

SWISS REAL SnapShot!

Advisory Real Estate/Autumn 2014

Real estate investment market loses momentum

Current developments in
the Swiss real estate investment market

kpmg.ch/RealEstate

KPMG
cutting through complexity





Content

Real estate investment market loses momentum

Macroeconomic Overview	6
Office Market	8
Retail Market	10
Residential Market	12
Real Estate as an Investment	14
Focus: The Hotel Investment Market	16





Introduction

Dear Madam or Sir,

KPMG Real SnapShot!, published every 6 months, provides you with an overview of the current developments in the Swiss real estate market and its influencing factors.

The Swiss real estate market is a heterogeneous and strictly segmented structure. Thus, KPMG Real SnapShot! limits itself to global observation, without addressing regional deviations in detail.

KPMG Real Estate has both Swiss specific and global expertise in the real estate markets. Our extensive data pools in local markets along with competent and in-depth consultation generate added value for our clients in all areas connected with real estate.

Turn to the last page of KPMG Real SnapShot! to see what we can do for you and how you can benefit from our services.

We hope you find our report interesting.

With kind regards,



Ulrich Prien
Partner, Head of Real Estate Switzerland



Beat Seger
Partner, Real Estate M&A

The KPMG Real Snapshot! is also available for Europe, Asia and the Americas.
Contact us if you would like to learn more about the global real estate markets.
Download publications: www.kpmg.com/Global/en/industry/real-estate

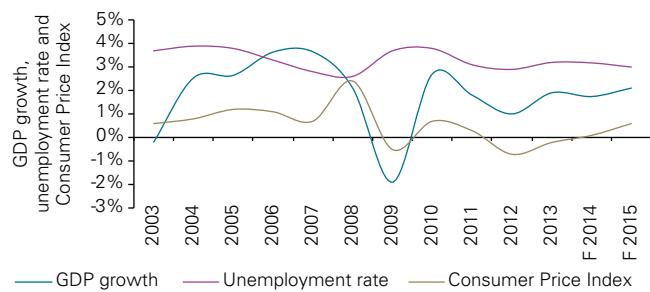
Real estate investment market loses momentum

Macroeconomic Overview

The economic prospects for Switzerland have deteriorated slightly over the past few months, but they remain healthy. The quarterly GDP data has been published in the second quarter of 2014 by the State Secretariat for Economic Affairs (Seco) for the first time in the scope of a new methodology. After the conversion, the second quarter 2014 shows a GDP growth of 0.2% in relation to the previous quarter, respectively 1.4% in comparison to the same quarter last year. The second quarter therefore is, according to the new estimates, a bit stronger than expected. This is due to slightly positive growth impulses in the trade balance in goods and services. The weakening tendency of the domestic demand still remains. The investment in construction is even lying significantly in the negative range at -0.7%. Impediments to investment in construction include a downturn in public civil engineering projects, limitations on secondary residences and greater planning uncertainty since the adoption of initiatives against mass immigration and the introduction of prudential measures.

This deceleration in economic growth has led to a slight downward revision of economic forecasts. GDP consensus forecasts for 2014 and 2015¹ currently lie at 1.7% and 2.1%.

Fig. 1 Macroeconomic indicators



Source: BAKBasel, Credit Suisse, KOF, Seco, UBS and KPMG Real Estate

Key: Forecast (F)

The global recovery continues, although the situation remains very volatile. The economic situation in the Eurozone in particular is improving only very gradually. There is still no sign of an upswing across the board, which would also affect the beleaguered labour markets. The cyclical differences between the individual countries remain wide. For instance, in Germany and a small number of northern European countries, growth is robust and gaining additional impetus from the expansive monetary policies of the European Central bank (ECB). The southern European countries and France are far from having a similar dynamic. For the Eurozone as a whole, the consolidation of public finances and implementation of growth-promoting reforms remain the greatest challenges.

A moderate rise in the Swiss Consumer Price Index of 0.1% is expected in 2014. Inflation is expected to increase slightly thereafter by 0.6%. In its latest market report, the Swiss National Bank (SNB) forecasts a slight increase in deflationary risks.

According to surveys by the Seco 132,397 people were registered as unemployed by the regional employment centres at the end of October 2014, 2,432 more than in the month before. The unemployment rate therefore increased from 2.9% in September 2014 to 3.0%. Year-on-year, the number of unemployed has been reduced by 1,046 (-0.8%). For 2015, the forecasting institutes anticipate an average unemployment rate of 3.0%.

With economic growth at a standstill and very low inflation expectations, the ECB has recently announced a further reduction in interest rates. It will also purchase loan securitizations and mortgage bonds as of November. According to statements from Mario Draghi, the ECB's President, a large-scale purchase of securities is also being considered.

The SNB has not yet reacted to the ECB's package of measures. In its recent market report, it advises of its intention to maintain its current monetary policies. There has been no change in the minimum EUR/CHF exchange rate of 1.20 and target range for the 3-month Libor of 0.0% – 0.25%. SNB confirms that it is prepared, "when necessary, to buy unlimited currencies and to take further measures if required". It does not consider a further easing of its

¹ Consensus forecasts consider estimates by BAKBasel, Credit Suisse, KOF, Seco and UBS.



monetary policies by introducing negative interest rates or other unconventional measures to be appropriate at this time.

Fig. 2 Current interest rates

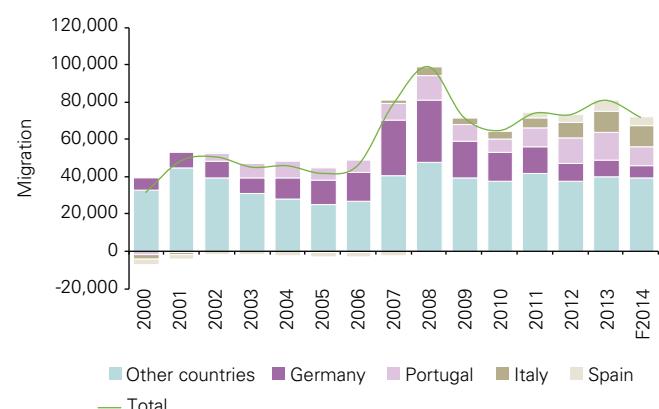


Source: SNB and KPMG Real Estate

An extrapolation of the figures published by the Federal Office for Migration for 2014 as a whole suggests that there will be net immigration of around 70,000 people. This lies slightly below the average of around 78,000 p.a. since the introduction of full freedom of movement in 2007. Broken down to nationality, Italians are the biggest immigrant group with 11,000 people, followed by the Portuguese with

