November 2020

Exposé

Real estate investments in Switzerland

SwissLife
Asset Managers

"Rhyvage" Rheinfelden –
living by the Rhine

Power plant on the roof –
commercial property receives photovoltaic system

Unmoved by the turbulence –
the marked stability of residential real estate

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Editorial

Dear readers

"Even the stones placed in one's path can be made into something beautiful." Goethe's observation is apt in these unusual "COVID-19 times". The lockdown severely restricted our life as a society. The economic fallout remains hard to gauge, but the ongoing structural change is likely to accelerate significantly. We, in the real estate sector, are also being challenged more than ever to demonstrate our innovative flair and sustainable business practices.

Read about the original "capsule hotel" in the city of Zurich and a large photovoltaic system for proprietary electricity production in Dietlikon. Construction of our new projects was able to continue thanks to safety precautions and the deployment of dedicated specialists. Attractive living space is appearing, such as the "Rhyvage" and "Sunnepark" developments with their coveted multi-generation apartments.

I wish you an enjoyable read. Stay healthy.

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

Are we seeing a virus-induced watershed?

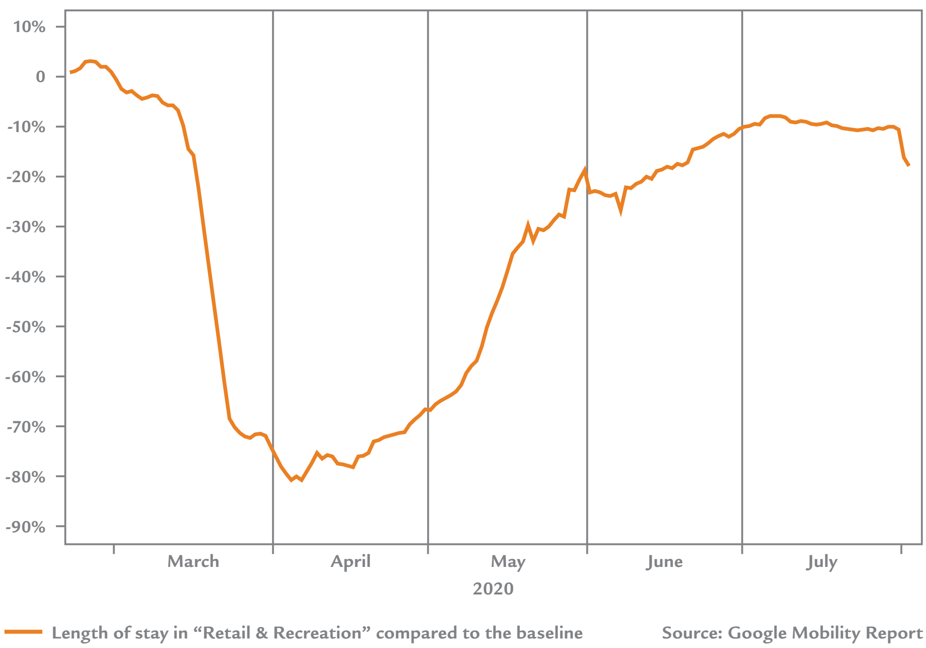
COVID-19 has 2020 firmly in its grasp. Every news programme, newspaper and discussion – whether private or professional – revolves around the pandemic. Meanwhile the same question always lurks in the background: will it ever end, and if so, how will things look post-virus?

Francesca Boucard, Senior Economist Real Estate, Swiss Life Asset Managers

Now is the time for patience. The joy of surviving the lockdown together has given way to a new mood: the longer the extraordinary situation persists, the more the world waits for the vaccine to bring salvation. So far, the experts repeat their announcement: not today, but maybe tomorrow. The long wait is filled with theories about the post-virus world order. People are looking back to the 2008 financial crisis and the subsequent euro crisis. However, there is a difference this time, i.e. the rapid availability of extensive fiscal and monetary support. The persistently low interest environment is encouraging investors to spend money on real estate. The question is which risk profile, sectors and investment conditions to select.

