

# Exposé

Real estate  
investments in Switzerland

June 2016



**Macroeconomic  
outlook**



**Swiss Life  
Real Estate Funds**



**Swiss Life Investment Foundation:  
Real estate**



**In focus:  
“The Circle” at Zurich Airport**



# Editorial

Dear readers,

I am delighted to present "Exposé", our new real estate publication. Twice a year we will provide you with solid market assessments and focus on exciting topics of relevance to the Swiss real estate market. You will also receive an in-depth look at our real estate investments for Swiss customers.

Real estate is a very attractive investment class in today's low interest environment. The interest difference between Swiss real estate investments and long-term Swiss Confederation bonds has not been so high for generations; find out more in our macroeconomic outlook.

The lead topic of our first issue is "Welcoming the new". Of course, the "new" can spring out of the old: just have a look at our meticulously renovated residential building in a trendy part of Zurich. On the other hand, it might mean the "brave new world" rising up as an alternative hub, like "The Circle" at Zurich Airport.

We hope you enjoy reading the magazine.

## Real estate in the context of current economic developments

The prospects for the real estate market remain attractive. There is no end in sight to the low interest rate environment, and fixed-income investments are no longer generating returns.

*Sylvia Walter, Senior Economist, Swiss Life Asset Managers*

### No end in sight to the low interest rate environment

Loose monetary policy alone cannot generate growth. Yet the European Central Bank has once again put together a substantial package to stimulate the economy and revive the credit market. Meanwhile, the US Fed has halted its interest rate normalisation process for the time being. The Bank of England faces an important hurdle in the referendum to be held on 23 June 2016 on UK membership in the EU before it can tighten interest rates. The Swiss National Bank is continuing its efforts to reduce the attractiveness of the Swiss currency. There is no end in sight to the low interest rate environment, which is boosting the attractiveness of investments in real assets, particularly real estate.

### Real economy more stable than expected

The macroeconomic framework in Switzerland remains solid. The Swiss economy weathered the appreciation of the franc in 2015 better than expected, avoiding a recession. Positive growth rates are expected for the next several quarters, albeit at a modest level.

However, the Swiss National Bank's decision to abandon its minimum euro exchange rate has left its mark. The unemployment rate, which has risen from 3.2% in January 2015 to 3.5% currently, will reach 3.8% by the end of the year, according to Swiss Life calculations. This development will vary by

**Gerhard Demmelmair**

Head Real Estate Portfolio Management  
Third-Party Asset Management Switzerland



sector and region. Some Swiss companies will benefit from lower import prices as a result of the appreciation of the franc. By contrast, others – in particular, tourism – are suffering from the decline in bookings from neighbouring countries and Swiss citizens travelling to cheaper locations outside of Switzerland.

Real wage growth will likely be less than 1 % in 2016. This is about the same rate as the last several years. The modest decline in real wages is offset by the negative general inflation rate.

