Insights

Real Estate

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SwissLife
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Macroeconomic environment

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Macroeconomic environment

Editorial

Dear readers,

Donald Trump's election as President of the US has caused considerable uncertainty across the globe. We cover this story from page 2 of the latest edition of "Real Estate Insights" plus other business issues, including the latest from the European real estate market.

We also have a feature on the growth of the corporate real estate market in Germany and provide some explanations as to why demand for student accommodation is growing in Switzerland. Meanwhile in France, we assess the market potential of senior residences from a demographic, sociological and business perspective.

Our coverage then moves to the London-based company Mayfair Capital, which was acquired by Swiss Life Asset Managers in November 2016. Economic developments in the UK following Brexit and our thematically-structured real estate strategy in the country, round off our coverage in this edition.

I hope these topics will provide you with some interesting insights.

Stefan Mächler
Group Chief Investment Officer

These days politics are overshadowing economics and political challenges have the potential to affect real estate markets in Europe. However, very low interest rates will ensure real estate investment remains attractive in 2017.

Francesca Boucard, Economist Real Estate, Swiss Life Asset Managers
Sylvia Walter, Senior Economist, Swiss Life Asset Managers
Andri Eglitis, Head of Research, Corpus Sireo

Politics trump economics. While the global economy has entered a synchronised recovery phase in the second half of last year, politics have the potential to spoil the party. With populism gaining ground, the positive economic momentum is clouded by an unusual degree of uncertainty surrounding future business, investment and the outlook for living conditions across the developed and emerging world. Populism and protectionism are long-term issues, potentially leaving their traces on the global economy.

While Donald Trump keeps the world on tenterhooks, issuing executive orders almost on a daily basis, the French elections are the elephant in the room. The widening gap between the yield on a 10-year French government bond and its German counterpart (s. chart) demonstrates investors' concerns about the core country's potential exit from the Euro Area, should Marine le Pen attain office and call for a referendum.

Spread 10-year government bond yield France vs. Germany

Source: Bloomberg

This is not our base case but it would, however, render the survival of the Monetary Union highly unlikely. Apart from the political risks, growth momentum in the currency union has

reached a level which is actually twice as much as calculations of potential growth suggest.

The domestic economy in the Euro Area has been the primary driver of overall economic growth over recent quarters and is likely to remain so as the labour market improves throughout the currency union. The ghost of deflation has finally disappeared from debates and immediately morphed into inflation fears in certain circles. Bond yields have followed suit albeit at varying degrees throughout European markets.

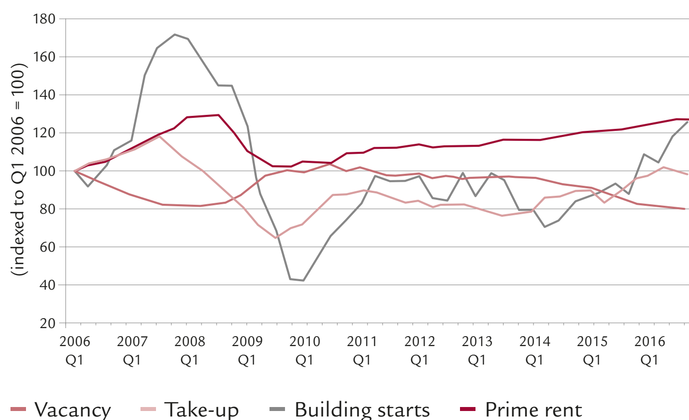
Yet, risks also harbour opportunities. The strength of the UK economy following the EU referendum has surprised market watchers. We expect momentum in the UK economy to slow once negotiations about the exit start in earnest and negative consequences become more visible. At this stage however, we do not anticipate a recession. In turn, investors are seeking good quality assets and are focused on the resilience of their income streams. In a world of low bond yields, loose monetary policy and overstretched equity markets, real estate appears to be an attractive investment option, and not only in the UK.

The Brexit referendum and associated market uncertainty affected the real estate investment market in Europe. However, as the UK economy performed better than expected, sentiment has also improved and investment volumes have increased. Investor demand remained strong, from both overseas and domestic buyers. Yet, Brexit related uncertainty is expected to affect occupier and investor demand in 2017. Our colleagues at Mayfair Capital discuss their investment strategy and how they seek to identify mispricing opportunities in the UK real estate market in their own contribution to this publication.

After a subdued first three quarters of 2016, commercial real estate transactions in Europe picked up with a surprisingly high number in Q4, reflecting a 5% increase in comparison with the same period in 2015. Germany was Europe's largest investment market. Total investment activity was down year-on-year in Europe, but mostly driven by lower investment in the UK. Excluding the UK, investment volumes over 2016 in Europe were higher than 2015.