Retail, gastronomy and the hotel and catering industry have borne the brunt of the pandemic. In the retail sector, greater online penetration with a kind of habitual effect is likely to induce lasting change. It is reasonable to assume that smaller quantities of physical retail space, more hybrid systems and increased interest in logistics will result. Physical retail will remain attractive provided one of the following three factors applies. First: shopping is convenient. For example, people can shop on the way home without losing time. Second: the value of the goods offers a unique selling point, for example at a discounter. Or, third: the experience counts. For example, a type of marketplace centred on people and personal interaction.

Change in mobility in Switzerland since the outbreak of COVID-19



The residential sector has again proven a safe haven during the crisis, as the need for (spatial) protection is growing in uncertain times. However, recessionary tendencies around the world may weaken tenant purchasing power and thus also squeeze rents.

What does all this mean for real estate investment? Demand for space is determined by human behaviour. The pandemic can change the dynamics of this demand: are we still prepared to commute, how often do I want to work from home, and do I still have to physically go shopping?

At this juncture, we can make assumptions about how people will behave in the future. As with the vaccine, however, there are uncertainties and patience is called for: whether, how and when these changes come about remains to be seen. ■

Going to press: 5 August 2020

“Rhyvage” development
Quality living directly on the Rhine

The Swiss Life Investment Foundation is building 132 rental apartments in Rheinfelden, directly on the Rhine.

The historic town is located next to Augusta Raurica, the oldest Roman city on Swiss soil. The medieval charm of Rheinfelden is still evident in the car-free old town with its many shops and cafés.

The town has very good transport connections with Basel just a few minutes away by car or train. The train station is also within walking distance of the “Rhyvage” residential complex. Good shopping facilities for everyday needs are in the immediate vicinity and are reachable via the underground car park, thus ensuring dry and secure access. As it is located directly by the Rhine, a recreation area is also just outside the front door.

The new development features a broad mix of apartments of varying sizes and orientations. Many of them offer a direct view of the Rhine.

Three buildings (E3 to E5) are being built for the Real Estate Switzerland investment group of the Swiss Life Investment Foundation. Building E2 will be acquired as a turnkey product by Swiss Life Investment Foundation’s Real Estate Switzerland Retirement and Healthcare investment group.

All tenants can use the services of the “bonacasa” service network via domestic assistance, the helpline or an app. In this way, cleaning, meal delivery or transport can be arranged. In addition, tenants from building E2 (Retirement & Healthcare IF) are connected to a 24/7 emergency helpline.

“Rhyvage” is scheduled for completion by 1 April 2021. There is already a great deal of interest in the apartments so a high occupancy rate is to be expected. ■

The development is located directly on the Rhine next to a recreation area.

Source: 3dprojekt.ch

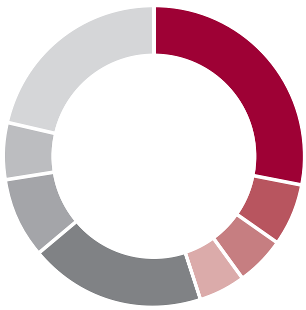
Construction is progressing well. Completion is scheduled for 1 April 2021.

Swiss Life Investment Foundation: Real Estate Switzerland Investment Group

ISIN	CH0106150136
Launch date	1 December 2009
Portfolio manager	Nils Linsi

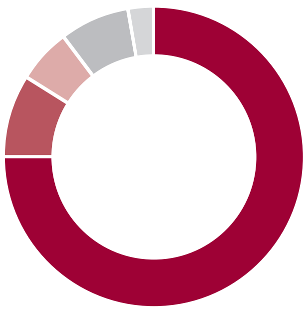
Key figures as of 30 September 2020

Market value of real estate	CHF 3043.0 m
Number of properties	235
Rental rate	97.1 %
Borrowing ratio	7.9 %
Net asset value (NAV)	CHF 2705.7 m
Performance YTD	4.02 %
Performance 2019	5.37 %
Performance 2018	5.36 %
Performance 2017	6.06 %
Performance since launch	5.65 % p. a.



