

June 2018

# Exposé

Real estate investments in Switzerland



**Urbanisation –**  
the challenge of inner-city development

**Contributions in kind –**  
potential not yet exhausted

**Economic environment –**  
moderate interest rate environment remains despite global economic upturn

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## Editorial

Dear readers

“God made the country, and man made the town.”\* For around ten years now, more than half the world’s population has been living in urban areas. The current urbanisation level in Switzerland is as high as 84% – and the trend is on the rise.

However, Switzerland is continuing primarily to build outwards and one square metre of valuable arable land is disappearing each second. The real estate sector is called on with the support of politicians to devise a sensible course of action to counter this urban sprawl. Find out more about successful concepts for the development of urban space.

Finally, I’d like to close on a personal note: I’m very proud that we’ve won the 2018 IAZI Real Estate Award in the “Best Commercial Properties” category. Swiss Life Asset Managers has been singled out for an IAZI award for the third time in succession. We will continue to give our best.

Gerhard Demmelmair  
Head of Real Estate Portfolio Management  
Third-Party Asset Management Switzerland

*Swiss Life Asset Managers received the 2018 IAZI Award in the “Best Commercial Properties” category for its current portfolio for third-party clients in Switzerland.*



\*William Cowper (1731–1800), English poet, pioneer of Romanticism

# Interest rates remain relatively unimpressed by global cyclical upturn

Despite ongoing economic recovery around the world, inflation rates remain low in many places and the moderate interest rate environment remains unchanged. In 2017, the Swiss franc underwent its strongest depreciation since 1996.

Sylvia Walter, Senior Economist  
Francesca Boucard, Economist Real Estate

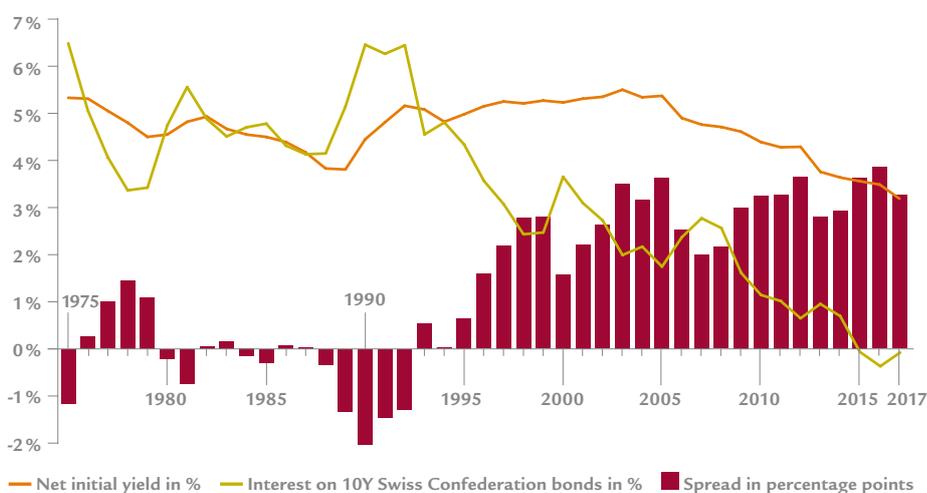
Apart from the US, where yields are rising more strongly than in Europe not least due to expansive fiscal policy, the interest rate turnaround hardly deserves the name so far. In most developed countries interest rates reached a low in summer 2016 and have since begun a tentative upward trend with repeated setbacks. Volatility has generally risen on the financial markets since the start of the year.

Given the ongoing global economic recovery, the lack of inflationary pressure remains a mystery. Switzerland lags behind the global upturn, though there has been significantly greater momentum since mid-2017. While the demand from core trading partners has risen a lot, an economic stimulus package has taken effect that is only partially controllable – the depreciation of the CHF against other major currencies. At 6%, the devaluation in 2017 was the strongest since 1996. The trend to weakness prevails.

Strong growth with moderate inflation may sound like the best of all worlds. Yet financial market participants are more anxious than before. How long can the economy still grow? Will inflation suddenly spike? This is no easy environment for the central banks, which are partially reversing emergency measures following the financial and debt crisis.

