Exposé

Real estate investments in Switzerland

SwissLife
Asset Managers

November 2017

Age-appropriate residence in Bassersdorf

Economic environment

Swiss Life Real Estate Funds

Swiss Life Investment Foundation: Real estate

In focus: Foreign real estate/ Retirement properties

Editorial

Dear readers

We are living ever longer. There are 400 000 people over the age of 80 currently living in Switzerland, that figure is set to rise to about 1.2 million by 2050. One in two newborns will live to 100.

This will have a major influence on the local property market. Demand is growing for age-appropriate housing solutions, assisted living and long-term care and medical facilities. Swiss Life Asset Managers is actively addressing this issue by launching the investment group "Real Estate Switzerland Retirement and Healthcare" to open up this promising investment segment to Swiss employee benefits institutions.

Property investments outside Switzerland are also of growing interest to institutional investors in this enduring low interest rate environment. Swiss Life Asset Managers has in excess of 1200 real estate experts and is the biggest property manager in Europe with CHF 74.3 billion in assets under management and administration. Find out more about European real estate markets and the investment solutions we have to offer.

I wish you a most enjoyable read.

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

Economic environment

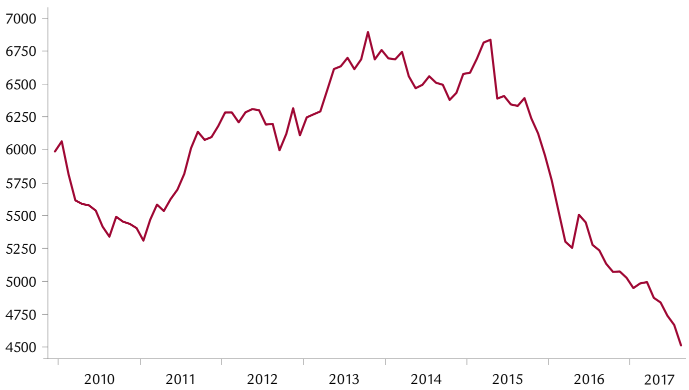
The Eurozone is faring well, while Swiss economic data are looking relatively weak. Housing demand in Switzerland is down. However, changing demand caused by demographic development is opening up new opportunities: interest in age-appropriate accommodation is set to increase significantly.

Sylvia Walter, Senior Economist
Francesca Boucard, Economist Real Estate

Of most interest to market observers over the summer months was the significant and rapid rise of the Euro. The euro repeatedly crossed the 1.16 threshold against the Swiss franc to the relief of many, not least the Swiss National Bank, which was able to almost put a brake on its currency market interventions. This trend shows what a burden the prospect was of an anti-European party in the French government. The second factor driving the Euro is the normalisation of the European Central Bank's monetary policy following many years of abundant liquidity. Finally, the currency union's economic data this year has exceeded even the most optimistic forecasts. GDP growth in the first half of 2017 was more than twice as high as the potential rate, calculated by the OECD. In view of these factors, the Euro's appreciation is fundamentally justified.

The economic success of the Eurozone is also reflected in its labour market. Unemployment is decreasing and employment prospects are increasing, albeit to differing degrees among the member states. This improvement is making its presence felt in Switzerland. Immigration has decreased markedly since 2013 and a growing number of people have decided to leave the country. From January to August 2017, net migration reached its lowest ever point since the introduction of the free movement of persons in

2007. This applied particularly to the migration balance from EU/EFTA countries, which fell by 27.1% relative to the same period in the previous year (source: Statistik Zuwanderung [Migration Statistics] August 2017, State Secretariat for Migration). In addition, GDP growth and labour market development in Switzerland are burdened by the strength of the Swiss franc.



Switzerland, monthly net migration, 12-month moving average (number of persons)

Source: Macrobond

As a result, demand for housing in Switzerland is falling. The economic situation thus has a quantitative impact on the development of demand for real estate as regards living and office space. Moreover, from a structural perspective, demographic development is also influencing the qualitative side, i.e. demand for different types of residence. The change in the age pyramid between 2015 and 2050 (see page 14) clearly shows how demand for age-appropriate forms of housing is set to grow.