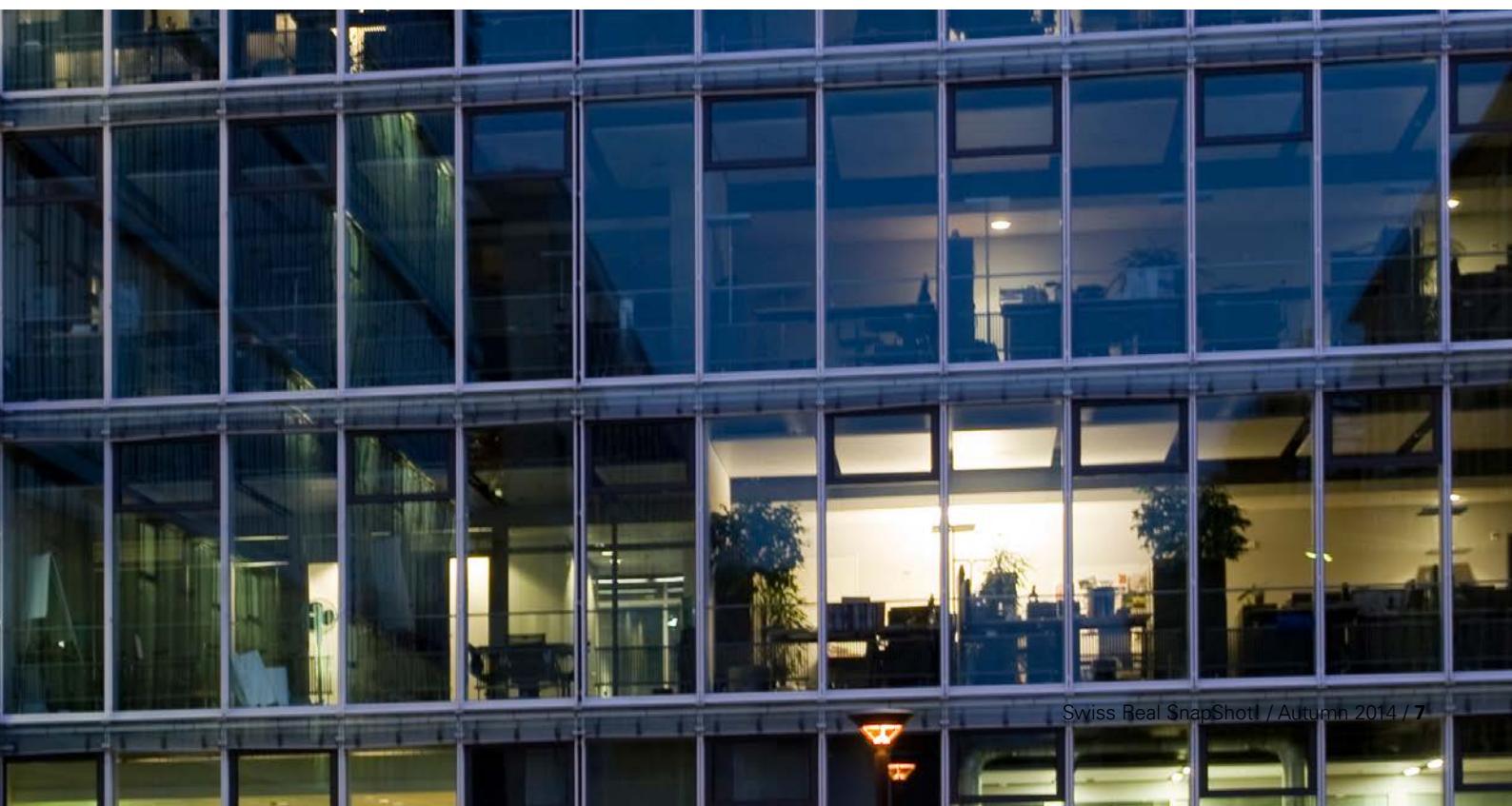
10,000. Germans take third place with 7,000 net immigrants. Migration from Germany has fallen sharply since its peak in 2008 (33,000 people). In the case of migration from southern Europe, the situation is the reverse: in 2008, immigrants from Italy, Spain and Portugal made up around 18% of the immigration statistics. In 2013, this figure almost doubled, with these countries accounting for almost 40%. A figure over 35% is also expected for 2014. The trend in migration statistics reflects the situation in the respective labour markets.

Fig. 3 Migration balance



Source: Federal Office for Migration and KPMG Real Estate

Key: Forecast (F)



Office Market

An imbalance has developed in the Swiss market, with an oversupply of premises. In previous years, low interest rates encouraged the completion of numerous new office projects. Relocations by major companies meant that this new space was absorbed well in the rental market.

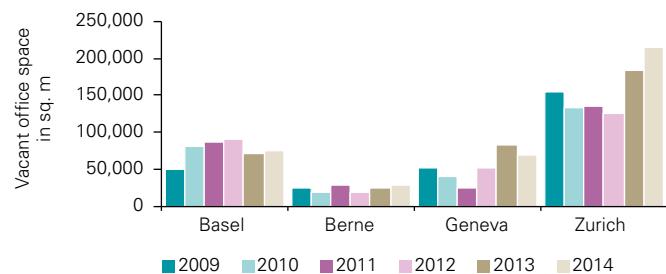
The full impact of this office space expansion has not yet been seen, with only slight rises in the supply indices and higher vacancies. One reason for this is that a high proportion of new buildings has been constructed for the requirements of specific occupiers. Vacated premises are being revitalized or repositioned and are therefore not yet reflected in the supply statistics. The construction of some new developments is currently being postponed because they have not been sufficiently prelet.

This is mainly affecting older, existing space, vacated because of relocations. The imbalance between supply and demand has increased particularly in this segment.

On the demand side, no major impetus is currently expected. An analysis of the development of traditional office branches shows that there was consistent annual growth of over 2% in typical office employment between Q2 2011 and Q3 2013. The situation has deteriorated slightly since then. In Q4 2013, employment increased by only 1.6% in the traditional office sectors, which points to stable but not growing demand. As a result of the slowdown in economic growth, the employment figure is not likely to be particularly dynamic over the coming quarters.

Vacancy of over 390,000 sq. m was recorded in the four biggest urban office markets at the beginning of June 2014, which corresponds to an increase of 7% year-on-year. A 35% increase has been observed over the past two years, which equates to an area of 100,000 sq. m. In a historic comparison, these vacancy figures remain relatively low. The highest year-on-year rises were reported in Berne (+19%) and Zurich (+17%), whereby absolute vacancy in Berne is relatively insignificant at around 30,000 sq. m.

Fig. 4 Development of office vacancies in the major centres



Source: City Statistical Offices and KPMG Real Estate

The example of the city of Zurich is particularly suitable to demonstrate the effects of an oversupply of office space. The vacancy rate for office space in Zurich currently lies at 2.9%. In 2005, the vacancy rate was 6.2% and this figure reduced steadily to reach its lowest level of 1.8% in 2008, before starting to rise again. Office vacancy has increased over the past two years by 90,000 sq. m.