The normalisation of monetary policy remains a crucial issue for the interest

## Net initial yields for real estate and development of Swiss Confederation bonds



Source: Prof. Studer, University of Basel until 2004, from 2005 Wüest Partner, SNB, own calculations

rate development. The ECB, and thus also the SNB, are approaching the terrain of monetary policy normalisation with great

## Monetary policy normalisation with great caution

caution. Accordingly, the interest rate environment remains low. We do not expect a hike in the target rate by the ECB until towards the end of 2019 at the earliest

and not until 2020 in Switzerland. The return premium on real estate versus fixed income assets remains intact and testifies to the ongoing attraction of real estate investments. ■

26 April 2018



# Lugano: successful letting of retail units

The residential and retail property is situated in the Viganello district, around two kilometres east of the centre of Lugano at the foot of Monte Brè. Viganello has been a district of the City of Lugano since 2004 and is therefore part of the largest city in Canton Ticino. The property is located on a road linking the centre of Lugano with the outer districts and surrounding settlements. There is a bus stop immediately in front of the property around ten minutes from the city centre.

The property consists of three seven-storey residential towers with 63 apartments built above a shared base storey, which contains a shopping centre with

around 2100 m<sup>2</sup> of retail space and two underground car parks with 114 parking spaces. In addition to the main tenant, Lidl Switzerland, there is also a kiosk, a pharmacy and a café on the ground floor. Following the departure of Manor Food, a new ten-year rental contract was concluded with Lidl Switzerland over the last year. This has increased the rental income from retail use, thereby exerting a positive impact on the market value of the property.

Lidl opened its first branches in Switzerland around ten years ago and has expanded its branch network to over 100 today. The Lidl standard property is primarily located in less built-up areas offering good

transport connections and comprises generous retail space. Alongside these standard properties, Lidl is also increasingly focusing on town centre locations.

Lidl serves as an attractive local supplier for the residents of the property and the Viganello district. ■

The new Lidl store, centrally located in Viganello



Source: Alexandre Zveiger



Source: Alexandre Zveiger

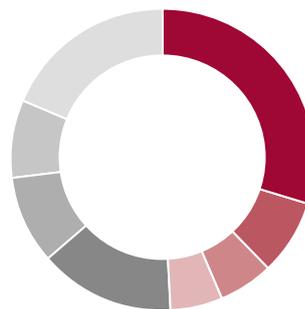
The spacious store offers local residents everything to meet their daily needs.

**Swiss Life Investment Foundation:  
Real Estate Switzerland investment group**

ISIN CH0106150136  
Launch date 01/12/2009  
Portfolio manager Nils Linsi

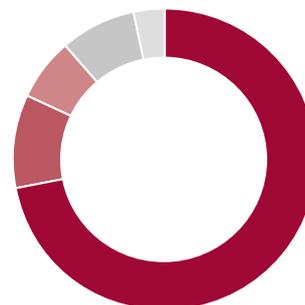
**Key figures as of 31/3/2018**

Market value of real estate CHF 2143.6 m  
Number of properties 183  
Rental rate 94.5 %  
Borrowing ratio 12.4 %  
Net asset value (NAV) CHF 1843.7 m  
Performance YTD 1.17 %  
Performance 2017 6.06 %  
Performance 2016 6.52 %  
Performance 2015 6.56 %  
Performance since launch 5.71 %



**Geographical distribution**

Zurich	29.9 %
Bern	7.9 %
Central Switzerland	5.8 %
Western Switzerland	5.7 %
Northwestern Switzerland	14.4 %
Eastern Switzerland	9.5 %
Southern Switzerland	8.3 %
Lake Geneva	18.5 %



**Types of use**

Residential	72.2 %
Office	9.9 %
Retail	6.7 %
Parking	7.9 %
Ancillary uses	3.3 %

# Spisergasse 6 in St. Gallen: total refurbishment of old townhouse “zur Friedau”

The old townhouse “zur Friedau” lies in the heart of St. Gallen. The railway station is around 700 metres away on foot. St. Gallen is considered to be the economic centre of Eastern Switzerland and its inner city is shaped by historic buildings. Spisergasse is an extension of Multergasse, the bustling main shopping street.

The narrow building, extended on both sides, comprises a basement and six upper floors. A shop and the main entrance to the apartments are located on the ground floor. When the property was purchased, the façade was in good condition but the interior fittings were no longer up to date and the room layout of the floors was inef-

ficient. The upper floors were connected by a narrow, crooked staircase. For this reason the entire property was subject to total refurbishment. Renovation of the listed property took place in close consultation with the preservation authorities.

