



SOCIÉTÉ PRIVÉE DE GÉRANCE S.A.  
GENÈVE

**N'OUBLIEZ PAS DE SÉLECTIONNER  
VOTRE ÉTIQUETTE !**

*Letter to owners  
Custom header with refs. of the group  
Address to customize*

Our ref. : TBM/mnd

Geneva, *customize date*

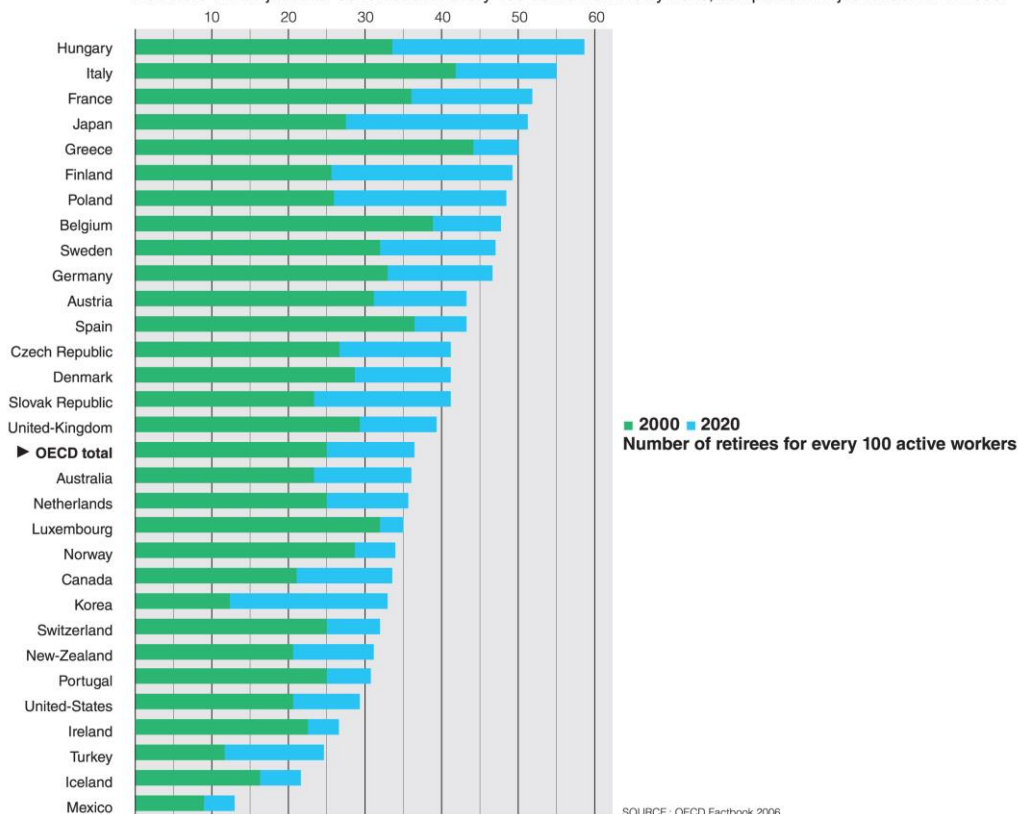
Dear Mr...../ Ms. ....

For those of you who have been hearing from us for several years, you will know that during this period leading up to the end of the year, we like to share with you some thoughts about the current situation and future prospects, whether we are talking - as briefly as possible - about the global economy, the situation in Switzerland, or our analysis of the real estate market.