Geographical distribution

Zurich	28.3 %
Bern	6.5 %
Central Switzerland	5.1 %
Western Switzerland	4.9 %
Northwestern Switzerland	19.0 %
Eastern Switzerland	9.2 %
Southern Switzerland	6.2 %
Lake Geneva	20.8 %



Types of use

Residential	75.5 %
Office	8.4 %
Retail	6.1 %
Parking	7.6 %
Ancillary use	2.4 %

Capsule hotel in the middle of Zurich old town

Between 2016 and 2019, the number of overnight stays in Zurich increased by around 19%. This trend reflects the growing demand for hotel beds in Swiss cities.

However, it is very difficult for travellers on a tight budget, such as students or young people, to find affordable hotels in inner-city locations. Now they can choose a new and original accommodation concept.

The Schiffländе 26 property, which was extensively renovated in 2018, is located in the heart of Zurich and is just a few metres from the River Limmat. Hotel operator Green Marmot subsequently came in as the tenant for the first floor to operate the city's first capsule hotel. This concept, which originated in Asia, provides small capsules for guests to stay overnight. A blackout curtain is provided to preserve privacy. Both single-person capsules and capsules with a double bed are available.

All capsules are equipped with lighting and internet access. Travellers have the use of a spacious and modern bathroom. The innovative concept focuses on the essentials and does not include catering. However, the hotel is surrounded by numerous cafes and restaurants.

The company was able to start operations in June 2020. The timing in the midst of the corona crisis has been very challenging for the hotel operator. However, Green Marmot is confident that a high level of utilisation can be achieved soon.

The other upper floors with a magnificent view of Lake Zurich are let out to service-sector companies.

There is a fashion shop on the ground floor and a restaurant that benefit from the high footfall on the Schiffländе promenade. ■

A look behind the curtain: a comfortable sleeping capsule for travellers on a limited budget – comfortable and uncomplicated.

Source: Green Marmot

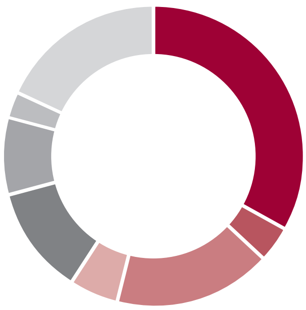
A view inside the first Zurich capsule hotel. The sleeping capsules are located behind the curtains.

Swiss Life Investment Foundation: Commercial Real Estate Switzerland Investment Group

ISIN	CH0136837587
Launch date	1 November 2011
Portfolio manager	Nils Linsi

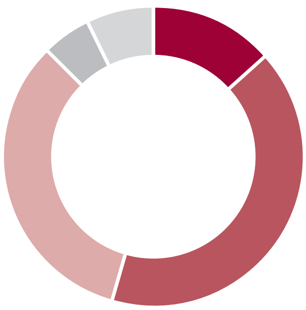
Key figures as of 30 September 2020

Market value of real estate	CHF 1518.0 m
Number of properties	93
Rental rate	97.1 %
Borrowing ratio	13.4 %
Net asset value (NAV)	CHF 1272.7 m
Performance YTD	3.81 %
Performance 2019	4.90 %
Performance 2018	4.97 %
Performance 2017	5.55 %
Performance since launch	5.12 % p. a.



Geographical distribution

Zurich	33.8 %
Bern	3.9 %
Central Switzerland	17.0 %
Western Switzerland	5.1 %
Northwestern Switzerland	11.4 %
Eastern Switzerland	8.3 %
Southern Switzerland	2.8 %
Lake Geneva	17.7 %



Types of use

Residential	14.0 %
Office	40.7 %
Retail	33.6 %
Parking	5.3 %
Ancillary use	6.4 %

Sunnepark Grenchen: Where different generations feel at home

The town of Grenchen is located on the southern slopes of the Jura mountains, surrounded by idyllic recreation areas. It is extremely well connected thanks to motorway access and two train stations. The regional centres of Biel and Solothurn can be reached by train in 9 and 14 minutes respectively. Canton Solothurn's second town in terms of size is traditionally a centre of the watchmaking industry. A large number of well-known watch manufacturers as well as suppliers to the industry are headquartered in Grenchen.