Investment markets hardly hampered by Brexit

Supply and demand parameters on main European office markets



Source: PMA

Looking at the occupational market fundamentals, during 2016 the office sector was characterised by a shortage of supply in the most desirable core locations, particularly within the big German cities and Paris. These space constraints are expected to intensify. Even in markets, which had previously been oversupplied, such as Amsterdam, Milan and Frankfurt, they recorded falls in availability of prime property. Overall, the historically limited development pipeline combined with solid leasing activity has pushed vacancy rates down and rents up. Only London recorded declines in rents over 2016.

The restructuring of the retail industry in response to multichannel retailing is having a negative impact on retailer demand for traditional retail space. In addition, a squeeze in real income due to higher inflation is expected to reduce retail sales in 2017 resulting in softer levels of rental growth or even downward pressure over the short term. Yet, polarisation within the retail sector will remain. Prime high street locations and dominant shopping centres with leisure amenities are expected to perform strongly but conditions for inner-city locations and poorer quality secondary shopping centres are likely to be more challenging.

As geopolitical challenges persist in 2017, this will influence real estate markets and mean that assessing the risks in the different real estate sectors will continue to be challenging. However, as interest rates will remain historically low, despite a likely gradual turn around in the long-term interest rates, the attractiveness of real estate will be sustained. Further yield compression is possible in 2017 as investors become increasingly willing to accept lower yields rather than take on more risk.

Editorial deadline: 17.02.2017

Corporate real estate in Germany – growth of a new market segment

The German Mittelstand is the backbone of the German economy through the amount of wealth and jobs it creates yet property investors have rarely focused on the medium-sized corporate market, particularly in the manufacturing sector. However, this market segment is beginning to open up and offer more opportunities to investors.

Andri Eglitis, Head of Research, Corpus Sireo

In Germany, manufacturing accounts for about 25% of economic performance, which is a lot higher than in most developed economies. Apart from the prominent, well-known corporations, this performance is mainly delivered by a large number of medium-sized (Mittelstand) companies. There are several reasons why the Mittelstand is attractive to institutional real estate investors. First, it's a well-established market segment, including on the global market. Second, the corporate strategies are long-term and based on a sound financial footing and thirdly, Mittelstand companies identify strongly with their region and therefore tend to stay in the same location.

However, at the same time the company premises tend to be privately owned. The ownership ratio is about 70%, which is extremely high by international standards; in the Anglo-Saxon world, for example, it is only about 30%, which results in limited market size and liquidity. However, there is growth potential for corporate real estate over the medium- to long-term. Demand for property is not just fuelled by quicker product innovation cycles: there is also a new generation coming through with a different perspective on tying up capital, the need to own company property, and flexibility, all of which point to far-reaching changes in the Mittelstand property market.

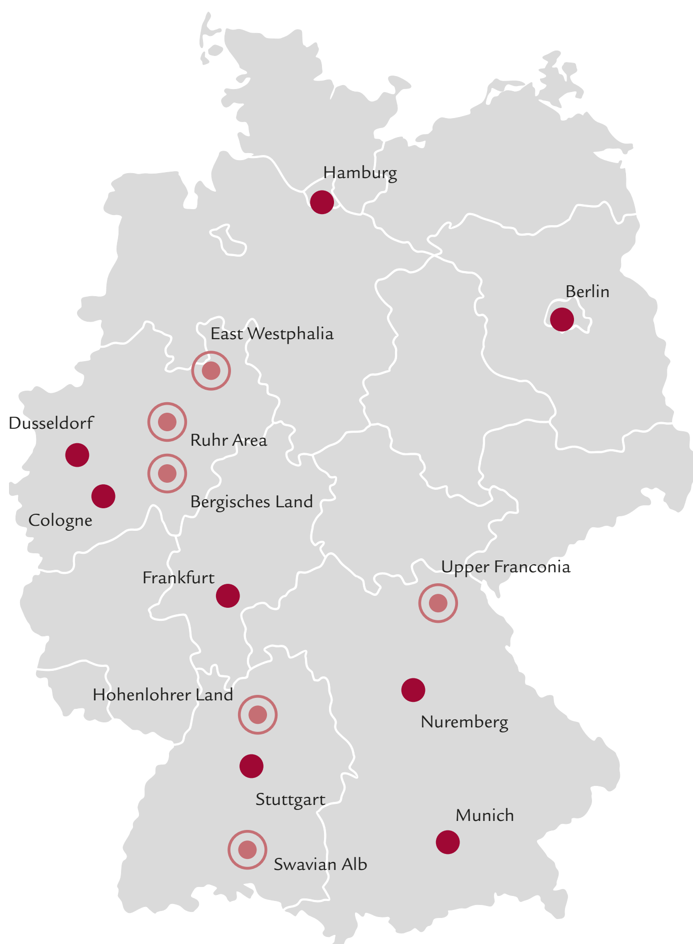
The term "corporate real estate" covers industrial parks as well as production, storage and logistics properties, which comprise the operating facilities of medium-sized companies. Mittelstand properties are mainly of medium size, so extensive production facilities or modern, large-scale logistics centres for one customer are not common. Restored historical buildings are much closer to the mark: they can be renovated as an industrial or technology park, among other things.

