



# Swiss Real Estate Sentiment Index 2015

English Edition  
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## Foreword

### **And the mountain came to Mohammed!**

A year ago, we were standing on the banks of a river, watching the flow of attractive property offers running dry – and there we waited for Godot.

After climbing a long and steep path together, the players in the Swiss property market sat down to rest and waited for a stimulus in the market which would give them some guidance on how to move forward.

We thought it might take some time before a light would appear to point us in the right direction, but then it came quickly and unexpectedly: a decision!

On 15th January 2015, the Swiss National Bank (SNB) showed the way, setting a course for the future by abandoning its efforts to prop up the Euro/Swiss Franc exchange rate control. At the same time, the rate of interest payable on credit balances in current accounts exceeding a specified threshold was reduced to -0.75%. The target range for Libor moved further into negative territory, to -1.25% to -0.25%.

Unlike Francis Bacon's portrayal in his essay "of Boldness", there was no need for the prophet of property to go to the mountain in order to proclaim the tidings. No, the mountain came to him – without even being called!

Was this the stimulus which might give us guidance? It is tempting to see it that way, if one bears in mind the aggregated results of the 2015 survey for the Swiss Real Estate Sentiment Index. The respondents to that survey anticipated a clear change in direction for trends in investment property prices and their sentiment is positive for just about every region. Within one year, there was also a clear increase in investors' appetite for risk.



The SNB's decision has brought new momentum to market sentiment. However, a detailed analysis of our survey reveals a picture which will require the prophet to perform a difficult balancing act. Perceptions of economic prospects are much poorer. Nonetheless, it is anticipated that prices for property investments in the principal centres will show a clear upward tendency. Secondary centres are joining this trend. None of the respondents recognise a positive trend in peripheral areas. Investor pressure seems to be concentrated on investments in the residential sector, where a severe shortage of supply can be seen. A fall in prices is expected once again for commercial property investments, although it appears to be levelling out for office premises; this may be the result of corrections which have already taken place, together with revised yield expectations. Is the wheat now separating from the chaff? In any case, the discrepancies between locations and segments have widened further.

Are you ready for the balancing trick? Concentrate on your path to solid ground and test it from a safe distance. The Swiss Real Estate Sentiment Index (sresi®) means that you have an instrument to hand which gives you the foresight that you need to judge which direction to take. Move ahead after consulting and evaluating the opinions of valuers and investors, adapting your approach in anticipation of the future market trends.

We wish you interesting reading. Stay nimble, in case mountains begin to move again one day!



Ulrich Prien  
Partner, Head Real Estate Switzerland



Beat Seger  
Partner, Real Estate M&A





# **Swiss Real Estate Sentiment Index**

# Low interest rate environment invigorates real estate investments

Sentiment on the Swiss real estate investment market is moderately optimistic once again after two cautious years. The Price Expectation Index has risen significantly despite considerably more pessimistic assessments of future economic trends. This general ambivalence is attributable to both the scrapping of the minimum euro exchange rate and the introduction of negative interest rates. That is only one of the many findings of KPMG Switzerland's annual "Swiss Real Estate Sentiment Index".

The aggregate Swiss Real Estate Sentiment Index (sresi<sup>®</sup>) stands at 14.8 index points (pts.) for all participant groups, a considerable improvement of 20.1 pts. over the previous year. Sentiment on the Swiss real estate investment market is thus back in the positive range, albeit only slightly, after two cautious years. To a large extent, this is attributable to the sub-indicator "Price expectation for investment property". The Swiss National Bank's decision last January to abandon the minimum exchange rate and particularly the introduction of negative interest rates have given Swiss real estate a boost as an investment class.

## Price expectations uncoupled from economic prospects

At -45.2 pts., the survey participants' assessment of the economic situation is considerably more negative than it was in the previous year (10.1 pts.). Over half of

respondents anticipate a deterioration in the economy in the next twelve months. Meanwhile, the price indices for central locations (92.7 pts.) have risen further and a positive price trend is once again expected in medium-sized towns (14.5 pts.). Less than 3% of respondents expect to see prices drop for central locations, one fifth feel this way with regard to medium-sized towns. The Price Expectation Index for peripheral areas has dropped even further. This index currently stands at -77.7 pts., making it the fourth year in succession that it is in negative territory. This trend points to growing pressure on the yields generated by real estate in high-quality locations. Overwhelming pressure to invest is increasingly prompting investors to seek out investment properties with a higher risk level and this, in turn, could cause investment pressure to expand to medium-sized towns, as well.

## New record for residential investment properties

At 74.3 pts., the Price Expectation Index for residential properties has exceeded its previous record level of 73.4 pts. from 2012. Residential investment properties still remain the only use segment where price trends are expected to be positive. Strong demand for residential real estate as a "safe investment" is probably being driven in part by a persistent low interest rate environment and the accompanying lack of investment alternatives.

Expectations regarding the price trend for office properties saw another slight improvement; however, at -84.4 pts., the index is still in very negative territory. Survey participants anticipate further price adjustments in this use segment over the course of the next 12 months. After the situation had relaxed somewhat during the past year, a negative price trend is expected to return in the other commercial use segments (not including special-purpose properties).

Nearly stable price trends are anticipated once again for special-purpose properties, which have consistently improved over the past few years, albeit in very small upward steps. One interpretation of this trend is that special-purpose properties, for lack of any alternatives in the other use segments, are being accorded a certain amount of potential as an investment group. Increased price expectations for central locations are also reflected in the detailed analysis, which is broken down by financial center. The sub-index has risen for all eight centers. Except for the Lugano and St. Gallen regions, all survey participants now expect moderate price increases in all financial centers.

### Supply remains scarce

The availability of suitable investment properties to satisfy acquisition goals is unchanged from last year across all market segments. The major shortage of adequate offers already identified in the residential segment is expected to increase even

further. In the index, this is reflected in a decrease from -126.9 pts. last year to -136.0 index points in the current year. Supply in the commercial segment is considered adequate; however, respondents expect the supply of suitable investment options to improve slightly in the office (24.4 pts.) and commercial/industrial (9.1 pts.) market segments. A moderate shortage is anticipated for the retail (-9.0 pts.) and special-purpose property (-38.2 pts.) segments.

### Higher risk perception

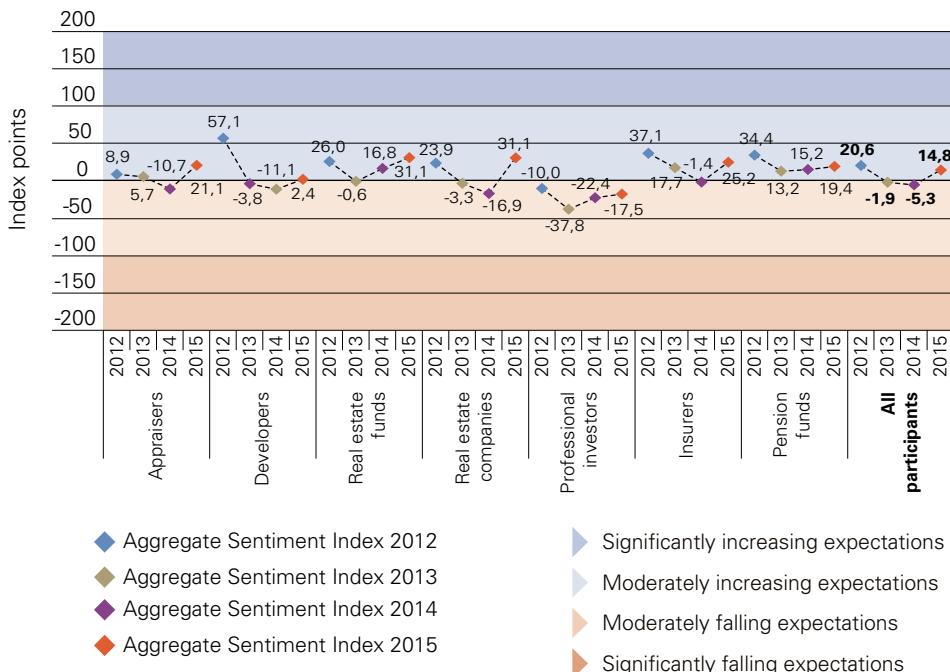
58% of participants expect market risk to increase over the coming 12 months. This corresponds to an increase of 8 percentage points since last year. As before, the effects of developments in Europe, interest rate risks and stricter regulations are identified as the greatest risk factors. While the assessment of the risk of a possible change in interest rates has increased compared to previous years, concerns regarding a further tightening of the regulatory environment are subsiding slightly. This reduction may be due to the fact that the industry has just recently been exposed to a number of regulatory measures.

Stricter regulations appear to be of concern to developers, professional investors and real estate companies, in particular. Nonetheless, 44% of investors are inclined to accept some greater element of risk in their real estate investments in the coming 12 months (last year: 29%).

# Swiss Real Estate Sentiment Index

Price boom continues

## Aggregated Sentiment Index<sup>1</sup> according to participant group



- The aggregated Swiss Real Estate Sentiment Index across all participant groups stands at 14.8 pts., which is a significant improvement of 20.1 pts. compared to last year. Sentiment in the Swiss investment market can once again be described as moderately positive, following two restrained years. This is due, in particular, to the Price Expectations for Investment Real Estate sub-index. The scrapping of the Euro/Franc exchange rate control by the Swiss National Bank (SNB) and introduction of negative interest rates on credit balances in current accounts (above a specified threshold) have generally given Swiss real estate new impetus as an asset class.

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

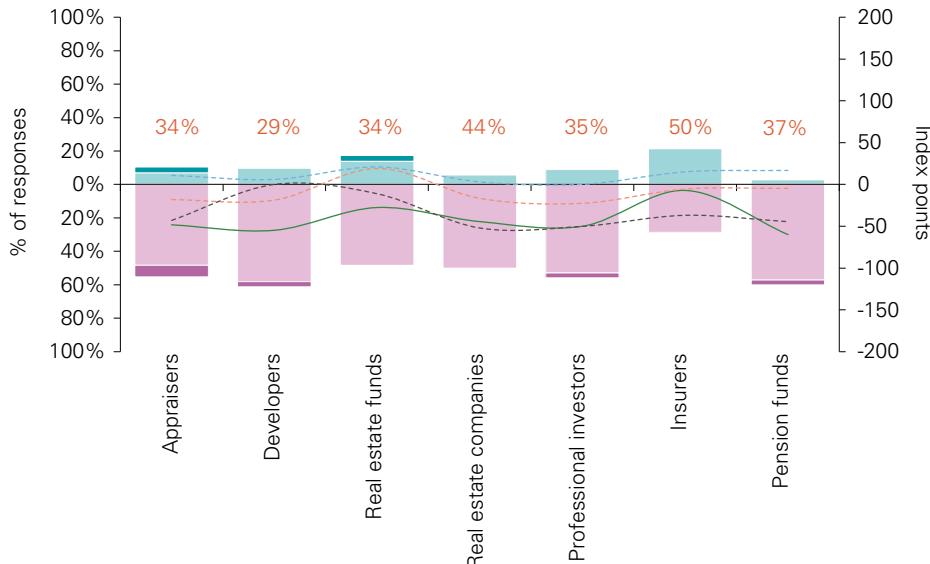


- Differences between the assessments of the various participant groups are slightly greater than last year, but remain relatively small. With an index of 31.1 pts., real estate funds and companies are both relatively optimistic. Professional investors were the most cautious in their responses with an index of -17.5 pts.

## Sub-index: Economic Conditions

Economic forecasts have deteriorated

### Assessment of economic conditions according to participant group

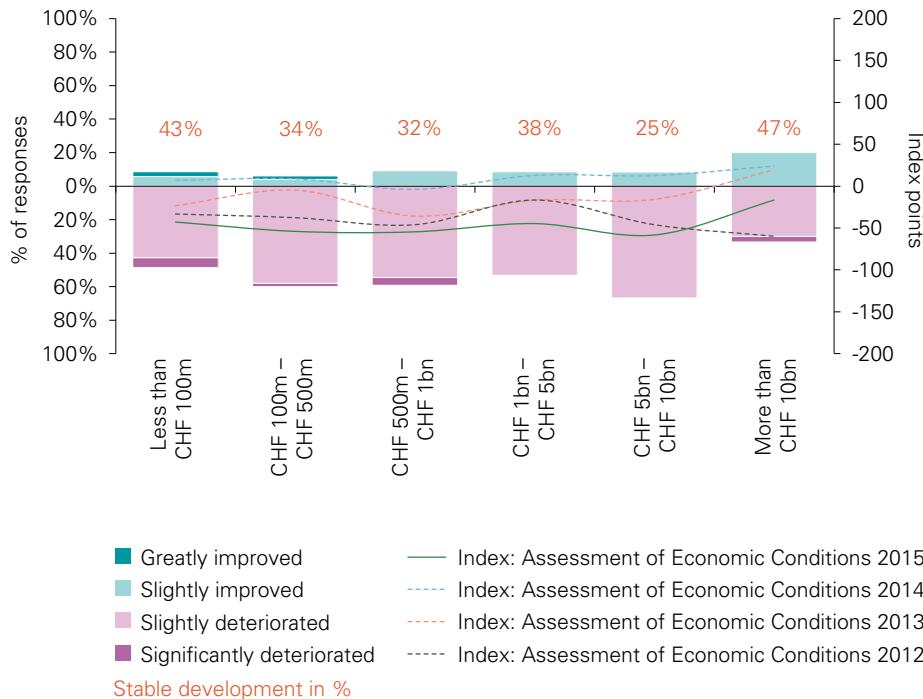


Sub-index	Index 2015	Index 2014
Economic conditions	-45.2 pt.	10.1 pt.