At the former location of Solothurn cantonal hospital, a residential complex with 69 rental apartments and a daycare centre is under construction. The city centre and the main train station is a three-minute bus journey away. Shopping, leisure, cultural and sports facilities are within walking distance.

The new site is located next to the Sunnepark nursing home and offers attractive intergenerational living space. The apartment buildings blend harmoniously into their green surroundings. The refined architecture ensures a harmonious neighbourhood image and charming atmosphere. The open-plan design and large windows provide plenty of natural light. High-quality materials and a well thought-out floor plan open up countless possibilities for individual preferences and furnishing ideas. The apartments are all barrier-free, which allows the residents to stay in their home for as long as possible.

Tenants can access the numerous amenities available at the Sunnepark nursing home – such as a cleaning or laundry service or medical aid. As the daycare centre is located directly in the building, the youngest residents can be looked after in a familiar environment. ■

The development with 69 barrier-free apartments blends harmoniously into its green surroundings.

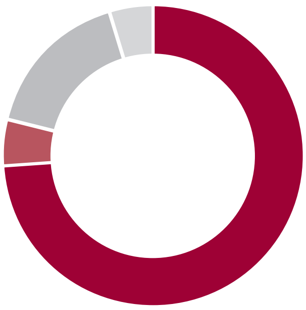
The light-flooded apartments impress with their open floor plans and large windows.

Swiss Life Investment Foundation: Real Estate Switzerland Investment Group Retirement and Healthcare

ISIN	CH0385556482
Launch date	1 December 2017
Portfolio manager	Nils Linsi

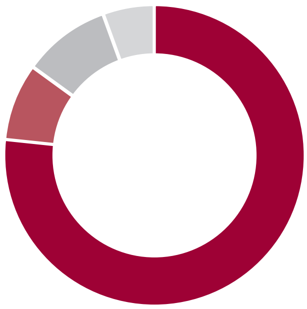
Key figures as of 30 September 2020

Market value of properties	CHF 300.1 m
Number of properties	10
Rental rate	98.8 %
Borrowing ratio	17.7 %
Net asset value (NAV)	CHF 243.2 m
Performance YTD	4.93 %
Performance 2019	5.08 %
Performance 2018	5.18 %
Performance 2017	n/a
Performance since launch	5.45 % p. a.



Geographical distribution

Zurich	73.9 %
Bern	5.0 %
Northwestern Switzerland	16.5 %
Eastern Switzerland	4.6 %



Types of use

Facilities with no inpatient care services	76.7 %
Care facilities and nursing homes	8.9 %
Healthcare properties	0.0 %
Services and retail	8.3 %
Ancillary use and parking	6.1 %

A contribution to sustainability: photovoltaic system in Dietlikon

The commercial property "Industriestrasse 32" was built in 2005 in the busy shopping district of Dietlikon next to Zurich. The building houses four shops and associated logistics areas on two storeys, including Maison du Monde and Esprit. Also in the vicinity are a number of other well-known retail chains such as IKEA, H&M, Jumbo and Coop.

Electricity used in operating the building (for ventilation systems, escalators, lifts plus car park and mall lighting) is consumed mainly during shop opening hours. This electricity consumption for "general use" amounts to about 350 000 kilowatt hours per year, which corresponds roughly to the annual electricity consumption of around 100 private households. Given this power requirement, which mainly arises during daylight hours, and the flat roof area half the size of a football pitch, conditions are optimal for the economical operation of a solar power plant.

Given the sustainability strategy of the Swiss Life Asset Managers' real estate products, a photovoltaic system was installed on the roof in 2020. Around 90% of the electricity produced is consumed by the general buildings on site, while the remaining 10% is fed back into the electricity grid in return for a compensation payment. The new facility can cover 30-50% of the property's general electricity needs through solar power. In other words, the photovoltaic system would be able to supply around 30 to 50 private households with electricity.

Swiss Life REF (LUX) Commercial Properties Switzerland invests in commercial properties in good locations and with high earnings stability. Following a capital increase in July 2020, it acquired five high-quality office properties in Zurich, St. Gallen and Montreux. ■

The size of the property's flat roof, equivalent to half a football pitch, ensures that the solar power plant can operate economically.

