

November 2018

Exposé

Real estate investments in Switzerland



Diversity of housing in old age –

A challenge for society, an opportunity for investors

Quality pays off –

Location and property quality gaining importance

Economic environment –

Underlying real estate market conditions still attractive

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Real estate investments –

Location and quality pay off



Editorial

Dear readers

US President Franklin D. Roosevelt once said the following about real estate: “Real estate cannot be lost or stolen, nor can it be carried away. Purchased with common sense, paid for in full, and managed with reasonable care, it is about the safest investment in the world.”

The crisis-tested president hit the nail on the head. What applied back then applies even more in today’s increasingly rapidly changing market environment. However, modern real estate managers have to act particularly professionally and flexibly. The purchase of real estate has to be carefully reviewed in advance. A high equity share leads to transaction security and enormously reduces the risks in times of crisis. Good locational factors facilitate future changes in the mix of uses, which is gaining increasing importance in a dynamic environment. It must be possible to position and manage the properties actively throughout the entire life cycle. Real estate as a long-term fixed asset calls for a consistent “buy and manage” approach.

We at Swiss Life Asset Managers have been following these investment principles with great success for over 125 years.

I wish you an enjoyable read.

A handwritten signature in black ink, appearing to be 'G. Demmelmair', written in a cursive style.

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

Underlying real estate market conditions still attractive

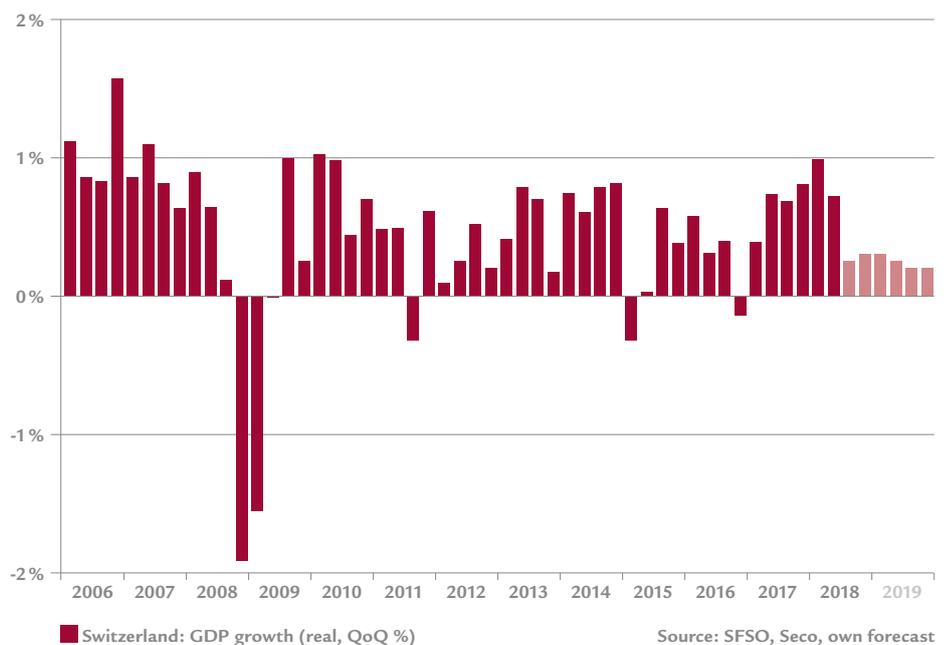
Investing in properties remains promising – also in Switzerland. However, the longer the cycle lasts, the more questions concerning the long-term security of real estate investments are gaining importance.

Francesca Boucard, Economist Real Estate

The collapse of the American bank Lehman Brothers in the autumn of 2008 heralded the start of a global financial crisis. The year 2018 thus marks the tenth anniversary of the outbreak of this crisis. The crash has been followed in recent years by a synchronous global upswing. However, while the US economy is still not displaying any signs of fatigue, growth in the Eurozone is already slowing down again. Key interest rates – originally cut as a measure to support the economy – are likely to remain low for some time and in doing so to stimulate further the European real estate markets. These have for some time no longer been driven only by tenant demand but by the attractive risk spread that real estate can offer investors. Although investors' uncertainty about momentum is gradually rising, the already very prolonged real estate market cycle is unlikely to come to an end immediately.

