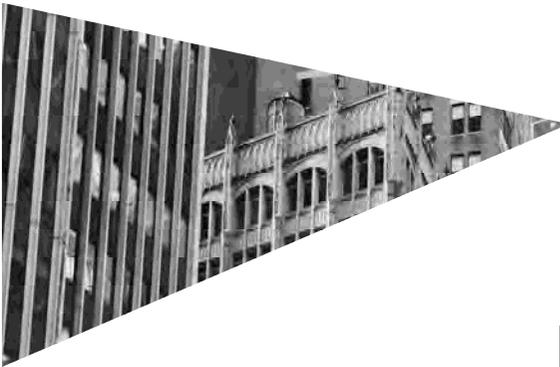


# Trend Barometer Real Estate Investment Market

Switzerland 2015



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Trend Barometer Real Estate  
Investment Market  
Switzerland 2015



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Swiss real estate  
transaction market



# A selection of commercial real estate transactions...

Date	Seller	Buyer	Target	Properties	Price (MCHF)
Q1	Compagnie des Parcs	CSA Real Estate Switzerland	Commercial properties / retirement accommodation	7	approx. 300
Q1	A&A Property Group	CS REF Interswiss / CSA RES Commercial	Shoppi Tivoli Mall, Spreitenbach (26.2% condominium shares)	1	> 240
Q1	No data	Swiss Healthcare Properties AG	"Villa im Park" Clinic, Rothrist	2	No data
Q1	Hochgebirgsklinik, Davos	Kühne Real Estate AG	Clinic property, Davos	1	33-35
Q1	Losinger Marazzi AG	CS REF Green Property	"Twist Again" office building, WankdorfCity, Bern	1	88
Q2	No data	UBS REF Swiss Commercial	Shopping Mall, Villars-sur-Glâne	1	36
Q2	No data	Procimmo Swiss Commercial Fund	Logistics Center, Onnens	1	50
Q3	Credit Suisse	Swiss Prime Site	"Schönburg" Post Headquarters, Bern	1	No data
Q3	No data	UBS REF Swissreal	Cormanon Centre Shopping Mall	1	36
Q3	No data	UBS REF AST-IS/KIS	Mixed-use property, Zurich	1	50
Q3	Orior Liegenschaften AG	CS REF LogisticsPlus	Logistics portfolio (Project "Apple")	Various	No data
Q4	Credit Suisse	Swatch Group	Grieder Building, Bahnhofstrasse, Zurich	1	No data
Q4	SBB	Turidomus Investment Foundation	SBB Headquarters, Bern-Wankdorf	1	No data
Q4	Tamedia AG	HIG Immobilien Anlage Stiftung (HIG Real Estate Investment Foundation)	Commercial properties in Winterthur	2	No data
Q4	SBB / Mettler2Invest AG	CS REF Green Property	New building for Aarau rail station, 2nd stage (project)	1	approx. 100

## Seller groups

- ▶ The active seller groups include project developers, banks and corporates.

## Buyer groups

- ▶ The buyers mainly include high-equity investors such as real estate funds, insurance companies and real estate companies.

## Transaction size

- ▶ Commercial property transaction volumes range from small to large.
- ▶ The selling price is only published in rare instances.

## ...and residential real estate transactions in Switzerland in 2014

Date	Seller	Buyer	Target	Properties	Price (MCHF)
Q1	Givaudan	CS REF Siat	Giessen site, Dübendorf	No data	No data
Q1	Ledermann Immobilien AG	Swiss Life	Property portfolio, Zurich	28	No data
Q1	No data	Patrimonium Investment Foundation	Residential property, Grand-Lancy	1	21
Q3	No data	SE Swiss Estates AG	Residential portfolio, Greater Bern	No data	31.8
Q4	Vaudoise Allgemeine Versicherungs-Gesellschaft AG	Immo Helvetic	Real estate portfolio, western Switzerland	12	approx. 50
Q4	Allreal	CS 1a Immo PK (Pension Fund)	"Ringhof" Wallisellen	No data	No data
Q4	Vaudoise Allgemeine Versicherungs-Gesellschaft AG	Immo Helvetic	Residential properties in western Switzerland	12	50

### Seller groups

- ▶ The sellers are real estate companies.

### Buyer groups

- ▶ The main buyer groups are real estate funds and insurance companies.

### Transaction size

- ▶ The selling price is only published in rare instances.



Real estate investment market  
Switzerland 2015



# Our trend barometer tracks a wide spectrum of investor groups in Switzerland...

## Trend Barometer: Market for real estate investments

- ▶ The Trend Barometer is based on a survey of 125 market participants (31 investors responded) who were active on the Swiss real estate market in recent years.
- ▶ The survey was conducted in November/December 2014, focusing mainly on two aspects:
  - ▶ Assessment of the Swiss real estate market for next year.
  - ▶ Outlook on strategies that Swiss investors will follow next year.
  - ▶ The survey was conducted simultaneously in Germany as well as Switzerland.

### Investor groups:

- ▶ Banks
- ▶ Real estate funds
- ▶ Real estate companies
- ▶ Institutional investors
- ▶ Investment companies
- ▶ Opportunity/private equity funds
- ▶ Insurance companies
- ▶ Housing cooperatives
- ▶ Others

### Background

- ▶ This is the fifth time EY has conducted this survey in Switzerland since 2011.
- ▶ 31 investors commented on their expectations for next year.

### Objectives

- ▶ Assessment of the Swiss real estate market for next year.
- ▶ Outlook on strategies that Swiss investors will follow in 2015.

### Statements

- ▶ As well as the predefined answers, participants were given the opportunity to provide individual statements about each question.
- ▶ The following statements are reproduced in anonymized form and in some cases, similar assessments are grouped together.

## ...who view Switzerland as more attractive than in 2014

2013

- 1 "Switzerland will remain attractive as long as interest rates stay low and positive net migration is maintained."
- 2 "The question is not whether prices will be adjusted but merely when and to what extent."
- 3 "Investors will definitely focus on residential real estate in 2013."

2014

- 1 "Switzerland remains attractive due to its low interest rates and stable economy."
- 2 "Swiss real estate prices will peak in 2014."
- 3 "Uncertainties regarding real estate investment will increase because better opportunities for returns are available abroad."

2015

- 1 "Switzerland continues to be a safe haven for real estate investments."
- 2 "There will be downward price corrections in the office and retail property market."
- 3 "There will be greater pressure to cut costs further and increase efficiency."

### 1 Price trend

- ▶ Prices for residential properties in prime locations are expected to continue rising.
- ▶ Prices for office and retail properties in non-central locations will fall.

### 2 International

- ▶ By international standards, Switzerland will be regarded more than ever as an attractive country for real estate investments.

### 3 Attractiveness

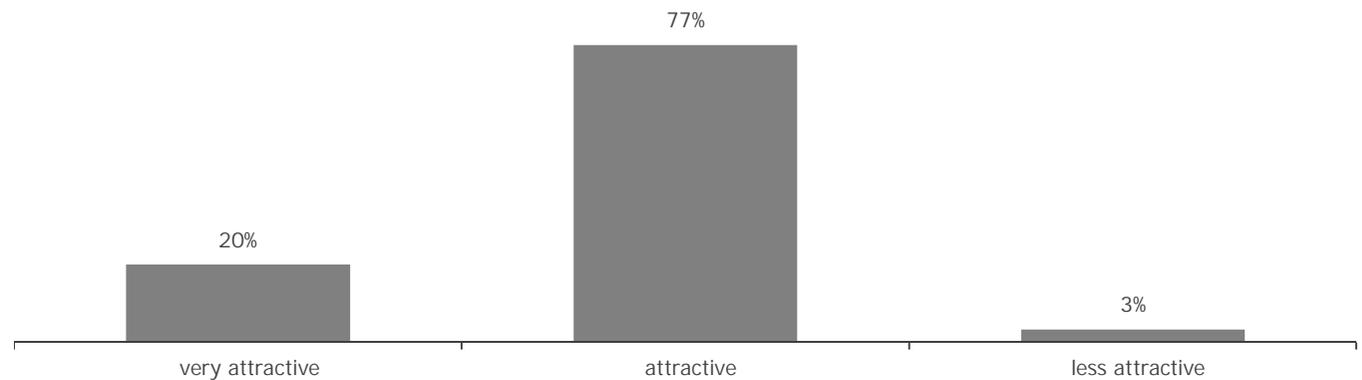
- ▶ Investors are almost unanimous in viewing Switzerland as an attractive location for real estate investments.

# 97% of respondents rate Switzerland as an attractive or very attractive investment location...

## Key messages

- ▶ The vast majority of respondents (97%) continue to view Switzerland as an attractive or very attractive location for real-estate investments in 2015.
- ▶ Attractiveness is expected to increase year-on-year (2014: 80% considered Switzerland attractive or very attractive).