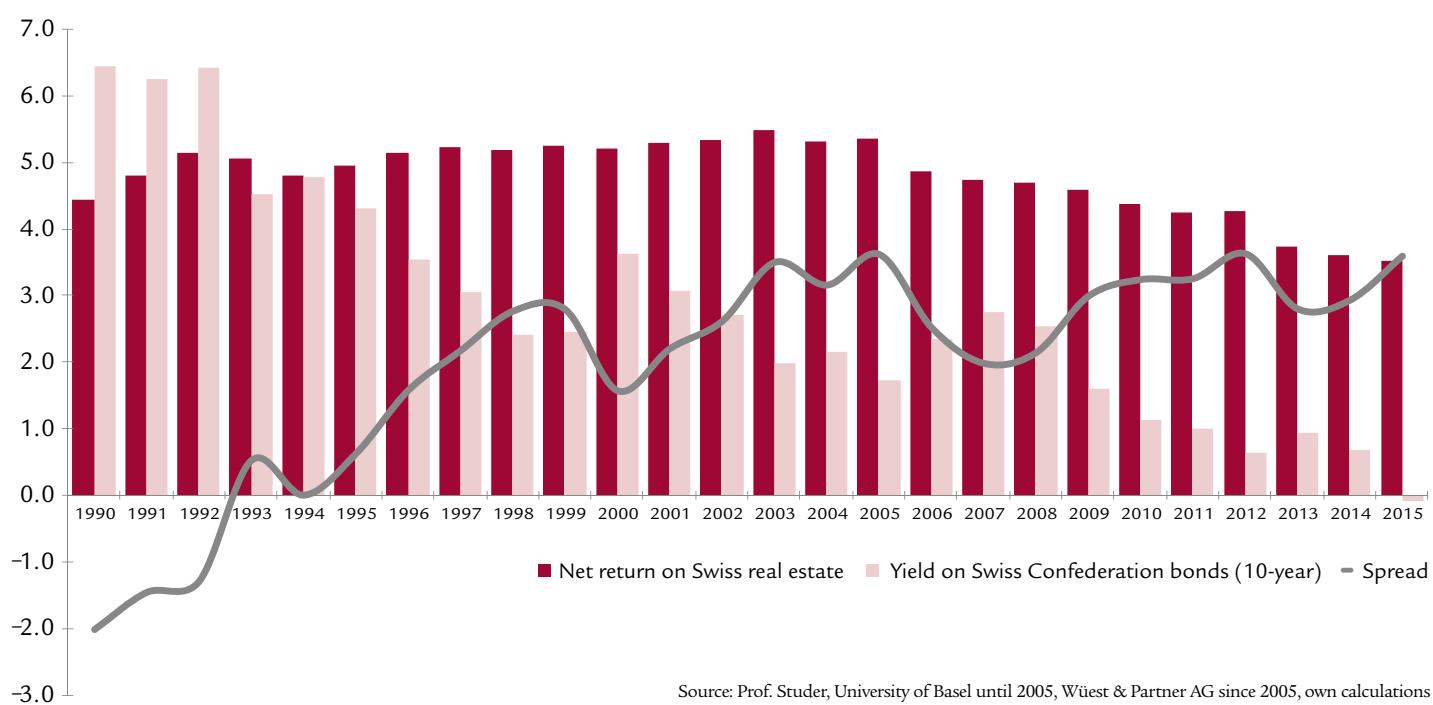
## Rental markets are becoming more challenging

The downward trend in net immigration is having a negative impact on demand for housing. In particular, it is curbing asking rents in peripheral locations and border areas. By contrast, rents remain stable in major cities, their suburbs

and medium-sized towns. Structural improvements are under way at retail properties: Top retail locations remain attractive while empty units in peripheral locations and border areas are proving more difficult to let. In the office sector, location and property quality are increasingly gaining importance. Altogether a slight rise in vacancies is to be expected.

## Real estate investments remain attractive

In view of the low interest rate environment, modest overall growth rates and stable real income development, real estate is still an attractive asset class. There is institutional demand, especially as fixed-income investments are not generating returns: Swiss government bonds, with a total value of just under CHF 58 billion, currently have negative yields. Top-quality Swiss real estate continues to offer attractive additional returns in the current low interest rate environment. The key success factors are quality of the location and proactive asset management that focuses consistently on market needs.





“Ample outdoor space, with meticulously designed, accessible roof gardens.”

## **Accommodation for all age groups at “Zentrum Bassersdorf”**

Located directly in the centre of Bassersdorf, the new “Zentrum Bassersdorf” is a traffic-free town square with a pavilion and two modern buildings. The residential and commercial district, which was built to MINERGIE® standards and opened in spring 2015, occupies a top-quality micro location within this thriving, fast-growing municipality.

The public square includes branches of Migros and Coop as well as other businesses. Related infrastructure, good connections to public and private transport, proximity to Zurich, Winterthur and Zurich Airport, and outdoor recreation areas make the 31 apartments on the upper floors very appealing to single people and couples of all ages.

Bright two and three-bedroom apartments with generous floor plans were designed to meet the needs of the older target group. Many of the apartments offer ample outdoor space. Detailed planning ensures that the apartments meet the needs of all ages: Lifts are generously proportioned, kitchens are easy to use and some of the bathrooms have floor-level showers. A partnership with the “Kompetenzzentrum für Pflege und Gesundheit (KZU)” provides residents with services, such as laundry, food delivery and nursing care.



“Detailed planning of the apartments ensures that they provide age-appropriate accommodation.”

## Swiss Life Investment Foundation, Real Estate Switzerland investment group

ISIN	CH0106150136
Launch date	30.11.2009
Portfolio Manager	Paolo Di Stefano Gerhard Demmelmair

## Key figures as of 31.03.2016

Market value of real estate	CHF 1.802.5 m
Number of properties	169
Rental rate	96.0 %
Borrowing ratio	6.5 %
Net asset value (NAV)	CHF 1.658.2 m
Performance 1 year (01.04.2015 – 31.03.2016)	6.05 %

## Brief information

The Real Estate Switzerland investment group has a broadly diversified real estate portfolio with a focus on residential properties. As of the end of March 2016, more than 70% of rental income came from residential properties. Income is generated by more than 10,000 rental properties. The investment focus is on stable-value and stable-income properties in Swiss conurbations. A consistent buy-and-manage approach is followed through active asset management. Additional qualitative growth is achieved through contributions in kind and direct investments.