Regarding the situation of the global economy, it seems appropriate to refer to a close partner of Warren Buffett, Charlie Munger, who stated soberly: "If you are not confused about the economy, you don't understand it very well". The current situation actually raises more questions than it answers; aren't we living in strange and paradoxical times, with both developed and emerging economies being heavily indebted, numerous structural imbalances, ageing populations ahead (see chart below) which

**Going Grey – Ratio of retirees to active workers**

The proportion of retirees to active workers is rising. For example, the figure of just over 50 for Japan (below) indicates that there will be just over 50 retirees for every 100 active workers by 2020, compared with just under 27 in 2000.





will place an additional burden on an already fragile system (Europe seems on the brink of deflation) - yet on the other hand, euphoric valuations of many asset classes, whether stock markets, property values, or works of art? A diamond at 30 million USD ... a horse for 11 million euro ... a tuna for 736,000 USD ... an apartment in New York sold for more than 90 million dollars ... a contemporary work of art (painting) exceeding 140 million USD... It is easy to feel that the central banks' policy of massive monetary easing is having an effect, but is it really certain that postponing problems will help to resolve them more effectively, without creating new bubbles in the meantime? How relevant is a comparison between this policy of easy, plentiful money and the drugs that an addict will need in increasing doses to achieve the same effect? Will our economies one day be able to function again without this massive and constant injection of free money?

Or do we not find ourselves in the situation described at the time - in the columns of our magazine *L'INFORMATION IMMOBILIERE* (Spring 2007) - by the philosopher Luc Ferry, based on his experience of running a ministry, comparing politics to a rodeo: "*the goal is not to go somewhere, but to avoid falling off the beast*". Former Prime Minister of Luxembourg (Jean-Claude Juncker) put it in his own way: "*We all know what we have to do, but we don't know how to get re-elected if we do it*". In other words, do our political leaders really have the ambition and/or conviction to be able to solve the problems that our societies are facing, or are they seeking basically to "stay on the horse"?

So we have a whole series of questions, but asking them obviously requires critical and objective thinking about the news conveyed without a great deal of detachment by most of our media.

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In Switzerland, the resilience of the economy has been pretty incredible so far. That is explained, of course, by the dynamism of our exporters, supported by the policy of a floor EUR/CHF rate implemented by the Swiss National Bank, but the positive trend in GDP quarter after quarter for the past two years remains a feat that verges on the astonishing. Then you have to bear in mind that the accounts of the Swiss federal budget remain either in balance or in surplus year after year - for the last 8 years including 2013 - (and the budget is forecast to be in balance again for 2014).

That being said, **the marked tendency** - which is perhaps partially the result of Swiss perfectionism? - **towards overregulation** is clearly at a level that sets alarm bells ringing. For the real estate sector, especially in Geneva, the same situation has been going on for years: it has been demonstrated that the frenzied and increasing interventionism by the State in this sector is producing above all a housing shortage (in the same way, for example, that the regulatory rigidity of the French labour market mainly produces unemployment). But now, other sectors are also being affected alarmingly, particularly the banking sector which has been carrying on somehow - but with its hands tied behind its back by our authorities - with practical consequences that are finally becoming apparent: i.e. banks which are closing or handing back their banking licence. And we will borrow here another quote from Luc Ferry (in his above-mentioned article): "*Our societies are increasingly subject to a proliferation of fears*" which generates many calls for more controls or greater security and so more regulations – with scant regard for proportionality.

But there is a genuine risk that developed economies, even those that are performing well such as Switzerland, will be asphyxiated under the weight of regulation which makes the general conditions for businesses more rigid and complex and leads to a kind of *de facto* cartel-like protection (for existing and/or larger businesses) due to unaffordable entry costs for start-ups and young entrepreneurs.

At this point, let us try to make a concrete and constructive proposal: while it is necessary to have a



Parliament to contribute to establishing a minimum legislative framework ensuring security and equal opportunities for citizens, probably in our developed societies and abundantly endowed with laws of all kinds, perhaps we would now need, alongside the Parliament as a legislative body, **an additional Chamber with the sole mission of proposing the repeal of certain laws** or making them less restrictive. It is obvious that these competing tasks (legislation – de-legislation) cannot be carried out by the same body.