Things are also not set to change all that quickly in this respect in Switzerland. The Swiss economy (and the revision of the figures for 2017) even surprised on the upside recently, forcing many institutions to correct their forecasts for the current year significantly upwards. Optimism is therefore called for, albeit only of a subdued nature. We expect the economy in Switzerland to slow down due to its dependence on the eurozone. At the same time the SNB will also not alter interest rates single-handedly, which means that the underlying conditions for the real estate market

Cautious optimism is indicated



are set to remain invariably attractive. However, in view of the price level and the ongoing

The already very prolonged real estate cycle is unlikely to come to an end immediately.

ing expansion of supply, the question arises as to how profitable investments can con-

tinue to be made in this late stage of the cycle. As well as the where and the how, the securing of income, and especially rental income, is an important factor. ■

Editorial deadline: 28 September 2018

Horgen: development potential utilised – housing with lake view

The residential property lies in Horgen on the left bank of Lake Zurich above Seestrasse. The station is in walking distance and the motorway a few minutes' drive away. Not far from the property is a bus stop and the ferry to Meilen.

Potential has been identified for more compact utilisation of the property amid the existing buildings. A new building with four apartments is being constructed. The property is surrounded by trees on a privileged hillside. The new building blends in harmoniously with its environment while also standing out from the neighbouring buildings with its lean shape and modern exterior. The optimum

alignment of the building has provided all four new apartments with a magnificent lake view.

The market-focused mix comprises a 2.5-room apartment on the ground floor and three 3.5-room apartments on the upper floors. The new building appeals with its modern layouts, high-quality material and harmonious colour design. The individual lift access to the apartments, each of which has its own washer-dryer, and direct access to the existing parking garage round off the property.

This uniqueness is also reflected in the demand for the apartments that will be ready in March 2019: rental contracts are

about to be signed for all of them. Modern, attractive apartments with a high construction quality and “a certain something” are still capable of standing out from the competition in the challenging housing market. ■

Exemplary consolidation combined with appealing architecture





Source: BIRDVIEWPICTURE GmbH

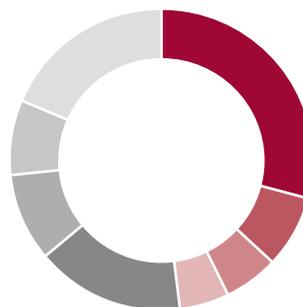
View of Lake Zurich and Horgen landing stage

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

ISIN CH0106150136
Launch date 1 December 2009
Portfolio Manager Nils Linsi

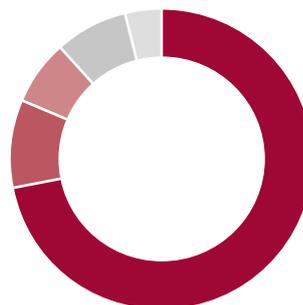
Key figures as of 30 September 2018

Market value of properties CHF 2246.3 m
Number of properties 186
Rental rate 95.6%
Borrowing ratio 13.0%
Net asset value (NAV) CHF 1905.5 m
Performance 2017/2018 financial year 5.34%
Performance 2017 6.06%
Performance 2016 6.52%
Performance 2015 6.56%
Performance since launch 5.77% p. a.



Geographical distribution

Zurich	29.2%
Bern	7.8%
Central Switzerland	5.8%
Western Switzerland	5.5%
Northwestern Switzerland	15.8%
Eastern Switzerland	9.3%
Southern Switzerland	8.0%
Lake Geneva	18.6%



Types of use

Residential	72.1%
Office	9.4%
Retail	7.1%
Parking	7.7%
Ancillary uses	3.7%

Bern: attractive contract extension with leading education centre

The property, dating from 1970, lies southwest of Bern city centre in a district characterised by commercial buildings. The simple, modern appearance and the impressive building height ensure a high recognition value. The railway station can be reached from here in five minutes by public transport. The motorway connection two kilometres away also speaks in favour of the very good location quality.

Last year the single-tenant contract about to expire with the existing tenant, Verein Wirtschafts- und Kaderschule KV Bern (WKS), was renewed at attractive conditions for ten years. At the same time, the entrance area was structurally

