



cutting through complexity

Swiss Real Estate Sentiment Index 2012

kpmg.ch/realestate



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Foreword

Insights into the future

Global networking and the complex effect this has on economic development is increasing the challenge of making adequate forecasts. Forecasts are based on the extrapolation of historic information combined with assumptions on future developments. As a result, the frequency of these forecasts is continually increasing.

It could be assumed that the comparably slow moving and relatively non-transparent Swiss real estate investment market is, to a degree, not susceptible to this dynamic. Market players, however, paint a different picture, which is unsurprising in times of global capital flows and investment opportunities.

By creating the Swiss Real Estate Sentiment Index, we intend to map the expectations of market players in terms of developments in the real estate investment market for the forthcoming 12 months. Instead of interpreting historic information in the future, we are recording through the use of surveys current sentiment in the market, which has a direct influence in upcoming investment decisions.

The Swiss Real Estate Sentiment Index – an advance indicator for investors and appraisers – will support them in anticipating developments in the real estate investment market. This is a qualitative index that can also produce a quantitative effect where, for example, the results of the survey can impact on the evaluation of investment decisions or risk assessments in appraisals.

In a dynamically complex environment, it is not possible to eliminate uncertainties. This is also the case with the Swiss Real Estate Sentiment Index, but such issues will be discussed later in an annual retrospective. Nonetheless, we assume that the Index will prove to be a powerful forecasting tool because the market is defined by the decisions of its participants. A significant number of these participants have already expressed their expectations for the Swiss real estate investment market in the 2012 survey, for which we are very grateful.

We hope you find our report interesting and we look forward to welcoming further market participants to our survey next year.



Ulrich Prien
Partner, Head Real Estate Switzerland



Beat Seger
Director, Real Estate



Swiss Real Estate Sentiment Index

Key results

Sentiment Index

The KPMG Swiss Real Estate Sentiment Index serves as an advance indicator for anticipated developments in the Swiss real estate investment market. 190 institutional and professional investors and appraisers of Swiss investment real estate took part in the representative survey in 2012. The Index will be updated annually and can be used to measure the expectations of market players to developments over the next 12 months, on a scale of -200 to +200 index points. It is also possible to record the price expectations for investment properties in the real estate market.

The aggregated Swiss Real Estate Sentiment Index stands at +20.6 points and signals a neutral to cautiously optimistic mood in the Swiss investment real estate market. The development of the economic situation has been assessed as stable to moderately negative, at -38.0 points. Expected price developments across all use segments lie within the neutral to moderately positive area, at +35.2 index points.

Security before returns

Investors are focusing on investments with low risk profiles. This is particularly apparent in the sub-index for residential investment property, which signals moderately increasing prices, at +73.4 index points. Moderate price increases are also expected for central locations, at +79.2 points, where price expectations for peripheral locations have

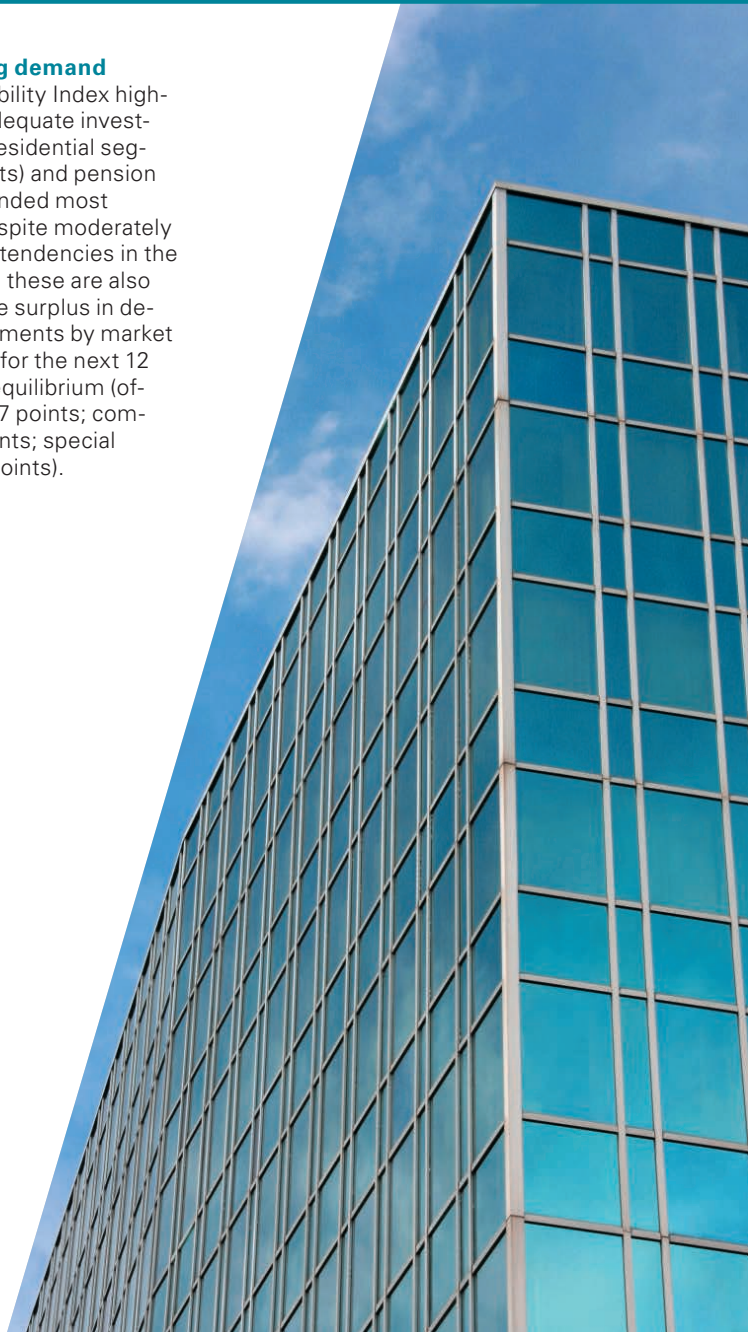
been assessed as moderately negative at -54.2 points. It is not surprising that market players also expect moderate price increases for the cities of Geneva and Zurich (+60.9 and +66.4 points) over the next 12 months due to the continued trend towards the "Core" segment. Lausanne and Lucerne/Zug are similarly attractive (+47.0 and +48.1 points). Basel, Bern, St. Gallen and Lugano are rated by the survey participants as almost stable, where a moderately negative price trend is expected for St. Gallen (-13.0 points).

Price/yield gaps between the segments

The gap between reputed secure residential properties in the economic centres and the price expectations for real estate investments in the commercial segments is widening. All sub-indices for office (-58.7 points), retail (-45.5 points), commercial space (-57.8 points) and specialised properties (-13.5 points) are negative and represent the expectations of market players that prices for these use segments tend to decrease. Based on a maximum negative scale of -200 points, these expectation figures must be taken in context and lie close to the stability axis. These market findings contrast with the general assumption that cash-flows from commercial rents are relatively resilient to economic fluctuations due to the long-term nature of most lease contracts.

Scarcity of supply, strong demand

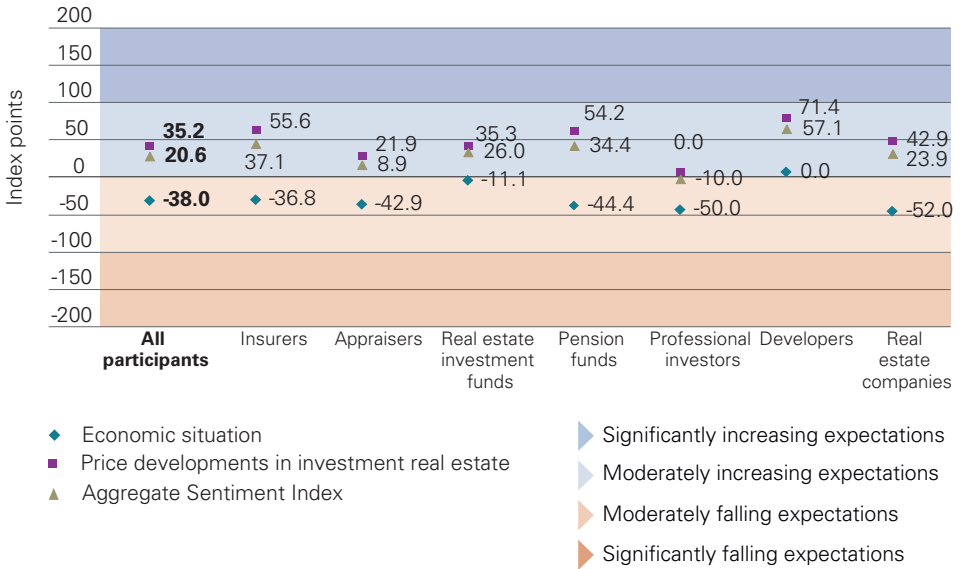
At -140.3 points, the Availability Index highlights a sustained lack of adequate investment opportunities in the residential segment. Insurers (-164.7 points) and pension funds (-162.5 points) responded most strongly to the scarcity. Despite moderately negative price expectation tendencies in the commercial use segments, these are also expected to see a moderate surplus in demand, whereby the assessments by market players of these segments for the next 12 months suggest a market equilibrium (office: -27.6 points; retail -31.7 points; commercial / industrial: -5.0 points; special purpose properties: -16.3 points).



Swiss Real Estate Sentiment Index

Stable to moderate rising prices based on a moderately negative economic development

Aggregated Sentiment Index according to participant groups



- The assessment of economic development over the next 12 months is moderately negative (-38.0 pts).
- A stable to moderate positive development is anticipated for prices in the Swiss real estate investment market (35.2 pts).
- At 20.6 points, the aggregated KPMG Swiss Real Estate Sentiment Index¹ is registering a stable level, with moderately positive expectations.