The market value of corporate real estate in Germany is estimated at c. EUR 550 billion, of which EUR 300 billion is suitable for investment due to building structure and location.

To meet institutional investors' risk mitigation demands, the properties should be suitable for different use types, fit for occupation by more than one tenant and have flexible building structures. The breakdown of the surface area into production, research and development, service, storage areas and office space is determined by the users' requirements. The availability of excess space forms part of the flexibility requirement. Industrial parks naturally come closest to this model, but there are also many properties used for production and storing/logistics with adequate scope for diversification. This need for flexibility is also an offshoot of short leases used by tenants to pre-empt problems, such as fluctuations in order volumes.

Renovated industrial park "Conz Höfe" in Hamburg owned by Swiss Life

Regional focus points of the Mittelstand in Germany



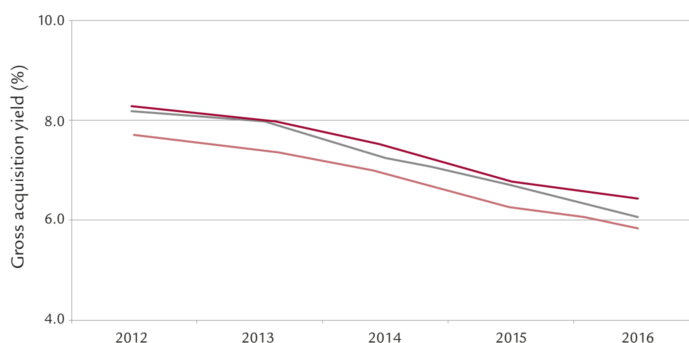
Source: CORPUS SIREO Research

Even if one of Germany's strengths lies in the broad regional distribution of its industry, investments in corporate real estate must still focus on those regions where there are many companies from different sectors. Besides the major cities and their surrounding areas, regions with a strong economic base are among the preferred locations, for example East Westphalia, the Bergisch region or Hohenloher Land (which has the highest concentration of German "hidden champions").

Flexibility of space and adapting to tenants' requirements are key elements of corporate real estate.

The opening up of the market by the owners plus growing interest from investors have boosted investment in corporate real estate over the past few years. Transparency is still limited regarding use type, but annual transaction volumes this decade comfortably exceed the billion threshold. Since 2014, surveys made as part of the corporate real estate initiative (Initiative Unternehmensimmobilien) indicate that at least EUR 1.5 billion of property transactions have taken place – and the trend is growing. One important driver is the good gross acquisition yields relative to other types of use (6 %–8 %), although corporate real estate hasn't managed to avoid the general decline in income seen in recent years.

Development of gross initial yields of corporate real estate



Source: CORPUS SIREO Research

Domestic dedicated investment funds and asset managers account for most of the demand. Project developers marketing new or renovated properties and companies disposing of their own premises are the main sources of supply. This development is positive in terms of establishing the market and not only because the institutional market is benefiting from additional investment products. Adding space for project development allows companies to rent the space they need.

The growing professionalism in corporate real estate management and mounting investor demand indicate the emergence of growing transparency and liquidity in the commercial real estate segment. Investors who enter the market early will benefit especially from the enticing prospect of doing business with the affluent German Mittelstand.

Student accommodation in Switzerland

Student residences are becoming more popular with students and investors. Swiss Life Asset Managers is currently on its third project and it sees further potential.

Marcel Schmitt, Real Estate Portfolio Manager, Swiss Life Asset Managers
Francesca Boucard, Economist Real Estate, Swiss Life Asset Managers

Switzerland as a university and research location

Switzerland is an attractive location for students due to its good international reputation and high quality of life. Swiss universities are ranked among the top 15 % on average of the over 900 universities assessed worldwide (QS World University Ranking, 2016). ETH Zurich and EPFL Lausanne are near the top of the world rankings at 8 and 14, respectively.

In 2015, there were just under 238 000 students registered in Switzerland – and the number has been trending upwards for years. Student numbers are also set to grow. In the region of 250 000 people will be registered at Swiss universities by 2024 and they will all need a roof over their heads.