“High architectural quality in a prime location.”

## **“Haus am Grendel”: Commercial space in Lucerne’s top location**

As the front-facing building of a trapezoid-shaped block in the heart of Lucerne’s old town, the “Haus am Grendel” stands out. The commercial property occupies a prominent spot on the city’s Falkenplatz, the gateway to the Weggisgasse shopping mile. This charming pedestrian zone includes a number of stores selling world-renowned watch and jewellery brands, designer labels, souvenirs and chocolate. So there is a lot of foot traffic.

The “Haus am Grendel” was built in 1969 and totally renovated in 2008. The building has a new façade that blends in well with the diversity of the surrounding buildings thanks to its architectural design. As part of the renovation, two storeys were added and the building was brought up to the

latest technological standard. Inside, a uniform layout allows for a flexible configuration of commercial premises.

The property is highly coveted by commercial tenants in a wide array of businesses. A long-term lease was recently negotiated with the Dosenbach-Ochsner retail chain for the three-storey commercial unit – a highly sought-after rarity in Lucerne’s old town because of its size. The other units have been let to Hublot, Yves Rocher, the Lucerne City Centre and a dentist.



"Haus am Grendel – successfully positioned in a commercial property market that is growing more challenging."

## Swiss Life Investment Foundation, Commercial Real Estate Switzerland investment group

ISIN	CH0136837587
Launch date	31.10.2011
Portfolio Manager	Paolo Di Stefano Gerhard Demmelmair

### Key figures as of 31.03.2016

Market value of real estate	CHF 942.6 m
Number of properties	73
Rental rate	97.2 %
Borrowing ratio	5.7 %
Net asset value (NAV)	CHF 895.5 m
Performance 1 year (01.04.2015 – 31.03.2016)	5.10 %

### Brief information

The Commercial Real Estate Switzerland investment group has a high-quality real estate portfolio with an excellent profile, primarily comprised of properties used for commercial purposes. The investments are concentrated on very good micro and macro locations in Swiss cities and their suburbs. The properties have a wide variety of attractive mixed uses, including offices, shops and apartments. As of the end of March 2016, some 40% of rental income was from office space, 30% from commercial space and about 15% from residential properties. Additional qualitative growth is achieved through contributions in kind and direct investments.



“Best foot traffic on lower Bahnhofstrasse.”

## **Repositioning on Zurich’s Bahnhofstrasse**

Thanks to its prominent position on the corner of Bahnhofstrasse and Schützengasse, the property, which was built in 1956, is one of the best addresses on lower Bahnhofstrasse. It has the highest amount of foot traffic in the area near the train station.

The property is part of a fund portfolio that includes a number of commercial properties in excellent locations. So the way the ground floor space is used is correspondingly important, as these top locations make up a significant share of rental income. The ground floor space at Bahnhofstrasse 102 was repositioned as part of a re-letting. The description of the space piqued the interest of potential lessees from a wide variety of sectors. In deciding on yooji’s –

sushi deli, Swiss Life AM chose a tenant with strong revenue that meets the need for a fast, healthy food option.

As a result of the increase in online shopping, traditional retailers find themselves in a process of transition. Increasingly, those who are profiting from this change and the related desire for social interaction are innovative restaurant businesses with attractive food concepts. The transformation of retail commerce into high-quality and healthy fast food businesses is part of a general trend. Restaurant businesses are also benefiting from longer opening hours, which has a positive impact on revenue and profitability.



"Innovative restaurants are increasingly appealing tenants."

## Swiss Life REF (LUX) Commercial Properties Switzerland

ISIN	LU0820924123
Launch date	31.10.2012
Portfolio Manager	Marcel Schmitt Gerhard Demmelmair

### Key figures as of 31.03.2016

Market value of real estate	CHF 739.0 m
Number of properties	28
Rental rate	94.7 %
Borrowing ratio	15.7 %
Net asset value (NAV)	CHF 612.9 m
Performance 1 year (01.04.2015 – 31.03.2016)	7.18 %

### Brief information

Swiss Life Real Estate Fund (LUX) Commercial Properties Switzerland invests exclusively in commercial properties with an excellent profile. The portfolio includes several properties in top locations, such as Bahnhofstrasse in Zurich, Rue du Marche in Geneva, Spitalgasse in Bern and Via Nassa in Lugano. The portfolio is rounded out with good office and retail properties in medium-size cities and suburbs with stable rental income prospects. Some of the properties have been totally renovated in recent years and successfully repositioned. Additional qualitative growth is achieved through selective acquisitions and the repositioning of properties.



