KPMG

cutting through complexity

# Swiss Real Estate Sentiment Index 2013

English Edition

**kpmg.ch/realestate**

# Content

# Foreword

**Anyone undertaking a journey has a tale to tell**
This statement not only refers to Urian's journey around the world, it also refers to the path taken and shared by Swiss real estate investors and other market players for more than a decade.

This journey begins with a high volume of vacancy in the office sector that, after its gradual reduction, was followed by a sharp rise in house prices. Consumers enjoyed an expansion in retail space, which made it possible for them to shop almost everywhere. Investors observed the entry of new market players and their extraordinary rise in numbers. They marvelled at take-overs and at the substantial rises and converging of prices in city centre high streets.

At some point the financial system collapsed, although this did not distract the travellers from their journey. Instead, financial investors and an increasing number of private investors circumnavigated the hazardous waters, with many landing in the safe haven of Switzerland's stability. Falling interest rates encouraged business activity and new wayfarers joined the travellers on their journey. In the wake of this wanderlust, business flourished and the operating and ambient temperatures for the much sought-after investment properties rose; however, these rising temperatures caused a drought on the supply side, making it increasingly difficult to invest available capital.

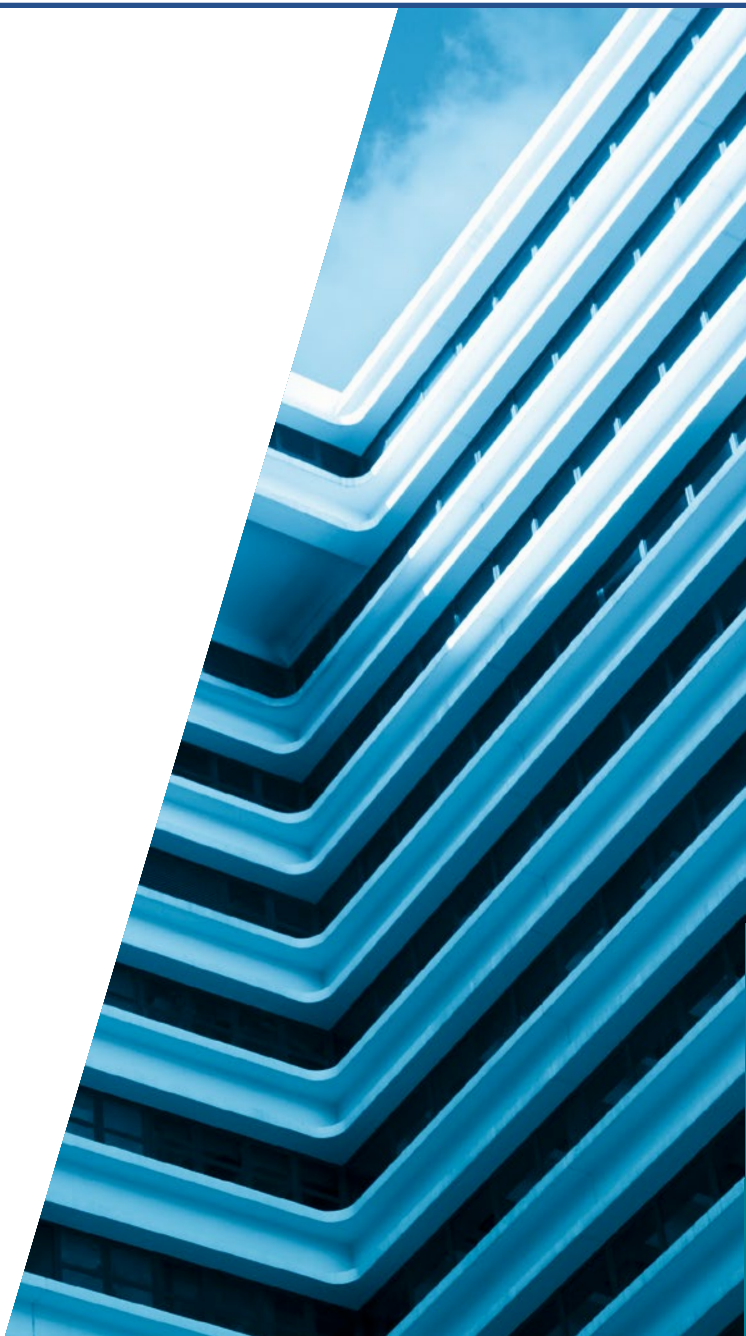
Much of this journey is now behind us, and wayfarers are discussing the increasing vacancies in the office sector and a further expansion of retail space. There are undertones of disquiet about the high level of construction activity and increasing supply, and it is hoped that new residential space will also appeal to our travelling companions. The financial world also feels a little bit more secure, and this is opening up other ports in less drought-ridden regions.

When the path of the property journey was clearly defined, no one asked for directions to their destination; journey's end. Over the past two years, however, travellers have started to question whether there are now obstacles on this route which should be circumnavigated with a degree of care. It has not been possible to answer this question until now, as all available information on market trends was based on the path already trodden. In 2012, however, a tool was found, the Swiss Real Estate Sentiment Index, which enabled market players to discuss their plans for their shared journeys and, after considering all opinions, to make the best decisions for their choice of destination.

We hope you will find this an interesting read and are already looking forward to meeting more travelling companions over the coming year.

Ulrich Prien
Partner, Head Real Estate Switzerland

Beat Seger
Partner, Real Estate



# Swiss Real Estate Sentiment Index

# Prices of Investment Properties Levelling Off

The "Swiss Real Estate Sentiment Index (sresi®)" serves as a leading indicator of anticipated developments in the Swiss real estate investment market. Over 220 institutional and professional investors as well as Swiss real estate appraisers took part in this representative survey in 2013. The annually updated index measures the expectations of survey participants in respect of developments over the coming 12 months on a scale of -200 to +200 index points.

## Security stands to the fore

The "Swiss Real Estate Sentiment Index 2013" displays a levelling off of investment property prices. Investors, developers and appraisers expect to see upward movements in prices only in the residential sector and in central locations over the next 12 months. Survey participants anticipate moderate price decreases for investments in commercial properties.

The preference for supposedly secure residential properties and central locations reflects an increased risk aversion among market players. The sub-indices for these segments lie at +57.0 pt. and +67.5 pt. respectively. By contrast, commercial properties and peripheral locations lost ground, with their sub-indices lying within the negative range.

The expected trend should add further pressure on yields of centrally located and residential properties. By contrast, the pressure on yields is likely to ease somewhat for properties in peripheral locations and for commercial properties. There is still an attractive gap between yields for direct real estate investments and refinancing interest rates, which is encouraging institutional investors to increase their real estate quota at the expense of fixed-income securities. Investment behaviour in the Swiss real estate market, which is focused on the residential sector and central locations, is in contrast with the general trend in Europe, where investors are shifting their focus more towards secondary markets and properties with development potential.

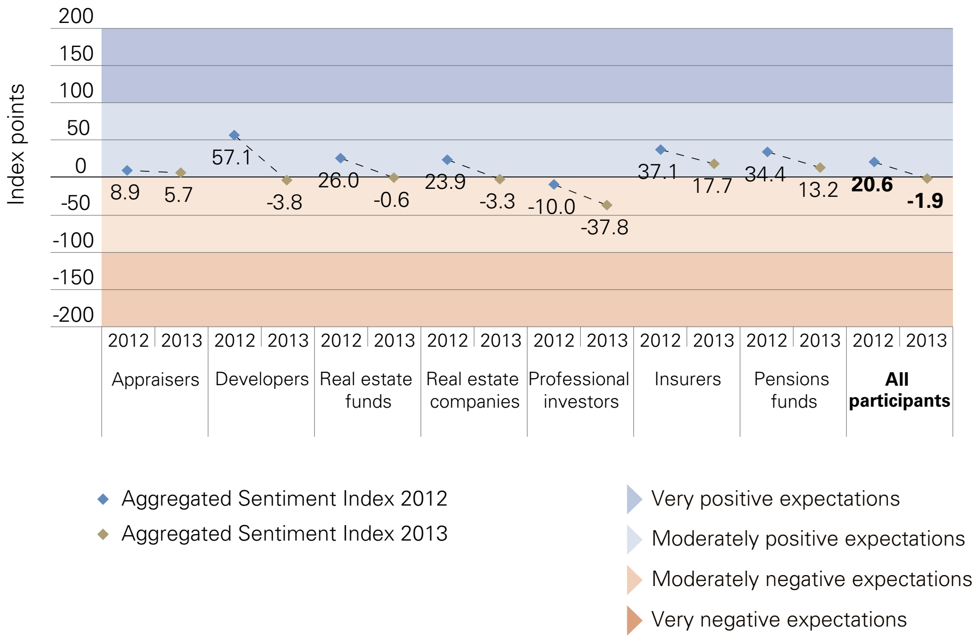
The slight downturn in expectations for price trends can also be observed in regards to economic centres. Although, sustained price increases are expected for Zurich and Lucerne/Zug, at +41.0 pt. and +40.3 pt. respectively, expectations have slightly decreased in comparison to last year. For Basel, Geneva and Lausanne, the index displays price stability. The Bern, Lugano and St. Gallen regions lie within the stable to slightly negative range. The index score for Geneva has decreased from +60.9 pt. to +20.9 pt. Nonetheless, it still lies well within the positive range.

## Slight easing of pressure on the supply side

As before, survey participants expect a lack of investment opportunities that satisfy their requirements. This situation is particularly evident in the residential sector where survey participants have identified a lack of adequate investment opportunities (-130.6 pt.). By contrast, the supply of adequate investment properties in the commercial market has slightly improved compared to last year. This development is reflected by an index of +24.5 pt. for office properties, which corresponds to a rise of over 50 pt. since 2012.

# Swiss Real Estate Sentiment Index
## Price trends levelling off and stabilising

### Aggregated Sentiment Index[1] according to participant group

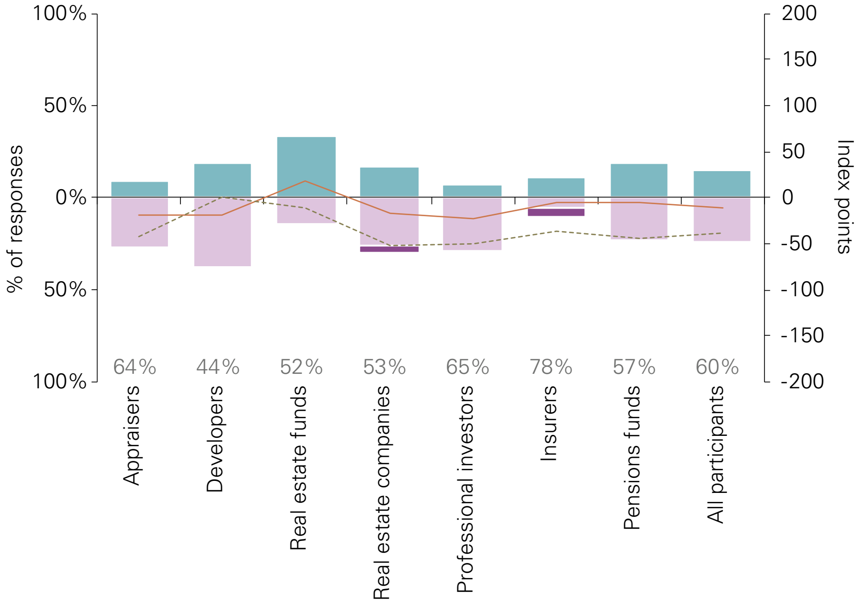



- The aggregated Swiss Real Estate Sentiment Index stands at -1.9 pt. This suggests neutral sentiment in the Swiss real estate investment market. Compared to last year (+20.6 pt.), sentiment has moderately deteriorated: future trends are assessed as slightly more negative by all participant groups. The difference of over 60 pt. compared to last year is a major indication of the downturn in sentiment being expressed by developers. By contrast, insurers and pension funds are more positively focused, whereby the index remains close to the stability line for these survey participants.