We will not dwell on the legislative changes in the real estate sector that occurred in 2013, since they were widely commented on in the press at the time of the corresponding referenda, whether we are talking about the “Loi sur l’aménagement du territoire” or the “Lex Weber” on second homes. Let us merely mention that these new laws have contributed to the erosion of Switzerland’s position in the “International Property Rights Index” published by the “Property Rights Alliance”, which attempts to produce an objective measurement of protection of property rights, considered as one of the fundamentals of a prosperous economic system (<http://www.propertyrightsalliance.org>)

### Property rights Top 20

Country	Index	Country	Index
Finland	8.6	Canada	7.9
New Zealand	8.4	United Kingdom	7.8
Norway	8.4	Austria	7.8
Sweden	8.3	Hong Kong	7.7
Switzerland	8.2	Japan	7.7
The Netherlands	8.2	Germany	7.7
Denmark	8.1	United States	7.6
Singapore	8.1	Belgium	7.5
Luxembourg	8.0	Ireland	7.5
Australia	8.0	France	7.3
		Qatar	7.3

SOURCE: IPRI, Institut Libéral, 2013

We should also mention, echoing our thoughts about the need to legislate but also de-legislate, that our federal government has announced that it is giving up the idea of repealing the Lex Koller, which has for decades restricted the purchase of housing by persons domiciled abroad (for our part, we do not advocate a full repeal, but at least a **liberalisation in the area of rental housing, in order to boost inadequate housing production**).

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Regarding the real estate market as a whole, clear signs of a slowdown are now visible. The statistics do not yet fully reflect this change of trend, which real estate professionals are logically the first to feel. There are many and convergent indices: properties for sale are staying longer in the “shop window”, transactions are taking longer to complete, and it is also more common for transactions that appear to be complete to fall through in the end for various reasons; finally, in many areas, a rebalancing has taken place between a more plentiful supply side, keener to complete, and a more reticent demand side, which may also be prepared to wait longer.



Those on the supply side (vendors - lessors) have for the most part - sometimes belatedly - realized this new trend so that the fall in prices should be confirmed in 2014, also encouraged by the arrival on the market of new-build properties. This price correction, in Geneva specifically, should not affect the housing market in a "zone de développement", where prices remain significantly lower than market prices, where demand exceeds supply (even after taking into account the impact of the "Longchamp Act" likely to be passed shortly and which imposes an almost de facto ban on the purchase of apartments in a development zone by investors not wishing to occupy the dwelling themselves).

Put another way, the falling prices mainly concern the real estate put up for sale at "euphoric" prices encouraged by speculation that prices would continue their upward trend, which has now clearly been broken. But it is by no means the whole market that is sluggish: condominium operations (PPE), for example, in a well designed development with the aim of achieving good value for money and a non-speculative approach, are still proving successful as we were able to demonstrate once again in recent weeks, with a development of 30 homes in an urban area at an average price of about 8000 CHF/m<sup>2</sup> and a development on the same scale in the Geneva countryside (development zone) at an average price of approximately 5500 CHF/m<sup>2</sup>.

We should also mention that this rebalancing of the market is also due to the new mortgage lending conditions, which are significantly more restrictive; even if mortgage rates remain very low, someone buying their home must now put down a much larger deposit (between 20 and 50% depending on the property, compared with 10 to 25% just 18-36 months ago).

In the luxury homes segment, a correction was inevitable due to a valuation error made by many homeowners and inexperienced operators in this segment, who had overestimated the depth and volume of this niche market. In other words, some people were under an illusion about the - actually very limited - number of transactions that take place annually in this very special sector, which we know well through our affiliate SPG Finest Properties/Christie's International Real Estate (which represents a significant market share of the recent noteworthy transactions recorded).

