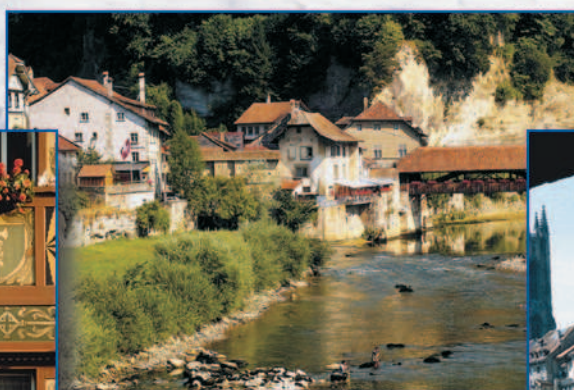


\$25.00

THE SECRETS TO SWISS REAL ESTATE SUCCESS



**International
Real Estate
Institute**

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THE SECRETS OF SWISS REAL ESTATE SUCCESS

As international real estate investors and multinational corporate executives look for sites for investment and operational diversification, they will want to scrutinize the opportunities of Switzerland, the European Free Trade Association member that lies in the center of Europe with an eastern boundary formed by Austria, a western boundary formed by France, a northern boundary formed by Germany and a southern border formed with Italy.



is generally unrestricted, but foreign investment in residential property for owner occupancy is a little less restricted. The opportunities for the purchase of vacation property continue to depend on the permission from the canton in which the property is located. Those individual cantonal government policies continue to change over time with changes in the economy, changes in the real estate market, and

changes in cantonal voter sentiment. Transferral of funds in and out of the country remains unrestricted.

- ***Highest Country Credit Rating by Institutional Investor***

The Institutional Investor, a Euromoney publication, continues to rank Switzerland as the country with the highest country credit as judged on many criteria as compared with the top 136 countries of the world. Depending on the year of the Institutional Investor survey, the United States or Germany may be ranked second. Since real estate investment is highly impacted by credit ratings due to the high levels of mortgage financing, relatively long leases, long commercial property development and construction periods, and need for large sums of money, Switzerland's high country credit rating is noteworthy.

- ***Recently More Friendly and Open to Foreign Investment***

Recently Swiss legislation has become more friendly to foreign real estate investment. Foreign investment in commercial and industrial property

- ***One of the Highest National Per Capita Incomes***

The per capita income is one of the highest in the world. Switzerland competes with Luxembourg for the position of highest national per capita income in the world. In comparison with Switzerland, we find that the prosperous European countries of Germany, France, and the United Kingdom have per capita incomes that are only 60 percent of that of Switzerland. In 2000, the per capita income of Germany was \$24,858; France, \$23,730; and the United Kingdom, \$25,750. The Swiss Gross National Product, Gross Domestic Product, and population continue to rise slowly in line with the other advanced economies.

- ***Strong, Independent Currency That is Loosely Associated With the Euro***

Unlike many currencies of the world, the Swiss franc remains a strong, independent

currency. The Swiss Federal government has no plans to adopt the euro or any other currency, though, in the late 1990s, the Swiss National Bank decided that the Swiss franc should shadow the euro for currency stability and Swiss export competitive purposes. When the Swiss interest rates rose in 1998 in line with higher euro interest rates, the Swiss National Bank reconsidered this policy. Once they changed policies to return to the generally independent position for the franc, Swiss interest rates declined to a more favorable level in Switzerland and the franc strengthened against the euro. As the franc strengthened against the euro, the euro began its upward value trend against the U.S. dollar in year 2000. The foreign investor, therefore, tends to add to any property investment yield an additional yield from the upward trend in the local currency.

• *Relatively Low Interest and Inflation Rates*

At the opening of the new millennium, long-term Swiss interest rates have approximated 3 to 3 1/2 percent which prospective real estate investors welcome. As Switzerland has administered monetary policy to gain a relatively low rate of inflation, the inflation component in the interest rates has declined. If the foreign investor wishes to finance in the country of the selected property to perhaps match the currency of property liabilities against the currency of property income and expenses, the investor may find favorable mortgage terms that include a relatively low rate of interest.

The strong Swiss franc exists in a low inflation environment. The relatively low Swiss inflation is a mirror of the inflationary conditions of the advanced economies of the world. The monetary policies of the Swiss government and the Swiss National Bank tend to follow the monetary policies of the European Union and its European Central Bank since

Switzerland is surrounded by EU member country trading partners. Since goods and services of Switzerland are exported to all regions of the world, monetary policy takes into account the competitive relationships, including the inflation trends, of its many global trading partners.

• *Land Planning Controls*

In addition to the high credit rating of Switzerland, the affluence of the Swiss population and business, the unlimited access of foreign investors to Swiss nonresidential real estate, the rising value of the strong Swiss franc, we need to scrutinize other secrets to Swiss real estate success. The land planning controls over the scarce buildable land may guarantee profitability of existing land development and reluctant gaining of planning approval for proposed land development. Approximately one-fourth of the 15,945-square-mile area is mountainous and generally un-populated and unproductive except for tourism. Forests cover another one-fourth of the land. Nearly one fourth of the country is devoted to agriculture. The remaining one fourth is covered by cities and towns, which amounts to a relatively small amount of land for the use of most of the seven million people. The land planning controls that apply to this relatively small part of Switzerland generally guarantee profitability for the existing urban and suburban land uses.





The environmental protection policies and implementation procedures add more restrictive overlays to the land development regime. The federal Environmental Protection Act of 1983 applies to air and water pollution, soil contamination, and waste storage and disposal. The various cantons implement this federal legislation, set additional cantonal standards, and establish enforcement mechanisms. These additional land use restraints tend to be favorable to the existing foreign and local investors of real estate. New foreign investors may agree with the land use controls so that the values and profitability of their new real estate investments are enhanced in the longer run.