#### Note:

Please consult the reading aid for the charts on page 66 to 67.

### Assessment of economic conditions according to investment volume



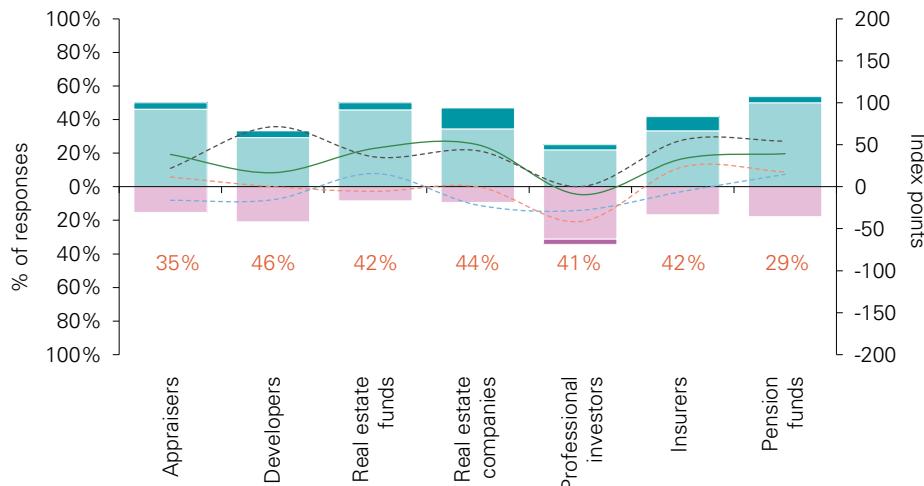
### The question: How will economic conditions in Switzerland develop over the next 12 months?

- At -45.2 pts. (last year: 10.1 pts.), survey participants were more pessimistic in their assessments of economic conditions than last year. Whilst in the 2014 survey, most participants anticipated stable trends, in the recent survey over 50% of participants expect economic conditions to deteriorate. Only 10% of all participants are optimistic in their assessments of trends (particularly investors handling investment volumes of more than CHF 10bn).
- The sub-index data is accompanied by the general deterioration in forecasts for the country's economic performance since the scrapping of the exchange rate control consensus forecast for the current year lies at 0.6%.

## Sub-index: Real Estate Price Trends

Further price rises expected

### Expectations for investment real estate prices according to participant group



Sub-index	Index 2015	Index 2014
Price expectation	29.8 pt.	-9.1 pt.

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

- The Price Expectation Index for all survey participants stands at 29.8 pts., which is much higher than last year (-9.1 pts.). After two years in succession during which the index was in the negative range, it now lies within the moderately positive bracket.
- Real estate funds in particular (45.8 pts./+30.0 pts. compared to last year) and real estate companies (50.0 pts./+71.9 pts. compared to last year) significantly adjusted their negative price expectations from 2014. Only the sub-index for professional investors lies just within the negative range at -9.3 pts., but close to the limit of stability.

### Price expectations according to investment volume

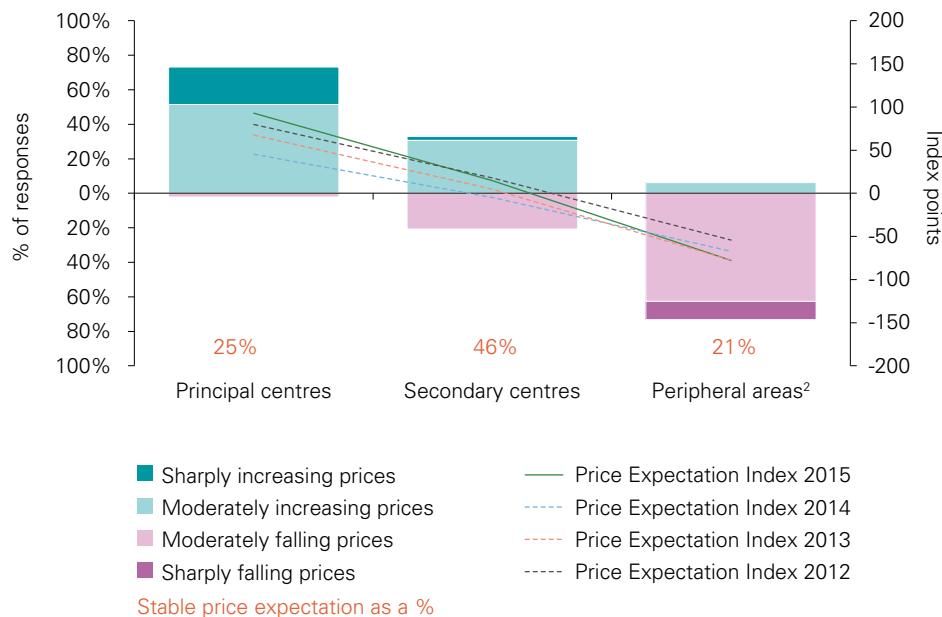


- Broken down according to investment volume, it is clear that survey participants handling an investment or appraisal volume of over CHF 1bn. expect much sharper price rises than those handling lower investment volumes.

## Sub-index: Development of Prices according to Location

Major gaps between the individual locations

### Expectations for investment property prices according to location



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

- The price indices for principal centres increased further (92.7 pts.) and there are once again expectations of a positive price trend in secondary centres (14.5 pts.). In principal and secondary centres, fewer than 3% and 20% of survey participants respectively expect prices to fall. Whilst expectations for secondary centres were for relatively stable price rises over the past 2 years (2014: -4.9 pts.; 2013: 4.6 pts.), expectations for 2015 have risen by 19.4 pts. to 14.5 pts. The Price Expectation Index for peripheral areas has fallen further and stands at -77.7 pts., therefore lying within the negative range for the fourth year in succession.

<sup>2</sup> Peripheral areas are defined as all locations outside of the principal and secondary centres.

Sub-indices	Index 2015	Index 2014
Principal centres	 92.7 pt.	45.1 pt
Secondary centres	 14.5 pt.	-4.9 pt.
Peripheral areas	 -77.7 pt.	-67.1 pt.

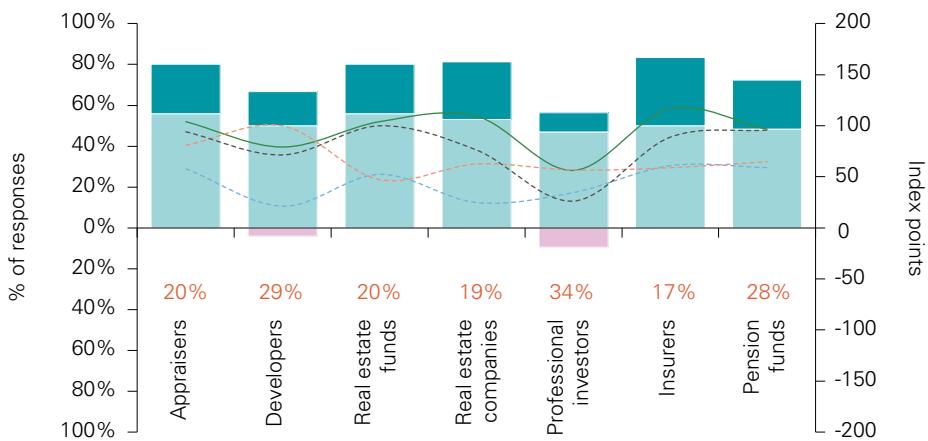
- Whilst expectations for price trends in principal and secondary centres have improved, assessments have deteriorated for peripheral areas. This trend is putting pressure on the yields of real estate in good locations. This underlying investment pressure is increasingly forcing investors to shift their attention to investment properties with a greater degree of risk, which means that the pressure to invest could now extend to secondary centres.

## Sub-index: Development of Prices according to Economic Location

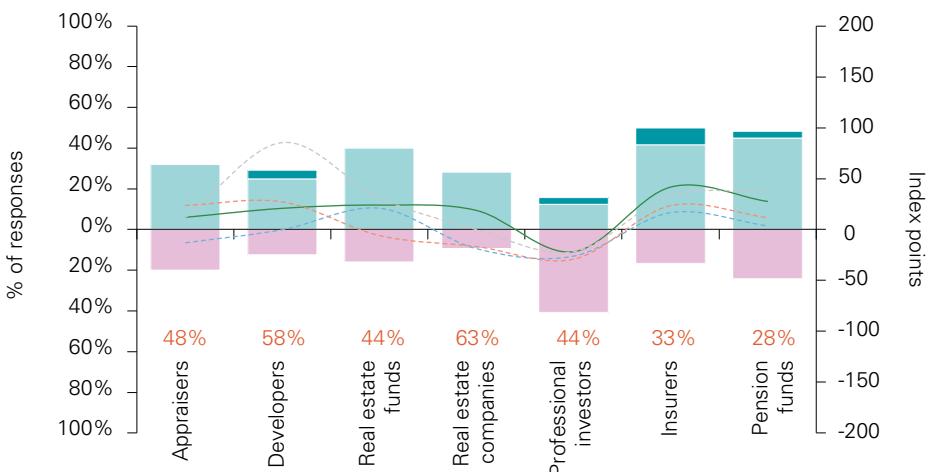
Analysis according to participant groups

### Expectations for investment property prices according to economic location

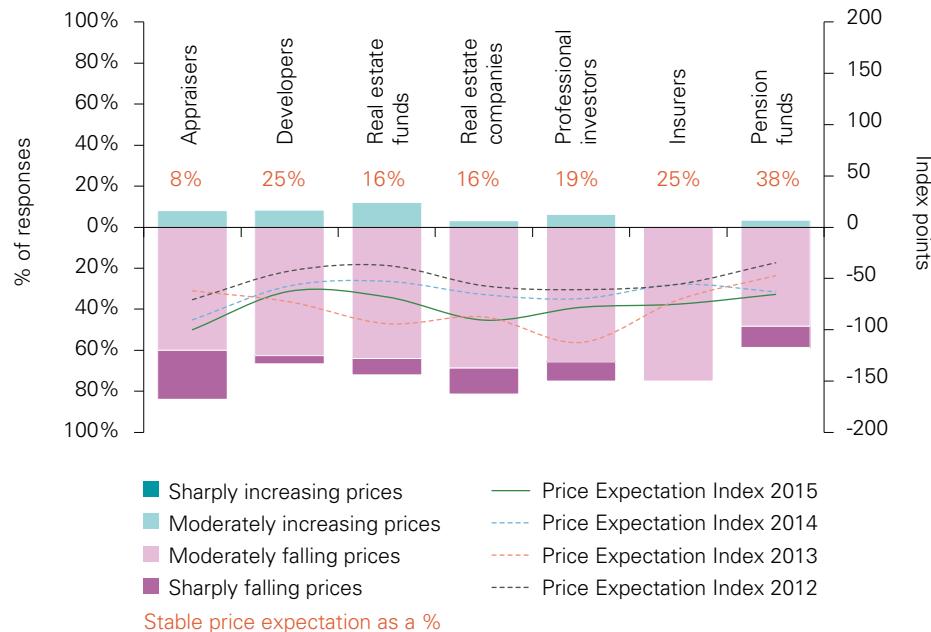
Principal centres (92.7 pt.)



Secondary centres (14.5 pt.)



## Peripheral areas (-77.7 pt.)



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

- Broken down between participant groups, the differences in the assessments of the individual locations are negligible in the current year's survey. The biggest price rises for principal centres are expected by insurers with an index of 116.7 pts. (last year: 61.1 pts.), ahead of real estate companies with 109.4 pts. (last year: 25.0 pts.).
- In the case of secondary centres, the price expectations of all participant groups have improved slightly since last year. The most optimistic are insurers with an index of 41.7 pts. (last year: 16.7 pts.) and pension funds with 27.6 pts. (last year: 3.7 pts.).
- Following a slight rise in the 2014 index, across all survey participants, price expectations for peripheral areas have once again fallen back to -7.7 pts. in this year's survey. All participant groups have revised their assessments downwards since last year.

## Sub-index: Development of Prices according to Real Estate Segment

Positive price expectations for residential real estate

### Expectations for investment property prices according to market segment



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

- At 74.3 pts., the Price Expectation Index for residential real estate surpassed its previous record level from 2012 (73.4 pts.). Residential investment is the only market segment with a positive price expectation. The recent strong demand for residential property, widely regarded as a "safe haven", is due to the sustained low interest rates on offer and therefore a lack of alternative investments.
- Price expectations for office real estate have also risen slightly again to -84.4 pts., although they remain resolutely in the negative range. Survey participants anticipate further price corrections in this real estate segment over the coming 12 months.