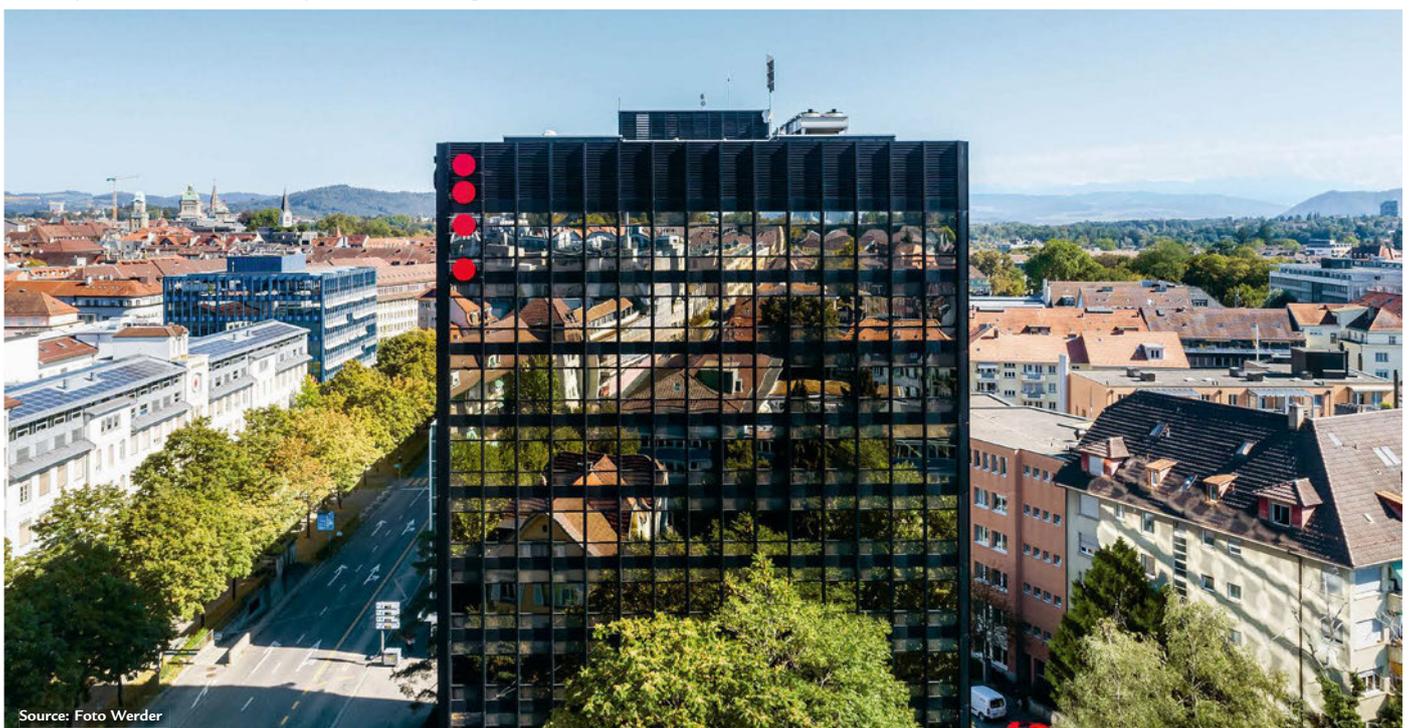
adapted to the tenant's needs and the flat roof refurbished.

The entire property comprises ten floors with rental space of almost 6000 m² plus 84 parking spaces. Verein Wirtschafts- und Kaderschule KV Bern is therefore one of the largest tenants of the Commercial Real Estate Switzerland investment group. The successful renewal of the rental contract has brought an improvement to the investment group's income situation.

Verein Wirtschafts- und Kaderschule KV Bern is a very important education provider in the city and subsidised the canton of Bern. A central and attractive education facility is a prerequisite for good

performance. Our property at Schwarztorstasse 61 is optimally suited for this purpose and thus offers considerable added value for the entire city of Bern. ■

Centrally located close to Bern's parliament building



Source: Foto Werder



Source: Foto Werder

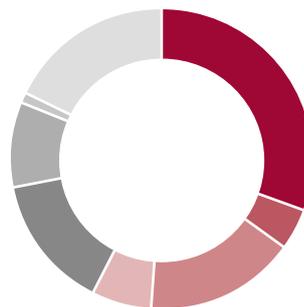
Modern commercial building at the junction of Schwarztorstrasse and Zieglerstrasse

Swiss Life Investment Foundation: Commercial Real Estate Switzerland investment group

ISIN	CH0136837587
Launch date	1 November 2011
Portfolio Manager	Nils Linsi

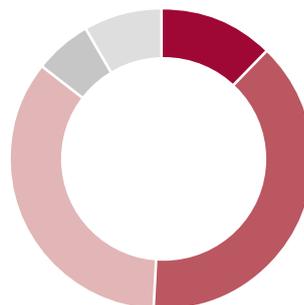
Key figures as of 30 September 2018

Market value of properties	CHF 1278.0 m
Number of properties	89
Rental rate	96.7 %
Borrowing ratio	17.8 %
Net asset value (NAV)	CHF 1017.4 m
Performance 2017/2018 financial year	5.00 %
Performance 2017	5.55 %
Performance 2016	5.25 %
Performance 2015	5.17 %
Performance since launch	5.23 % p. a.