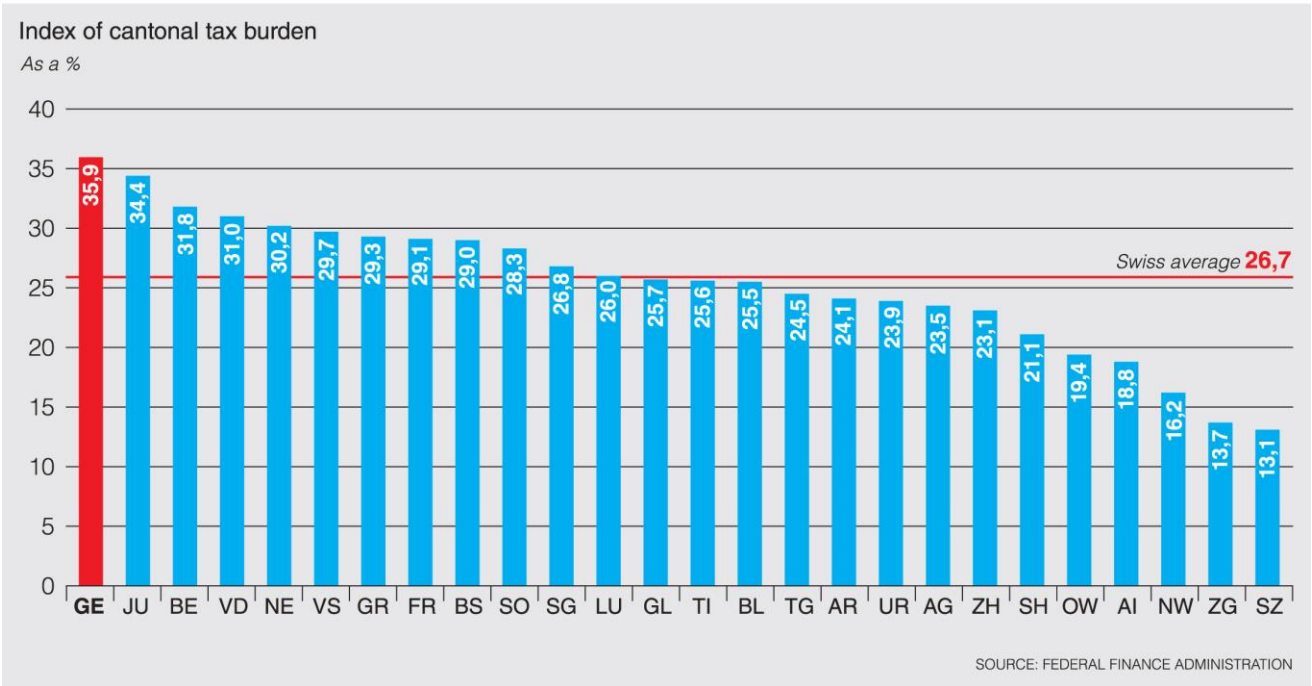
Finally, in the office segment, rebalancing is the result of substantial speculative production (not pre-let before the start of construction), arriving on the market in 2013 and 2014 and restructuring (downsizing) by many companies. In this context, the adoption of the tax standardization proposal to bring down (for most companies) the rate of corporation tax is now a matter of some urgency.

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In Geneva, the political event of the year is, of course, the election of a new government, with a longer term of office (5 years instead of 4) under the new cantonal Constitution. The elected officials and the political parties and tendencies from which they are drawn, represent in our opinion a diversity and complementarity which is healthy and potentially promising. We hope that this government keeps in mind the ranking established by the Federal Finance Administration, confirming the Canton of Geneva in its position as champion of Switzerland regarding the tax burden (see chart below) this unenviable title should remain permanently in the minds of our government, and encourage modesty and ingenuity, asking how the public authorities and civil service could achieve even better results with unchanged or even reduced funding.