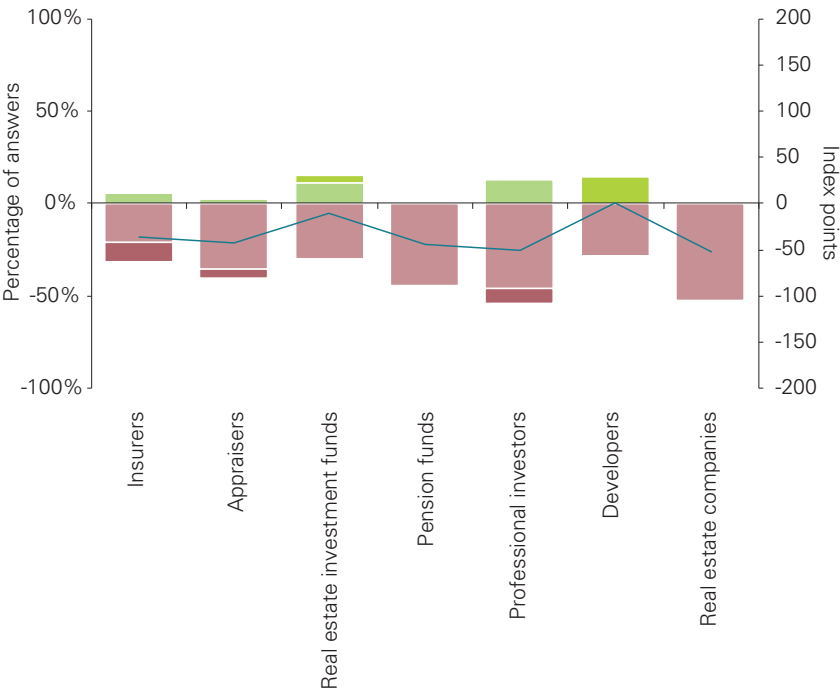
¹ In the aggregated index, the assessments of economic conditions are weighted by 20%, and the assessments of the development of property prices by 80%.



Sub-index: Economic Conditions

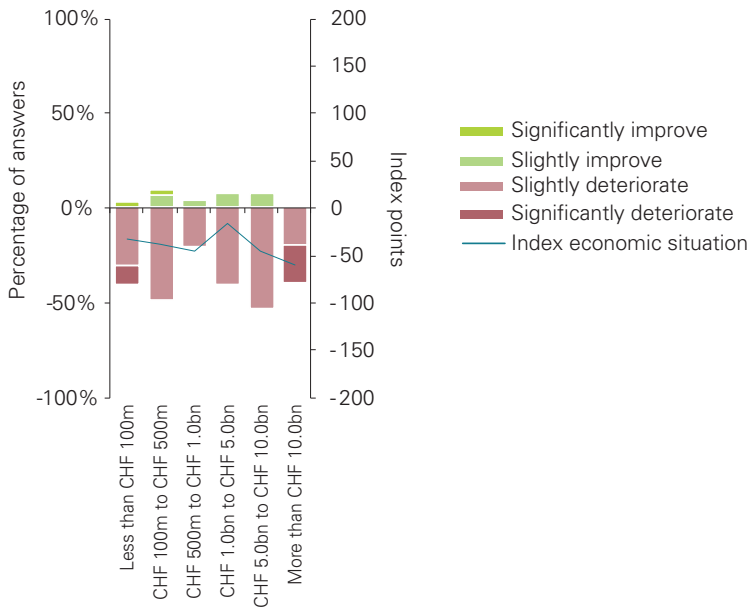
Cautiously pessimistic assessment of economic development

Assessment of the economic conditions according to participant groups



Sub-index	Index points
Economic conditions	-38.0 pts

Assessment of the economic conditions according to investment volumes



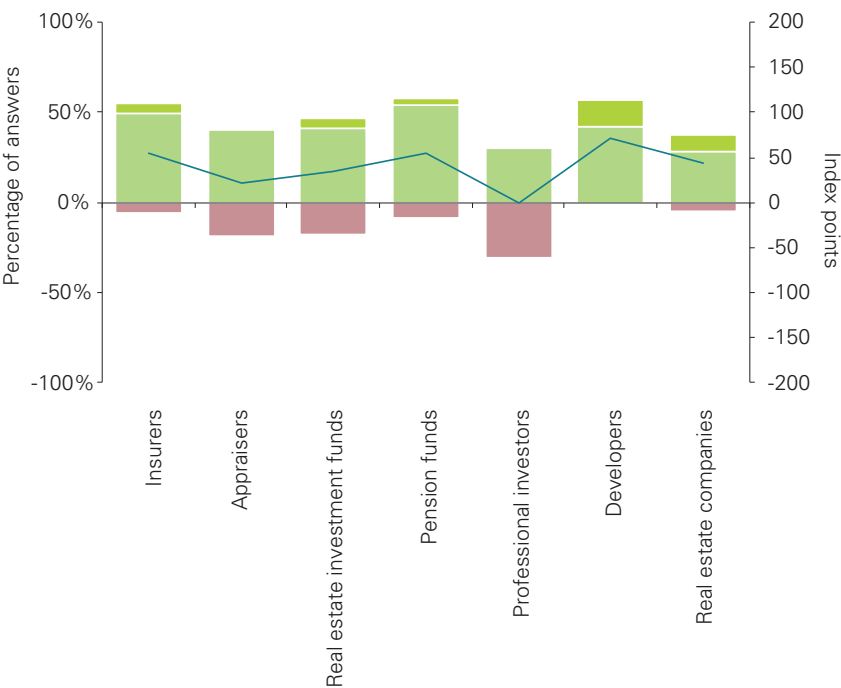
The question: How do you think economic conditions in Switzerland will develop over the next 12 months?

- All participants assess economic development over the next 12 months as stable to moderately negative, at -38.0 pts. Assessments range between -52.0 pts (real estate companies) and 0.0 pts (developers).
- A breakdown of the investment volumes represented by the participants shows that investors with an investment volume of between CHF 1,000m and CHF 5,000m assess the economic development as relatively stable, at -16.7 pts. Major investors with an investment volume of more than CHF 10bn anticipate a deterioration of economic conditions (-60.0 pts).

Sub-index: Development of Property Prices

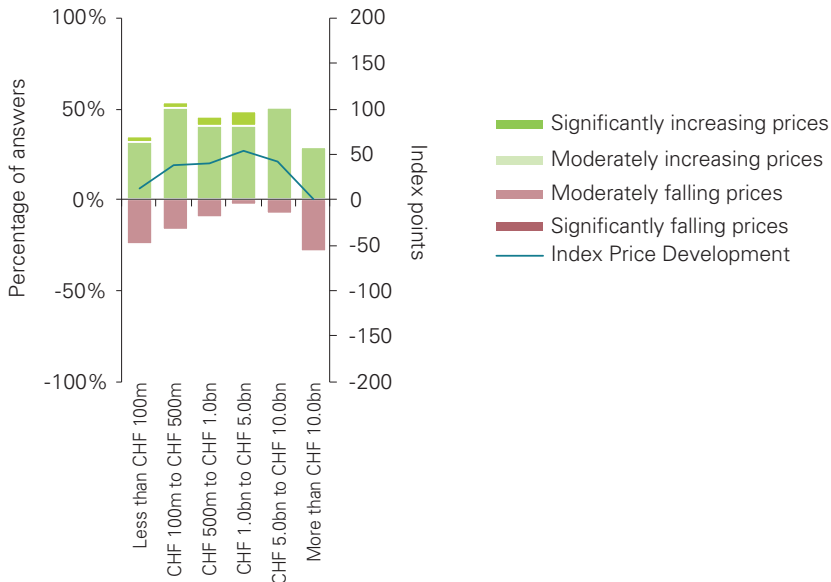
Stable to moderately positive price development expected

Price expectations for investment properties according to participant groups



Sub-index	Index points
Price expectation	35.2 pts

Expectations for price development according to investment volumes



The question: How will prices develop in the Swiss real estate investment market over the next 12 months?

- Developers (71.2 pts), insurers (55.5 pts) and pension funds (54.2 pts) are reporting above-average positive expectations for price development.
- Appraisers (21.9 pts) and professional investors (0.0 pts) expect prices to remain stable over the next 12 months.
- Representatives (investors and appraisers) with investment volumes of between CHF 1,000m and CHF 5,000m are most positive about price development (54.3 pts).

Sub-index: Development of Prices according to Location

Central locations remain positive

Price expectations for investment properties according to location



Sub-index	Index points
Central locations	79.2 pts
Medium-sized towns	17.7 pts
Peripheral locations	-54.2 pts

The question: How do you think prices will develop over the next 12 months in the following locations?

- Market players expect continuing price increases in central locations over the next 12 months (79.2 pts).
- The price index for medium-sized towns, which lies only slightly above the growth limit (17.7 pts), points to continued stability in prices for locations outside the economic hotspots.
- Prices for peripheral locations² will tend to come under pressure over the next 12 months (-54.2 pts), whereby the index assesses the price expectations of market players as lying between stable and moderately negative.

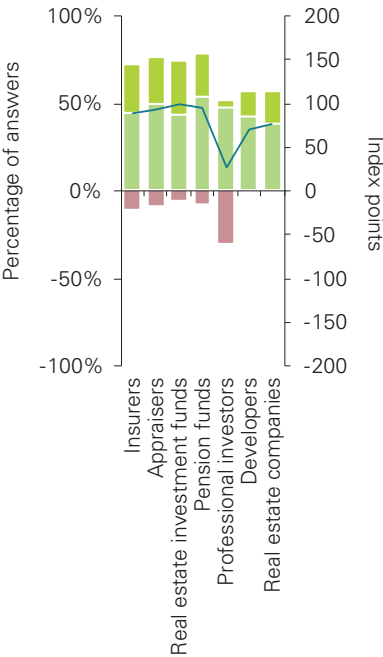
² Peripheral locations are defined as all locations outside of the major centres and medium-sized towns.

