



cutting through complexity

Swiss Real Estate Sentiment Index 2014

English Edition
kpmg.ch/realestate



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Foreword

Waiting for Godot?

A year ago, we reported on the long and remarkably steep path taken by real estate market participants in Switzerland. A path that was characterised by stability, falling interest rates and immigrants who joined the travellers on their journey. From their ranks, attention was directed to the rise in temperature on the journey and the resulting drought on the supply side.

A degree of resentment was noticeable due to the increasing density. This culminated on the 9th of February this year in the adoption of the federal people's initiative "Against mass immigration" by the Swiss people – its implementation proves to be a further element of uncertainty in terms of the continuation of the journey. Repeated calls for caution have led to further prudential measures and one wonders when and how these new regulations will take hold and what impact they will have. With a slowing economy and pending tax reforms, there are further clouds on the horizon.

The supply of attractive real estate opportunities is drying up and the path ahead has more obstacles. From time to time, stars in the sky light up, but provide little orientation to the real estate wanderers. Some are defying the drought by testing out new routes which do not essentially meet their strategies. Many have decided to take a break and listen to the accounts of other people's travels.

The low interest rate environment continues to attract capital to the market, but for how long? The resting travellers are waiting for the momentum they know from experience, but do not know when and to what extent it will occur.



As in the play by Samuel Beckett, there may be repeated announcements in the future that the arrival of the long-desired momentum will be further delayed. It is quite possible that we will soon find ourselves in the following dialogue.

Let's go!
We can't.
Why not?
We're waiting for Godot.
Ah!

With the Swiss Real Estate Sentiment Index (sresi®), you have a tool at hand which allows you to anticipate momentum in the Swiss real estate investment market and make your decisions. Activate your action after consulting with the collected opinions of valuers and investors, and act after analysing the trends. This will reduce your uncertainty and shorten your waiting times.

We wish you an interesting read and look forward to your contribution to establishing the direction for the coming year.



Ulrich Prien
Partner, Head Real Estate Switzerland



Beat Seger
Partner, Real Estate M&A





Swiss Real Estate Sentiment Index

Swiss real estate market environment remains difficult

The Swiss Real Estate Sentiment Index compiled by KPMG Switzerland reveals that the mood on Switzerland's investment property market is down slightly on the whole. Market players expect prices to drop in individual regions such as the area around Lake Geneva and the Mittelland region. The same applies to several different real estate investment segments including office property.

When it comes to the difficult overall situation on Switzerland's real estate market, little has changed since last year: The aggregated Swiss Real Estate Sentiment Index compiled by KPMG stands at -5.3 index points (pts.), a marginal decrease compared to the previous year (-1.9 pts.). The sentiment on Switzerland's real estate investment market is still to be characterized as slightly deteriorating.

Positive attitude toward economic conditions

For the first time in the history of this index, professional market players' expectations in terms of economic development are positive with an index score of 10.1 pts., 22.1 pts. higher than in the previous year. The price expectation index is slightly negative at -9.1 pts. across all investment segments, yet close to the stability line. Year-on-year, this represents a further decrease in expectations regarding price trends for investment properties.

Market players predict that prices will continue to rise for properties in central locations. The Price Expectation Index remains comfortably positive at 45.1 pts. compared to the previous year (67.5 pts.); however, price developments are expected to slow down. At -4.9 pts., price expectations for medium-sized towns are negative for the first time. Continuing declines are anticipated in prices for peripheral locations, yet with a rating of -67.1 pts., these predictions are less pronounced than in the previous year (-77.6 pts.).



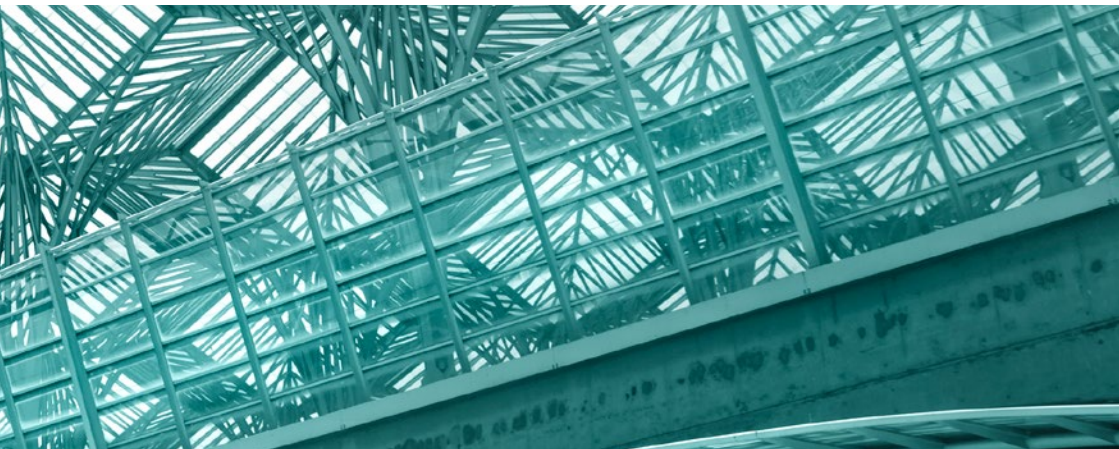
Residential segment is an exception

Residential property remains the only use segment with positive expectations in terms of price trends (43.9 pts.). Compared to the previous year (57.0 pts.), however, a slight downturn in sentiment can be seen in this investment segment, as well. The market players' sentiment related to price expectations for office property is significantly negative at -101.8 pts. This represents a further worsening of the downward trend already seen in the previous years (2013: -89.4 pts., 2012: -58.7 pts.).

Coming in at -126.9 pts., a lack of suitable investment properties is still evident in the residential segment. This situation goes hand in hand with the positive price expectations in this use segment and the related investment preferences of players in the market. Differences exist between the individual sub-indices in the commercial use segment. Respondents assessed the future supply of office property as sufficient, which earned it a score of 31.4 pts. (2013: 24.5 pts.). Based on the market assessment, there seems to be a moderate

shortage in the supply of special-purpose property (2014: -27.6 pts., 2013: -8.7 pts.).

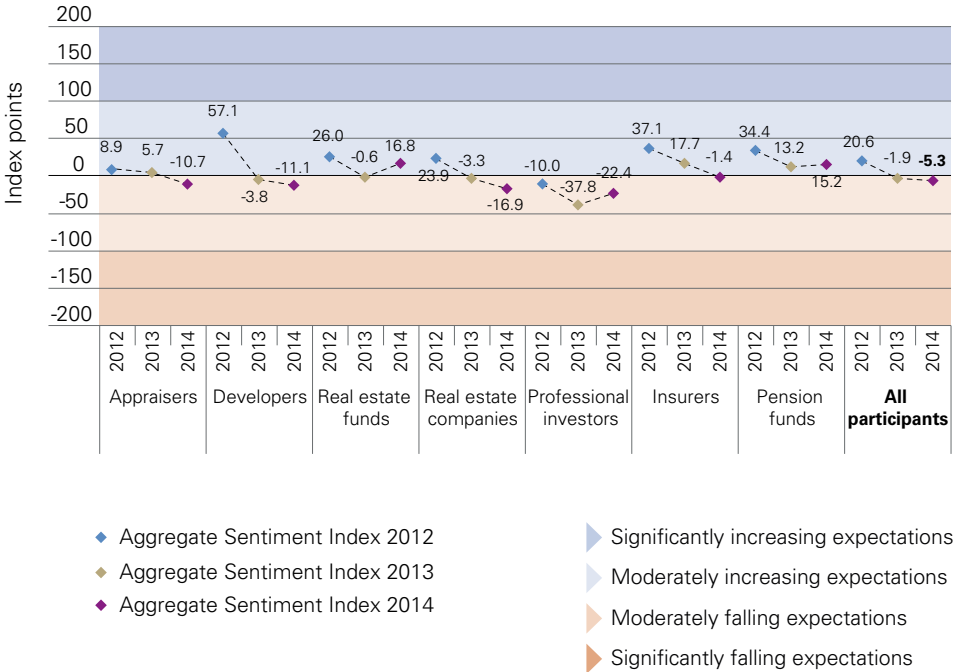
The following geographic trends can be seen: The slight general downturn in expectations for price trends is also reflected at the economic center level. Compared to the previous year, a moderate slowdown in price trends is expected for all economic centers except Berne. Price trends are expected to remain positive in the Zurich (26.8 pts.), Lucerne/Zug (21.4 pts.) and Basle (13.8 pts.) regions whereby a downturn can be seen in trend expectations. The largest negative changes year-on-year can be seen in the Geneva and Lausanne region. Of note is the fact that market players in the Geneva region still expected a clear upward turn in price trends in 2012 (60.9 pts.). Over the course of the past two years, this mood has changed significantly. Stable to slightly declining prices are forecast in the other regions.



Swiss Real Estate Sentiment Index

Investors more selective

Aggregated Sentiment Index¹ according to participant group



- The aggregated Swiss Real Estate Sentiment Index across all participant groups stands at -5.3 pts., which is a slight reduction compared to last year (down 1.9 pts.). Sentiment in the Swiss investment market is still described as neutral. Market players appear to be more selective in their real estate investments. Sustained low interest rates are ensuring that real estate investments remain attractive compared to other types of investment.

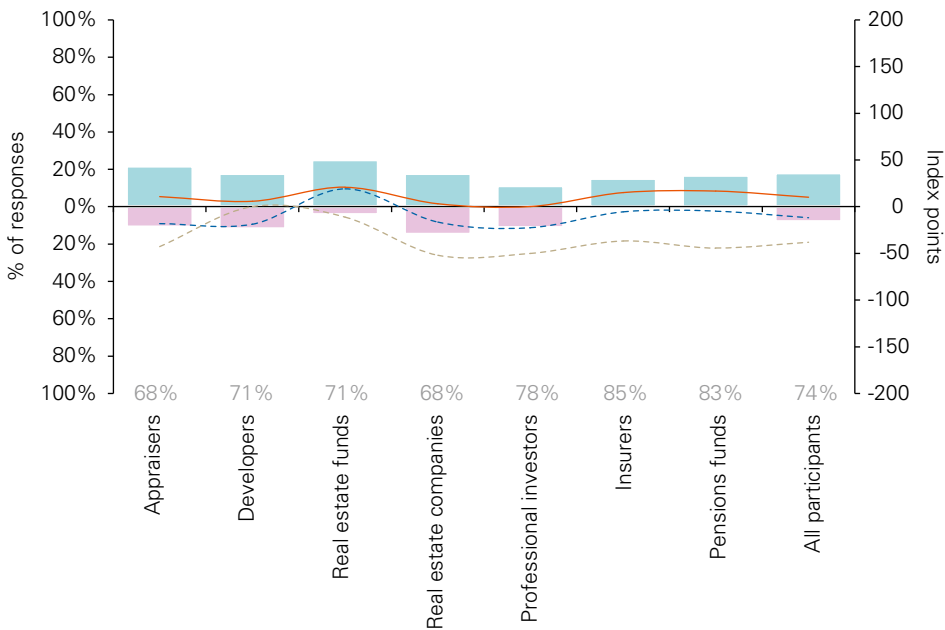
¹ In the aggregated index, the assessments of economic conditions are weighted by 20%, and the assessments of the development of property prices by 80%.

- Differences between the individual groups in their assessments are negligible. At 16.8 pts., representatives of real estate funds are the most optimistic. The most pessimistic assessments of trends come from professional investors (-22.4 pts.). Compared to last year, the greatest decline in sentiment was noted in the case of appraisers (2014: -10.7 pts., 2013: 5.7 pts.). Conversely, sentiment amongst professional investors (2014: -22.4 pts., 2013: -37.8 pts.), real estate funds (2014: 16.8 pts., 2013: -0.6 pts.) and pension funds (2014: 15.2 pts., 2013: 13.2 pts.) improved slightly.