## Switzerland's attractiveness as a location for real estate investments



## Statements

- ▶ "Relatively high prices and low returns – but still adequate in relation to Switzerland's low-interest environment and the relatively low risks in the core real estate segment." (Real estate fund)
- ▶ "The spread between the 10-year Swiss government bond and real estate returns is at an all-time high." (Real estate company)

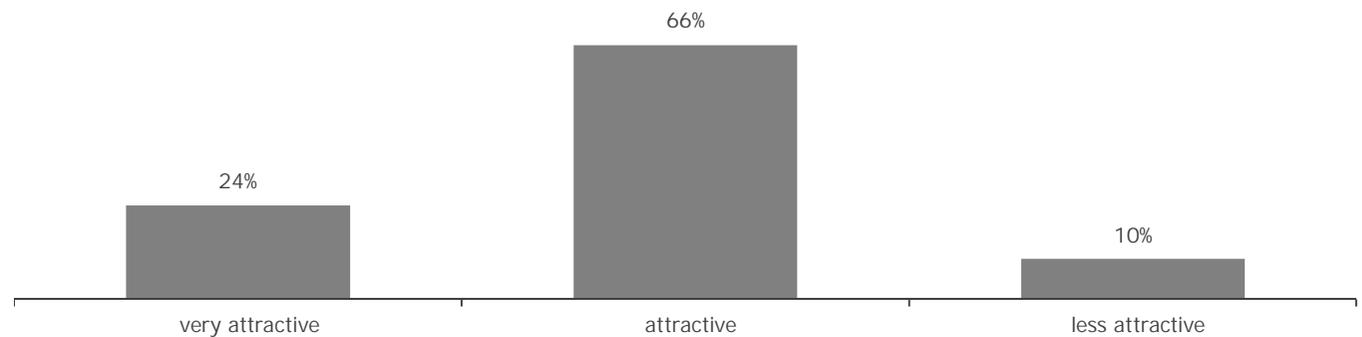
Original question – "In absolute terms, how do you rate Switzerland's attractiveness as a location for real estate investments in 2015?"

## ...also in comparison to other European countries

### Key messages

- ▶ The vast majority (90%) of respondents see Switzerland as an attractive or very attractive investment location compared to other European countries.
- ▶ Here too, the result is more positive than last year's survey (2014: 70%).

### Switzerland's attractiveness as a location for real estate investments in comparison to other European countries



### Statements

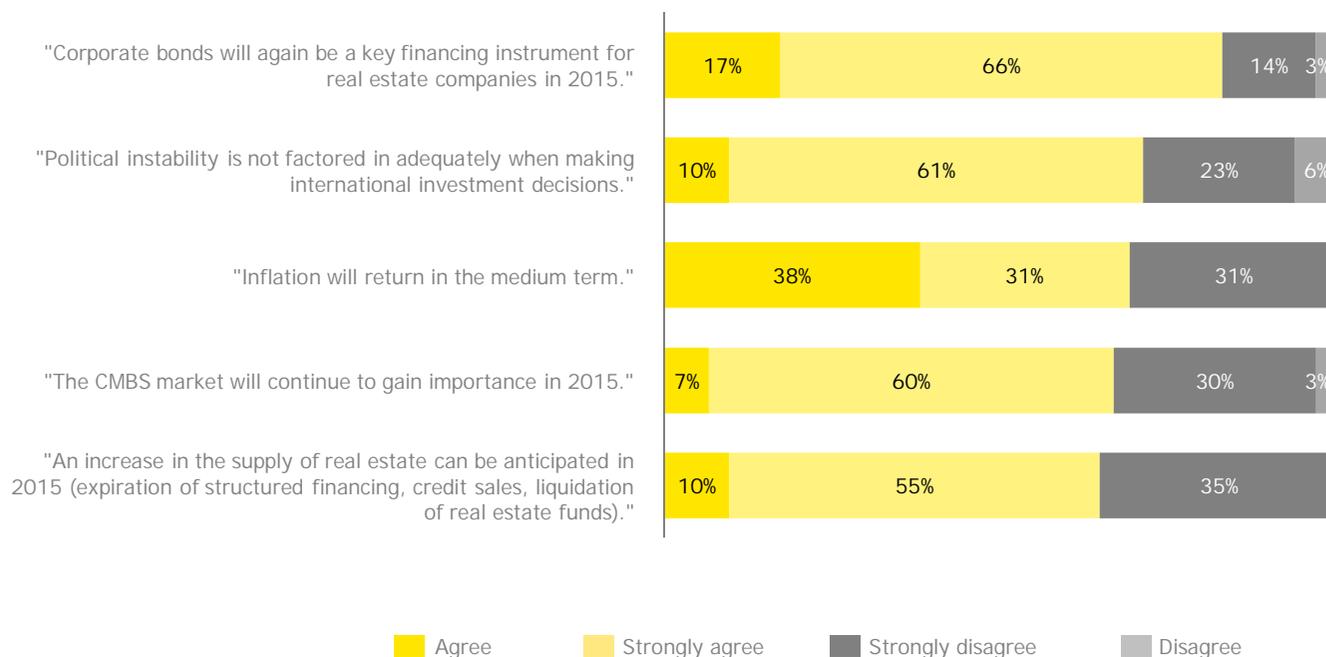
- ▶ "Given the current economic focus shaped by major monetary flows and low interest rates, with economic results that are just about sustainable, demand for real estate in Switzerland as a "safe haven" is set to continue unabated." (Real estate company)
- ▶ "In comparison to other countries, Switzerland can still hold its own as an attractive real estate market thanks to its political and economic stability – even though opportunities for returns generally lag behind those abroad." (Anonymous)

Original question – "How do you rate Switzerland's attractiveness as a location for real estate investments in 2015 as compared to the rest of Europe?"

# Influence of the capital markets in 2015...

## Key messages

- ▶ Corporate bonds are regarded as an important financing instrument (83%).
- ▶ Political instability is not factored in adequately when making investment decisions (71%).
- ▶ Most respondents anticipate a future increase in inflation (69%).
- ▶ Two thirds of respondents expect the commercial mortgage-backed securities (CMBS) market to continue gaining importance in 2015 (67%).
- ▶ Just under two thirds of participants foresee an increased real estate supply in 2015 (65%).

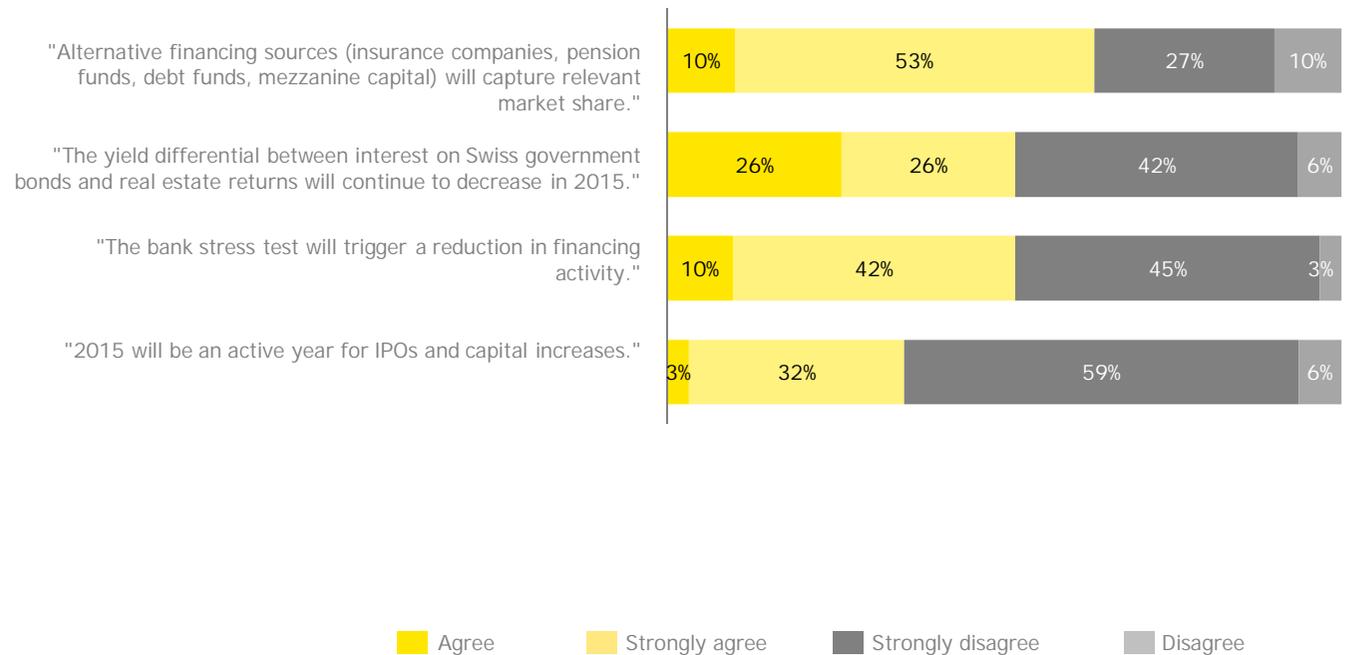


Original question - "Which of the following statements about the market environment for Swiss real estate in 2015 do you agree with?"

# ...on real estate investment activity

## Key messages

- ▶ More than half the respondents believe that alternative financing sources will capture relevant market share (63%).
- ▶ Respondents are undecided about the trend for the yield differential between interest on Swiss government bonds and returns on real estate in 2015 (52%: down/48% up).
- ▶ Half of the respondents expect financing activity to contract due to the bank stress test (52%).
- ▶ Respondents do not anticipate very much IPO and capital increase activity in 2015 (35%).