Sub-index: Development of Prices according to Location

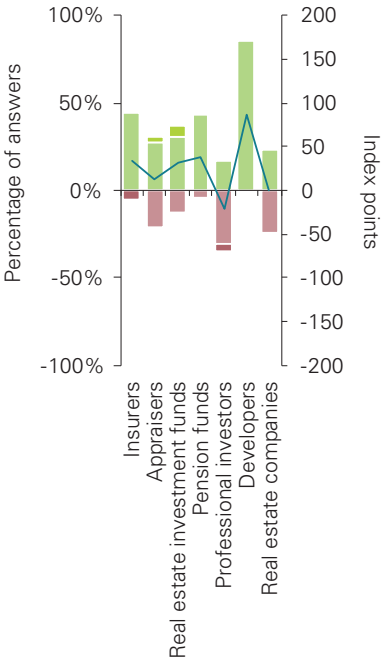
Negative price trend for peripheral locations

Price expectations for investment properties according to location

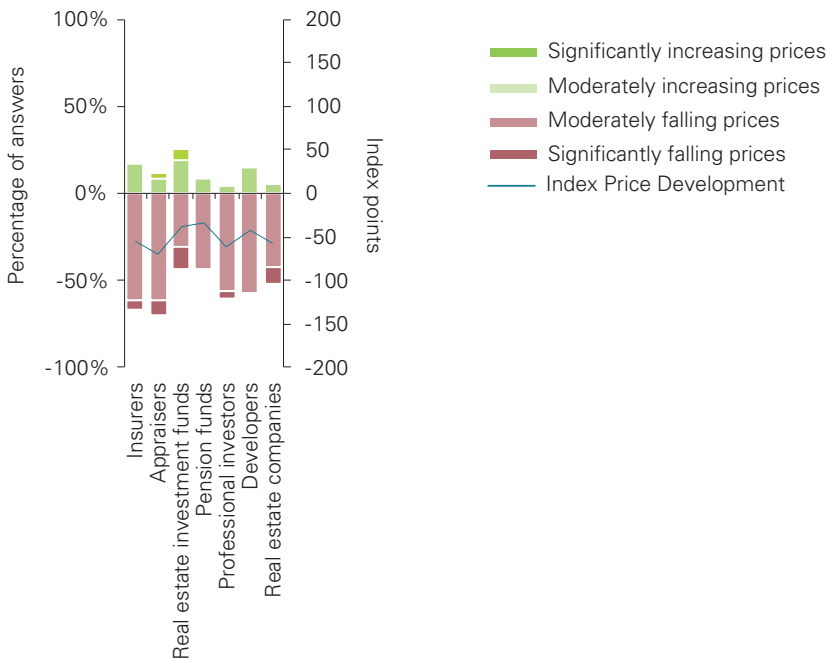
Central locations



Medium-sized towns



Peripheral locations



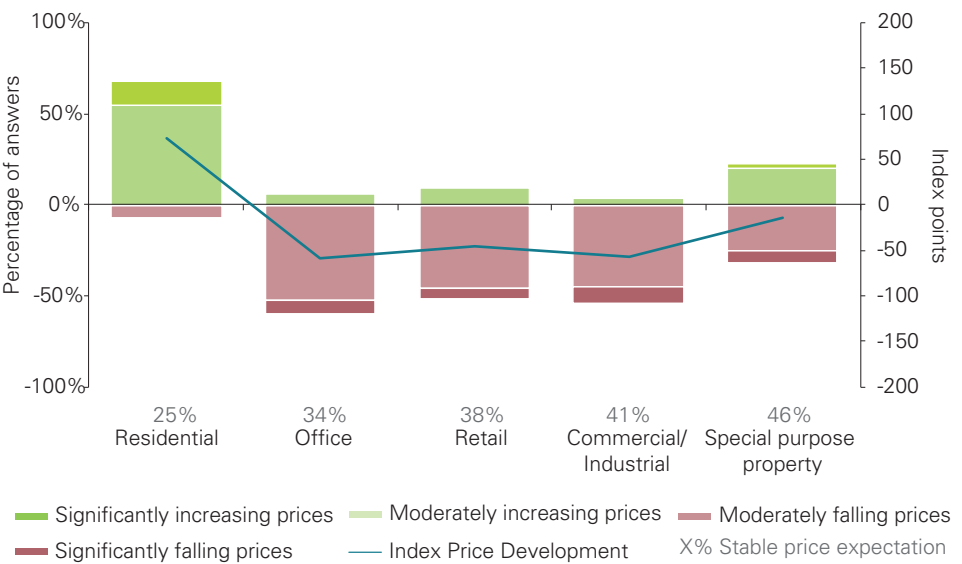
The question: How do you think prices will develop over the next 12 months in the following locations?

- All market players express their optimism for the development of prices in central locations. Professional investors (26.1 pts) see a deceleration in price increases towards stability.
- Developers expect the greatest price increase potential to be in medium-sized towns (85.7 pts) and have assessed such locations higher than the centres (71.4 pts). Professional investors display most caution in respect to medium-sized towns: their assessments tend towards the moderately negative, whereby the overall index shows an expectation of stability with a slightly positive tendency.
- Peripheral locations are expected to experience negative price development by all survey participants.

Sub-index: Development of Prices according to Use

Trend reversal for commercial real estate investments

Price expectations for investment properties according to use



Sub-index	Index points
Residential	73.4 pts
Office	-58.7 pts
Retail	-45.5 pts
Commercial/Industrial	-57.8 pts
Special purpose properties	-13.5 pts

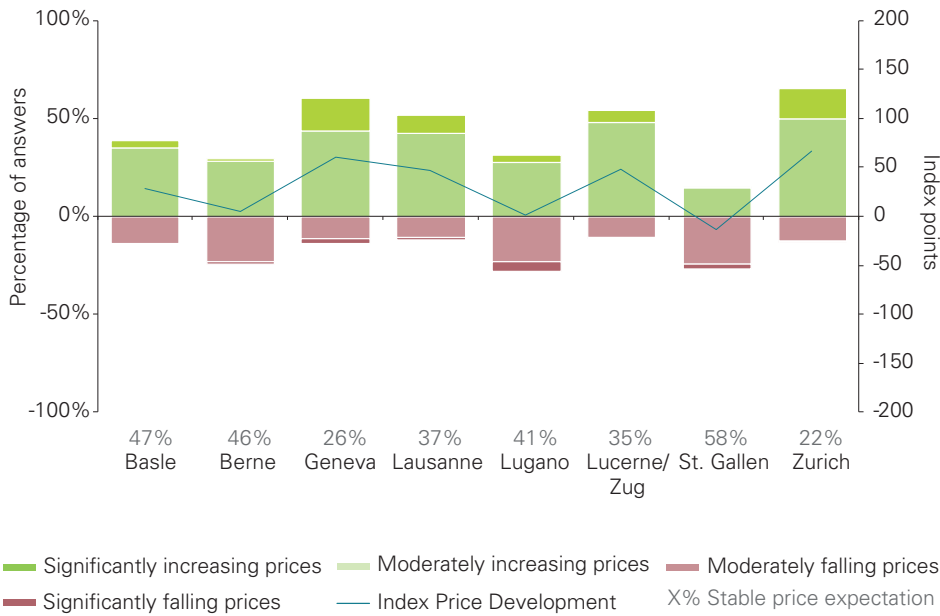
The question: How do you see price development over the next 12 months for the following use categories?

- Moderately increasing prices are still expected for investment properties in the residential segment over the next 12 months (73.4 pts).
- For all other use segments there are negative price expectations. In the case of office (-58.7 pts) and commercial/industrial space (57.8 pts), the negative assessments are the most pronounced, whereby these continue to lie between “stable” and “moderately falling”.
- The emerging trend reversal in the commercial segment, from a landlord to tenant market, is also being considered by investors in their market assessments and is reflected in the expectations with regard to transaction prices.

Sub-index: Development of Prices in the Economic Centres

Zurich and Geneva in upswing

Expectations for the development of prices of investment properties in economic centres



Sub-index	Index points
Basle	28.8 pts
Berne	5.2 pts
Geneva	60.9 pts
Lausanne	47.0 pts
Lugano	1.6 pts
Lucerne/Zug	48.1 pts
St. Gallen	-13.0 pts
Zurich	66.4 pts

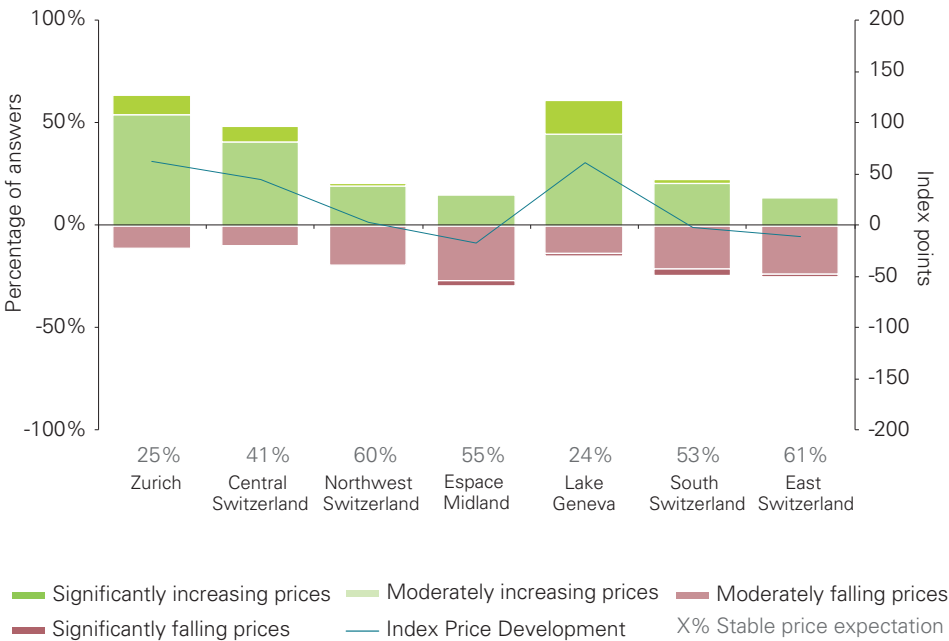
The question: In your opinion, how will real estate prices develop over the next 12 months in the following economic centres?