[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
## Slight improvement in the assessment of economic trends

### Assessment of economic conditions according to participant group




| Sub-index | Index 2013 | Index 2012 |
|---|---|---|
| Economic conditions | –12.0 pt. | –38.0 pt. |

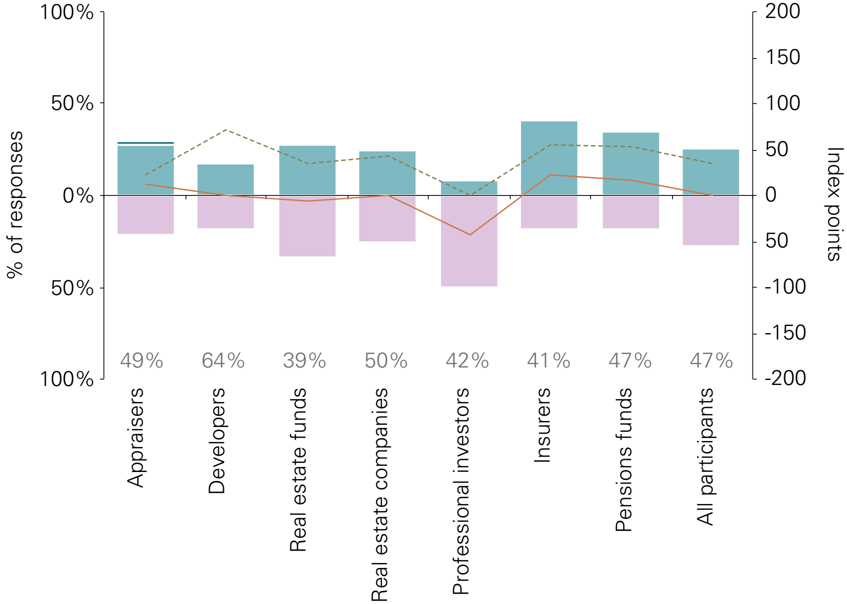
## Assessment of economic conditions according to investment volume


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

- The development of economic conditions is assessed as neutral by survey participants, at -12.0 pt. This is a slight improvement of 26 pt. since last year, which corresponds to the results of both the Consumer Sentiment Index and the Purchasing Manager Index.
- With the exception of developers, survey participants reported a moderate improvement in sentiment regarding economic conditions. The most optimistic assessments were submitted by representatives of real estate funds, at +19.1 pt.

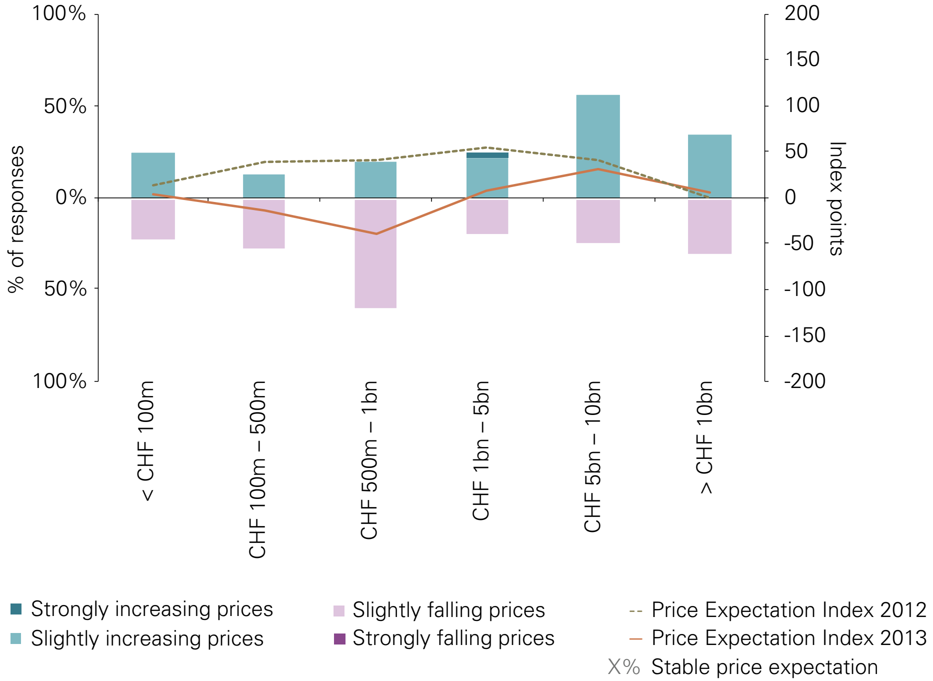
# Sub-index: Development of Property Prices
## No further price uplift expected

**Price expectations for investment properties according to participant group**




| Sub-index | Index 2013 | Index 2012 |
|---|---|---|
| Price expectation | 0.6 pt. | 35.2 pt. |

## Expectations for the development of prices according to investment volume



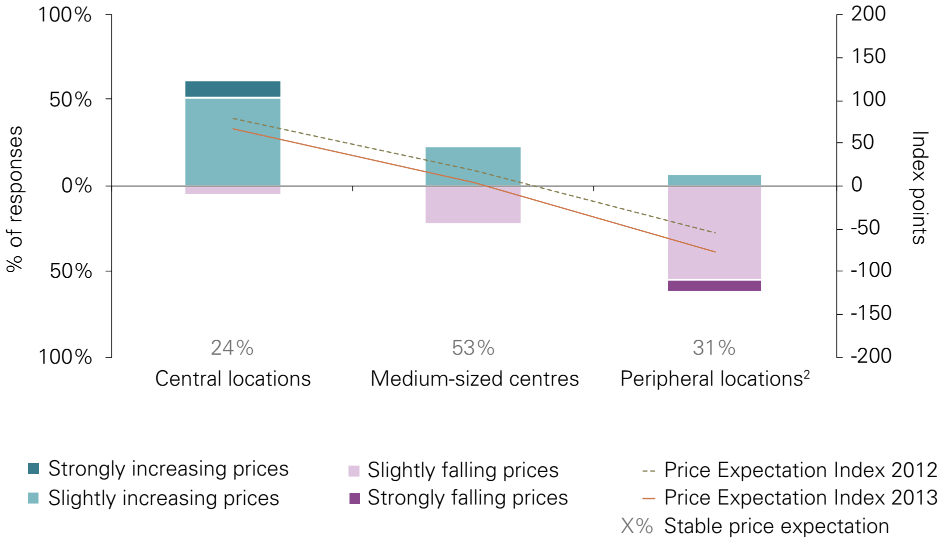

**The question: How will prices develop in the Swiss real estate investment market over the next 12 months?**

- The price expectation index stands at +0.6 pt. for all participant groups and therefore displays stability. The difference of just under 35 pt. compared to last year's index is a confirmation of the expected levelling off of price trends for investment properties. Last year's slightly more negative assessment was accentuated to a similar degree by all participant groups.

- At -41.7 pt., the expectations of professional investors were the most negative. Observed in terms of investment volume, it is apparent that survey participants with an investment volume > CHF 1bn p.a. expect a more positive development of prices.

# Sub-index: Development of Prices according to Location
## Strong demand for central locations

### Price expectations for investment properties according to location



| Sub-index | Index 2013 | Index 2012 |
|---|---|---|
| Central locations | 67.5 pt. | 79.2 pt. |
| Medium-sized towns | 4.6 pt. | 17.7 pt. |
| Peripheral locations | -77.6 pt. | -54.2 pt. |

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

- Survey participants expect further price increases in central locations; however at +67.5 pt., the current index rate has fallen slightly since last year. Medium-sized towns are registering +4.6 pt., which puts them in neutral territory. At -77.6 pt., an accelerated reduction in prices is forecast for peripheral locations.

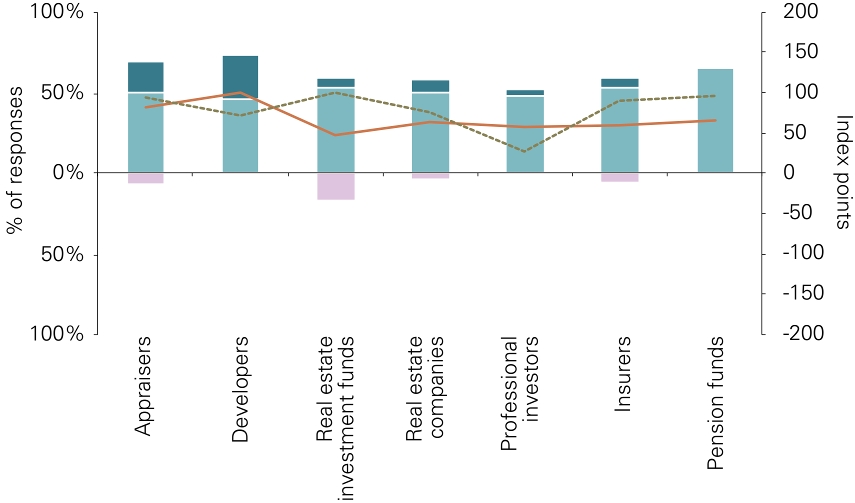
- It is apparent that the gap between price expectations for central locations and expectations for investment properties in peripheral areas has widened further. The forecasted trend suggests that yields in central locations will come under further pressure, which contrasts with the expectation of an easing of pressure on property yields in poorer quality locations.

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

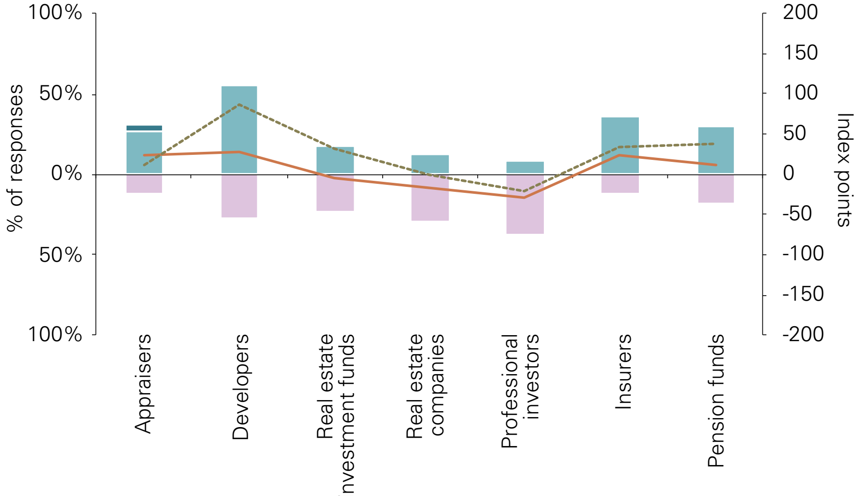
# Sub-index: Development of Prices according to Location
Analysis according to participant groups

## Price expectations for investment properties according to location

### Central locations (+67.5 pt)




### Medium-sized towns (+4.6 pt.)



Peripheral locations (-77.6 pt.)