Geographical distribution

Zurich	30.8 %
Bern	4.4 %
Central Switzerland	16.1 %
Western Switzerland	6.4 %
Northwestern Switzerland	14.3 %
Eastern Switzerland	9.3 %
Southern Switzerland	1.0 %
Lake Geneva	17.7 %



Types of use

Residential	12.4 %
Office	38.5 %
Retail	34.9 %
Parking	6.0 %
Ancillary uses	8.2 %

Zurich: Bellerivestrasse acquisition Lake Zurich on the doorstep

Zurich's "Bellerivestrasse 241" and "Bellerivestrasse 245" office buildings stand out with their timeless appearance. They distinctly attract the attention of commuters and passers-by due to their location at the Tiefenbrunnen transport hub. Trains, trams and buses pass close by to the property. The Seefeld district stretches out to the north with a broad range of catering and shopping facilities. Zurich's "Gold Coast" lies to the south with sought-after residential locations such as Zollikon, Küsnacht and Erlenbach.

The uniqueness of the office location lies in its exceptional proximity to Lake Zurich. The office premises offer an unob-

structed view of the nearby stretch of water. The fully glazed buildings with a circular front offer a spectacular outlook towards the lake and Alps. The lido, lakeside promenade and harbour are just a few minutes away on foot. The building has been sealed against noise and emissions from the railway line running to the east.

The buildings, constructed in 2007 and 2009 respectively, meet all the requirements for high-quality office space: flexible subdivisibility, individual ventilation and air-conditioning for each zone, proprietary garages in the basement and a high construction quality are the key features of these office units, which are all let out.

The property was acquired in May 2018 and ideally supplements the portfolio of Swiss Life REF (LUX) Commercial Properties Switzerland. The fund is distinguished by very high location and property qualities and thus comprises appealing rental space that will continue to attract stable demand in the future. The good rentability of the space was already proven shortly after the property's acquisition: the two office units becoming vacant were seamlessly relet at above-average conditions. ■

Modern and representative appearance directly at the Tiefenbrunnen transport hub



Source: Foto Werder



Source: Foto Werder

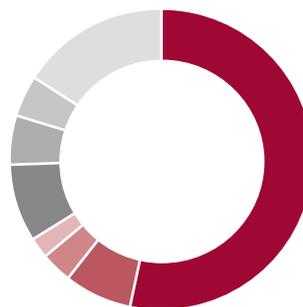
The curved building with fully glazed front offers outstanding views of Lake Zurich

Swiss Life REF (LUX) Commercial Properties Switzerland

ISIN	LU0820924123
Launch date	1 November 2012
Portfolio Manager	Marcel Schmitt

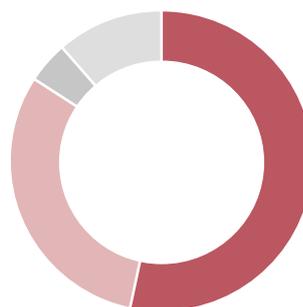
Key figures as of 30 September 2018

Market value of properties	CHF 976.8 m
Number of properties	33
Rental rate	96.6%
Borrowing ratio	12.7%
Net asset value (NAV)	CHF 833.1 m
Performance 2017/2018 financial year	4.71%
Performance 2017	4.92%
Performance 2016	6.00%
Performance 2015	7.34%
Performance since launch	5.21% p. a.



Geographical distribution

Zurich	53.5%
Bern	7.2%
Central Switzerland	3.2%
Western Switzerland	2.3%
Northwestern Switzerland	8.4%
Eastern Switzerland	5.3%
Southern Switzerland	4.3%
Lake Geneva	15.8%



Types of use

Office	53.6%
Retail	30.9%
Parking	4.4%
Ancillary uses	11.1%

Sursee: apartment refurbishment with significant tenant benefits

The “Christoph-Schnyder-Strasse 30–44” residential complex was constructed in 1984 in the form of two half-timbered and two point buildings. The apartment buildings comprise 64 apartments ranging from two to five rooms. The apartments are of an average size with cleverly designed layouts. For example, living and sleeping areas are harmoniously separated.