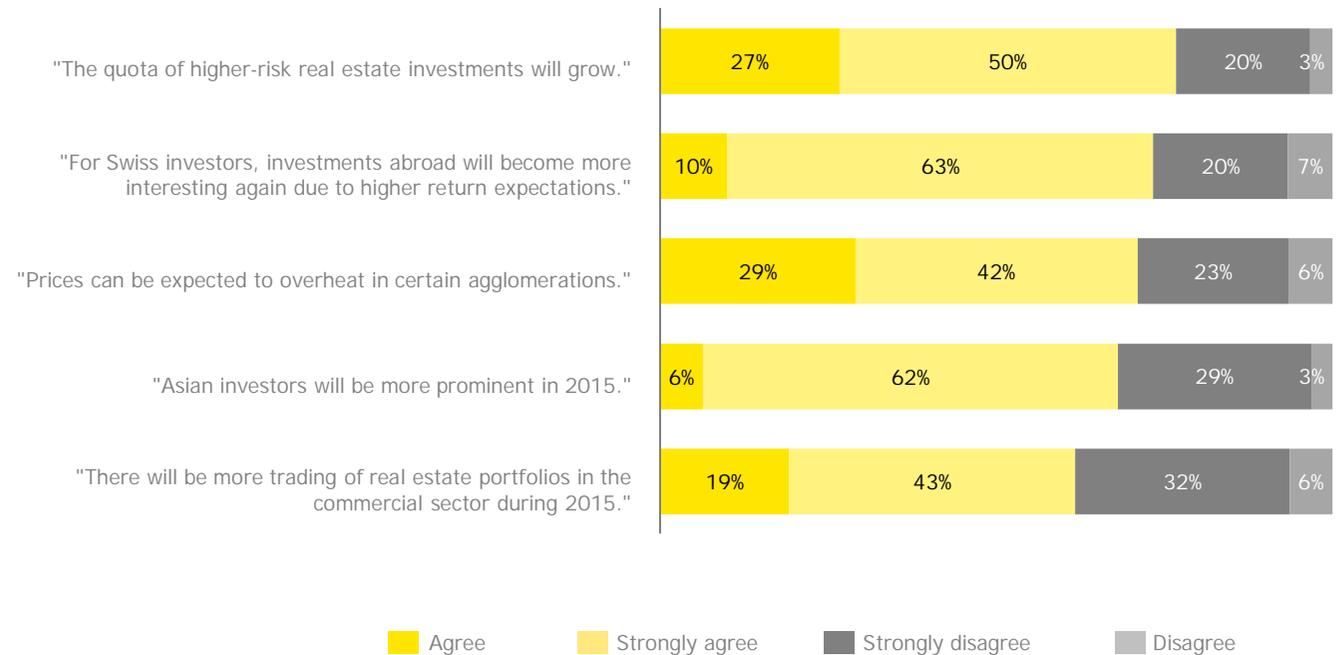


Original question - "Which of the following statements about the market environment for Swiss real estate in 2015 do you agree with?"

# The Swiss real estate transaction market (1/2)

## Key messages

- ▶ Year-on-year, rather more high-risk investments are anticipated (77%, 2014: 70%).
- ▶ Swiss investors are expected to step up their foreign investment activities (73%).
- ▶ Over half of the respondents expect prices to overheat in certain agglomerations (71%).
- ▶ Over half of the respondents expect Asian investors to become more prominent in 2015 (68%).
- ▶ Year-on-year, rather more portfolio deals are anticipated in the commercial property sector (62%, 2014: 55%).

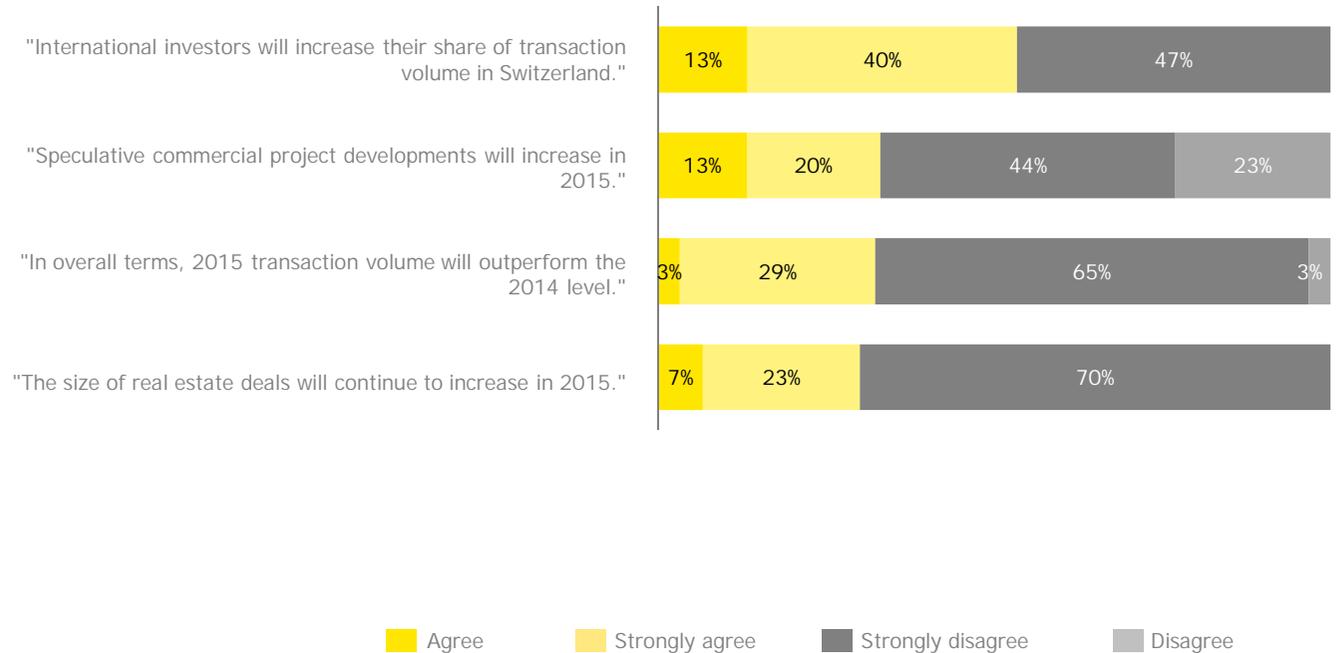


Original question - "Which of the following statements about the Swiss real estate transaction market in 2015 do you agree with?"

# The Swiss real estate transaction market (2/2)

## Key messages

- ▶ As in the prior year, there is still uncertainty as to whether international investors will or will not increase their share of transaction volume in Switzerland (53% agree, 2014: 60%).
- ▶ Also as in the prior year, no major speculative project developments are expected (only 33% agree, 2014: 35%).
- ▶ Transaction volume is not expected to increase in 2015 (32% agree, 2014: 50%).
- ▶ There are few expectations of an increase in deal volume (30%, 2014: 40%).

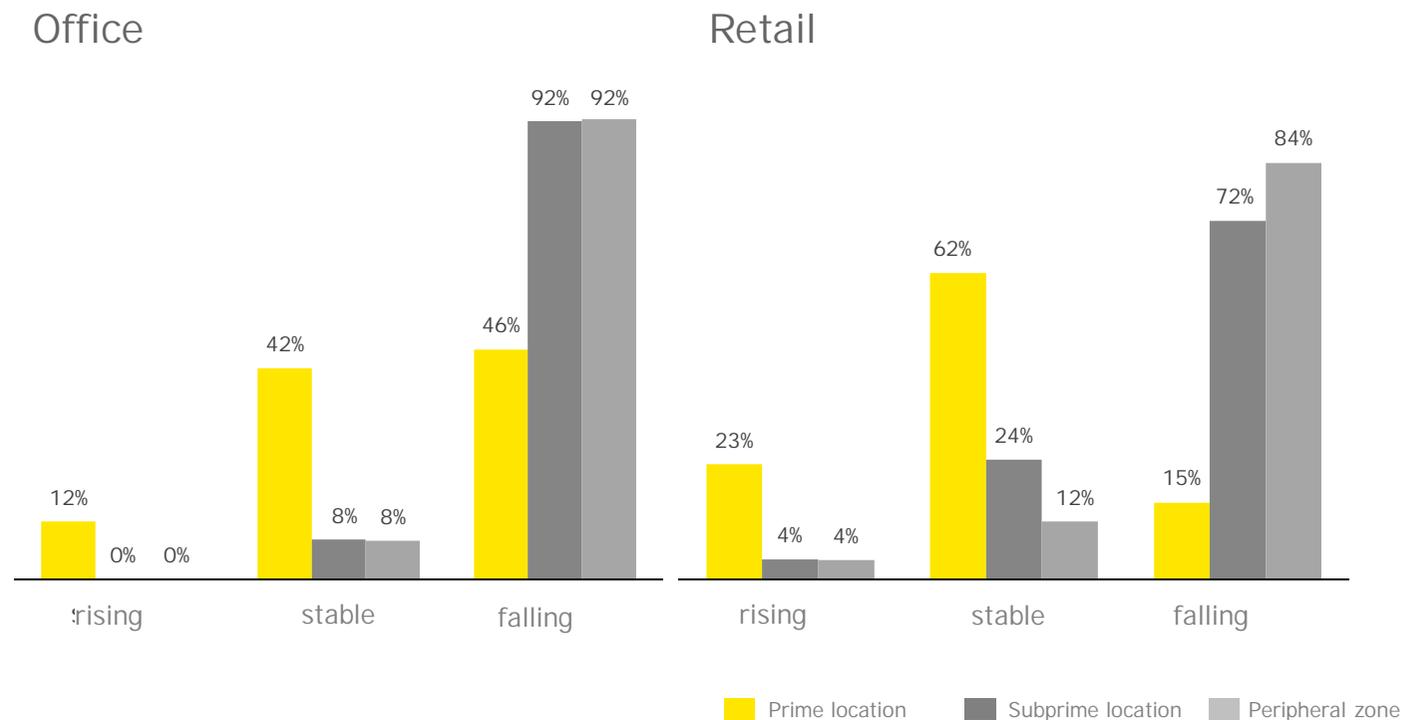


Original question - "Which of the following statements about the Swiss real estate transaction market in 2015 do you agree with?"