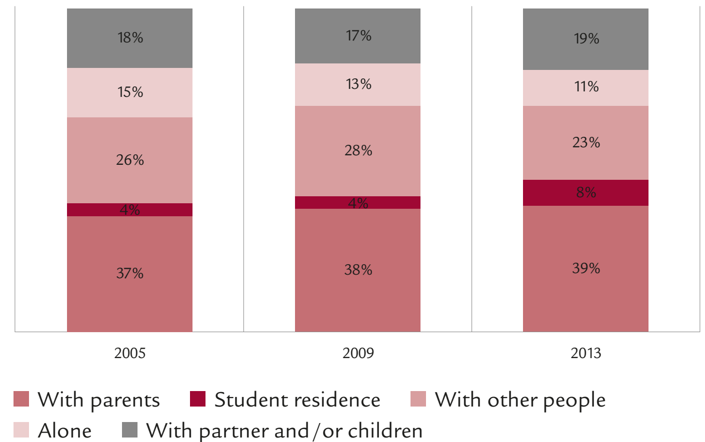
Living arrangements

39 % of students in Switzerland live with their parents, the remaining 61 % live elsewhere. The most popular accommodation types outside the parental home are flat sharing at 23 % (according to the Swiss Federal Statistical Office) and sharing a flat with a partner and/or children (19 %). 11 % of students live alone and until now just 8 % have lived in student residences.

The search for accommodation is often challenging for students as they are on a restricted income and the availability of living space is both scarce and expensive in a lot of university locations, especially in Zurich and Geneva. This is where student residences can offer a welcome solution. Younger and foreign students are especially keen on them.

The number of students in Switzerland living in student residences doubled between 2009 and 2013. Nevertheless, the percentage remains low by European standards at 8 %, compared to 11 % in Germany and 13 % in France. In a third of European countries surveyed by eurostudent, the number even exceeds 25 %.

Types of student housing over time



Source: BFS SSEE 2005, 2009, 2013, 2015

Student residences have potential

Even if the differences compared to abroad are partially due to geographical and country-specific features, Swiss Life Asset Managers believes that the low percentage of students living in student residences in Switzerland is due more to a lack of supply than demand. This is supported by the high occupancy of student halls, the low vacancy rates of apartments and above-average rental prices at university locations, these all limit the options available to students. On the demand side, the future growth in the number of foreign students is likely to further boost demand for student residences.

Student residences are becoming more popular with institutional investors as well as with students. In a market of decreasing returns, student residences offer an attractive risk/return profile and relatively attractive earnings stability.

Student accommodation case study: ETH Zurich student village

The student residence "Hönggerberg Wohnen Ost" (www.studentvillage.ch) is a good example of how market-oriented projects can benefit from demand from tenants and investor interest. The student village was fully occupied as soon as it opened in 2016 and generates rental income of just under CHF 350 per square metre of usable area per year.

The village comprises three curved buildings around a central courtyard built according to the Swiss sustainability standard “Minergie P Eco”. There are almost 500 rooms divided into 12 individual studios and 63 large flats of six to ten rooms. The apartments have shared washrooms and a large kitchen with a living/dining area. The rooms and shared areas have basic furniture and internet.

Most of the tenants are international students, although the share of Swiss students is still unusually high at 40 %. It is interesting to note than 15 % of the residents had already been in the nearby city of Zurich, which shows that they made a conscious decision to move into student residence s on a campus. Most of the foreign students are Chinese (18 %) followed by Germans at 11 %. After that come students from Austria, Italy and Turkey.

Property management under one roof

The residence is managed by Livit, a 100 % subsidiary of Swiss Life. It has a front office in the student village where it performs about 80 % of its management duties. That includes handing over keys, tenant inquiries, management of shared areas and guest rooms and operating a small kiosk.

The management of the “student village” differs from other residential property in a number of ways. As the rooms are let individually and there is above average tenant fluctuation, there are always many new rental contracts to sign and keys to hand over every semester. Efficient processes and smooth organisation are therefore indispensable. As it is an international student community, the Livit staff need good language skills and the ability to communicate pleasantly when dealing with different cultures. The ancillary costs are invoiced as a lump sum, which is a pragmatic solution.

Swiss Life Asset Managers has been managing the “Studentenwohnen” site in Winterthur since 2010, as well as the student village in Zurich. There is also another project under way on the EPFL and University of Lausanne campus.

“student village”, ETH Zurich, Hönggerberg, opened 2016. Owner: Swiss Life

The assisted living market in France

Retirement homes enjoying a second spring: we are witnessing a veritable run by investors on this asset class offering both economic and social benefits.