The buildings, still up-to-date in structural terms, underwent comprehensive refurbishment in 2018. The focus was placed above all on those elements that are most valued by existing and potential tenants: the existing south-facing balconies were enlarged and the north-facing balconies

transformed into large kitchens. The façades were insulated according to the latest standards and the windows replaced and enlarged to ceiling height around the living rooms. The old oil-fired heating was replaced by a modern heating system and the decentralised electric boilers by a central hot water system. The entrances and staircases were redecorated in a bright and welcoming manner. The bathrooms had originally been designed in a largely neutral manner so that their basic substance was left unchanged. The lighting, mirror cabinets and fittings were replaced, thereby creating a fresh appearance with comparatively little outlay.

The consistent focus on tenant benefits enabled a high proportion of the refurbishment costs to be passed on to the tenants in accordance with tenant law. Furthermore, the investment will ensure the apartments remain well let and vacancies as much as possible avoided in the years to come. Ancillary costs are an important issue for tenants and have been markedly reduced by the energy-saving improvements. ■

Complete façade refurbishment and replacement of heating system reduce energy and ancillary costs





Source: Thomas Zimmermann

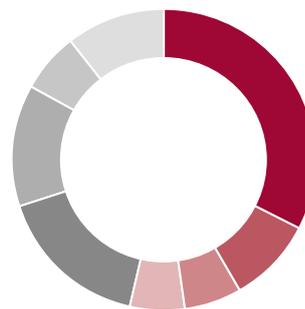
Modern and spacious kitchens are valued by tenants

Swiss Life REF (CH) Swiss Properties

ISIN	CH0293784861
Launch date	2 November 2015
Portfolio Manager	Marcel Schmitt

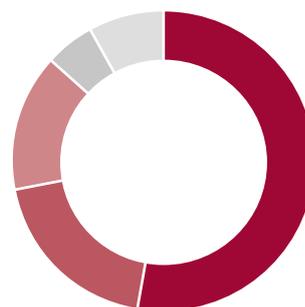
Key figures as of 30 September 2018

Market value of properties	CHF 674.3 m
Number of properties	48
Rental rate	97.4%
Borrowing ratio	11.3%
Net asset value (NAV)	CHF 582.4 m
Performance 2017/2018 financial year	1.35%
Performance 2017	6.08%
Performance 2016	16.09%
Performance 2015	n/a
Performance since launch	8.81% p. a.



Geographical distribution

Zurich	33.1%
Bern	8.9%
Central Switzerland	6.4%
Western Switzerland	5.8%
Northwestern Switzerland	16.1%
Eastern Switzerland	12.8%
Southern Switzerland	6.6%
Lake Geneva	10.3%



Types of use

Residential	52.9%
Office	19.2%
Retail	14.6%
Parking	5.5%
Ancillary uses	7.8%

Diversity of housing in old age

The share of elderly and aged people in Switzerland is increasing continuously. A good 400 000 people are now over the age of 80, a figure that may reach around 1.2 million by 2050. This age group will therefore grow from six to eleven percent of the population. A core requirement for the ageing society will be to remain able to offer these people suitable housing in the future.

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

The high life expectancy means new challenges for senior citizens, their relatives, politicians and society, as well as real estate investors. From the investor's perspective the question arises as to which will be the most used form of housing in old age. The spectrum is broadly based and ranges from age-appropriate housing to inpatient care services. The forms of housing vary strongly in their care and cost intensity and their utilisation depends on each individual life situation.