# Expectations regarding price trends vary sharply depending on location and type of use (1/3)

## Key messages

- ▶ Some respondents expect prices for office property in prime locations to remain stable whereas others anticipate a downturn (42%/46%). Last year, 5% of respondents expected prices for office buildings in prime locations to rise. Now, 12% anticipate higher prices in 2015.
- ▶ Declining prices are likely for office buildings in subprime locations (92%, 2014: 84%) and peripheral zones (92%, 2014: 100%).
- ▶ The trend for retail properties is similar: stable prices in prime locations (62%, 2014: 84%), but there is a negative outlook for subprime locations (72%, 2014: 72%) and properties in peripheral zones (84%, 2014: 89%).

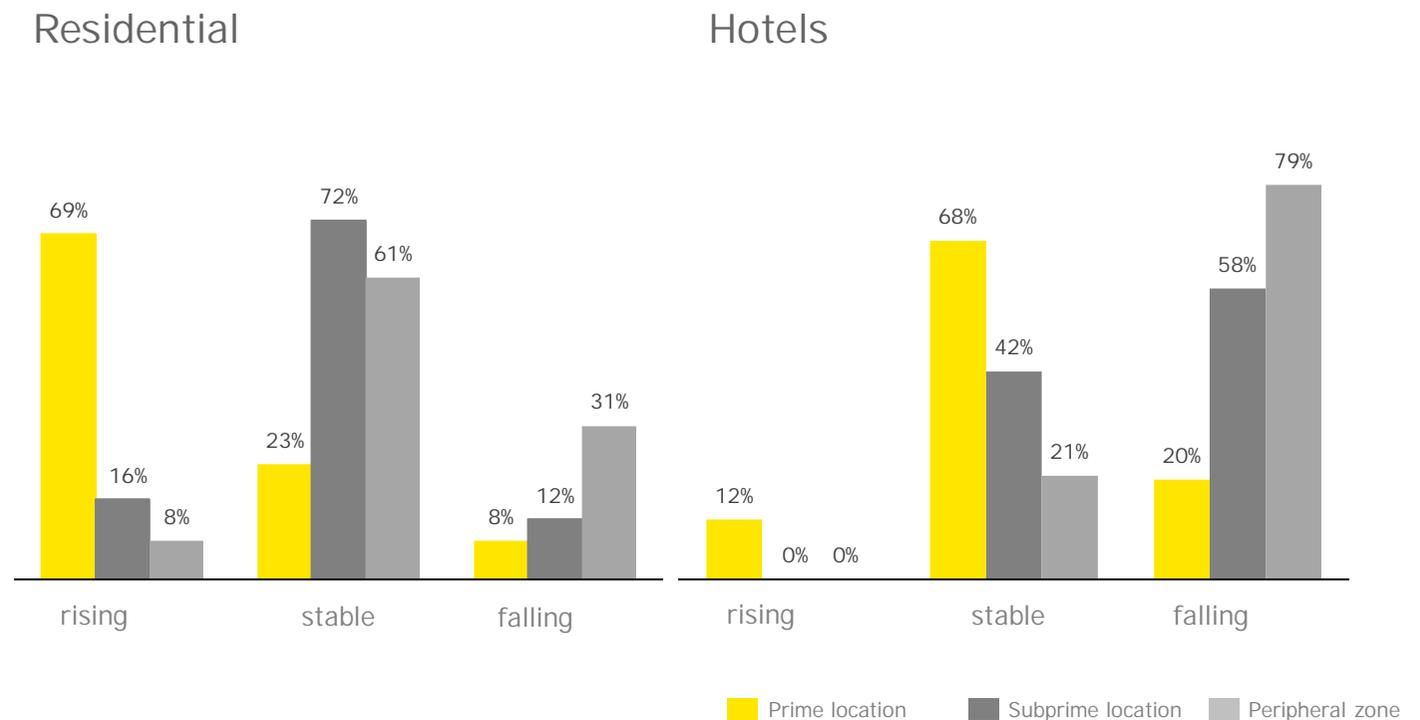


Original question - "How would you assess the purchase price trend in Switzerland for 2015, depending on type of use and location?"

# Expectations regarding price trends vary sharply depending on location and type of use (2/3)

## Key messages

- ▶ Expectations regarding the residential construction sector are more optimistic: rising prices are anticipated in prime locations (69%, 2014: 58%), with stable prices expected in subprime locations (72%, 2014: 69%) and peripheral zones (61%, 2014: 74%).
- ▶ As regards hotels, respondents anticipate a stable price trend in prime locations (68%, 2014: 63%) but falling prices in subprime locations (58%, 2014: 67%) and peripheral zones (79%, 2014: 84%).



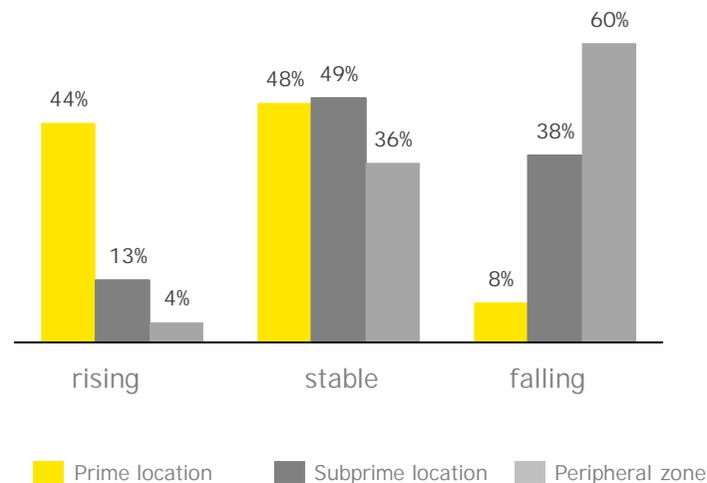
Original question - "How would you assess the purchase price trend in Switzerland for 2015, depending on type of use and location?"

# Expectations regarding price trends vary sharply depending on location and type of use (3/3)

## Key messages

- ▶ For logistics buildings in prime locations, the number of respondents expecting stable and rising prices is almost equal (48%/44%, 2014 stable: 58%).
- ▶ Stable prices are anticipated for subprime locations (49%, 2014: 39%).
- ▶ Prices for logistics buildings in peripheral zones are expected to fall (60%, 2014: 68%).

## Logistics



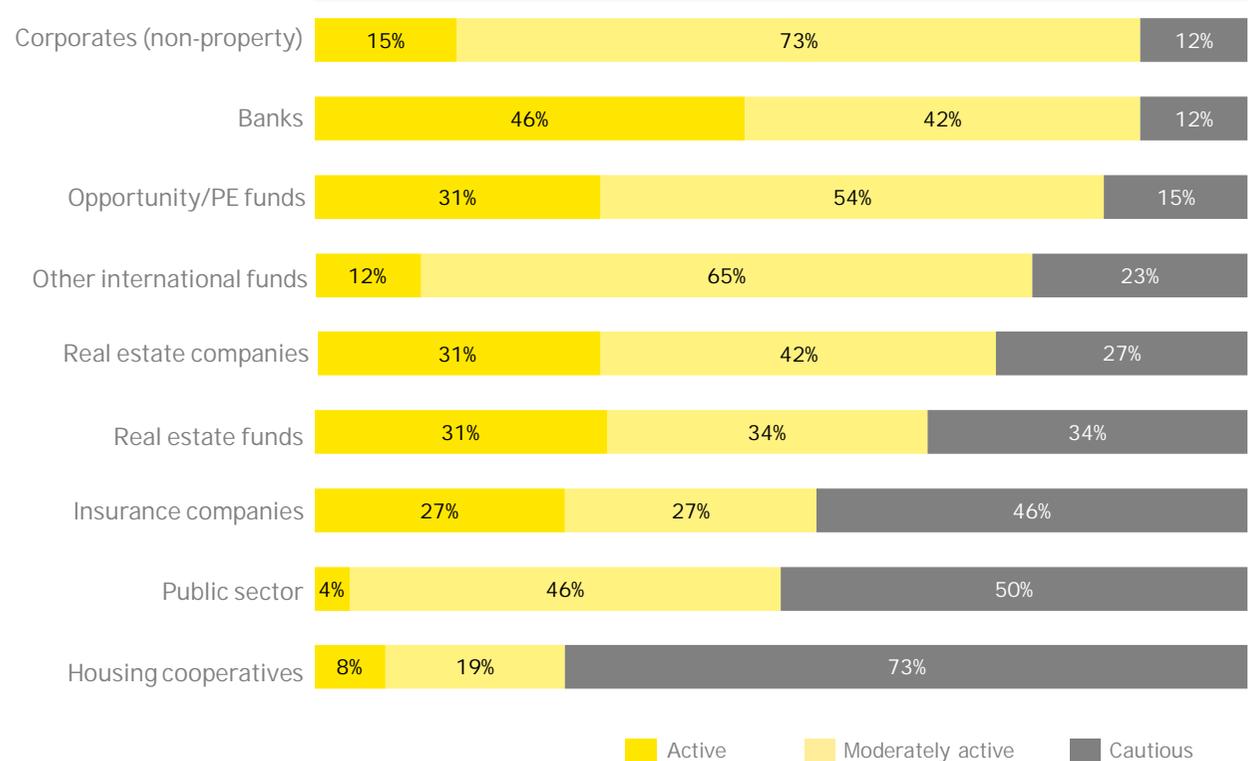
Original question - "How would you assess the purchase price trend in Switzerland for 2015, depending on type of use and location?"