Sub-index: Economic Conditions

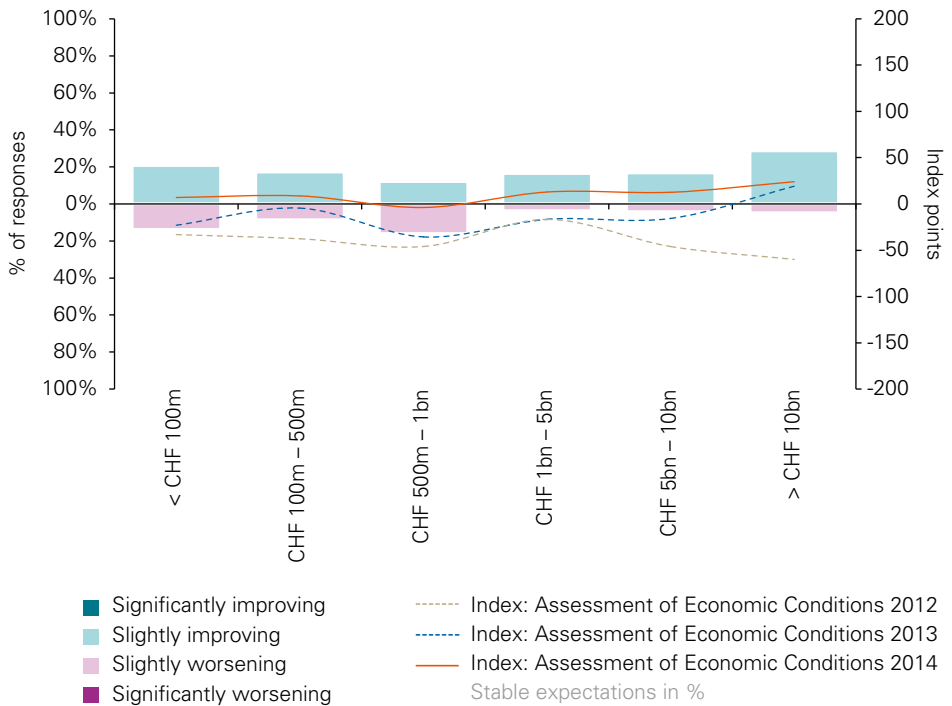
Robust economic trends support real estate

Assessment of economic conditions according to participant group



Sub-index	Index 2014	Index 2013
Economic conditions	➔ 10.1 pts.	-12.0 pts.

Assessment of economic conditions according to investment volume



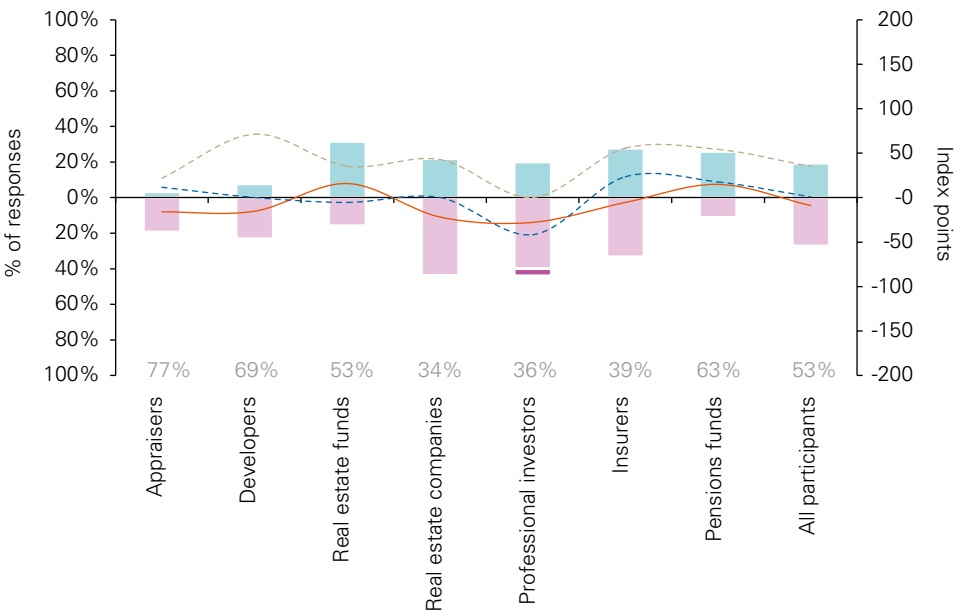
The question: How will economic conditions in Switzerland develop over the next 12 months?

- At 10.1 pts., the survey participants assess economic conditions as slightly positive. Compared to last year, this is an improvement of 22.1 pts. and is in line with the results of the Consumer Sentiment Index. The most frequent response (across all participants: 74%) was that economic conditions over the next 12 months will remain “stable”.
- Sentiment in terms of economic conditions is at the same level or improved across all groups since last year. Broken down between investment and valuation volumes, it is apparent that major investors and appraisers with an investment or valuation volume of more than CHF 1.0bn assess economic conditions as being better compared to their smaller counterparts.

Sub-index: Real Estate Price Trends

Lateral movement in price trends expected

Expectations for investment property prices according to participant group



Sub-index	Index 2014	Index 2013
Price expectation	➡ -9.1 pts.	0.6 pts.

Price expectations 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 across all survey participants stands at -9.1 pts. and is therefore slightly in the negative range, but close to the stability threshold of 0 pts. Compared to last year, the expected price development for investment real estate continues to level off, albeit to a lesser degree this year. The slightly negative assessment since last year is accentuated to a similarly strong degree across all groups, and is reflected by a parallel negative shift in the 2014 Price Expectation Index.
- Professional investors and real estate companies are the most pessimistic in their assessments of the price trends, at -28.0 pts. and -21.9 pts. respectively. Conversely, assessments by representatives of real estate funds (15.8 pts.) and pension funds (17.6 pts.) are in the positive range.

Sub-index: Development of Prices according to Location

Remaining gap between different qualities of locations

Expectations for investment property prices according to location



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

- At 45.1 pts., the index for central locations remains comfortably in the positive range. Survey participants expect prices to rise in central locations; compared to last year (2013: 67.5 pts.) however, a slowdown in the price trend is anticipated.
- The Price Expectation Index for medium-sized towns has shifted slightly into the negative range at -4.9 pts. (2013: 4.6 pts.).

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

Swiss Real Estate Sentiment Index	Investment Behaviour	Risk Management	International Real Estate	Methodology and Survey Participants	Summary
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Sub-indices	Index 2014	Index 2013
Central locations	➡ 45.1 pts.	67.5 pts.
Medium-sized centres	➡ -4.9 pts.	4.6 pts.
Peripheral locations	➡ -67.1 pts.	-77.6 pts.

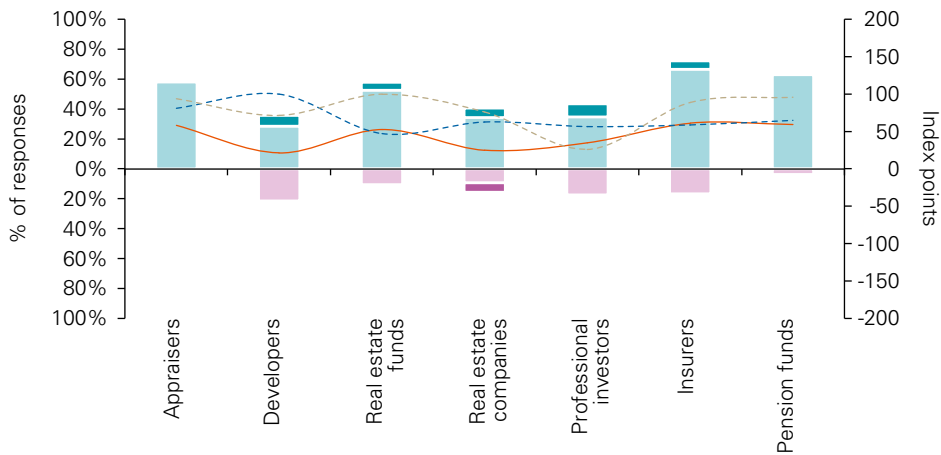
- Sentiments of survey participants in terms of peripheral locations remain negative (-67.1 pts.); however, there has been a slight improvement in the index since last year (2013: -77.6 pts.).
- It is evident that the gap between price expectations for central locations and real estate investments in the peripheries has narrowed slightly, but remains wide. The assessed price development expectations indicate that yields for central locations remain under pressure. Conversely, yield compression is expected to continue to ease slightly in the case of poorer quality locations.

Sub-index: Development of Prices according to Location

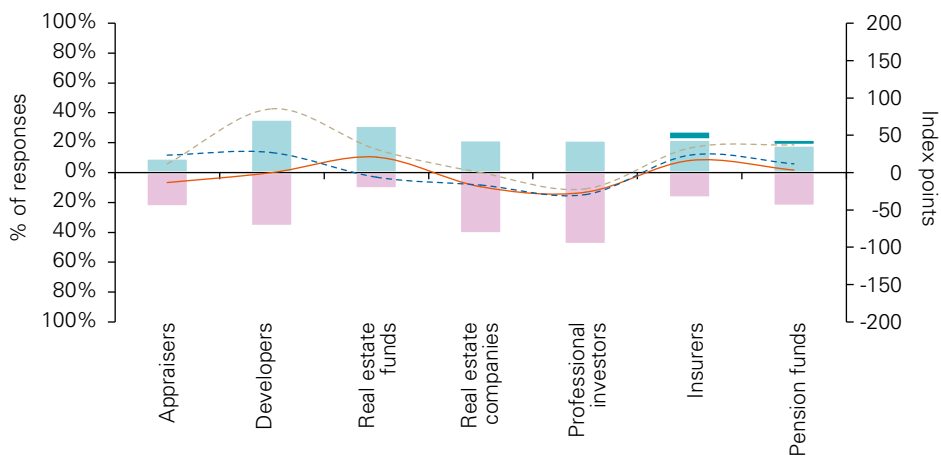
Analysis according to participant groups

Expectations for investment property prices according to location

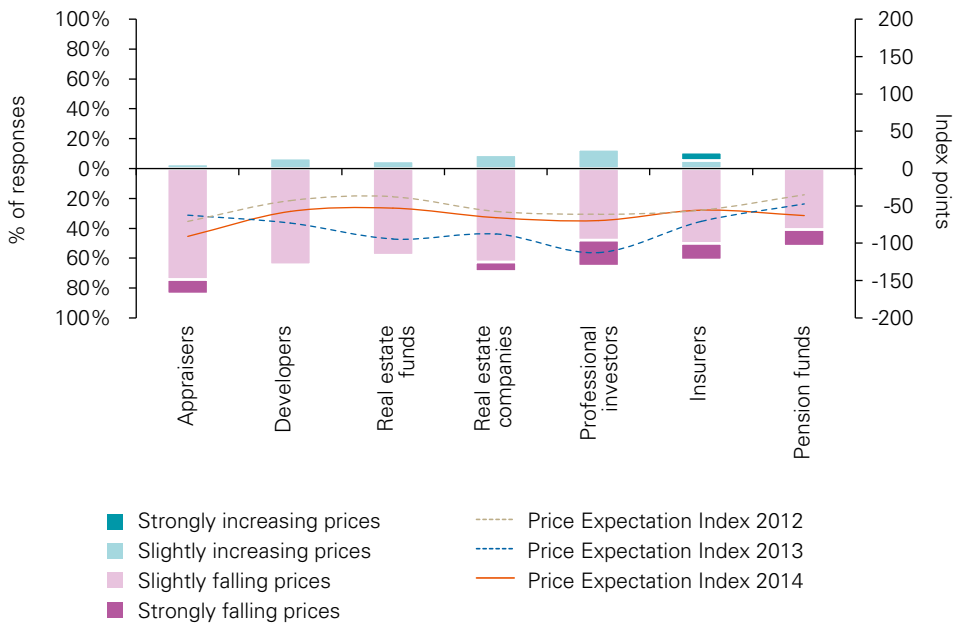
Central locations (45.1 pts.)



Medium-sized centres (-4.9 pts.)



Peripheral locations (-67.1 pts.)

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

- It is evident that all groups had very similar price expectations for the three different qualities of locations.
- In the case of central locations, all groups still expect prices to rise moderately. At 61.1 and 59.3 pts., insurers and pension funds are the most optimistic.
- In the case of medium-sized centres, survey participants anticipate a stable price trend. Compared to last year, the expectations of the different groups have changed only marginally.
- In the case of peripheral locations, the expected price trend has improved slightly across all groups, with the exception of appraisers and pension funds.

Sub-index: Development of Prices according to Real Estate Sector

Negative price trend intensifies for office real estate

Expectations for investment property prices according to use



The question: How will prices develop over the next 12 months in the following real estate sectors?

- Residential real estate remains the only real estate segment with positive price expectations (43.9 pts.). However, there has been a slight deterioration since last year (2013: 57.0 pts.).
- Survey participants were highly negative in their responses in the case of office real estate, at -101.8 pts., reinforcing the negative trends of previous years (2013: -89.4 pts., 2012: -58.7 pts.).