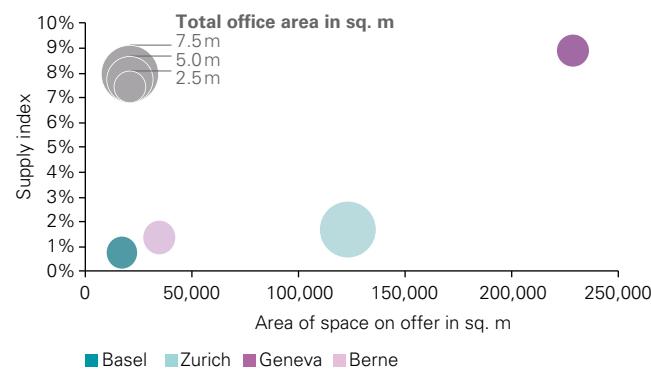
The rise in the vacancy rate is due to the increase in construction activity in Zurich-West, Zurich-North and on Europaallee, as well as in adjacent communities, which is leading to an expansion of space at the same time as relatively constant demand.

Analysing the situation in the various neighbourhoods, it is apparent that vacancies initially increased in the Escher-Wyss district. In 2013, almost 60,000 sq. m was vacant there; however, this space has been successively absorbed and vacancy in Escher-Wyss has reduced to 20,000 sq. m, with a fall in the vacancy rate from 7.0% to 2.5%.

Whilst office vacancy in Escher-Wyss has reduced in 2014, the situation is the reverse in the city centre: office vacancies in the "Quartier City" has increased threefold and the rate has risen to 10%.

Of the four major centres, there is a particularly high supply of space in Geneva, with a supply index of around 9%. It therefore appears likely that vacancy rates will increase in the short-term. Basel and Berne report low supply indices; however, due to the expected major expansion in supply, the supply index in Berne is expected to increase successively over the next few quarters.

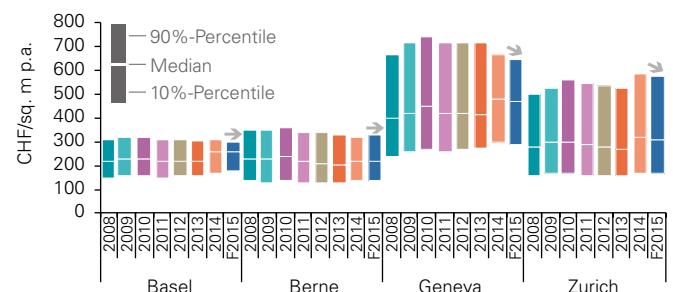
Fig. 5 Supply index and available space in major office centres



Source: Colliers and KPMG Real Estate

Statistically, the expansion in the availability of space is not leading to a reduction in rents. On the contrary, asking rents continue to rise or are at least remaining stable. This apparent paradox can be explained by a detailed observation of the available space: the effect of the increased vacancy rates in city centres was that office space in prime locations was released onto the market at above-average rental prices reflecting their excellent locations. The increased willingness of landlords to make concessions, which is expected in the current market climate, is not reflected in the observed asking rents.

Fig. 6 Asking rents for office premises in major centres



Source: KPMG Real Estate

Key: Forecast (F)

The situation in the Swiss office market has become more difficult, particularly due to regulatory influences. It is likely that the adoption of the mass migration initiative and the uncertainty this will create in terms of the economic outlook will slow down improvements in the employment situation, which in turn will weaken demand for office space.

There is also a degree of uncertainty due to the discord between the EU and Switzerland in terms of corporate taxation. The EU wants Switzerland to abolish its privileged tax regime. A complete elimination of all tax incentives could encourage foreign companies to look for alternative business locations. As part of Corporate Tax Reform III, the Swiss have drawn up measures that will offer alternatives to compensate for the loss of tax incentives. Examples of such alternatives under discussion include a general reduction in profit tax rates or the introduction of so-called Licence Boxes, which tax earnings from intellectual property at preferential rates. The current legal uncertainty is already dissuading a number of international companies from considering Switzerland as a business location.

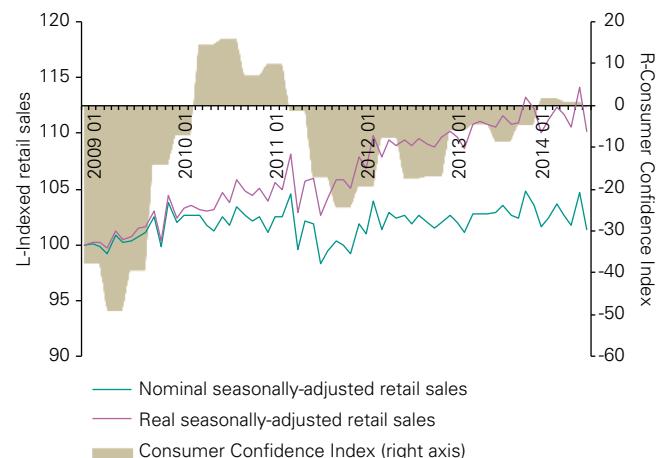
The cantons most affected by the abolition of the privileged tax regimes, Vaud and Geneva, have indicated their intentions to reduce profit tax rates. Geneva plans to reduce the tax rate from 24.2% to 13.0%, and Vaud from 22.8% to 13.8%. While the Canton of Vaud has been able to reduce its state debt to less than CHF 500m over the past ten years and therefore is able to fund the loss in tax income itself, this will not be possible in the Canton of Geneva. In 2012, the Canton's debts were around CHF 12bn and it will be unable to bear the total loss in tax income, with the possibility of becoming a net recipient of, rather than net contributor to, federal funding. It is therefore unclear whether the planned tax cuts can be introduced smoothly.

Retail Market

Retail experienced a difficult year in 2013, which saw price-driven positive nominal growth in sales of food retail and a weaker trend in the non-food segment. Overall, there was nominal growth of around 0.7% year-on-year. With the exception of 2008, the retail sector has reported a steady fall in prices over the past ten years, a trend which continued in 2013. Prices dropped by 1.3%, leading to a gap between nominal and real sales. The latter increased by 2.1% in 2013. Last year's price fall however, was more moderate than in 2011 and 2012 (2.5% each).

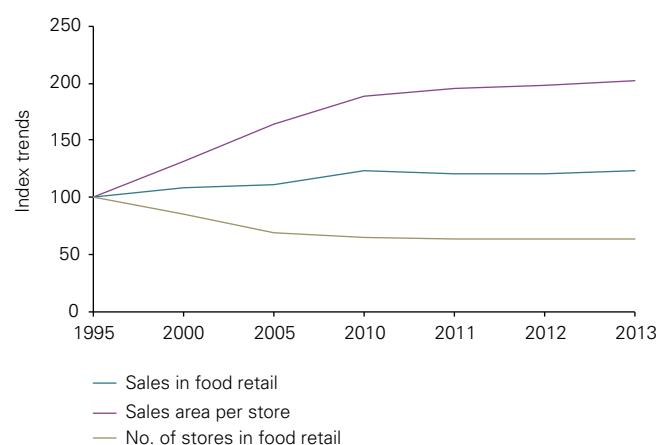
The weak growth in sales in the retail sector is characterized by very clear differences between the various segments. The trend of previous years shows branches being clear winners or losers – a division which was more pronounced in 2013. The food product group stood on the winning side (nominal growth in sales 2013: 2.3%) and was the subsector with the highest sales. While price increases in food retail supported the good results, nominal sales in the health, beauty and personal care product group increased by 2.5%, despite massive price falls. Strong falls in sales were reported by the fashion & shoes (-2.0%) and consumer electronics (-2.3%) segments.