The redesign of the floors enabled a two-room apartment to be created on each of the first to third floors and a 3½-room duplex on the fourth and fifth floors. Owing to the confined space conditions of the two-room apartments, it was necessary to find creative solutions for optimally connecting the two rooms, the kitchen and the bathroom with each other. From the balcony of the duplex, tenants enjoy an uninter-

rupted view across the beautiful roof landscape of the Old Town and its surroundings.

The refurbishment created attractive apartments with modern interior fittings in a historic property. The high product quality and the demand for quiet living space at a central location enabled the property to be fully let soon after completion. ■

Exterior view of “zur Friedau”



Source: Ursula Maurer, Tri-Angle Fotografie



Source: Ursula Maurer, Tri-Angle Fotografie

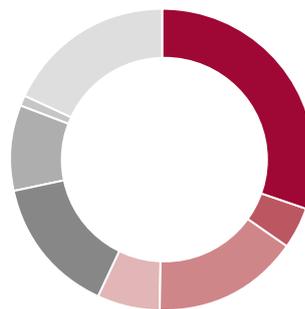
State-of-the-art apartment in the heart of the Old Town

**Swiss Life Investment Foundation:  
Commercial Real Estate Switzerland  
investment group**

ISIN CH0136837587  
Launch date 1/11/2011  
Portfolio manager Nils Linsi

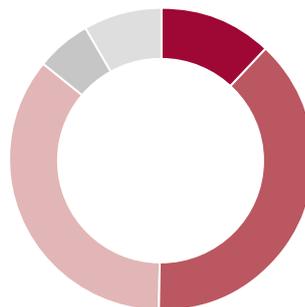
**Key figures as of 31/3/2018**

Market value of real estate CHF 1245.8 m  
Number of properties 88  
Rental rate 96.9%  
Borrowing ratio 20.0%  
Net asset value (NAV) CHF 983.3 m  
Performance YTD 0.65%  
Performance 2017 5.55%  
Performance 2016 5.25%  
Performance 2015 5.17%  
Performance since launch 5.08%



**Geographical distribution**

Zurich	30.3%
Bern	4.4%
Central Switzerland	15.8%
Western Switzerland	6.5%
Northwestern Switzerland	14.6%
Eastern Switzerland	9.4%
Southern Switzerland	1.1%
Lake Geneva	17.9%



**Types of use**

Residential	12.1%
Office	38.4%
Retail	35.4%
Parking	6.0%
Ancillary uses	8.1%

# Sihlporte 3 in Zurich: office building in timeless elegance

The Sihlporte 3 office building is situated on the western fringes of Zurich's Old Town. Its prominent location between a tram stop and the Schanzengraben is highly frequented at all times of the day and guarantees good visibility.

Swiss Life carried out extensive refurbishment of the building, erected in 1929 by Otto Streicher, between 2011 and 2013 and returned it to its original office and commercial usage. Previously the building had been used by the EPA department store. For this purpose the storeys had been altered internally and various extensions built on outside.

The overall refurbishment after the department store moved out was geared to-

wards the original structure and appearance of the building. The marble façade was repaired and cleaned and the tin roof gave way to the original tiled roof. Inside the building, the generously proportioned and representative entrance was restored and the building technology brought up to date.

The upper floors have since 2013 housed offices exposed on three sides with a flexible layout design and air conditioning. The attic floor offers an outdoor terrace with panoramic views of the Old Town and the Alps. The ground floors are used as retail and catering units. All units have been let since conclusion of the refurbish-

ment. The main tenant is the consulting firm Bain & Company.

The Sihlporte 3 property is part of Swiss Life REF (LUX) Commercial Properties Switzerland and serves as an exemplary illustration of the good locational and property qualities of this commercial real estate portfolio. Alongside large cities such as Zurich, Geneva, Basel, Bern and Lausanne, the fund also invests in regional centres like Winterthur, St. Gallen, Zug, Fribourg and Lugano. ■