Strengths of the Swiss Investment Climate

There are other natural strengths that influence the foreign investor who is looking to diversify his or her portfolio.

• *The Attraction of Swiss Affluence and Globally Respected Companies*

Attracting the attention of real estate professionals is the fact that Switzerland is an affluent country. The affluent seven million population of Switzerland is located in the midst of the affluent 340 million population of the European Union. The continually reported high Swiss per capita income implies personal financial capacity for investment and the payment of property rents, property operating costs, and debt obligations.

Some of the world's most respected companies are based in Switzerland. Holderbank is one of the most respected property/construction companies in the world; Swissair, one of the most respected transport companies; UBS, Credit Suisse, and Swiss Re, three of the most respected financial companies; Nestle, one of the most respected food/beverage companies; and Roche, one of the most respected healthcare companies in the world. Corporate respect is usually tied to such factors as profitability, employee satisfaction, and management capability.

• *General Prosperity, Low Unemployment, and a Good Export-import Balance*

As a part of Western Europe, the economic trends of the European Union tend to influence the economic trends of Switzerland. Since more years of economic prosperity are forecasted for Western Europe, the forecasts for the Swiss economy reflect the same prosperity.

Low unemployment describes Switzerland. When the U.S. has over four percent unemployment, Germany and France have ten percent unemployment, and Italy, another country bordering Switzerland, has over eleven percent unemployment, Switzerland has a much lower rate of unemployment, 2.3 percent. Migrant labor from Italy, Turkey, and Eastern Europe still complement Swiss labor. Approximately 20

percent of the labor force is foreign. But immigration policies prohibit the overpopulation of the country that contains only 41,000 square kilometers of surface area. In the 1960s and 1970s, the lack of appropriate immigration policies led to overpopulation.

The value of Swiss exports tends to represent 80 percent of the value of Swiss imports. The value of tourism receipts and other money transfers tend to fill the gap between the export and the import volumes. Tourism is the leading service sector of the country even though wholesale and retail service employment is significant. Hotels and restaurants employed 239,000 persons in 1998, for example. The highest source of employment is manufacturing (685,000 employed persons in 1998) that is followed in second place by the sector denoted by the wholesale and retail trade, repair of motor vehicles, motorcycles and personal and household goods (660,000 employed persons in 1998). In comparison, the real estate business that includes renting and other business activities employed 364,000 in the same year. The most recent

published government statistics cover the year 1998.

The work force tends to be well trained and educated and multilingual. No illiterate persons are counted among the population. Swiss universities attract large numbers of students. For example, the University of Zurich is said to have 33,000 students. Other Swiss nationals attend foreign universities including European, United Kingdom, and U.S. universities. Swiss nationals adapt to high technology readily. The internet is well used. As evidence, sales from the company marketing to consumers over the internet is increasing. According to international real estate and other companies, the forecast for business to consumer internet spending in 2005 approximates euro 200 per capita in Switzerland. This is similar to the forecast by the same group - Corporate Intelligence Group, Jupiter, Insignia, and Richard Ellis - for the Netherlands. The well educated and trained Swiss work force imply good use of the internet and computer software for real estate business, a national reservoir of appropriately educated employees and independent contractors,

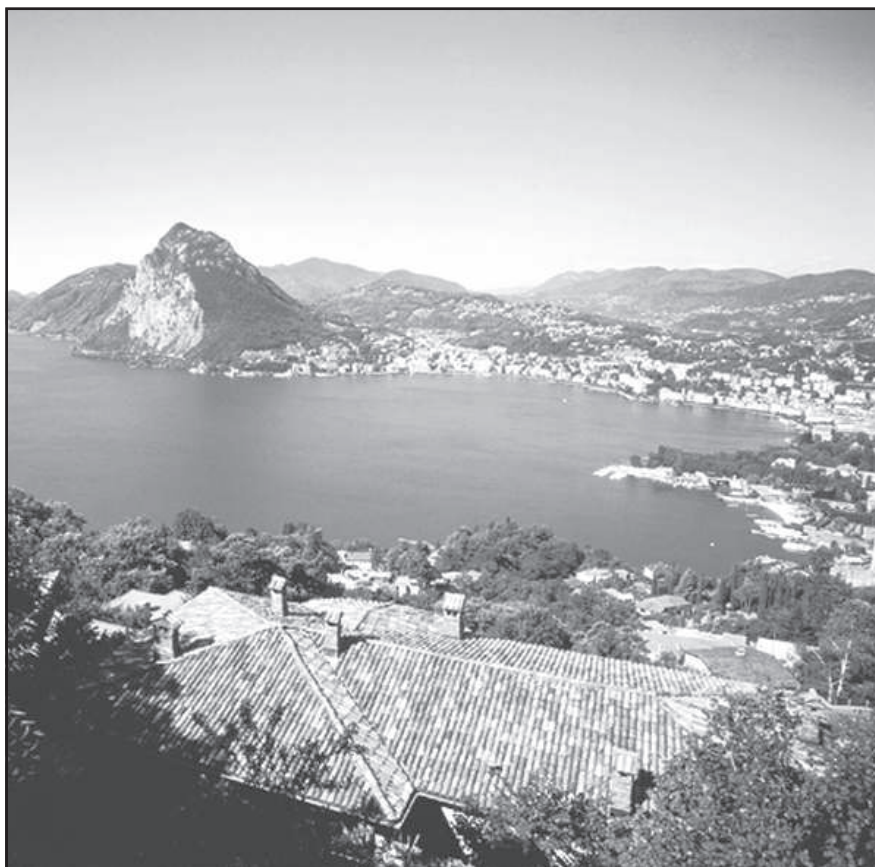


and a knowledgeable and informed population that is engaged in property marketing, investing, financing, and leasing. When the foreign investor wishes to locate a good real estate lawyer, that person may turn to the annual [Guide to the World's Leading Real Estate Lawyers](#) that is published in the [International Financial Law Review](#). Swiss real estate lawyers are included with attorneys from more than a dozen countries.