Fig. 7 Retail sales and consumer confidence



The transition process in Swiss retail is a well-known phenomenon: supermarkets absorb the market shares of traditional village shops; in small-scale food retail, system suppliers and convenience stores account for the highest market share, and in non-food retail, chain retailers drive out independent retailers. These trends have led to strong structural changes. For instance, between 1995 and 2013 the number of shops in food retail has been reduced by 36%. At the same time, the sales area per retail unit more than doubled.

Fig. 8 Structural change in retail



In addition, over-the-counter retail is being challenged by increasing digitalization. The significance of the Swiss online and mail order segment increased further in 2013. With growth of 9.7% to CHF 6.25bn, the increase in internet sales was much more dynamic than in previous years. GfK² estimates that internet purchases still only account for around 6% of total sales; however, figures vary widely between the different product areas. In businesses with a strong online presence such as multi media and fashion, the market share is already up to 30%.

Although the increase in sales in online retail is to the detriment of over-the-counter sales, this is not causing a reduction in the volume of sales space to the same degree. Rather, the requirements for sales space, collection points, showrooms and logistic centres for example are changing, with demand for larger ancillary space and improved delivery access. Large retail units in very accessible locations that meet the space requirement profile can therefore benefit from the strong growth in online retail.

² Consumer market research institute

Fig. 9 Sale trends in online retail

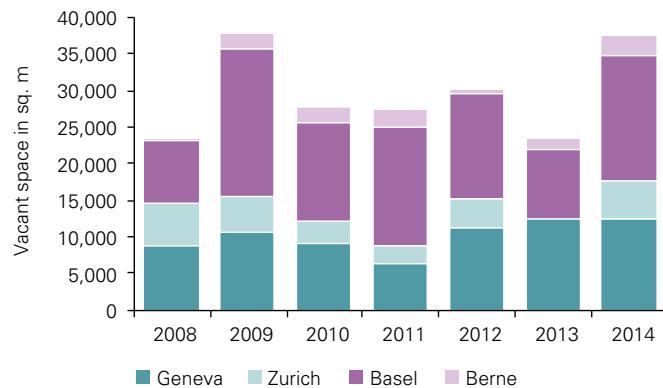


Source: GfK and KPMG Real Estate

These major challenges facing retail have encouraged investors to remain cautious. New-build activity has calmed down significantly compared to previous years: whilst there was significant expansion of space between 2000 and 2009, with the exception of 2012 there has been a clear slowdown in the number of retail projects granted building consent since 2009.

The weaker demand for sales space is not yet fully reflected in the vacancy statistics. One reason for this is that sales space in central locations is still in demand and official vacancy statistics often only refer to the major economic centres. At the beginning of June 2014, 37,000 sq. m of sales space was vacant in the four major centres of Geneva, Zurich, Basel and Berne, which is a rise of 14,000 sq. m since last year. Over the long-term however, the current volume of vacancies is regarded as low. In 1999, almost 30,000 sq. m contributed to the vacancy statistics in the city of Geneva alone.

Fig. 10 Vacancy rates for sales space in the city centre



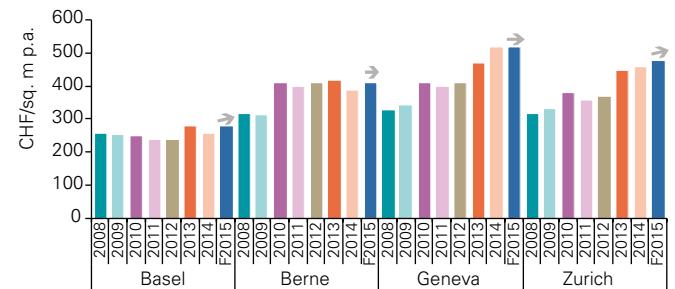
Source: City Statistical Offices and KPMG Real Estate

Compared to last year, retail rents are expected to remain stable. However, there is a major difference between the qualities of individual locations. Small retail units in peripheral locations and secondary shopping centres and streets will probably continue to lose market share to online retail and retail formats which are more attractive. A reduction in rents and higher vacancy risks can be expected.

In contrast, sales space in top locations remains in strong demand. These function as flagship locations for major international fashion chains and luxury brands.

An average degree of saturation by chain retailers of around 60% has been identified in the centres of Switzerland's major and second-tier cities. The degree of saturation in the top addresses in the major Swiss cities has now reached almost 70%. In many foreign cities, national or international retail chains now occupy over 90% of the sales space in the most popular retail destinations. In Switzerland, further saturation by retail chains is expected, particularly in the principal city centre locations, over the medium-term. The limited supply of city centre space is fuelling the demand for premises and a rise in rental prices.

Fig. 11 Asking rents for retail space in the major centres



Source: KPMG Real Estate

Key: Forecast (F)

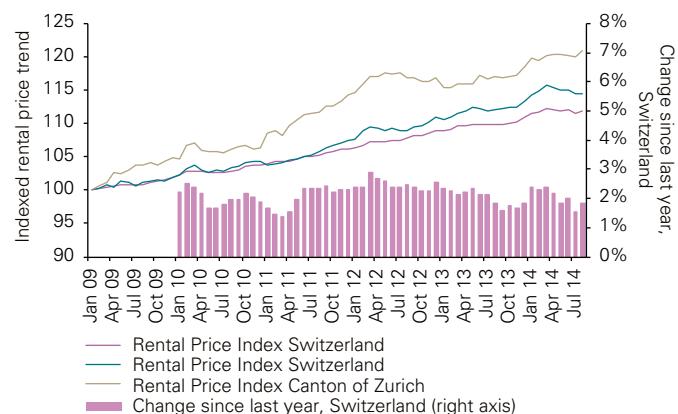
Residential Market

The Swiss rental apartment market will be driven by three major factors over the short to medium-term:

- On the one hand, the [low interest rates](#) are increasing the flow of investment capital in the residential market. This is in turn energizing construction activity and expanding the supply of space. This trend is reflected by current investor preferences. Residential real estate is considered as more secure than commercial, which is leading to an above-average flow of capital into this use segment.
- A further driver is the [introduction of the mass migration initiative](#). This has led to an abrupt change in outline conditions in the Swiss real estate market. This regulatory measure is likely to have a major effect on the rental and condominium markets, as immigrants will mainly focus their demand on rental apartments. A quota will limit this important demand segment for the residential market.
- In addition, the development of the rental market will be affected by the imminent [further tightening of mortgage lending](#). More financial or regulatory barriers to home ownership will shift some of the demand from the condominium to the rental market. At the same time, all sides are also considering imposing tighter regulations in the rental market.