Central location in the heart of Zurich directly next to the Schanzengraben



Source: Tilla Theus und Partner AG



Source: Tilla Theus und Partner AG

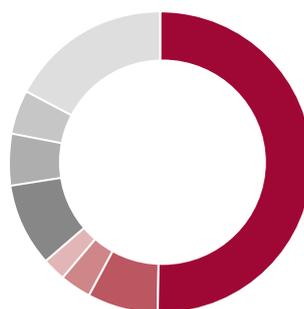
View of Sihlstrasse

### Swiss Life REF (LUX) Commercial Properties Switzerland

ISIN	LU0820924123
Launch date	1/11/2012
Portfolio manager	Marcel Schmitt

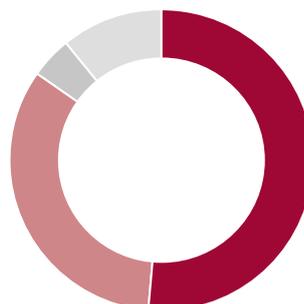
### Key figures as of 31/3/2018

Market value of real estate	CHF 899.8 m
Number of properties	32
Rental rate	96.2%
Borrowing ratio	17.7%
Net asset value (NAV)	CHF 722.3 m
Performance YTD	0.71%
Performance 2017	4.92%
Performance 2016	6.00%
Performance 2015	7.34%
Performance since launch	5.09%



### Geographical distribution

Zurich	50.4%
Bern	7.5%
Central Switzerland	3.3%
Western Switzerland	2.4%
Northwestern Switzerland	8.9%
Eastern Switzerland	5.8%
Southern Switzerland	4.6%
Lake Geneva	17.1%



### Types of use

Office	51.6%
Retail	33.3%
Parking	4.3%
Ancillary uses	10.8%

# Stahlgießerei Schaffhausen: modern living at a central location

A new district is arising on the site of the former Georg Fischer steel foundry in Mühlfental in Schaffhausen, with a mixture of residential, commercial, service and catering properties. Part of the site developed by Klaiber Immobilien also comprises a public, partially covered urban park that will serve as a meeting point for local and municipal residents. The new district in the heart of Schaffhausen lies five to ten minutes' walk from the railway station and Old Town. Swiss Life Asset Managers is acquiring eight residential high-rises, parking spaces and smaller commercial areas.

The two residential buildings of the initial construction phase will become the

property of Swiss Life REF (CH) Swiss Properties upon completion in 2020. The residential towers in MINERGIE standard comprise 82 apartments, mostly with two and three rooms. The ground and mezzanine floors will contain commercial units of 300 m<sup>2</sup>. The apartments include controlled ventilation, parquet flooring, spacious wet rooms, generous loggias and their own washing machines/tumble dryers.

The unique combination of a central location, state-of-the-art housing and a competitive price-performance ratio will be decisive for the successful positioning of the apartments on Schaffhausen's rental market. Together with professional and

modern marketing, this will form the basis for the first-time letting of the apartments beginning in 2019.

The acquisition of the "Stahlgießerei" residential property will enhance the fund portfolio's regional and usage-based diversification and positively influence its long-term need for investment. ■

Modern apartments are being constructed at a central location.



Source: Ulmer Ledergerber Architekten AG, Schaffhausen



Source: Ulmer Ledergerber Architekten AG, Schaffhausen

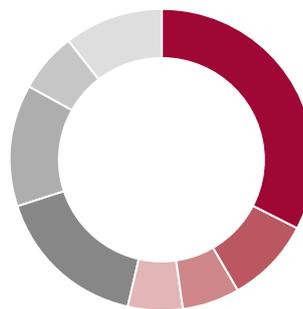
Parts of the former steel foundry will be converted into attractive commercial and leisure space.

### Swiss Life REF (CH) Swiss Properties

ISIN	CH0293784861
Launch date	2/11/2015
Portfolio manager	Marcel Schmitt

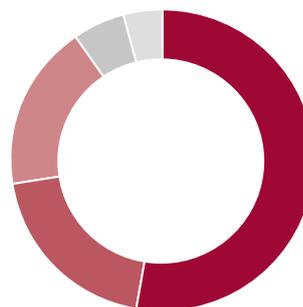
### Key figures as of 31/3/2018

Market value of real estate	CHF 664.5 m
Number of properties	48
Rental rate	97.4%
Borrowing ratio	12.8%
Net asset value (NAV)	CHF 569.3 m
Performance YTD	0.00%
Performance 2017	6.08%
Performance 2016	16.09%
Performance 2015	n/a
Performance since launch	11.11%



### Geographical distribution

Zurich	32.7%
Bern	9.0%
Central Switzerland	6.2%
Western Switzerland	5.9%
Northwestern Switzerland	16.3%
Eastern Switzerland	13.0%
Southern Switzerland	6.6%
Lake Geneva	10.3%



### Types of use

Residential	52.9%
Office	19.6%
Retail	17.9%
Parking	5.6%
Ancillary uses	4.0%

# Inner-city densification: squaring the circle?

There is safety in numbers – and people are also more productive, more efficient and better off living together. A prevailing trend towards urbanisation can accordingly be observed throughout the world. The provision of living and working space is therefore also one of the most urgent tasks facing the real estate sector in Swiss cities and urban areas. Intensified inner-city densification can provide some relief.