This trained and educated work force is also multilingual, Real estate activities may be conducted in the four languages native to Switzerland - plus English - in differing proportions. The three official languages are German, French, and Italian. German is

primarily spoken in north and northeastern sections of the country (about 73 percent of the Swiss people); French, in the western section (about 20 percent of the population); and Italian, in the southern section near the Italian border (about 4 percent of the people). The Raeto-Romansch language, which is expected to become the fourth official language, is spoken by Swiss nations of the Graubunden canton in eastern Switzerland by about one percent of the Swiss population. Most of the resident aliens speak today's three official languages - German, French, and Italian - in approximately the same proportions as the Swiss nationals. In the public schools and at the universities many students learn English as a second, third, or fourth language. As in many other advanced countries, the personnel - particularly the management - of multinational companies, usually speak English. Since English is the language of global business including finance, the large international business community including the global banking community, speaks, reads, and writes English.

The nationally strategic sector of agriculture, hunting, forestry, and fishing employed 179,000 persons. At the top of the list of principal agricultural crops is found sugar beets which accounted for 1,086,000 metric tons. Further down the list of principal crops are found wheat and spelt (616,000 metric tons) and potatoes (602,000 metric tons). Apples (365,000 metric tons), barley (327,000 metric tons), and vegetables and melons (319,000 metric tons) account for the third, fourth, and fifth principal crops during 1998. The importance of Swiss agriculture supports the Swiss efforts at land use planning and control that reserves as much of the scarce Swiss cultivable



land for agricultural use as possible. The environmental protection programs are linked strongly with agricultural land use, also.

The top-ranked trading partners of Switzerland are three of the four bordering countries - Germany, France, and Italy. Austria does less business with Switzerland than the United States and the United Kingdom do with Switzerland. Switzerland has a significant positive trading balance with the United States; exports to the U.S. (Swiss francs 12,4 billion) far exceed imports from the U.S. (Swiss francs 8 billion). Swiss businesses also have a positive trading balance with Japan. Switzerland has a negative trading balance with Germany, France, Italy, and the United Kingdom. They import from the People's Republic of China, but export little to that country. They export to Hong Kong, Singapore, and Israel but import little from those countries. The trading relationships are closely associated with the demand for industrial and commercial property. The government seeks to enhance international trade for the relatively small

but highly prosperous landlocked country. Therefore, structural facilities and land development are part of the overall national trade program.

Leasing and Property Law

To establish the foundation for the later discussion of financing and valuation, let us turn to the basic elements of Swiss property law, some common law comparisons, and some leasing patterns and regulations.

•*The Basics of Swiss Property Law and International Comparisons*

Swiss property law is part of the federal Swiss Civil Code (Zivilgesetzbuch/Code Civil Suisse, CC). Various transactions that are carried out by private entities are governed by the Swiss federal Code of Obligations (Obligationenrecht/Code des Obligations, CO). Absolute ownership of real property that is only limited by government rights is very closely aligned with freehold ownership of the common law. The principal form of tenure of property in Switzerland is absolute ownership. Long leases are not used in practice as they are in common law countries. Condominium ownership as a form of co-ownership applies to all types and groups of buildings.

A right of residence is given a person to occupy a structure or an apartment for residential purposes. The right of residence cannot be transferred and cannot be inherited. But the right of residence may be extended to the beneficiary's family.

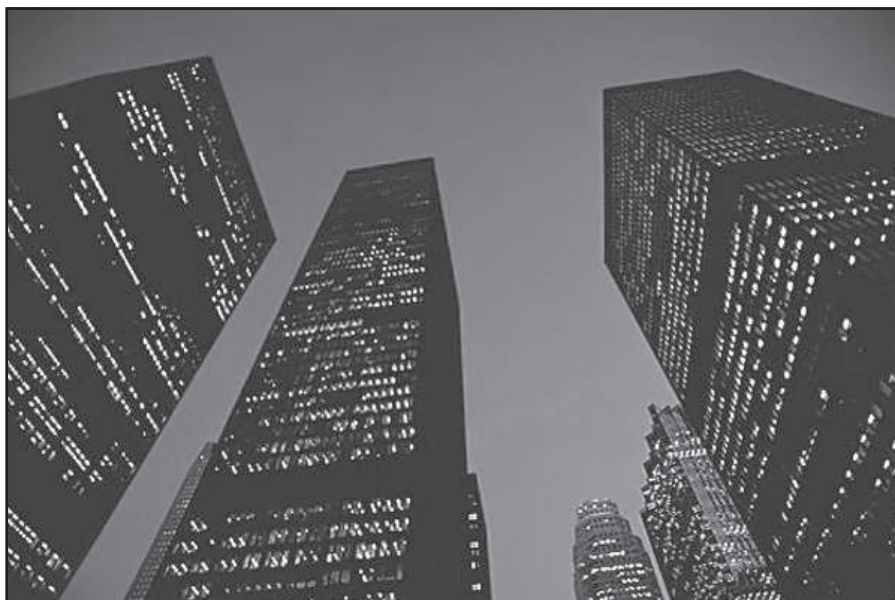
The few restrictions on landownership include planning regulations, rights of access, preservation of natural beauty, compulsory purchase such as eminent domain, and adverse possession even though it is seldom used. Local authorities do not exercise pre-emption rights before a transfer of property is finalized.