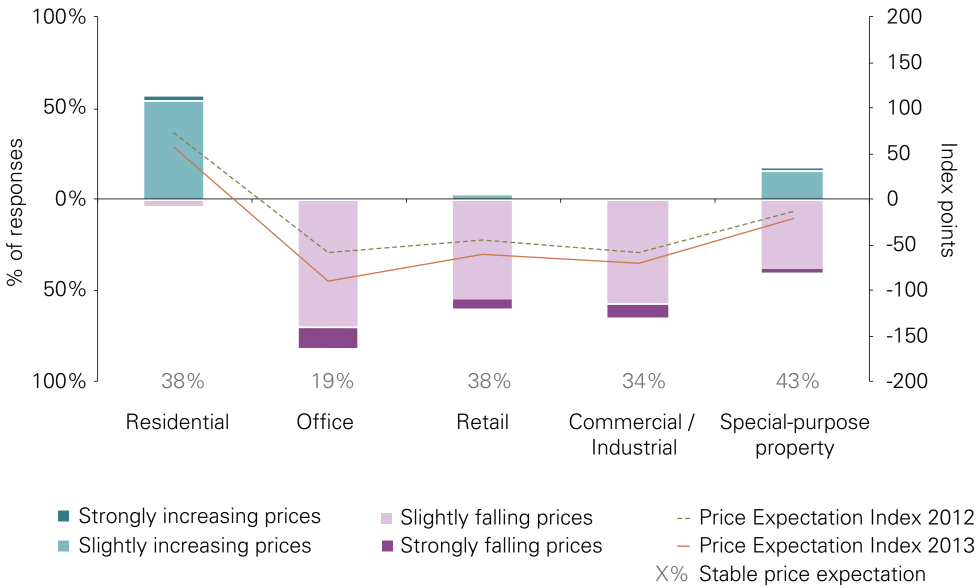

**The question: How do you think prices will develop over the next 12 months in the following locations?**

- All survey participants expect moderate rises in prices in central locations. At +100.0 pt. and +81.0 pt., developers and appraisers are the most optimistic. Only a slight change in expectations is evident since last year.
- For medium-sized towns, survey participants expect prices to level off. Developers made the most radical change to their market assessment, which reduced from +85.7 pt. to +27.3 pt. In line with last year, professional investors were the most cautious, which is reflected in a negative index rate of -29.2 pt.
- For peripheral locations, the expected development of prices deteriorated further for all participant groups compared to last year. Only the survey results from appraisers remained at last year's level. The total index stands at -77.6 pt.

# Sub-index: Development of Prices according to Use Segment

## Expansion of office space supply is evident

### Price expectations for investment properties according to use



| Sub-index | Index 2013 | Index 2012 |
|---|---|---|
| Residential | 57.0 pt. | 73.4 pt. |
| Office | -89.4 pt. | -58.7 pt. |
| Retail | -60.4 pt. | -45.5 pt. |
| Commercial | -69.9 pt. | - 57.8 pt. |
| Special-purpose property | -21.4 pt. | -13.5 pt. |

**The question: How do you see prices developing over the next 12 months in the following use categories?**

- The indices for all use segments are lower than last year. The only exception to this is the residential sector which, at +57.0 pt., is expected to see a positive development of prices. For investments in commercially-used properties, survey participants expect a moderate fall in prices.

- Similar to last year, the strongest price falls are expected for office properties. At -89.4 pt., the index rate still remains within the moderately negative range.

# Sub-index: Development of Prices in the Economic Centres
## Slight cooling since last year

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

| Sub-index | Index 2013 | Index 2012 |
|---|---|---|
| Basel | 15.6 pt. | 28.8 pt. |
| Bern | -12.9 pt. | 5.2 pt. |
| Geneva | 20.9 pt. | 60.9 pt. |
| Lausanne | 31.4 pt. | 47.0 pt. |
| Lugano | -11.6 pt. | 1.6 pt. |
| Lucerne/Zug | 40.3 pt. | 48.1 pt. |
| St. Gallen | -18.7 pt. | -13.0 pt. |
| Zurich | 41.0 pt. | 66.4 pt. |

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

- The general slight downturn in expectations for price trends is also reflected at the economic centre level. Sustained price increases are expected for Zurich and Lucerne/Zug, at +41.0 pt. and +40.3 pt. respectively. For Basel, Geneva and Lausanne, the index displays price stability. The Bern, Lugano and St. Gallen regions lie within the stable to slightly negative range.

- A downturn of the index, of +60.9 pt. to +29.9 pt., is identified for Geneva.
In a regional comparison, it is possible to identify a trend reversal in the expectations of survey participants.

# Sub-index: Development of Prices in the Principal Regions

## Highest expectations for Zurich

### Price expectations for investment properties in the regions

| Sub-index | Index 2013 | Index 2012 |
|---|---|---|
| East Switzerland | -19.9 pt. | -11.3 pt. |
| Zurich | 37.5 pt. | 62.2 pt. |
| Central Switzerland | 25.9 pt. | 44.8 pt. |
| Northwest Switzerland | -11.8 pt. | -3.1 pt. |
| Espace Mittelland Region | -24.8 pt. | -17.4 pt. |
| Lake Geneva Region | 33.1 pt. | 60.9 pt. |
| Ticino | -24.0 pt. | -2.4 pt. |

**The question: What is your price estimate for the next 12 months in the principal regions?**

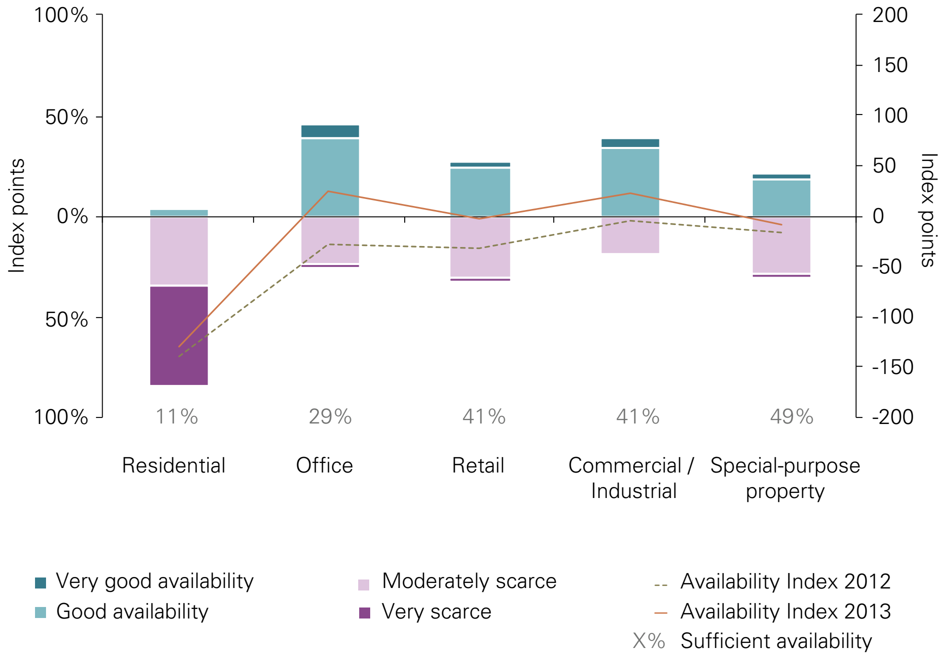
- The assessments for the respective economic centres at regional level are consistent. The economic centres of Zurich (+37.5 pt.) and Central Switzerland (+25.9 pt.) and the Lake Geneva Region (+33.1 pt.) enjoy the highest expectations, registering slightly above the neutral range. The assessments for the other regions lie within the slightly negative range. The moderately negative expectations for East Switzerland, the Espace Mittelland Region and Ticino remain almost at the same level and indicate stability.

- Compared to last year, there has been an apparent levelling off of price trends, or a further tendency towards negative assessments. The change in index rates for the Zurich and Lake Geneva regions suggest the start of a trend reversal.

# Sub-index: Availability of Suitable Investment Opportunities

## Scarcity for the residential sector

### Availability of investment real estate – Supply Index



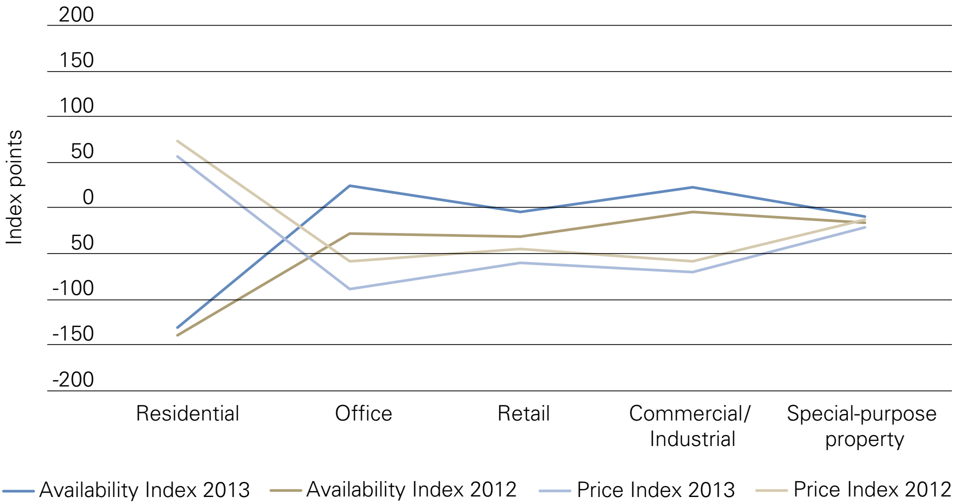
| Sub-index | Index 2013 | Index 2012 |
|---|---|---|
| Residential | → -130.6 pt. | -140.3 pt. |
| Office | ↗ 24.5 pt. | -27.6 pt. |
| Retail | ↗ -3.7 pt. | -31.7 pt. |
| Commercial / Industrial | ↗ 22.9 pt. | -5.0 pt. |
| Special-purpose property | → -8.6 pt. | -16.3 pt. |

**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?**

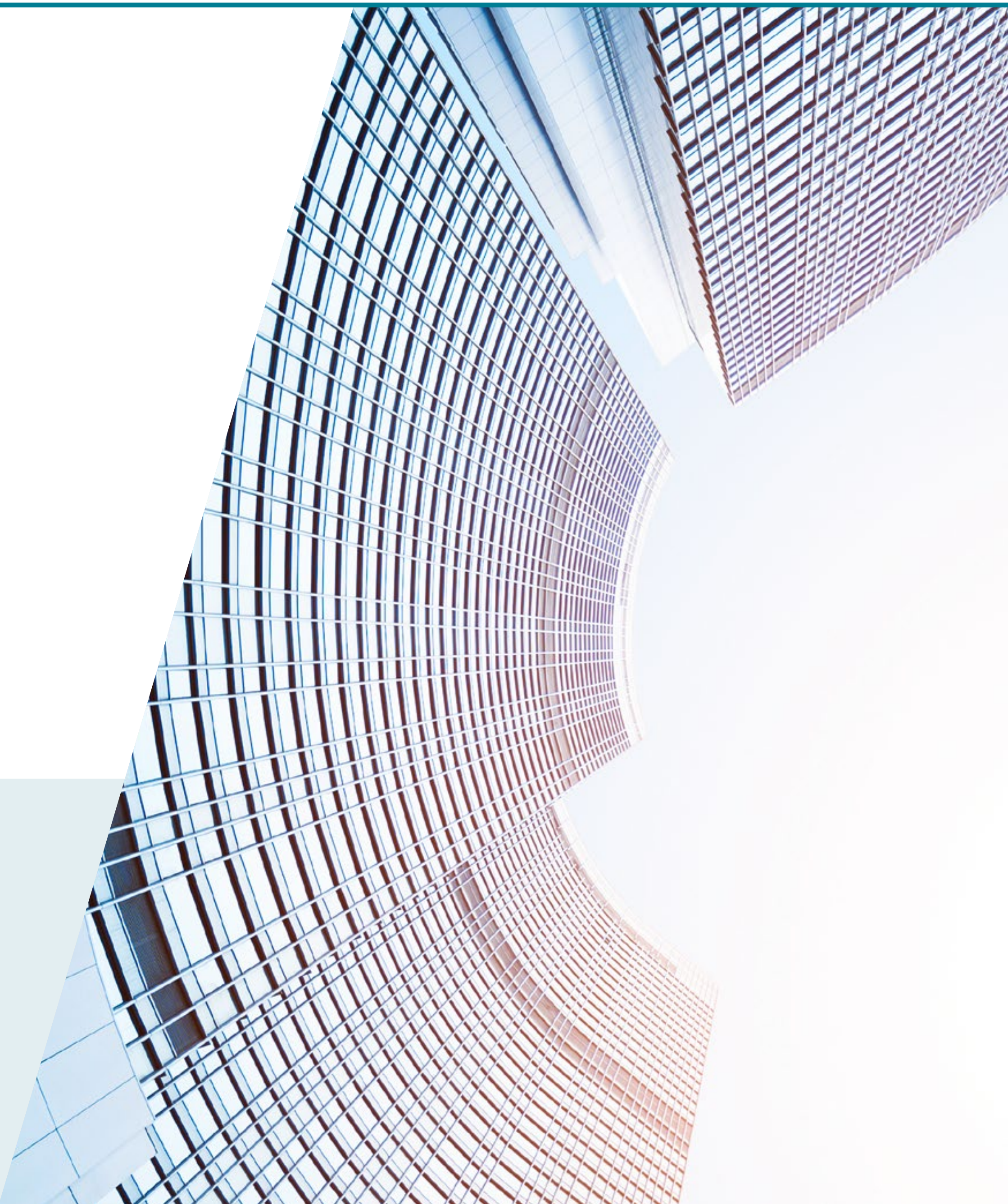
- At -130.6 pt., survey participants identified a continued lack of suitable investment opportunities in the residential sector. This situation is reflected in the price expectations.
- By contrast, the situation appears to have improved slightly in the commercial use segments compared to last year. All indices display stability or have shifted into the moderately positive range. This development is expected in particular for office properties and the commercial segment, which is confirmed by the relevant index rates of +24.5 pt. and +22.9 pt.