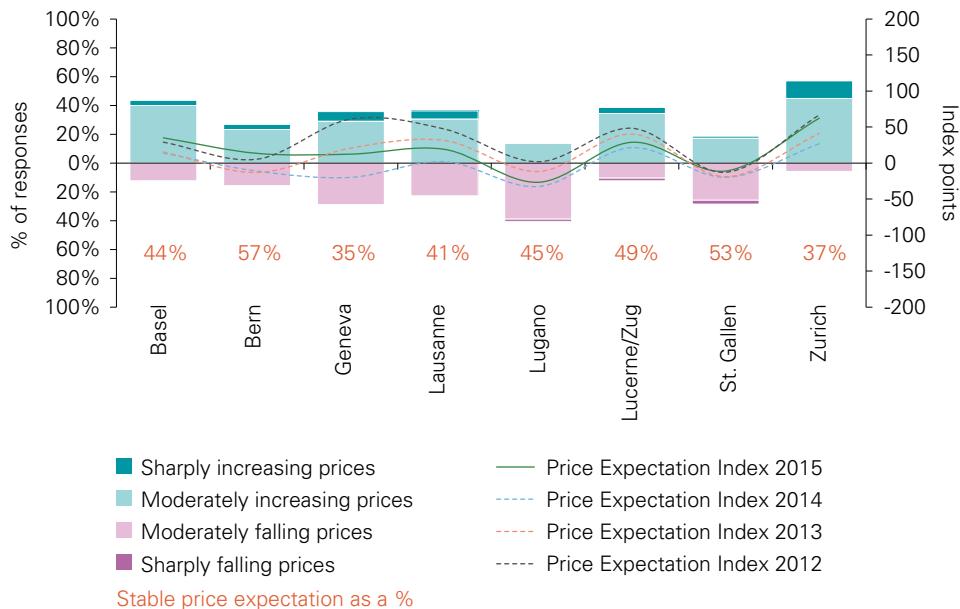
Sub-indices	Index 2015	Index 2014
Residential	↗ 74.3 pt.	43.9 pt.
Office	➡ -84.4 pt.	-101.8 pt.
Retail	➡ -72.5 pt.	-58.5 pt.
Commercial/industrial	➡ -63.5 pt.	-53.2 pt.
Special-purpose properties	➡ -4.1 pt.	-10.2 pt.

- Price trends in the other commercial real estate segments (excluding special-purpose properties) have returned to negativity after easing slightly last year. One of the contributors to this change is likely to be the scrapping of the exchange rate control on 15th January 2015. Retail property appears to be the hardest hit (-14.0 pts. compared to last year), as the current appreciation of the Swiss Franc is driving purchasing power into neighbouring countries. Expectations for the prices of special-purpose properties remain close to the limit of stability and have developed positively, albeit gradually, over the past few years. This trend could be because special-purpose properties are viewed as having some potential as an investment asset, given the lack of alternative investments in the other real estate segments.

## Sub-index: Development of Prices according to Economic Location

Positive price trends in most locations

### Expectations for investment property prices according to economic location



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

- The improved price expectations for principal centres are also reflected in the breakdown of the various economic locations. The sub-indices have risen in all eight locations. With the exception of the Lugano and St. Gallen regions, survey participants are expecting moderate price rises in all locations. The biggest change since last year is identified in Zurich and Geneva, Switzerland's two biggest cities.

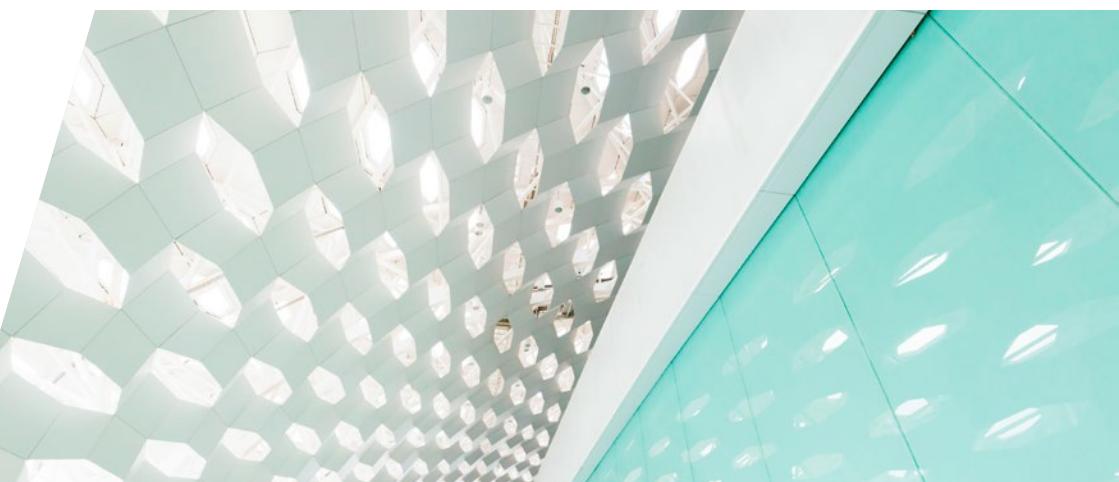
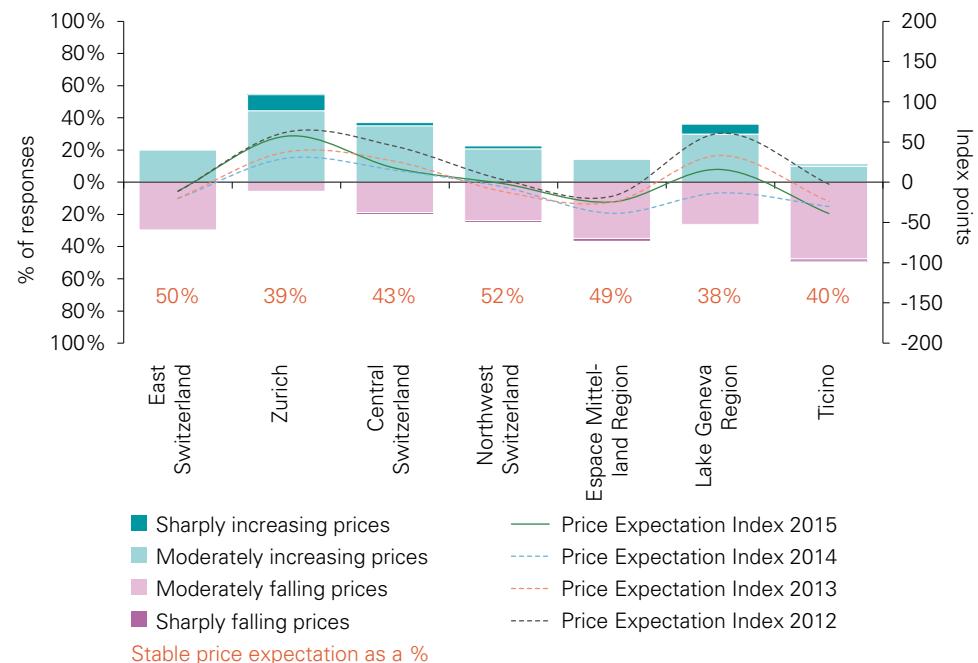
Sub-indices	Index 2015	Index 2014
Basel	→ 35.0 pt.	13.8 pt.
Bern	→ 13.4 pt.	-11.2 pt.
Geneva	↗ 12.3 pt.	-19.9 pt.
Lausanne	→ 19.0 pt.	2.0 pt.
Lugano	→ -26.7 pt.	-32.6 pt.
Lucerne/Zug	→ 28.8 pt.	21.4 pt.
St. Gallen	→ -11.1 pt.	-19.7 pt.
Zurich	↗ 62.2 pt.	26.8 pt.

- With an index of 62.2 pts. Zurich remains firmly in the lead, followed by Basel (35.0 pts.) and Lucerne/Zug (28.8 pts.). The index for Lugano was clearly in the negative range at -26.7 pts. and for St. Gallen with -11.1 pt., contrasting with expectations for Geneva, which again changed direction within the space of a year.

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

Positive price trends expected in the conurbations

## Expectations for investment property prices in the economic regions



Sub-indices	Index 2015	Index 2014
East Switzerland	→ -10.9 pt.	-20.5 pt.
Zurich	↗ 57.2 pt.	29.9 pt.
Central Switzerland	→ 17.6 pt.	14.9 pt.
Northwest Switzerland	→ -1.8 pt.	-6.0 pt.
Espace Mittelland Region	→ -24.5 pt.	-38.8 pt.
Lake Geneva Region	↗ 15.9 pt.	-13.3 pt.
Ticino	→ -38.9 pt.	-30.4 pt.

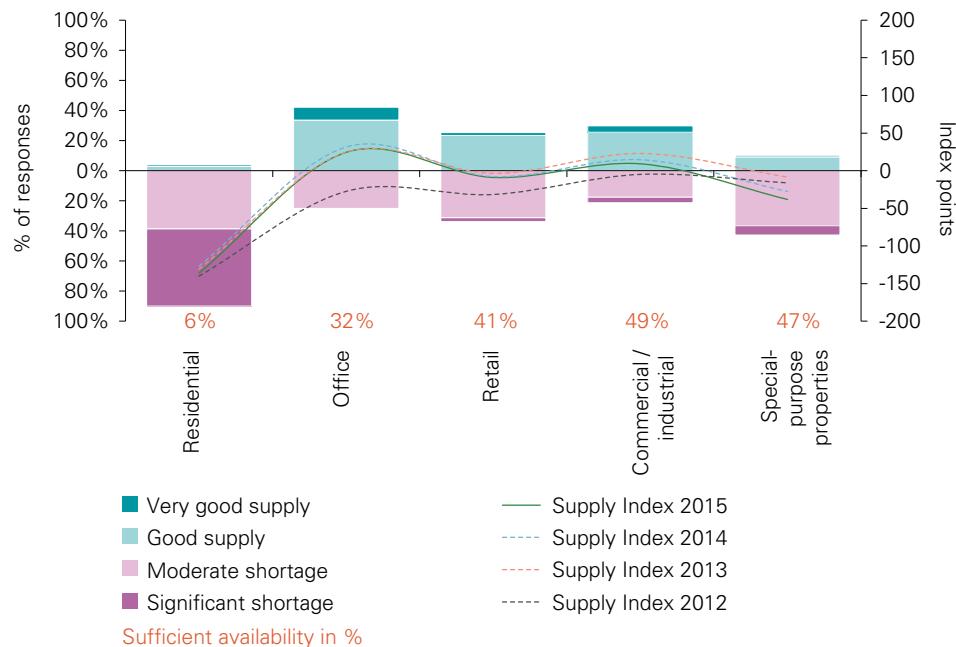
**The question: How will prices develop in the principal regions over the next 12 months?**

- With the exception of Ticino, there has been a positive change in all regions since last year. The biggest changes were noted for the Zurich (+27.3 pt.) and Lake Geneva (+29.2 pt.) regions. In view of the widening gap between the individual locations, major contributors to the improving price expectations are the conurbations in the two regions; with price expectations more moderate at a regional rather than a local level.
- Despite the overall improvement in price expectations, the assessments for the rural regions of East Switzerland (-10.9 pts.), Espace Mittelland (-24.5 pts.) and Ticino (-38.9 pts.) and, to a degree, Northwest Switzerland (-1.8 pts.), remain resolutely in negative territory.

## Sub-index: Availability of Suitable Investment Opportunities

Residential property segment – no easing on the horizon

### 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 / cashflows etc.) in satisfying your investment objectives?**

- The availability of suitable investment properties to satisfy acquisition targets is considered to be practically unchanged in all real estate segments since last year.
- The most significant shortage remains in the residential property segment with -136.0 pts. Here, the perceived shortage of suitable investment properties has even caused the index to decrease by 9.1 pts. since last year. Only 10% of survey participants consider the supply of residential real estate to be reasonable or improved. The shortage of residential property is reflected in the investment focus of survey participants and their price expectations.

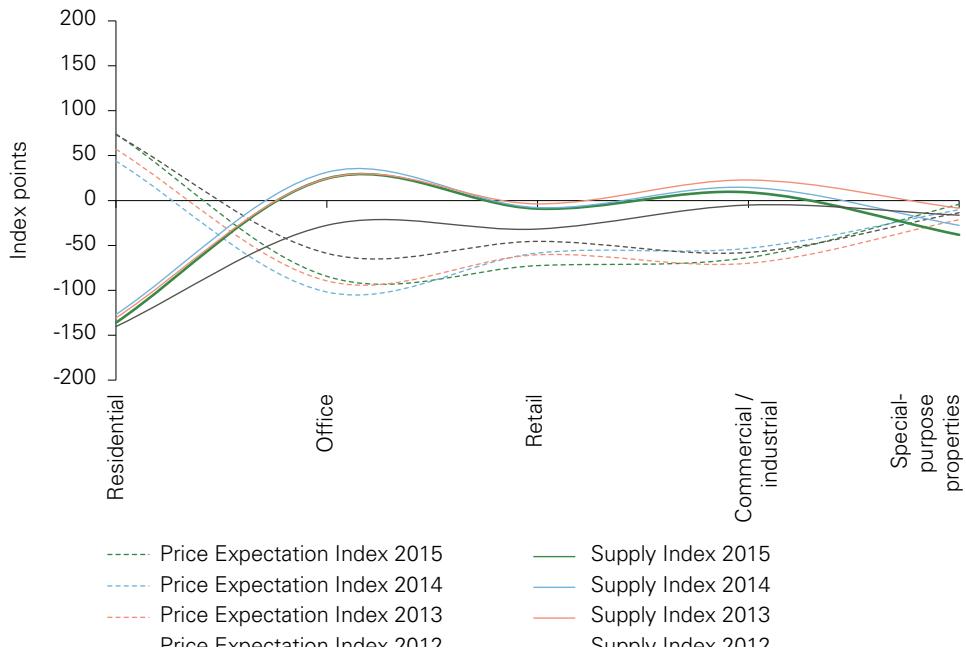
Sub-indices	Index 2015	Index 2014
Residential	➡ -136.0 pt.	-126.9 pt.
Office	➡ 24.4 pt.	31.4 pt.
Retail	➡ -9.0 pt.	-7.8 pt.
Commercial/industrial	➡ 9.1 pt.	14.6 pt.
Special-purpose properties	➡ -38.2 pt.	-27.6 pt.

- Overall, supply in the commercial segments is assessed as sufficient, at 24.4 pts. and 9.1 pts. in the office and commercial/industrial real estate segments which, although slightly more pessimistic than in 2014, is still considered reasonable. A moderate shortage is forecast in the retail and special-purpose properties segments.