# Which seller groups will be the most active in 2015?

## Key messages

- ▶ As in the prior year, the most active seller groups in 2015 are expected to include banks (88%, 2014: 89%) and corporates (non-property) (88%, 2014: 72%).
- ▶ They are followed in third place by opportunity/PE funds (85%, 2014: 78%) and other international funds in fourth place (77%, 2014: 61%).
- ▶ According to expectations, the public sector (50%, 2014: 50%) and housing cooperatives (27%, 2014: 12%) will be less active as seller groups.

## Seller groups



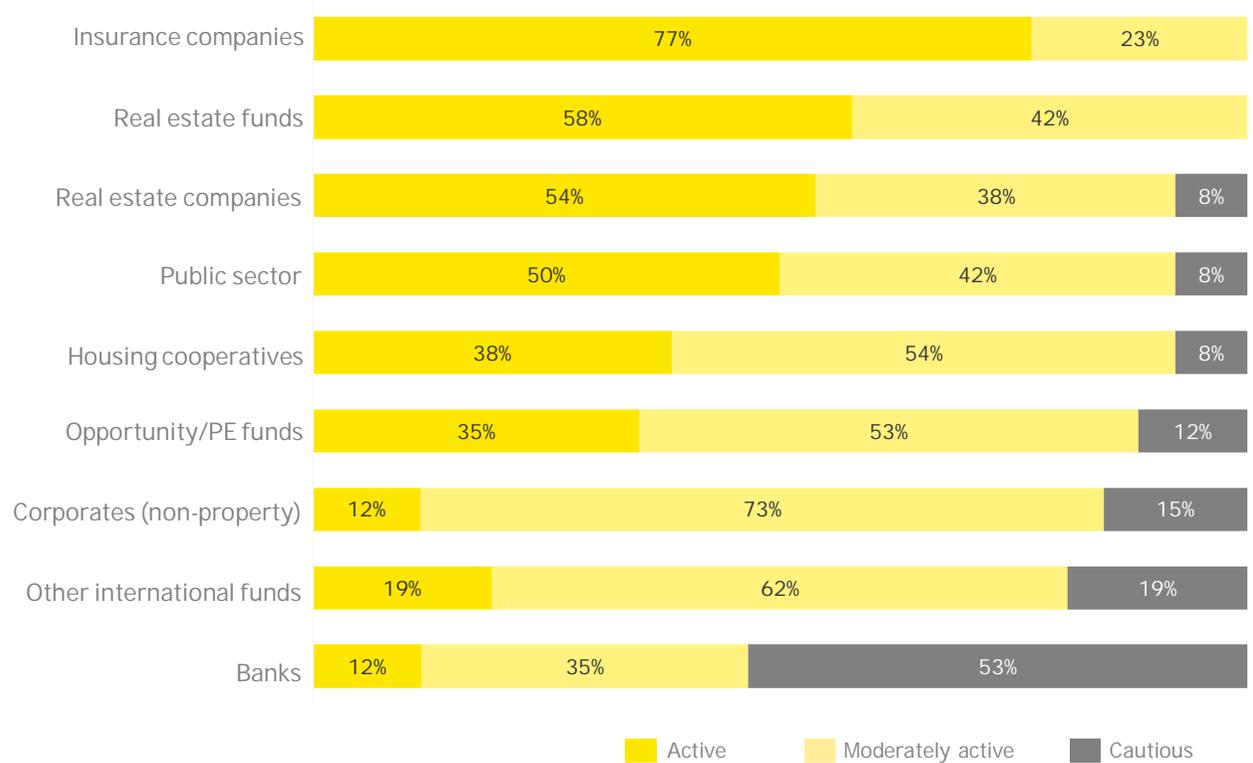
Original question - "In your opinion, how active will the following seller groups be in Switzerland during 2015?"

# Which buyer groups will be the most active in 2015?

## Key messages

- ▶ According to expectations, real estate funds (100%, 2014: 95%) and insurance companies (100%, 2014: 100%) will be the most active buyer groups.
- ▶ In line with the prior year's trend, banks are expected to be less active as buyers in 2015 (47%, 2014: 37%).

## Buyer groups



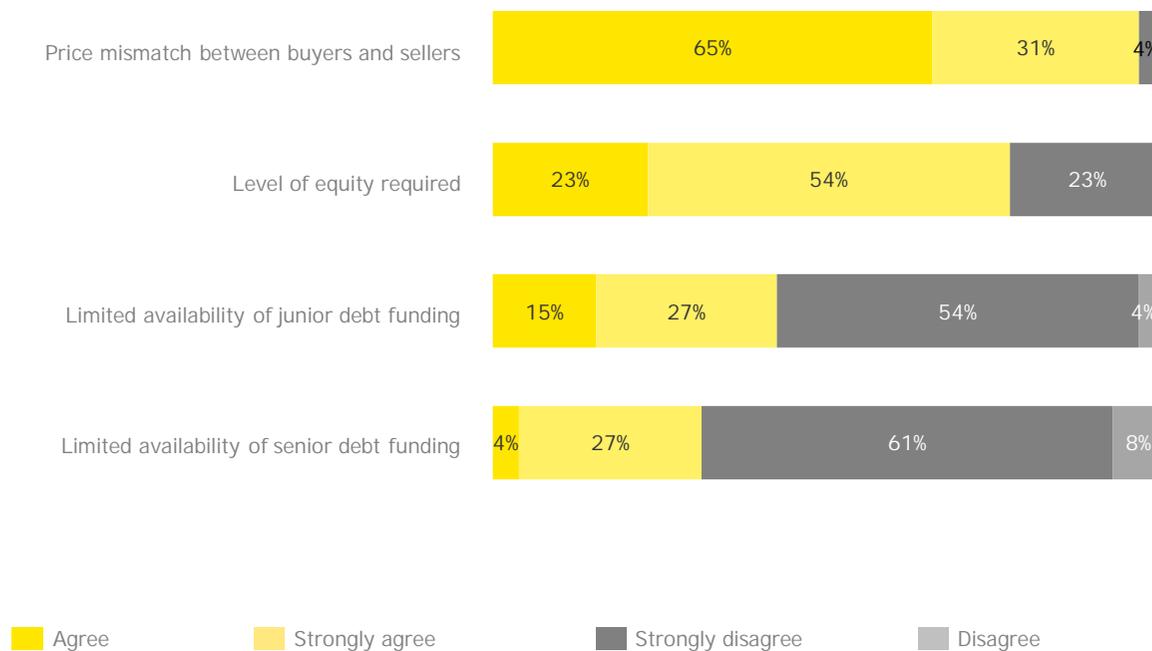
Original question - "In your opinion, how active will the following buyer groups be in Switzerland during 2015?"

# Which will be the greatest impediments to deal flows in 2015?

## Key messages

- ▶ Last year's trend is unchanged. Price mismatch between buyers and sellers (96%, 2014: 100%) is seen as the greatest impediment to deal flows.
- ▶ As was the case last year, the level of equity required by debt providers is viewed as a major hurdle (77%, 2014: 79%).
- ▶ Only a minority considers limited availability of debt funding to be a problem:
  - ▶ Junior debt funding (42%, 2014: 42%).
  - ▶ Senior debt funding (31%, 2014: 27%).

