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« Dear Sir / Dear Madam »,

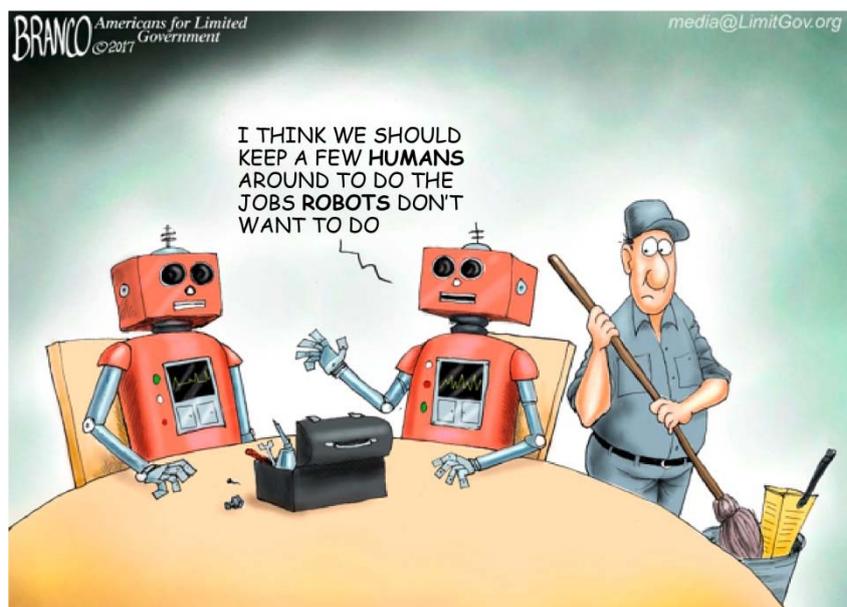
As our letter is an annual publication, we try to take a more detached view of the daily ups-and-downs of the news, and attempt to identify major trends in our economic, social, human or cultural environment. We feel a degree of satisfaction in having made quite a success of it in recent years, as witnessed by the fact that a number of the issues raised during that period are still topical today: ever-growing indebtedness, the ageing population, the digital revolution that is just in its infancy (but the move towards a cashless society, for example is taking great strides forward). The majority of these topics do not deserve to be treated again at great length here, because what we wrote in years gone by largely still applies today, and in some cases, we almost regret having been right: that is the case of the **critical financial situation** of the State of Geneva's Pension Fund (CPEG), but as we wrote in 2012, the current situation was totally predictable (our magazine *L'INFORMATION IMMOBILIÈRE* had devoted a critical round table discussion entitled *Vices and virtues of public pension funds* to this issue as far back as 2008 (edition 97, autumn 2008). Likewise, there are some problems to which there is no solution: this is the case of the ageing population which can, a priori, but continue growing in size, bringing with it gradual **economic and societal changes**, which are also inevitable - changes in consumption patterns, slowdown in growth, increase in health services and costs in the broadest sense, a constantly precarious balance in the funding of pensions, etc. Other issues will take time to unravel: **inflation in asset prices** (shares, real estate, works of art) caused by the expansionary monetary policy of the central banks (accompanied by increasing global debt that is partly opaque, particularly in China) and which will probably end in a very sudden and painful explosion, but nobody knows the date or the time. (The historically low volatility observed over the last year on the stock markets is another more than likely danger signal but we shall not go into this question in more detail here.)

On the other hand, we feel it is essential to devote some time to the **digital revolution**: although it is obviously only in its infancy (the iPhone has only been around for 10 years, and a company like Amazon has only started to be taken seriously in recent times ...), its impact is already colossal in every field.

It really is a **“disruptive” technology**.



It asks totally new questions in many different fields. For example, when it comes to **corporate taxation**: it is indeed a problem that large companies like Amazon or eBay largely avoid tax merely because it is difficult to determine where the company's income is taxable. Issues relating to **unfair competition** - for example for taxi firms and hotels - also arise, due to the activities of Uber or Airbnb. The **concept of employment and the rules applicable** to employment contracts are also being thrown into turmoil: the "employees" of Uber or Deliveroo, for example (a British service for home delivery of take-away food) are formally self-employed, their work is dictated by an algorithm (talk about "lean management"!)) which tells them their destination, measures their response time, the number of trips, imposes times of day when they have to be available for work, and can disable their "account" from one day to the next if their performance is deemed substandard; the growth of this type of employment (because that's what it is, even though for the moment it is mostly unregulated, unlike traditional jobs, (1) probably presages a major trend, even though currently it is estimated that it only accounts for a million jobs in the USA, for example. But in the long term, a major transformation in the nature and quality of jobs is obviously possible or even predictable: fewer quality jobs and, on the other hand, a massive increase in flexible or precarious jobs. In parallel, **robotisation** is actually destroying jobs: you only have to think of supermarket check-out staff, but there are also driverless cars on the horizon, drones (in the air but underwater drones also exist), bricklaying robots which are already a reality with productivity two or three times higher than a "human bricklayer" (laying 1,200 bricks per day, compared with 300 to 500 ...). New oil drilling platforms have now been put into service that require 5 operators instead of 20. According to a recent study (2017) (<http://bit.ly/2iTBSOU>) but which covers the period from 1993 to 2007, each industrial robot replaces an average of 5.6 workers, and the number of robots used in industry is forecast to quadruple by 2025. And actually, we can already see that the increase in industrial production is being accompanied by a reduction in the number of jobs in a very eloquent graph which we have not reproduced here due to lack of space (<https://fred.stlouisfed.org/series/IPMAN>). Will we have to introduce the **universal basic income** that is proving quite controversial (or might the idea of a *universal job* be preferable)?