# Swiss Real Estate Sentiment Index

Availability of investment opportunities and price expectations

## Anticipated real estate supply and price expectation indices according to real estate segment



- The comparison of the supply and price expectation indices produces a symmetrical graph, which confirms the logical link between the two indices. i.e. the lower the supply of suitable properties, the higher the price expectations. In the residential property segment in particular, the current supply is insufficient to satisfy demand, and in turn this will lead to a trend of rising house prices.



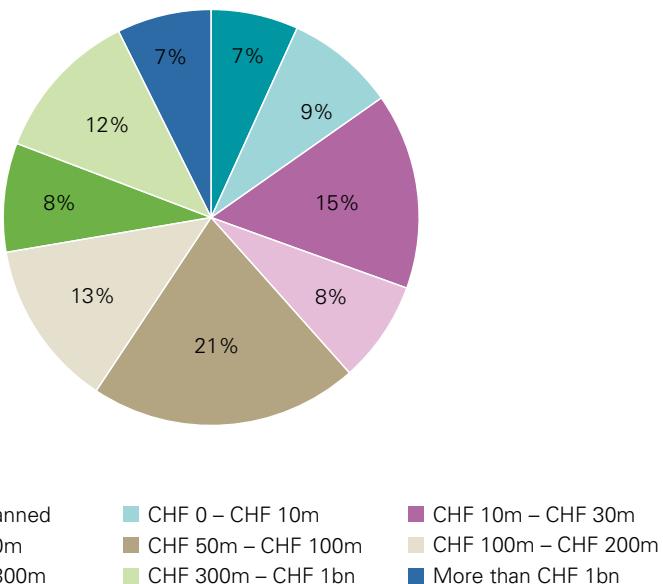


# **Investment Volumes, Preferences and Behaviour**

# Planned Acquisitions of Investment Real Estate

## Targeted acquisition of investment real estate

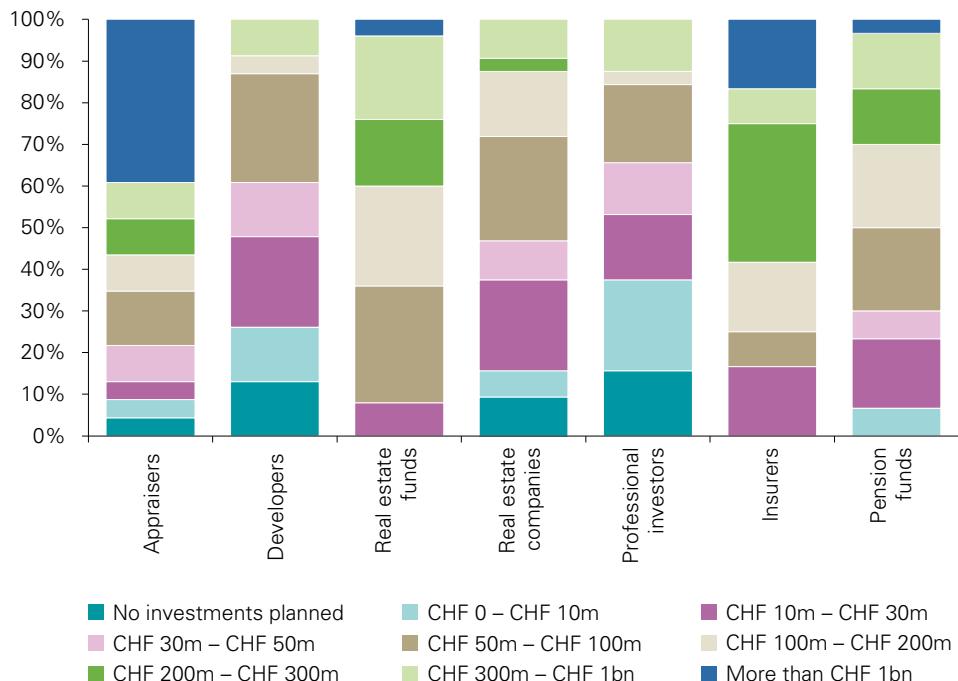
### Planned investment volume in CHF



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

- Survey participants' investment targets have changed only slightly since last year. 7% of participants advised that they had no plans to invest over the next 12 months; last year, 9% were not planning any acquisitions. 73% of respondents plan to invest less than CHF 200m.

### Investment volume in CHF according to participant group

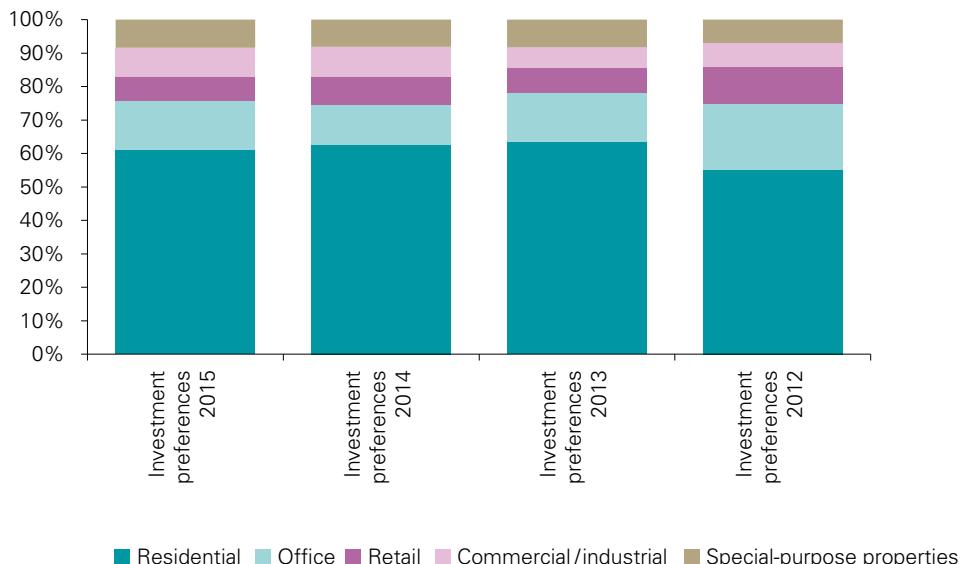


- Broken down between the different participant groups, most investment activity is expected to come from real estate funds, insurers and pension funds. In their roles as multi-asset investors, insurers and pension funds in particular are struggling with the low rates of interest on offer. The appeal of real estate investments is being boosted by the low returns from fixed rate securities and negative interest rates for cash positions. This pressure to invest is directly affecting real estate prices and acquisitions being planned by real estate funds. The funds are exploiting the current favourable time window to raise further new capital, having already raised over CHF 1.2bn of new capital by the end of August this year.

## Investment Preferences

High weighting of residential and low weighting of office real estate

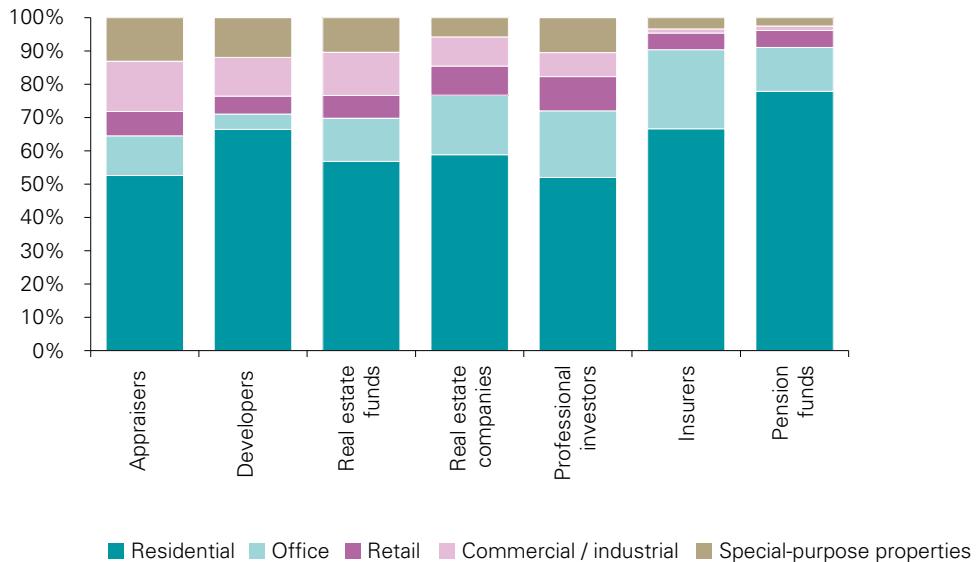
### Investment preferences



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

- In 2015, residential property as an investment preference remained practically unchanged at 61.2% of responses (last year: 62.5%) from survey participants. Investments in the office (14.6%, +2.5%-points) and special-purpose properties (8.4%, +0.3%-points) segments increased slightly at the expense of retail (7.25%, -1.2%-points), commercial/industrial (8.6%, -0.2%-points) and residential (-1.4%-points). This moderate shift within the commercial market segments is evident from the price expectations for these segments.

### Investment preferences according to investor group



- Broken down between the investor groups, it is evident that all groups would invest more than half of their wealth in residential property. At 77.9%, the strongest preference for investments in residential property was announced by pension funds. The lowest residential property investment quota was reported by professional investors (52.0%). This investor group also includes foreign investors who are barred from investing in residential real estate.

# Investment Preferences according to Location

## Zurich and Central Switzerland preferred

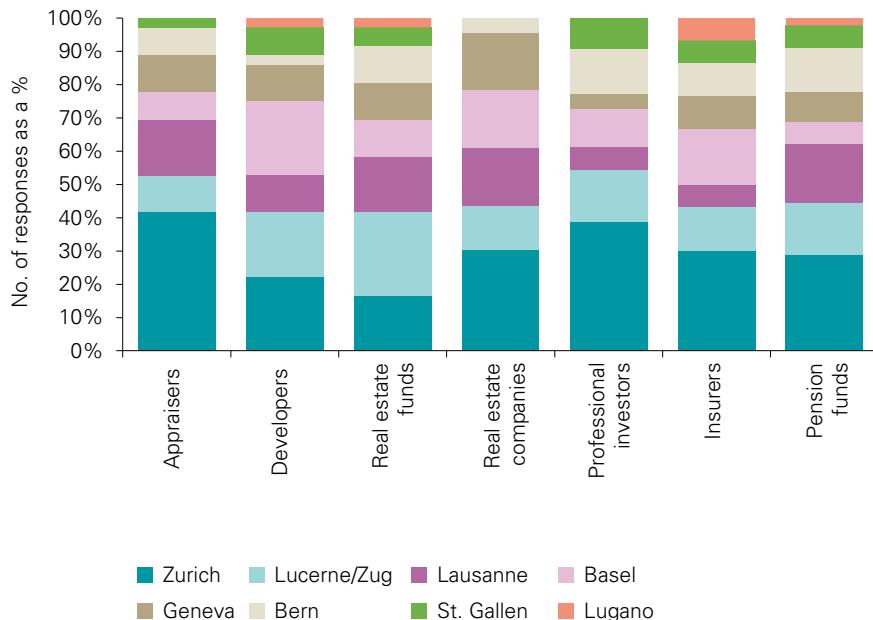
### Preferred investment locations according to investor group



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

- At 30.0%, Zurich has significantly strengthened its position as the preferred investment location, increasing by 5.7%-points compared to last year. Lucerne/Zug followed with 16.1%, although this location has lost 3.5%-points. Lausanne (13.6%) has overtaken Basel (13.2%) and now occupies third place.
- St. Gallen and Lugano are still preferred by the fewest investors. This assessment is reflected in investors' negative price expectations.

### Preferred investment locations according to investor group as a %

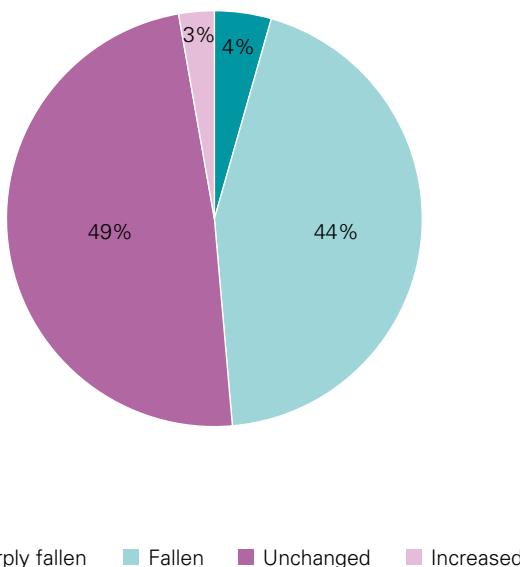


- Significant differences emerge in the breakdown between the various participant groups. For instance, only 16.7% of real estate funds prefer Zurich as an investment location and Lucerne is a favourite amongst the funds, receiving 25.0% of responses. Real estate companies' interest was focused on French-speaking areas of Switzerland.