The transfer of title to land occurs when the title is registered. Registration of land ownership triggers the tax duties associated with property ownership. Land registers that are maintained by responsible cantonal authorities in every town or groups of towns are used by the tax authorities. Usually the land register is practically kept by the notary public. All parcels of land are divided into cadastral units on a cadastral map. These cadastral units are then registered under plot numbers in the land survey register. The appropriate cantonal authorities survey the land and determine the boundaries of the separate plots of land, which are shown on the official plans. The land registry system is similar to the Torrens system of Australia and some other parts of the world where

the government maintains and guarantees the accuracy of the data recorded on the register.

•*Lease Patterns and Regulations*

Leasing is governed by the provisions of the Code of Obligations related to rental agreement (Mieten/bails). Since 60 percent to 70 percent of all Swiss citizens rent this homes rather than own their homes, residential leases including the



termination provisions are tightly regulated. Residential tenancies are commonly extended for an indefinite period. Other leases often cover a fixed term and are based on rent per square meter. Following the European metric standard use, most leases have measurements in square meters. The lease may be quoted in the country's currency in terms of square meters per month or per year. Rent control may apply as rent rises may be restricted to part or all of the rise in the consumer price index or other such index. For example, in a particular canton, residential rent increases may be restricted to no more than 40 percent of the rise in the consumer price index.

Often commercial leases such as office building leases call for terms between five and ten years. At the end of the original lease term, the tenant may have the right to renew the lease another ten years unless the landlord wishes to occupy the space him- or herself, the landlord seeks to redevelop the property, or the tenant is late in paying the rent. Indexation of the rent is only permissible if the lease runs for at least five years and the parties to the lease have agreed to use the federally maintained consumer price index. Lease clauses that permit automatic rent reviews in an upward direction only no more frequent than once a year are valid only if the lease runs for at least three years and the rent is a fixed annual amount. Residential rent is usually paid monthly in advance. In the case of residential leases, rent deposits may not exceed three months' rent.

Financing Swiss Real Estate

Since Swiss real estate financing costs tend to be more favorable than the costs associated with the countries of origin for major foreign real estate investors, a foreign real estate investor may consider financing the selected properties in Switzerland. The relatively low interest rates are attractive. Switzerland houses numerous financial institutions that have large volumes of funds with which to finance real estate and real estate

companies. Two of the major global banks - UBS and Credit Suisse - are based in Switzerland and finance properties of all financial dimensions from their vast international sources of funds. Full, unrestricted currency convertibility permits the investor to withdraw funds at any time from the property operating proceeds or sales receipts. The many reciprocal national tax agreements permit little or no withholding of tax payments as monies are transferred out of Switzerland.

The continuing Swiss bank secrecy policies continue to attract large sums for deposit from international private and public sources.



Switzerland has recently been labeled an "off-shore tax haven" by an international conference involving the Bank for International Settlements and the International Monetary Fund due to the alleged Swiss banking role in illegal money laundering. Since the Holocaust hearing related to Swiss bank account use by foreign persons, institutions, governments, and companies for the deposit of funds from the confiscation of Jewish assets and the subsequent financial settlement and payments to Jewish survivors of the Holocaust, the international community has sought certain changes in Swiss secrecy policies and provisions. Part of the attraction of Swiss bank deposits is related to the ongoing Swiss tradition of remaining neutral in the time of war.

The banks are regulated by the Federal

Banking Commission (Eidgenössische Bankenkommision) that is based in Bern along with the Bank for International Settlements. The Federal Banking Commission maintains various types of connections with the European Central Bank and the remaining national central banks. The Swiss Banking Ombudsman, in contrast, is based in Zurich where most of the major Swiss banks of all types and most of the international banks are based. The regulators are charged with the control of inflation, the management of the interest rate structure, the administration of the money supply, and the honesty and integrity of the banking sector through their monetary, fiscal, and other policies.

Usually Swiss property acquisition requires financing. The relatively high cost of building construction leads to relatively high property values. Often the acquirer who seeks financing can easily locate sources of mortgage and lease finance and investment banking assistance with mortgage-backed securitization, stock and bond underwriting and marketing, sale-leasebacks, partnerships, joint ventures, and equity syndications.



Mortgage financing might be obtainable from Switzerland's two global universal banks - UBS and Credit Suisse - and their branch offices worldwide. They may both have branch operations in the country of origin of the prospective Swiss real estate investor. Twenty four cantonal banks deal in mortgage finance. Even though the 144 foreign banks tend to finance companies and governments rather than engage in mortgage finance, the 106 regional banks may finance property on the various bases including mortgage finance. There are 17 private banks that are not known for their mortgage lending; they tend to

invest in non real estate assets for their individual, family, foundation, trust, and other wealthy clients. There are 78 other banks, that includes the Coop Bank/Banque Coop that is a central cooperative credit institution. These banks added together total 372 banks operating in Switzerland.

The twenty four cantonal banks represent local financing in the twenty cantons and six half-cantons that are provided for by the republican federal Constitution. Any regulations associated with real estate finance are derived from the federal government that sets national policy and the cantonal governments each of which have either own constitutions, governments, and legislative assemblies. The autonomous cantons tend to have considerably more government power than the federal

government even though the bicameral Federal Assembly elects one of the Federal Councillors to be President each year for a term of one year. The Federal Assembly is comprised of the Council of States with 46 members (two represent each canton and one represents each half canton) who are elected for three to four years and the National Council with 200 members who are directly elected on the basis of proportional

representation by the Swiss voters for terms of four years. The 24 cantonal banks are generally financed and controlled by the cantonal governments. Their business activities are coordinated by the Association of Swiss Cantonal Banks. At the end of the 1990s decade, these cantonal banks had approximately 750 branches and controlled roughly one-third of Switzerland's savings deposits.