Francesca Boucard, Economist Real Estate  
 Alfonso Tedeschi, Real Estate Product & Service Manager

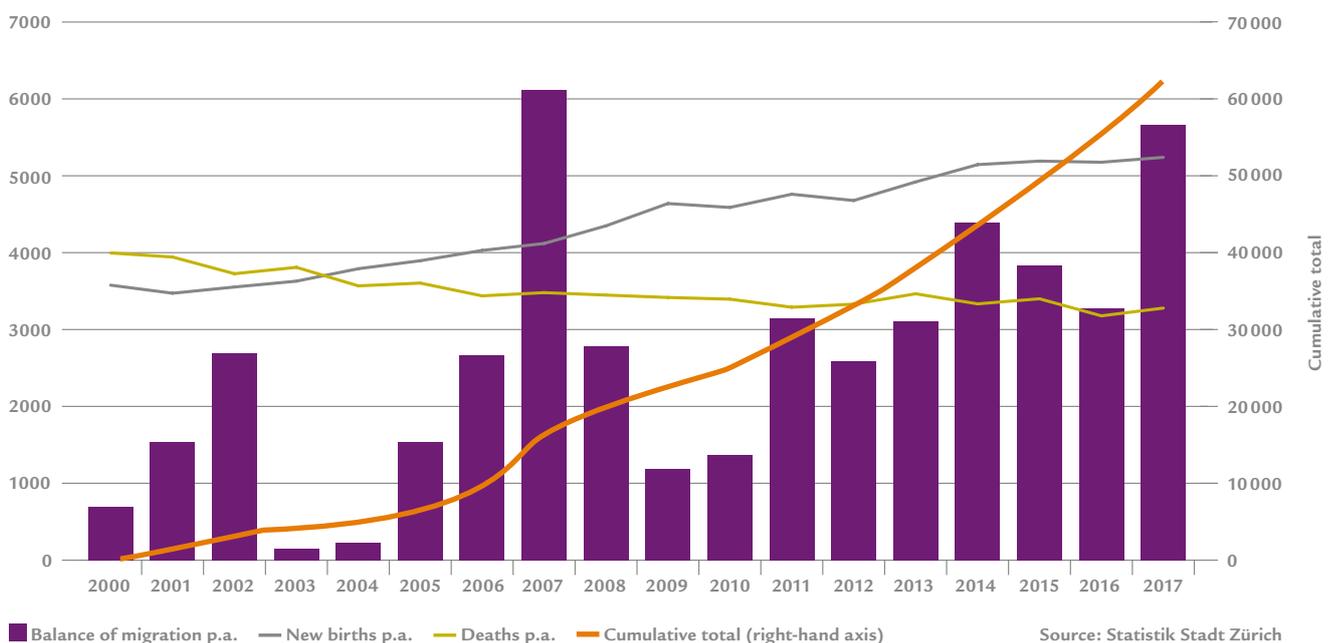
Today’s people are “city dwellers”: since 2007 more people across the world live in urban than in rural areas and the trend is continuing to grow. The urbanisation level in Switzerland currently amounts to 84% and 172 towns and cities were recently counted. However, not only the influx of new inhabitants is responsible for the growth of urban centres but also

the lack of those moving away. The city of Zurich provides a good illustration of this: with an ongoing positive balance of migration, the number of births has risen by 45% in the last 15 years, while outward migration has grown by just 11%. There is therefore no exodus from the cities triggered by the starting or expansion of families to be observed.

## Outward growth

Whether due to inner growth or to migration from outside – as the population continues to grow more space is needed. Particularly in Switzerland, living space consumption is relatively high at 45 m<sup>2</sup> per person. While Swiss construction activity is strong, we are largely building outwards rather than upwards. This phenomenon is

Change of population of the City of Zurich



Source: Statistik Stadt Zürich

discussed among politicians as “urban sprawl”. According to figures from the Swiss Federal Statistical Office, one square metre of arable land disappears each second. In view of the ongoing population growth, the question therefore arises of how to achieve a greater density.