## Yield Expectations

Scraping of the exchange rate control leads to lower yield expectations

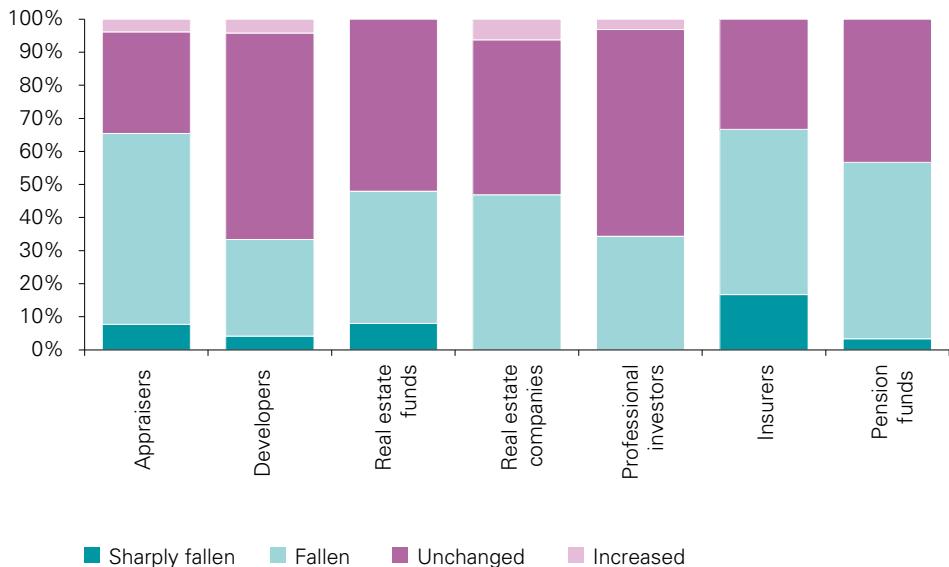
**Yield expectations after the scrapping of the exchange rate control**



**The question: When purchasing Swiss real estate, have your yield expectations changed as a result of the scrapping of the Euro / Franc exchange rate control by the Swiss Central Bank?**

- The SNB's scrapping of the exchange rate control prompted 48% of participants to reduce or sharply reduce their yield expectations for investment real estate. The sharp fall in interest rates is increasing the appeal (yield gap) of real estate investments. Pressure to invest, particularly in well-located properties, is expected to ease in the short to medium-term.

### According to participant group



- It is clear from the foregoing analyses that there are considerable differences in the assessments of the commercial real estate situation for between survey participants. An imbalance has built up in the Swiss office market in the form of an oversupply over the past few years and the resulting insecurity for commercial real estate will be further exacerbated by the scrapping of the exchange rate control. In view of the stagnating employment growth forecasts, a further downturn in demand for space can be expected, particularly from export-focused industries which are more price-sensitive. More attractive import prices from abroad may only partly cushion the currency shock. In the case of commercial real estate, the current situation is evident from the increased selectiveness of investors.

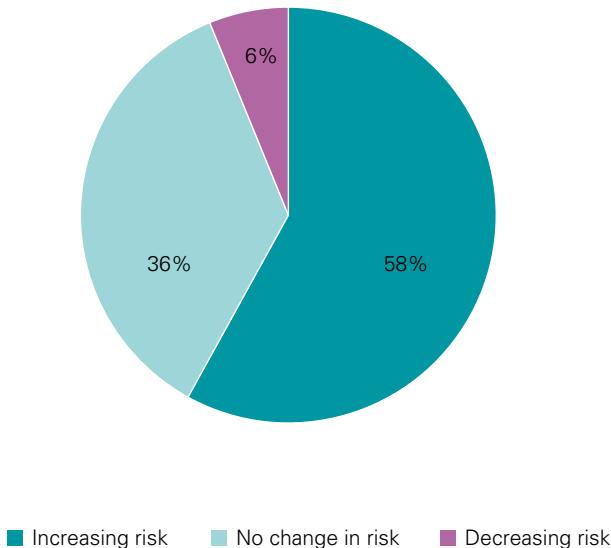


# **Risk Management**

## Risk Management

### Increasing assessments of risk

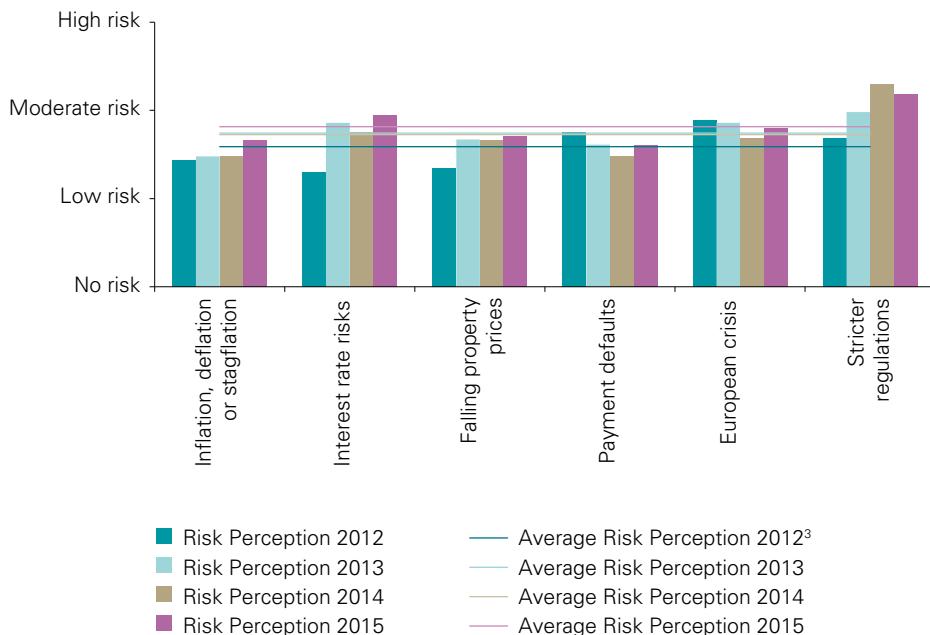
#### Assessment of market risk



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

- 58% of participants expect market risk to increase over the coming 12 months. This corresponds to an 8 percentage point increase since last year. Only 6% of participants expect risk to reduce and 36% of participants do not expect market risk to change.
- The general perception of higher risk is reflected in the individual risk factors. In five of the six risk factors, the assessment of risk has increased since last year. Only the risks associated with the introduction of stricter regulations are less critically assessed. This reduction is because the industry was already exposed to a number of regulatory measures in 2014 (mass migration initiative, increase in the anti-cyclical capital buffer and

## 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?

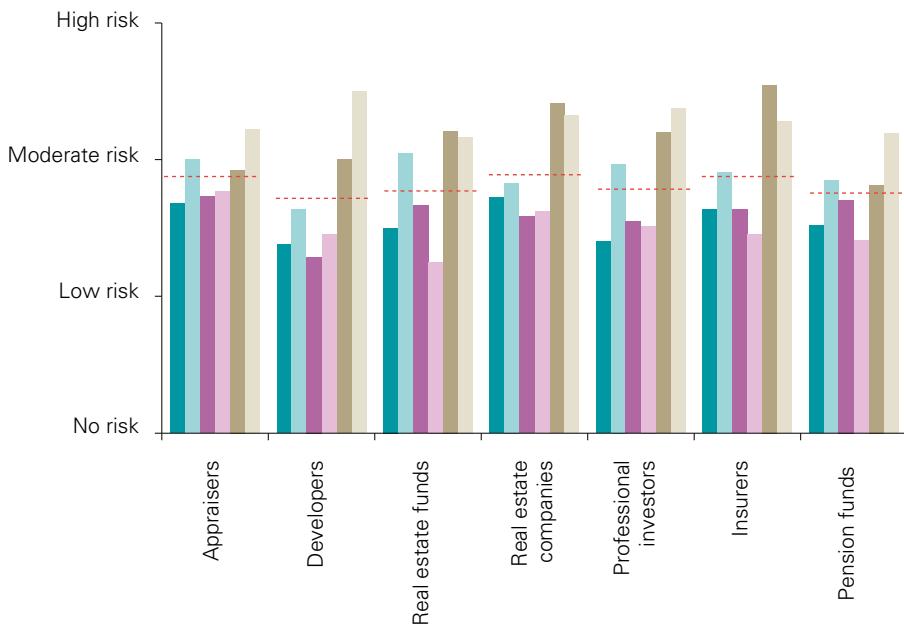
amendments to the voluntary self-regulation of banks in the case of mortgage lending). This year, from a regulatory perspective, investors will be confronted by the tightening of the Lex Koller regulations announced by the Federal Council in March 2015. The consultation process is expected to commence by no later than March 2016, but it is still unclear whether any changes will come into force. Increasing interest rates are perceived to be the second greatest threat and the assessment of risk has increased significantly since last year. Market participants are of the opinion that any rise in interest rates in the USA could pose a threat to the local real estate market.

<sup>3</sup> The average risk perception is mapped by the total weighting of all risk sub-indices.

# Risk Management

Real estate companies and insurers cautious

**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 affect the Swiss real estate investment market over the next 12 months?**

- There appears to be relatively broad consensus in the risk perceptions of the various participant groups. However, it is also clear that real estate companies and insurers perceive the current risk situation to be more significant than the other investor types. These participants assess the risk of the European crisis spreading to be particularly acute.
- Developers and insurers offer the most conservative assessments of the current risk. Increasing interest rates are acknowledged as the most significant risk factor, especially by real estate funds and appraisers. The position adopted by (listed) real estate funds

- Inflation, deflation or stagflation
- Interest rate risks
- Falling property prices
- Payment defaults
- European crisis
- Stricter regulations
- Average risk perception according to investor group



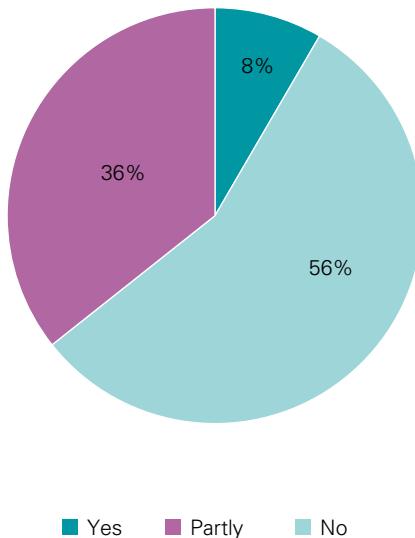
is explained by the sensitivity of their share prices to changes in interest rates. Most appraisers base their estimates of discount rates on changes in interest rates, with sharp rises in interest rates leading to a fall in property values. Consequently, falls in property prices are perceived to be a potential risk factor by appraisers.

- Stricter regulations appear to be concerning developers, professional investors and real estate companies. The latter in particular would be strongly affected by the general tightening of the Lex Koller regulations.

## Risk Management

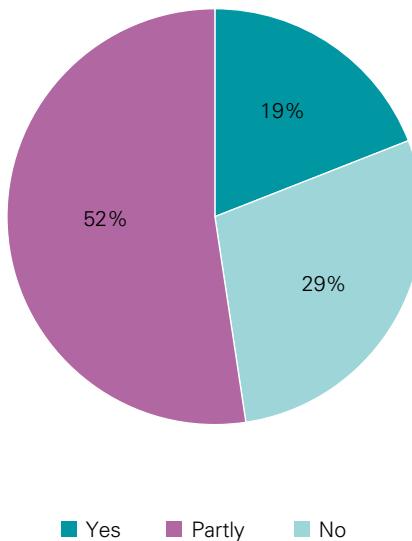
Inclination to take on risk increases despite higher assessment of risks

### 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?**

- 44% of investors are inclined to take on higher risks, to a degree, in their real estate investments over the coming 12 months (last year: 29%). In 71% of responses, appraisers reported a slight reluctance on the part of their clients to take on higher risks (last year: 41%).
- Year-on-year, the inclination of market participants to take on risk has increased relatively sharply, which can be explained by the current shortage of suitable property in the Core segment and the higher prices asked by sellers. This means that investors are also now considering properties with a higher risk profile.

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

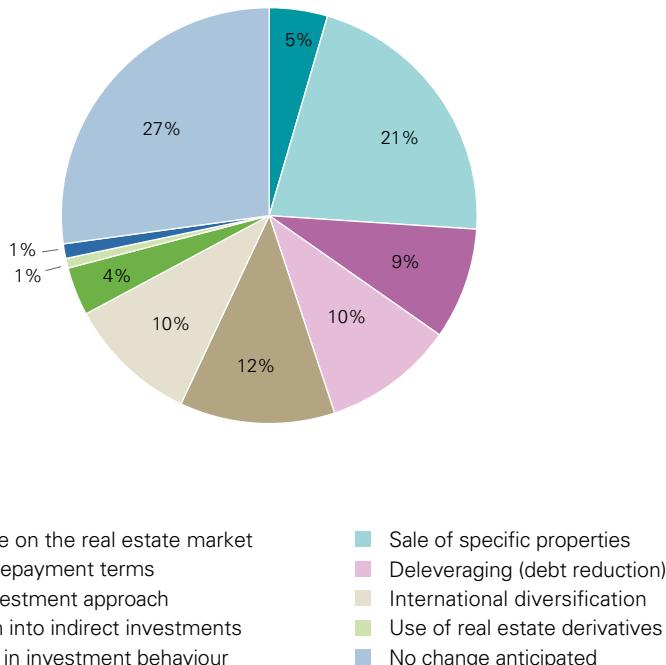
**The question: Are your clients more inclined to take on higher risk investments compared to last year?**

- The apparent contrast between the opinions of appraisers and investors can be grounded in behavioural economic theory.