As the number of banks and bank branches continues to fall, the total number of bank

employees started to rise again in 1998 after a steady decline in numbers from 1990 through 1997. The expansion of bank personnel parallels in part the return of prosperity from the recessionary conditions of the early and mid-1990s. The merger and acquisition activity among Swiss banks can be expected to increase the size of the assets and deposits under the roof of each of the remaining large banks who may employ additional financial officers who handle real estate finance matters from an larger pool of funds.

Taxation of Income Related to Real Estate

Since Switzerland is a confederation of 26 cantons (20 cantons and 6 half cantons) that consist of many communes, the federal tax law is supplemented by important cantonal and commune tax laws. Each canton enacts its own tax laws as does each commune. By the 1993 Tax Harmonization Act, under certain federal guidelines, the cantons and communes will

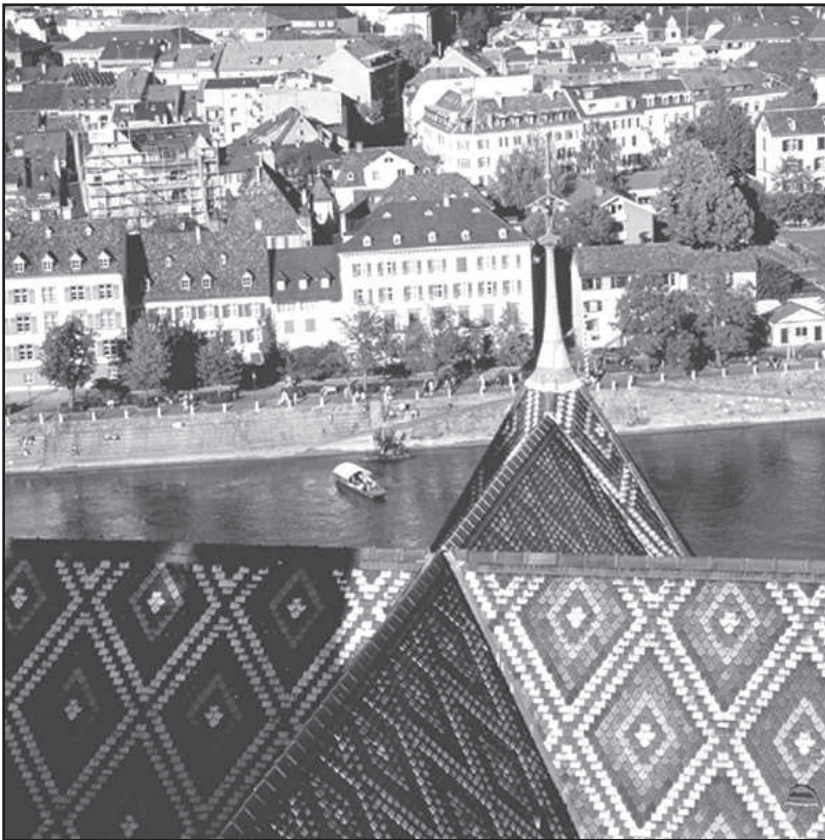
coordinate their tax laws and regulations with the federal tax laws and regulations in accordance with the Federal Tax Act. As of year 2000, the federal corporate tax rate is 8.5 percent of taxable income, After the deduction of tax payments, the effective federal corporate tax rate is 7.8 percent. The maximum total cantonal and communal income tax burden ranges from 10 percent to 27 percent of pre-tax income. Therefore, the range in total federal, cantonal, and commune tax rates is 16.5 percent to 32 percent.

Generally capital gains are taxed along with other business income at the regular income tax rates. At the cantonal and commune level, capital gains from business-related real estate sales or real estate companies may be treated differently than at the federal level. On the federal level, capital gains of individuals of a noncorporate nature are not taxed. Most, but not all, cantons do not tax nonbusiness capital gains

Depreciation may be calculated with use of straight-line or declining balance depreciation methods. For commercial buildings, for example,

the straight-line method permits the deduction for income tax purposes of 1.5 percent to 2 percent of the depreciable value each year while use of the declining balance method permits a tax deduction of 3 percent to 4 percent. For industrial buildings, the owner may deduct 3.5 percent to 4 percent of the depreciable value each year using the straight-line method and 7 percent to 8 percent using the declining-balance method. The annual depreciation deduction permitted for data-processing equipment is 20 percent using the straight-line method and 40 percent using the declining-balance method.

Even though the standard rate for the value-added tax is 7.5 percent as of year 2000, the value-added



tax rate for hotels and lodging services is only 3.5 percent. As of 1997, all construction work and the services of real estate agents, lawyers, and notaries were subject to the value-added tax.

The capital tax rates of the various cantons and communes range from 0.3 percent to 1.3 percent, according to the Ernst & Young 2000 Worldwide Corporate Tax Guide. As of 1997, businesses were subject to a federal capital tax at the flat rate of 0.0825 percent. As of 1997, a special tax based on the value of the land was levied in 15 of the 26 cantons. If the canton taxed the development value of the land, the rate ranged from 0.05 percent to 0.2 percent of the value of the property.



PricewaterhouseCoopers, in a recent tax summary, stated that most cantons and/or their communes levy annual real property taxes (Liegenschaftsteuer - impt foncier - tassa immobiliare), that is based on the gross value of the land, buildings, and rights to water power without the deduction of mortgages or other debts that may be associated to these assets. The taxable value is normally lower than the market value of the property. The rates of taxation among the cantons and their communes range from 0.05 percent to 0.4 percent of the taxable value.

The transfer or sale of real property usually

triggers a transfer tax (Handänderungsteuer - droit de mutation - diritto di mutazione) on the estimated worth of the property transferred. The tax ranges from 0.2 percent to 4 percent on the property value. The transfer of shares of real estate companies is usually subject to these same transfer taxes.