The nature of this demand depends, in addition to the general ageing of society, on a number of factors such as political pressure for financially viable solutions and the availability of technological support. Residential mobility among the older generation is also decreasing greatly. People have a strong desire for self-determination, which includes staying independent in your own home for as long as possible. As a result, pensioners are looking for age-appropriate accommodation sooner. They don't want to wait until their physical condition leaves them with no option but to move into an old people's home.

Supply will have to change in the future to meet this growing demand. The requirements of an apartment for elderly people are normally no more complex than for any other age group. The apartment basically has to be barrier free with good transport connections, access to shops and care facilities plus an established social network. As a result, the market is being increasingly shaped by many people staying in an area they know and are used to, so when older people move they tend to stay within a very small radius. As there is a higher proportion of older people living in cities now, we anticipate that future relocations will mainly be in these areas. Demand will also be driven by the fact that the Babyboomers are more likely to be single, separated or divorced than the preceding generations. These people are looking for small and well-priced apartments, as close to the centre as possible, which is also what the younger generations want. Demand from Generation Y and the Babyboomers for this type of housing, which is already in short supply, is thus set to increase.

Social and demographic development is thus opening up new avenues by changing the nature of demand, which calls for corresponding supply planning. This presents interesting opportunities to property investors as well as challenges in what is still a "young" market (see page 14). That is why housing for the elderly should not only be of interest to individuals and society, but also to investors.

Editorial deadline: 03.11.2017

Example of a furnished apartment in Rupperswil.

Innovative marketing in Rupperswil

The residential property "Schweizistrasse 23–27, Alter Schulweg 44–50" is located not far from the centre of Rupperswil and is surrounded by new buildings. The railway station is within walking distance and Aarau city centre is easily reachable thanks to nearby motorway access. Considerable construction activity has seen the Aarau region develop into a competitive market in recent years.

The property, comprising 102 residential units, was acquired in February 2016 by the Real Estate Switzerland investment group with a vacancy rate of just under 40%. In the course of the purchase, Swiss Life Asset Managers subjected the residential market and marketing to date to intensive analysis, which led to a broad range of measures to increase its appeal as a rental location. To make the property more attractive, 29 apartments had washing machines installed following acquisition and kitchen fronts in nine apartments were replaced with neutrally coloured elements.

Rental rates were reset and a marketing firm was hired to bring the properties to the attention of potential tenants. Apartments were also furnished and advertised with the tagline "Apartments for rent with or without furnishings, your choice".

These measures saw vacancy sink within a year from 40% to under 3% while market value rose by more than 5%.

The finished bedroom is a cosy retreat.

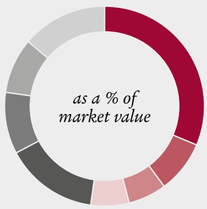
Swiss Life Investment Foundation: Real Estate Switzerland investment group

ISIN	CH0106150136
Launch date	01.12.2009
Portfolio Manager	Nils Linsi

Key figures as of 30.09.2017

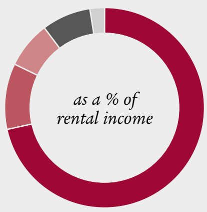
Market value of real estate	CHF 1974.8 m
Number of properties	177
Occupancy rate	96.5%
Borrowing ratio	3.4%
Net asset value (NAV)	CHF 1858.0 m
Performance 1 year	6.09%
Performance 3 years	6.44% p. a.
Performance since launch	5.83% p. a.

Geographical distribution



Zurich	31.3%
Bern	8.6%
Central Switzerland	6.2%
Western Switzerland	6.2%
Northwestern Switzerland	15.0%
Eastern Switzerland	9.9%
Southern Switzerland	9.0%
Lake Geneva	13.8%

Types of use



Residential	71.3%
Office	10.6%
Retail	7.6%
Parking	7.9%
Ancillary use	2.6%

One-of-a-kind view from the rooftop terrace of Limmatquai 48.