# Real Estate Sentiment Index
## Availability of investment opportunities and price expectations

### Anticipated real estate supply and price expectations index according to use



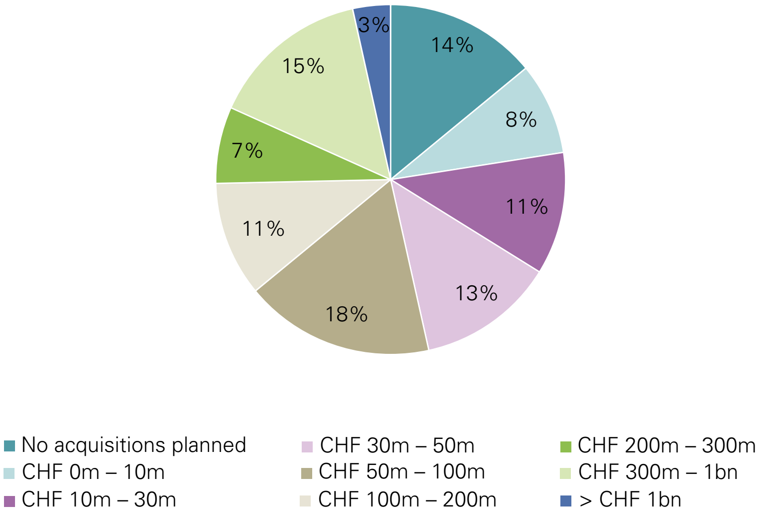

- The comparison of the supply and price expectation indices produces a symmetrical picture. This reinforces the logical relationship of these two indices, i.e. the lower the assessment of available supply, the higher the corresponding price expectation. Supply will not satisfy demand, particularly in the residential sector, which leads to an expected positive price trend.
- Compared to last year, a moderate levelling off of the expected price trends has been identified over all segments, which is due to the slightly improved availability of suitable investment properties.



# Investment Volumes, Investment Preferences and Investment Behaviour

# Planned Investments
## Not everyone will invest

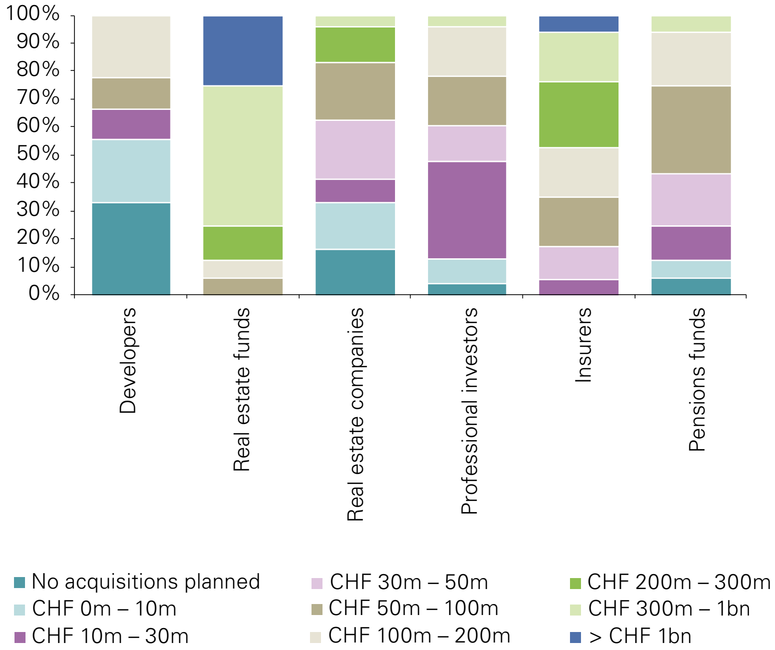
### Planned investment volume in CHF




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

- 14% of survey participants have no investment plans for the next 12 months. Compared to last year, this is a significant reduction of 15 percentage points, although it corresponds to the results of the Price Expectation and Availability Indices.
- 64% of participants plan to invest less than CHF 100m.

## Investment volume in CHF according to participant group




- Developers and real estate companies are particularly cautious in their investment activities, which is a reflection of their assessments of market trends. This contrasts with insurers and pension funds: in the case of insurers, all participants revealed investment plans for the next 12 months; only 6% of representatives of pension funds have no investment plans.

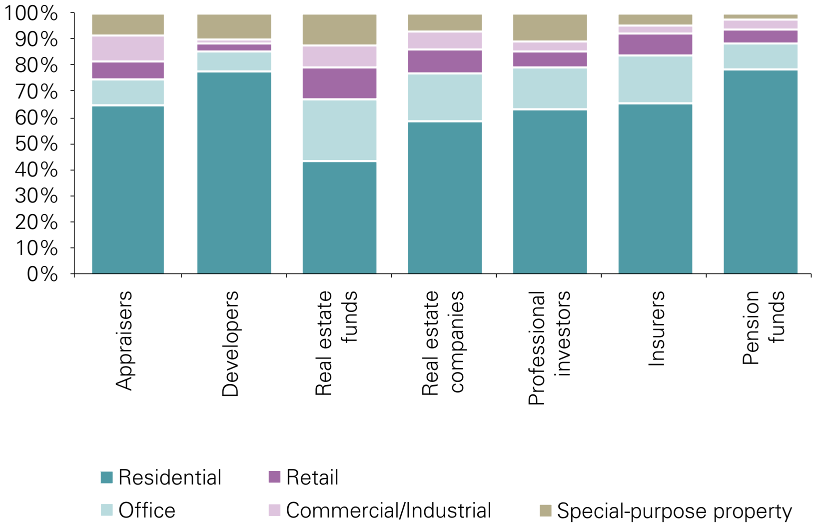
# Investment Preferences
## Strong preference for investments in residential

### 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 have a clear preference for the residential sector. They would invest 64% of the available capital in residential properties. This is a rise of 9 percentage points since last year. This overweighting of the residential sector occurs at the expense of office and retail space, and results in a shift in investments from economically-sensitive commercial investments to the less volatile residential sector. At 8%, investments in special-purpose property are under-represented, but their share of the total investment volume increased slightly.

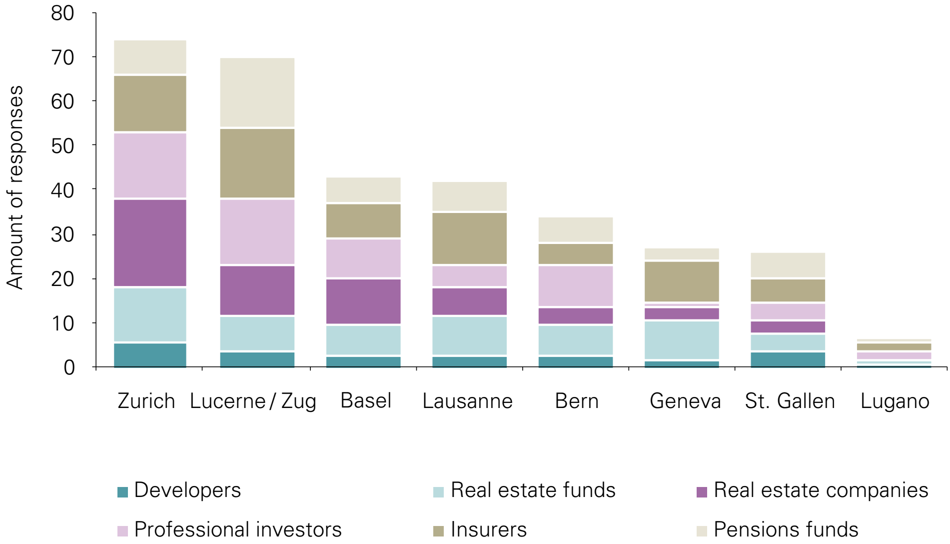
## Investment preferences according to participant group



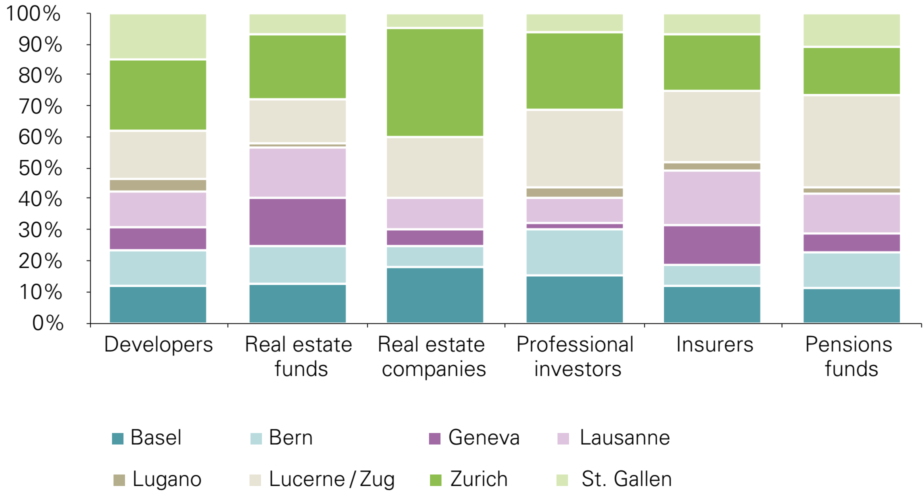

- Only real estate funds would invest less than 50% of their available capital in residential properties. This could, under certain circumstances, be the result of the specific focuses of individual survey participants.
- Compared to last year, real estate companies confirmed their willingness to undertake more significant investment in residential (+18 percentage points).