Cantonal stamp taxes are levied on documents related to real estate transactions and vary widely among the cantons. The amounts may depend on the nature of the document, the number of sheets of paper involved, and other such considerations. For example, the stamp taxes on lease acquisitions, lease disposals, and property sales range from Swiss francs 100 to Swiss francs 300

A number of countries have double tax treaties with Switzerland. Under the Switzerland/United States withholding tax treaty, the withholding tax rate on dividends paid to United States recipients is 5 percent; there are no withholding taxes on interest or royalty payments made to U.S. recipients.

General Real Property Valuation Methods

The valuation of property is necessary to mortgage financing, property insurance, eminent domain payments, estate settlement, real property taxation, and other functional processes. Generally Swiss valuers use the cost and income capitalization approaches. International real estate appraisers tend to bring to their Swiss appraisal work the market comparison and the discounted cash flow technique to the income approach.

The market approach to real property valuation is difficult to use in Switzerland due to the policy of secrecy of private matters that apply to real estate transactions as it does in the banking sector where foreign and local deposits are involved. Some institutional valuers have access

to data banks of real estate information within their institutional files and can use the information in employment of the market approach. If adequate commercial property revenue, expense, and financing data is available for the subject property and an adequate number of comparable properties, the discounted cash flow technique can be applied in the use of the income approach. But the commercial property data is difficult to acquire in the continuing atmosphere of privacy of private matters.

The Infrastructure for Swiss Real Estate Operation

Swiss real estate operation is efficient and often profitable due to both demand and supply conditions and the good infrastructure. Let us briefly review such infrastructure as energy, water, security, transportation, and telecommunications.

Switzerland generates electricity through hydroelectric plants principally in the Alps



Mountains and through nuclear power from five reactors that provide more than three gigawatts of electricity that provides 40 percent of the Swiss energy supply. Hydroelectric power provides more than half of the total Swiss energy output. Energy is also derived from petroleum of which about 80 percent is imported. More than 60 percent of the final energy consumption is associated with petroleum and related products. Surplus electricity continues to be sold to other countries. Natural gas supplies are more problematic. Foreign sources of natural gas appear to be needed - perhaps from the United Arab Emirates in the Middle East. The power supply seems to be ample and at reasonable cost for the energy for personal, corporate, institutional, and government computer systems, industrial plant operations, and commercial and residential structure heating, air conditioning, and ventilation. Hydroelectric and nuclear power are relatively inexpensive in comparison with energy generated by coal-, oil-, and gas-fired power plants. The construction and development of hydroelectric and nuclear power plants consume large sums just as geothermal power plant development and construction do.

Swiss Telecom supplies services related to telephony, cable television, and mobile phones with internet access. Broadband telecommunications services is probably on the horizon.

Water is usually ample due to the glacial, mountain snow, and rain sources. Water treatment plants assure clean water with ample levels of purity for potable water. The water emitted from the various chemical and other industrial plants is treated to adhere to the Swiss environmental protection laws and standards that have been in place since 1983.

Security has long been a consideration in such an affluent country whose borders have needed protection during centuries of European military conflicts. In order to remain neutral in wartime, national protection has been required to guard against invasion. A trained citizen military force is maintained through involuntary military



conscription. Training and retraining is required of the Swiss citizens who are a part of the national and local security forces.

Building, other asset, and personal security as a part of national security has been a necessary component of the real estate scene. Looking only at the banking sectors of Zurich and Bern and at the international trade association sector of Bern and Geneva, we note the security needed and given to the various banking headquarters and branch offices and their personnel and the international association headquarters buildings and their personnel. The bank vaults, offices, bank buildings in general, and personnel are protected from terrorism that is rampant in the world and from ordinary burglary, theft, and industrial espionage. By providing appropriate security, Switzerland, for example, retains its reputation for depositary and investment safety, security, and secrecy.

Since Switzerland is a cross roads for European commerce due to its central location in the midst of Italy, Germany, France, and Austria,

transportation within and through Switzerland remains a controversial topic. The impressive federally financed rail system for freight and passengers is supplemented by private rail systems that tend to serve the smaller markets in more remote mountainous areas that attract tourists to seasonal sports. The controversy revolves around the construction of additional rail lines with associated tunnels through the mountains that would better accommodate through traffic for speedy delivery of products to and from Mediterranean locations and northern Europe and Scandinavian locations. Switzerland compromises by continuing to accommodate EuroStar, intercity, and local trains through the Swiss Alps without constructing new rail systems that would accommodate mainly international trade to the exclusion of

Swiss trade. The urban areas of Switzerland are well linked by rail service that is generally frequent, on time, comfortable, clean, and provides passengers with appropriate food service. Bus systems exist for commerce and passengers including tourists. Cable cars provide transportation up mountain slopes for sightseers, skiers, and supplies for mountaintop and mountainside structural developments. Inland waterways that link Swiss locations with other European locations accommodate the transportation of bulky, heavy products that can use this slower but more reasonably priced transit source. Switzerland has a merchant fleet of approximately 15 vessels. The urban airports support general and commercial aviation including plane service offered by Swissair and its affiliate airlines that serve many countries. Swissair has been declared, in the December 15, 2000 Financial Times from a recent special survey, one of the world's most respected transportation companies. Overall, the Swiss transportation system provides excellent service from multiple media for the international real estate community.

Locating Swiss Real Estate Opportunities and Marketing Practices and Associations

If the foreign investor seeks information about available properties that generally fit his or her criteria, there are several sources of information that should be considered. We will then note the government/business requirements for real estate agents and brokers as they wish to set up or start a real estate business or begin marketing real property interests. We will also note the media used by those advertising the availability of various real property interests, in particular the active use of the internet.