- The assessments of market development lie at almost the same level for Lucerne/Zug (48.1 pts) and Lausanne (47.0 pts). The situation is similar for the economic centres of Zurich (66.4 pts) and Geneva (60.9 pts).
- The survey participants assume that prices will remain stable in the centres of Berne (5.2 pts) and Lugano (1.6 pts). This also applies to Basle, where moderately positive impetus is expected in terms of price development, at 28.8 pts.
- Stable to moderately falling prices are expected for St. Gallen (-13.0 pts). Market players perceive a partial absorption risk here.

Sub-index: Price Development in the Major Regions

Financial and commercial centres with price increases

Price expectations in the regions



Sub-index	Index points
Zurich	62.2 pts
Central Switzerland	44.8 pts
Northwest Switzerland	3.1 pts
Espace Midland	-17.4 pts
Lake Geneva	60.9 pts
South Switzerland	-2.4 pts
East Switzerland	-11.3 pts

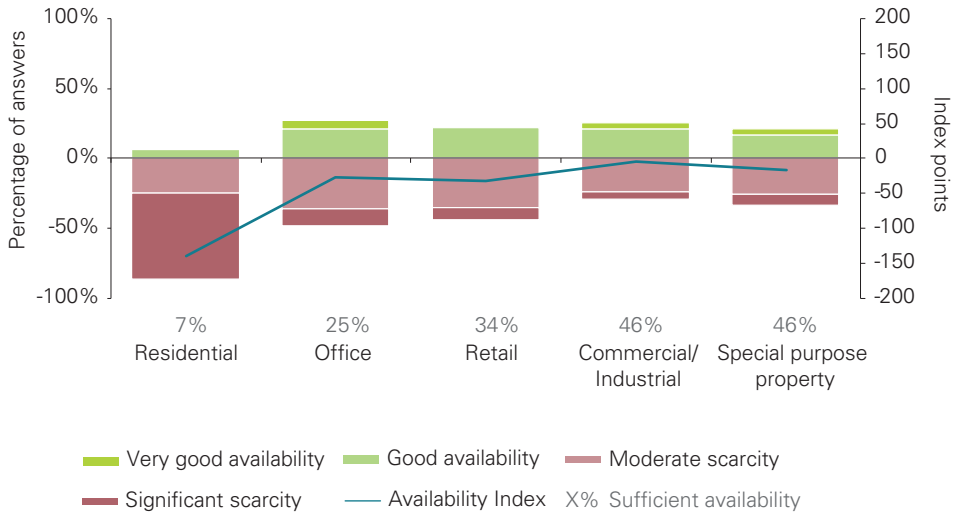
The question: How will prices develop in the Swiss real estate investment market over the next 12 months in the following regions?

- It is expected that economic regions active in the international markets, with focuses on the financial and commercial sectors and corporate headquarters, will experience a further moderately positive price development in investment real estate. Stable to moderately increasing prices are expected for the major regions of Zurich (62.2 pts), Lake Geneva (60.9 pts) and Central Switzerland (44.8 pts).
- It is anticipated that prices will remain stable in Northwest Switzerland (3.1 pts) and South Switzerland (-2.4 pts). Also the assessments for the Espace Midland (-17.4 pts) and East Switzerland (-11.3 pts) focus on stable price expectations, but display a moderately negative tendency.
- The price expectations for the regions almost mirror those for the respective economic centres.

Sub-index: Availability of Adequate Investment Opportunities

Residential segment dominated by scarcity of supply

Availability of investment real estate – Supply Index



The question: In your opinion, will there be sufficient investment properties offered on the market, over the next 12 months, which will be suitable in terms of their value for money (condition / cashflows etc.) in satisfying your investment objectives?

- The majority of the market players are of the opinion that there is insufficient supply in the residential segment to satisfy the demand for investment real estate. This is reflected in an availability index of -140.3 pts. This lack of supply must be taken in context, as demand is also defined by the selective investment objectives of the individual investors.

Sub-index	Index points
Residential	-140.3 pts
Office	-27.6 pts
Retail	-31.7 pts
Commercial/Industrial	-5.0 pts
Special purpose properties	-16.3 pts

- In terms of office (-27.6 pts) and retail space (-31.7 pts), as well as special purpose properties (-16.3 pts), market players expect a tendency towards a moderate scarcity of supply over the next 12 months; however, the respective indices show an almost balanced supply and demand situation. Balanced supply and demand is expected for commercial and industrial real estate in particular (-5.0 pts).

Real Estate Sentiment Index

Availability of investment opportunities and price expectations

Anticipated real estate supply and price expectations index according to use



- A comparison of these two sub-indices shows that market players forecast contradictory tendencies for the indices: the lower the adequate supply expected for an investment segment, the more expectations vary in terms of price development. It is however noted that, with the exception of investments in residential properties, a stable to moderately negative development is expected both in terms of the availability of supply and anticipated price trends for all commercial real estate segments.
- It is noted that the market players see a gap between supply and demand in the housing segment. Whether this will have the anticipated positive effect on prices or whether the anticipated surplus demand is already included in prices can only be analysed retrospectively during the course of the KPMG Real Estate Sentiment Index 2013.



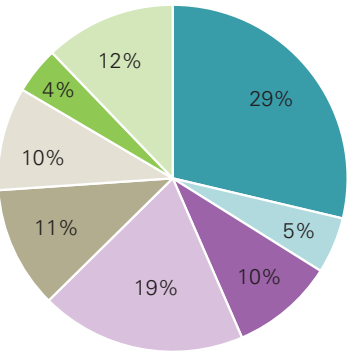


Investment Volumes, Investment Preferences and Investment Behaviour

Planned Investments in Real Estate

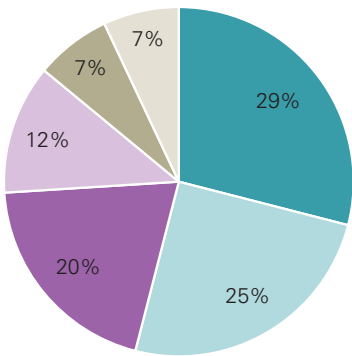
Not everyone will invest

Planned investment volume



- No acquisition planned
- CHF 0 to CHF 10m
- CHF 10m to CHF 30m
- CHF 30m to CHF 50m
- CHF 50m to CHF 100m
- CHF 100m to CHF 200m
- CHF 200m to CHF 300m
- More than CHF 300m

Share of total anticipated investment Volume³



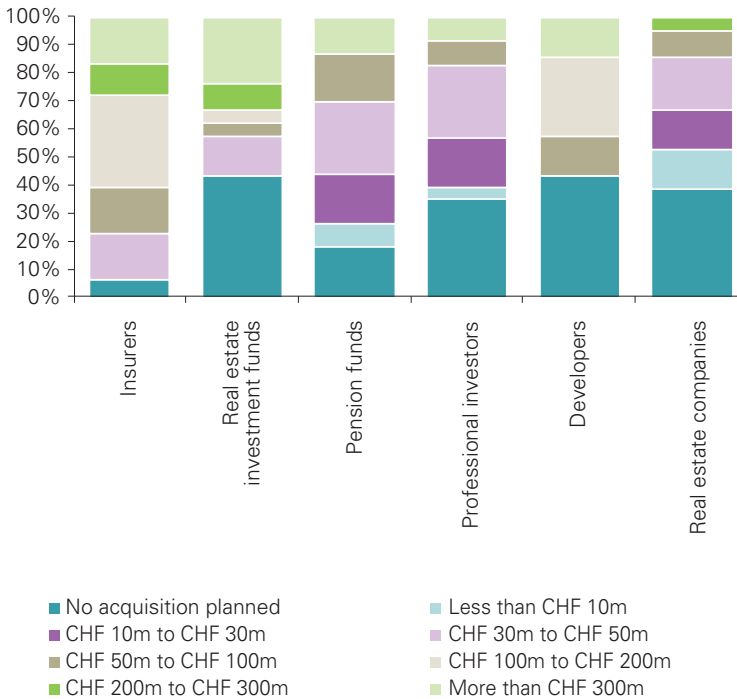
- Insurers
- Real estate investment funds
- Pension funds
- Professional investors
- Developers
- Real estate companies

The question: What is your estimate of the total investment volume that your company/investment vehicle intends to acquire over the next 12 months?

- 29% of the survey participants have not planned to make any investment over the next 12 months.
- The representatives of real estate investment funds and developers are especially cautious in their investment activity and in over 40% of the answers, report that they have no additional investments planned over the next 12 months. Also the professional investors and real estate companies are displaying a similar degree of caution in their investment activities.

³ Weighting using the average of the quoted investment bands

Investment volume according to participant groups

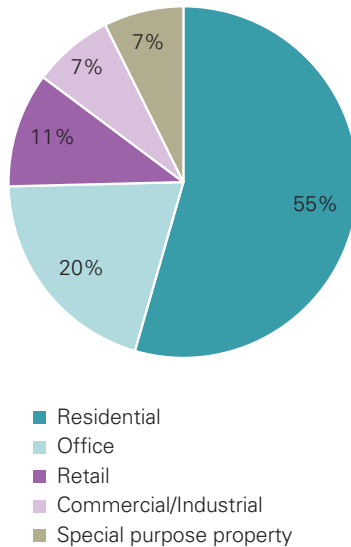


- In contrast to this are the investment plans of the pension funds and insurers, whose representatives reported in only 19% and 6% of the cases that they have no plans to invest over the next 12 months. Such statements are probably due to the business models of these types of investors.
- Of the total anticipated investment volume in the survey, 29% was accounted for by insurers and 20% by pension funds. Further significant purchasers are real estate investment funds with 25% of the total planned investment volume.