Source: <http://netrightdaily.com/2017/09/cartoon-labor-days-end>

¹A court in London has just ruled that Uber's 50,000 drivers in the UK are employees, which entitles them to the minimum wage, but of course Uber will appeal this ruling.



From another viewpoint, digital technology opens up a huge world of flexibility and opportunities: **3D printing** enables flexible and one-off relocation of production of certain goods which, of course, should obviously also gradually have a considerable impact on international trade and the flow of goods - and therefore indirectly on the environment (this trend will have to be watched, because the forecasts on this subject are still too hypothetical). Another example is the possibility for people living in remote areas to have access to **online education** or advanced **medical diagnoses**. And we are also seeing the **Internet of Things**. So far, it has been mostly computers that are connected to the Internet, but all sorts of devices are now starting to be connected directly so that they can operate in a “smart” way, and the forecasts are mind-blowing: it is estimated that 20 billion devices will be connected by 2020 and 1,000 billion objects connected thirty years later!

There is also **blockchain technology** - which is even more revolutionary than e-commerce or the emergence of social networks, and on the same level as Artificial Intelligence; so far, this is most familiar to us through the Bitcoin. It is essential to bear in mind that the Bitcoin is primarily a cryptocurrency among others (the Ether - which is nevertheless the second most popular cryptocurrency - has made the business headlines largely due to use on a massive scale for fraudulent purposes - which admittedly did happen on an external application, but it is not good for its image), and that all these cryptocurrencies are only one expression, one application among others of blockchain technology. The issue here is not whether the Bitcoin, for example, is a speculative currency (intuitively, it can be considered likely that the bubble phenomenon also exists among cryptocurrencies!) but rather being aware that a new technology is emerging whose potential uses are still not clearly identifiable. This technology, which is certainly revolutionary, allows the existence of various decentralised applications with which data or transactions can be managed or secured without using an intermediary, a central counterpart (for the currency, for example, in theory this is ultimately the end of the central bank, in its role as regulator of the money supply). This new way of carrying out transactions may apply to many fields: these include the financial sector, of course, commodities trading platforms (<http://reut.rs/2zI0PVy>), management of music royalties, management of air traffic data, etc., including real estate (both for carrying out transactions and for creating a virtual Land Registry, or for funding projects, traceability of materials, for independent verification of the progress of projects ...)! One important reservation about this technology is of an energy/environmental nature: the systems based on the blockchain concept are said to be energy guzzlers; according to certain researchers, a single Bitcoin transaction is said to consume as much electricity as an American household does in a week, which is a serious handicap for a technology that claims to be forward-looking and revolutionary (but there too, the verdict is far from being certain or final): Ethereum has announced the release soon of a transaction verification system which would not consume any energy at all).

The digital and virtual world also involves **Artificial Intelligence**: already today, this is enabling medical diagnoses in some cases which are more reliable than human ones; it also constitutes an unbeatable tool for facial recognition (crime); it can now also beat the best poker or chess players (the “machine” even learns how to bluff!). It is involved every second in the financial and stock markets (where it will still certainly cause substantial damage in the years ahead because it depends on historic data which it is fed beforehand to “think” and act - this is a vast, fascinating subject that we just mention in passing, but are unable to expand on due to lack of space). This Artificial Intelligence technology is also a long way from having reached its full development potential.

From the economic viewpoint, virtualisation also has important implications, such as the growing difficulty of recording statistically or measuring the development of economic activity (which is, moreover, increasingly decentralised): the concept of GDP or the concept of productivity are intended to measure the production of tangible physical goods, not intangible production...



Digital and virtualisation are also - it may be a cliché to point it out yet it is necessary - a factor in “de-humanisation”, which can be seen in an unlikely field: some states in North America (including Delaware which, alone, is the headquarters of the majority of companies listed on US stock exchanges) allow **virtual annual general meetings!** So there will no longer be a physical shareholders' meeting in a single place! Obviously, this constitutes a sizeable backward step in shareholder democracy and their power to control listed companies, and has been criticised, for example, by the order of the Sisters of St. Francis of Philadelphia, which invests in a number of companies listed on the stock market, and has complained of a “*slippery slope*” which is leading companies and their management to lock themselves away in an ivory tower remote from their shareholders, to whom they are accountable.