### High complexity of inner-city densification

The planning and realisation of construction projects in urban areas is an extremely complex affair in practice. Construction-law challenges, interwoven ownership structures and objection risks frequently lead to delays in, or even to the abandonment of, inner-city projects. Densifying properly after the fact is like squaring the circle: the task lies in finding the best solution qualitatively (product definition) and quantitatively (space, cost, price) within the prevailing restrictions imposed by con-

struction law. A large amount of real estate expertise, a network of strong partners, proactive communication with all stakeholder groups and a high level of stamina are required in order to utilise the full potential

of inner-city densification. However, as the projects outlined below illustrate, successful realisation is certainly possible. ■

Neudorfstrasse in Horgen: subsequent development of a plot



Wesemlinstrasse 2/4 in Lucerne: densification with connecting building



# Contributions in kind as a recipe for success – diversification and professional management made easy

Swiss pension funds continue to invest much of their real estate assets in direct real estate. However, indirect real estate investment has significantly gained popularity in recent years, with the segment of investment foundations growing particularly strongly, not least thanks to contributions in kind.

Gerhard Demmelmair, Head Real Estate Portfolio Management  
 Alfonso Tedeschi, Real Estate Product & Service Manager

Contributions in kind have established themselves as a proven instrument for the conversion of direct to indirect real estate investments. Real estate worth CHF 7.3 billion has been transferred in this way in Switzerland since 2002. An investment in a broad-based investment vehicle enhances not only geographical diversification but

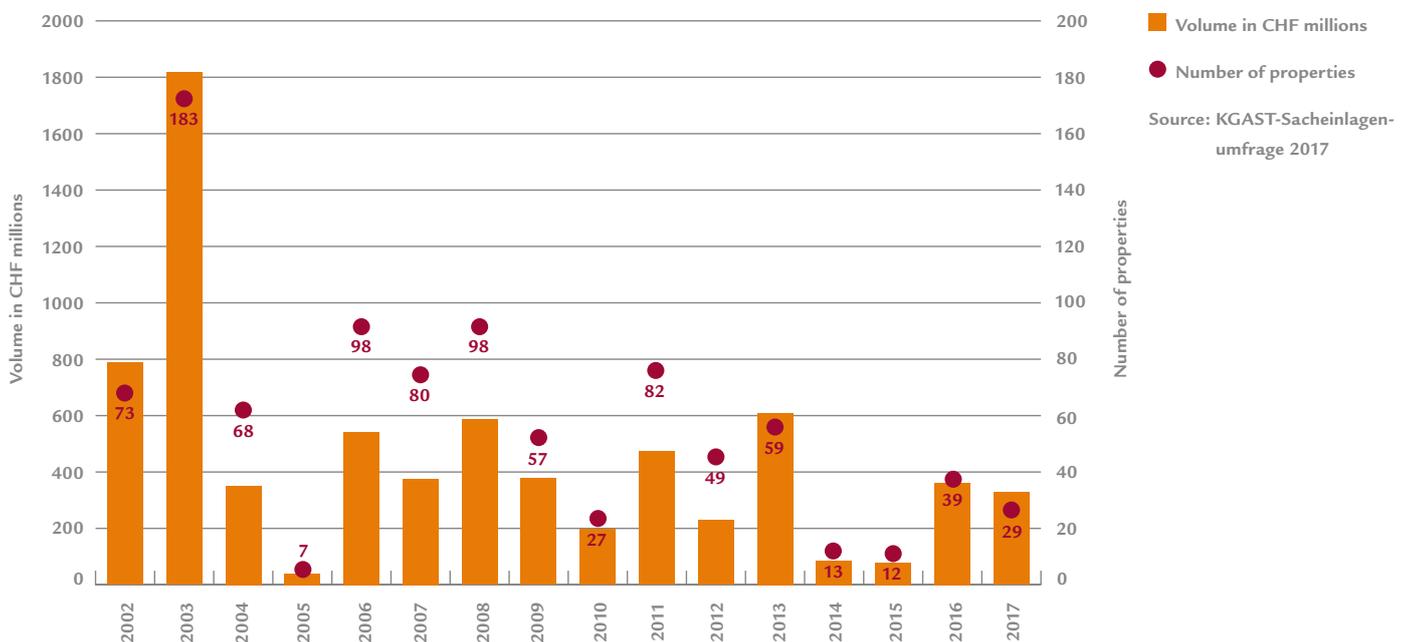
also diversification in terms of types of use and property features (age, size, quality etc.). Another reason for the popularity of investment foundations is that they are managed at net asset value and therefore have a lower volatility than listed real estate investments such as real estate funds and companies. They also stand out against di-

rect investments due to their higher liquidity and easier tradability.