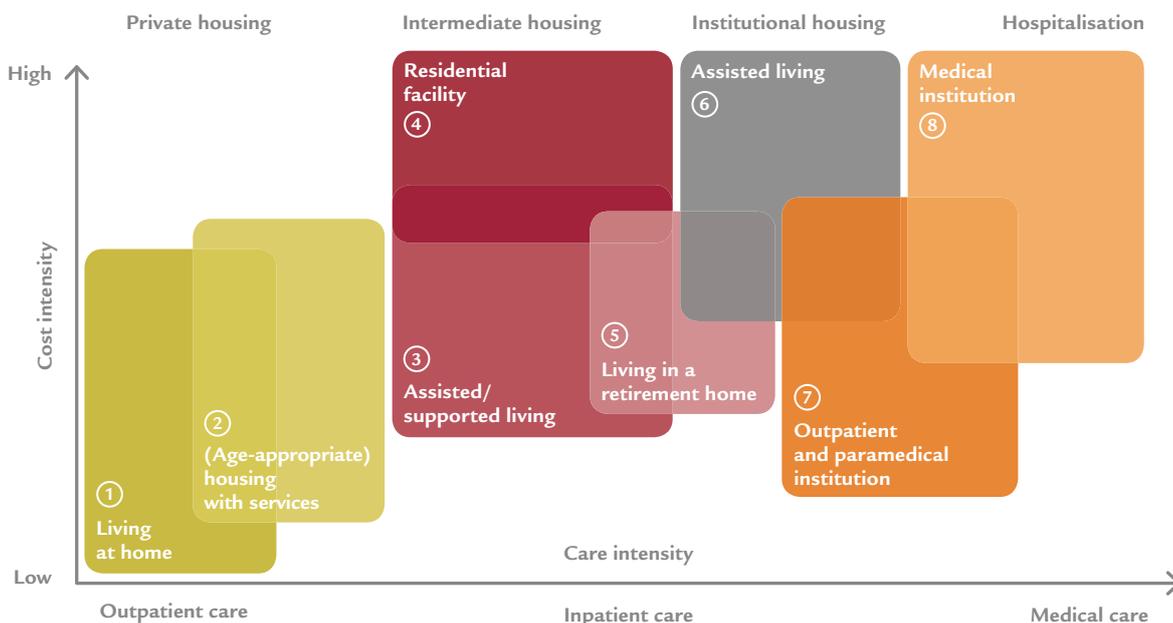
A longer self-determined life

Many elderly people wish to retain their independence in their own home for as long as possible. The design of such homes is therefore gaining importance: age-appropriate apartments are primarily characterised by barrier-free accessibility. This means sufficient room and no steps. Furthermore, the doors need to be somewhat wider than normal and without thresholds. Location and immediate surroundings are also becoming increasingly

important factors as they exert a major impact on opportunities to participate in social life, run errands and make use of everyday services. Social exchange within a building complex is likewise gaining importance.

An important contribution to living at home is made by the 1900 Spitex services used by over 300 000 people. In addition, the rapid advance of technology has also found its way into the day-to-day life of senior citizens. Technical

Housing forms available for the elderly



Source: casea and Swiss Life Asset Managers

assistance systems are significantly prolonging the independence of older people. Age-appropriate apartments enable older people to lead an independent life for longer and are often preferred by them and their relatives to more care-intensive types of residence.

Combination of age-appropriate housing and long-term care

If the condition of a senior citizen deteriorates, increased use of care services becomes necessary. Homes for the elderly that offer both age-appropriate apartments and inpatient care beds are appropriate for this situation. The former are normally equipped with an emergency call system. Services can then be requested when the residents consider this necessary. Both minor and more comprehensive care and nursing also take place in the apartments.

The transition between the different forms of housing needs to be as simple as possible so that senior citizens and their relatives can flexibly choose the right forms of housing depending on their life situation. Integrated forms of housing combining age-appropriate housing with long-term care have accordingly established themselves on the market.

Also attractive for investors

Around 150 000 persons lived in a nursing home in 2016, 19% more than in 2006. Age-appropriate apartments and nursing homes are less sensitive cyclically and serve as an addition to increase the diversification of a real estate portfolio. Nursing homes can also score well with a surplus return compared with traditional real estate investments. This is partly explained by operator risks and restricted third-party use. These risks can be mini-

mised with in-depth knowledge of the real estate, retirement and healthcare market. The risk-adjusted surplus returns can then strengthen the earnings power of the portfolio. ■

The coming generation of seniors would like to live in self-determination for as long as possible in their own apartments



Source: Swiss Life

Real estate investments: Location and quality pay off

Swiss real estate investments remain popular among investors. However, the increased new construction activity in the residential segment is leading to local oversupplies. As a result, the quality and location of a property are gaining more and more importance.