"Jewel" at Limmatquai in Zurich

The residential and office building is located in the Niederdorf area between Central and Bellevue. The "Haus zur Käshütte" was built in 1802 on the site of a construction destroyed in a fire, and has been under a preservation order by the city of Zurich since 1982. Together with its neighbours, the building forms the homogeneous riverfront on the eastern side of the Limmat, which in turn affords the property a visible presence in the old town.

The retail space on the first two storeys is let to H&M, and there is office space on the upper storeys in addition to the four apartments. The apartments have been completely renovated and retrofitted to meet today's standards. The "jewel" of the house, which has been remade as a top-drawer property, is the 4.5-room top-floor apartment facing the Limmat. The flat is accessible directly by lift and has a private rooftop terrace of 119 square metres. It boasts a one-of-a-kind view over the Limmat to the opposite bank and all the way to the Uetliberg. Its chief attraction apart from the rooftop terrace is the open kitchen with hyper glass ceramic stove and integrated vent, the wood-burning stove and the built-in wine fridge. Thanks to its unique features, the penthouse was let quickly.

Stylishly cosy atmosphere in the living room with wood-burning stove.

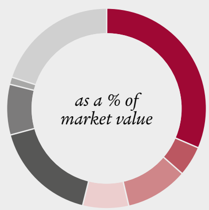
Swiss Life Investment Foundation: Commercial Real Estate Switzerland investment group

ISIN	CH0136837587
Launch date	31.10.2011
Portfolio Manager	Nils Linsi

Key figures as of 30.09.2017

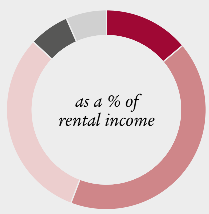
Market value of real estate	CHF 1108.7 m
Number of properties	85
Occupancy rate	97.0 %
Borrowing ratio	10.8 %
Net asset value (NAV)	CHF 969.0 m
Performance 1 year	5.56 %
Performance 3 years	5.35 % p.a.
Performance since launch	5.27 % p.a.

Geographical distribution



Zurich	31.5 %
Bern	4.9 %
Central Switzerland	10.1 %
Western Switzerland	7.4 %
Northwestern Switzerland	16.8 %
Eastern Switzerland	8.2 %
Southern Switzerland	1.2 %
Lake Geneva	19.9 %

Types of use



Residential	12.9 %
Office	42.6 %
Retail	31.2 %
Parking	6.6 %
Ancillary use	6.7 %

Modern catering concept in highly frequented location. *(Photo: Lucas Peters)*

Untertor 33 in Winterthur: Conversion and new positioning in best old town location

The commercial property "Untertor 33" is located in a lane off Bahnhofplatz, in the rapidly growing city's busiest pedestrian zone. Since 2008 Winterthur has numbered over 100 000 inhabitants, making it Switzerland's sixth-largest city.

Swiss Life subjected the building, constructed in 1959, to a complete makeover in 2016/2017. The renovation included comprehensive improvements to accessibility, energy efficiency and quality of rental space. Additional height was added in the lower level. The timeless design of the front façade, significantly rebuilt, has been preserved.

The retail space on the ground and first floor is let to the "Migros Genossenschaft Ostschweiz", which runs a modern catering venue there under the "Chickeria" label. The new let is a good example of the growing demand for food and catering firms in classic high streets, a positive trend compared with the development of other retail segments. The office and consulting-room spaces on the upper floors have been let long term to a medical centre, which benefits from the property's good visibility.

Conversion and new positioning of the property "Untertor 33" make a signal contribution to the earnings stability and cost optimisation of the fund properties and increase the portfolio's sustainability value.