# Preferred Investment Locations
## Zurich and Central Switzerland preferred

### Preferred investment locations according to investor group



## Preferred investment locations according to investor group in %



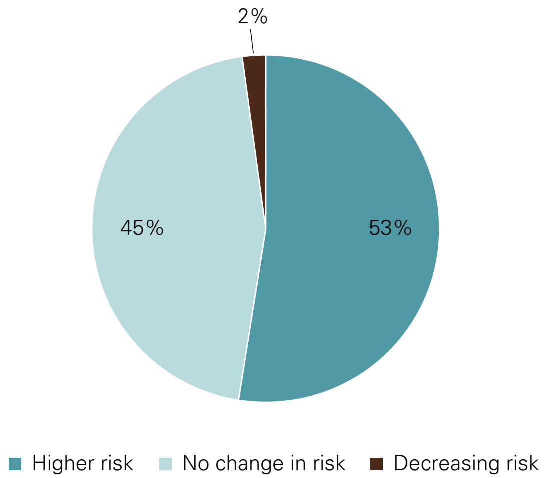

**The question: Which investment locations will you increasingly focus on in future?**

- The city of Zurich was named as the preferred investment location in 22.9% of the responses. Almost the same percentage of responses (21.7%) named the Lucerne/Zug Region. The steepest price rises are also anticipated in the most preferred locations.
- It is striking that investors favour the Lausanne real estate market more than the Geneva market. Lausanne registered over 50% more responses than Geneva.
- Very few investors favoured the cities of St. Gallen and Lugano. This corresponds with participants' assessments of the development of these investment locations.

# Risk Management

# Risk Management
## Exogenous risks on the radar of survey participants

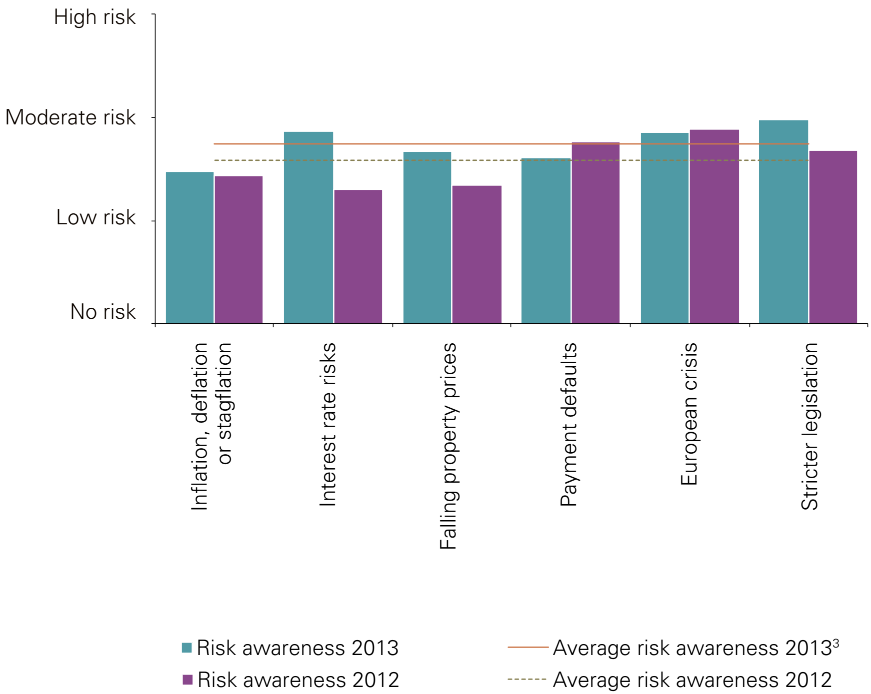
### Assessment of market risk




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

- The majority of survey participants (53%) expect market risk to increase over the next 12 months. This has seen a sharp rise of 14 percentage points since last year. Only 2% of participants expect the level of risk to fall, whilst 45% expect no change. This risk assessment of survey participants is reflected in their investment preferences, with a focus on residential and central locations.

## 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?**

- Survey participants identify exogenous risk factors as more acute than actual property risks. The greatest risk is acknowledged to be stricter legislation. Compared to last year, interest rate risks have shifted into focus. This assessment is likely due to the sharp rise in refinancing interest rates since Spring 2013.

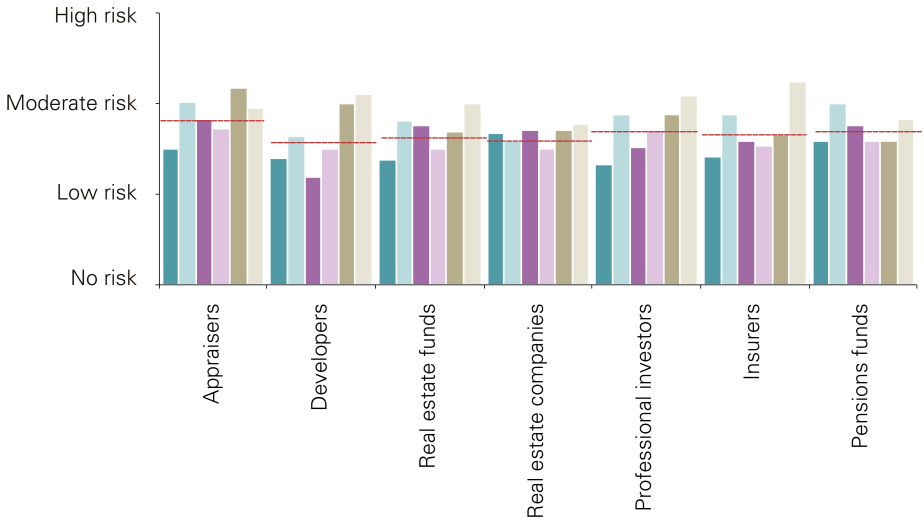
- Survey participants are as concerned about the effects of the European crisis as they are about the risk of interest rate changes. This can affect demand in the Swiss real estate investment market and change the attitudes of investors and occupiers.

[3] The average risk assessment is formed by the equivalent weighting of all risk sub-indices.

# Risk Management

## Investors in the grips of interest rate changes

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




**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?**

- Broken down according to participant groups, it becomes apparent that appraisers consider the current risk situation as more severe compared to investors. In addition to appraisers, professional investors and pension funds assess the risk as above-average compared to the other participants; however, differences between the individual survey participants are relatively small, and the identified risks lie within the moderate range.

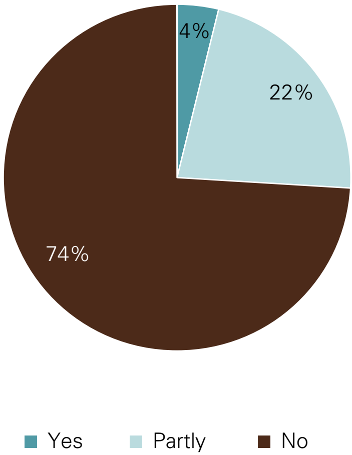
- Stricter legislation is identified as a risk, particularly by insurer representatives. It is interesting that this risk component is also evident in the case of developers and professional investors, which could be interpreted as an effect of more restrictive financial policies.

- Inflation/deflation or stagnation
- Interest rate risks
- Falling property prices
- Payment defaults
- European crisis
- Stricter legislation
- -- Average risk perception according to participant group

- Only appraisers, pension funds and real estate funds identify falls in property prices as a real risk. The assessments of the latter must be considered in conjunction with their assessments of the effects of stricter legislation.
- All survey participants regard the risk of interest rate changes as greater than last year.

# Risk Management
## Inclination to take on risk in investment decisions

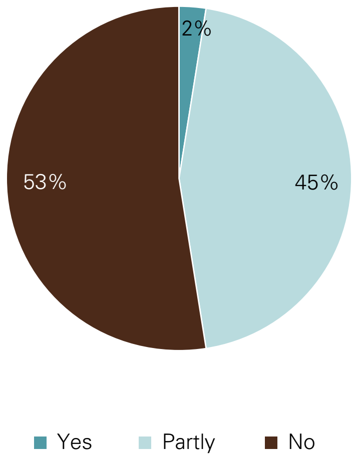
### Greater inclination to take on risk in investments (investors)




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

- 26% of investors are prepared to take on greater risk in their investment considerations over the next 12 months, at least to a certain degree.
- Compared to last year, increased risk sensitivity is apparent in the case of investors and appraisers. This is reflected in survey participants' statements of their investment preferences, which are focused on core investments in the residential sector.

## Greater inclination to take on risk in investments (appraisers)



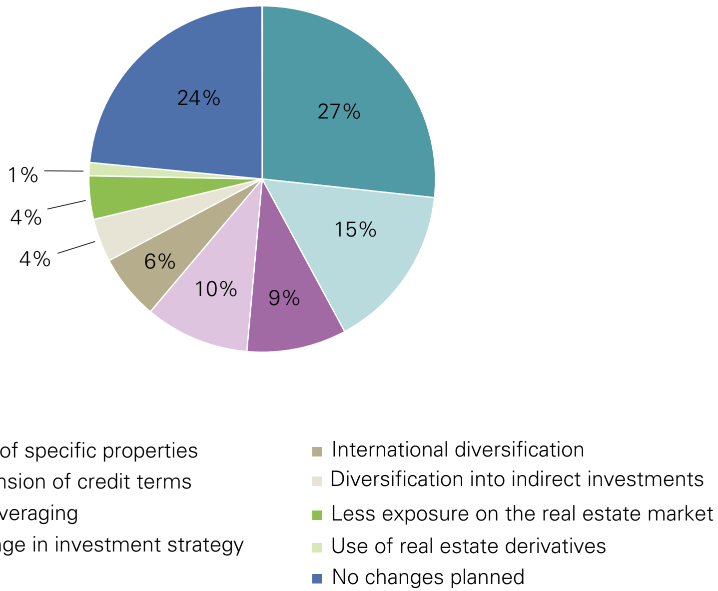

**The question: Are your clients more inclined to take on higher risk investments compared to last year?**

- The contradictions in the responses of appraisers and investors can be explained by 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
## Current market conditions being exploited to undertake selective disposals

**Planned changes in investment behaviour / real estate allocation**

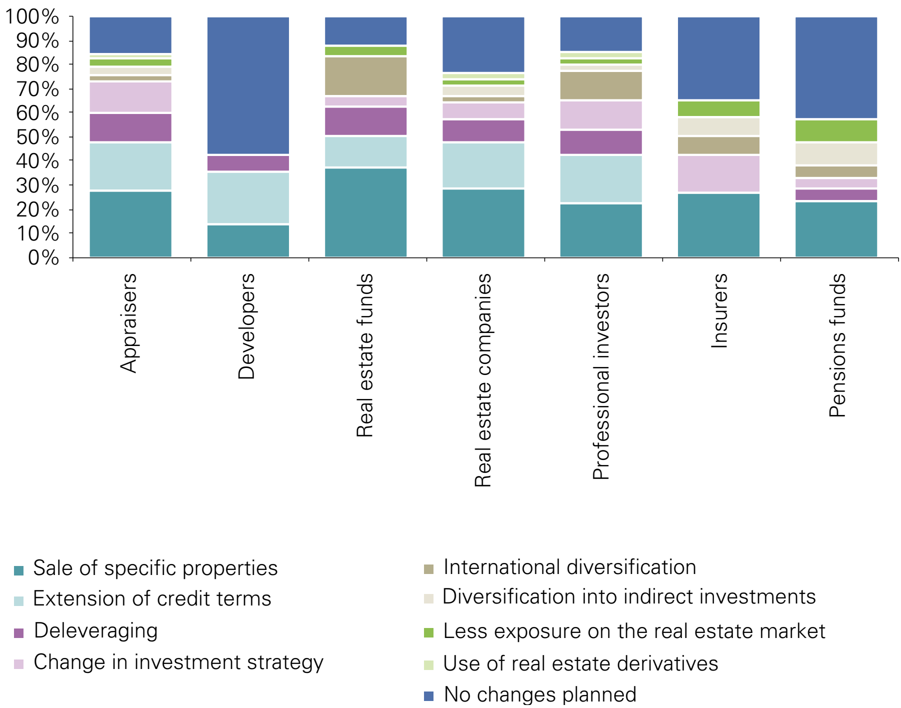



**The question: Over the next 12 months, will you change your investment behaviour / real estate allocation on account of your current risk assessment?**