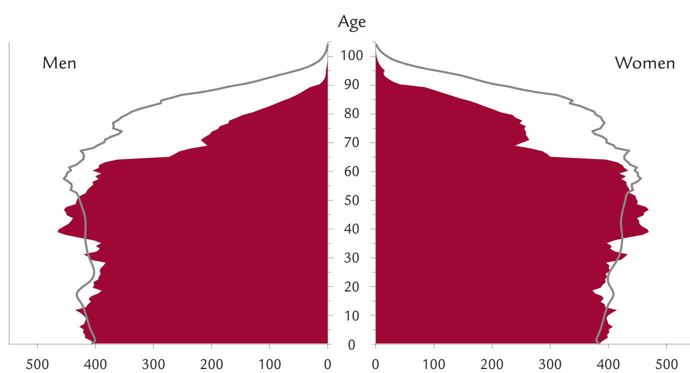
Valérie Maréchal, Senior Fund Manager, Swiss Life REIM (France)

The retirement homes that used to cater to senior citizens 65/70 and older (both able-bodied and in need of care) over 25 years ago have all but disappeared. France has seen the emergence of establishments for dependent elderly people (EHPAD), which have evolved over the years into institutions for people with increased dependency or who are coming to the end of their life. This has created an opening for facilities that cater to independent senior citizens (assisted living facilities), whose first generation didn't have much success as the properties were organized under a co-ownership regime. Today there is a new assisted living model being created, as officially recognized in the legislation of 29 December 2015 relative to society's adaptation to an ageing population. Built for people who are still independent but have nonetheless grown more fragile through age, these facilities offer rental accommodations that enable full independence alongside a range of services designed to maintain social contact, a guarantee for growing old well. Understanding the French assisted living market involves identifying all the parties involved in this new value chain.

France has a potential clientele of assisted living residents/users

Demographically: With a certain time lag vis-à-vis its German neighbour, France's 75+ population will almost double by 2050 with a majority being independent, only 15 % of the senior population will require care.

INSEE central scenario 2013–2070: ageing from the top (metropolitan France)



Source: INSEE, projections de population 2013–2070

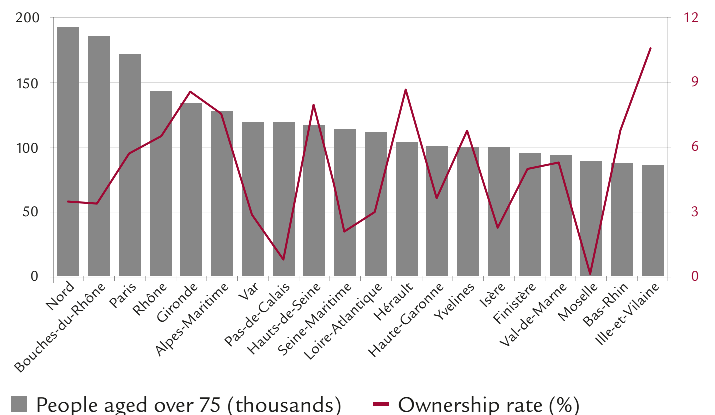
Sociologically: The isolation of ageing or frail people entails a need for physical security and proximity to health services. Moreover, the importance of social contact in growing old gracefully (intergenerational co-ownership, living units for degenerative mental conditions, university centre/operator cooperation in managing increased longevity through home automation…) has come to the forefront and emphasised the need to foster a caring, secure and accessible environment.

Economically: 50 % of French people and 65 % of the over 75s own their own home and therefore have a potential of financial resources from the sale or rental (to preserve their estate) of their property. Furthermore, the 65+ generation is relatively affluent (double income), has lived through the development of leisure and tourism culture, and has thus become used to the provision of services.

A primary market undergoing active development

There are many products with over 510 assisted living facilities as of 2015 and 950 in 2020 given current pipelines. The graph below, however, shows the unequal distribution of those facilities amongst the 20 French regions with the highest number of people likely to be interested in this type of facility – the market potential of each region is therefore identified.

Number of assisted living facilities for 1000 people aged 75 and over



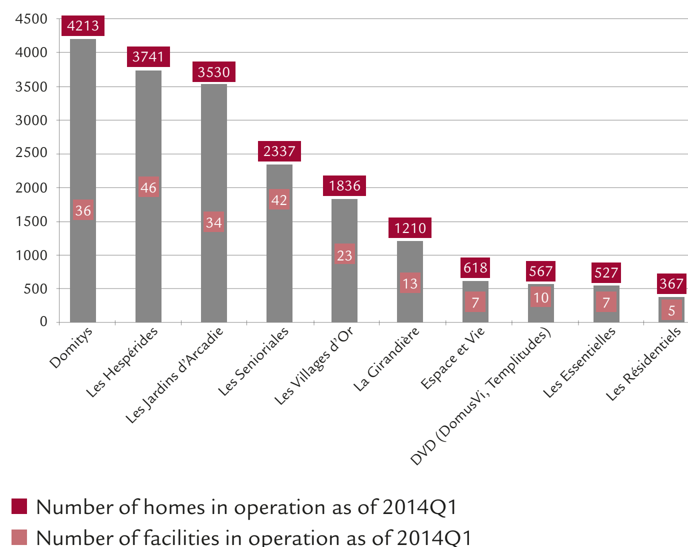
Source: INSEE, Senior Media, MKG Hospitality – 11/2014

Nevertheless, this market has barriers to entry in terms of the know-how of the operator who, for both its staff and services, is under the supervisory authority of both the Ministry of Labour with respect to the personal services and the Departmental Council for local authorisations for medical-social services (concierge-coordinator, manager with some paramedic training). On the other hand, construction of these facilities is not subject to any health-based regulation, such that the number of occupants is not restricted, nor are rates or rate increases. Furthermore, industry trade associations are working on a classification system of assisted living facilities to identify and standardise the quality of the advertised services.