According to Homegate.ch and ZKB³, quality-adjusted asking prices for rental apartments in August 2014 increased by 1.8% in Switzerland as a whole compared to 2013. The highest price rises were registered in the cantons of Vaud and Geneva⁴ (3.2%) and in the canton of Lucerne (2.7%). The cantons of Thurgau and Ticino even registered slight rental falls of 0.7% and 0.8%. A survey of rental apartment asking prices by Wüest & Partner confirms a moderate rise in rents. Year-on-year, a 2.7% rise in rents was recorded in the second quarter of 2014.

Fig. 12 Quality-adjusted Rental Price Index



Source: Homegate.ch, ZKB and KPMG Real Estate

Active construction activity is expected to continue in the multiple family dwelling segment over the coming year. A similar high level of construction activity is also expected in 2015. Nonetheless, according to an analysis by Credit Suisse, the volume of building permits granted would suggest a slowdown in growth in housing construction. In Q2 2014, the number of building consents for apartments in Switzerland was around 10% lower year-on-year.

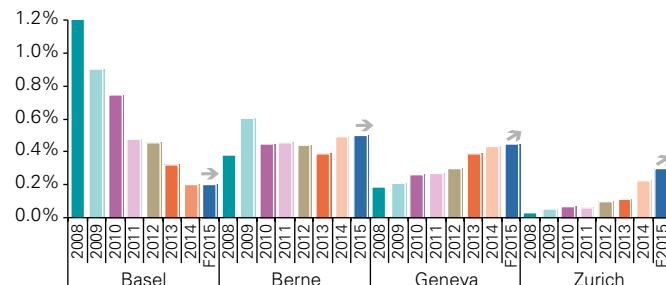
Until now, new-build apartments were easily absorbed by the sustained migration-driven population growth. Despite sustained high construction activity, the Vacant Apartment Index for the whole of Switzerland has risen only slightly from 0.96% to 1.08% over the past 12 months. In absolute terms, the number of vacant apartments has increased by 5,740 units. With the exception of Northwest Switzerland, all major regions are reporting a rise in the number of vacant apartments and the Vacant Apartment Index. The highest growth in the Vacant Apartment Index was observed in the Lake Geneva Region, followed by Espace Mittelland, Zurich and East Switzerland.

Compared to last year, vacancies in the cities of Berne and Basel have remained relatively stable, but a slight rise in the Vacant Apartment Index has been observed in Geneva and Zurich.

³ The index measures the monthly, quality-adjusted change in rents for new and existing apartments.

⁴ Rental price trends in the cantons of Vaud and Geneva are shown in a shared sub-index.

Fig. 13 Vacant Apartment Index in the major centres



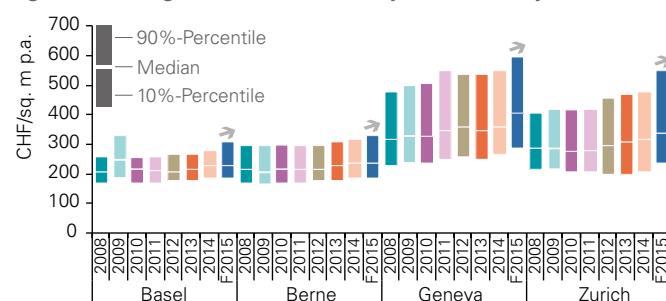
Source: BFS and KPMG Real Estate

Key: Forecast (F)

A likely consequence of the adoption of the mass migration initiative is that the resulting downturn in demand will lead to an easing of the markets in the environs of the major centres. However, as the regulatory measure will not change the underlying, strong appeal of the centres, lower immigration figures in these regions could be compensated for by the strengthening of domestic migration. The risk of an oversupply will therefore only potentially affect the peripheral regions, which already have a high volume of vacancies and a high level of housing construction.

Due to the current scarcity of apartments and sustained strong demand, we anticipate a slight rise in the median asking rent in the major centres over the short to medium-term. For peripheral locations, rents are expected to stagnate in the short-term, and even fall over the medium-term.

Fig. 14 Asking rents for residential space in the major centres



Source: KPMG Real Estate

Key: Forecast (F)

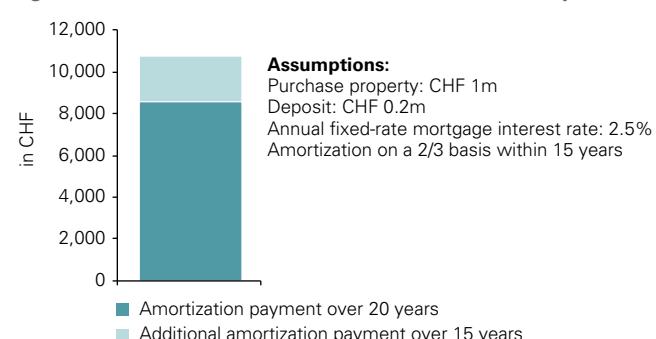
In the previous KPMG Real Estate Snapshot published in the spring, we commented on the introduction of the anti-cyclical capital buffer (AZP): the enforced strengthening of underlying capital by the capital buffer should have increased the resilience of the banks; however, the actual impact on lending is likely to have been modest.

Further measures to regulate the home ownership market have also been considered. Since then, the Association of Swiss Bankers has agreed to a prophylactic tightening of their self-regulation. The main self-regulatory measure involves a shortening of the amortization period from 20 to 15 years for new mortgages at two thirds of the mortgage lending value. A further two measures were agreed. The first concerned the adoption of the lowest value principle in terms of the financing of real estate transactions: according to this, the mortgage lending value is determined as the lower of the market value and purchase price. The second measure concerns second incomes, which will now only be considered as part of the collateral if the second earner is jointly liable for the debt.

The effect of the shorter amortization period is best explained using a hypothetical example. A home is purchased with a value of CHF 1,000,000, based on a 20% deposit and an assumed interest rate of 2.5% for a fixed-rate mortgage: as a result of faster amortization, the annual payments will increase by CHF 2,215 over the shorter period of 15 years. In order to meet the affordability criteria⁵ under the new amortization regulations, a higher income of around CHF 6,700 would be required.

The increased affordability requirements and reinforcement of the lowest value principle should help to calm the home ownership market. However, the risk of a change in the interest rate has increased due to the continued very low interest rate level. An unexpected rise in interest rates could only be marginally absorbed by the new regulations.

Fig. 15 Additional cost due to a shorter amortization period



Source: KPMG Real Estate

⁵ The necessary income is calculated on the assumption that the costs of interest repayments, running the household and amortization may not exceed around 33% of the gross income.