Finally, a few words on the subject of **our personal data and privacy**: the former exist in quantities that we cannot possibly imagine, and the latter no longer exists. A *Guardian* journalist asked Tinder to provide her, under a European law on protection of privacy of the individual, with the content of her data since she had joined the service in 2013: the print-out ran to 800 pages! The journalist admitted that hacking and disseminating this detailed history could have caused her serious embarrassment. Google, for its part, collects data about its users 24 hours a day, through over sixty different platforms (Google Maps, Google AdWords as well as YouTube, Chrome, Android, Gmail...) and, according to its general terms and conditions, is allowed to share the information collected widely (except with you). Google knows about our health problems, our holiday destinations, our political and cultural interests, as well as in some cases our sexual preferences. Just imagine for a moment the consequences of hacking: well, for most of us, this exercise is something that is just impossible to imagine! We are physical creatures and our data is intangible, which is what makes clear conceptualisation difficult: like that *Guardian* journalist, we would need to see it all printed out. And for the time being, we have only been under surveillance when we were sitting in front of a screen; but you can be assured that the new “*Assistant*” (a loudspeaker with embedded Artificial Intelligence) from Google, which you will obligingly install in your home, will fill this gap. It will be part of your everyday life, it will be a companion for your children (who are one of the targets of this new product) and will provide you with a multitude of services: “*Phone Granny*”, “*Find me a Chinese restaurant for this evening*”. But Google are most insistent: for the “*Assistant*” to really be able to help you, it needs to know as much as possible about you. One little detail: it stores everything, and it has access to the content of your smartphone and to everything that appears on your screen. It does not cost much, because obviously its real value lies in the data that it will provide to its designer.

In China, the government is making good progress in setting up a huge programme of collecting centralised data about its 1 billion 300 million citizens: the ***Social Credit System*** (which operates at the moment on a voluntary basis, but will become mandatory from 2020) aims to evaluate and rate the “***social reliability***” of each citizen (<http://bit.ly/2j0zwOq>). The criteria include credit history as well as “*behaviour and preferences*” and our contacts (checking out our online friends on social networks, among other things). We could cite many more examples, but it simply has to be admitted that the battle for privacy has probably already been lost.

Of course, the real estate sector is also concerned by the digital revolution from various angles which, for the sake of being concise, we will not attempt to list here. Let us merely mention that New York City has just held its first trade show for digital technology connected with real estate - *Real Estate Tech Week* - which is only logical because it is the largest commercial real estate market in the world. We would put money on this event growing much bigger over the years!

We should also mention the human and ethical challenge being posed by new technologies including Artificial Intelligence: how can we not be revolted by the idea that a human being, from 2045 onward, will no longer be knowledgeable, educated and trained, but “*downloaded*” as Ray Kurzweil suggests



almost casually? This prospect is no longer George Orwell's *1984*, it is a significant step further: there is no longer any need to control human beings, as they can be "properly" programmed right from the start. Incidentally, Ray Kurzweil also suggests that our bodies will no longer be considered differently from our computers: once they are worn out, the data will be retrieved to transfer it to a new *tool*. And he believes that the same will therefore also apply to our brains and their content (1). Faced with such a prospect, doesn't everything pale into insignificance? The end game is **transhumanism**, an insidious (and in a way, totalitarian) (r)evolution which has already started, whose partisans should no longer be ignored or dismissed as naive dreamers.

But digital is also a disruptive revolution at a personal level, in the way we live our everyday lives. In 2004, Patrick Le Lay, then the Director General at TF1, caused a minor scandal by declaring that the mission of TF1, the major French TV channel, consisted of "***selling available human brain time to Coca-Cola (and other advertisers on the channel)***". Admittedly what he said was cynical, but at least it was clear. Since then, Google, Facebook and Apple have refined the concept still further: these companies appear to offer us services, but in reality, these are *ecosystems* whose aim is to **capture as much of our time and attention as possible** (as well as our personal data). The result is often a digital addiction (on average, we are said to touch our smartphone 2,600 times per day!(2)) whose causes are criticised by a man who is not just anybody: Tristan Harris, former Head of Product and Design at Google, who has no hesitation in calling for an ethical code in the development of digital tools which are currently "***stealing our time and our attention, to the detriment of our mental balance, our social life and family life***". Whatever you may think of his crusade, he is worth reading or listening to. Here are a few links: <http://bit.ly/2hqmxVZ> – <http://bit.ly/2ASg4eK> – <http://bit.ly/2inDTno> or a TED Talk <http://bit.ly/2AoHxI9>.

Former President of Facebook, Sean Parker, has said something similar: "*Facebook was created to exploit "a vulnerability in human psychology" ... God only knows what it's doing to our children's brain*" (<http://bit.ly/2zLfkdk>).

Digital memory is also a vehicle for **serious harm** to a fundamental human principle which is the **right to be forgotten**. Many people who have never even been convicted by a criminal court of law are being pursued for a lifetime by information about them - **which may be true or false to boot!** This principle of perpetuity is, quite scandalously, treated as inevitable. Whereas in reality, this information is usually made accessible by a few sites which hold a virtual monopoly. Put simply: the law is lagging behind in this field, and citizens have no protection that enables them to obtain either the removal of, or at least restriction of access to, this data which is not in the public interest and is harmful to them. On a parallel or wider issue, there is a very fine presentation by Monica Lewinsky on TED Talks (https://www.youtube.com/watch?v=H_8y0WLM78U) which sets out in a concrete, moving way what a media frenzy can represent in human terms for a "real" individual in the Internet era.