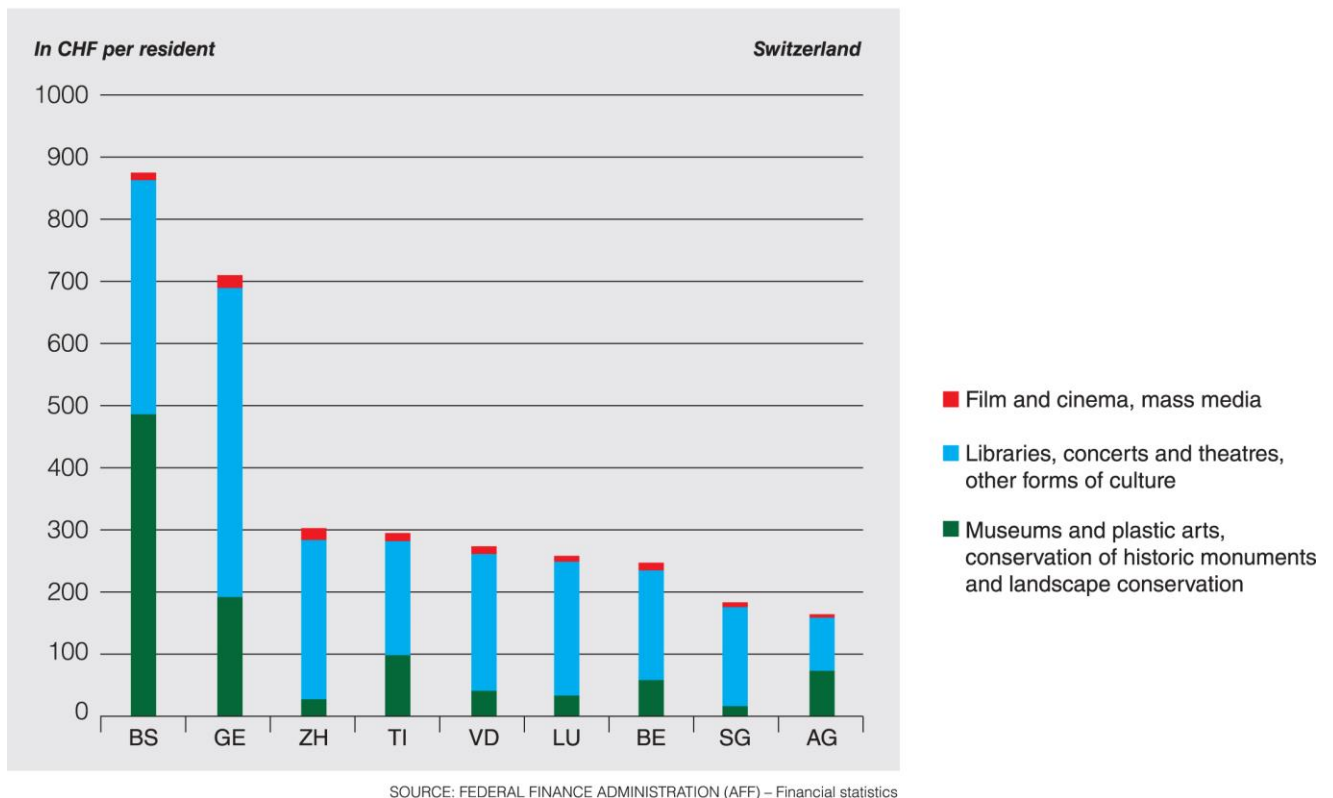


## Taxation in the cantons in 2013



We should note in passing that, according to the same sources, Geneva (City and Canton) is also where the expenditure on culture is among the highest in Switzerland (in second place behind Basle, but far ahead of Zurich, see chart below).

## Cantonal and municipal spending on culture, according to type, per canton in 2009





Here also, the new government may also ask itself whether the result measures up to the funding employed; in other words, is cultural life really twice as rich in Geneva as in Zurich?

Then we should briefly mention, on more technical points specific to Geneva, that the installation of photovoltaic solar panels should be facilitated in protected sites; the creation of apartments in attics will prove more difficult and complex under new cantonal case law (without the Federal Court having had to pronounce judgement at this stage); that the Cantonal Master Plan was adopted by the State Council this year, and the new Energy Act now requires the calculation of the heating cost index (IDC) for all heated buildings in the Canton (although owners of residential buildings with fewer than 5 heating customers, especially villas, will only have to communicate IDCs for 3 consecutive years as from the IDC in 2014, which also depends on the year of construction of the building).