Swiss Real Estate Sentiment Index	Investment Behaviour	Risk Management	International Real Estate	Methodology and Survey Participants	Summary
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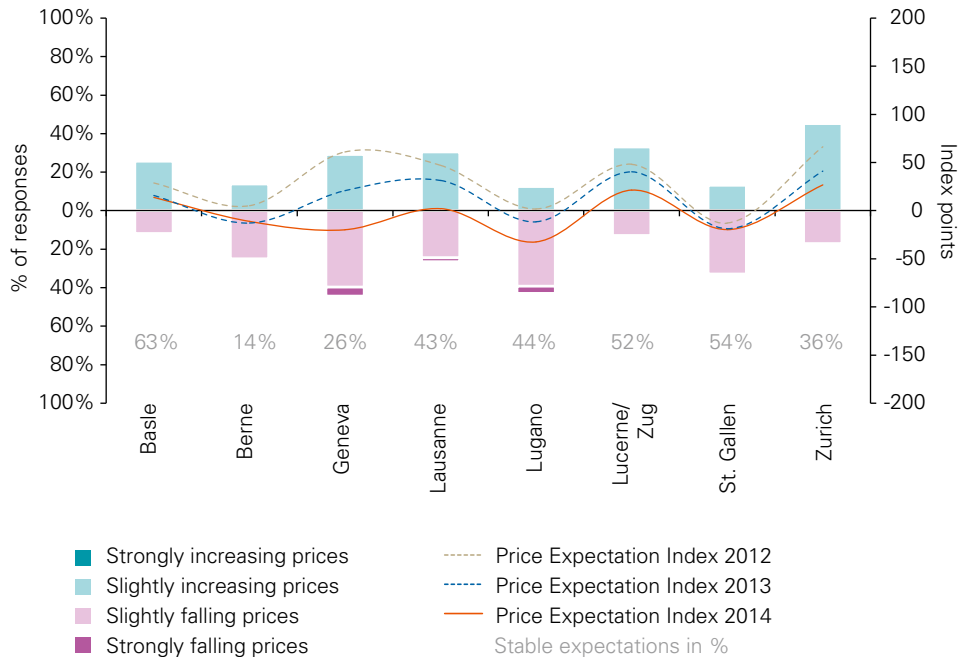
Sub-indices	Index 2014	Index 2013
Residential	➡ 43.9 pts.	57.0 pts.
Office	➡ 101.8 pts.	-89.4 pts.
Retail	➡ -58.5 pts.	-60.4 pts.
Commercial/Industrial	➡ -53.2 pts.	-69.9 pts.
Special-purpose property	➡ -10.2 pts.	-21.4 pts.

- In the case of the other commercial real estate segments however, sub-indices are slightly higher than last year. At +16.7 pts., this positive development is strongest for industrial/commercial real estate.
- It is expected that these anticipated developments will put further pressure on yields for central locations and residential real estate, whereas the situation is expected to ease further in the case of poorer quality locations and commercial properties.

Sub-index: Development of Prices in the Economic Centres

Slight cooling since last year

Expectations for investment property prices in economic centres



The question: How will real estate prices develop over the next 12 months in the following economic centres?

- The slightly negative estimates of price trends are also reflected at the level of the economic centres. With the exception of Berne, survey participants expect a moderate slowdown in price rises across all economic centres compared to last year.
- A continued positive price trend is expected in the regions of Zurich (26.8 pts.), Lucerne/Zug (21.4 pts.) and Basle (13.8 pts.), whereas stable to slight falls in prices are anticipated for the other regions.

Swiss Real Estate Sentiment Index	Investment Behaviour	Risk Management	International Real Estate	Methodology and Survey Participants	Summary
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Sub-indices	Index 2014	Index 2013
Basle	➡ 13.8 pts.	15.6 pts.
Berne	➡ -11.2 pts.	-12.9 pts.
Geneva	↘ -19.9 pts.	20.9 pts.
Lausanne	↘ 2.0 pts.	31.4 pts.
Lugano	➡ -32.6 pts.	-11.6 pts.
Lucerne/Zug	➡ 21.4 pts.	40.3 pts.
St. Gallen	➡ -19.7 pts.	-18.7 pts.
Zurich	➡ 26.8 pts.	41.0 pts.

- The greatest negative changes since last year are recorded for Geneva and Lausanne. This is surprising, as market players were still reporting clearly positive price trends in the Geneva Region in 2012, at 60.9 pts.; however, it is clear that sentiment has changed significantly over the past two years.

Sub-index: Development of Prices in the Principal Regions

Lake Geneva Region in the slightly negative range

Expectations for investment property prices in the regions



Swiss Real Estate Sentiment Index	Investment Behaviour	Risk Management	International Real Estate	Methodology and Survey Participants	Summary
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Sub-indices	Index 2014	Index 2013
East Switzerland	➡ -20.5 pts.	-19.9 pts.
Zurich	➡ 29.9 pts.	37.5 pts.
Central Switzerland	➡ 14.9 pts.	25.9 pts.
Northwest Switzerland	➡ -6.0 pts.	-11.8 pts.
Espace Mittelland Region	➡ -38.8 pts.	-24.8 pts.
Lake Geneva Region	🔴 -13.3 pts.	33.1 pts.
Ticino	➡ -30.4 pts.	-24.0 pts.

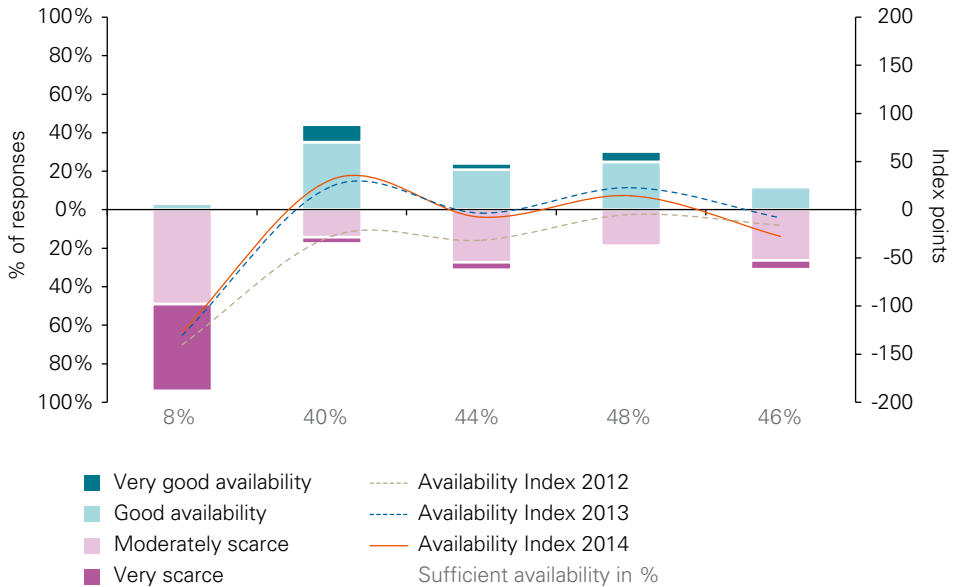
The question: What is your price estimate for the next 12 months in the principal regions?

- At a regional level, the estimates for the respective economic centres are of course relatively consistent. The economic centre of Zurich (29.9 pts.) and Central Switzerland (+14.9 pts.) enjoy the greatest popularity and are the only regions which lie in the moderately positive range. The estimates for the other regions fluctuate in the slightly negative range.
- There has been a trend reversal in the Lake Geneva Region since last year, which is confirmed by a 46.4 pts. reduction in the index rate in the current survey compared to 2013.

Sub-index: Availability of Suitable Investment Opportunities

Residential real estate – no easing of the market in sight

Availability of investment real estate – Supply Index



The question: In your opinion, will there be sufficient investment property offered on the market over the next 12 months, which will be suitable in terms of their value for money/condition/cash flows etc. to satisfy your investment objectives?

- The assessment of the availability of investment real estate across all real estate segments is similar to last year.
- At -126.9 pts., there is still an apparent severe shortage of suitable investment property in residential real estate. This shortage is accompanied by positive price expectations for this segment and the associated investment preferences. It is not surprising that only 4% of participants describe the supply of residential real estate as good or very good.

Swiss Real Estate Sentiment Index	Investment Behaviour	Risk Management	International Real Estate	Methodology and Survey Participants	Summary
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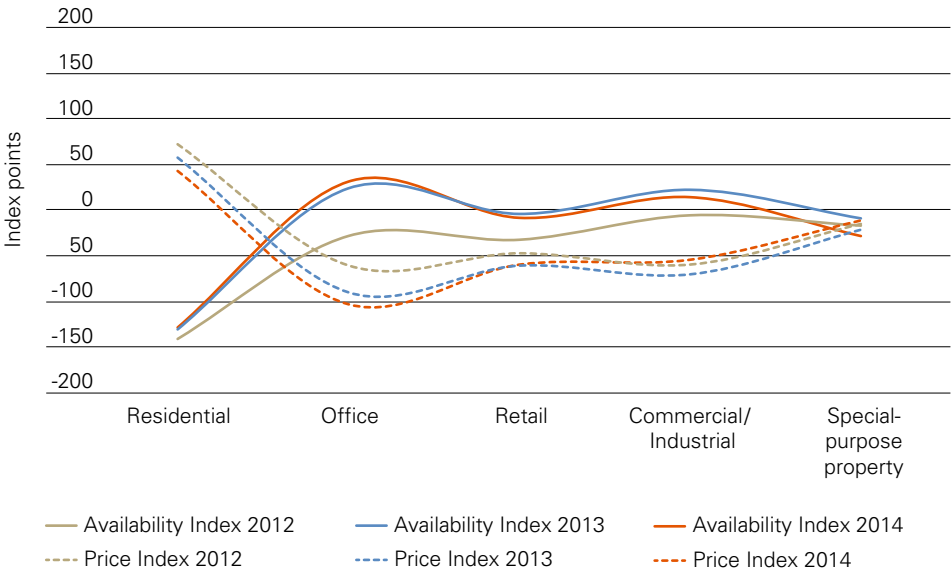
Sub-indices	Index 2014	Index 2013
Residential	➡ 126.9 pts.	-130.6 pts.
Office	➡ 31.4 pts.	24.5 pts.
Retail	➡ -7.8 pts.	-3.7 pts.
Commercial/Industrial	➡ 14.6 pts.	22.9 pts.
Special-purpose property	➡ -27.6 pts.	-8.6 pts.

- In the commercial real estate sector, there are differences between the individual sub-groups. At 31.4 pts., the future supply of office real estate is considered sufficient. Conversely, at -27.6 pts., there is expected to be a slight shortage in the supply of suitable special-purpose properties.

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 the supply and price expectation indices produces a symmetric graph. This confirms the logical link between the two indices. i.e. the lower the supply of suitable property, the higher the price development expectations. In the residential sector in particular, the current supply is insufficient to satisfy the demand, and in turn this will lead to a trend of rising residential property prices.



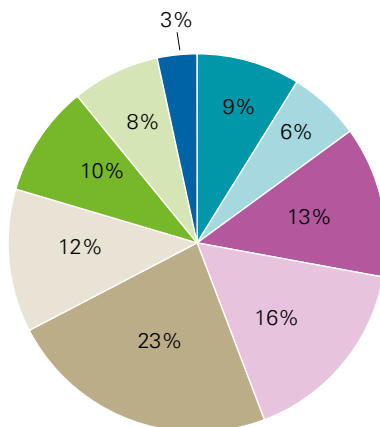


Investment Volumes, Investment Preferences and Investment Behaviour

Planned Investments in Investment Real Estate

Targeted acquisition of investment real estate

Planned investment volume in CHF



■ No acquisitions planned

■ CHF 30m – 50m

■ CHF 200m – 300m

■ CHF 0m – 10m

■ CHF 50m – 100m

■ CHF 300m – 1bn

■ CHF 10m – 30m

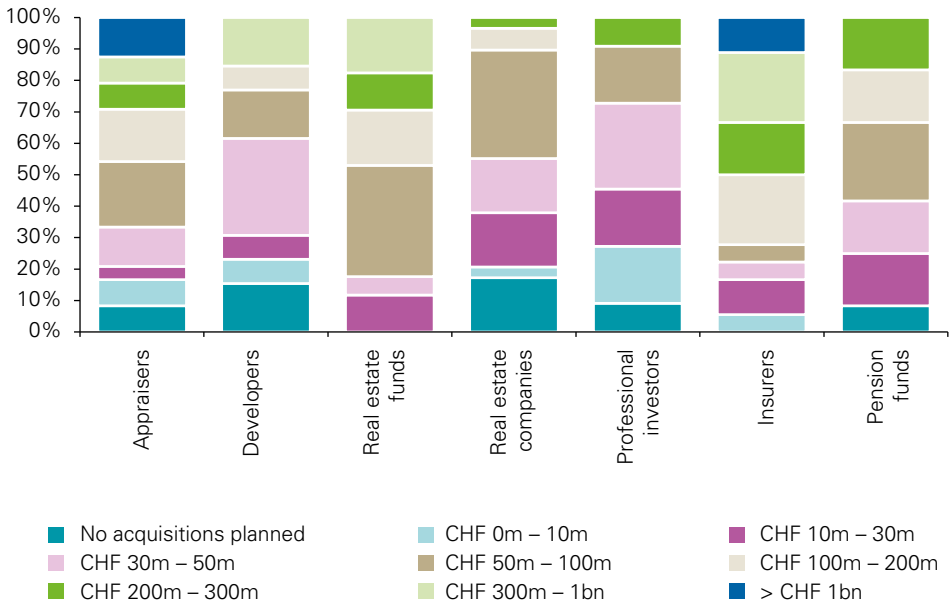
■ CHF 100m – 200m

■ > CHF 1bn

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

- Only 9% of the survey participants are not planning any acquisitions over the next 12 months. This corresponds to a reduction of 5 bps compared to last year. Despite the expected developments, survey participants want to exploit the current market conditions and undertake targeted acquisitions of investment real estate.
- The planned investment volume of 75% of the survey participants lies below CHF 100m over the next 12 month.