Real Estate as an Investment

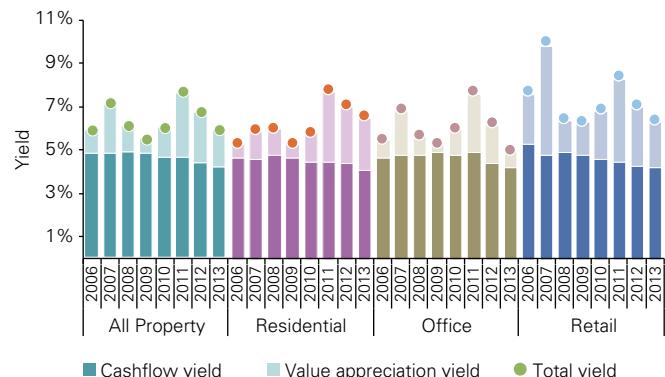
Although there has been a compression of real estate investment yields observed for some time, there is still an attractive gap between the income yield for direct real estate investments and the yield for fixed income securities. As a result, real estate investments remain popular with multi-asset investors such as pension funds and insurance companies. In a comparison to the past ten years however, the return from value appreciation in respect to investment real estate has been more moderate than expected – and in fact, negative value appreciation is anticipated for the commercial real estate segment. With this in mind, the focus is no longer on value appreciation, but on the securing and optimizing of income yields.

This trend is already partly reflected in the IPD (Investment Property Databank Ltd) yields. In 2013, the total yield for all real estate categories was 6.0%. This result is 80 bps below the previous year's figure and has therefore fallen for the second year in a row; a total yield of 7.8% was reported in 2011. Value appreciation of 1.7% has been determined across all uses. The cashflow yield across all segments was 4.2%.

The yield was highest for residential property with a total yield of 6.5% (cashflow yield of 4.1%), followed closely by retail property with 6.3% (cashflow yield of 4.2%). Office

real estate yielded a much lower return of 5.1%. The value appreciation for this investment segment was only 0.8%. The value appreciation yields for office real estate in 2012 and 2011 were 1.8% and 2.7%, respectively.

Fig. 16 Performance of Swiss direct investments



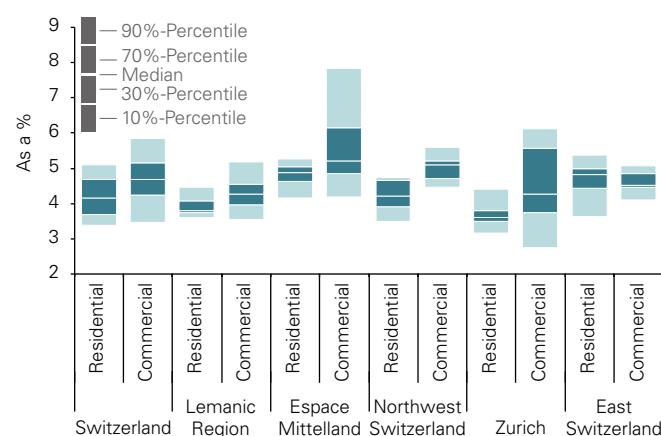
Source: IPD and KPMG Real Estate

The current market climate is reflected in increased selectivity of investors. The most sought-after real estate investments were those with a bond-like character. These cashflow-generating investments boast excellent location factors, long lease terms, strong tenant covenants and low vacancy rates, and are considered as more stable in terms of value.

Compared to last year, the current level of confidence in the Swiss real estate investment market is assessed as slightly negative in the latest KPMG Real Estate Sentiment Index (sresi^{®6}) survey. In the case of certain regions, i.e. the Mittelland and Lake Geneva regions, market players even expect prices to fall. The same can be reported for various real estate investment segments such as office properties. Residential property remains the only segment with positive expectations in terms of price trends. However, there is also a slight downturn apparent in this investment segment compared to last year. The greatest risk identified by market players for the local real estate investment market is the tightening of regulations. This is due to the variety of approved pending regulatory measures, which will directly or indirectly impact the real estate market, such as immigration restrictions, Corporate Tax Reform III and the proposed tightening of Lex Koller.

According to Reida data⁷, transaction-based net initial yields of 4.2% – 4.7% (median) were observed for residential and office properties throughout Switzerland in 2013. Broken down to the major regions, the lowest transaction yields were identified in the Zurich Region and in the Arc Lémanique. Median net yields for residential real estate in the Zurich Region and in the Arc Lémanique were 3.6% and 3.8%, respectively. In the case of commercial properties, the median net yield in these regions was 4.3%.

Fig. 17 Transaction yields (net initial yields) 2013, broken down between major regions



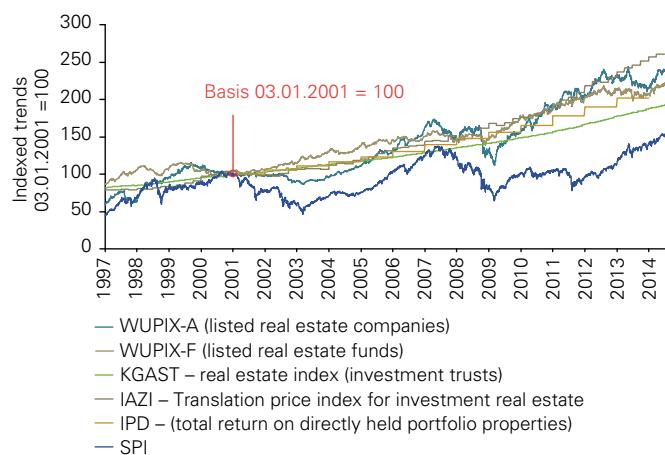
Source: Reida and KMPG Real Estate

⁶ The up-to-date results of the survey can be found at sresi.ch

⁷ Real Estate Investment Data Association

A long-term analysis reveals that real estate investment has enjoyed an exceptional growth phase in real terms. Between 2001 and 2014, yields from indirect and direct real estate investments in Switzerland have been excessive compared to equity investments. This is particularly pronounced in the IAZI Index (transactions prices for investment real estate), which registered a growth of 161% over the period, equating to 7.4% p.a. Listed real estate companies and funds have reported respectable overall performances of 134% (6.5% p.a.) and 122% (6.1% p.a.). Switzerland's real estate investment trusts (measured using the KGAST Index) have reported a superb performance of 93%, which equates to a yield of 4.9% p.a. Conversely, the SPI reported a total yield of 49%.

Fig. 18 Indexed performance of Swiss real estate investments



Source: IPD, W&P, KGAST and KMPG Real Estate

For direct real estate investments, total returns are expected to revert to normal levels in the future. These are likely to move in the direction of cashflow yields.