## Transaction impediments



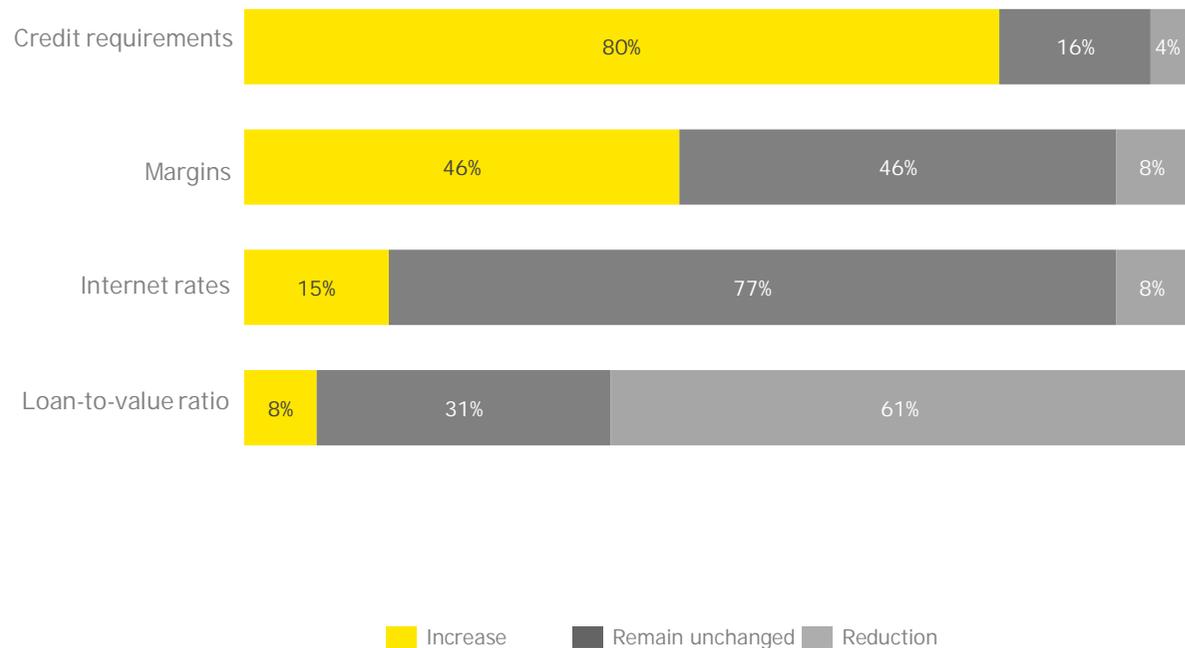
Original question - "Which will be the greatest impediments to deal flows in Switzerland in 2015?"

# How will conditions for real estate loans evolve in 2015?

## Key messages

- ▶ A clear majority (80%) foresees an increase in credit requirements.
- ▶ On margins, opinions are split between an increase and no change (46%/46%).
- ▶ Over 75% of respondents do not anticipate a change in interest rates.
- ▶ More than half of respondents (61%) expect the loan-to-value ratio to fall.

## Conditions for real estate loans



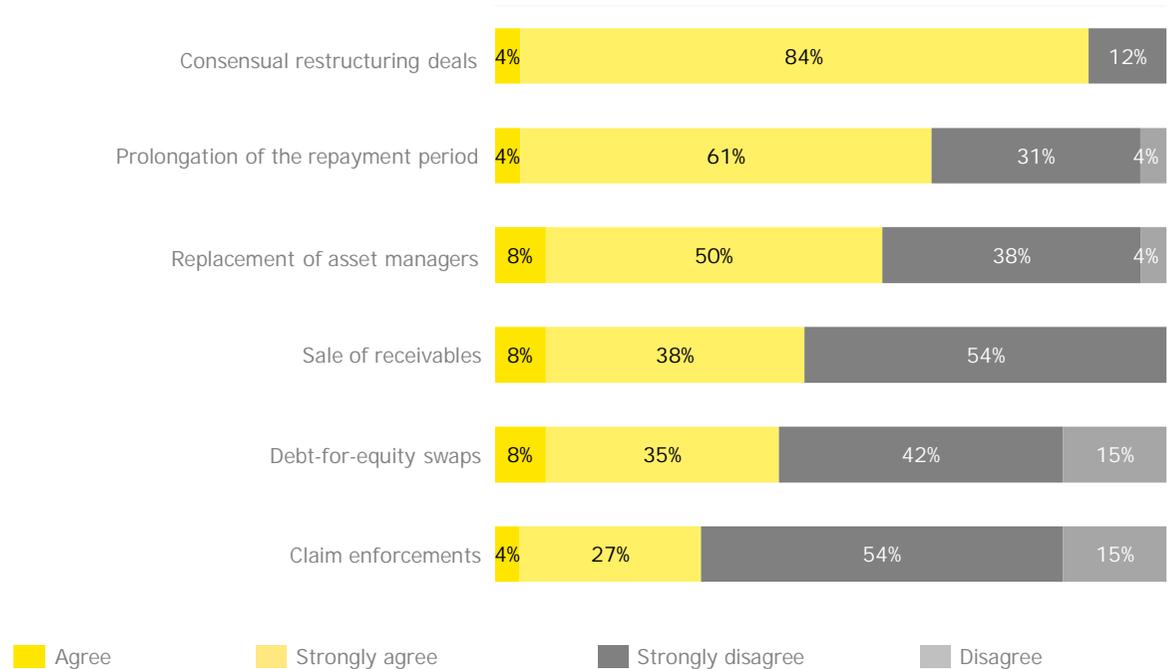
Original question - "How will conditions for real estate loans evolve in 2015?"

# Bank actions to deal with non-performing loans

## Key messages

- ▶ As in the prior year, consensual restructuring deals (88%, 2014: 100%) and prolongation of the repayment period (65%, 2014: 79%) are seen as the best approaches to dealing with non-performing loans.

## Approaches to dealing with non-performing loans



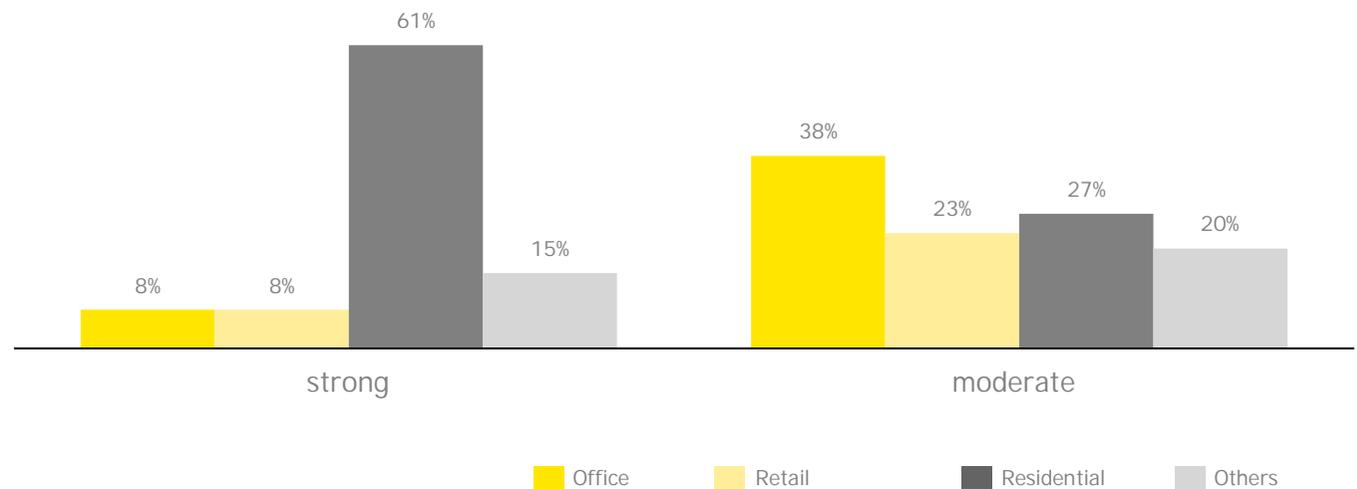
Original question - "Which actions will banks in Switzerland step up in order to to deal with non-performing loans in 2015?"

# The following types of use will be popular with investors in 2015

## Key messages

- ▶ Investors will continue to focus heavily on residential real estate (61%, 2014: 58%).
- ▶ For office buildings, the picture is virtually unchanged since last year. 38% of respondents focus moderately on offices (2014: 39%) and only 8% focus heavily on this segment (2014: 17%).
- ▶ The number of investors who envisage a moderate focus on the retail sector has fallen by more than a half year-on-year (23%, 2014: 47%). Only a few investors envisage a strong focus on retail properties (8%, 2014: 6%).

## Strong or moderate investment focus



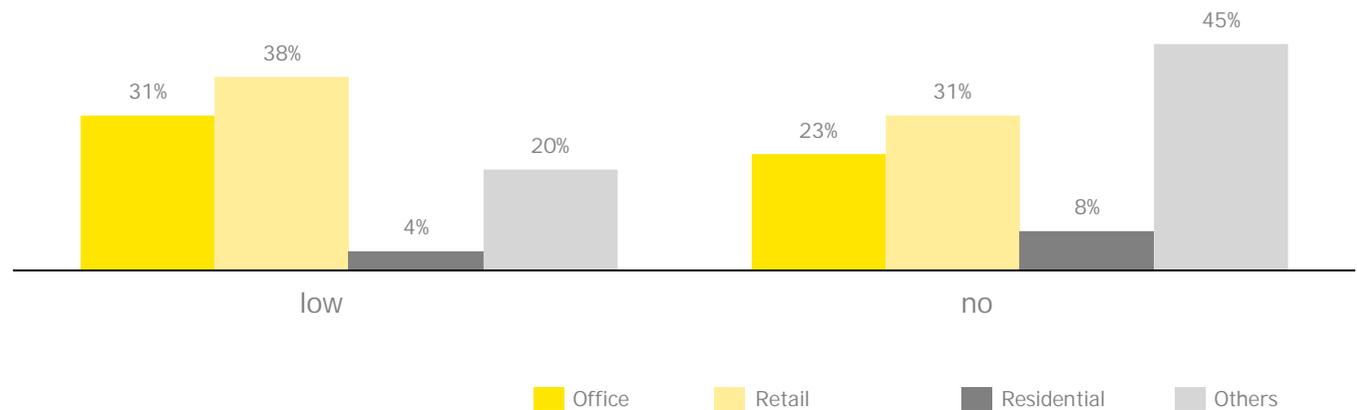
Original question - "How heavily do you envisage focusing on investments in the following types of use in 2015?"