Finally, we should also mention that a substantial amendment of the Land Use Regulations (in French, PUS : Plans d'Utilisation du Sol) of the City of Geneva has come into effect, an amendment which provides that the precise zoning designation (café, food shop, cinema, etc.) of shopping centres open to the public is subject to restrictions on changes.

It is not necessary to dwell at length on the considerable restriction of property rights that this represents, and which may make owners reluctant to accept some "protected designations" in their buildings for fear of not being able to change them afterwards... Following the City of Geneva, the Municipality of Carouge is considering adopting similar regulations.

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For our group, 2013 has marked the first anniversary of the opening of a Lausanne branch of Rytz & Cie SA, and another of SPG Finest Properties (Geneva) SA. It is very satisfying to celebrate this first anniversary, and already to confirm that the new branches are a success and that the **sales volume has far exceeded our forecasts**, be it management contracts received, or brokerage transactions.

In Geneva, we are close to tying up several (long ...) procedures for district plans **totalling more than 600 homes**, and we are pleased to be putting the finishing touches to the launch of an application for 90 homes in the municipality of Dardagny (after a declassification procedure that will have lasted... about ten years), and 60 more in the municipality of Carouge.

Our commitment in the field of **sustainable development** is being confirmed and strengthened. For years now, for our own 'internal' operations, we have been acting in a methodical and proactive way: collection and sorting of waste, electronic document management (aimed at "paperless" operation wherever possible), provision of a fleet of environmentally friendly vehicles to our staff - bicycles and "zero CO<sub>2</sub>" electric cars – on-going extensive renovation of our headquarters to ensure compliance with the Minergie energy-saving standards, etc. And for the real estate which we have under our management, we are taking various initiatives to raise awareness of sustainable development among tenants and landlords, and are working in partnership with the Services Industriels de Genève and the OCEN (Cantonal Office of Energy). Today, environmental policy is taking on a new dimension with the creation of an *SPG Asset Development - Environment* unit which will handle the "sustainable" aspects of all the group's real estate. The large portfolio under management, which comprises over a thousand buildings, makes it possible to test sustainable development methods in pilot projects and full-scale projects before putting them into general use. This approach allows us to act on several fronts, of course covering technology, control of energy consumption, but also more ad hoc but nevertheless significant projects for residents' quality of life such as an urban vegetable garden implemented in collaboration with local residents (in partnership with Equiterre).



Not far from these sustainable development concerns, we also care about **vocational training**, in which we engage in a very active and meaningful way: our company alone - among 27 estate agents that are members of USPI Geneva - **has trained 15 to 20% of the apprentices in the sector**, year after year, since 2004. This effort obviously has a cost, but it seems clear that it is part of our corporate responsibility to help train the next generation of professionals.

Finally, we thought it was desirable to give a more "modern" and formal aspect to the ethics that we have always applied, in terms of transparency and the fight against corruption. It is in this spirit that all our employees as well as all the companies that we work with have been asked to sign an **explicit commitment** prohibiting involvement in any act tantamount to corruption (our detailed guidelines for our staff, in particular, clearly state that we have a zero tolerance policy on this subject).

To end on a slightly lighter note, we are pleased to inform you that the significant increases in circulation and dissemination of our publications have been confirmed by official figures, since the latest survey by the REMP (Recherches et Etudes des Médias Publicitaires) confirms that our magazine *L' INFORMATION IMMOBILIERE* has exceeded for the first time an audited circulation of 100,000 copies (previously 75,250) and our newspaper *IMMORAMA* now exceeds the official print run of 300,000 (previously 232,131). Today, these publications have reached, without false modesty, unsurpassed distribution in the cantons of Vaud and Geneva.

Thank you for your trust throughout this year. We would also like to wish you and your family peaceful and wonderful end-of-year festivities, and an excellent start to 2014.

Yours truly

**SOCIÉTÉ PRIVÉE DE GÉRANCE**

T. Barbier-Mueller  
Chief Executive Officer

P. Buzzi  
Director

For information, the newsletter is also available in French and German.