Investment volume in CHF according to participant group

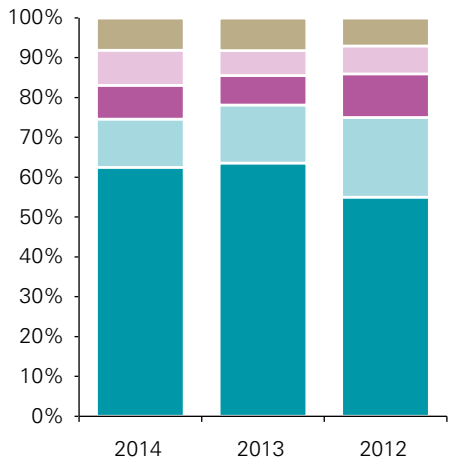


- Broken down into the participant groups, most activity in the acquisition market is expected from insurers and pension funds. Despite the yield compression observed for some time in real estate investment, there is still an attractive spread between the income yield from direct real estate investments and the yield for government bonds. As a result, real estate investments remain much sought-after by multi-asset investors.

Planned Investments in Investment Real Estate

Greater preference for residential rather than office real estate

Investment preferences

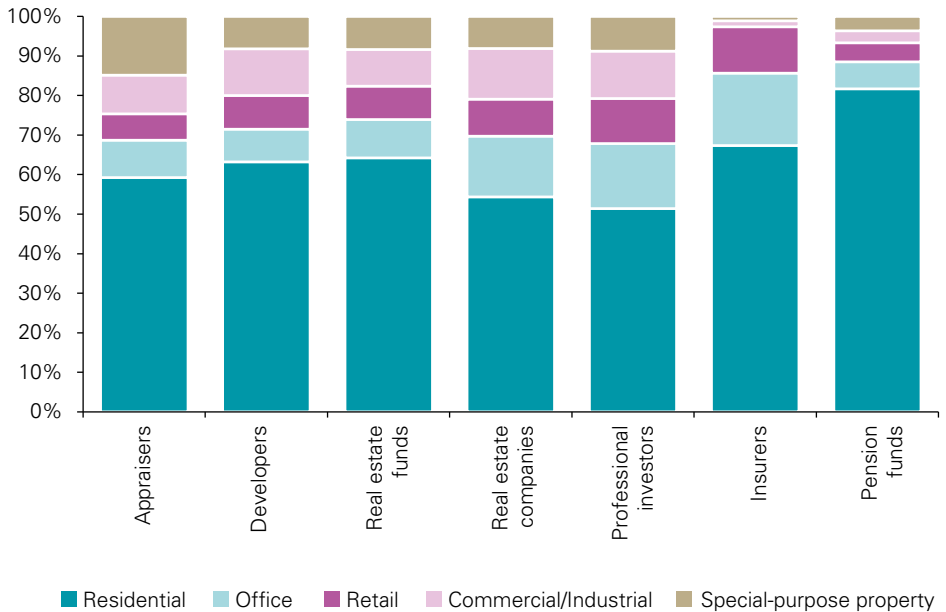


■ Residential ■ Office ■ Retail ■ Commercial/Industrial ■ Special-purpose property

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 real estate sectors?

- The residential sector remains the most popular real estate segment. A breakdown of investment preferences shows that survey participants would prefer to invest 62% of their available capital in residential real estate. Compared to last year, the residential sector has seen a slight reduction of 2 percentage points. The high weighting of the residential segment continues to have a direct impact on office real estate, which only accounted for 12% of the investment capital in the current survey, equating to a reduction of 3 percentage points since last year. The other commercial real estate segments are slightly more attractive than last year due to the aforementioned price expectations.

Investment preferences according to participant group

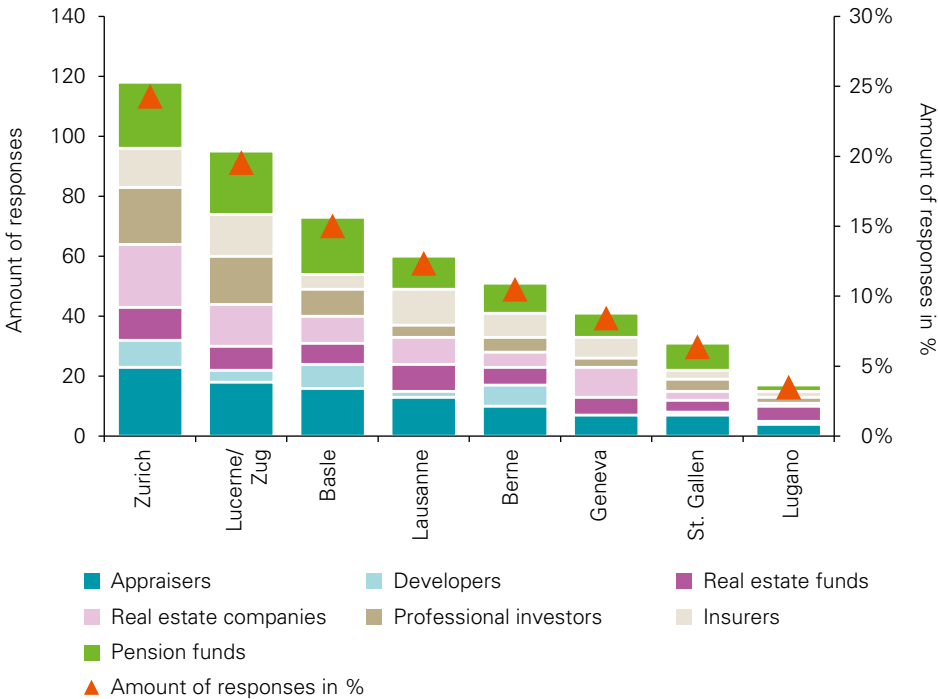


- A strong preference for residential real estate is evident across all groups. The situation is particularly evident in the case of insurers and pension funds, at 67% and 82%.

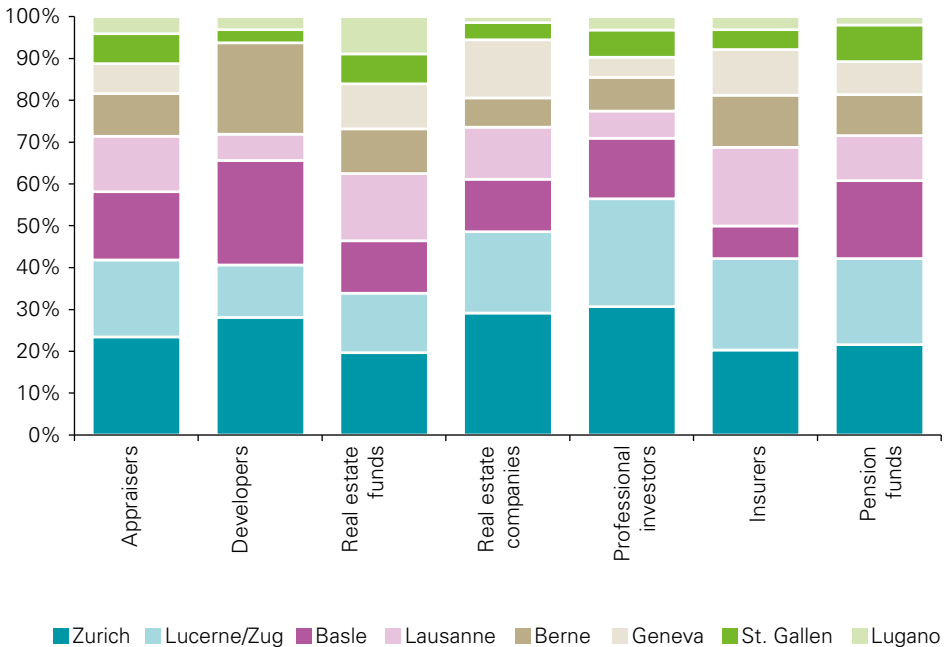
Planned Investments in Investment Real Estate

Zurich and Central Switzerland preferred

Preferred investment locations according to investor group



Preferred investment locations according to investor group as a %



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

- As a preferred investment location, Zurich continues to rank top with 24.3% of the responses and its popularity has increased slightly since last year (22.9%). Lucerne/Zug and Basle followed with 19.6% and 15.0% of the responses.
- In West Switzerland, Lausanne (12.4%) was the preferred investment location rather than Geneva (8.4%). This ranking of preferences is confirmed by the price expectations for the West Switzerland cities.
- St. Gallen and Lugano are appreciated by only a small number of investors. This is due to limited liquidity and cautious price expectations for both of these investment locations.

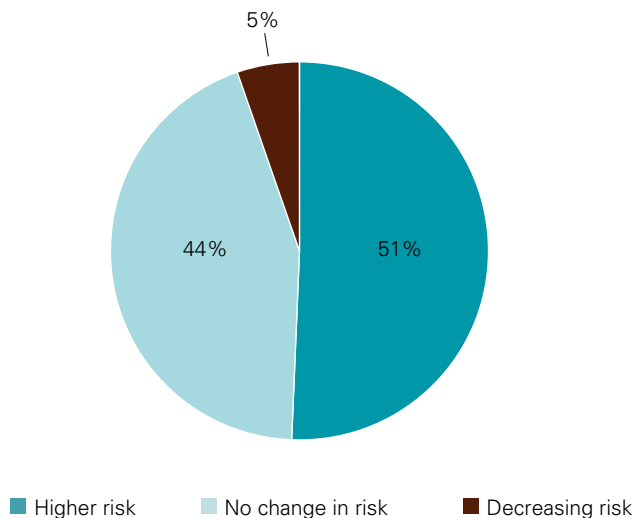


Risk Management

Risk Management

Regulations are an unforeseeable factor

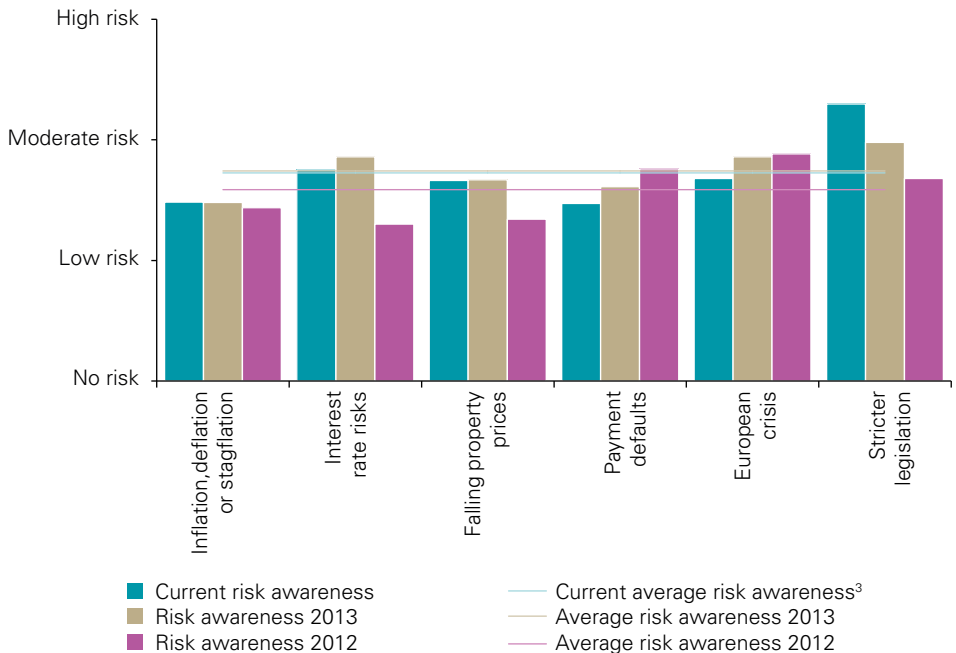
Assessment of market risk



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

- Over 50% of participants anticipate greater market risk over the next 12 months. Compared to last year, this corresponds to a slight reduction of 3 percentage points. Only a minority (5%) of participants expect risks to lessen, whereas 44% of participants expect market risk to remain stable. The risk assessment of survey participants is reflected in their investment preferences. Residential real estate and central locations are preferred, as their values are considered to be more stable in difficult market conditions.