Assistance for Property Location and Government Economic Development Incentives

How do you locate Swiss real estate opportunities that fit your investment needs? The response generally is use the Swiss marketing

system that is available. For residential properties, many agents and brokers exist to help you select the inventory of primary, secondary, and vacation homes. Professional and other business persons who market residential, commercial, and industrial properties also exist to help the prospective investor. If the house or apartment is associated with the foreign investor's employment in Switzerland, real estate agents and brokers, the company's Swiss or international accountants, attorneys, or commercial or investment bankers may assist with the search for appropriate corporate-related housing. Swiss laws permit foreign managers and other workers in Switzerland to purchase homes for their personal residences. The Swiss home may represent a "secondary" home when the foreign investor maintains his or her primary or principal residence in the foreign country that is his or her home tax domicile. If the foreign person seeks a vacation home in Switzerland, the marketing person needs to be privy to the availability of residential units that are available by law for foreign investors. Each of the cantons reserve the right to restrict the sale to foreign investors of their vacation-type residential properties on the basis of annual quotas or other such bases of exclusion. There continues to be a high demand among foreigners for Swiss vacation properties for sale or lease, particularly in locations close to popular winter or summer resorts or tourist attractions. Financial institutions, attorneys, accountants, and other professional people may aid the prospective foreign investor in the search for the appropriate vacation property as well as real estate agents and brokers.

If the prospective foreign investor seeks commercial or industrial property, specialized real estate agents and brokers, attorneys, and accountants may assist with the search for appropriate office, retail, or industrial property

for sale or lease. Sale-leasebacks have seldom been used in Switzerland. The chambers of commerce and economic development authorities may welcome an opportunity to assist with tax, financial, and other advice about office, retail, and industrial property selection or development. If tax concessions are given, the Swiss government is usually seeking new or expanded business locations in less utilized and less economically developed portions of the country. Or the Swiss government seeks to encourage the market entry and property use by certain high-technology industries and businesses who meet the country's environmental protection requirements. Few tax concessions are given for general economic development purposes.

•Real Estate Agent and Broker Requirements and Trade Associations

According to the Swiss Association of Real Estate Agents and Administrators in Zurich, approximately 1,100 registered agents and a much smaller number of registered real estate brokers and administrators are Association members. The membership in the Association is voluntary. The real estate agents are registered with the appropriate chamber of commerce to be qualified for their real estate marketing and other work. The real estate brokers are also registered with the appropriate chamber of commerce, but following the successful completion of the government-sponsored and administered exam,

the real estate brokers are said to have received their Diplomas in real estate. These requirements substitute for, what some advanced economies call, licensing requirements.

Recent real estate agent/broker compensation can be summarized in the following way: For negotiating the sale of a property for the owner, the agent/broker may receive three to five percent of the sale price. It is unusual for the real estate agent/broker to represent the prospective buyer for a fee or commission. When the agent/broker negotiates the disposal of a lease, a commission of five to ten percent of the lease value is payable. When the agent/broker represents the tenant in a lease acquisition, the same five to ten percent commission based on the lease value is payable.

The Swiss Association of Real Estate Agents and Administrators holds seminars on new legislation and other significant changes in real estate which members voluntarily attend. Other real estate trade associations in Switzerland, according to Real Estates Directories at web site <http://web.interware.hu/tilklg/vip/eured.htm> include (1) Immo-Valais, Genere, Suisse, (2) Societe des regisseurs de Genere, (3) Societe vaudoise des regisseurs et courtiers en immeubles, and (4) Union Suisse des Professionnels de l'immobilier.

•The Media Used by Real Estate Marketing People to Reach Foreign and Local Investors

The foreign investor may be attracted to particular properties and real estate marketing companies through advertising the international newspapers such as the Financial Times, web home pages and other web locations, direct mailings to identified prospects, and personal contacts. Since the advent of the internet, the marketing to foreign prospects via the web has become very active.



Rent Trends and Indications of Investment Yields

In the review of "Prime Rents in Cities Across the World" by FPD Savills international real estate firm in the November 10, 2000 issue of Financial Times, Swiss center city commercial rents on a U.S. dollar square meter per month basis were very low compared to Hong Kong, New York, London, Amsterdam, Prague, and Beijing. The Swiss representative city, Zurich, for the rent comparison showed rents of approximately U.S.\$12 per square meter per month while Hong Kong center city commercial rents approximated U.S. \$50 per square meter per month. Let us some estimates concerning Geneva and Zurich retail, office, and industrial rents for three currencies on a square meter and square foot basis.

• *Retail Properties*

In a recent worldwide real estate investment report, Healey & Baker indicated that the relative level of Swiss retail property leasing and investment activity was medium level but the direction of leasing and investment activity was upward. As of the second quarter of 2000, retail rents of Geneva have approximated SFr2,500 or Euro 1,598 or U.S.\$1,451 per square meter per annum. In U.S. dollar terms, that's approximately U.S.\$145 per square foot per annum. At the same time recently, retail rents of Zurich were more than twice as high - average estimates of SFr5,500 or Euro3,192 or U.S.\$3,192. In U.S. dollar terms, that's approximately U.S.\$320 per square foot per annum.