# Risk Management

## Little change in investment behaviour

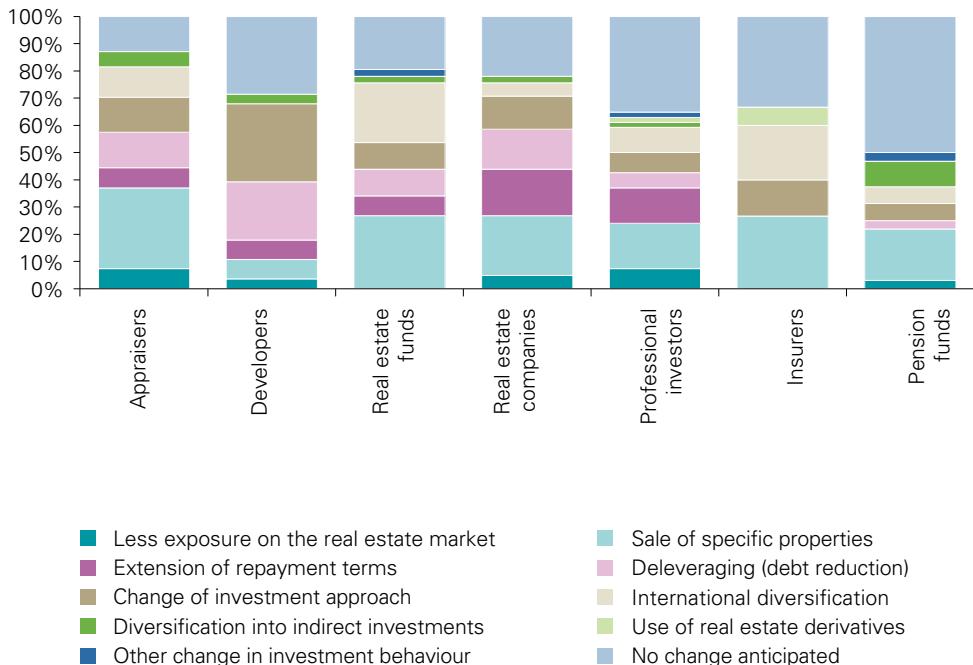
### Planned changes in investment behaviour / real estate allocation



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

- Maintaining current investment behaviour is once again the most frequently mentioned option, accounting for 27% of responses. This is followed by portfolio restructuring using selective divestments (21%); however, this option was less frequently named than last year (24%). In the past, many participants exploited the favourable market climate to dispose of investment properties which no longer fitted into their strategies.
- Diversification into indirect investments is an option being explored mainly by pension funds, as this also offers them the option of transferring their direct real estate portfolio into an investment foundation by means of an investment in kind; an average volume of

## Responses according to participant group



- Less exposure on the real estate market
- Extension of repayment terms
- Change of investment approach
- Diversification into indirect investments
- Other change in investment behaviour

- Sale of specific properties
- Deleveraging (debt reduction)
- International diversification
- Use of real estate derivatives
- No change anticipated

CHF 319m per annum has been transferred into investment foundations over the past five years. Another reason for the interest in this option could be that pension funds promise better access to investment properties by means of indirect investments.

- Similar to last year (2014: 8% and 2013: 6%), diversification abroad (10%) is playing a more significant role. The current appreciation of the Swiss Franc is increasing the appeal of foreign investments, with asset managers and insurers in particular looking to diversify abroad. On the other hand, it is surprising that very few pension funds are considering acquisitions in other countries.

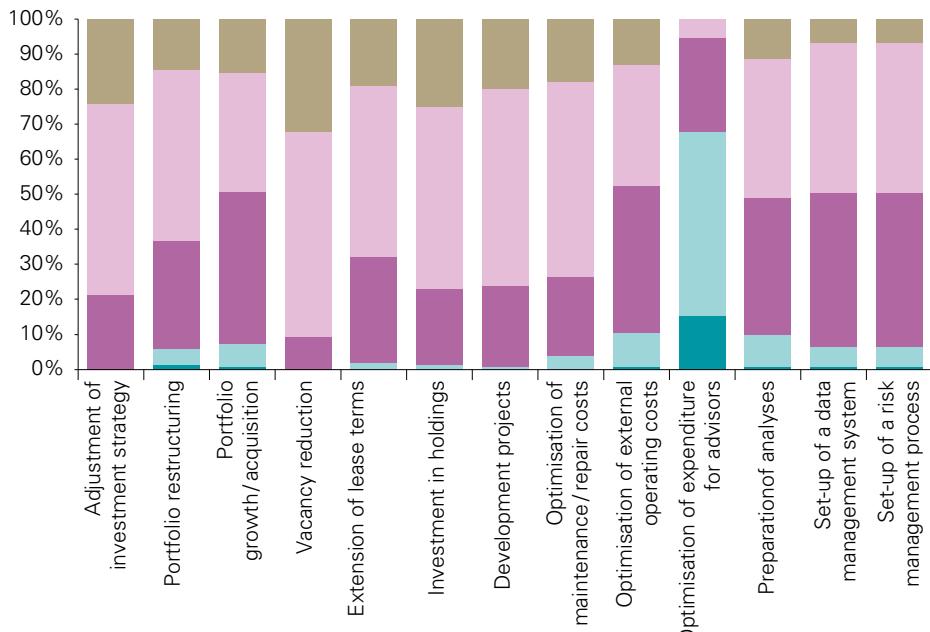


# **Portfolio and Asset Management**

# Portfolio and Asset Management

Reducing vacancy is increasing in significance

## Real estate asset management functions



**The question: Which asset / portfolio management activities do you consider to be particularly important in the current market climate?**

- In the current market climate, the reduction of vacancy is considered to be of the utmost importance (important: 32%; very important: 59%). The current oversupply situation means that the letting of office premises is perceived to be more difficult. In particular, active marketing with intensive occupier contact and the adoption of multi-channel strategies are playing a more significant role in the letting of office premises. Other factors include the extension of lease terms, which respondents noted as being next in their list of priorities.
- In this changing market environment, investors are also taking the opportunity to adjust or review their investment strategies (important: 55%; very important: 24%). However,

- Very unimportant
- Unimportant
- Neutral
- Important
- Very important



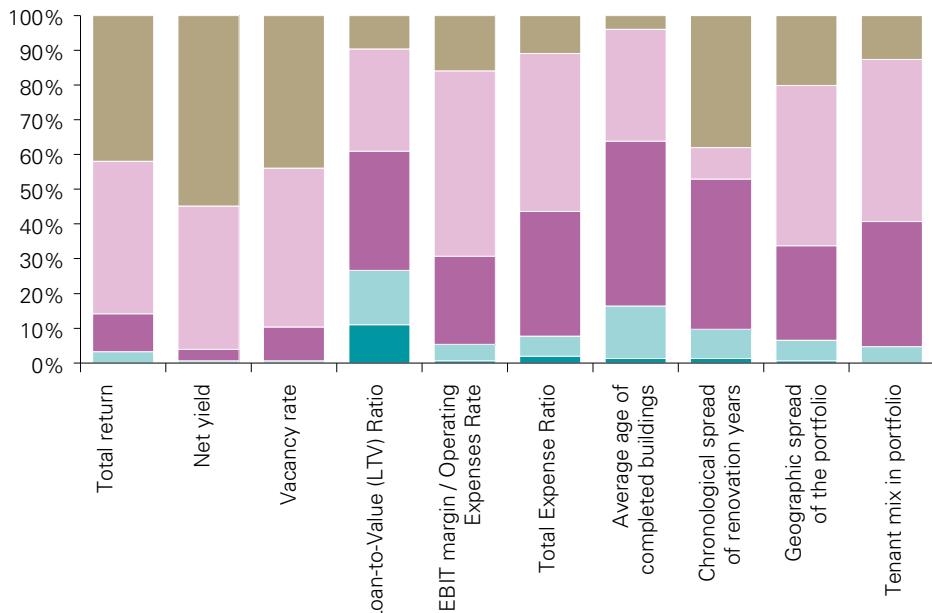
there is conflict between the three objectives (a "trilemma") of portfolio expansion, securing returns and maintaining a consistent risk profile. In some risk profiles, it is currently only possible to acquire investment properties with yields that are lower than those noted for existing properties in the portfolio. This is leading to a dilution of yields; a factor which must be considered in real estate strategies.

- Few participants considered portfolio expansion as being of considerable importance. Significantly more effort is being made to realise potential from the densification and extension of buildings, as well as through the optimisation of maintenance and repair costs.

## Portfolio and Asset Management

Net yield, total return and vacancy rate are the most important key indicators

### Statistics in the management of real estate portfolios



### The question: How important are the following key indicators / benchmarks to you when controlling / appraising a real estate portfolio?

- The net yield has been identified as the most important key indicator in the management and analysis of a real estate portfolio (important: 41%; very important: 55%). Almost sharing second place are the total return (rental and capital growth yields) and vacancy rate. By quoting the vacancy rate, it is clear from the foregoing that reducing vacancy is currently of upmost priority for market participants. Also highly placed is the EBIT margin/Operating Expenses Rate, which is one of the most important statistics in a business analysis and provides information on the ratio of net operating profit to rental income. It measures the efficiency of a real estate portfolio and is normally published for real estate funds, investment foundations and real estate companies.



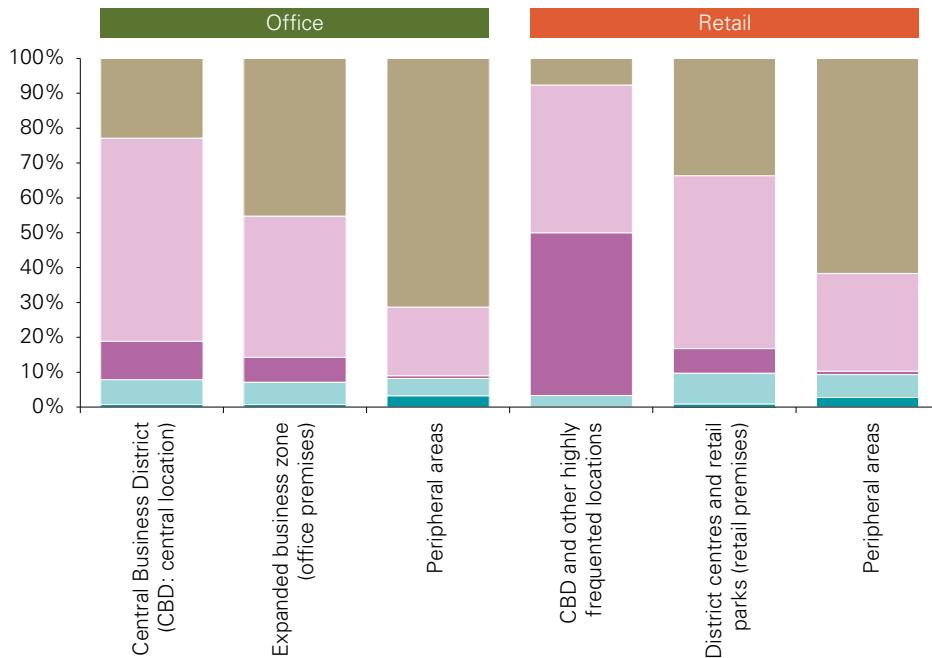
- Very unimportant
- Unimportant
- Neutral
- Important
- Very important

- The geographic spread of a portfolio and diversification at tenant level are also regarded as important factors. Of lesser importance are the average age of the completed buildings and the Total Expense Ratio. The LTV Ratio is also classified as secondary. Major investors in particular operate with a low LTV Ratio in Switzerland.

# Portfolio and Asset Management

## Significantly longer marketing periods

### Development of marketing periods



### The question: How have the marketing periods for the following commercial premises changed since last year?

- The survey participants were almost in consensus that marketing periods for commercial premises have lengthened significantly since last year. This trend is particularly pronounced in the case of office premises and peripheral areas. Over 90% of survey participants have reported a lengthening of marketing periods for office premises in peripheral areas (20% moderately longer and 71% significantly longer).
- Over 80% of survey participants were also of the opinion that there has been a moderate lengthening of marketing periods in principal centres, whereby the majority of participants (58%) have only observed a moderate lengthening of marketing periods.

- Much shorter
- Slightly shorter
- Unchanged
- Slightly longer
- Much longer

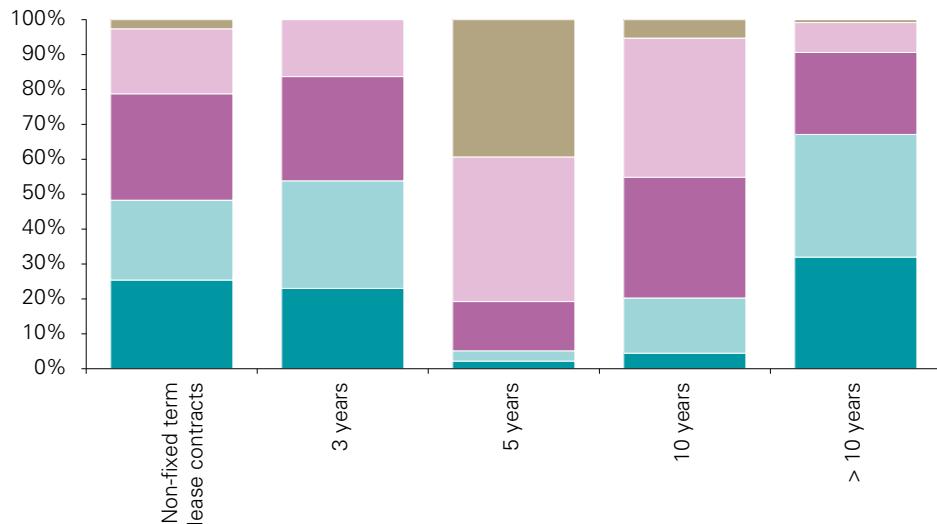


- In the case of retail premises, the trend of longer marketing periods is less pronounced. Here, there is a wide gap between highly frequented central and peripheral areas. Only around 50% of participants reported a lengthening of marketing periods for top locations, compared to 90% and therefore almost double the number for retail premises in peripheral areas; however, this was almost consistent with the findings for peripherally located office space. Retail premises in peripheral areas are particularly affected by the current appreciation of the Swiss Franc.