¹ Ray Kurzweil is an American engineer, author, researcher and futurist. He has made many discoveries and has founded several companies in the fields of optical recognition, voice synthesis and recognition. A professor at the famous MIT (Massachusetts Institute of Technology) and winner of many technology awards and holder of twenty or so doctorates, he is currently an Engineering Director at Google. The *Wall Street Journal* describes him as an "*indefatigable genius*", *Forbes Magazine* as the "*ultimate thinking machine*". He has also written many books, one of which was a best-seller in its category on Amazon, and created a web site said to have over 3 million readers. He is an advocate of Singularity (massive and ultimately uncontrollable influence of Artificial Intelligence on human development) and Transhumanism (augmented humans, transformed by use of science and technology), and also the co-founder of the Singularity University.

² "*The iPhone is the crack cocaine of technology. Don't celebrate its birthday*", *theguardian.com* (<http://bit.ly/2mznbG7>). According to many psychologists, keeping children away from tablets and smartphones is now a public health issue.



In Switzerland, the economic situation is rather favourable: the Swiss franc exchange rate ended up rather lower in 2017, which gave some breathing space or even a new lease of life to our export industries, and gave a substantial boost to growth; this has led to a moderate and falling unemployment rate (3% in autumn 2017 compared with an average of 3.3% in 2016). On the political front and in relation to general conditions, there were few significant changes: the rejection in a referendum of “RIE III”, the proposal to reform corporate taxation, can be regarded as unfortunate, as it would have contributed to making Switzerland more attractive as a base for companies to do business (although, for our part, we did have reservations on the issue of notional interest, as we think it is an absurd artifice that enables a company to set off fictitious interest charges against tax!). Ultimately, this rejection should only be a step along the way, as there is already hope of that proposal being replaced relatively soon by a simpler, more comprehensible reform that will keep the essence of the earlier proposal (that is, harmonisation of the rate of corporation tax for all companies, which will lead *de facto* to a substantial lowering of rates, particularly for SMEs). The general conditions are deteriorating in our country, despite everything: **over-regulation and bureaucracy** are gaining ground (of 360,000 jobs created in Switzerland over the past 10 years, 190,000 were in the public sector!) Of course, we can take heart from comparisons with France or Italy, but shouldn't we be comparing ourselves with an efficient country, Singapore for example? It is worrying to hear the CEO of the country's largest bank state that the Swiss base of the bank should not be taken for granted (and this is no bluff: we should bear in mind that the share of Swiss GDP generated by the financial sector has already shrunk perceptibly over the last decade). This happened in a context where the Swiss base of our large groups of companies has in any case been undermined by the indirect (unintended) effects of the “Minder Act”: as Peter Brabeck, former President of Nestlé put it clearly, making every director stand for re-election every year means that all those directors are much more concerned about both the short term and the position of the major shareholders in their company, large shareholders that are usually foreign investment funds not too concerned about the local (Swiss) impact of the company's policy. Since we are talking about over-regulation, let us mention in passing the typically “wrong good idea” of an NGO which has criticised the risk of money laundering through real estate investment, and which has suggested forcing notaries and real estate agents to check the origin of the funds for a property purchase. Rather than approving the creation of a new “labyrinthine regulatory system”, let us pause to think for a few seconds: what holder of funds of dubious origin would be stupid enough to tie them up in an *unmovable* asset like property, which is so easy to seize? Especially in a country where, in any case, the Land Registry is run by an official and public body (and if the owner is a body corporate, its beneficial owner must be declared). In other countries, the risk of money laundering through real estate probably does exist, but in Switzerland, this is something unlikely from the practical viewpoint, and additional regulation to control it appears to be totally disproportionate (it should be borne in mind that the bank which handles the funds required for the property purchase is required to perform checks upstream).

Since the digital revolution is the dominant theme of our letter this year, is it not time for our country to have a “**Minister for Digital**”? It seems obvious today that this field and everything it represents, both in terms of opportunities and risks (cyber attacks can paralyse companies or even whole swathes of our economy and our country), should be dealt with either by an (eighth?) Federal Councillor or at least by a senior civil servant dedicated to this subject and possessing the necessary skills; in other words, a “Chief Technology Officer” (this position exists in the USA).



In the **real estate sector**, the most notable event, due to low interest rates and the attractiveness of investing in real estate for institutional investors, is that the building of homes in Switzerland is at a high level, so much so that the average rate of vacant rental units across the whole country is also at a rather high level in historic terms. The result, of course, is downward pressure on rents. We should point out, however, that the situation is extremely varied, depending on the geographical location of the properties for rent (the vacancy rate can vary by a multiple of 1 to 5 or even 6 between a city centre and a remote area). And since real estate and digital are a sort of running theme in this year's letter, we should briefly mention a judgement in Zurich which ordered a tenant who had sub-let his apartment (without permission) via Airbnb, to pass on to his landlord **all the proceeds of the sub-let**.