Attractive, diverse surroundings in the pedestrian area by the railway station. *(Photo: Lucas Peters)*

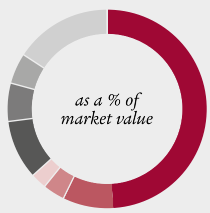
Swiss Life REF (LUX) Commercial Properties Switzerland

ISIN	LU820924123
Launch date	31.10.2012
Portfolio manager	Marcel Schmitt

Key figures as of 30.09.2017

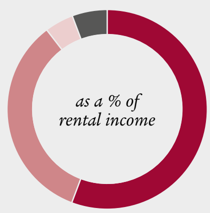
Market value of real estate	CHF 836.8 m
Number of properties	30
Occupancy rate	96.0%
Borrowing ratio	13.5%
Net asset value (NAV)	CHF 733.5 m
Performance 1 year	4.92%
Performance 3 years	6.09% p. a.
Performance since launch	5.31% p. a.

Geographical distribution



Zurich	49.0%
Bern	8.2%
Central Switzerland	3.6%
Western Switzerland	2.6%
Northwestern Switzerland	9.6%
Eastern Switzerland	6.2%
Southern Switzerland	5.0%
Lake Geneva	15.8%

Types of use



Office	55.8%
Retail	33.8%
Parking	4.7%
Ancillary use	5.7%

Corner location with excellent visibility. *(Photo: JLL)*

Rue Saint-Honoré 7/9: Residential and commercial property in the old town of Neuchâtel

The property “Rue Saint-Honoré 7/9” is located in the old town of Neuchâtel at the edge of the “Rue de Seyon”, the main shopping street. Its corner location affords very good visibility to the retail spaces on its ground floor and first storey. Surrounding retail outlets such as Coop, Interdiscount, Swisscom and Yves Rocher ensure very good foot traffic, as does the nearby bus stop. The retail spaces are let long term to the “Metro Boutiques” fashion chain.

The adjacent buildings, from 1963 and 1989, were subjected to comprehensive renovation in 2013. In addition to offices, the upper storeys house 17 apartments, with their one to three rooms optimally suited to the central location: all retail, food and entertainment offerings are within a few minutes by foot. The lakefront, too, is just a stone’s throw away.

The Swiss Life REF (CH) Swiss Properties real estate fund acquired the residential and commercial property in July 2016. The purchase of the renovated and fully let property has had a positive effect on the fund portfolio’s occupancy rate, yield stability and repair costs.

Central location, just a stone's throw from the lake promenade. *(Photo: JLL)*

Swiss Life Real Estate Fund (CH) Swiss Properties

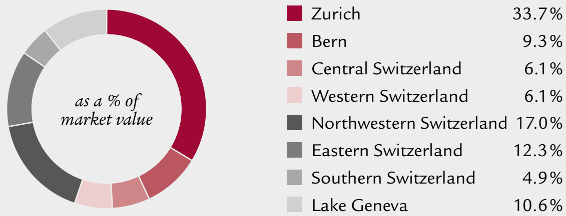
ISIN	CH0293784861
Launch date	02.11.2015
Portfolio manager	Marcel Schmitt

Key figures as of 30.09.2017

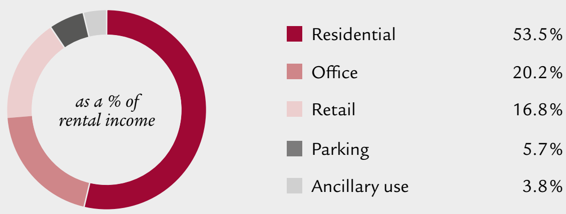
Market value of real estate	CHF 639.2 m
Number of properties	46
Occupancy rate	97.3 %
Borrowing ratio	9.8 %
Net asset value (NAV)	CHF 574.3 m
Performance 1 year*	0.17 %
Performance 3 years	–
Performance since launch*	12.92 % p. a.

* Performance based on the development of the off-exchange price in %.

Geographical distribution



Types of use



Foreign real estate: asset class with great potential

Foreign real estate still plays only a supporting role in the portfolios of Swiss pension funds. Portfolio diversification and expansion of the investment universe are the main motives for investors here to seek exposure to international properties. A closer look at economic data suggests that now is an auspicious moment to get into European real estate investments.