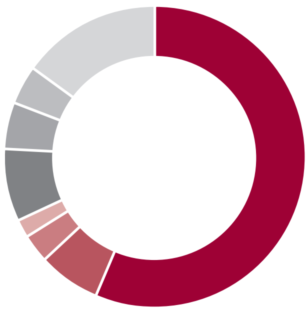
The photovoltaic system has enough capacity to supply 30 to 50 households with electricity.

Swiss Life Immobilienfonds: Swiss Life REF (LUX) Commercial Properties Switzerland

ISIN	LU0820924123
Launch date	1 November 2012
Portfolio manager	Marcel Schmitt

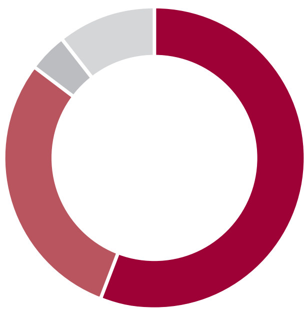
Key figures as of 30 September 2020

Market value of properties	CHF 1205.4 m
Number of properties	40
Rental rate	96.6%
Borrowing ratio	19.8%
Net asset value (NAV)	CHF 936.4 m
Performance YTD	3.26%
Performance 2019	4.17%
Performance 2018	4.62%
Performance 2017	4.92%
Performance since launch	4.92% p.a.



Geographical distribution

Zurich	55.2%
Bern	5.9%
Central Switzerland	2.6%
Western Switzerland	1.9%
Northwestern Switzerland	8.4%
Eastern Switzerland	6.1%
Southern Switzerland	3.7%
Lake Geneva	16.2%



Types of use

Office	56.6%
Retail	27.1%
Parking	4.8%
Ancillary use	11.5%

Lindenpark Business Center: five minutes from Bern's main train station

The Lindenpark office building is located directly at Worblaufen station. The Bern-Solothurn regional transport (RBS) network serves this transport hub to the north of Bern with three S-Bahn lines and two bus routes. In total, there are a dozen train services per hour to the capital. The journey to the main station only takes five minutes and is therefore shorter than to many other office locations within the city.

The building has around 7000 m^2 of office space with optimal lighting. In addition to open-space zones and meeting rooms, there is a freely configurable space that can be used for thrashing out a wide variety of business ideas. The space has been used for years by the single tenant SBB, which will leave the building at the end of 2020.

Swiss Life Asset Managers started reletting in mid-2019 with a corresponding lead time and using professional marketing instruments. It proved a success: at the beginning of 2021, a local IT company will occupy around three quarters of its office space on a long-term lease. We attribute the rental success not only to the strong commitment of asset management and the marketing drive, but also to the good micro-location at Worblaufen. And we assume that the good public transport links will remain a selling point post-corona.

In the next few years, the Bern-Solothurn regional transport network will implement various infrastructure projects, which will further increase S-Bahn frequency. In addition, a new central development is planned directly at the station. This will enhance the micro-location with a range of new offerings. Given the necessary degree of commitment, this overall situation thus seems highly conducive to rental success. ■

Attractive transport hub: Bern's main train station can be reached in five minutes with a dozen different S-Bahn services every hour.

Source: Foto Werder

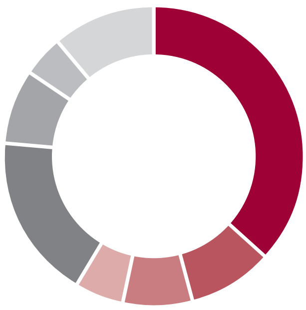
The excellent micro-location led to three quarters of the office space being let to a local IT company.