And in Geneva, finally, the economic situation exhibits wide variations, a mixed but rather favourable overall picture for the moment. Of course, some sectors are suffering, like banking, export industries, or retailing or restaurants. But many indicators are still in positive territory, probably due to the welcome fall in the Swiss franc's exchange rate: gross domestic product is growing - admittedly moderately, but in 2015 it was falling; demographic growth is continuing (but at a significantly slower rate, since in 2015 we had an average of over 8,000 "new faces" per year, whereas now it is about 4,000); air traffic is strong and Geneva airport recorded insolent growth in passenger numbers (+4% per year at least since 2015); the number of overnight stays at hotels is at worst stable, and even in the third quarter of 2017, it recorded an absolute record for the number of overnight stays - (on this subject, it is also interesting to point out that Geneva traditionally has a rate of room occupancy well above the Swiss average; between 63 and 65% in Geneva in recent years whereas the Swiss average is between 51 and 52%; inflation is virtually zero but we seem to have left behind the worrying deflationary trend recorded in 2015; unemployment has been falling (moderately) since the start of the year; and the total payroll is on the way up again (slightly) after a year when it went down in 2016.

In the **cultural field**, Geneva has had a **rather impressive upturn** which shows how quickly the situation can change (for the better in this case). Last year, some people felt moved to complain about the impossibility of getting large-scale cultural projects started, mainly due to the rejection in a referendum of the Nouvel plans for the Museum of Art and History. Yet since then, the launch of the imposing project for *La Nouvelle Comédie* (near Eaux-Vives station) has been confirmed; the *Nouveau Théâtre de Carouge* - which was also subject to a referendum vote - really won the backing (over 65%!) of the population; the Municipality of Vernier is planning a large cultural centre (budget of over CHF 100 million) comprising, in particular, two performance halls, and last but not least, the ambitious and magnificent project of the **Cité de la Musique** took a decisive step forward. The latter project, **which is particularly exemplary**, deserves a few moments of consideration: it was developed in record time by a small team of particularly visionary and motivated private individuals. The planned development is very ambitious: a construction budget of CHF 260 million (with no public funding!) enabling the centre to accommodate the *Orchestre de la Suisse Romande* as well as the Haute École de la Musique, and to have a large, "enveloping" 1,700-seat concert hall and three other halls of various sizes. The first ideas about the project date back to only the summer of 2013, and in autumn 2017, several essential milestones have already been reached: granting of surface rights to make the land available by the UN (after two successive votes in favour at the General Assembly), confirmation of private financing for 75% of the budget so far (and it is planned that 100% of the funding should come from the private sector), the result of an international architecture competition whose organisation was also exemplary. The project is scheduled for completion in 2022: if it is on schedule, it will have taken



less than ten years to implement this project of an exceptional scale - with minimum involvement of the public authorities. Truly exemplary!

The main negative point (very much so) in **Geneva is the public sector**, with the Canton's finances being very poorly controlled, and the State of Geneva's pension fund in dire straits. But is it worth talking again about the budgetary problems of the Canton of Geneva? The subject may seem tedious, but it is of vital importance. Let us cite a few simple and important key figures: a debt per head of the population (in Geneva) of just over CHF 32,000 compared with the Swiss average of 7,700; and the annual expenditure has never been under control for decades (the latest statistics available on this subject, from 2012, highlighted per capita public spending of over CHF 25,000 in Geneva compared with the national average of CHF 14,600). Moreover, the Canton's 2018 budget provides for a substantial deficit despite exceptional revenue due to the current wish by many taxpayers to "regularise" their tax situation. What is striking is the persistent lack of concern on the part of our elected representatives, which has also lasted for decades: the majority of them are still satisfied with a constant increase in spending, an increase whose sole merit was - sometimes but only sometimes - to be lower than the miraculous rise in revenue (1).

But even when the budget was in surplus (a rare situation), **the infrastructure investments** were never self-financed and the Canton borrowed systematically. At no time was there any question, for example, or merely freezing spending (let alone a restructuring leading to structural savings despite a famous "audit" back in 1996 (!) (2) which seems to have been buried in a drawer somewhere). To hammer the point home: Geneva is too heavily in debt, its investment requirements are both indisputable and very large, and the only way of financing them without increasing the debt is, at the very least, to freeze spending! This is made worse in view of the huge black hole (between CHF 5 and 8 billion) in the balance sheet of the State of Geneva's pension fund (logically, this amount should be added to the "official" debt of the State of Geneva, but at present that consolidation has not happened). But what hope is there, when the "democratic and media" electoral circus (2018 is an election year for the Parliament and the Government) forces our State Councillors, our Members of Parliament (and our candidates) each to come up with their own "brilliant idea" for additional projects or tasks to be paid for by the State? **Not a moment's thought is being devoted to identifying pointless or non-essential tasks.** Did you know - this is an anecdote but it is still significant - that civil servants of the OCIRT (the Cantonal Employment and Labour Relations Inspectorate) are paid to check whether companies have a breast-feeding room (example drawn from real life)? And that filing a planning application for a new building still generates kilos of paper?

¹Geneva is, by far, the Swiss canton that exploits the largest part of its "tax potential" (this corresponds to calculating and comparing for each canton the total tax levies compared to the cantonal economy). Let us just mention the two extremes: Geneva has a tax take of 35.4%, for Schwyz the figure is 10.4% and the Swiss average is 25.2% (<https://www.admin.ch/gov/fr/Home/documentation/communiqués.msg-id-68924.html>).