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

Real estate investments, at some 20 %, are the leading asset class for Swiss pension funds after bonds and equities. While such funds favour international diversification of their exposure to equities and bonds, they continue to focus mainly on the home market when it comes to real estate. The reasons for this home bias are the good performance of Swiss real estate investments, the allegedly greater volatility of foreign investments and a lack of experience with the latter. With a share of just 1.3 % of their entire allocation, foreign real estate is the poor relation of Swiss pension fund portfolios. A share of up to 10 % would be permissible under BVV 2 investment guidelines.[1] Almost 80 % of foreign investments are made via indirect products such as funds or REITs.[2] Direct investment in foreign real estate plays a very minor role, and tends not to be a viable alternative, thanks to the requisite minimum portfolio size.

Swiss investors are not motivated primarily by higher returns when it comes to foreign real estate. In the Core area and in Europe's cities, returns comparable to those in Switzerland are possible following deduction of hedging costs. The main motivation is the hope of positive diversification effects and the expansion of the investment universe. Foreign real estate shows a lower correlation with other asset classes as well as, depending on national focus, with Swiss properties. Exposure to international real estate reduces the overall risk of a mixed portfolio. What's more, Swiss investors can use international real estate investments to significantly expand their investment volume. Thus for example commercial investment properties were sold in Europe in 2016 for a total value of around CHF 260 billion, which is roughly equivalent to the size of the Swiss market for institutional investment properties.[3]

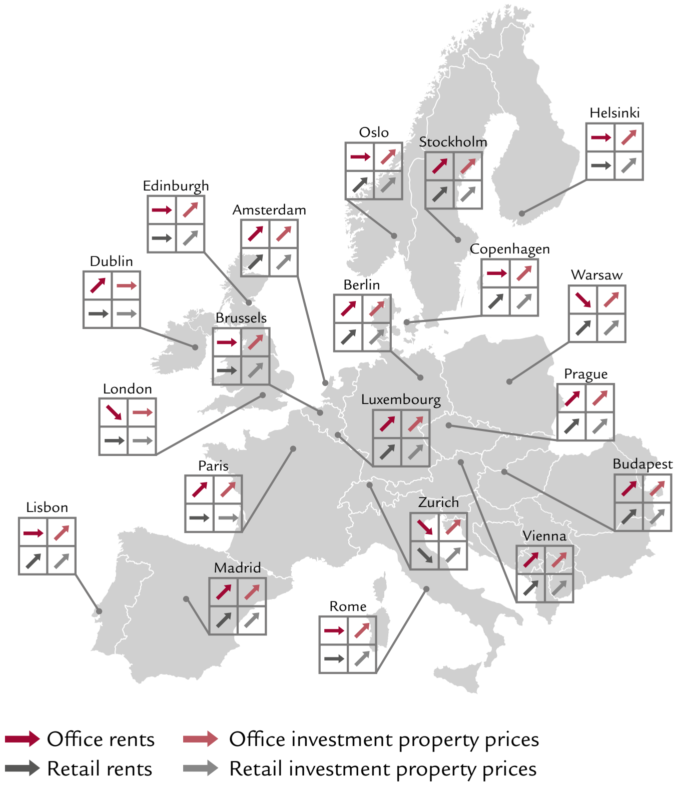
Fundamental data revitalise investments in European real estate

Those considering an investment beyond their own borders are emboldened by the economic trend in Europe, where countries are currently profiting from the first globally synchronised economic upturn since 2009. The forecast growth is having a positive effect on demand for real estate and on the development of rents. In addition, it looks likely that interest rates will remain low for some time due to financial repression in Europe, and that the appeal of real estate will thus persist.

