. It might be noted, furthermore, that, while this service is no longer a real technological challenge, it is not by any means one that is provided by everyone in the industry.

In conclusion, we should like to take this opportunity to thank you for your continued loyalty to our company and to wish you and your nearest and dearest a merry Christmas and happy and prosperous New Year.

**SOCIÉTÉ PRIVÉE DE GÉRANCE**

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| T. Barbier-Mueller | P. Buzzi |
| Chief Executive Officer | Director |

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