² Let us briefly recap on "the scandal": the population of Geneva voted in 1995 to approve a proposal for an external audit aimed at reorganising the work of the State with a view to more efficient and more economical operation. The audit report by the Arthur Andersen firm, which was submitted one year after the vote, had 1,800 pages containing 49 points for reform, and cost CHF 8,5 million. It was never really followed up or implemented. One of its principal authors considered it to be still up-to-date and usable ten years later (<http://www.eb-advisory.com/tribune-de-geneve-29-septembre-2006/>).



We cannot resist bringing up a stinging anecdote which some citizens may find annoying, if for example they have ever been compelled to take down an illegal garden shed or a veranda because it did not have planning permission, but basically it will annoy any taxpayer too: despite its army of civil servants, the State of Geneva has achieved the exploit of building a prison extension and a 325-space car park in a zone where building is not allowed (agricultural land and forest)! The zoning change was submitted to the Parliament after construction had been completed. Private individuals who have been waiting for years for their planning permission will love that...

A second anecdote: in the context of the issue that we could refer to as the “*lack of consistency in action by the State*”, we should also mention the curious (“temporary” (1)) building constructed in the courtyard of the *Palais de Justice*. We should bear in mind that this is in the heart of a historic building (2) within the highly-protected area of the Old Town. Such a “structure” does nothing to contribute to the credibility of the State in its role of protector of the architectural heritage (*see photo*).



“Temporary building” in the courtyard of the *Palais de Justice*, Geneva.

At the same time as this difficult budgetary context for Geneva, the Canton of Vaud has announced that, although the reform of corporate taxation was rejected at the federal level, it will move ahead at the cantonal level and, in practice, will reduce the rate of corporation tax from 20.9% to 13.8% from

¹Planning permission (under a simplified procedure, which is also rather curious in view of the less than modest size of the structure) was granted in 2008, or almost ten years ago!

²The official web site of the State of Geneva, in the section devoted to the architectural inventory, describes it as the “*first and most important public monument in Geneva of the (early) 18th century*”!



2019! In Geneva (where the current rate is some 24% **(1)**), some people have taken offence and criticised a low blow. For our part, we say: “*Hats off! Well done!*”. Under the capable and firm command of its State Council, Vaud has had a faultless record for a decade when it comes to its budget: the finances have been managed with great discipline in terms of spending, and the exceptional revenues were allocated to repaying the debt, which has now been brought down to a negligible level (from over CHF 8 billion to about CHF 1 billion), and the restructuring of the State of Vaud pension fund is progressing well. The result is that the Canton of Vaud currently has room for manoeuvre, which it is exploiting intelligently and boldly. Geneva could have followed the same path, but preferred to continue spending, increasing the debt, sweeping the State pension fund problem under the carpet, and now it has no room for manoeuvre to follow Vaud’s example without benefiting from partial compensation of the loss of revenue which was to come from the federal part of the “RIE III” reform! Really, it is Geneva’s own fault if it is now facing a choice between various bad options, where only the intensity of the negative consequences varies.

On the other hand, Geneva has done something positive with the setting-up of a Directorate General for Economic Development, Research and Innovation (DG DERI) which shows that government is increasingly aware, in particular, of the need to open up economic development to the issues and potential of digital technologies and sustainable development. Likewise, Geneva has just been chosen to host the headquarters of the **Global Blockchain Business Council**, an international organisation that aims to promote blockchain technology. That represents valuable potential and on an international scale, for our Canton’s digital strategy and credibility! Who needs reminding that Geneva is already home to CERN, the ITU (International Telecommunications Union), the Internet Society and ICANN (the global organisation that allocates domain names)?

Now let us look at more down-to-earth matters concerning **social housing**. Last year, we called for the creation of a **single window** that would enable applications from candidates to rent social housing to be centralised. One could say that it has happened, following a government announcement of the launch of such a single window. In reality, it is only a first step, in the right direction it is true, but we are still a long way from a tool that would enable the demand for social housing to be identified exhaustively, since certain major social landlords such as the Municipal Property Management Authority (Gérance immobilière municipale) or other municipal real-estate foundations or cooperatives are not affiliated to this State-run single window. To be continued ...

As you know, the quality of architecture and town planning are important to us, and we welcome the very timely and very successful **ideas competition** organised by the Municipality of Geneva for the **development of the city waterfront (la Rade)**! The winning projects are of high quality and deserve to be implemented, so that is another story to watch. The second prize of this competition created a sensation, since it was awarded to a pairing one of whose members, Maxime Lécuyer, is a student on a Master’s course at the hepia (Haute école du paysage, d’ingénierie et d’architecture). It is also a source of pride for our company, because Maxime Lécuyer was the winner (with two other students) of the *SPG/hepia Competition 2015* (every year since 2009, our company has organised an urban planning competition in cooperation with hepia intended for the students of this university).

The real-estate sector is doing well overall, but it could of course be considered that “it’s easy”, in view of the general conditions: interest rates virtually at zero, which compensate for a multitude of sins (“*a calm sea has never made a good sailor*”), and demographic growth that has boosted demand (however, in 2018, one should pay attention to the potential slowdown in that demographic growth). There too, the situation is mixed: for **rented housing**, the vacancy rate is on a continuous upward trend

¹Moreover, in Geneva, the stakes are especially high: multinationals represent 29% of jobs, and these are the companies that the tax reform should enable the canton to keep here.