Swiss Life Real Estate Fund: Swiss Life REF (CH) Swiss Properties

ISIN	CH0293784861
Launch date	2 November 2015
Portfolio manager	Marcel Schmitt

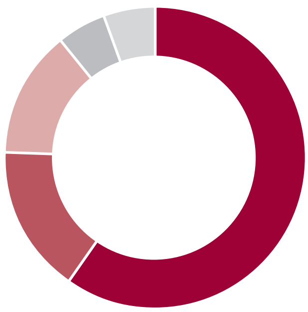
Key figures as of 31 March 2020

Market value of properties	CHF 1269.9 m
Number of properties	88
Rental rate	97.8%
Borrowing ratio	21.9%
Net asset value (NAV)	CHF 967.8 m
Performance YTD	-4.10%
Performance 2019	20.87%
Performance 2018	-1.81%
Performance 2017	6.08%
Performance since launch	8.12% p.a.



Geographical distribution

Zurich	36.9%
Bern	9.1%
Central Switzerland	7.3%
Western Switzerland	5.5%
Northwestern Switzerland	17.6%
Eastern Switzerland	8.1%
Southern Switzerland	4.5%
Lake Geneva	11.0%



Types of use

Residential	59.8%
Office	15.9%
Retail	13.4%
Parking	5.4%
Ancillary use	5.5%

Apartment buildings – stabilising influences in the Swiss real estate investment market?

Residential properties ensure a largely secure return within a real estate portfolio, which can be a boon in turbulent times. Investments in apartment buildings are particularly highly rated in Switzerland compared to other countries. This confers a high level of stability on the Swiss investment property market.

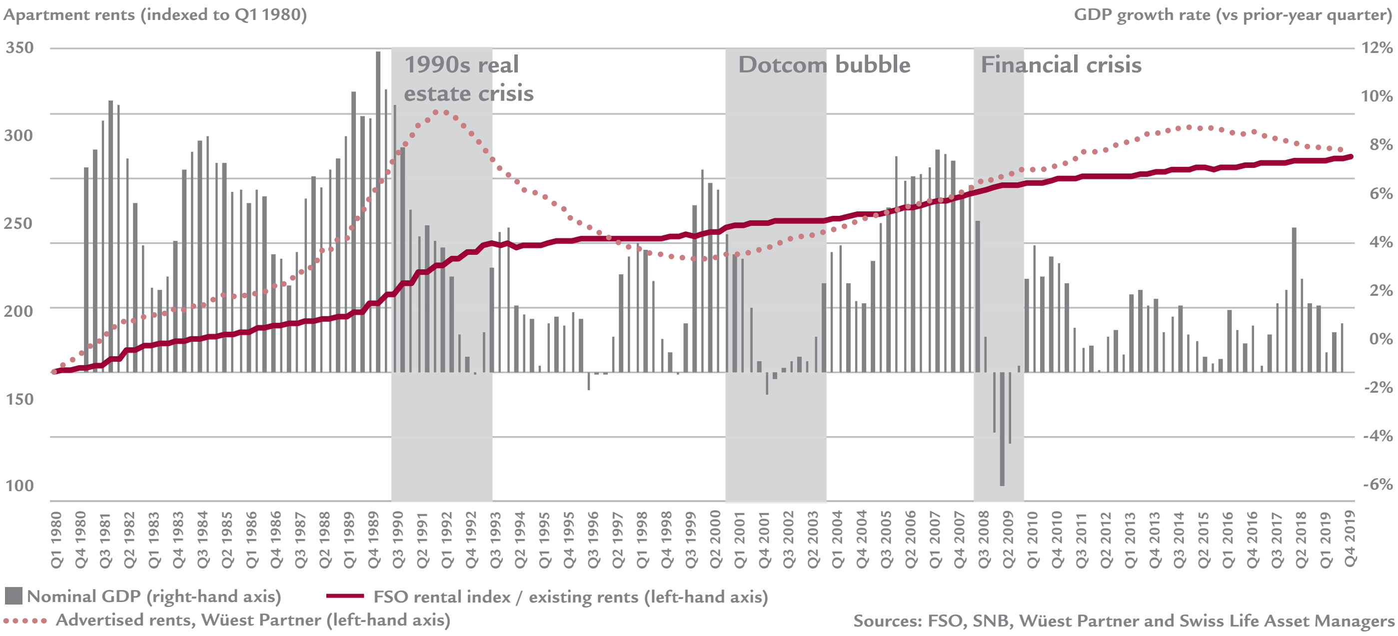
Alfonso Tedeschi, Product and Service Manager, Swiss Life Asset Managers

Existing rents[1] for residential properties in Switzerland have historically seen a very steady trend. Over the last 40 years, increases have been recorded almost without exception. In fact, existing rents have more than doubled and have seen annualised growth of 2.5%, which is similar to the average annual wage trend.