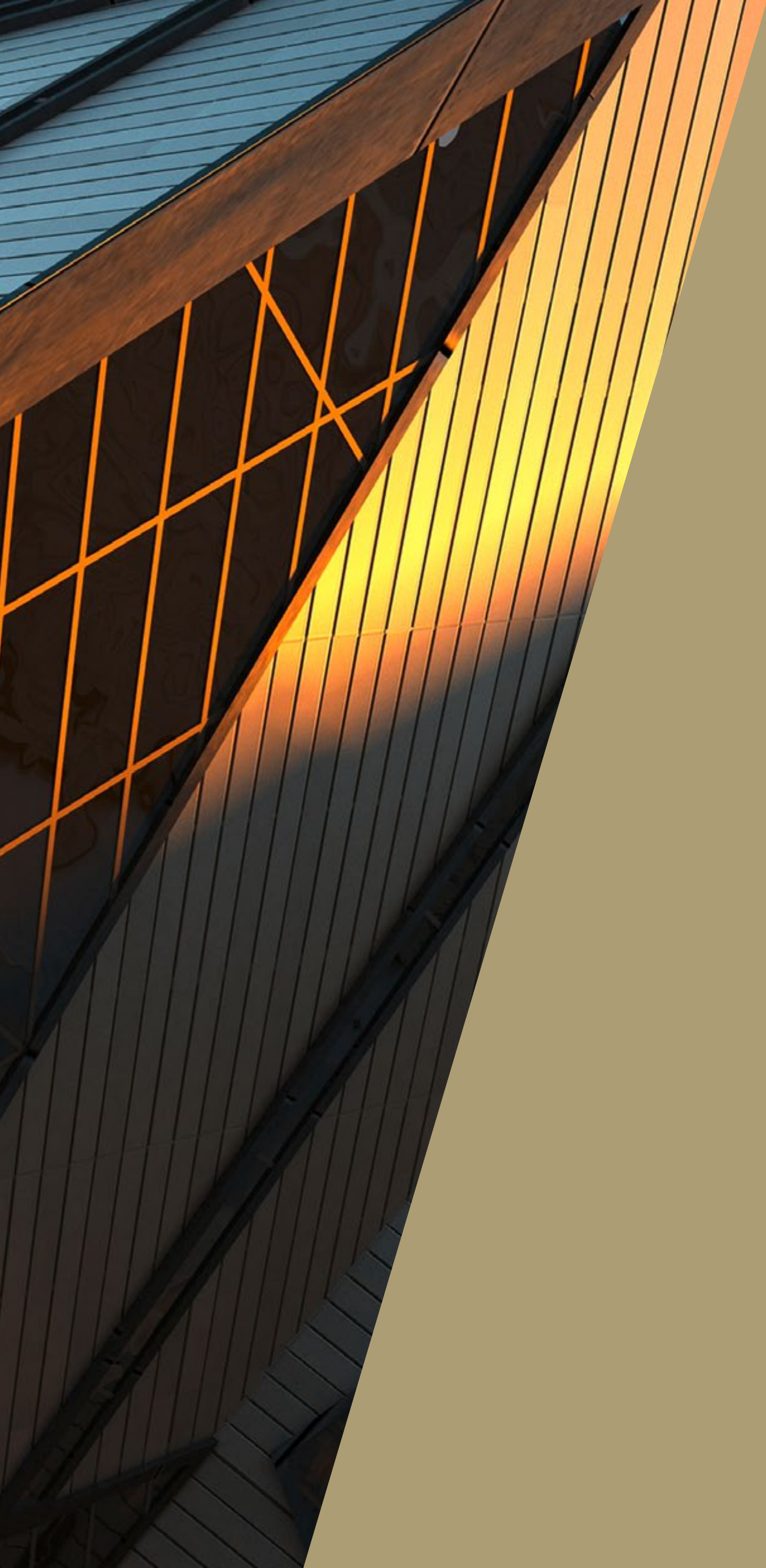
- 27% of survey participants are exploiting the current market environment to undertake selective disposals. The second most mentioned strategy is the maintaining of investment behaviour (no change planned, 24%).

- Pension funds and insurers in particular are considering a reduction in their real estate quotas; these two groups have expanded their real estate holdings over the last few years. At present, pension funds are investing on average over 20% of their investment portfolios in real estate.

## Responses according to participant group




- Investors with debt capital are planning to exploit the current favourable refinancing opportunities to extend credit terms (15%). At the same time, loan capital reduction (deleveraging, 9%) is being considered as an option.
- Only a small number of survey participants have named diversification abroad (6%) or investments in indirect investments (4%) as an option. One reason for this could be that the respective business models do not allow for such a strategic change.

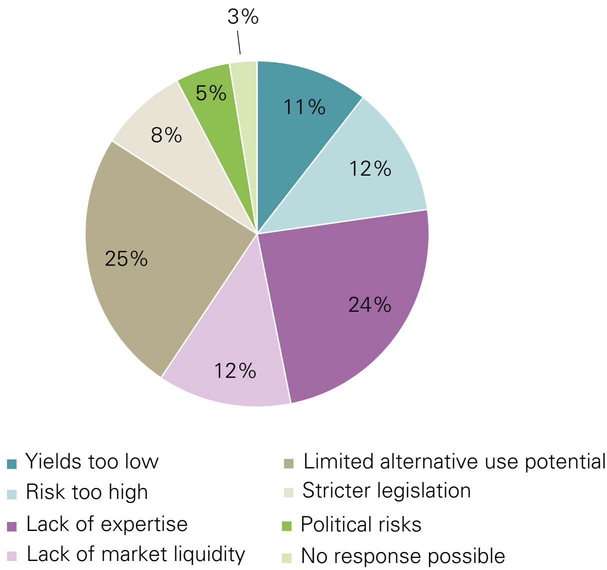


# Special-purpose property and Real Estate Debt

# Special-purpose property

## Limited alternative use potential and a lack of expertise are named as the greatest obstacles

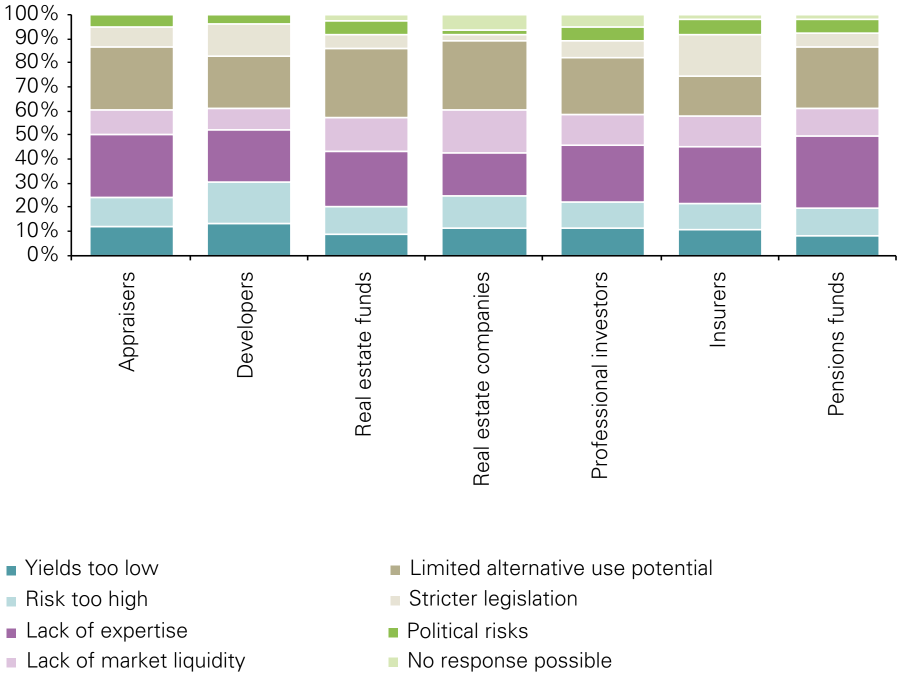
### Obstacles to investment in special-purpose property




**The question: In your opinion, what are the greatest hurdles when investing in special-purpose properties?**

- A lack of expertise (24%) and limited alternative use potential (25%) are named by survey participants as the greatest obstacles to investing in special-purpose property. These are followed by poor market liquidity (12%), too great risks (12%) and too low returns (11%). Political risks (5%) and legislation (8%) play a lesser role.

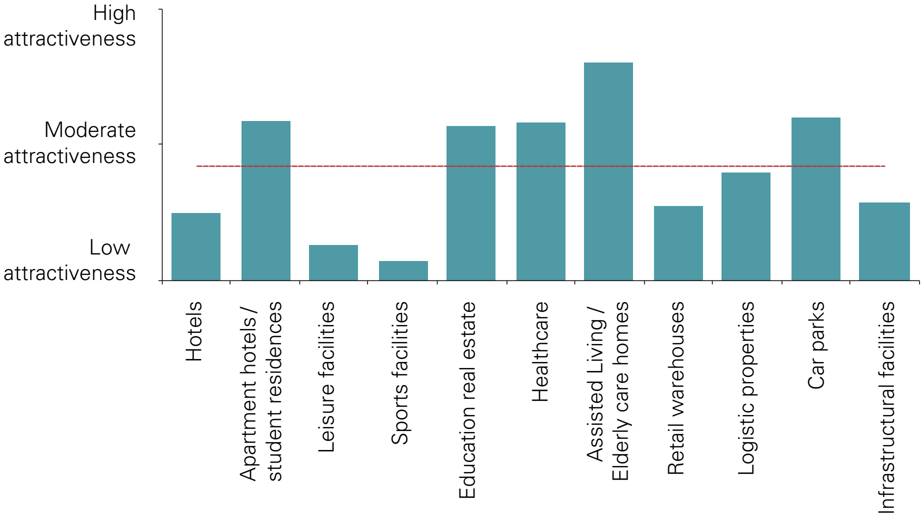
## Obstacles to investment in special-purpose property according to investor groups




- A view to the 20 biggest listed Swiss real estate funds shows that only two of these vehicles can be characterized as special-purpose property funds: CS Living Plus and CS Hospitality. The latter invests mainly in hospitality real estate such as congress centres, residential properties with hotel-style services, hotels and healthcare properties. CS Living Plus focuses on residential models with integrated service provision, elderly care homes and nursing homes, healthcare and spa facilities. The purchase of the Tertianum Group by the largest Swiss real estate company SPS in Summer 2013 signalled its willingness to invest in a special-purpose property segment, which it had identified as a growth market.

# Special-purpose property
## Attractiveness of special-purpose property

### Attractiveness of special-purpose property




**The question: In your opinion, how attractive are the following specialized properties?**

- Real estate investments in elderly care homes, nursing homes and other healthcare properties are assessed as attractive. Investments in educational real estate and student accommodation are considered almost as attractive as the healthcare sector. These preferences accompany the identified mega-trend in society of demographic change and its transformation into a more educated society.

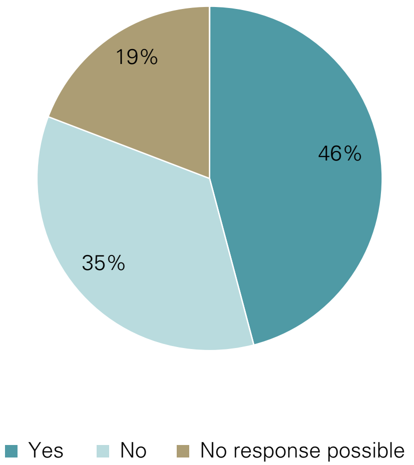
- Sports and leisure facilities, as well as hotels, are rated as unattractive. It is likely that such investments do not correspond to the risk / return profiles of most of the survey participants.

