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London Exodus to Geneva Runs Into Housing, School Shortages

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Dec. 21 (Bloomberg) -- Geneva, touted as a haven for London bankers facing heavier U.K. taxes, may lure fewer than predicted thanks to a housing shortage, crowded schools and a 44 percent income-tax rate.

Barclays Plc President **Robert Diamond** this month joined a chorus of financial leaders in arguing that the U.K.'s 50 percent tax on bonuses would drive bankers away from **London. The Swiss Private Bankers Association** said the "arbitrary" tax will boost the allure of Geneva, whose bankers oversee about 10 percent of the world's foreign-held private

wealth.

"It's a joke, it's lobbying," said **Tim Dawson**, an analyst at Geneva-based brokerage **Helvea AG**. "People are dreaming if they think the London investment banking world is going to move. There is more office space in Canary Wharf than in the whole of Switzerland," he said, referring to London's second financial district.

Chancellor of the Exchequer **Alistair Darling** said this month that banks awarding discretionary bonuses of more than 25,000 pounds would have to pay a one-time levy of 50 percent. That followed earlier decisions to boost the top tax rate to 50 percent and rescind special breaks for residents whose tax home is outside the country.

That's making the U.K. a "hostile environment" for wealthy people and many are considering relocating to rival financial centers, said Caroline Garnham, a partner at London-based law firm **Lawrence Graham LLP** who advises on tax planning.

No 'Huge Masses'

The numbers choosing Switzerland will be small, and banks with Swiss roots, such as **Credit Suisse Group AG** and UBS AG, will probably find it easiest to move workers, said **Stefan Schuermann**, an analyst at Zurich-based Vontobel Holding AG.

"I don't expect huge masses; there is going to be some inflow," Schuermann said. "You don't easily move just because of tax issues if you have a family."

Those keen to settle in Geneva, a city of less than 200,000 on the doorstep of ski resorts such as Verbier, Chamonix and Megeve, will face housing constraints.

Just 92 detached houses were vacant throughout the canton, which includes suburbs and outlying villages, on June 1 as population growth outpaced expansion of the property market, according to figures from the **canton's** statistic office. Geneva's vacancy rate for all types of accommodation stood at 0.21 percent, compared with 0.66 percent in Zurich and 2.3 percent in London.

'Pressure on Services'

The median price of a four-bedroom house in Geneva was 1.62 million Swiss francs (\$1.57 million) in the third quarter. The average price of a property in Kensington and Chelsea, London's most expensive borough, was 790,946 pounds (\$1.28 million) in October, according to **Land Registry**

data.

"The pressure on services might become an issue," said Glen Millar, a Geneva-based consultant at **Kinetic Partners** LLP, which says it is looking to relocate 15 hedge-fund firms to Switzerland from London after the U.K. announced a higher tax rate in April. "For that reason, arrivals may remain a trickle."

More than 65,000 people, known as frontaliers, commute into Geneva from neighboring France each day, according to cantonal figures, both for work and to pay less for housing.

At the **International School of Geneva**, where fees can total 28,000 francs a year, applications for next September are almost double the number of likely vacancies, said admissions director John Douglas. The school, whose alumni include former Indian Prime Minister **Indira Gandhi** and retired U.S. Army General **Norman Schwarzkopf**, plans to add 600 places by 2012.

"It's increasingly difficult to get places," Douglas said. "It's not just tax but location and quality of life. Hedge funds are part of the picture."

Competing With Melting Pots

And it isn't just Geneva. Switzerland struggles to compete with the day-to-day attractions of London, a city whose population almost matches that of the whole country.

Switzerland "cannot match the force of attraction and integration of international melting pots like New York or London for hiring talent from all over the world," the Swiss Federal Council said in a Dec. 16 **report** outlining strategies required to keep the country's financial centers competitive.

While each Swiss canton sets its own tax rate, allowing local officials to negotiate individual tax deals with wealthy immigrants, those rules are coming under pressure. Zurich, Switzerland's biggest city and the home of **UBS** and Credit Suisse, will abolish special tax privileges for foreign millionaires on Jan. 1. The canton's top rate of income tax is 40.3 percent.

"Some of the German-speaking cantons around Zurich are able to offer tax rates that never exceed 20 percent, but people don't want to move there, they prefer the lifestyle around Geneva," said Thierry Boitelle, a partner specializing in tax at law firm **Altenburger**. "From a tax point of view it doesn't make sense to locate 100 people here."

Hedge Funds

Altenburger advises clients to relocate only those functions that "add value," while leaving back office and administration jobs in cheaper locations.

With Swiss firms overseeing a quarter of the world's offshore private wealth, it may make sense for private equity and hedge fund managers to move to Switzerland, said Millar at Kinetic.

BlueCrest Capital Management Ltd., a London-based hedge fund firm that oversees about \$15.4 billion, plans to open a Geneva office as increased taxes and regulation make London less attractive, a person familiar with the situation said last month. It follows Brevan Howard Asset Management LLP, Europe's largest hedge fund manager, which said in September it may open an office in Switzerland.

Finding a Way

The country has added 10 to 20 single-manager hedge funds over the past two years, according to the **Swiss Funds Association**. Switzerland's 136 hedge funds managed \$17.3 billion at the end of June, compared with 828 overseeing \$263.2 billion in the U.K., according to Eurohedge.

"Limiting the income of investment managers, in addition to taxing them a lot, might encourage them to come to Switzerland," said Frédérique Bensahel, a partner at the law firm **FBT** who advises hedge funds that have moved to Geneva. "It's true that housing is extremely difficult and expensive and the schools are very full, but when you have a good project you will find a way."

Altenburger receives six to 10 relocation inquiries a month at its offices in Geneva and Zurich, with about two turning into actual moves, Boitelle said.

"It's not a wave but a steady stream," he said. "If you're coming from London, Geneva is a small village."

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