# The following types of use will not be as popular with investors in 2015

## Key message

- ▶ As in the prior year, only one third of respondents (31%, 2014: 33%) envisage a low investment focus on the office sector.

## Low or no investment focus



Original question - "How heavily do you envisage focusing on investments in the following types of use in 2015?"

# Top trends for offices and retail in 2015

## Key messages

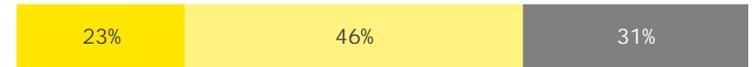
- ▶ Pressure on companies to cut costs/ use space efficiently is assessed by the respondents as very high (96%).
- ▶ More than half of the respondents rate multi-tenant properties as their preferred investments (69%).
- ▶ The picture is similar for new user groups who have a demand for locations and space concepts (69%).
- ▶ A large majority of respondents think that the market for shopping malls in Swiss cities is saturated (96%).
- ▶ 69% believe that traditional department stores are on the way out.

## Office

"There is increased pressure on companies to cut costs and use space efficiently."



"Multi-tenant properties are preferred as investments."



"New user groups (such as start-ups) demand different locations and space concepts."



## Retail

"The market for shopping mall space in Swiss cities is saturated."



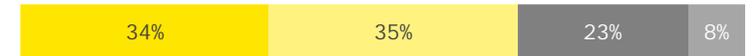
"Over-the-counter retailing will focus more on prime locations in the future."



"Online offerings are forcing other sectors as well as video stores and bookshops to abandon over-the-counter trading."



"Classical department stores are on the way out."



■ Agree    
 ■ Strongly agree    
 ■ Strongly disagree    
 ■ Disagree

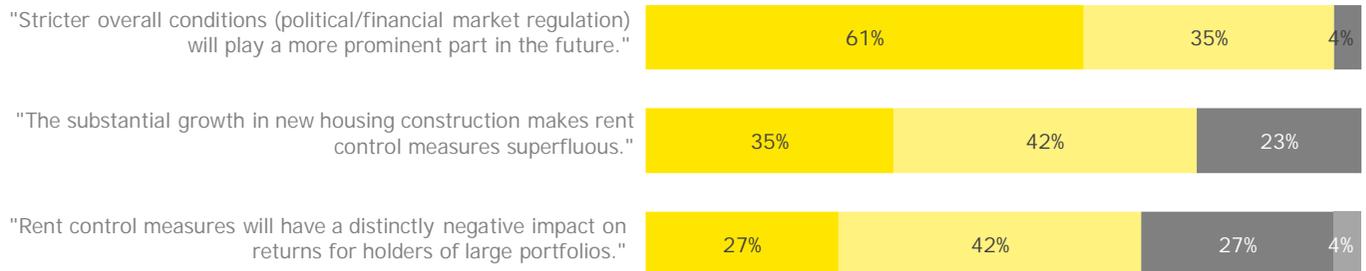
Original question - "Which will be the top trends in use categories in 2015?"

# Top trends for residential and hotel properties in 2015

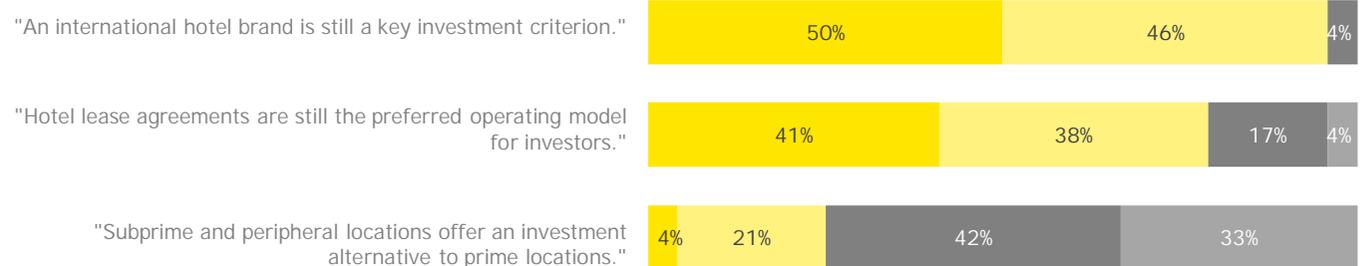
## Key messages

- ▶ Almost all the respondents agree with the statement that stricter overall conditions will play a more prominent part in the future (96%).
- ▶ Only a few investors view subprime and peripheral locations as investment alternatives to prime locations (25%).
- ▶ International hotel brands are still a key investment criterion (96%).

## Residential



## Hotels



■ Agree    
 ■ Strongly agree    
 ■ Strongly disagree    
 ■ Disagree

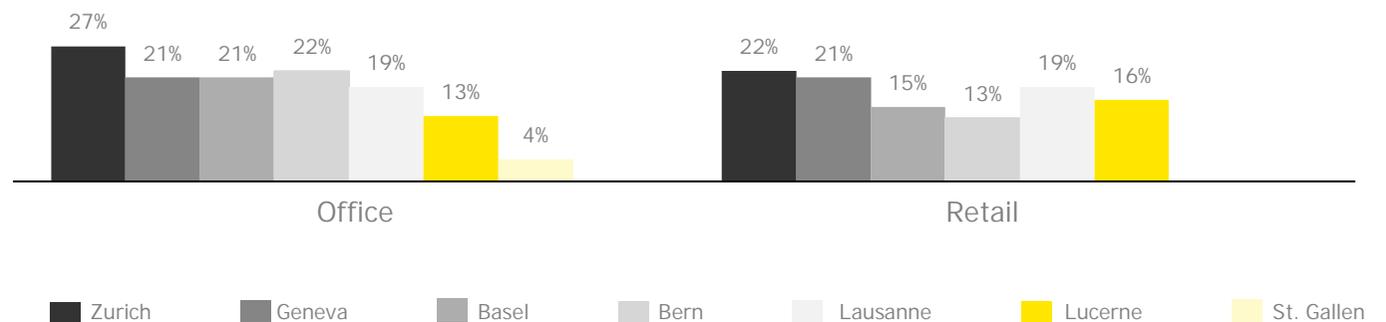
Original question - "Which will be the top trends in use categories in 2015?"

# The office and retail focus is Zurich

## Key messages

- ▶ Zurich (27%, 2014: 36%) is the most attractive location for investments in the office sector, followed by Bern (22%, 2014: 23%), Geneva (21%, 2014: 27%) and Basel (21%, 2014: 27%). Interest has dwindled in all locations except Lausanne (19%, 2014: 19%).
- ▶ Investor demand for retail property has contracted, except in western Switzerland and Lucerne (Geneva 21%, 2014: 19% and Lausanne 19%, 2014: 19%, Lucerne 16%, 2014: 12%); (Zurich 22%, 2014: 27%, Basel 15%, 2014: 20%, Bern 13%, 2014: 17%).

## Office and retail focus



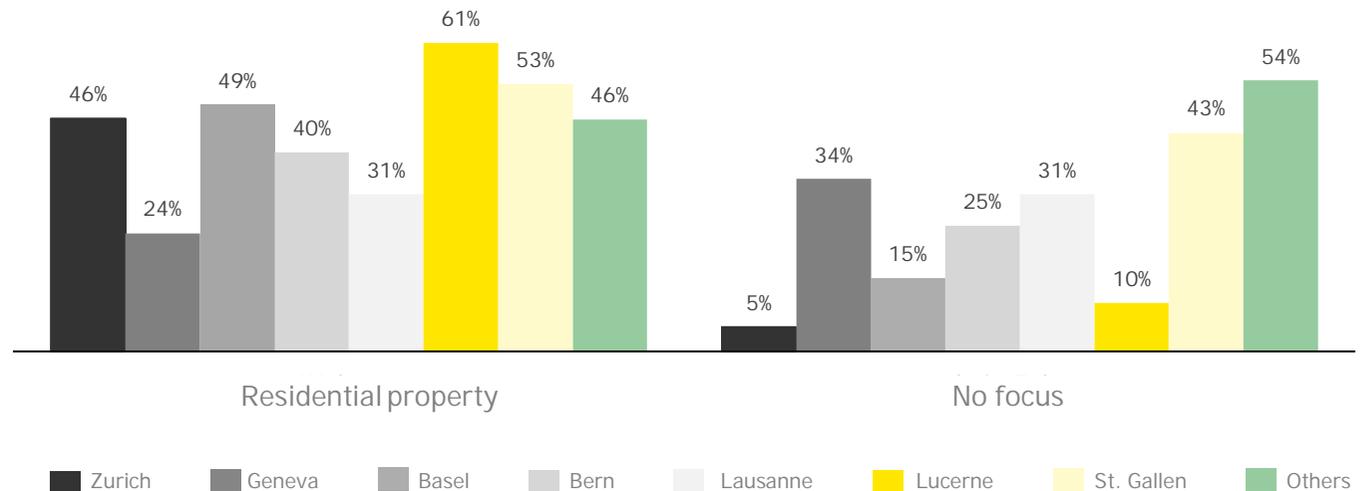
Original question - "On which particular Swiss locations will you focus your investments in 2015?"