The economic dynamism is already apparent in the European real estate markets this year. Investors had shown lively interest in European real estate during the first half year, which in turn increased transaction volume by both annual and quarterly comparison. Their attention has also been attracted by the trend in rents, which has been positive on average. Investments in European real estate offer a good investment opportunity to those in search of regular income. At the same time, investors' sights are increasingly trained on up-and-coming markets such as Spain, Italy and the Netherlands in addition to the primary markets.

European cities are generally valued by investors for their highly transparent real estate markets, their economic stability and their steady population growth, all combined with technological strength, infrastructure and a high quality of life. These attractive features ensure long-term demand for investments in European real estate and offer Swiss investors the opportunity to lend their portfolios international diversification.

Expected trends (6 months)



Source: own calculations based on PMA and Wüest Partner

Swiss Life Asset Managers offers qualified investors from Switzerland two foreign real estate funds:

Swiss Life REF (CH) European Properties

The pan-European real estate fund launched on 30 November 2017 invests in office, retail and residential real estate as well as mixed-use properties. It will focus on Core and Core Plus locations in large European cities and in European regional centres and their suburbs.

Swiss Life REF (LUX) German Core Real Estate SCS, SICAV – SIF

The German Core real estate fund invests in residential, office and retail properties in good to very good locations in German top-seven cities as well as in flourishing B-cities.

Learn more at www.swisslife-am.com.

[1] BVV2 Art. 55 limits real estate investments to 30% of investment volume, of which a third at most may be outside of Switzerland
[2] Real Estate Investment Trusts (REITs) are corporations abroad investing mainly in real estate. For such entities there are special structural and fiscal conditions.
[3] The Swiss market for institutional investment properties comprises the real estate assets of pension funds, insurance companies, real estate funds, real estate companies and investment foundations.

In focus

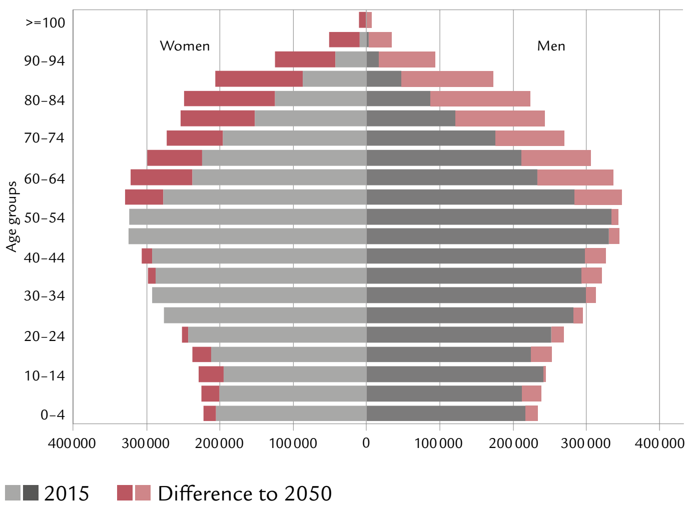
Continuing demand for retirement and healthcare properties

In view of the demographic development and the attendant ageing of society, demand for age-appropriate housing is growing. Life expectancy continues to rise in Switzerland, too: there are already some 400 000 people over the age of 80, and this figure may reach around 1.2 million by 2050. Their share of the overall population will rise from 6 % to 11 %, which will pose great challenges for retirement provisions and care for the elderly; at the same time, it also means investment opportunities for those seeking exposure to real estate.

Gerhard Demmelmair, Head Real Estate Portfolio Management

Alfonso Tedeschi, Real Estate Product & Service Manager

Demographic trend in Switzerland



Source: FSO and Swiss Life Asset Managers

In search of a longer self-determined life

The demographic trend to an ageing society and the imminent arrival of the Babyboomer generation at retirement age will increase demand for age-appropriate housing for years to come. The political world is the source of a further key factor driving demand: while spending on healthcare amounted to CHF 38 billion in 1995, it rose to CHF 79 billion in 2015, average annual growth of 3.7 % in nominal terms. Affordable, age-appropriate housing is very popular with politicians as well, since the public coffers are relieved considerably every time a retiree delays or indeed cancels entry into a home for the elderly.