## Potential not yet exhausted

There are still many pension funds that for historical reasons and due to local networks have a strongly regional concentration of real estate portfolios. Property

### Development of contributions in kind



management is frequently carried out directly by the pension fund itself. However, these are often too small to achieve the efficiency and professionalism required. With a contribution in kind, pension funds benefit from far better diversification and professional real estate management. The focus can also be placed more on their actual core business – asset & liability management.

with cumulative capital assets of over CHF 41 billion that vary in terms of investment volume, investment focus, year of launch and investment philosophy. The last comprises factors such as the strategic growth targets, the existing circle of investors and the competencies of the management, and should therefore not be neglected when selecting the right investment foundation. ■

**With a contribution in kind, pension funds benefit from better diversification and professional real estate management.**

### Marry in haste, repent at leisure

Unlike an arm's-length transaction, the price is just one of many decision-making criteria when selecting the right investment vehicle. With a contribution in kind you remain invested in an investment foundation over the long term and participate in its development. In the KGAST\* alone there are now 32 vehicles

## The strong partner for contributions in kind

Swiss Life Asset Managers offers its clients customised solutions and supports them in carrying out a contribution in kind.

A contribution in kind to a Swiss Life vehicle offers the following benefits:



Over 125 years of experience in real estate investment and the largest private real estate owner in Switzerland



Professional management from a single source



Three focused investment groups, "Living", "Commercial" and "Retirement and Healthcare", and two real estate funds with Swiss real estate investments



We support our clients during the entire contribution-in-kind process and make our nationwide network of experts available to them.

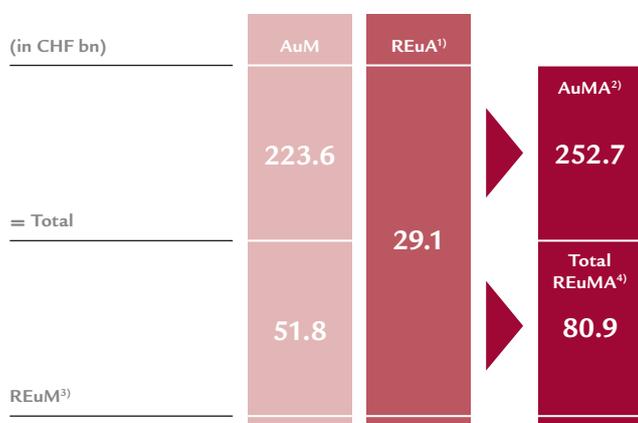


"Alignment of interests": proprietary pension fund participation in our real estate investment groups and long-term co-investment by Swiss Life Ltd in our real estate products

\*KGAST (Conference of Managers of Investment Foundations) represents its members' common interests in dealings with authorities, the media, and administrative, political and supervisory bodies

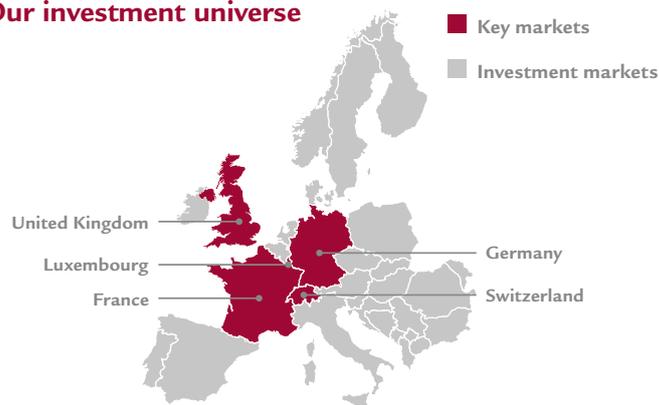
# Real estate – facts and figures

## Assets under Management and Administration



<sup>1)</sup>Real Estate under Administration (not included in Swiss Life AuM definition)  
<sup>2)</sup>Assets under Management and Administration <sup>3)</sup>Real Estate under Management  
<sup>4)</sup>Real Estate under Management and Administration

## Our investment universe



## Transaction volume real estate



## Employees



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All figures as of 31 December 2017, unless stated otherwise

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