## Portfolio and Asset Management

5-year lease contracts the most common

### Standard terms for newly concluded lease contracts



**The question: Typically, what lease terms do you currently agree when letting commercial premises?**

- In the case of new lease contracts for retail premises, 5-year terms are common (frequently: 48.7% and very frequently: 44.9%). This is followed by 10-year lease contracts (frequently: 46.1% and very frequently: 5.9%). The majority of new lease contracts are concluded for these terms, with lease contracts of more than 10 years or less than 5 years tending to be the exceptions.

- Very rarely
- Rarely
- Sometimes
- Frequently
- Very frequently



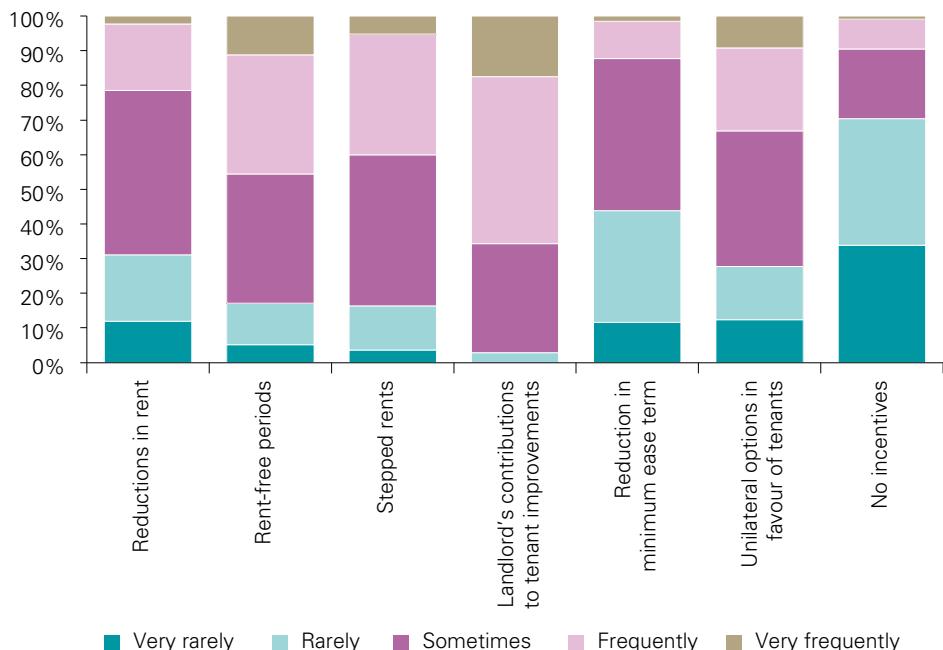
- The relatively short terms agreed when concluding commercial lease contracts are due to the current market climate and to more recent demands for modern workplaces. Current labour market trends such as home offices, outsourcing or shared workspaces mean that most companies are looking for a high degree of flexibility in the design of their lease contracts. This is resulting in shorter lease terms and unilateral break options in favour of tenants. The trend towards shorter lease terms is expected to intensify further with the imminent introduction of the new accountancy rules for tenancies<sup>4</sup>.

<sup>4</sup> [www.kpmg.com/uk/en/issuesandinsights/articlespublications/pages/lease-accounting-a-revolution-on-the-balance-sheet.aspx](http://www.kpmg.com/uk/en/issuesandinsights/articlespublications/pages/lease-accounting-a-revolution-on-the-balance-sheet.aspx)

# Portfolio and Asset Management

## Open to incentives

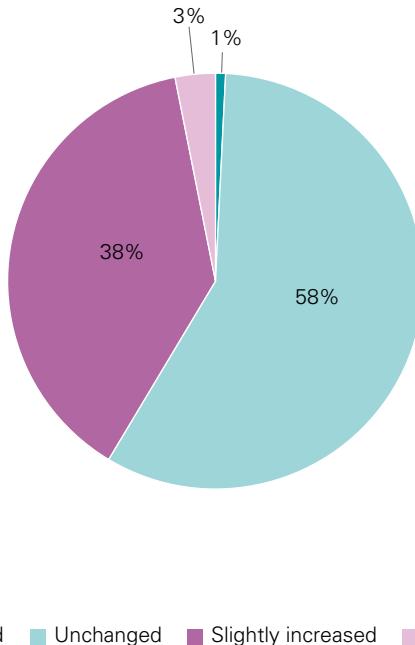
### Lease contract incentives



### The question: What incentives do you grant when letting commercial premises?

- In the current market climate (tenant market), landlords tend to draw on a broad spectrum of incentives when letting commercial space. The incentive most commonly offered by landlords is the contribution towards the cost of tenant improvements (frequently: 48.2% and very frequently: 17.5%). This is followed by rent-free periods (frequently: 34.3% and very frequently: 11.2%). The length of rent-free period offered depends on the type of property and lease term. Stepped rents, which involve the rent being gradually brought up to market rental level, follow in third place (frequently: 34.8% and very frequently: 5.2%).

### Trends in the inclination to grant incentives



#### The question: Has your willingness to grant incentives when letting commercial premises changed since the scrapping of the Euro / Franc exchange rate control by the Swiss National Bank?

- A rent reduction is frequently or very frequently offered in only 21.5% of cases. This is because landlords wish to avoid the effect that a lower contractual rent would have on a valuation. The other incentives have little long-term impact, which is why rents of commercial premises are not coming under significantly more pressure irrespective of the current oversupply.
- The SNB's scrapping of the exchange rate control has led to a partial increase in landlords' inclination to grant incentives. 41% of respondents admitted that their inclination to grant incentives had increased moderately.



# Methodology

# Methodology

## Qualitative indices

Indices are generated from a [qualitative survey of experts](#) consisting of real estate investors and appraisers of investment properties in Switzerland.

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 price trends in the Swiss real estate investment market.

The objective of qualitative statistics is to determine subjective benchmarks. Similar to quantitative statistics which record actually definable benchmarks, they are also helpful in explaining and forecasting economic relationships and trends. They also have a [strong forecasting character](#), especially in real estate investment markets dominated by a relatively small number of market players such as Switzerland.

## Representativeness

[212 people](#) took part in the 2015<sup>5</sup> survey. The participant group comprised 183 investor representatives and 29 appraisers of investment properties, and covered all important investor groups. The size of the samples means that the survey was able to provide representative responses to the current expectations of market players.

## Indices

The participants responded to seven questions posed, 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%



## Aggregated Swiss Real Estate Sentiment Index

A [sub-index](#) was created from the responses to each of the [seven questions](#) posed, which permitted detailed responses on anticipated economic conditions and price trends split between location, use, city and region. The last sub-index illustrates the assessment of the available real estate supply for investors.

## Sub-indices

3. Price trends in the real estate market according to location
4. Price trends in the real estate market according to use segment
5. Price trends in the real estate market according to major economic centre
6. Price trends in the real estate market according to economic region
7. Availability of investment properties

<sup>5</sup> The 2015 survey took place between 30 June 2015 and 24 August 2015.

### 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 <sup>6</sup>	Product	Index
Sharply 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
Sharply falling prices	1	-2	-2	-20
<b>Total</b>	<b>10</b>	-	<b>6</b>	<b>60</b>

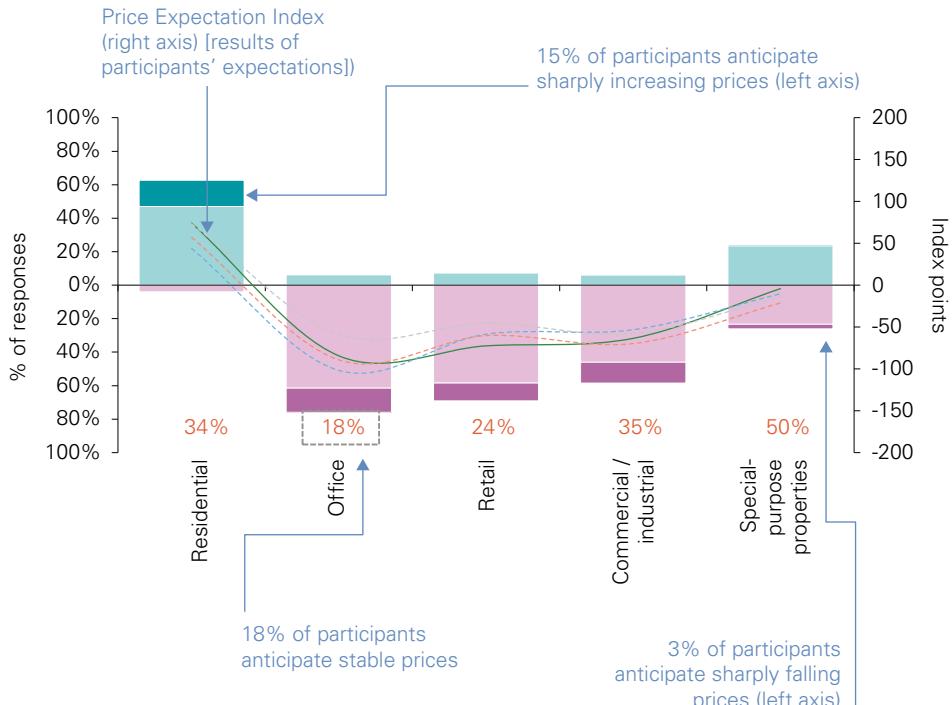
$$= \frac{100 \times 6}{10}$$

<sup>6</sup>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 products 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



- Sharply increasing prices
- Moderately increasing prices
- Moderately falling prices
- Sharply falling prices

Stable price expectation as a%

- Price Expectation Index 2015
- Price Expectation Index 2014
- ... Price Expectation Index 2013
- .... Price Expectation Index 2012

Sub-index	Index 2015	Index 2014
Price Expectation	 -X pt.	-Y pt.

### Price trends over the 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

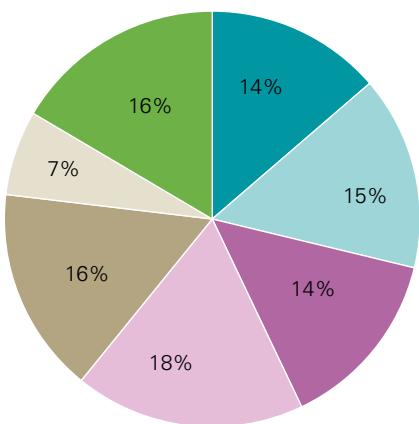
#### Important:

in order to avoid confusing the reader, stable price expectations (nil weighting) are not illustrated.

# Methodology

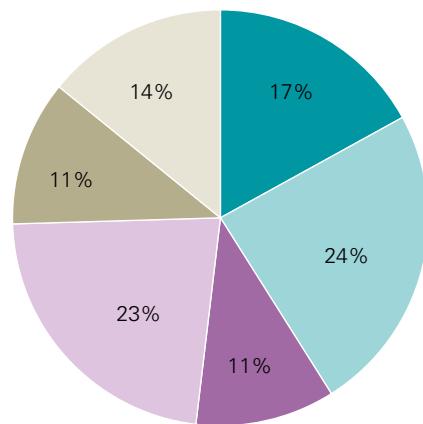
## Survey Participants

**Participants according to type of activity**



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

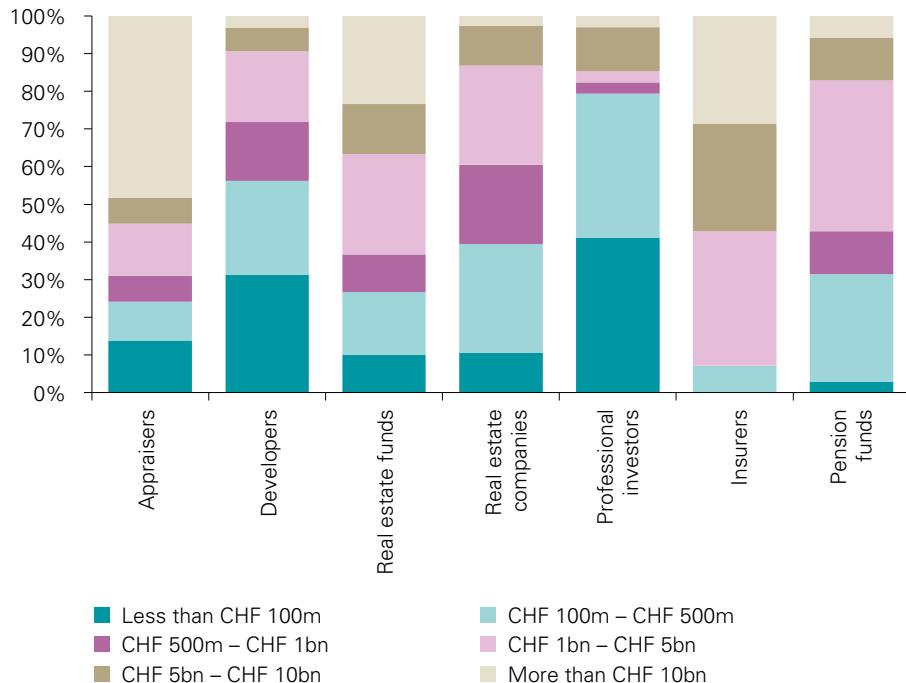
**Participants according to investment and valuation volumes in CHF**



- Less than CHF 100m
- CHF 100m – CHF 500m
- CHF 500m – CHF 1bn
- CHF 1bn – CHF 5bn
- CHF 5bn – CHF 10bn
- More than CHF 10bn

- The following groups took part in the survey: appraisers (14%), real estate companies (18%), pension funds (16%), professional investors (16%), real estate funds (14%), insurers (7%) and developers (15%). 55% of the participants represented institutional investors, and the rest consisted of appraisers, developers and professional investors.