# Focus within residential real estate

## Key messages

- ▶ Lucerne continues to be one of the most preferred cities (61%, 2014: 50%).
- ▶ It is followed by St. Gallen at 53% (2014: 45%), Basel (49%, 2014: 33%), Zurich (46%, 2014: 42%) and Bern (40%, 2014: 40%). On the other hand, ratings for Lausanne (31%, 2014: 37%) are similar to those in prior years. Geneva (24%, 2014: 23%) is viewed as the least interesting real estate location.

## Focus on residential property, and no focus



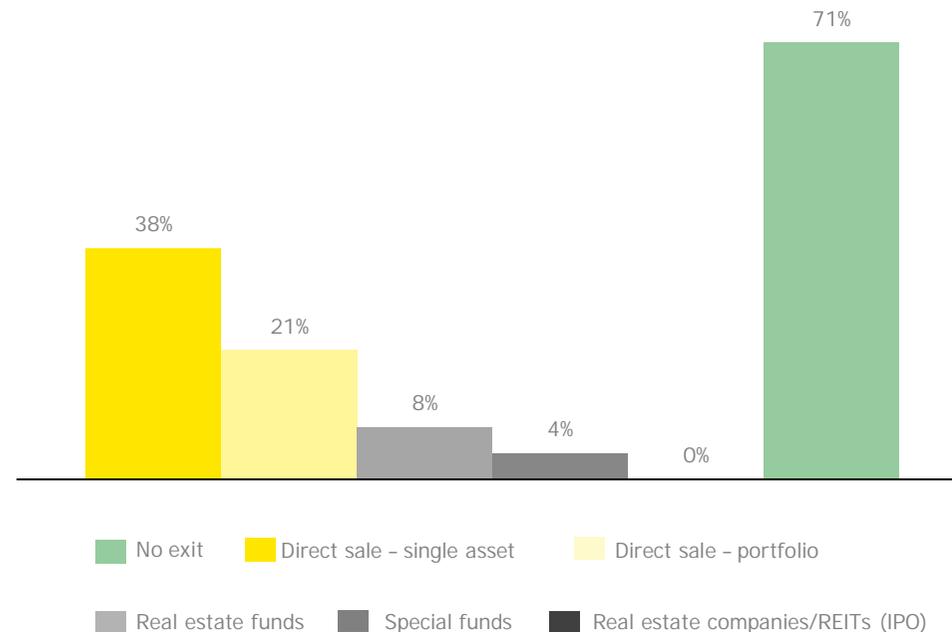
Original question - "On which particular Swiss locations will you focus your investments in 2015?"

# Most attractive exit options for real estate investments in 2015

## Key messages

- ▶ Most respondents do not envisage an exit (71%); if at all, a direct sale as a single property appears to be the preferred option in 2015 (38%).
- ▶ Strategies such as direct sales of portfolios (21%), sales to real estate funds (8%) and real estate companies (IPO) (0%) will be less significant exit options.

## Planned exit options



Original question - "Which exit strategies do you envisage in 2015?"



Key messages  
Switzerland 2015



# How respondents in Switzerland view the real estate investment market...

## Attractiveness

- ▶ A clear majority of participants see Switzerland as an attractive or very attractive location for real estate investments once again in 2015.

## Real estate capital market

- ▶ Corporate bonds continue to be an important financing instrument.
- ▶ Alternative sources of financing (insurance companies, pension funds, debt funds and mezzanine capital) will gain market share.
- ▶ High levels of IPO activity are unlikely.

## Real estate transaction market

- ▶ The market for high-risk investments is gaining importance.
- ▶ Investments abroad are becoming more interesting due to increased expectations of return.
- ▶ International investors will increase their transaction volume in Switzerland.

## Purchase price expectations

- ▶ Prices for office and retail properties in prime locations will show stable development.
- ▶ Over half of the respondents believe that prices for residential property in central locations will increase.
- ▶ Prices for residential real estate in average locations or peripheral zones will undergo stable development.

## Seller and buyer groups

- ▶ Apart from corporates (non-property), banks and opportunity/private equity funds will number among the most active seller groups in 2015.
- ▶ Insurance companies, real estate funds and real estate companies will be the most active buyer groups.
- ▶ The importance of banks as buyers is regarded as low.

## Greatest impediments to deal flows

- ▶ The price mismatch between buyers and sellers and the amount of equity required will be the main impediments to successful deals in 2015.

## ...and the strategies they adopt

### Conditions for real estate loans

- ▶ Requirements for real estate loans will increase.
- ▶ The interest rate level will likely remain constant.

### Banks' approaches to non-performing loans

- ▶ Consensual restructuring deals and prolongation of the repayment period are the most probable.
- ▶ It is highly unlikely that claim enforcements will become more frequent.

### Focus on types of use

- ▶ The spotlight will definitely be on residential real estate in 2015.
- ▶ Demand for office properties will be moderate to low, depending on their location.
- ▶ Just under half of the respondents state that demand for retail properties will be low.

### Regional focus

- ▶ Zurich, Geneva and Bern are popular regions for investments in office properties.
- ▶ Demand for residential properties will be highest in Lucerne, St. Gallen and Basel.

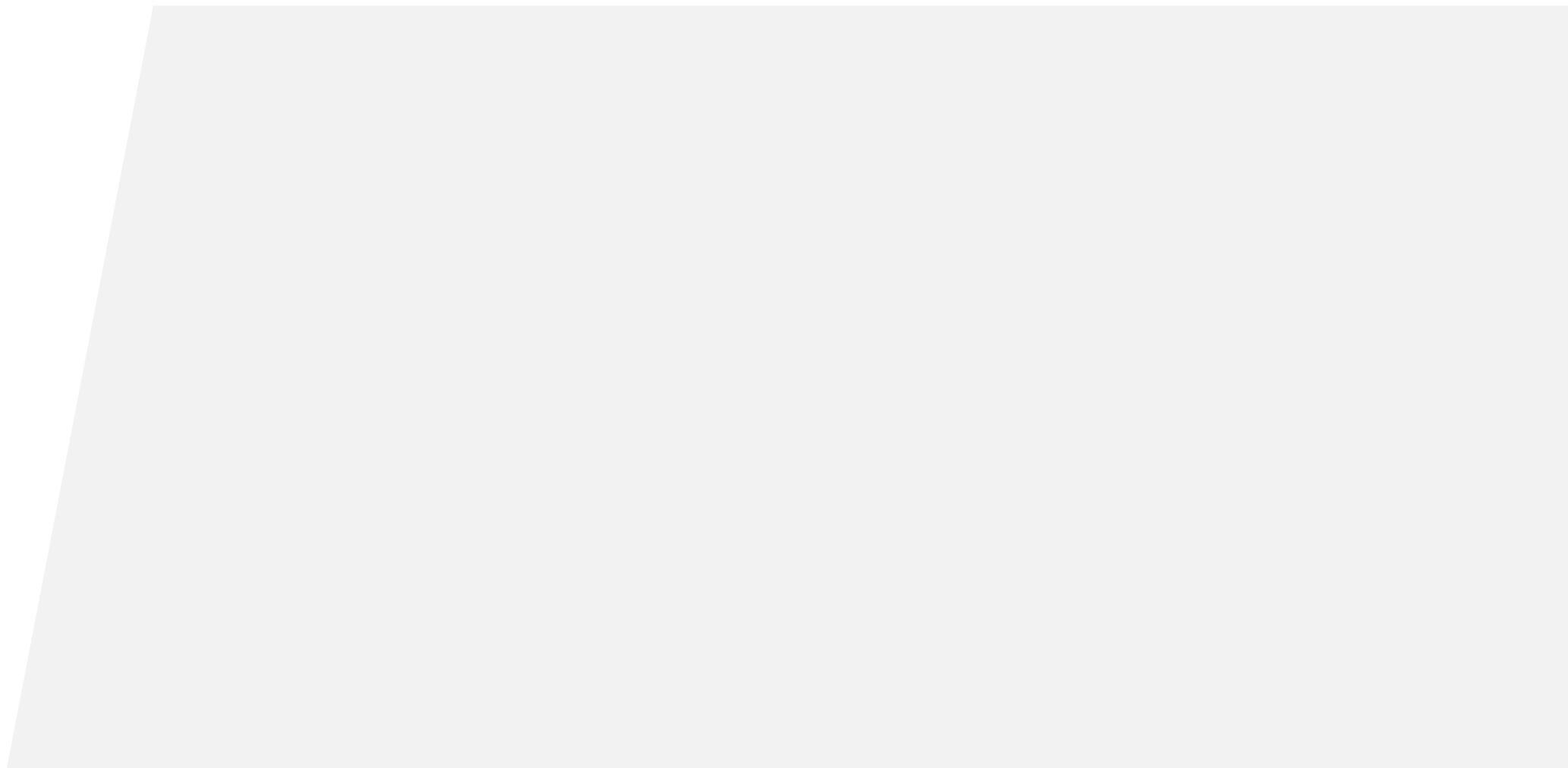
### Trends in 2015

- ▶ There will be increased pressure on companies to make efficient use of space.
- ▶ The market for shopping malls in Swiss cities is viewed as saturated.
- ▶ Multi-tenant properties are a focus of investments.
- ▶ Tighter statutory conditions will play a prominent part.
- ▶ International hotel brands are still a key investment criterion.

### Exit strategies

- ▶ A majority of respondents consider that an exit in 2015 would be generally unattractive.
- ▶ If at all, the direct sale of a single asset will be the most significant exit strategy in 2015.

Notes...



# Your contacts



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