Swiss pension funds and insurance companies' adherence to their real estate quotas is having a stabilizing effect on value appreciation. The strategic asset allocation of these market participants is not expected to change dramatically in the near future. A possible catalyst for change could be a significant rise in interest rates. This scenario is considered unlikely in view of the current market situation.

The Hotel Investment Market

As a result of the increasing scarcity of suitable investment properties and current caution in the office space segment, a growing number of investors are eyeing at special-use properties such as logistics, student residences or retirement homes, data centres, car parks, hospital real estate, production plants and also hotels. However, such properties demand specific expertise and are considered high-risk investments due to their limited alternative use which, in the ideal case, is compensated for by a higher return.

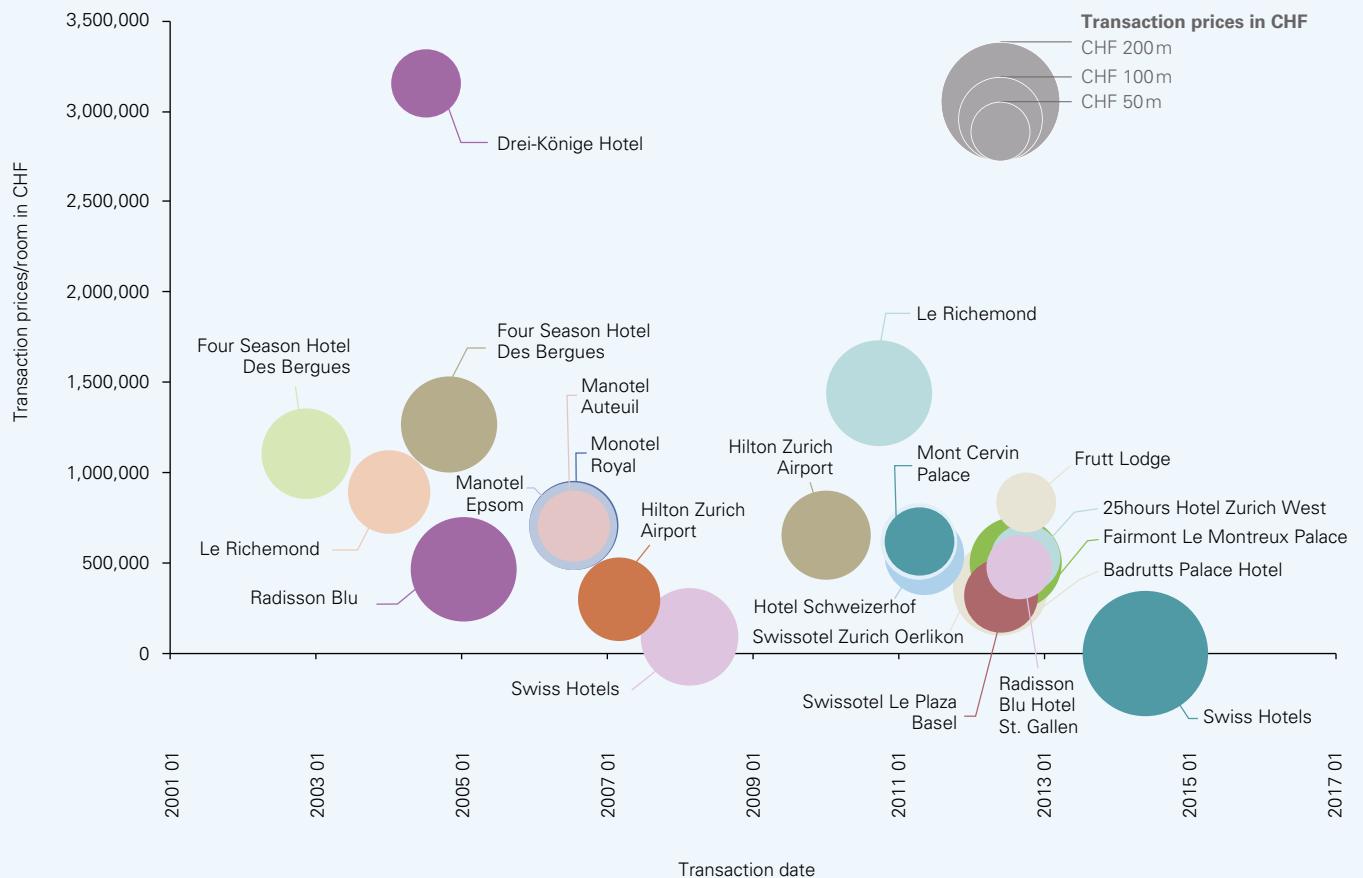
In the case of hotel property, it must be considered that the hotel investor is directly exposed to the operative risks of the hotel operations, subject to the contractual relationship. In the case of operational leases, the operative risk lies principally with the hotel operator, i.e. the tenant must continue to pay rent, even if the business is reporting negative results. However, if a hotel investor has entered into a management contract with the hotel operator, then the investor bears the operative risk, but also profits directly if the business is performing well.

In addition to domestic investors, international investors are also active in the Swiss hotel market. The reasons for this are partly economic due to international real estate diversification, volatile financial markets, the low cost of borrowing, as well as the expected hedge against inflation by investing in real estate and the long-term investment horizon. Also, Switzerland's reputation should not be underestimated: the country is still regarded as a safe haven and enjoys international renown as a tourist destination with numerous world-famous holiday resorts.

An analysis of Swiss hotel transactions since 2002 shows that the major centres and top tourist destinations naturally attract the highest share of hotel investments.

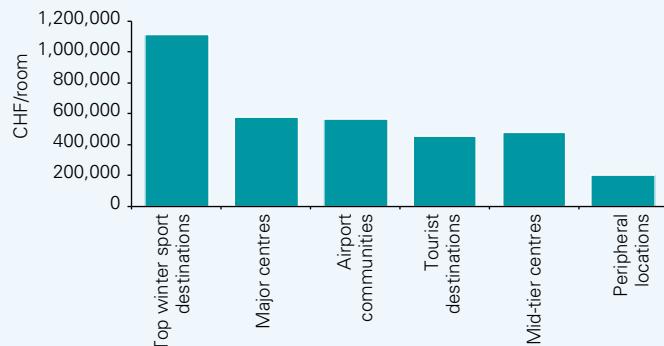
The highest prices per room are paid in the top winter sport destinations such as St. Moritz and Zermatt. The average transaction price per room in these locations is CHF 1.1 million. Hotels in the major centres follow in second place, reporting average transaction prices of CHF 0.6 million per room.