Planned Investments in Investment Real Estate

Strong preference for investments in residential property

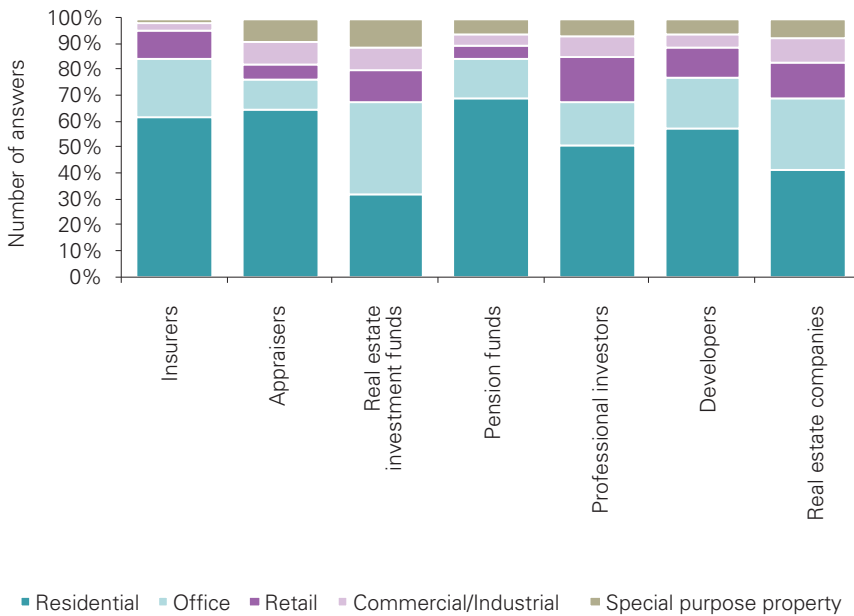
Investment preferences



The question: Please imagine that you have CHF 100m capital, which you can / must invest in the next 12 months. How would you invest this capital, split into the following use categories?

- The survey participants would invest 55% of their available capital in residential investment properties. Only every fifth Franc would be invested in office properties. 11% of the investment volume would be made available for investments in retail space. Commercial space and specialised property are under represented, each accounting for 7% of the investment volume.
- Only real estate investment funds and companies would invest less than 50% of the available capital in housing. This is most likely due to the fact that the investment

Investment preferences according to investor group



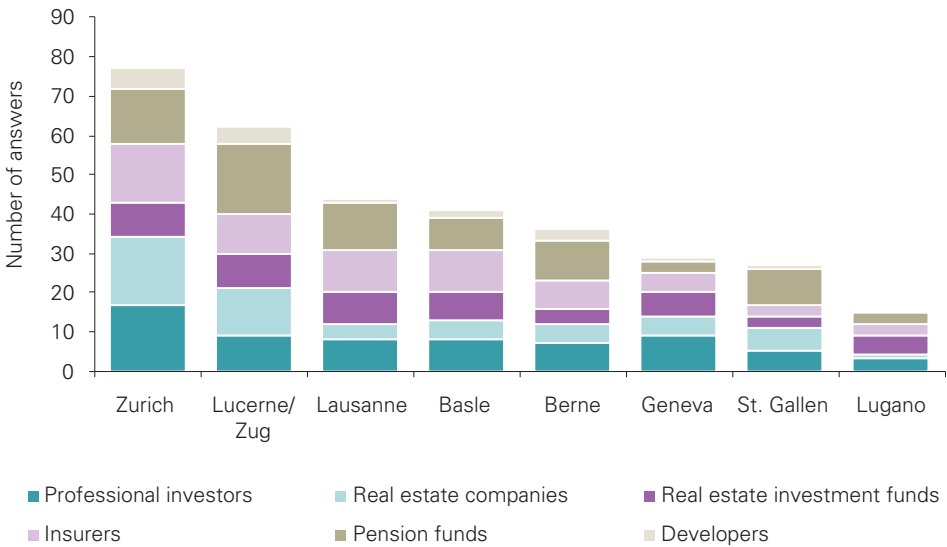
strategies of some vehicles do not allow investments in the housing segment. A comparison with the current allocation of those investors surveyed shows a greater appetite for housing, also in the case of real estate investment funds compared to their actual allocation.

- Insurers and pension funds clearly prefer the housing segment, which is as much due to the business model as to regulatory requirements.

Planned Investments in Investment Real Estate

Zurich and Central Switzerland preferred

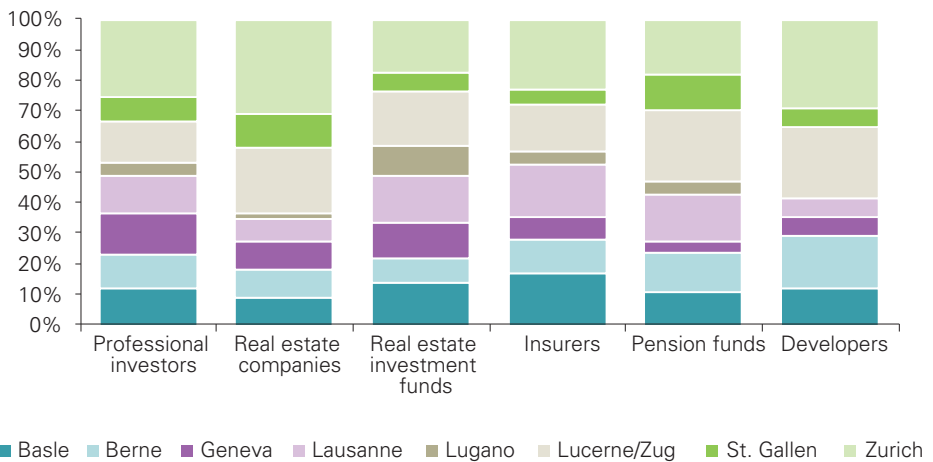
Preferred investment locations according to investor group



The question: Which investment locations will you increasingly focus on in future? Multiple answers possible.

- The city of Zurich was named as preferred investment location 77 times (23.3%). This was followed by the Lucerne/Zug Region with 18.7% of the listed locations.
- The city of Geneva (30 of the listed locations, 8.8%), as one of the locations preferred by the survey participants, was ranked sixth of the nine locations suggested. This ranking is surprising, given that Geneva recorded the second highest price expectation index; however, it probably results from the fact that the majority (80%) of the survey participants come from a German-speaking area.

Preferred investment locations according to investor group in %



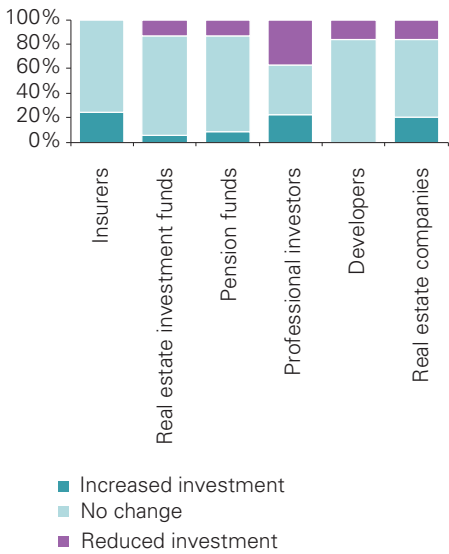
- Investment plans in the cities of St. Gallen and Lugano correspond to the expectations of the survey participants on future price developments in these centres, whereby for Lugano and Geneva, the assessments must be taken in context, due to the "Home Bias" of the participating investors.

Investment Behaviour of Investors

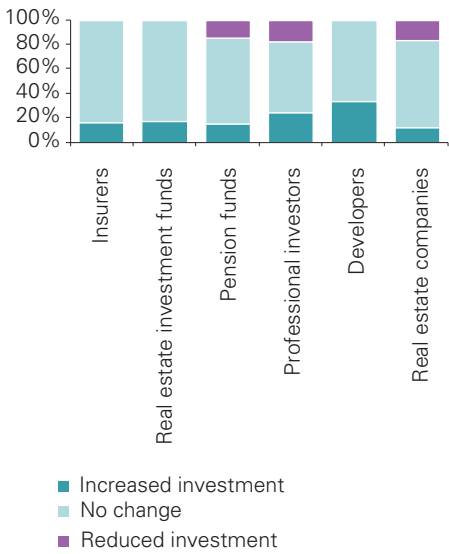
Insurers persist in Core, professional investors and pension funds slightly Opportunistic

Changes in investment behaviour

Core/Core+ Segment



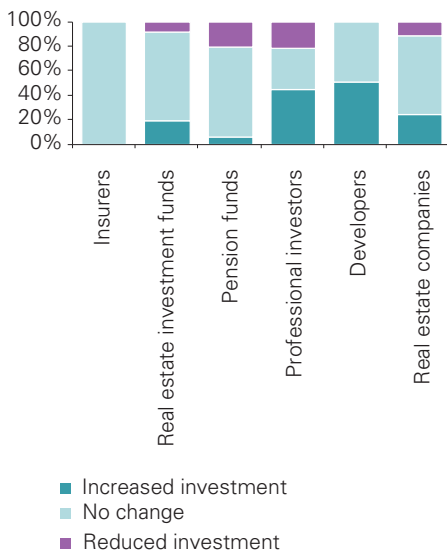
Value-added Segment



The question: Will your investment behaviour change over the next 12 months compared to last year?

- Insurers continue to focus on Core /Core+ investments. Every fourth survey participant of this investor type would like to increase its investment activities in this segment.
- In the case of the professional investors, the survey participants differ in their Core strategies: whilst over 22% would invest in this segment, 36% reported their intentions to reduce Core commitments. This coincides with the shift of investment preferences of this investor group in the Value-added or even Opportunistic Segment. Responses from

Opportunistic Segment



the professional investors looking to increase investment in opportunistic investments are only surpassed by developers, who reported their interest in this segment in half of the answers.