“Urban living in a quiet location.”

## **Profitable property in Zurich’s trendy district**

Pflanzschulstrasse 51, located in the former blue collar neighbourhood of Zurich-Aussersihl, was built in 1932 as part of a block development. A double-wing staircase leads to five two and three-room apartments on either side as well as a later penthouse apartment addition. The functional layout has been adapted to include open kitchens that meet modern living requirements and are very popular with urban tenants.

The property stands out less for its architectural appearance and more for its perfect combination of product and location: quaint apartments with modern finishes offer the ideal blend of old and new in the quiet heart of this trendy district. It is conveniently located close to local highlights,

such as Bäckeranlage and Helvetiaplatz, which ensures a good mix of uses. The apartments are therefore very popular with single people and younger couples. The rentals provide a high level of income and low vacancy rates.

The property has benefited in recent years from above-average increases in value. It is part of Swiss Life Real Estate Fund (CH) Swiss Properties. Swiss Life Real Estate Fund (CH) Swiss Properties owns a number of residential and commercial properties in central locations throughout Switzerland.



“Modern finishes to meet today’s living requirements.”

## Swiss Life REF (CH) Swiss Properties

ISIN	CH0293784861
Launch date	02.11.2015
Portfolio Manager	Marcel Schmitt Gerhard Demmelmair

### Key figures as of 31.03.2016

Market value of real estate	CHF 534.6 m
Number of properties	43
Rental rate	95.6 %
Borrowing ratio	14.6 %
Net asset value (NAV)	CHF 457.2 m
Performance since launch (02.11.2015 – 31.03.2016 based on off-exchange price)	5.25 %

### Brief information

Swiss Life Real Estate Fund (CH) Swiss Properties was launched in November 2015. The portfolio is comprised of a broadly diversified portfolio of properties with a focus on residential and commercial uses. It focuses on investments with stable returns and values. Nearly 60 % of rental income is from residential properties. The portfolio is regionally balanced and reflects the economic strength of Swiss metropolitan areas. The fund seeks to achieve a target volume of more than CHF 1 bn in the medium term. It will be listed on the Swiss stock exchange by 2018. Until then, there will be a number of capital increases.



# “The Circle” at Zurich Airport

Switzerland's largest building project is currently being built at Zurich Airport. An entirely new district is planned, complete with convention centre, hotels, restaurants, a health centre, offices, showrooms for well-known brands and much more. Construction has been under way since January 2015.

A new service centre on 37,000 square metres of land (180,000 square metres of floor space) is planned within walking distance of Zurich Airport's terminals. It will be unique in Switzerland: “The Circle” will become a business and leisure centre. Two hotels, a convention centre, office space, a health centre and educational, cultural and entertainment offerings are planned. A total of some CHF 1 billion will be invested.

## Zurich's second centre

In recent years, Zurich has become so large and important that it needs a second city centre. This second centre is likely to be in the new expanded district in Zurich-North/Glattal. “The Circle” will play a key role in this new district. Today, most commuters only use Zurich Airport – one of the most frequently used transit hubs in Switzerland – for transfers or for shopping. Many offices and services are located near Zurich airport, not to take advantage of flight connections, but rather because land near the airport is an attractive location for offices. The aim of “The Circle” is to give this “informal” centre a face, a sense of location.







### Diverse uses

“The Circle” is divided into seven modules: The University Hospital of Zurich (USZ) was secured as an anchor tenant for the “Health & Beauty” module, which will offer various medical services. The USZ will create a walk-in clinic occupying about 11,000 square metres of space. International hotel chain Hyatt will operate two hotels in the “Hotels & Convention” module. One will be a Hyatt Regency with 250 rooms and the other will be a Hyatt Place with 300 rooms. The convention centre, which will also be operated by Hyatt, will be large enough for about 2,300 people. The two modules comprise some 60,000 square meters of space. The “Headquarters & Offices” module will occupy 75,000 square metres. The core of the “Brands & Dialogue” module will be company and brand presentations as well as dialogue between companies and their customers and partners.