The resilience of existing rents can best be demonstrated by analysing the real estate crisis of the 1990s. Not even then did they feel the pinch. On the contrary, they actually grew in line with interest rates, in contrast to quoted rents. These naturally exhibit a strong interdependence with developments in the real economy and are influenced mainly by supply and demand on the market for rented property. Quoted rents are just the tip of the iceberg in a real estate portfolio, as their significance is limited to newly let properties. They are at the centre of the public debate on rental price developments due to their high visibility.

The disparity in the development of quoted

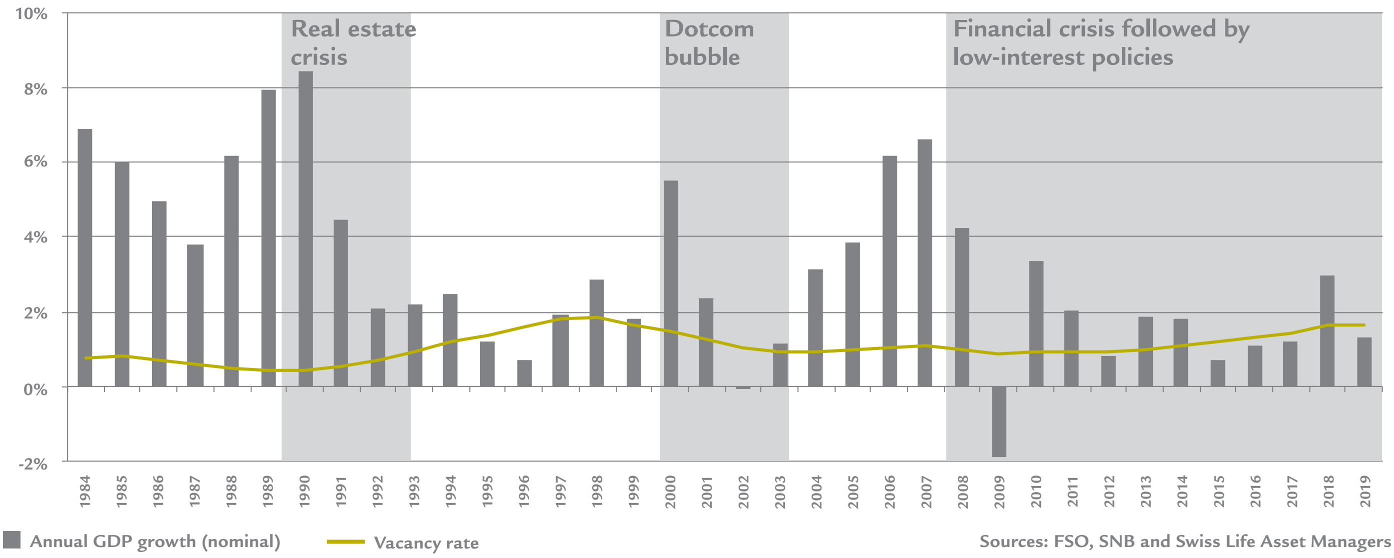
Existing rent, advertised rent for apartments and GDP development



Sources: FSO, SNB, Wüest Partner and Swiss Life Asset Managers

[1] *As rental adjustments are only possible under certain conditions in existing leases, long-term tenants often pay significantly less for their rental apartment than the rents published in advertisements. A distinction is made between the "existing rents" for apartments that have already been let and "advertised rents", i.e. those stated in advertisements.*

Apartment vacancy rate and GDP development



Sources: FSO, SNB and Swiss Life Asset Managers

and existing rents was also apparent following the financial crisis. In spite of rising quoted rents, existing rents only posted modest growth due to falling reference interest rates. Most tenants did not incur an increase in rental payments as they stayed in the same apartment. The "inertia" of existing rents is due to the link with the reference interest rate as well as to tenancy law, which only allows rental increases in tandem with value-adding investments. On the other hand, the low volatility of existing rents ensures secure cash flows and thus also stabilises the valuations of apartment buildings.