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?

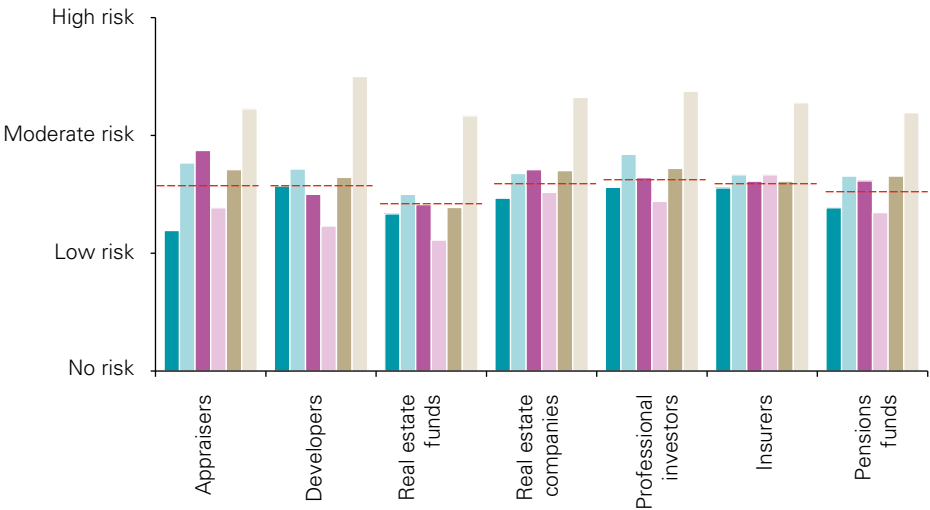
- Stricter regulations are perceived to be the greatest threat to the Swiss real estate market by survey participants. This is due to the introduction of a multitude of regulatory measures which are having a direct or indirect impact on the real estate market.
- The other risks are categorised as less acute or stable compared to last year. Rising interest rates are still classified as the second greatest threat. Compared to last year however, risk assessments have eased slightly. Survey participants appear to assume that interest rates will remain low for some time.

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

Risk Management

Appraisers exercise caution; professional investors with a view to 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?

- There is strong consistency in the risk perceptions of the groups. However, it is clear that professional investors and appraisers assess the current risk situation slightly more negatively than the other investors.
- Real estate funds assess the current risk as the least significant, which is in line with the higher price expectations of these groups.

■ Inflation, deflation or stagnation

■ Interest rate risks

■ Falling property prices

■ Payment defaults

■ European crisis

■ Stricter legislation

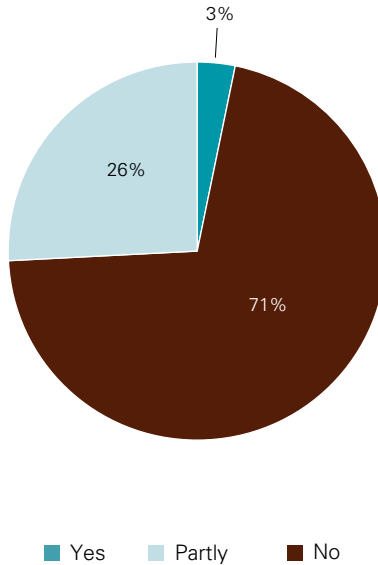
— Average risk perception according
to participant group

- Professional investors in particular recognize rising interest rates as a risk factor. These investors operate with higher loan-to-value ratios in general and this means that they are exposed to increased sensitivity when interest rates change.
- Falling real estate prices are perceived as a risk factor mainly by appraisers and real estate companies, with some of them reporting specific valuation losses in their commercial real estate portfolios in their most recent balance sheets.

Risk Management

Constant inclination to take on risk in investment decisions

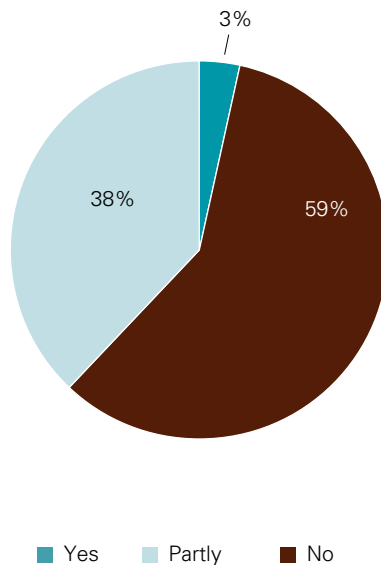
Greater inclination to take on risk in investments (investors)



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

- 29% of investors would be inclined to take on at least partially greater risks in their real estate investments over the next 12 months. Appraisers report a slightly lower risk aversion of their clients in 41% of the cases.
- Compared to last year, the inclination of survey participants to take on risk has remained relatively constant. This is also reflected in the negligible shifts in investment preferences. Core real estate in the residential segment is still preferred.

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?

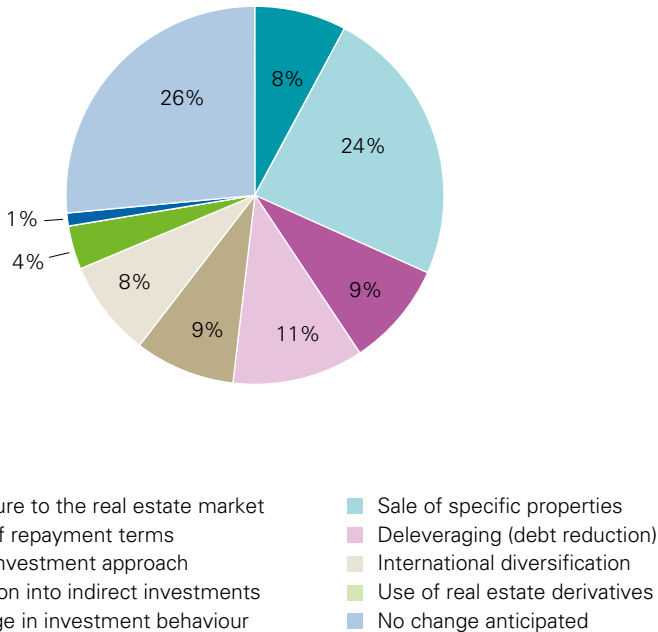
- The apparent contrast between the statements of appraisers and findings of investors may be due to behavioural economics backgrounds.⁴

⁴ Please refer to: <http://www.kpmg.com/CH/de/Library/Articles-Publications/Documents/Advisory/pub-20120206-preisfestlegungsmechanismen-real-estate-investments-de.pdf>

Risk Management

Maintaining investment behaviour

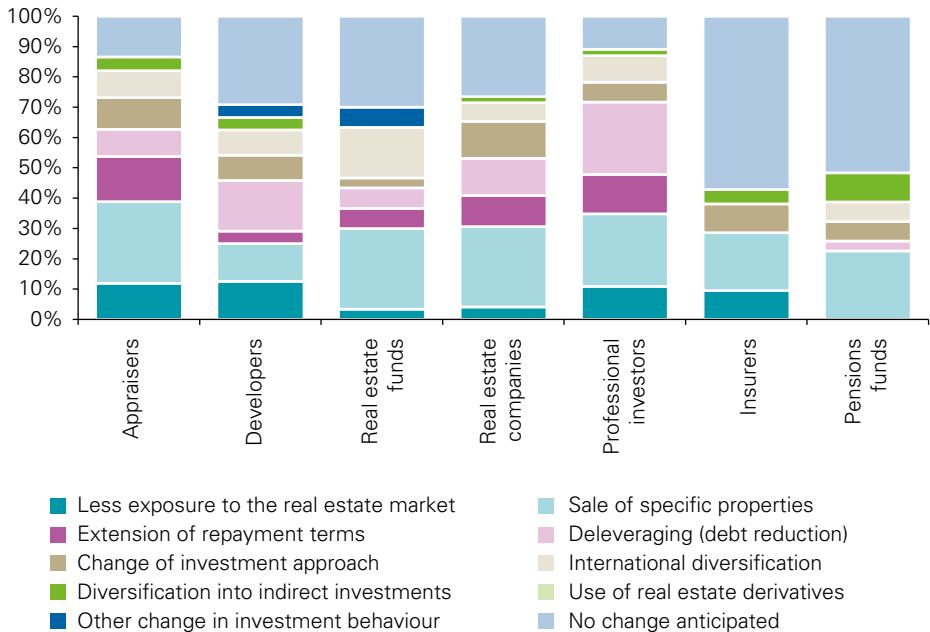
Planned changes in investment behaviour/real estate allocation



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

- Maintaining investment behaviour is ranked as the most frequently mentioned approach (no change anticipated 26%). This is followed by portfolio adjustments using selective divestments (24%), which is the approach most frequently quoted by real estate funds and companies.
- Pension funds in particular are investigating a shift towards indirect investments. According to the latest pension fund statistics published by the Swiss Federal Statistical Office, over 60% of real estate investments are still held directly, which offers strong potential for a shift towards indirect investments.

Responses according to participant group



- Investors using financing plan to extend their loan duration (9%) due to the favourable refinancing opportunities. Debt reduction (deleveraging, 11%) is also being considered as an option.
- The significance of diversification abroad (8%) has increased since last year (6%). This could be due to efforts being made to expand the investment universe in view of the current lack of investment opportunities, or to the fact that investors recognize favourable entry points in international markets.

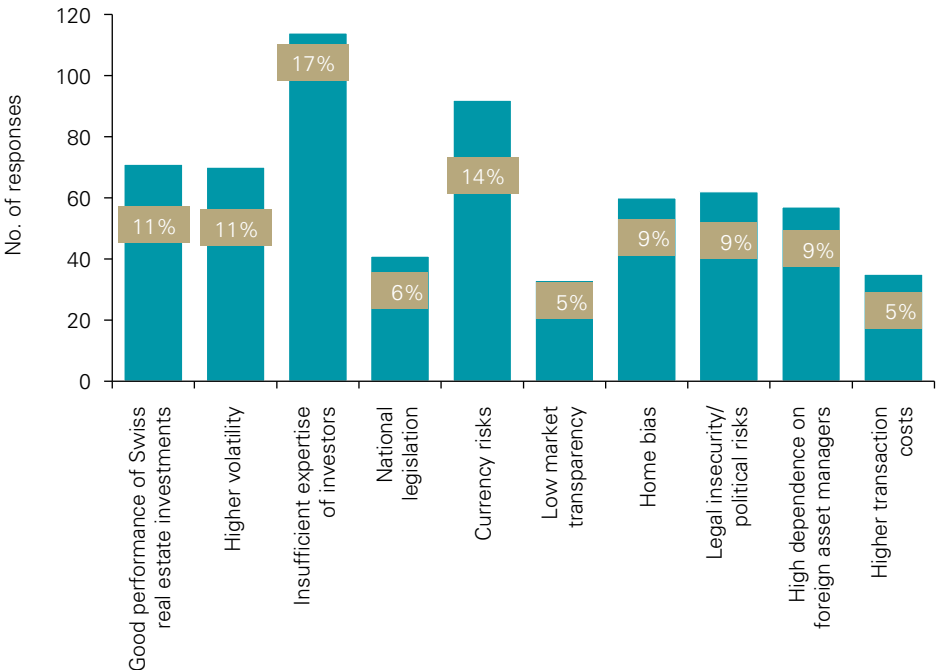


International Real Estate/ Foreign Investors

International Real Estate

Lack of expertise is the greatest obstacle

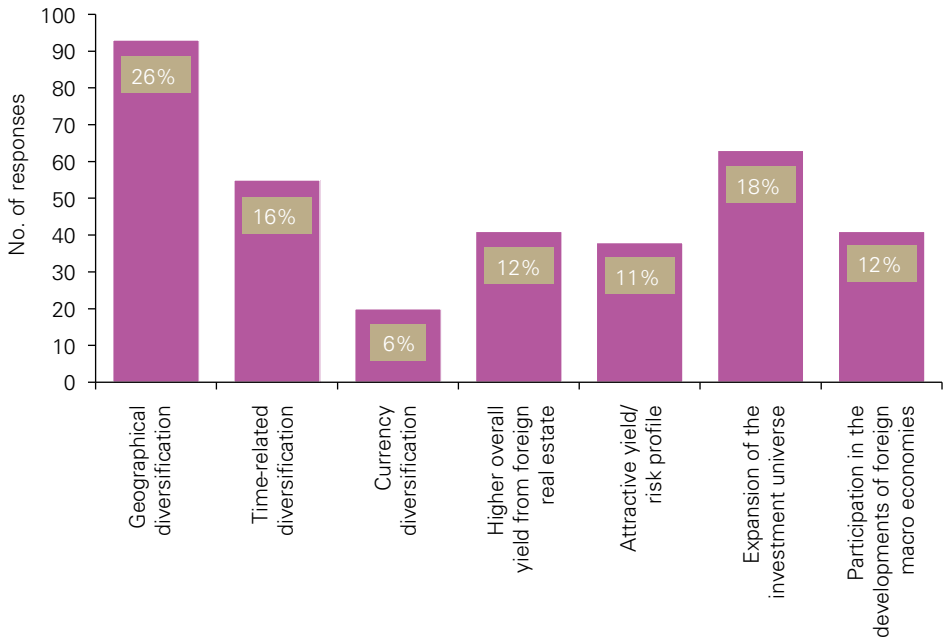
Obstacles to investments in foreign properties



The question: In your opinion, why are Swiss institutional investors not investing to a higher amount in foreign properties? Multiple responses possible

- The lack of investor expertise (17%) is identified as the greatest obstacle to investments in foreign properties. Currency risks follow (14%) in second place. These can be offset mainly by currency derivatives, but at the expense of yields.
- Furthermore, the good performance of Swiss real estate investments is highlighted. The current cooling of the Swiss real estate investment market should therefore be considered conducive to the foreign property quotas of Swiss institutional investors.