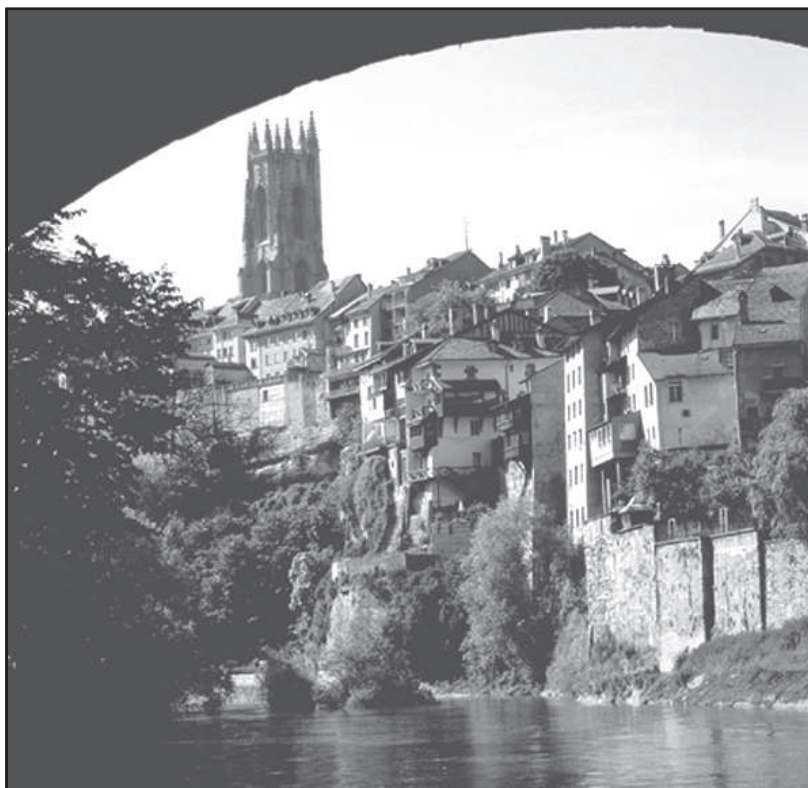
• *Office Properties*

According to an analysis in Global Real Estate News based on data from a number of international real estate firms, office rents in

Geneva in the second quarter of 2000 approximated SFr900 or Euro 575 or U.S. \$522 per square meter per annum. In U.S. dollar terms, the office rents approximated U.S.\$52 per annum. Zurich office rents were considerably higher during the second quarter of 2000, according to the recent "Rents in Europe" tabulation: SFr1,100 or Euro 703 or U.S.\$638. In other words, the Zurich office rents recently averaged U.S. \$64 per square foot per year.

We can compare these second quarter 2000 office rents with late 1998 rent estimates from C.B. Richard Ellis Global Research and Consulting Company. Geneva office rents, at this time, average U.S.\$45.66 per square foot per annum or U.S.\$491 per square meter per annum. The rents had risen 8.1 percent over the previous 12 months. Zurich average office rents had risen 7.6 percent over the previous 12 months so that they were estimated at U.S.\$52.42 per square foot per annum or U.S.\$564 per square meter per annum in early 2000.

• *Industrial Properties*



From the same second quarter 2000 “Rents in Europe” tabulation, we note that industrial rent levels of Geneva were roughly the same as that of Zurich: SFr 170 or Euro 109 or U.S.\$99 per square meter per annum. That translates, roughly to U.S. \$10 per square foot per annum.

• *Indication of Investment Yields*

Colliers International has concluded recently

that retail and office investment yields were higher in Zurich than retail and office investment yields in Geneva. But in Zurich, retail investment yields (6.5 percent to 7.5 percent) were higher than office investment yields. Colliers International, in their 1999 Market Report, Real Estate Investment, Europe & South Africa, suggested that the reader may convert these gross yields to net yields by multiplying the gross yields by 0.85.

About the Author

As the author awaits the arrival of hardcover copies of her 45th book/monograph, JAPAN REAL ESTATE INVESTMENT, that is to be distributed nationally and internationally by Quorum Books, the Westport, Connecticut publisher, this manuscript surveys some of the real estate investment highlights of one of the world's most affluent European countries and stable economies, Switzerland.

The author, Dr. M.A. Hines, started her publishing history with an Ohio State University Ph.D. dissertation that was published by the National Retail Merchants of New York that dealt with retailing opportunities within federal urban renewal projects of the United States. Some academic refereed and professional real estate and finance articles were written and published. Then, while the author served as a Associate Professor of Finance at Cleveland (Ohio) State University and later as Professor of Real Estate and Finance at The University of Alabama, Dr. Hines proceeded to write four real estate textbooks for three major U.S. publishing houses. McGraw-Hill Irwin published her PRINCIPLES AND PRACTICES OF REAL ESTATE in 1976. Prentice Hall published her REAL ESTATE FINANCE textbook in 1978. Then John Wiley & Sons/Macmillan published two of her textbooks that includes REAL ESTATE INVESTMENT (1980) and REAL ESTATE APPRAISAL (1981).

The second edition of SHOPPING CENTER DEVELOPMENT AND INVESTMENT, published in the United States in 1988 by John Wiley & Sons, Publishers, of New York, was

published in the Japanese language by Toyo Keizai Shimpo Sha, Tokyo publishing house, in 1990. Two other professional real estate books of the author were published by John Wiley & Sons of New York: FINANCING REAL ESTATE WITH SECURITIES (1988) and REAL ESTATE DEBT FINANCING (1987)

The International Real Estate Institute has published several of the author's 45 international- and U.S.-oriented books and monographs beginning with INTERNATIONAL INCOME PROPERTY INVESTMENT and JAPANESE SHOPPING CENTERS: FINANCIAL AND INVESTMENT FEATURES in 1985. Three editions of AN OVERVIEW OF GLOBAL REAL ESTATE FINANCE followed in 1989, 1995, and 1999. The full-color monograph, BRAZILIAN REAL ESTATE, was published in 1999 and followed by the monographs, MOROCCAN REAL ESTATE: NORTH AFRICAN PROPERTY, THE IMPACT OF ePROPERTY ON INTERNATIONAL REAL ESTATE, and INVESTING IN JAPANESE REAL ESTATE: LINK TO INTERNATIONAL TRADE in 2000.

The author continues, after 19 years, to serve as the Clarence W. King Endowed Professor of Real Estate and Finance at Washburn University of Topeka, Kansas. When Washburn University asked Dr. Hines to accept its first endowed professorship, it was discovered much later that Dr. Hines became, at that time, the first *female* finance and/or real estate endowed professor in the United States.

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