- With the exception of insurers, all investor representative groups plan to reduce their investments in the Core/Core+ Segment; however, there is no clear tendency from the responses received.

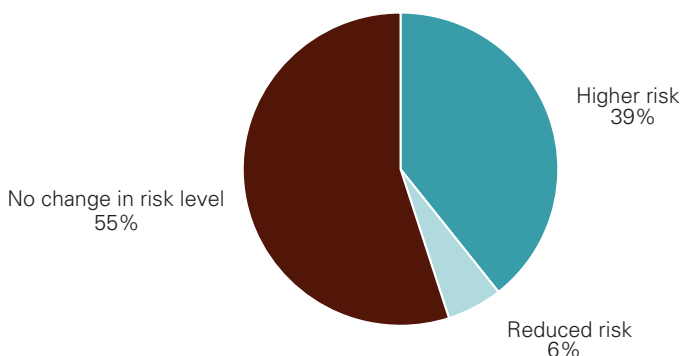


Risk Management

Risk Management

Potential risks due to European debt crisis and payment defaults

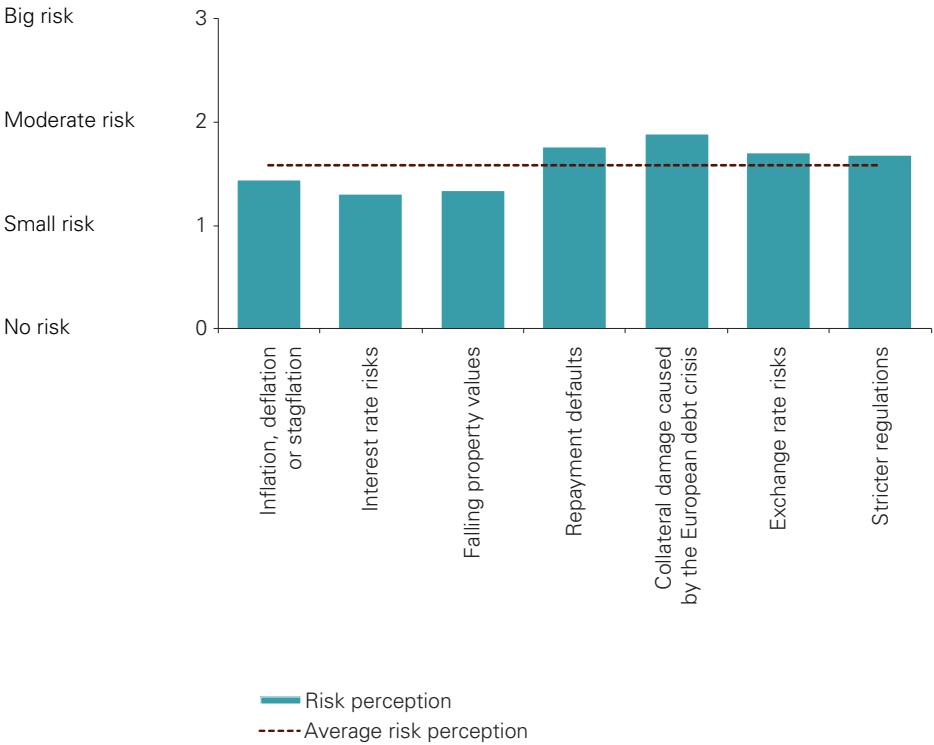
Assessment of market risks



The question: Do you expect a change in market risk over the next 12 months?

- 39% of the survey participants expect to see an increase in market risks in the next 12 months. The majority (55%) of those surveyed do not envisage any change in risk or expect the level of risk to fall (6%).
- Of all possible risks to the Swiss real estate investment market, the effects of the European debt crisis with a risk factor of 1.88 and potential payment defaults with a risk factor of 1.75 are identified as the greatest risks.

Possible risks for the Swiss real estate investment market



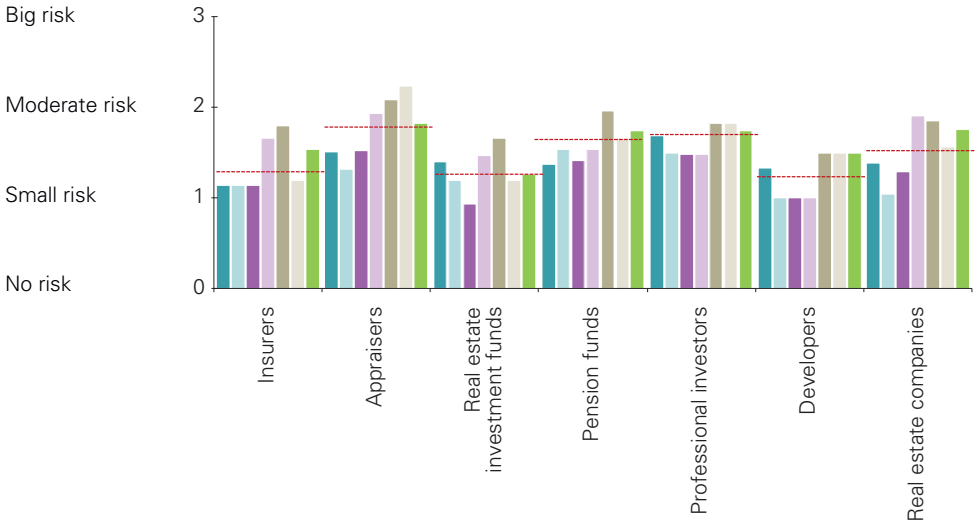
The question: In your opinion, how great is the risk that the following factors will have an effect on the Swiss real estate investment market?

- Risks arising from a change in interest rates (risk factor: 1.31) in the next 12 months are rated as low as the possibility of a fall in real estate prices (risk factor: 1.34).
- Survey participants recognise a moderate risk from the effects of the current currency situation (risk factor: 1.71) and stricter regulations (risk factor: 1.68).

Risk Management

Appraisers exercise caution, investors look to Europe and the creditworthiness of their tenants

Assessment of possible risks for the Swiss real estate investment market according to participant groups



The question: In your opinion, how great is the risk that the following factors will have an effect on the Swiss real estate investment market?

- The appraisers report a higher risk potential in the market in the next 12 months than the investors. The lowest recognition of risk was determined for the developers and real estate investment funds.
- Effects from the European debt crisis and potential payment defaults are identified by all questioned as the most likely risks. Appraisers and investors with loan financing perceive there to be an average risk from the effects of the currency situation.

- Inflation, deflation or stagflation
- Interest rate risks
- Falling property values
- Repayment defaults
- Collateral damage caused by the European debt crisis
- Exchange rate risks
- Stricter regulations
- Average risk perception

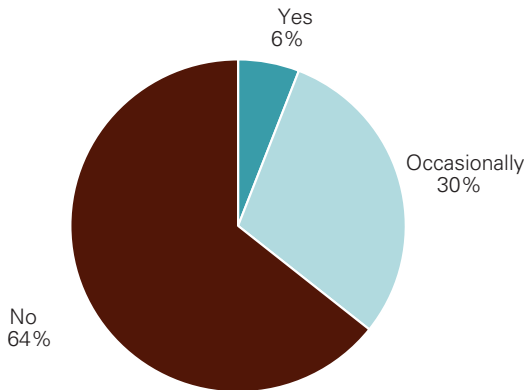


- Changes in interest rates in the next 12 months are only perceived as potential risks by professional investors and pension funds.
- A moderate risk has been identified from the effects of stricter regulations (e.g. Basel III and Solvency II). Only appraisers and professional investors perceive there to be a risk that property values could fall over short-term.

Risk Management

Inclination to take on risk in investment decisions

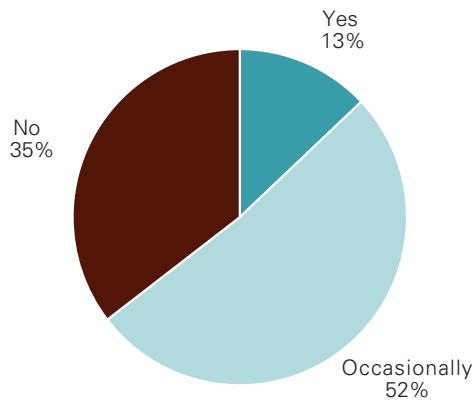
Greater inclination to take on risk in investments (investors)



The question: Compared to last year, are you more inclined to take on higher risk investments?

- 36% of the investors are inclined to take on greater risk in their investment decisions in the next 12 months. In 52% of cases, appraisers see a partial and, in 13% of the answers, even a clear increase in the inclination of their clients to take on risk in their investment decisions.
- Two thirds of the investor representatives declared no greater inclination to take on risk in investment decisions in the near future. Given the negative availability index, this should cause a reduction in the investment volume in the next 12 months. This consequence is also supported in part by responses to the planned investments in investment real estate.

Greater inclination to take on risk in investments (appraisers)



The question: Are your clients more inclined to take on high risk investments compared with last year?