(but remains low at 0.51%); on re-letting, rents are more frequently being adjusted downwards; and the construction of new homes, which has risen considerably (**over 5,000 homes are currently being built** which is a historic high) should in future contribute to accelerate the fall in rents (unless there is a substantial acceleration - which seems unlikely - in demographic growth) and increase the vacancy rate.

The transactions market remains strong with, for example, a total value of properties sold in the third quarter of 2017 which is the highest in that period since Q3 of 2010.

Office rentals are recovering since, at the “macro” level (for the whole Canton - we will talk about the situation of our portfolio shortly), the total of vacant space has fallen slightly (-5%) compared with 2015 and 2016.



Jean Paul Barbier-Mueller, Founder of SOCIÉTÉ PRIVÉE DE GÉRANCE.

As far as our company is concerned, a major event was the passing of its founder, Jean Paul Barbier-Mueller, on 22 December 2016 at the age of 86. At the beginning of his career, he had trained as a lawyer, then worked in the banking sector, and it was by chance that he entered the world of real estate. His entrepreneurial spirit was evident throughout his working life, in various fields, which was a reflection of his great intellectual curiosity and his wide-ranging knowledge. Société Privée de Gérance was founded in 1960, and he elevated it to become one of the foremost Geneva real estate agencies in just over a decade. But he also created our magazine *L'INFORMATION IMMOBILIERE* (which is now printed in 115,000 copies), to which he contributed regularly with articles that were a reflection of his many interests. In 1977, he also founded the Barbier-Muller Museum, which is now managed by a Foundation, and has acquired an international reputation due to the quality not just of its exhibitions (many of which have been taken over by prestigious institutions including Metropolitan Museum of Art in New York, the Musée Jacquemart-André in Paris, the Haus der Kunst in Munich, as well as the Dallas Museum of Art or the National Palace Museum of Taipei) but also of its



publications (the book *Le Congrès des Cuillers* written by Michel Butor, himself a recognised writer who also died recently, received the award for the *Prize of the most beautiful Swiss book* in 1986). Jean Paul Barbier-Mueller maintained until the end of his life an inexhaustible energy, vitality and curiosity, as shown by the fact that one of his last books, the *Dictionnaire des poètes français de la seconde moitié du XVI^e siècle* received in 2016, the year of his death, the *Prix du Rayonnement de la langue et de la littérature françaises* awarded by the Académie française. We could not end this brief tribute without saying that his wide-ranging knowledge was not accompanied by any pedantry, but rather a constant desire to share what he knew with everyone he talked to, at the same time as revealing a sense of humour that was always stimulating.

For our company, 2017 was a year rich in projects and events, so many that we have decided not to list them all but rather to make a brief if rather arbitrary selection. We would like to mention the conference organised with François Bellanger of Transit-City, for a forward-looking process of reflection about the future of traditional zoning planning (housing, offices, craft trades, etc.) in town planning and real estate. What François Bellanger wanted to emphasise was that the very principle of rigid and permanent zoning is an outdated concept: we are entering the virtual era and already today, our “office” is *wherever we happen to be with our computer* (maybe at home, or at a bistro terrace, etc.). Bearing that in mind, is it not time to reflect about buildings that are more flexible in their potential uses and, for **town planners and developers**, is it not time to **dispense with district development plans that decide in a rigid and unchangeable way the zoning of every single square metre built?** This conference was a resounding success and was even “sold-out” and, for anyone interested, it is available on YouTube via the following link: <http://bit.ly/2jyWct2>.

This issue once again illustrates just how much digital is changing our environment.

In the past year, we carried out a **large survey among our new tenants** (several hundred), aimed mainly at measuring the quality of our services. The return rate (over 30%) exceeded our expectations, and the responses gave us some interesting indications: as might be expected, over half of the tenants said that they had found their home on the Internet, but within that sample, the majority said that they found their property on our site (the various real estate portals coming in some way behind, in second position). This finding shows the importance of having a strong brand, which enables us to attract clients directly to our own site; for clients who are owners, beyond the advantage of letting (or selling) a property as fast as possible, there is also the advantage of keeping advertising costs down (on this subject, the time when press advertisements represented thousands of francs of spending seems to be in a very distant past). Another transformation due to digital which now seems self-evident). This survey also enabled us to measure the level of satisfaction of tenants about the accurate description of the properties, about the conduct of the inventory of fixtures (a potentially delicate operation) and the time it took to respond to their rental request. As we indicate that the average satisfaction level was very high (even higher than we expected), it is worth pointing out that this survey was (for 90% of respondents) anonymous.

2017 was the last year of our cooperation with **Roger Pfund** for the design of the covers of our magazine *L'INFORMATION IMMOBILIÈRE*. This exclusive cooperation with this great name in graphic design had been going on for thirty years. Roger Pfund, a painter, graphic artist and designer with an international reputation, was already a real star when he accepted to contribute to our magazine: in fact, among other things, he designed the last French banknotes before the switch to the euro, and in 1986, he won the competition organised by the Swiss National Bank for its sixth series of banknotes; he was also the illustrator of the Swiss passport since 2003, and his work as a painter was honoured with retrospective exhibitions at the Museum of Art and History in Geneva and at the Today Art Museum in Beijing. Our collaboration came to an end for reasons of age, but we are proud both of its quality (many covers will remain in our memories, either for their graphic boldness, or simply for



their beauty) and for its duration, which illustrates one of our company's values as a family-owned SME: loyalty and constancy.