This influx of products matches the growing investor interest in this asset class: In 2016, EUR 280 million were invested in assisted living, which is a 110 % increase year on year for France. Whether direct or via investment managers, 80 % of investors are domestic and drawn by prime yields of 4.5 % in Paris and 5.0 % in the regions, as well as triple net (except major repairs) leases that can be more than 12 years long.

The operators are looking for long-term partnerships with investors to find exits via block sales instead of unit sales under tax-optimisation programmes (LMNP, Loueur en meublé non professionnel). We have been witnessing an inversion of the 20/80 ratio between these two sales models for some years. There are two types of operators : those from the nursing home world, such as DomusVi, Korian, Emera, GDP Vendôme, Steva, Vie Jeune; the others from property development, including the leader and pioneer of the assisted living concept Domitys but also Les Jardins d'Arcadie, Cogedim Club, Les Villages d'Or, Les Senioriales and Ovelia.

The top ten assisted living operators in France as of 2014Q1



Number of homes in operation as of 2014Q1
Number of facilities in operation as of 2014Q1

Source: Etude Senior Media – MKG, 2014

Swiss Life Asset Managers in this market

The launching of an assisted living fund by Swiss Life REIM (France) in 2017 should benefit from a number of factors: our expertise in catering to the senior segment with the launch of our Club Immo Santé fund in 2012; our track record in student housing (another form of supervised residential facility); Swiss Life insurance's investment not only in healthcare and eldery care but also its reputation of quality and long-term investment. Finally, initial operations in the local French market will provide credibility for international development at a later stage.

The assisted living market offers accommodation with full independence and a range of services designed to maintain social contact, the optimal environment for growing old.

Mayfair Capital and their post-"Brexit" strategy

Interview with James Thornton and Robert Palmer

Mayfair Capital Investment Management – a member of Swiss Life Asset Managers

James Lloyd, Director of Business Development and Marketing, Mayfair Capital

James Thornton, CEO, Mayfair Capital

Stefan Mächler, Group CIO, Swiss Life

Robert Palmer, CIO, Mayfair Capital

James, you were one of the founders of Mayfair Capital in 2002. What was the impetus for creating the company?

James Thornton: "In 2002 we'd seen the collapse in equity prices after the dot.com boom. There was a gap in the market for funds which served the needs of private client investors who had the same risk and diversification criteria as institutions. Investors started to realise they needed to invest in other assets and property came into focus.

As there were very few appropriate investment vehicles at that time, Mayfair Capital was launched in response to that need.

Indeed, there are some parallels between 2002 and today. Investors need income and want to diversify from equities and bonds. In that context, property makes a compelling case."

Robert, why did you feel that becoming part of Swiss Life Asset Managers was the next step forward for the company?

Robert Palmer: "About a year ago, we looked at how we could take the business forward more quickly and arrived at the conclusion that we needed to make more of a 'quantum leap' than organic growth could deliver.

We wanted to attract a strategic partner who could come in, accelerate our growth, make a difference to us and make co-investment capital available. In that context, Swiss Life Asset Managers with its scale and market reach and long term commitment to property are a perfect fit. We are now part of a Pan-European business with significant capital available to us."

What does Mayfair Capital bring to the Swiss Life business?

James Thornton: "Having a presence in the UK market is essential for a pan-European real estate strategy, so Mayfair Capital provides that immediately. We have an experienced and established team that has the market knowledge, due diligence and asset management expertise to generate performance."

Robert, in that context, what types of new products will you be looking to bring to the market?

Robert Palmer: "It's a blank and exciting canvas. In addition to assisting our new colleagues throughout SLAM, we're looking at the potential for new funds, partnerships, joint ventures and single property deals.

We have a track record of working successfully with partners. We have created funds for Schroders and Jupiter while our Property Income Trust for Charities works with more than 850 investors."

James Thornton: "In terms of strategy, we take a 'thematic' approach which looks at how various factors such as technology or population growth influence the demand for and value of property (see page 14 for more details).

Underpinning all of this is active asset management which is key to delivering performance."

To what extent has the UK market normalised since the shock of the EU referendum vote? Is it ready for new investment funds?

Robert Palmer: "The shockwaves in the UK property market have so far been short lived: some daily traded funds undertook 'fire sales' but generally the adjustment to the new market conditions has been orderly.

The December 2016 year end solution showed that the falls in valuation that many commentators predicted didn't happen. The Q4 valuations of our portfolios showed capital value growth of between 0,5 % and 1,0 %. This represents a good recovery for Q3 and is positive in the circumstances."