Advantages of foreign property investments



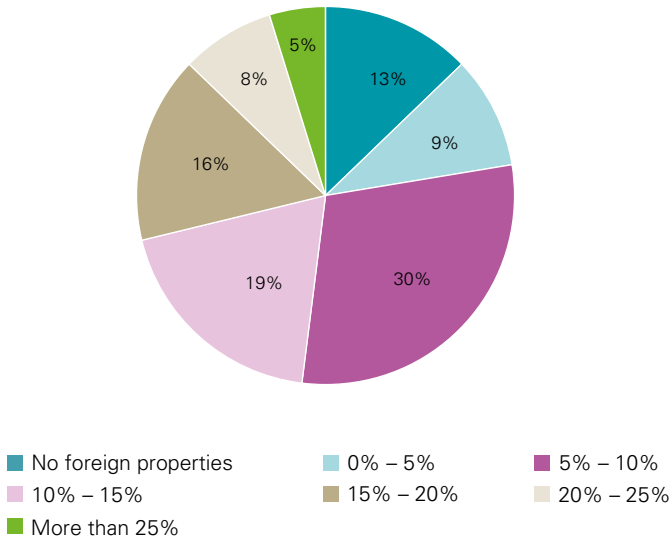
The question: What are the major benefits of investing in foreign properties? Multiple responses possible

- Geographical diversification is named as the greatest benefit of foreign investments. This is followed by the expansion of the investment universe in view of the recognized domestic shortage of suitable investment properties.

International Real Estate

Major potential for foreign properties

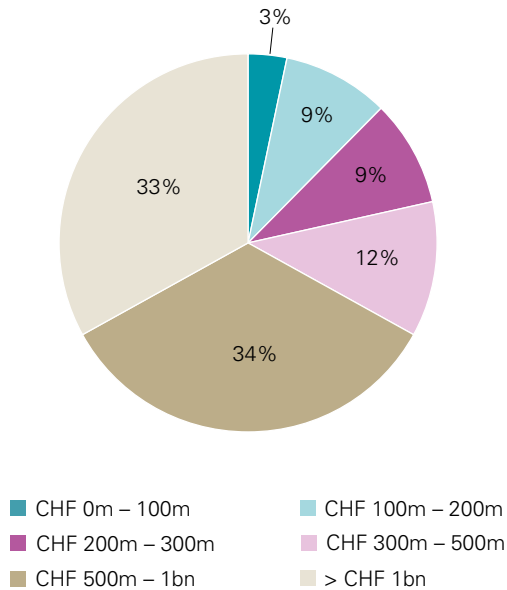
Optimum share in real estate assets



The question: In your opinion, what is the ideal quota of foreign properties (directly and indirectly held) in a large real estate portfolio?

- Over half (52%) of participants are of the opinion that foreign properties should account for less than 10% of a major real estate portfolio. According to the latest pension fund statistics published by the Swiss Federal Statistical Office, foreign properties currently account for 7.5% of the total real estate portfolio of Swiss pension funds. In comparison: foreign shares account for 64% of the total share portfolio. This points to home bias in the allocation of real estate investments.

Critical portfolio size



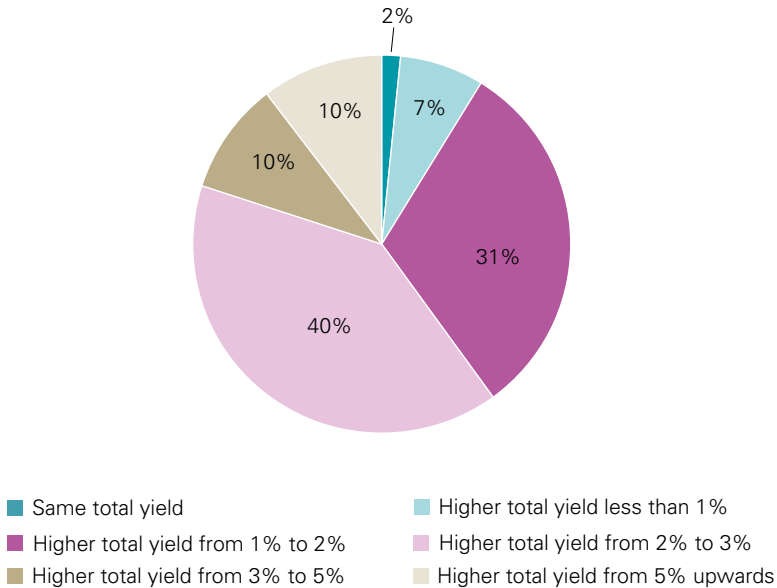
The question: In your opinion, what is the critical size of a real estate portfolio to allow direct foreign property investments to be undertaken?

- Two thirds of survey participants estimate the critical real estate portfolio size for direct investments abroad at over CHF 500m. Due to the critical size of the portfolio, only a few Swiss investors are in a position to undertake direct foreign investments. Foreign investment using collective vehicles is therefore a feasible option.

International Real Estate

Security first, also in the case of foreign properties

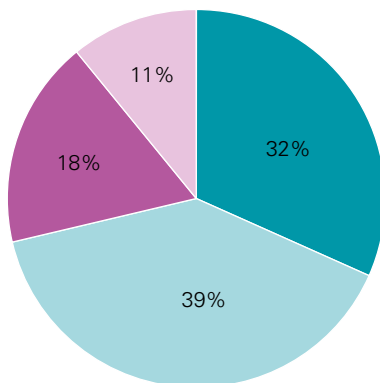
Yield expectations for foreign property investments



The question: What are your yield expectations for foreign property investments compared to a Swiss real estate portfolio with similar risk characteristics?

- The majority of survey participants (60%) require an excess yield of more than 2% from foreign properties compared to Swiss real estate investments. An excess yield of between 2% and 3%, which is derived from the compensation for the identified risks, was quoted most frequently (40%).
- In the case of foreign properties, over two thirds of the survey participants favour the Core (32%) and Core-Plus (39%) segment. Therefore investments in high-quality, existing real estate with stable cash flows are preferred. Very few survey participants classify asset management-intensive strategies such as value-added (18%) and opportunistic (11%) as interesting. Investment preferences abroad also tend to be determined by investment behaviour in the investment market in Switzerland.

Preferred investment approach



■ Core
 ■ Value Add
■ Core-plus
 ■ Opportunistic

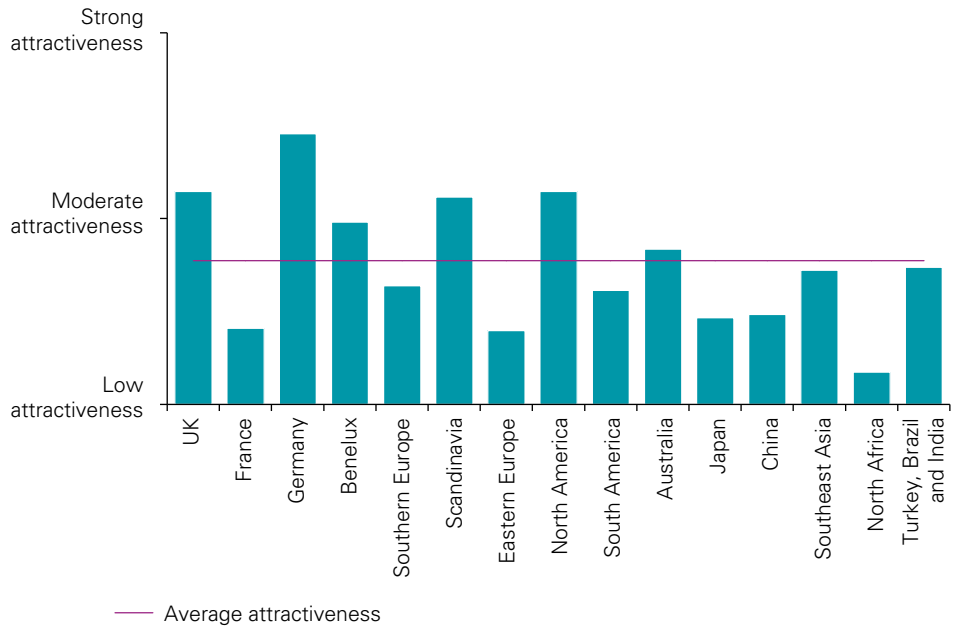
The question: In what investment product category would you invest abroad?

- It can be concluded that the survey participants anticipate a generally higher return from foreign investments but, at the same time, place priority on security-based investment approaches, which gives rise to conflicts in objectives.

International Real Estate

European real estate preferred by investors

Attractiveness of foreign investments

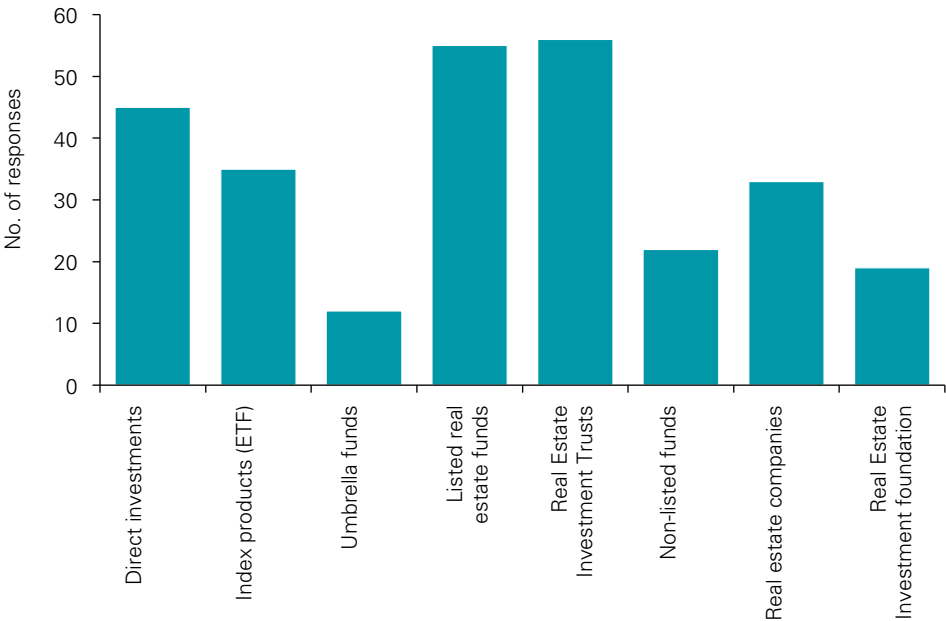


The question: What is your assessment of the current attractiveness of the following regional target markets?

■ European real estate investments are popular with survey participants. The German investment market is regarded as the most attractive. In addition to a stable development of values and low yield fluctuations, one reason for the popularity of the German real estate market may be its geographical and cultural similarities with Switzerland. Investments in UK and USA follow in second place. Third place is assumed by investments in Scandinavia. It is apparent that real estate investments in France are considered to be less attractive than those in Southern Europe. This is consistent with investment trends in the European real estate investment market. In 2013 and today, a stronger flow of opportunistic and mainly non-European real estate capital into countries such as Italy, Spain and Greece has been identified.