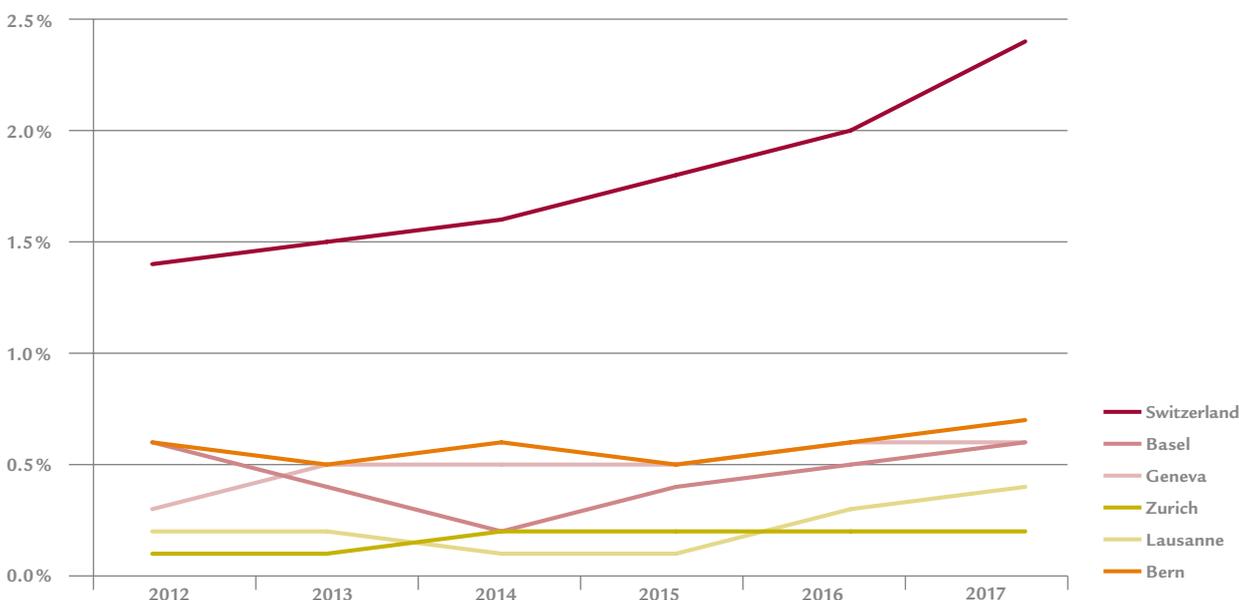
Alfonso Tedeschi, Real Estate Product & Service Manager
Marcel Schmitt, Real Estate Portfolio Management

Swiss real estate investments have experienced extraordinary growth over the last 20 years and performed better than other asset classes. As a result, a large amount of investor capital continues to flow into the new construction of investment properties – particularly the construction of rental apartments. The number of construction permits for apartments in apartment buildings exceeded 46 000 in the second quarter of 2018, which is 12%

above the moving ten-year average. The high construction activity with simultaneously subdued demand is leading to a slight rise in vacancies. The main reason for this lies in the declining immigration from the EU states. Compared with the previous year, an increase in the vacancy rate from 2.0% to 2.4% was recorded in 2017 for rental apartments and a further rise in vacancies is also to be expected in the current year.

However, a differentiated consideration reveals that this does not apply to the whole of Switzerland. There has so far been little change to the shortage of rental apartments in the large and medium-sized centres: in Zurich (0.2%), Geneva (0.6%), Basel (0.6%), Bern (0.7%) and Lausanne (0.4%) demand continues to outstrip supply. An accentuation of the urban-rural divide is generally to be observed. Real estate with high location and property qual-

Vacancy rate of rental apartments in the major centres



Source: Wüest Partner, Swiss Life Asset Managers

ity in the major centres and their suburbs can still be let under good conditions and is therefore generating stable returns. From an investor perspective, these properties score well with a high value and earnings stability – characteristics set to gain further importance in the current market environment. ■