Our company confirms its **commitment** to the **environment** in all its diverse forms: that is why we endeavoured, as part of one of our recent property developments (84 homes built in Dardagny, heated only with renewable energy sources) to create a community orchard, which is a first in the Canton. The idea was to design, with the future occupants, a garden layout which the occupants themselves could not just enjoy, but which would occupy them in the long term. Ultimately, it was the idea of a “*community orchard*” which won out: residents who want to - they are chosen on a strictly voluntary basis - can participate in the care of the trees planted by the project owner and in picking the fruit. In a different, totally urban context, we ensure that the Cooperative Artamis des Rois (which is building 96 homes with the assistance of our SPG Asset Development department) will be able to benefit from a roof specially laid out as an urban vegetable garden, for the exclusive use of the residents. These are practical, targeted projects that we are proud of, because they were carried out on a strictly voluntary basis, without any legal obligation, and clearly contribute an extra dimension in terms of quality of life to the residents of the buildings.

This year for the first time, we also produced an environmental report which presents our strategy, whose objective is to cut our CO₂ emissions by 20% in 2020 compared with 2010. This strategy is structured into four key areas:

- 1) reducing our company's environmental footprint;
- 2) running sustainable construction projects;
- 3) improvement of the performance of the existing building stock;
- 4) advice to our clients. Actually, any of our property owner clients can receive an environmental expert's report on his/her property on request. It is essential to study and plan any intervention affecting a building so that it is an opportunity to improve its environmental impact, as well as enhancing the value of the property!

The substantial volume represented by our real estate portfolio under management enables us to maintain a number of statistics that are representative of the state of the market. Some of these statistics are kept confidential or restricted to a select circle of clients, while others can be shared. To restrict ourselves to a few trend indicators, we should point out first of all that, for **rented apartments**, the turnover rate appears to have stabilised at under 10%, which is certainly not negligible: it means that one apartment out of every ten under management has been subject to a change of tenant in 2017. The average rent on re-letting is slightly down (by about 4%), but it should be pointed out that in Geneva, this kind of statistic only has a relative indicative value, since the average can be distorted, for example, by a subsidised complex with moderate rents coming onto the market (first letting). The number of properties re-let at a lower rent declined sharply (-50%), while the time taken to re-let shortened. Finally, and unsurprisingly, it is small homes (studios) which remain vacant for longest between two rentals. To summarise: the market for rented apartments is not in a situation of acute shortage, which would not allow such a high turnover rate; likewise, a situation of shortage would not be accompanied by a downward trend, even slight, in rents. As to the **office** market, the letting and re-letting business has remained steady, although slightly down on the previous three years; the average price of re-letting is also down in comparison with the years 2013 to 2016, but - which strikes us as interesting - it is nevertheless up on the years 2010 to 2012. Moreover, total space for which the lease was terminated in 2017 in our portfolio was sharply down on 2016. In summary, that means that the office market is indeed undergoing a correction (perhaps even a consolidation, but that remains to be confirmed), but not a collapse.



Last year, we mentioned the *Prix Bilan de l'immobilier* award, received for our **renovated head office**, and we are proud to inform you that this project received other awards this year: an *Architizer A+ Award*, a distinction in the *Dedalo Minosse International Prize*, and last but not least, the *IES, Illumination Award 2017* (this is specifically for the night-time illumination of our building).

Training is a matter that is very important to us, and this year once again we are offering apprenticeships and work experience places leading to a commercial diploma, which makes our company one of the **main training companies in the sector** in our region. As of today, we have five certified trainers for eight apprentices in Geneva and one trainer for three apprentices in the Canton of Vaud.

We like people to know about what we do, and encourage young people to work in our profession. By way of example, we should mention that in February 2017, we organised a day at which we welcomed third-year students from the Aimée-Stitelmann Commercial College to help them in their career choices, as well as *discovery courses* and participation in the day "*Future of all kinds*" which was held this year on 9 November, where the youngest children were plunged into their parents' world of work.

As far as our personnel is concerned, the Group facilitates in-service training and offers upskilling, training leading to certification and regular updating of knowledge.

To conclude, we would like to thank you for your trust in our Company throughout these past months, and to send you and your loved ones our best wishes for the year 2018.

Yours truly

SOCIÉTÉ PRIVÉE DE GÉRANCE

T. Barbier-Mueller
Chief Executive Officer

P. Buzzi
Property Management Director

P.S.: This year, we decided not to insert too many illustrations and especially graphics in our letter, considering that they disrupted reading without being indispensable; but we would be interested to have your views on this subject! Why not tell us whether this letter was interesting for you, or if you feel you don't need it, in view of the amount of information that we all receive these days? Or if you would prefer to receive it by e-mail only? Please do not hesitate to write to us at the following address: info@spg.ch.

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