Society's quest for self-determination is also driving the demand for age-appropriate housing, as are the broader range of offerings of specific care services and the availability of digital assistance systems. Unobstructed, age-appropriate housing enables prolonged independence and is often preferred by older people and their relatives to the more care-intensive types of residence. In addition, age-appropriate housing, enhanced with specific individual services, is comparably affordable.

Opening on the healthcare property market

Alongside the need for apartments for the elderly, untapped potential is also evident in the financing of forms of assisted living, such as old age and care homes. The public sector, driven by its own exigencies, is ever less willing to provide financing, a development made acute by the entry into force of the new care-financing arrangement in 2011. Mainly because the cantons have moved from financing properties to providing funds to individuals – i.e. away from subsidies for the construction of care facilities and towards direct support for their inhabitants – private providers are enjoying a freer entrepreneurial hand. This has also brought about a sea change in dealing with old age and care homes: while operators of care facilities often treated their real estate assets in the past with a certain neglect, healthcare centres are now increasingly focusing on their core duties and thus selling existing buildings or planned construction projects to professional property investors. Properties necessary to operations are then leased back with a sale-and-rent-back contract. Thanks to long-term leases, the care or old age facility is ensured appropriate infrastructure maintained by the investor. Such a procedure can prove a win-win situation for both parties, provided the lease is fairly drawn up.

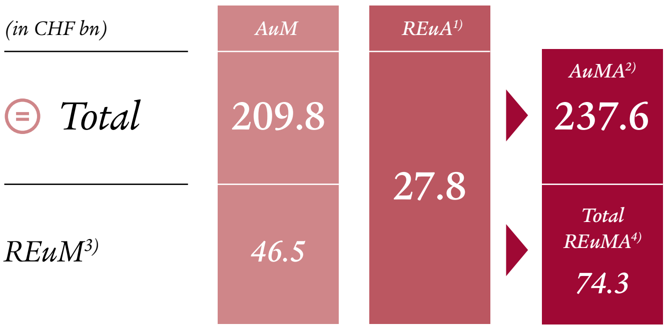
Investment segment with challenges

Despite intact growth forecasts and the market opening under way, age-appropriate housing, along with old age and care homes, remains a tall order for investors, who must be prepared to learn about the market's specific features and operators' requirements. In addition to well-founded real estate expertise, they will also need pronounced know-how concerning the functioning of Switzerland's healthcare sector and its market players – especially in view of the sector's dense regulatory regime. Then there are the restricted opportunities for third-party use of assisted living facilities, and operator risks. Along with all of this expertise, success in this investment segment calls ultimately for long-range vision and stamina. The "infusion of third-party funds" from the institutional side can thus make a signal contribution to ensuring seniors' residential and living situation, as well as to providing investors with sustainable returns.

Swiss Life Asset Managers

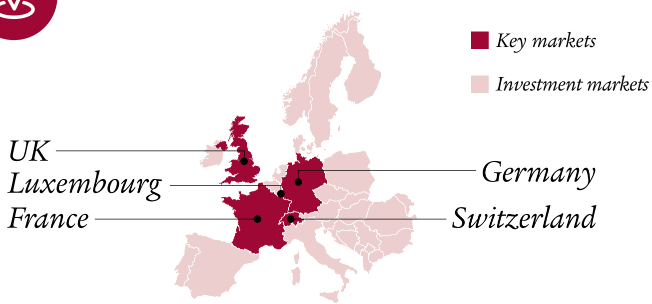
Real estate – facts and figures

Assets under Management and Administration



[1)] Real Estate under Administration (not included in Swiss Life AuM definition)
[2)] Assets under Management and Administration
[3)] Real Estate under Management
[4)] Real Estate under Management and Administration

Our investment universe



Transaction volume real estate *(in CHF bn)*

8.0

(as of 31.12.2016)

Employees

>1200

Contact

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All figures as of 30 June 2017, unless stated otherwise

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