Delivering a "Brexit" for the UK will be a long process. What do you both feel the prospects for the UK real estate market are in the interim?

James Thornton: "Like all property markets, the UK's is driven by the economy. This year will see Article 50 served at some point to trigger the exit from the EU while geo-political factors from further afield will continue to impact all the world's real estate markets."

Robert Palmer: "The UK economy is proving resilient and there are encouraging indicators. London will always attract international capital while the regions are now providing opportunities. It will be a year where performance will be defined by holding the correct assets, expert asset management and an understanding of what is driving the fundamentals of the UK property market."

Building a UK Real Estate Investment Strategy for a post-"Brexit" world

The UK economy performed better than expected in the second half of 2016 but the process of exiting the EU will be long and protracted and as a result, the outlook remains characterised by uncertainty. While this creates a challenging environment for real estate investment, there will be opportunities and Mayfair Capital has been developing an investment strategy shaped by a "thematic approach" in order to capitalise on opportunities as they arise.

Frances Spence, Head of Research, Strategy and Risk, Mayfair Capital

Economic and business sentiment in the UK fell sharply following the EU referendum and forecasts were revised downwards. These moves now look to have been unduly pessimistic. The UK economy expanded by 0,6 % in third quarter and 0,7 % in fourth quarter of 2016. Consequently, annual growth of 1,8 % was recorded, ahead of the 1,6 % forecast by consensus in July 2016.

The subsequent improvement in sentiment has also been reflected in the UK property market. Strong demand for good quality, core assets from a range of investors persists and the exodus of international capital that was feared has not materialised: over second half of 2016 overseas buyers were net investors of GBP 5,5 billion. Demand from domestic buyers has also been robust. The Bank of England is expected to maintain a loose monetary policy for some time and against a backdrop of low growth and low gilt rates, the income component of property is expected to remain attractive.

The MSCI All Property Index recorded a capital value decline of 2,8 % in July but over the following months the pace of decline slowed markedly and was showing signs of recovery in the fourth quarter of 2016. This suggests that July's fall was a response to the unexpected referendum result, rather than marking the beginning of a period of extended weakness.

However, the headline numbers mask significant polarisation within the market. From a sector perspective, offices have seen the strongest decline in values, falling 3,7% during the second half of 2016, with the drop in values recorded across the UK. In contrast, central London retail, leisure and industrial properties have proved more resilient, with the latter recording capital growth of 0,5 %.

There is also evidence of growing polarisation between prime and secondary properties. Good quality assets, particularly those that are long-let or with indexed-linked leases, have seen some yield hardening post-referendum. In contrast, poorer quality assets or shorter-let stock, which have a greater risk of voids, have seen prices softening.

A resilient occupational market

Since June, demand has softened slightly in some markets, most notably central London offices, but market "churn" is

City of London

continuing. Occupier demand is expected to be most resilient in the logistics market as demand should be underpinned by retailers having to restructure their supply chains in order to respond to the evolving retail environment. In contrast, the retail sector is expected to face headwinds from lower consumer spending as higher inflation squeezes household incomes.

Most markets are characterised by acute shortages of good quality supply as construction activity has been limited outside London since 2007 due to a lack of available finance and rising construction costs. Given the current uncertainty following the EU referendum, it is unlikely that there will be an increase in development over the short term and consequently, the lack of supply will persist. In the absence of a significant demand side shock this is expected to support rental increases. While rental values have increased 10,9 % from their trough in early 2013, they do not appear overstretched, as they remain around 20 % below their 2007 peak in real terms, indicating scope for further growth.

Uncertainty can lead to opportunity

Historically, UK property performance has correlated with economic growth. As a result, with a softer economic outlook anticipated, the outlook for property total returns has also weakened. However, the economy is not expected to fall into recession and consequently, returns may be subdued but are not forecast to be negative.

For the moment yields at the MSCI All Property headline level appear to have stabilised but uncertainty created by the EU referendum means property yields are forecast to rise modestly over the next five years. As a result, performance will be driven by income and rental growth. The latter is likely to be lower than previously anticipated due to fewer occupier expansions and will be restricted to markets and sectors with shortages of supply.

We believe the uncertainty created by the UK's decision to leave the EU will result in mispricing and opportunities for investment.

Increasing polarisation is expected. Regional offices, industrial and leisure assets are forecast to outperform due to their stronger occupational market fundamentals and income return profiles. In contrast, central London offices and UK High Street retail are likely to be the laggards. The High Street continues to face challenges from significant structural changes while central London offices look most vulnerable to a "Brexit" from the EU.

The outlook is expected to be characterised by higher levels of volatility as negotiations around the UK's departure from the EU progress. While we are relatively cautious we expect the uncertainty this creates to result in mispricing and opportunities for investment. Understanding which sectors and markets are best placed for growth will be crucial to identifying these opportunities and careful stock selection will be critical.