Swiss Real Estate Sentiment Index	Investment Behaviour	Risk Management	International Real Estate	Methodology and Survey Participants	Summary
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Preferred investment options for foreign properties



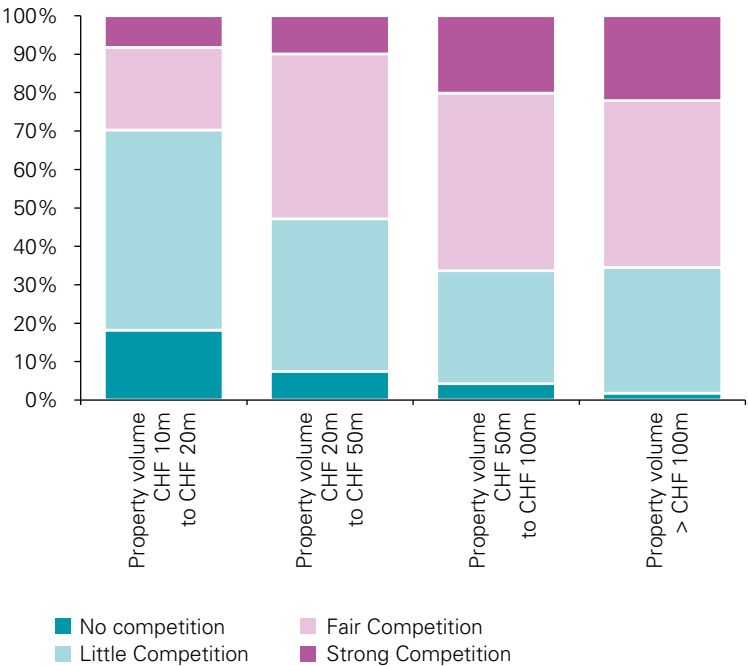
The question: In your opinion, what are the best investment options to invest in foreign real estate?

- Listed real estate funds and REITS are quoted most frequently as the preferred investment vehicle, with 55 and 56 responses. Both investment vehicles boast high liquidity. REITS are also popular due to their tax exempt status at corporate level and high payout ratio. Most REITS are setup for a distribution of over 90% of profits.

Foreign Investors in Switzerland

Low competition from foreign investors

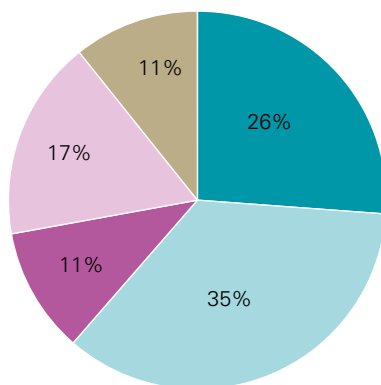
Competition according to property size



The question: How strong is the competition from foreign investors when purchasing investment properties in Switzerland?

- Most competition from foreign investors comes from investors competing in tenders for major investment properties over CHF 50m. Almost two thirds of the survey participants state that there is at least moderate competition from foreign investors in the case of properties over CHF 50m. In the case of smaller properties, competition is described as negligible.

Foreign investors in Switzerland



- Private individuals
- Family Offices
- Private Equity investors/Hedge Funds
- Foreign investment managers
- Sovereign Wealth Funds

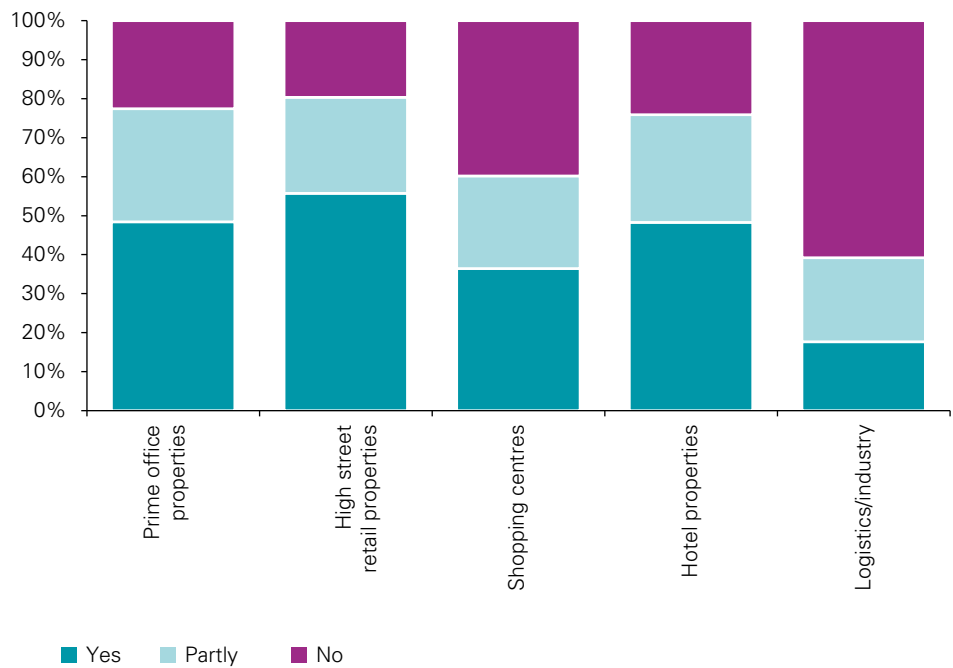
The question: Which foreign investors do you meet in your activities in Switzerland?

- According to market participants most investment activity in Switzerland appears to be undertaken by foreign family offices (35%). This is followed by private individuals with 26% of the responses. Institutional international investors play a minor role in Switzerland. Reasons for this are the restricted liquidity in the Swiss market and limited number of investment properties which exceed the pre-specified critical investment size and satisfy the yield expectations of international investors.

Foreign Investors in Switzerland

Willingness to pay for high street locations

Inclination of foreign investors to pay higher prices



The question: Are foreign property investors in Switzerland willing to pay higher prices for real estate investments than Swiss investors?

- Survey participants registered that foreign investors are more inclined to pay higher prices for retail space in top locations (high street). These findings are associated with the aforementioned dominance of family offices and private individuals. In top locations, these two investor groups are inclined to pay over-the-top prices for high-quality, so-called trophy properties.



- This inclination to pay higher prices is also evident in the case of prime office and hotel real estate. Today around 40% of 5-star hotels in Switzerland are owned by foreign investors.
- The weakest interest is observed for logistic and industrial real estate. This is due to the divergence of yields between the Swiss and foreign markets.



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 Swiss 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 participants' macro-economic assessments and expectations of participants of 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 real estate investment markets dominated by a relatively small number of market players, such as Switzerland.

Representativeness

214 people took part in the 2014⁵ survey. The participant group comprised 177 investor representatives and 37 appraisers of investment properties, and covered all important investor groups. The size of the samples means that the survey is 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 an aggregated index.

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



A **sub-index** was created from the responses to each of the **seven questions**, which permitted a detailed assessment of the 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. Price trends in the real estate market according to location
4. Price trends in the real estate market according to use
5. Price trends in the real estate market in the centres
6. Price trends in the real estate market in the regions
7. Availability of investment properties

⁵ The survey 2014 took place between 24.06.2014 and 18.08.2014.

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

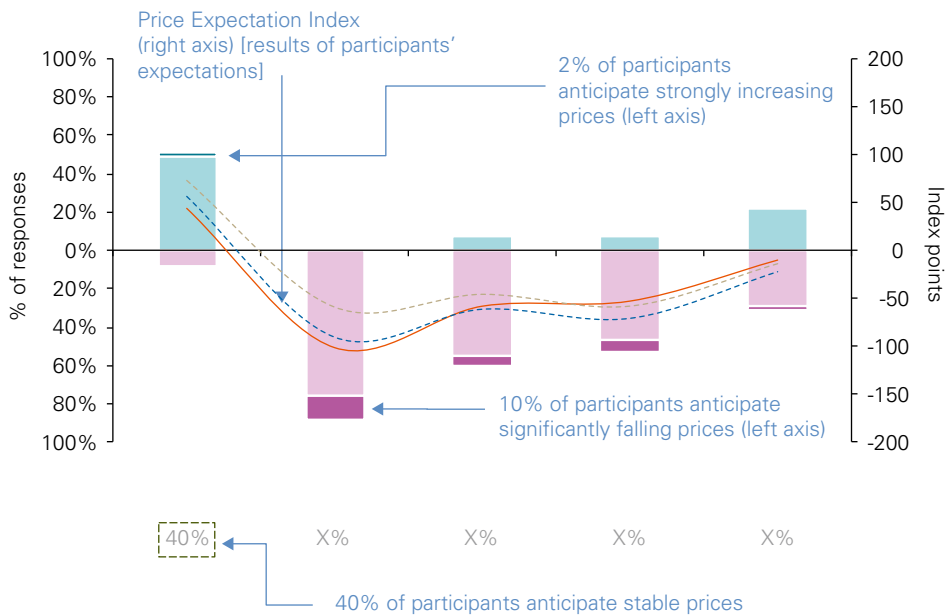
$$= \frac{100 \times 6}{10}$$

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



Swiss Real Estate Sentiment Index	Investment Behaviour	Risk Management	International Real Estate	Methodology and Survey Participants	Summary
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- Strongly increasing prices

Slightly increasing prices

Slightly falling prices

Strongly falling prices
- Price Expectation Index 2012

Price Expectation Index 2013

Price Expectation Index 2014

Sub-index	Index 2014	Index 2013
Price expectation	<div></div> -X pts.	-Y pts.

Price trends over past 12 months

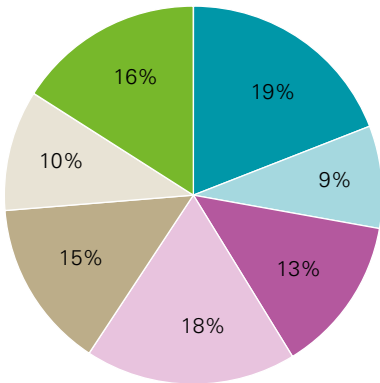
- Change by more than +25 index points
- Change by between -25 and +25 index points
- Change by less than -25 index points

Important:
Stable price expectations (nil weighting) are not illustrated in order to avoid confusing the reader.

Methodology

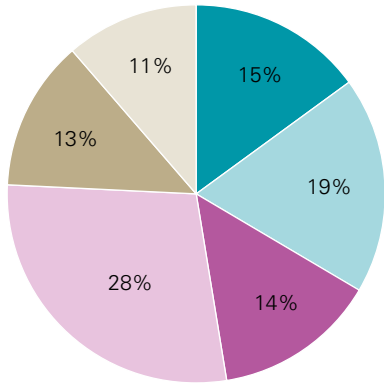
Survey Participants

Participants according to type of activity



- Appraisers
- Developers
- Real estate funds
- Real estate companies
- Professional investors⁶
- Insurers
- Pension funds

Participants according to investment or valuation volumes in CHF

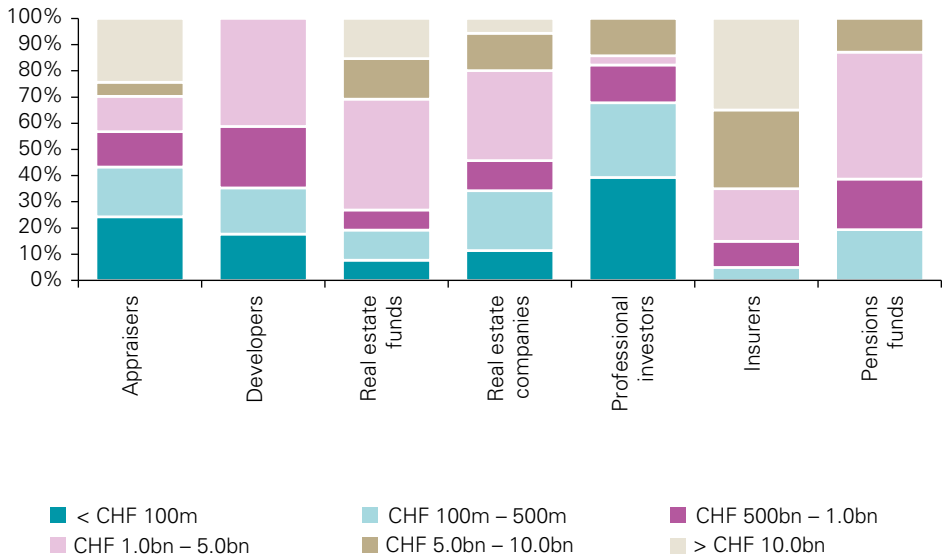


- < CHF 100m
- CHF 100m – 500m
- CHF 500bn – 1.0bn
- CHF 1.0bn – 5.0bn
- CHF 5.0bn – 10.0bn
- > CHF 10.0bn

■ The following groups took part in the study: appraisers (19%), real estate companies (18%), pension funds (16%), professional investors (15%), real estate funds (13%), insurers (10%) and developers (9%). 57% of the participants represented institutional investors. The remainder consisted of appraisers, developers and professional investors.