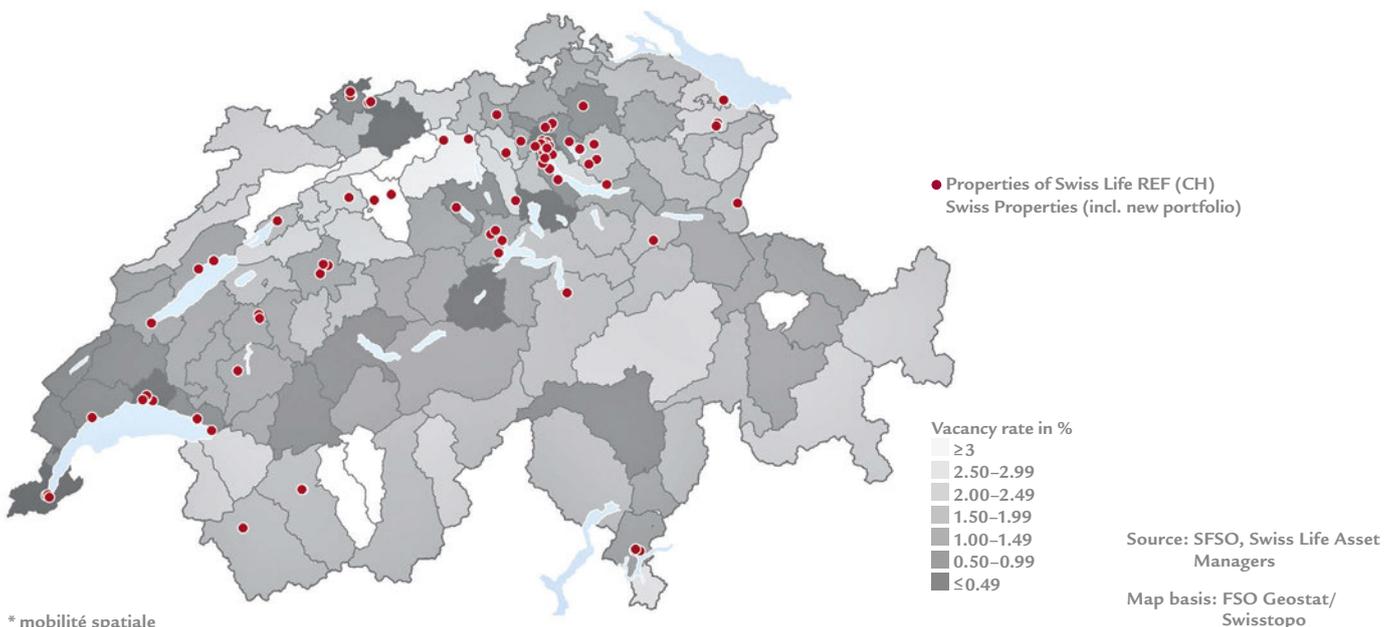
Issue of Swiss Life REF (CH) Swiss Properties

Swiss Life REF (CH) Swiss Properties, which was launched in 2015, has seen good income and value performance. The selective expansion of the portfolio with a clear focus on quality has paid off. The fund focuses on residential properties in Swiss cities and surrounding areas as well as commercial properties in central locations. Thanks to its focus on top-class real estate and active lettings management, the fund has seen the vacancy rate reduced since it was launched.

The fund targets qualified investors and is traded off-exchange. The key investment objectives of the fund are long-term preservation of value and the distribution of stable income.

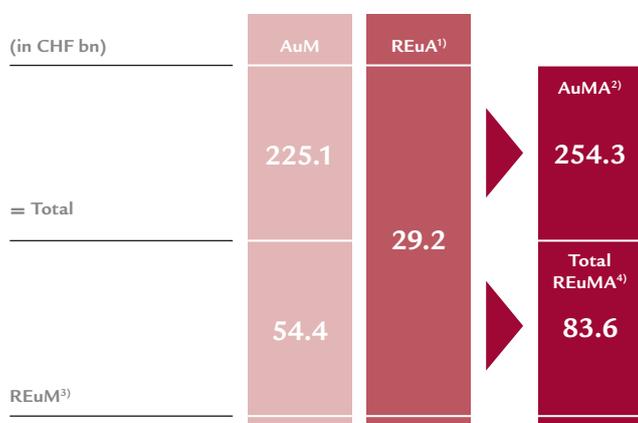
Swiss Life REF (CH) Swiss Properties carried out a capital increase from 21 November to 3 December 2018. The additional funds were used to finance the acquisition of a high-quality property portfolio (new portfolio) for around CHF 500 million. The main focus of the portfolio is on residential properties (about 70% of income) and economically strong regions. Investors can benefit from broader diversification and increased liquidity by the expansion of the portfolio.

Residential vacancy rate in MS* regions and properties of Swiss Life REF (CH) Swiss Properties (incl. new portfolio)



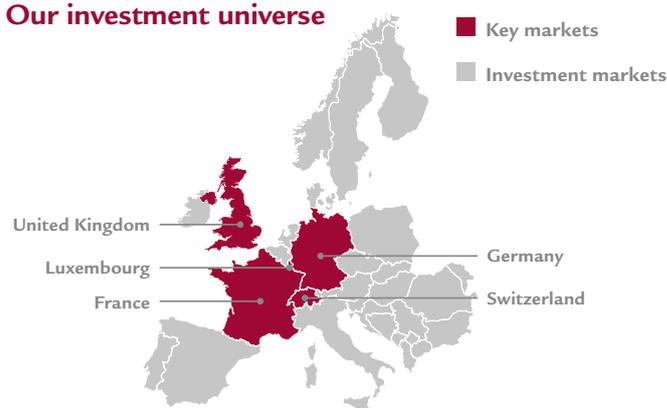
Real estate – facts and figures

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

7.8

(in CHF bn)
 (average 2015, 2016, 2017)

Employees

>1300

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All figures as of 30 June 2018, unless stated otherwise

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