- Attractiveness of investment segment
- Average attractiveness across all segments

- Of interest are the assessments of the attractiveness of investments into car parks, which are being considered as possible investment forms. By contrast, there is little interest being shown for investments in infrastructure in Switzerland at present, which is also reflected in the survey findings relating to public-private partnership investments.

# Special-purpose property
## New healthcare financing opens up market opportunities, ownership solutions preferred

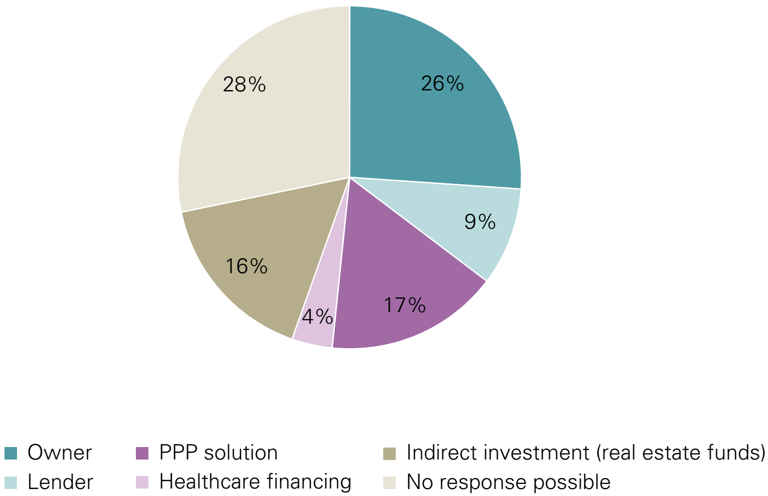
### Healthcare real estate as investment properties




**The question: Can you envisage investing in this new segment?**

- Almost half of participants responded that they could envisage investing in healthcare real estate. This contrasts with 35% of participants who would categorically refuse to consider such an investment.
- Direct investments as owner (26%) or indirect investments using special purpose real estate funds (16%) are preferred.

## Healthcare real estate as investment properties according to types of investment



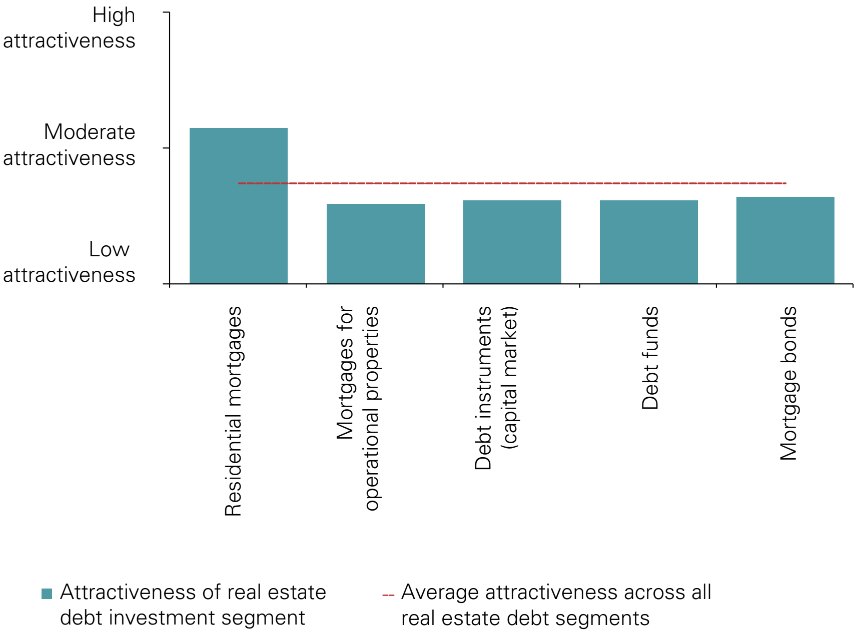

**The question: In your opinion, what form would your participation in the healthcare sector take?**

- A Public Private Partnership (PPP) solution is considered as a possible investment structure by 17% of participants.

- Only 9% of survey participants could envisage a role as lender. Such financing was recently promised to the LimmiViva project development of the Limmattal Hospital. Capital requirements were covered by long-term basic financing via the institutional investor Postfinance, supplemented by a bond issue and consortium loan organized by UBS.

# Real Estate Debt
## Attractiveness and reasons for this level of significance

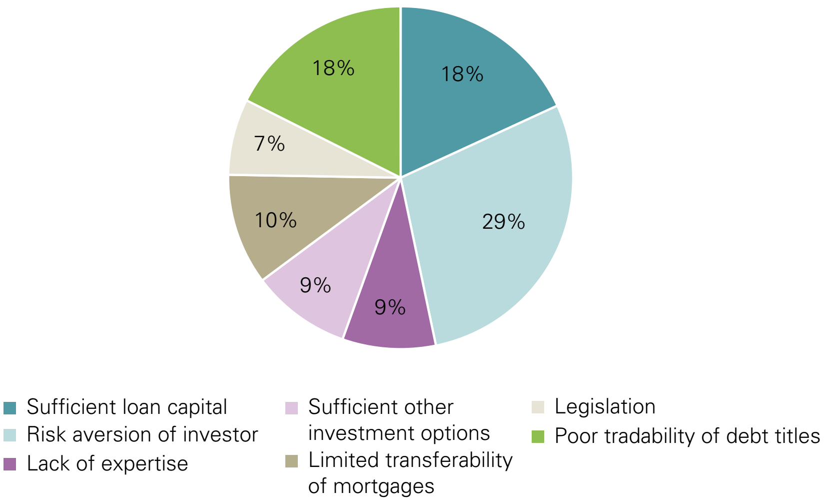
### Attractiveness of investments in real estate debt




**The question: In your opinion, how attractive are the following real estate debt investment opportunities in Switzerland?**

- Traditional residential mortgages are considered the most attractive for investments in real estate debt. Survey participants classified other investment options in real estate debt as relatively unattractive. This is especially apparent in the case of refinancing loans for operational properties.

## Reasons for the lesser significance of real estate debt




**The question: In your opinion, and in contrast to other countries, why has it not yet been possible to establish a real estate debt market in Switzerland?**

- 29% of participants are of the opinion that investors' risk aversion is one reason why it has not yet been possible to establish a real estate debt market in Switzerland. In each case, 18% of survey participants suggested possible reasons for this to be the sufficient supply of loan capital or the limited tradability of debt securities.

# Methodology and Survey Participants

# Methodology

## Qualitative indices

The indices are generated from a qualitative survey of experts consisting of real estate investors and appraisers of investment properties.

Like the EU-compatible consumer sentiment index by SECO, the survey focuses exclusively on issues relating to the future (forthcoming 12 months). The responses represent the macro-economic assessments and expectations of these participants for price trends 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 that determine the actually definable benchmarks. Qualitative statistics have a strong forecasting focus, especially in a real estate investment market dominated by a relatively small number of market players, as in Switzerland.

## Representativeness

221 people took part in the 2013 survey (+18% compared to last year). The participant group comprised 165 investor representatives and 56 appraisers of investment properties, and covered all important investor groups. The size of the samples means that the survey was able to provide representative responses to the current expectations of market players.

## Indices

The participants responded to seven questions, whereby the responses to two sub-questions were evaluated to create the aggregated Swiss Real Estate Sentiment Index.

| Sub-indices | Weighting |
|---|---|
| 1. Economic conditions | 20% |
| 2. Development of prices in the real estate market | 80% |

Aggregated Swiss Real Estate Sentiment Index

A sub-index was created from the responses to each of the seven questions, which permitted detailed responses on anticipated economic conditions and price trends 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. Development of prices in the real estate market according to location |
| 4. Development of prices in the real estate market according to use |
| 5. Development of prices in the real estate market in the centres |
| 6. Development of prices in the real estate market in the regions |
| 7. Availability of investment properties |

## Sample calculation of a (sub-)index

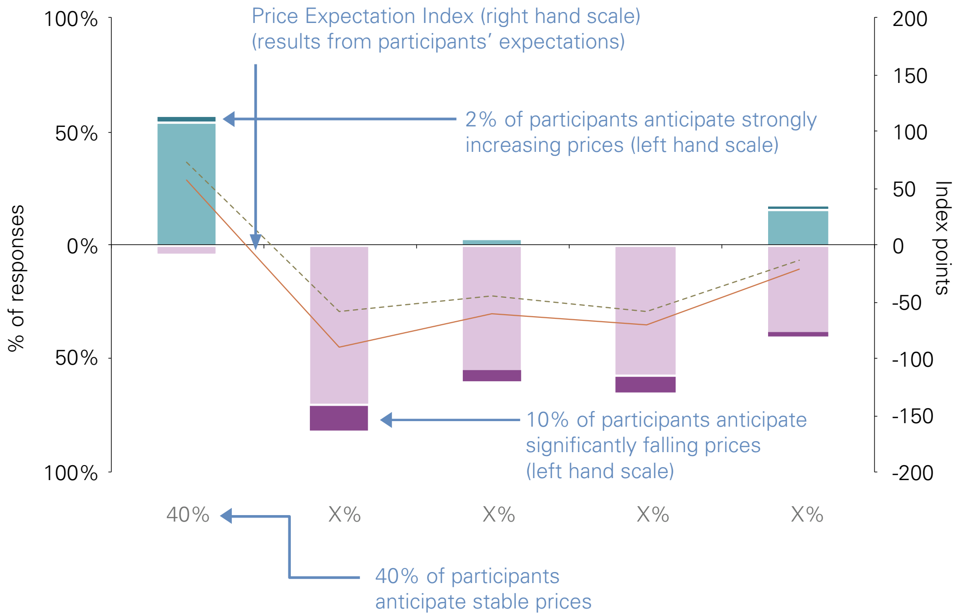
Question: How will prices develop in the Swiss real estate investment market over the next 12 months?

| Expectation | No. of responses | 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 responses. The sum of the product is multiplied by 100 and divided by the total number of responses, which produces the index. This figure can lie between -200 and +200.

# **Methodology**
Guide




■ Strongly increasing prices
■ Slightly increasing prices
■ Slightly falling prices
■ Strongly falling prices
-- Price Expectation Index 2012
— Price Expectation Index 2013

| Sub-index | Index 2013 | Index 2012 |
|---|---|---|
| Price expectation | -X pt. | -Y pt. |

## Development of prices since previous year

Change greather than +25 index points

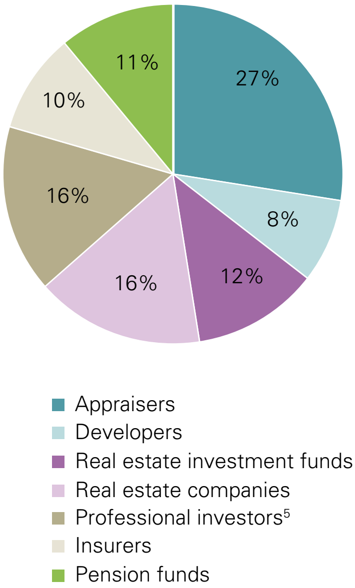
Change between -25 and +25 index points

Change smaller than -25 index points

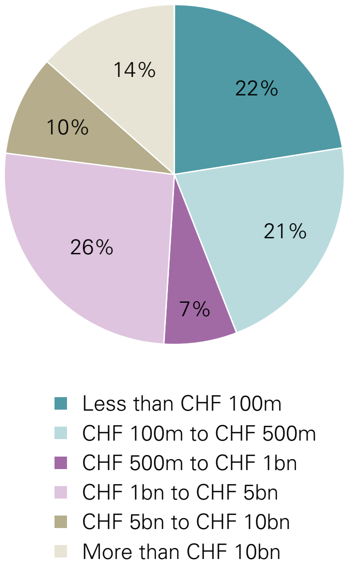
**Important:**
Stable price expectations (weighted by 0) are not illustrated in order to avoid confusing the reader.