The entrances to the spaces will be located at the main level along the streets and squares. They will therefore be in the most frequented and liveliest area of the building complex. The space will be let vertically – known as brand houses – with several storeys available. For example, Swatch has let a two-storey brand house right on the main square, where it will present its Omega brand. As part of its presence at “The Circle”, Swatch will also focus on innovation and Swiss watch-making, in addition to its range of watches. This concept makes the Swatch Group the ideal addition to the “Brands & Dialogue” module. There will also be an “Education & Knowledge” module and a “Counsel & Arts” module: The “Education & Knowledge” module is a development of the concept of executive education hubs with international offerings. The “Counsel & Arts” module offers space for art-related products and services. Finally, the “Culture & Events” module includes a multifunction event space as

well as ten different restaurant concepts spread across the entire complex.

### Long-term investment for Swiss Life

Swiss Life – as a sustainable and long-term investor – is confident that “The Circle” represents a very profitable investment thanks to its excellent location and unique project quality. “The Circle” is thus an ideal fit for the Swiss Life investment strategy. Its long-term experience in carrying out large new construction projects is ideally complemented by the airport-specific expertise of its co-investor, Flughafen Zürich AG. The two partners are co-owners of the project, with a 51% stake held by the airport and a 49% stake for Swiss Life.

### The Circle

Investment volume:	approx. CHF 1 bn
Floor space:	180,000 m <sup>2</sup>
Co-owners:	Flughafen Zürich AG (51%) Swiss Life AG (49%)
Architect:	Riken Yamamoto & Field Shop (Japan)
Project partner:	HRS Real Estate AG
Further information:	<a href="http://www.thecircle.ch">www.thecircle.ch</a>



# Largest private real estate portfolio



Swiss Life has been investing in real estate for more than 120 years. In 1893, a property was acquired for the construction of several buildings "...in a sunny, pleasant location on the "grosse Schanze" in Bern, five minutes from the train station..." "...with the aim of maintaining and managing this building as a long-term capital investment..."<sup>1</sup>. To date, this clear investment strategy has proven itself. Swiss Life now has the largest private real estate portfolio in Switzerland. At the end of 2015, its high-quality real estate portfolio had a market value of CHF 18.2 billion, comprising some 800 properties. Direct real estate investments are an important component of the investment strategy for managing customer assets for Swiss group and individual insurance customers. As of the end of 2015, 15.8% of assets for the entire Swiss Life Group were invested in real estate. Alongside bonds, real estate is Swiss Life's most important asset class.

# Winner of the IAZI Award

In March 2016, Swiss Life won the award for the "Best Insurance Company Portfolio". The award is now in its second year. The real estate portfolios are evaluated according to the eight parameters of the IAZI Swiss Property Benchmark®. The IAZI Property Benchmark® is one of the most representative reference values in the Swiss real estate sector and is followed by major investors. Giorgio Engeli accepted the award at this year's 11th annual IAZI Real Estate Lunch.



Giorgio Engeli, Head Real Estate Portfolio Management  
Proprietary Asset Management Switzerland

<sup>1</sup> Quote from the statement of accounts for the Schweizerische Rentenanstalt for 1893.

## Real estate – facts and figures



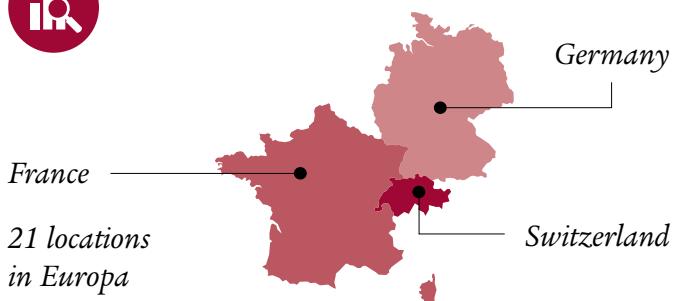
### Assets under management and administration

	(in CHF bn)	AuM	REuA*	AuMA**
<b>Total</b>		<b>185.3</b>	<b>28.6</b>	<b>213.9</b>
Real Estate		36.7		
Corpus Sireo		2.3		
Livit			12.0	67.6
			16.6	

\*Real Estate under Administration   \*\*Assets under Management and Administration  
 \*\*\*Real Estate under Management and Administration



### Core markets



### Real estate transaction volume

**10.9** (in CHF bn)

### Employees



### Our real estate investment solutions

*Swiss Life Investment Foundation – real estate*  
*Real Estate Switzerland investment group*  
*Commercial Real Estate Switzerland investment group*

*Swiss Life Asset Managers – real estate funds*  
*Swiss Life REF (LUX) Commercial Properties Switzerland*  
*Swiss Life REF (CH) Swiss Properties Switzerland*



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All figures as at 31 December 2015, unless stated otherwise

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