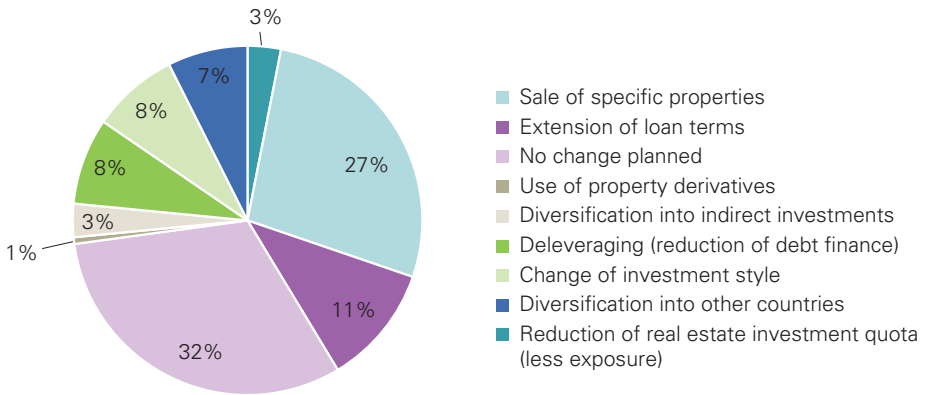
- The responses of appraisers appear to contradict those of their clients, the investors. This phenomenon can be explained by “Framing Effects” or other behavioural economic factors.⁴

⁴ Please refer to: <http://www.kpmg.com/CH/en/Library/Articles-Publications/Pages/pricing-mechanisms-of-direct-real-estate-investments.aspx>

Risk Management

Market situation is used for divestments

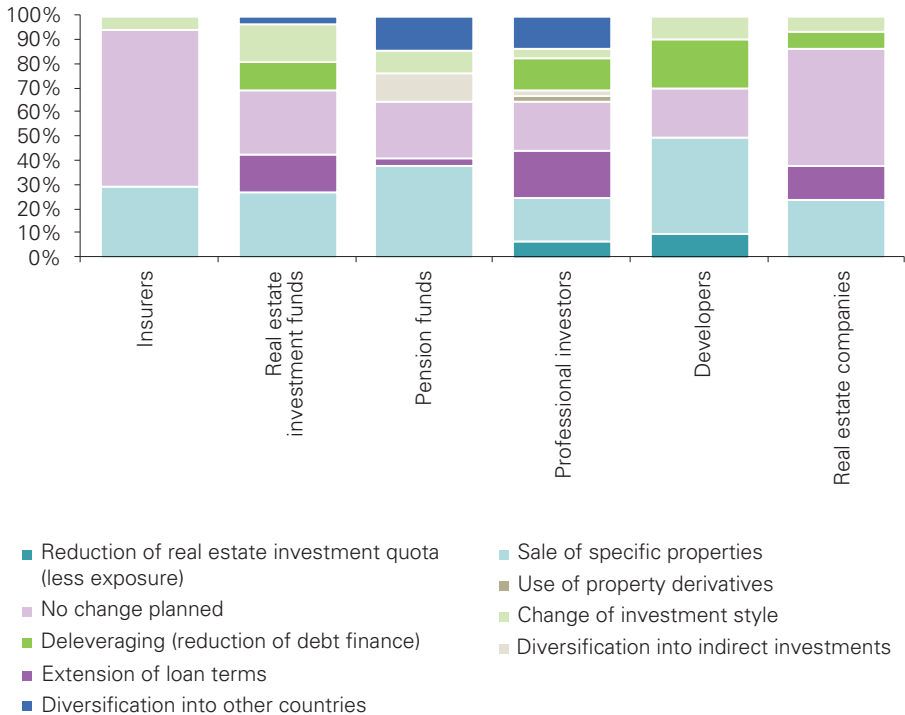
Planned changes in investment behaviour / real estate allocation



The question: Over the next 12 months, will you change your investment behaviour/ real estate allocation on account of your current risk assessment?

- 27% of the investors are planning to use the favourable demand conditions to dispose of specific properties. These plans are registered by all participant groups, whereby professional investors and developers are even considering a reduction in their real estate quota (3% of those surveyed).
- Around a third (32%) of the survey participants do not envisage any reason for a change in investment behaviour or in real estate allocation in the next 12 months.

Responses according to participant groups



- Investors with loan financing intend to reduce their loan-to-value ratio (deleveraging, 8% of all responses) and an extension of loan terms (11%). The extension of terms is planned by 16 investors due to a change in risk assessment, although 31 real estate market players mentioned their plans to extend terms in a previous question. The conclusion here is that the change in the assessment of the market risks is not the sole reason for the extension of loan terms.
- The recognized lack of supply in certain investment segments is encouraging some investors to look at diversifying abroad (7% of the responses) or to change their investment behaviour which, according to the responses on planned changes in investment behaviour, can also result from a slight shift from Core/Core+ to the Value-added or Opportunistic segments.



Methodology and Survey Participants

Methodology

Qualitative indices

Indices are generated from a **qualitative survey of experts** consisting of real estate investors and appraisers of investment property.

Like the new EU-compatible consumer sentiment index by SECO, the survey relies exclusively on **questions relating to the future** (forthcoming 12 months). The responses represent the macroeconomic assessments and expectations for the development in real estate prices of these participants in the Swiss real estate investment market.

The objective of qualitative statistics is to determine subjective benchmarks, which are as helpful in explaining and forecasting economic relationships and trends as quantitative statistics, which determine the actually definable benchmarks. Qualitative statistics have a **strongly forecasting character**, especially in a real estate investment market dominated by a relatively small number of market players like Switzerland.

Representativeness

187 people took part in the 2012 survey. The participant group comprised 141 investor representatives and 46 appraisers of investment properties, and covered all important investor groups. The size of the sample means that the survey was able to provide representative responses with regard to the current market assessments of real estate market players.

Indices

The participants answered seven questions, whereby the answers to two sub-questions were evaluated to create an aggregated index.

Sub-indices	Weighting
1. Economic conditions	20%
2. Price development in the real estate investment market	80%



Aggregated Swiss Real Estate Sentiment Index

A **sub-index** was created from the answers to each of the **seven questions**, which permitted detailed assessment of the anticipated economic conditions and price developments split between location, use, city and region. The last sub-index illustrates the assessment of the available real estate supply for investors.

Sub-indices
3. Price development in the real estate investment market according to location
4. Price development in the real estate investment market according to use
5. Price development in the real estate investment market in the centres
6. Price development in the real estate investment market in the regions
7. Availability of investment real estate

Sample calculation of a (sub-)index

Question: How will prices develop in the Swiss real estate investment market over the next 12 months?

Expectation	No. of answers	Weighting factor	Product	Index
Strongly increasing prices	4	2	8	80
Moderately increasing prices	2	1	2	20
Stable prices	1	0	0	0
Moderately falling prices	2	-1	-2	-20
Significantly falling prices	1	-2	-2	-20
Total	10	-	6	60

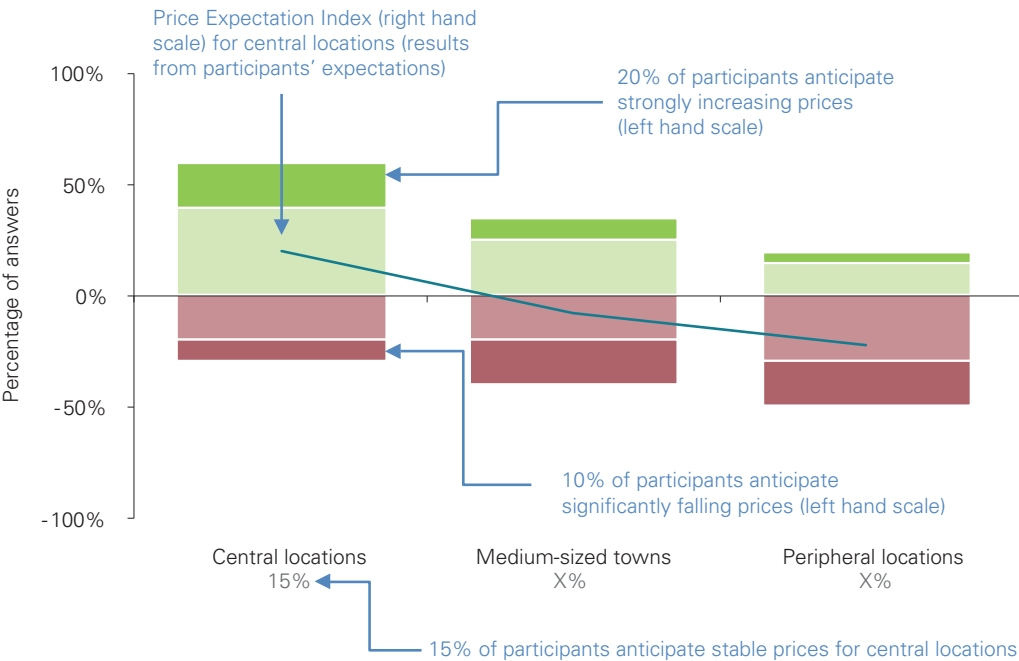
$$= \frac{100 \times 6}{10}$$

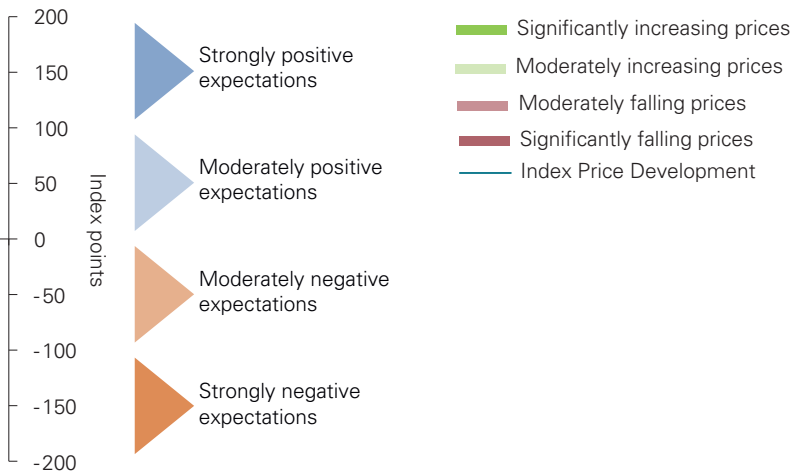
The weighting factor is a whole number between -2 and +2 and is multiplied by the respective number of appropriate answers. The sum of the product is multiplied by 100 and divided by the total number of answers, which produces the index. This value can lie between -200 and +200.