Investing to capitalise on opportunity

Under the current conditions, Mayfair Capital has focused its strategy on two primary components. The first centres on income and income resilience and the second seeks to identify areas of the market that will be best placed for growth and where shortages of supply offer opportunities for repositioning and adding value through asset management.

To address this, at Mayfair Capital, our investment strategy is increasingly shaped by a "thematic approach". This consists of analysing how society is being shaped by various "themes", such as technology or population growth, in order to understand how occupiers' property needs can be expected to evolve over time. Our thematic research is split into three broad topics, which are technology, demographics and consumer demands, and infrastructure.

Within the technology theme we are interested in how technology is influencing our interactions with retailers, the growth in creative industries, and how technology is changing the way we work and the type of work that we do. As an illustration, the impact that technology has had on the retail sector is already significant. Retailers have been compelled to restructure their supply chains in order to meet the demands of the UK's multichannel consumers and as a result, there has been a surge in appetite for logistics space. Consequently, Mayfair Capital has been net buyers of good quality logistics space located close to transport hubs.

There have also been significant implications for traditional retail. The role of the physical store remains an important part of a retailer's strategy but they require less space and the way this space is used is changing. As a result, large parts of the market are oversupplied and at risk of obsolescence.

One of the important trends that has emerged from our research into demographics and consumer demands is the growing preference for urban lifestyles and in particular the desire to live and work in close proximity to a wide range of amenities. This reflects the demands of a population that is choosing to eat out more frequently than in the past and spend more on recreation. This shift has been supported by increas-

ing competition and segmentation of the restaurant market to offer options for all budgets. As a result, our strategy has a preference for assets in city centre locations. However, spiralling residential costs have meant that hubs with good transport links to central areas as well as a strong amenity offer that provides an "urban-lite" experience are also growing rapidly.

In line with this trend, Mayfair Capital acquired a parade of restaurants on the Greenwich Peninsula in London, adjacent to the major O2 entertainment venue. This area has strengthening transport links and is a growing residential hub, which has helped to drive an increase in excess of 40 % in rental values since acquisition in 2014.

Infrastructure is our third theme because infrastructure projects can provide a catalyst for growth in occupier demand and as a result, increases in property values, whilst reducing demand and values elsewhere. For example, Mayfair Capital owns an office building in Solihull close to Birmingham Airport where the recent runway extension has meant that it is now handling 10 % more traffic with particular growth in long-haul destinations. This has caused a sharp increase in office occupier demand over the past two years.

In summary, through the implementation of a strategic framework built around investment themes and market intelligence, we have sought to create a strategy that targets locations and sectors where occupier demand can be expected to be strongest and sustained and therefore, will be best placed for outperformance.

Restaurant life

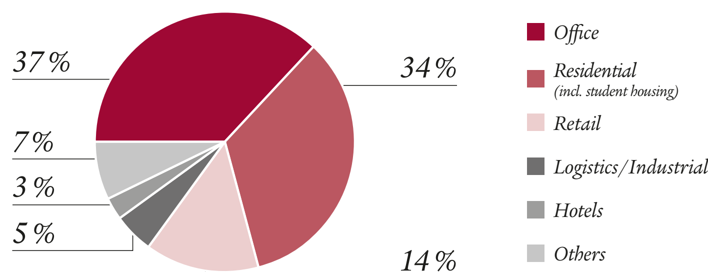
SwissLife
Asset Managers

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

Breakdown by real estate sector



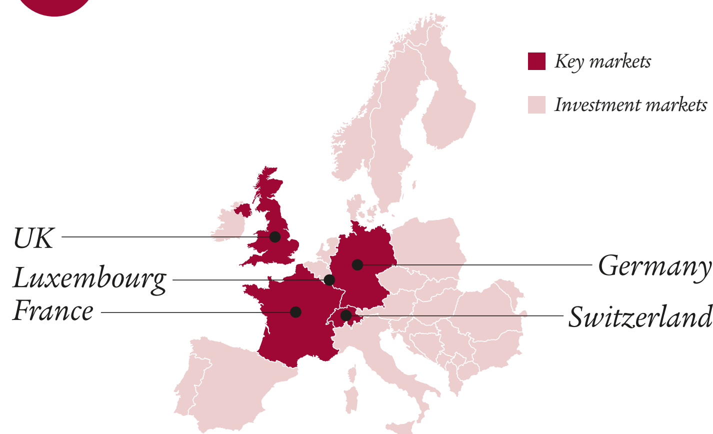
REuM CHF 43.5 bn

Transaction volume real estate *(in CHF bn)*

8.0

(as of 31.12.2016)

Our investment universe



All figures as of 31 December 2016, unless stated otherwise

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