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



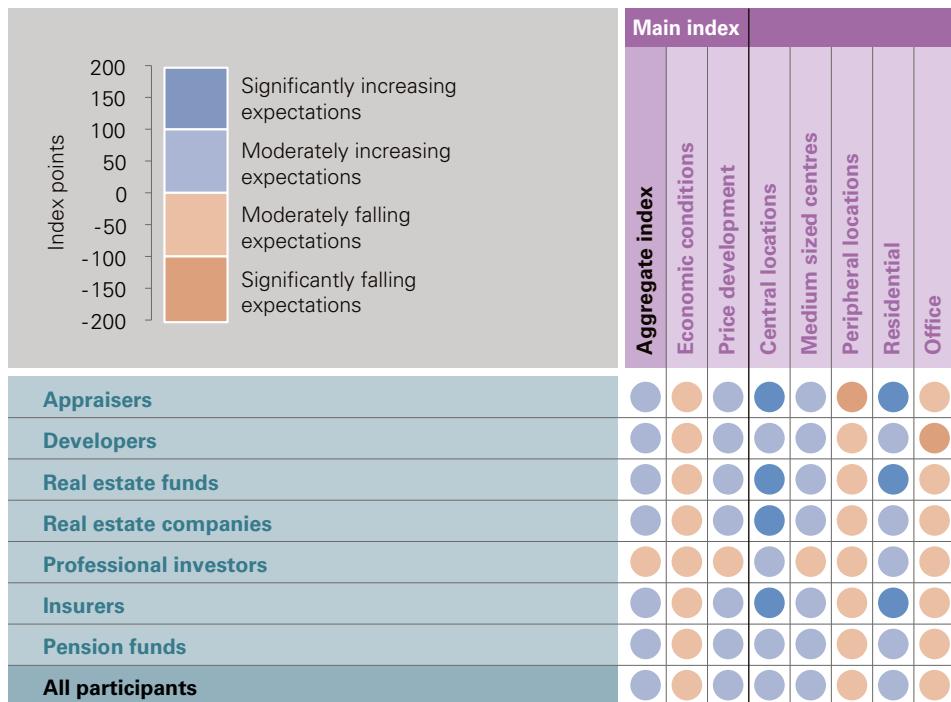
- Almost half of the participants (48%) handled investment and valuation volumes of more than CHF 1bn.
- 41% of the participants handled investment and valuation volumes of less than CHF 500m. Professional investors and developers in particular belonged to the group which handled relatively low investment volumes.



# Management Summary

# Summary

## KPMG Swiss Real Estate Sentiment Matrix





# Summary

## Key conclusions

- The aggregated Swiss Real Estate Sentiment Index across all participant groups stands at 14.8 pts., which is a significant improvement since last year (up 20.1 pts.). Optimism appears to have returned to the Swiss real estate investment market after two restrained years. This is particularly evident from the Price Expectation Index sub-index.
- At -45.2 pts., survey participants assessed economic conditions with considerably more pessimism than last year. It is also the lowest index level recorded since the survey began. Whilst most participants expected trends to remain stable at the time of the last survey, in 2015 over 50% of respondents are now expecting conditions to deteriorate.
- The Price Expectation Index for all survey participants stands at 29.8 pts., which is much higher than last year (-9.1 pts.). The index now lies within the moderately positive range after two years in succession during which it was in negative territory.
- Price indices for principal and secondary centres (92.7 pts. and 14.5 pts. respectively) also increased in 2015. Whilst in the past two years, relatively stable price trends were expected for secondary centres (2014: -4.9 pts./2013: 4.6 pts.), in 2015, expectations increased by 19.4 pts. to 14.5 pts. Price expectations for peripheral areas contrast with those for principal and secondary centres, falling again slightly to -77.7 pts. and therefore lying in the negative range for the fourth year in succession. This conflicting trend points to a further widening of the price gap between the individual locations.
- At 74.3 pts., the Price Expectation Index for residential property has exceeded its previous record level in 2012 (73.4 pts.). Residential investment is the only market segment with a positive price expectation. The recent strong demand for residential property is due to the sustained low interest rates on offer and therefore a lack of alternative investments.
- Price expectations for office property have also increased slightly; however, at -84.4 pts. (last year: -101.8 pts.), they continue to lie significantly within the negative range. Survey participants are therefore anticipating price corrections for this cyclical market segment over the coming 12 months.
- The increased price expectations for the principal centres are also reflected in the breakdown of the individual locations, with the sub-index rising in all areas. With the exception of Lugano and St. Gallen, survey participants are once again anticipating price rises throughout the country.
- The most severe shortage of suitable investment properties has been identified in the residential property segment at -136.0 pts. Compared to last year, the shortage of suitable investment properties has led to a deterioration in the index of -9.1 pts. In general however, supply in the commercial segments

is regarded as reasonable. On the other hand, supply in the office and commercial/industrial market segments is considered to be lower than in 2014, at 24.4 pts. and 9.1 pts. respectively, but still reasonable. A moderate shortage was identified in the retail and special-purpose property segments.

- 58% of participants expect market risk to increase over the coming 12 months. This corresponds to an 8 percentage point rise year-on-year, and the generally greater risk assessment is also reflected in the individual risk factors. Risk assessments have increased in five of the six risk factors since last year. Only the introduction of stricter regulations is considered less critically than before.
- 44% of investors (last year: 29%) are inclined to accept a greater element of risks in their real estate investments over the coming 12 months. Appraisers also suggest that their clients have marginally more appetite for risk. In general, market participants are showing a greater inclination to take on risk than in previous years. This can be explained by the current limited supply of property in the Core segment and by the higher price expectations of sellers. This is prompting investors to turn their attention to real estate with a greater risk profile.
- Much emphasis is being placed on reducing vacancies in the current market climate. Active marketing with intensive client/tenant contact and the adopting of multi-channelling strategies are proving

to be essential to secure lettings of office premises.

- Survey participants are in broad consensus that marketing periods for commercial properties have lengthened considerably over the past year. This trend is particularly evident in the case of office property in peripheral areas. Over 90% of survey participants reported that marketing periods for office premises in peripheral areas are longer (20% slightly longer and 71% much longer).
- In the case of new leases of commercial real estate, most contracts are concluded for 5-year terms (frequently: 48.7% and very frequently: 44.9%). This is followed by 10-year lease contracts (frequently: 46.1% and very frequently: 5.9%). As most new leases are concluded with these fixed terms, contracts of more than 10 years or less than 5 years are becoming the exception.
- When letting commercial premises, the current market climate (occupier-driven market) means that landlords are having to draw on a wide range of incentives. Landlords often opt to contribute to the cost of tenant fitouts (frequently: 48.2% and very frequently: 17.5%). This is followed by the provision of rent-free periods (frequently: 34.3% and very frequently: 11.2%); the length of the rent-free period offered depends greatly on the type of property and lease term. A rental reduction is offered in only 21.5% of cases frequently or very frequently. This is because landlords wish to avoid the effect that a lower contractual rent would have in a valuation.

# Historical Property Performance Trends

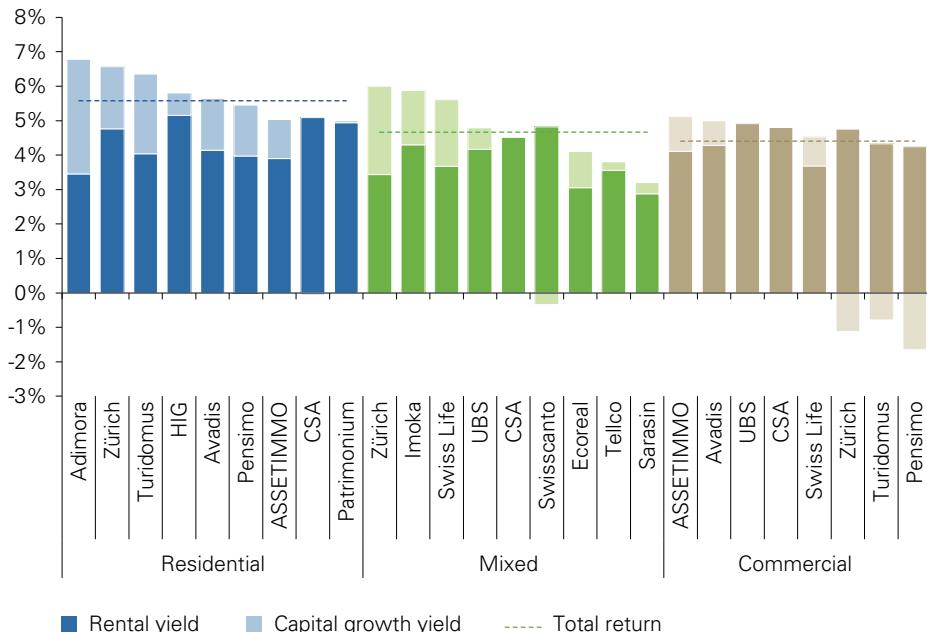
## Investment property performance trends in Switzerland



Source: IPD, KGAST and KPMG Real Estate

- In 2014, the IPD total return across all real estate segments was 5.3%. Whilst the net rental yield has remained very stable at 4.3%, the capital growth yield decreased to 1.0%. This means that overall performance lies 70bps below last year's level. Total return has been falling across all real estate segments for the past 3 years. The best performance was once again noted in the residential property segment. The total return lies at 6.1%, which is a fall of 40bps since 2013. The performances of retail and office real estate remained steady at 5.3% and 4.2% respectively. On the commercial side, there was a slight fall in figures reported.

## Performance of real estate investment foundations



- Over the past year, real estate investment foundations have registered a total return of 5.1% (the KGAST index). In 2013 and 2012, total returns were much higher at 5.7% and 6.5% respectively. The best performance was registered by investment foundations with a focus on residential property (5.6%). This was followed by mixed investment vehicles and commercial investment foundations, with performances of 4.7% and 4.4% respectively. These variations in total return are also due to differences in capital growth yields rather than rental yields.

## Biggest Swiss Real Estate Transactions in 2015<sup>7</sup>



Source: RCA

<sup>7</sup> This Real Capital Analytics data is a good indicator of the most important transactions on the real estate investment market; however, the list is not exhaustive.

**1 UBS Geneva**

Type: Office  
Price: CHFm 535  
Purchaser: Swiss Life  
Seller: UBS

**2 SBB Wankdorf**

Type: Office  
Price: CHFm 150  
Purchaser: Turidomus  
Seller: SBB

**3 Sulzer-Areal**

Type: Residential  
Price: CHFm 135  
Purchaser: Allianz  
Seller: Implenia

**4 Aquabasilea**

Type: Spezial  
Price: CHFm 114  
Purchaser: CSA  
Seller: No info

**5 Le Roches Campus**

Type: Office  
Price: CHFm 105  
Purchaser: Colony Capital  
Seller: No info

**6 Designer Outlet**

Type: Retail  
Price: CHFm 85  
Purchaser: Hammerson  
Seller: ING RE

**7 Mövenpick**

Type: Hotel  
Price: CHFm 74  
Purchaser: Schroders  
Seller: Mövenpick

**8 Glion Campus**

Type: Office  
Price: CHFm 72  
Purchaser: Colony Capital  
Seller: No info

**9 Biogen Fabrik**

Type: Entwicklung  
Price: CHFm 65  
Purchaser: Biogen  
Seller: Kanton SO

**10 Wohnliegenschaft**

Type: Residential  
Price: CHFm 61  
Purchaser: UBS  
Seller: No info

**11 CS Lugano**

Type: Office  
Price: CHFm 60  
Purchaser: Privatperson  
Seller: Credit Suisse

**12 Philosophes 20**

Type: Office  
Price: CHFm 59  
Purchaser: No info  
Seller: Rothschild

**13 Satigny Business-P.**

Type: Industrial  
Price: CHFm 58  
Purchaser: Northumberl.  
Seller: Westcore

**14 La Meyrinoise**

Type: Residential  
Price: CHFm 55  
Purchaser: ERRES SICAV  
Seller: No info

**15 MGallery ZH**

Type: Hotel  
Price: CHFm 33  
Purchaser: No info  
Seller: Accor

**16 Industrialstrasse 20**

Type: Office  
Price: CHFm 32  
Purchaser: Novavest  
Seller: No info

**17 Röschibachstrasse**

Type: Office  
Price: CHFm 30  
Purchaser: BFW  
Seller: SPS

**18 AOZ Zypressenstr.**

Type: Office  
Price: CHFm 27  
Purchaser: Implenia  
Seller: Fundamenta

**19 Chem. De Bergères**

Type: Residential  
Price: CHFm 25  
Purchaser: No info  
Seller: Patrimonium

**20 Residential Plus**

Type: Residential  
Price: CHFm 21  
Purchaser: Baloise  
Seller: HRS

# 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
- Debt & Capital Advisory

### **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
- Turnaround and financial restructuring

### **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
- Major project advisory

**Contact:**

**KPMG AG**

Badenerstrasse 172  
PO Box  
8036 Zurich

**KPMG AG**

Bogenstrasse 7  
9001 St. Gallen

**KPMG SA**

Rue de Lyon 111  
1211 Geneva 13

**Ulrich Prien**

Partner, Real Estate  
**T:** +41 58 249 62 72  
**E:** [uprien@kpmg.com](mailto:uprien@kpmg.com)

**Beat Seger**

Partner, Real Estate  
**T:** +41 58 249 29 46  
**E:** [bseger@kpmg.com](mailto:bseger@kpmg.com)

**Alfonso Tedeschi, CFA**

Manager, Real Estate  
**T:** +41 58 249 28 83  
**E:** [atedeschi@kpmg.com](mailto:atedeschi@kpmg.com)

**[kpmg.ch/realestate](http://kpmg.ch/realestate)**

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