Fig. 19 Swiss hotel transactions > CHF 50m between 2002 and 2014



Source: Real Capital Analytics and KMPG Real Estate

Fig. 20 Transaction prices per room by location

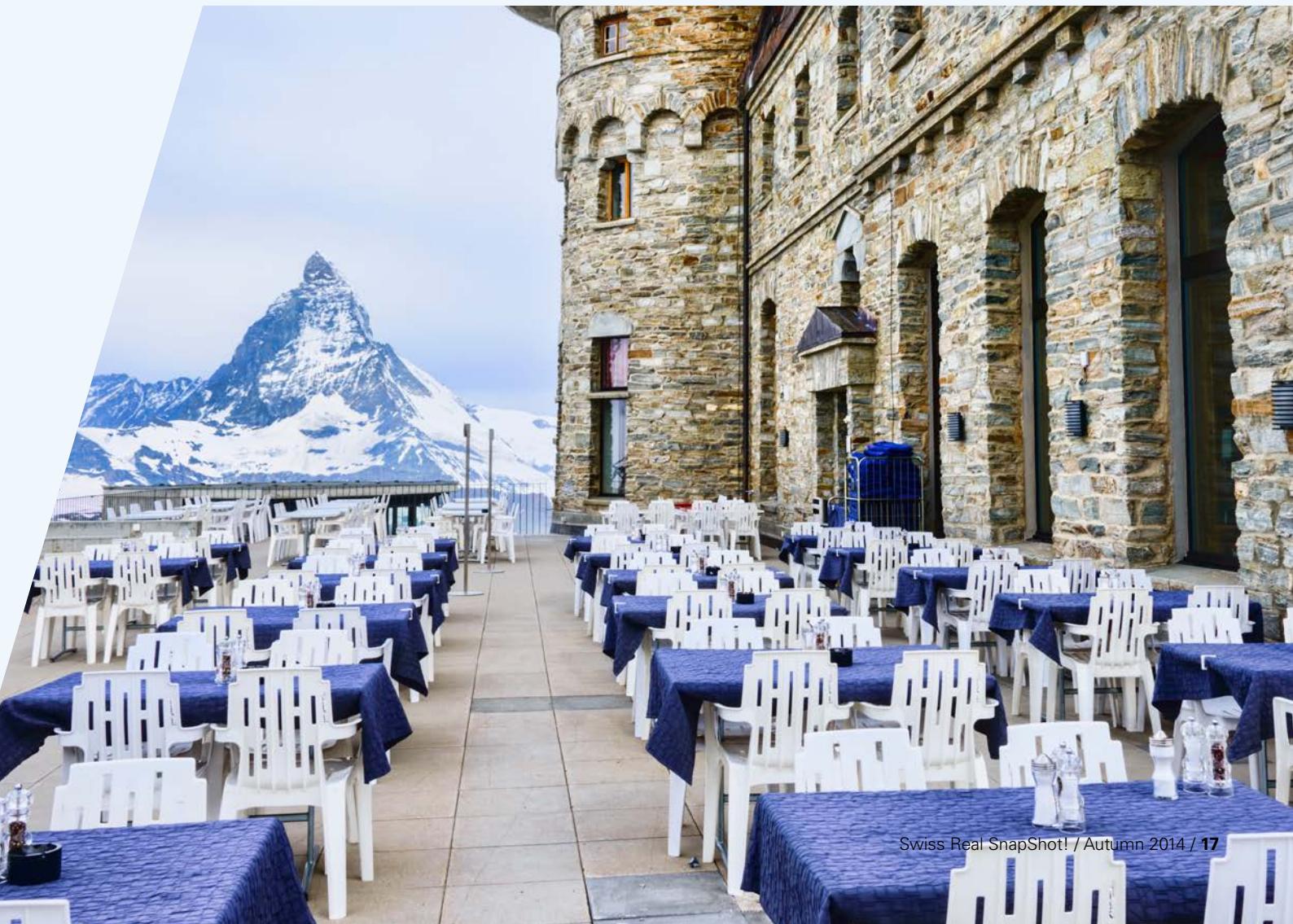


Source: Real Capital Analytics and KMPG Real Estate

Much lower transaction prices are recorded in poorer quality locations. A high number of three to four star hotels are for sale in such locations throughout Switzerland; however, their smaller sizes mean that they are often too small to be operated at a profit. Often, such properties also require substantial renovation, which scares away investors. Given

this situation, further consolidation can be expected in the Swiss hotel market. In the period between 1992 and 2013, the number of hotels decreased by around 20%. At the same time, the size of businesses increased by 26%.

A schedule published by Hotelleriesuisse (the Swiss Hotel Association) currently only includes hotel projects with lot sizes of over CHF 100m in Switzerland, and reports on major projects with a planned total volume of over CHF 8bn. It is still uncertain whether this remarkable pipeline will come to fruition: in addition to structural problems, the hotel industry also has to contend with the introduction of the secondary residences initiative. Hotel projects in Switzerland's holiday resorts were often subsidized by the sale of secondary residences as part of hybrid developments. However, as this funding source has dried up since the secondary residence initiative was introduced, alternative forms of accommodation such as serviced apartments are being considered instead of condominiums. It remains to be seen whether these can become viable financing alternatives.



All-encompassing Real Estate Advisory from one Source

In order to realize your chances, to optimize results and to minimize risks in the fragmented real estate markets you need to cut through complexity. KPMG Real Estate can provide an all-encompassing, interdisciplinary approach to support you as you face challenges arising from the wide-ranging factors influencing your real estate related business activities.

Please contact us on a non-binding basis with all real estate related questions you may have. We will put the team together that offers you the best solutions to meet your goals as your one-stop shop. KPMG provides you with local, national, international and global knowledge and expertise to enhance your success.

Don't hesitate to ask for our list of references!

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
- Debt advisory

Investment Advisory

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

Strategy/Organization

- Strategy development and implementation
 - Business planning/business modelling
 - 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
- Major Project Advisory

Valuation/Due Diligence

- DCF-valuation 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



Please contact us

KPMG AG

Advisory, Real Estate
Badenerstrasse 172
P.O. Box 1872
8026 Zurich

KPMG SA

Rue du Lyon 111
P.O. Box 347
1211 Genève 13

KPMG AG

Bogenstrasse 7
P.O. Box 1142
9001 St. Gallen

Ulrich Prien

Partner
Head of Real Estate Switzerland
T: +41 58 249 62 72
E: uprien@kpmg.com

Beat Seger

Partner
Real Estate M&A
T: +41 58 249 29 46
E: bseger@kpmg.com

Philipp Schelbert

Director
Real Estate
T: +41 58 249 77 59
E: pschelbert@kpmg.com

Oliver Specker

Senior Manager
Real Estate St. Gallen
T: +41 58 249 41 74
E: ospecker@kpmg.com

Arnaud de Montmollin

Manager
Real Estate Suisse Romande
T: +41 58 249 28 17
E: ademontmollin@kpmg.com

Alfonso Tedeschi, CFA

Assistant Manager
Real Estate Research
T: +41 58 249 28 83
E: atedeschi@kpmg.com

Editorial deadline: November 25, 2014

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2014 KPMG Holding AG/SA, a Swiss corporation, is a member of the KPMG network of independent firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss legal entity. All rights reserved. Printed in Switzerland. The KPMG name and logo are registered trademarks.