Methodology

Guide



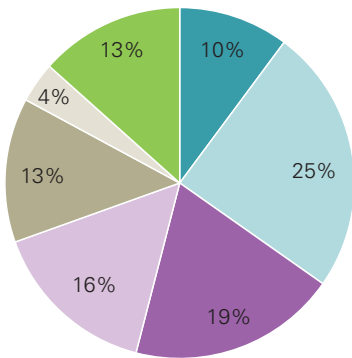
**Important:**

Stable price expectations (weighted by 0) are not illustrated in order to avoid confusing the reader!

Methodology

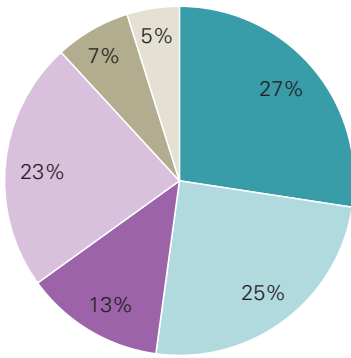
Survey Participants

Participants in the study



- Insurers
- Appraisers
- Real estate investment funds
- Pension funds
- Professional investors
- Developers
- Real estate companies

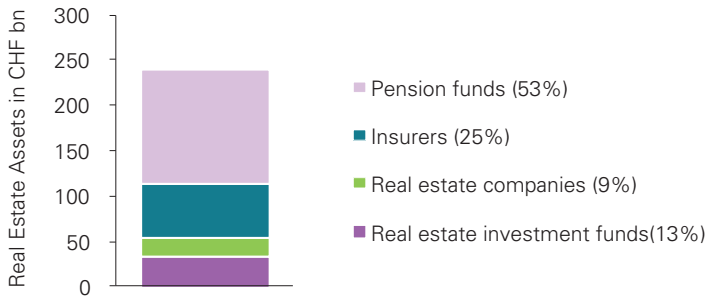
Participants according to investment or valuation volumes



- Less than CHF 100m
- CHF 10m to CHF 30m
- CHF 500m to CHF 1.0bn
- CHF 1.0bn to CHF 5.0bn
- CHF 5.0bn to CHF 10.0bn
- More than CHF 10.0bn

- The following participant groups took part in the study: appraisers (25%), real estate investment funds (19%), pension funds (16%), real estate companies (13%), professional investors⁵ (13%), insurers (10%) and developers (4%). 58% of the participants represent institutional investors.
- Around half of the participants (52%) represent investment and valuation volumes of less than CHF 500m. 35% of participants represent investment or valuation volumes of more than CHF 1bn.

Institutional real estate assets in Switzerland



Source: Various financial reports, Swiss Federal Office of Statistics and KPMG Real Estate Research. The analysis is limited to listed real estate investment funds and listed real estate companies. Professionals investors were not taken into account.

- A comparison with the “real” investment situation in the institutional real estate investment market confirms that the survey approximately reflects the actual market situation.

⁵ Professional investors hold real estate for the purpose of generating a return from the income or value growth potential, regularly trade real estate and actively manage their portfolios.



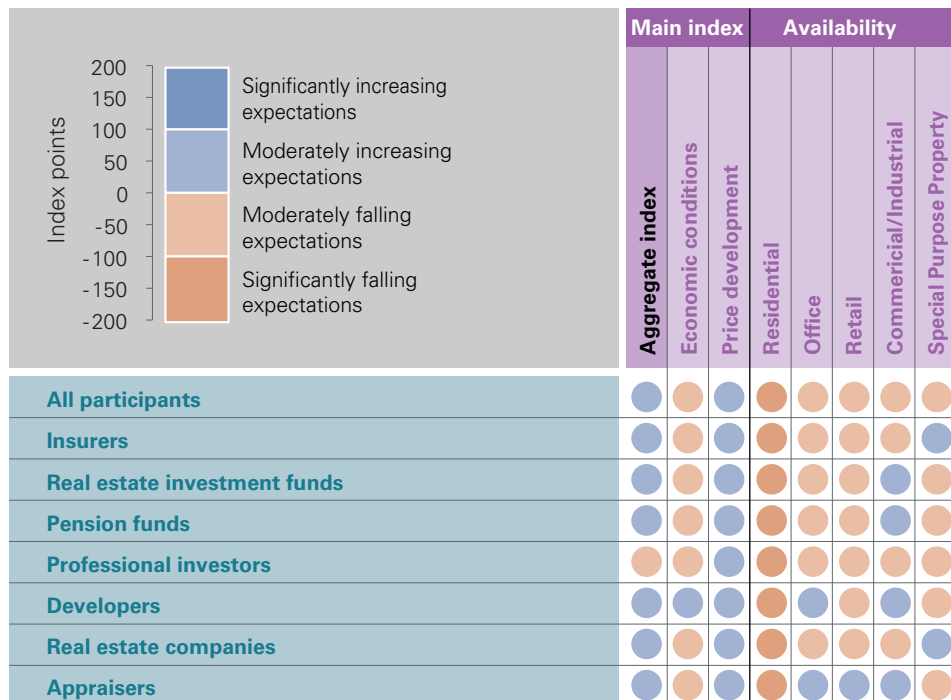
Summary

Summary

Conclusions

- At +20.6 points, the Swiss Real Estate Sentiment Index points to a neutral / cautiously optimistic mood in the Swiss real estate investment market over the next 12 months.
- Economic development is assessed as stable to moderately negative by the survey participants, at -38.0 points. The anticipated price development of investment real estate lies in the neutral to moderately positive area, at +35.2 points.
- Over the next 12 months market players expect moderate price increases (+79.2 points) for central locations, which contrasts with price expectations for peripheral locations, which are moderately negative (-54.2 points).
- Moderately increasing prices are still expected for real estate investments in the residential property (+73.4 points) over the next 12 months. There is an apparent trend reversal in the case of commercial use segments: market players anticipate a moderately negative price development or stable prices.
- The focus of Swiss real estate investors lies on investment with a low risk profile and is thus similar to the investment behaviour of their European counterparts: a sustained "Flight to Core" is also being observed here.
- In the cities of Geneva and Zurich, further moderate price increases are expected (+60.9 points and +66.4 points). Moderately positive price developments are also expected for Lausanne and the Lucerne/Zug Region, at +47.0 points and +48.1 points respectively over the next 12 months. Basle, Berne and Lugano are assessed as stable. Survey participants anticipate a stable to moderately negative development in real estate prices in the city of St. Gallen (-13.0 points).

- Zurich is the preferred investment location for the survey participants. The region, preferred in 23.3% of the answers, is followed by the economic region of Lucerne/Zug, which accounted for 18.7% of the preferences. In a comparison of investors, the investment behaviour of real estate investment funds is characterised by a balanced diversification over the regions.
- At -140.3 points, the Availability Index highlights a sustained scarcity of adequate investment opportunities in the residential property. The survey participants also anticipate a scarcity in the availability of interesting investment opportunities in the other use segments over the next 12 months, whereby the assessments of supply in the housing and commercial segments are almost identical.
- 39% of participants anticipate an increase in market risks over the next 12 months. The greatest risk factors for the Swiss investment market are identified as the possible effects of the European debt crisis and risks of payment defaults. The identification of risks in macroeconomic factors could be the reason why a sixth of those surveyed are of the opinion that diversification does not minimise their portfolio risks. The effects of the crisis would also be indirectly reflected in office and retail rents, and have a medium-term impact on the housing segment.
- The market, which is dominated by the uncertainty regarding economic developments, is encouraging a further concentration on Core investments in the residential segment in central economic locations.
- The resulting surplus demand continues to drive prices upwards, especially for residential properties, which is commonly interpreted as confirmation of the security of this asset class.
- In less liquid submarkets however, market players believe that the positive price trend is at an end and, as a result, investors will be running down their investment volumes and focussing particularly on specific opportunities.



Real Estate Switzerland

Comprehensive Real Estate Advisory

We offer the necessary professional know-how on the highest quality level, a wealth of experience and an extensive network to address all your complex questions on the multi-layered national and international real estate markets.

The key challenges for our clients

- Improve performance and implement growth
 - Identify and realize value potentials
 - Strategic reviews, new business opportunities
 - Optimize cost structures
- Optimize management capacities
 - Concentrate on core business, create liquidity
 - Succeed with large-scale projects under time pressure
- Gain access to national and international investors
 - Equity financing, fund raising
 - Debt financing, real estate financing

Key factors that make us a strong partner

- Our experienced, multi-disciplinary team brings together financial and technical knowledge to offer you first-hand, all encompassing real estate services.
- By interdisciplinary collaboration with other KPMG departments, such as tax, legal and IT, we ensure that extensive mandates are handled efficiently and professionally.
- Our excellent know-how of local markets and eleven national office locations allow for national and regional consideration for all services in our core business.
- We maintain an extensive research database that is constantly updated from internal and external sources.
- Our international network of relationships with strong investors makes us a preferred partner for real estate transactions and indirect investments.



M&A/Capital market

- Structuring and execution of transactions (Lead Advisory)
 - Asset deals: Acquisition and disposal of properties and portfolios
 - Share deals: Mergers, spin-offs, IPOs, private placements
- Arrangement of indirect investments, such as funds or trusts
- Fund raising for specific projects

Investment Advisory

- Investment advisory for Swiss or international indirect real estate investments
- Structuring of real estate investments within portfolios
- Qualitative and quantitative analysis of investment products
- Monitoring und investment controlling, portfolio performance measuring

Strategy/Organization

- Strategy development and implementation
 - Business planning/business modeling
 - Corporate/public real estate management
 - Asset and portfolio management
- Analysis of organization and processes; organizational development, internal control system (ICS)
- Performance management / MIS / investment monitoring
- Risk management and financial modelling

Valuation/Due Diligence

- DCF-valuations of properties and real estate portfolios or companies
- Independent valuation reports for financial statements
- Valuations for acquisitions or disposals
- Feasibility studies and valuation of real estate developments
- Transaction-focused due diligence and process management

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