⁶ 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



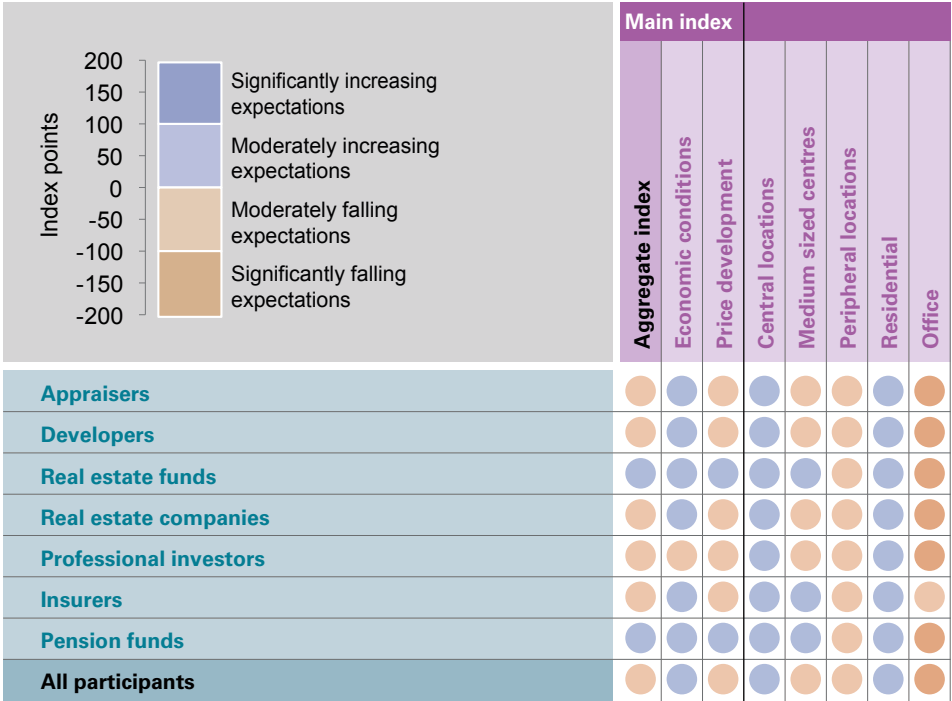
- Over half of the participants (52%) represented investment or valuation volumes of more than CHF 1bn. 34% of the participants represented investment or valuation volumes of less than CHF 500m. Professional investors, appraisers and developers in particular belonged to the group with lower investment or valuation volumes.



Summary

Summary

KPMG Swiss Real Estate Sentiment Matrix



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Summary

Key conclusions

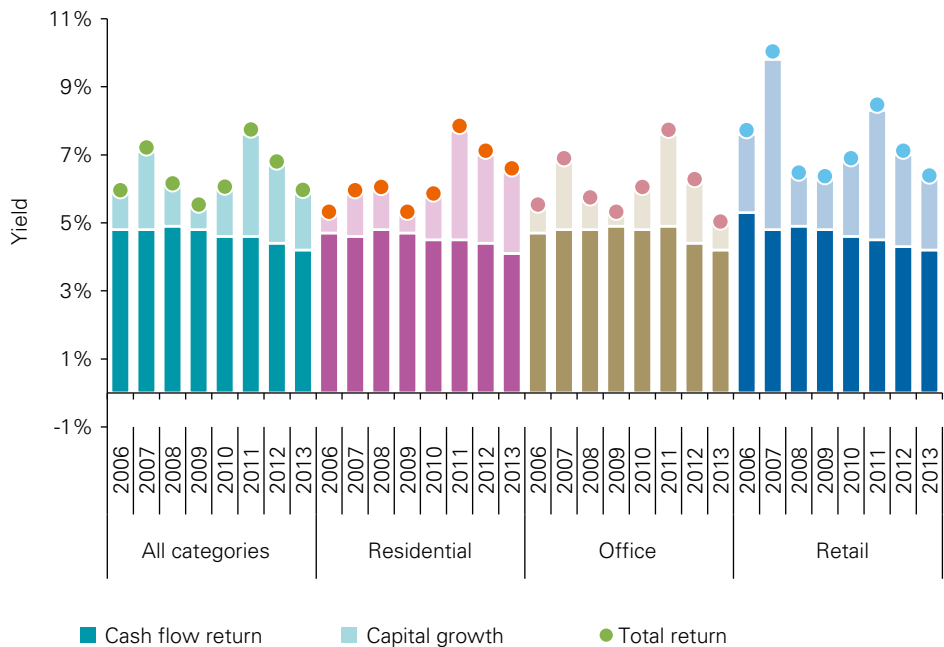
- The aggregated Swiss Real Estate Sentiment Index stands at -5.3 pts., which is a marginal deterioration since last year (down 1.9 pts.). Sentiment in the Swiss real estate investment market can still be described as neutral.
- With 10.1 pts., expectations for economic trends lie in the positive range for the first time since the survey was introduced. Compared to last year, this is an improvement of 22.1 pts.
- The Price Expectation Index for all survey participants stands at -9.1 pts. and therefore lies slightly in the negative range, but close to the stability threshold of 0 pts. Compared to last year, a further reduction in price expectations for investment real estate has been observed; albeit the reduction is less marked.
- At 45.1 pts., the index for central locations still lies comfortably in the positive range. Survey participants expect prices to increase in central locations; however, a slowdown in the price trend is forecast compared to last year (67.5 pts.). The Price Expectation Index for medium-sized towns has slipped slightly into the negative range at -4.9 pts.
- Residential real estate remains the only real estate segment with positive expectations in terms of price (43.9 pts.), although there appears to be some deterioration since last year (2013: 57.0 pts.). In terms of office real estate, survey participants are very negative at -101.8 pts. This deterioration reflects the increased pressure on prices from previous years (2013: -89.4 pts., 2012: -58.7 pts.).
- The slight fall in estimates of price trends is also reflected at the level of the economic centres. With the exception of Bern, survey participants expect a moderate slowdown in price development in all economic centres compared to last year. Price rises are still expected in the regions of Zurich (26.8 pts.), Lucerne/Zug (21.4 pts.) and Basle (13.8 pts.). Stability or slight price falls are forecast for the other regions.
- At -126.9 pts., there is still a major shortage of suitable investment properties evident in the residential sector. This shortage is accompanied by positive price expectations for this segment and the related investment preferences of market players. In the commercial real estate sector, there are still differences between the individual sub-groups. The future supply of office real estate is assessed as sufficient, at 31.4 pts. (2013: 24.5 pts.). In the case of special-purpose property however, a slight shortage of suitable properties is anticipated (2014: -27.6 pts., 2013: -8.7 pts.).

Swiss Real Estate Sentiment Index	Investment Behaviour	Risk Management	International Real Estate	Methodology and Survey Participants	Summary
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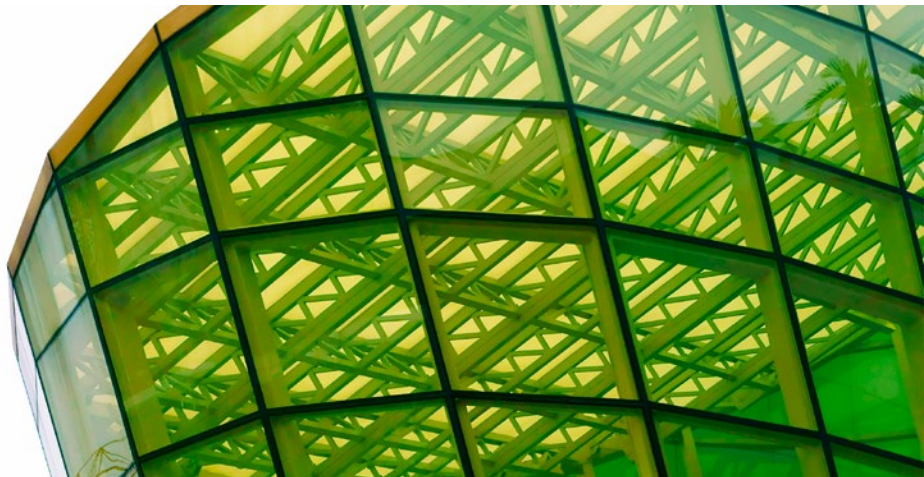
- Survey participants consider stricter regulations as the greatest risk to the local real estate investment market. This is due to the introduction of a multitude of regulatory measures, which have a direct or indirect impact on the real estate market (initiatives against mass immigration, Corporate Tax Reform III, tightening of Lex Koller etc.). Other risks are assessed as less acute or stable compared to last year. The second greatest identified threat is a rise in interest rates, although the risk assessment is slightly lower than last year. Survey participants are of the opinion that interest rates will remain low for the near future.
- The lack of investor expertise is identified as the greatest obstacle to investment in foreign property investments. Currency risks follow in second place. Another reason why investors focus on the Swiss real estate investment market is the good performance of Swiss real estate investments.
- European real estate investments remain popular with survey participants who handle foreign properties. Germany is considered the most attractive foreign investment market. In addition to stable economic performance and low yield fluctuation, the popularity of the German real estate investment is likely due to its geographical and cultural similarities with Switzerland.
- Listed real estate funds and REITS are the most popular forms of investment in foreign properties. Both investment vehicles boast high levels of liquidity. REITS also benefit from tax exemption at a corporate level and high payout ratios.
- The greatest competition from foreign investors in the Swiss real estate investment market comes from investors looking to acquire investment properties above the CHF 50m mark. Almost two thirds of the survey participants are faced with moderate competition from foreign investors in the case of acquisitions of properties about this threshold. In the case of smaller properties, competition from abroad is regarded as negligible.
- Survey participants advise that the strongest market activity from foreign investors in Switzerland is generated by family offices (35%). Private individuals follow in second place. Survey participants note an inclination of foreign investors to pay higher prices for retail space in top locations (high street). These findings confirm the leading roles played by family offices and private individuals. In prime locations, these two investor groups are inclined to pay over-the-top prices for high-quality, so-called trophy properties.

Anticipated and Observed Development of Real Estate Prices

Investment property price trends in Switzerland

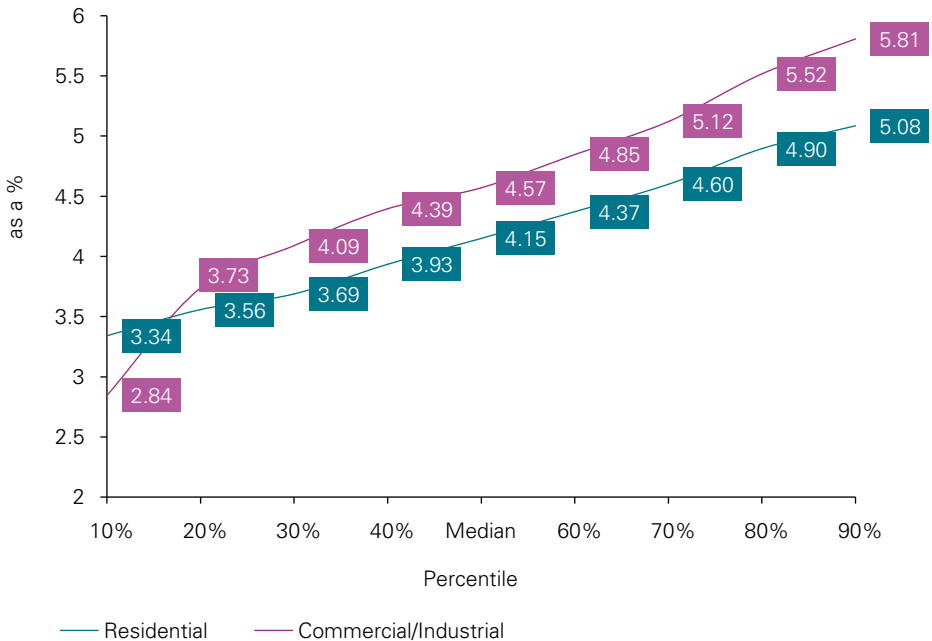


Source: Investment Property Databank, Reida and KPMG Real Estate



Swiss Real Estate Sentiment Index	Investment Behaviour	Risk Management	International Real Estate	Methodology and Survey Participants	Summary
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Net transaction yield 2013



- In 2013, the total return for all real estate categories was 6.0%. This figure is 80 bps lower than last year and has therefore fallen for the second year in succession, since reaching 7.8% in 2011. This indicates a cooling of the Swiss real estate investment market. Capital growth of 1.7% was observed over all real estate segments. The cash flow return over all real estate segments is 4.2%.
- Residential real estate has performed best with a total return of 6.5% (cash flow return = 4.1%), followed closely by retail real estate with 6.3% (cash flow return = 4.2%). Office real estate is far behind with a total return of 5.1%. The capital growth rate for this investment segment is a mere 0.8%. The capital growth rate for office real estate in 2012 and 2011 were respectable at 1.8% and 2.7% respectively. Nevertheless, this downturn in the development of prices was already anticipated by survey participants in sresi® in 2012 and 2013.

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, IT, forensic or supply chain management, we ensure that extensive mandates are handled efficiently and professionally.
- Our excellent know-how of local markets and ten national office locations allow for national and regional consideration for all services in our core services.
- 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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