# Methodology
## Survey participants

### Participants in the study




### Participants according to investment and valuation volumes in CHF




- The following participant groups took part in the study: appraisers (27%), professional investors (16%), real estate companies (16%), real estate investment funds (12%), pension funds (11%), insurers (10%) and developers (8%).
- 49% of the participants represented institutional investors.

[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.

## Participant groups according to investment and valuation volumes in CHF


- Around half of the participants represent investment and valuation volumes of more than CHF 1 billion. 43% of participants represented investment and valuation volumes of less than CHF 500 million. Developers and appraisers in particular represented the group with relatively low investment and valuation volumes.

# Management Summary

# Management Summary

## Key conclusions

- At -1.9 pt., the Swiss Real Estate Sentiment Index 2013 displays a slight downward trend in prices of investment properties over the next 12 months. Last year, the index suggested that there was cautious optimism in the market, at +20.6 pt.

- At -12.0 pt., survey participants assessed economic development as slightly more optimistic than in 2012 (-38.0 pt.). This assessment corresponds to the findings of other indices, such as the Consumer Sentiment Index and Purchasing Manager Index.

- The expected development in prices of investment properties was just inside the positive range at +0.6 pt.

- Over the next 12 months, survey participants expect further moderate price increases (+67.5 pt.) in central locations, which contrasts with the negative price expectations for peripheral locations, which have deteriorated further (-77.6 pt.).

- At +57.0 pt., survey participants expect further value growth potential in the residential sector, whereby expectations have reduced slightly since last year (+73.4 pt.). Survey participants expect the strongest pressure on prices of office properties (-89.4 pt.).

- There are expectations of a further positive development in prices, particularly in Zurich (+41.0 pt.) and Lucerne/Zug (+40.3 pt.). Stable to slightly negative price trends are expected for Bern, Lugano and St. Gallen. The index displays price stability for Basel, Geneva and Lausanne.

- The availability of suitable investment opportunities in the residential sector remains low. A moderately low availability is also expected in the other use segments, whereby the index change since last year displays slightly improved availability.

- The majority of survey participants (53%) expect market risk to increase over the next 12 months. The survey result is 14 percentage points higher than last year.

- Survey participants anticipate exogenous risks to be much more acute than direct property risks. The greatest risks are identified as stricter legislation and interest rate risks.

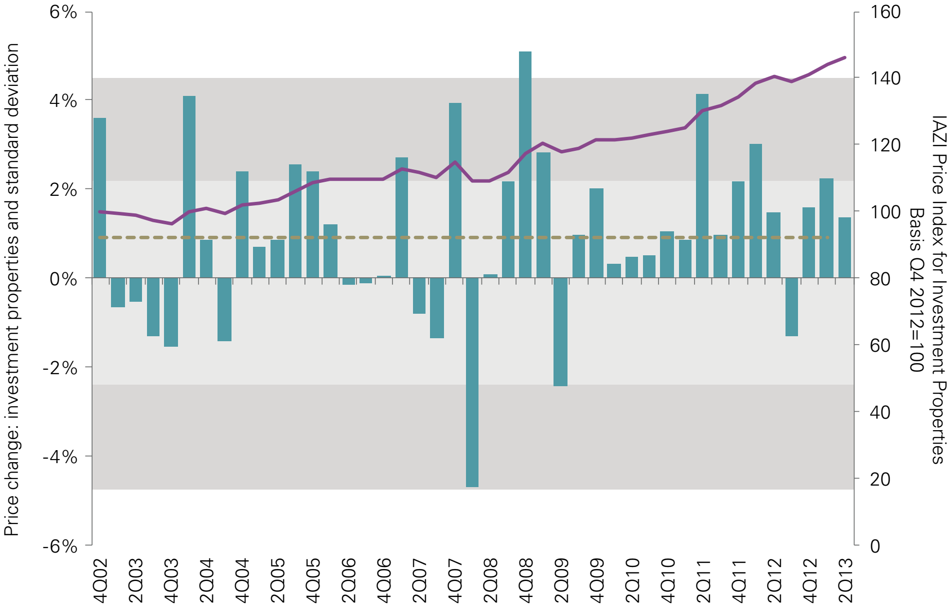
- Lack of expertise (24% of survey participants) and limited alternative use potential (25%) are regarded by survey participants as the greatest barriers to investment in special-purpose property. In terms of the special-purpose property segment, investments in "Residential for the Elderly" and healthcare real estate are considered as the most attractive propositions.

- New healthcare financing has helped open up the market slightly. This means that it is now also able to offer investment opportunities for special-purpose property. Direct investment for owner-occupation (26%) or indirect investments using special purpose real estate funds (16%) are preferred.

- Traditional residential mortgages are preferred for investments in real estate debt. Survey participants classify other investment alternatives in real estate debt as relatively unattractive. This applies in particular for the refinancing of loans for operational properties. 29% of survey participants are of the opinion that the risk aversion of investors is one reason why Switzerland has not yet been able to establish a real estate debt market. 18% of survey participants suggest that the reasons for this are a sufficient supply of loans and the limited tradability of debt securities.

# Anticipated and Observed Development of Real Estate Prices

## Development of investment property prices in Switzerland




Source: IAZI and KPMG Real Estate

Price change: investment properties per quarter (left hand axis)
One standard deviation: price change with likelihood of 68.3% (left hand axis)
Two standard deviations: price change with likelihood of 95.4% (left hand axis)
Average price change per quarter (left hand axis)
Indexed price trend (right hand axis)

- Over the past ten years, IAZI has reported an average price change of 0.9% per quarter for investment properties in Switzerland. This corresponds to an annualized growth in prices of 3.6%. Nonetheless, annual price rises of 5.7% have been reported over the last five years. This development of prices is based on an analysis of the IAZI Price Index and is assumed to have resulted from the increased attractiveness of real estate investments since the end of the financial crisis.

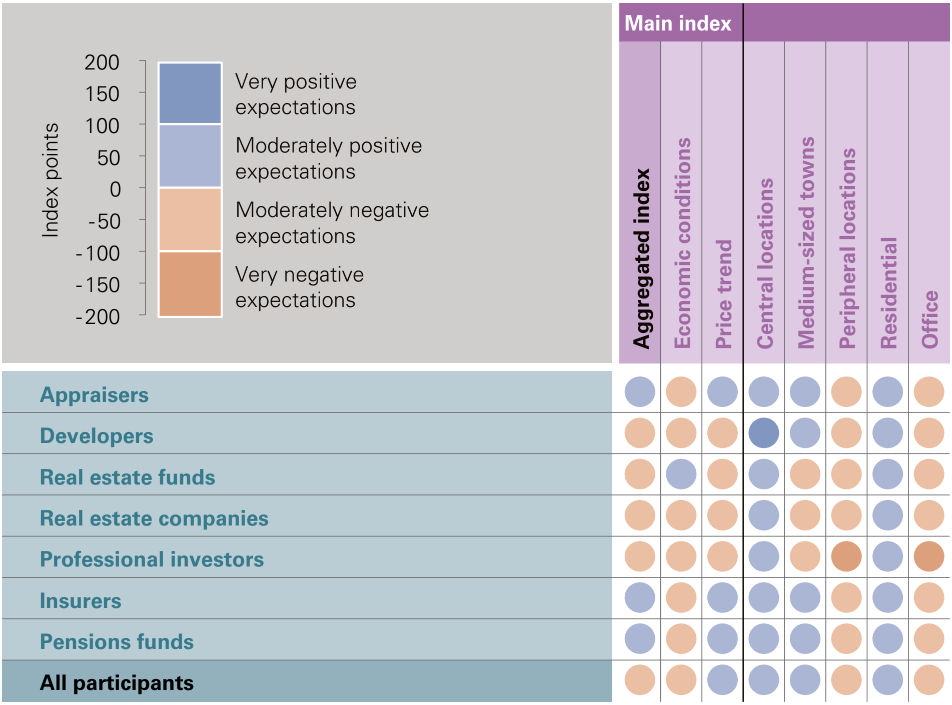
- Over the last three quarters (Q2/2012 – Q1/2013), the average price change has been 0.8% (annualized: 3.4%). This would suggest that there has been a slight downward trend in prices based on the 5-year period.

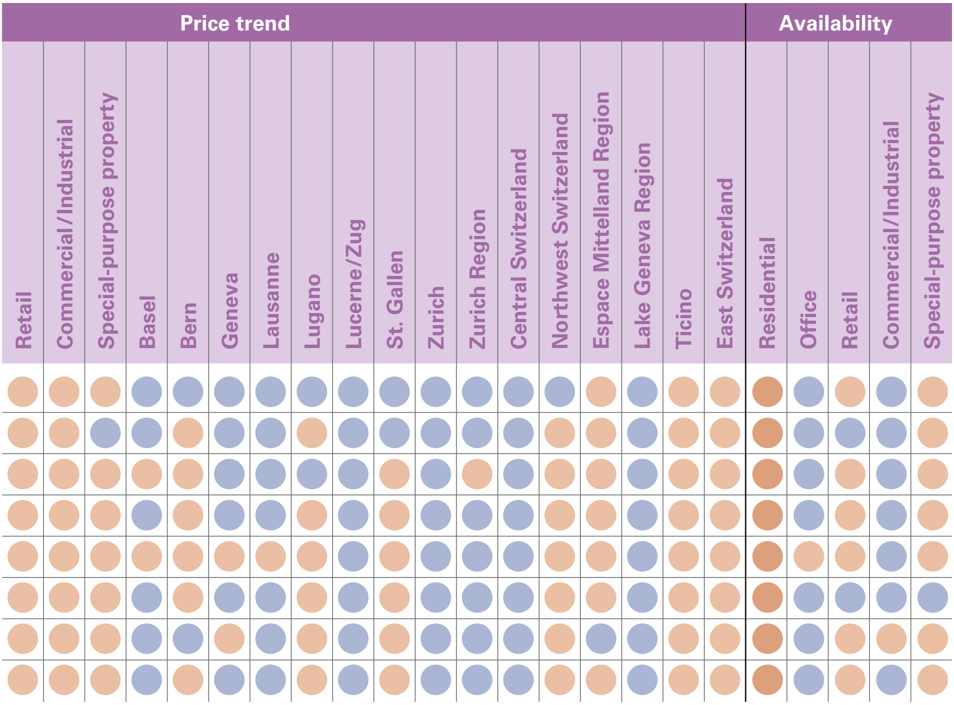
- This moderate increase of prices was anticipated by the KPMG Swiss Real Estate Sentiment Index (sresi®). As an early indicator of price trends, the sresi® in Summer 2012 forecasted a moderately positive development of prices, at +35.2 index points.

Published on 08.07.2013: http://blog.kpmg.ch/advisory/preisentwicklung-bei-renditeliegenschaften.

# Summary

## KPMG Swiss Real Estate Sentiment Matrix




Price trend
Availability
Retail
Commercial / Industrial
Special-purpose property
Basel
Bern
Geneva
Lausanne
Lugano
Lucerne/Zug
St. Gallen
Zurich
Zurich Region
Central Switzerland
Northwest Switzerland
Espace Mittelland Region
Lake Geneva Region
Ticino
East Switzerland
Residential
Office
Retail
Commercial/Industrial
Special-purpose property

# 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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