Vacancies in a narrow range

Historically, residential properties have also proved reliable on account of their low and largely constant vacancy levels. Since 1984, the vacancy rate for residential property has remained within a relatively narrow range (0.4-1.8%). Although this increased in the wake of the real estate crisis, it remained below 2%. Following a prolonged recovery phase, it climbed again to over 1.5% against the backdrop of the financial crisis-induced low interest rate policy and resulting high level of construction activity. However, a distinction must be made between urban and peripheral locations. The former still feature very low vacancy levels, so in addition to constant existing rents they are the second stabilising element in the residential segment.

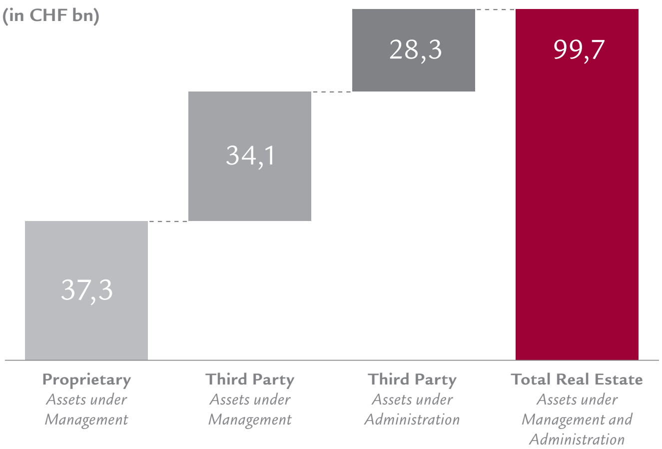
A mainstay of institutional portfolios

Investments in apartment buildings are particularly highly rated in Switzerland compared to other countries. Institutional investors as well as private individuals have a large proportion of their real estate assets invested in residential properties. According to Wüest Partner AG, rental apartments comprise total assets of over CHF 1100 billion, thus accounting for around 70% of real estate investment assets. In many international markets, however, residential real estate investment is still seen as something of a poor relation compared to commercial property. In Europe as a whole, residential real estate only accounts for around 20% of the total. Due to the rising tenancy ratio[2], however, coupled with ongoing urbanisation, institutional investors in the UK, Germany and France are also discovering the qualities of this investment segment. The high status of residential real estate lends the entire Swiss market for investment properties a unique degree of stability by international comparison. In addition, many tenants have been seeking a home of their own since the onset of COVID-19 (partly to work from home, but also for general safety). ■

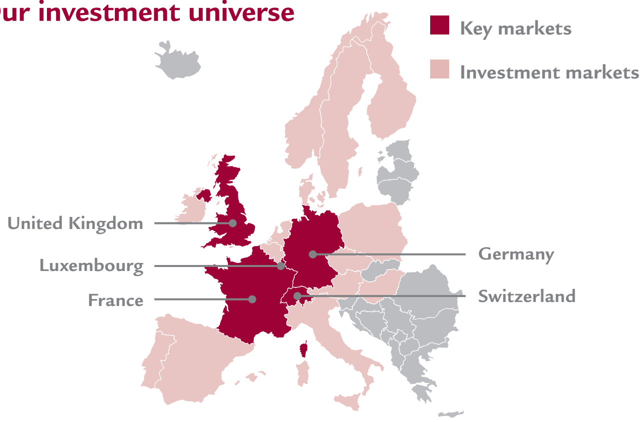
[2] *The tenancy ratio is the proportion of rented apartments in relation to the total number of all main residences.*

Real Estate – facts and figures

Assets under Management and Administration

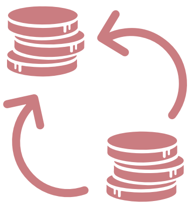


Our investment universe



Transaction volume real estate

9,2



(in CHF bn)
(average 2017, 2018, 2019)

Employees

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All figures as at 30 June 2020, unless stated otherwise

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