Strategy Implications

Real Estate Research
H1 2024

A new cycle…

…where active management creates value

Message

- **Wide historical yield spreads over government bonds will not be sustained**
- **Value will come from active management strategies**
- **Access to the right product remains low, and supportive of growth**

Supportive real estate trends

- Decarbonisation
- Digitalisation
- Re-shoring
- Intensification
- Diversification
- Connectivity

Current environment

- Transaction volumes have plunged to lowest levels in over 10 years – lack of pricing evidence.
- Greater volume of assets expected to come onto the market at discounted prices as refinancing pressures continue.
- Timing is critical to re-enter the market to avoid ‘catching a falling knife’.
- Continued difficulties in the construction sector will keep new supply levels low, supporting real estate fundamentals.
- Investors and occupiers are focused on best quality space: do not make compromises on specification and location.
- Focus on income growth: from passive, to active, to pro-active asset management strategies.

Do not forget

- Secular trends will create ‘winners’ and ‘losers’ between sectors.
- ESG… and do not forget the ‘S’.
- Investors with equity are **still** at an advantage
- Explore conversion/ densification potential
- Political discussions

Further Challenges/Thoughts

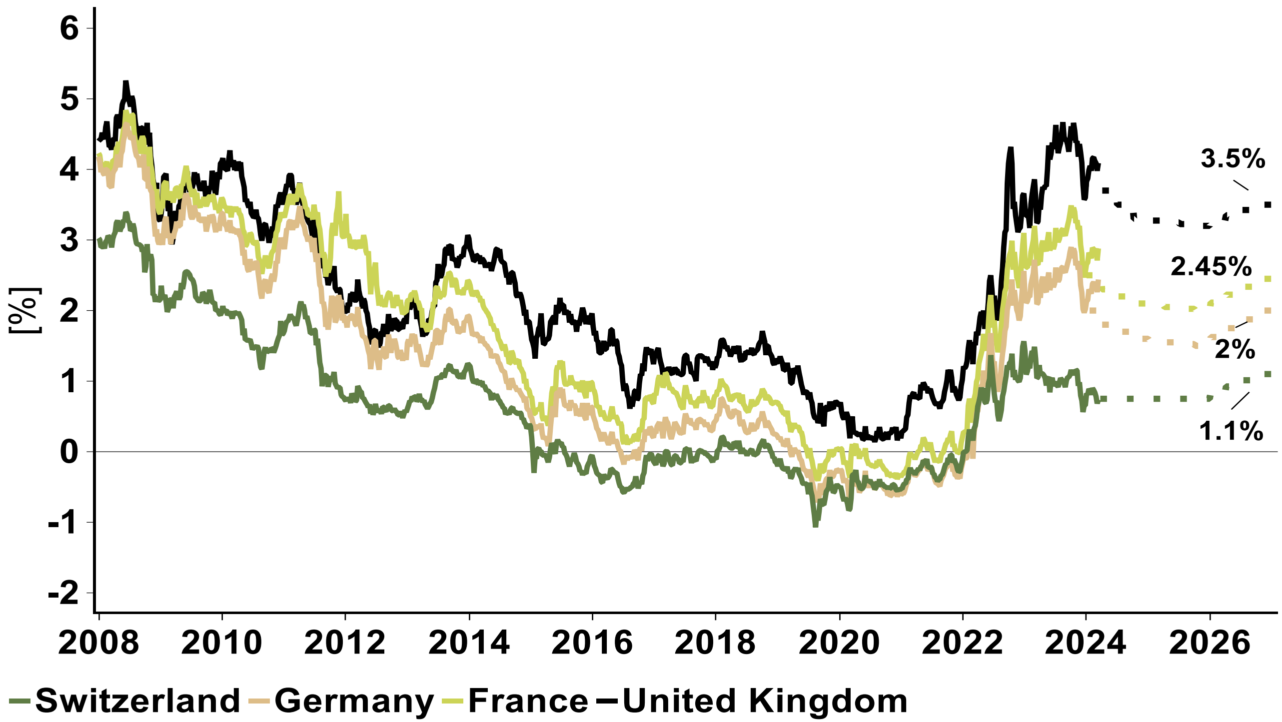
- The way in which buildings are used is changing, and the number of real estate sectors continues to rise in response. Increase exposure to operational sectors, where active management strategies can be employed to generate income growth.

SwissLife Asset Managers

Higher interest rates for longer

Forecasts as per March 2024

10-year government bond yields incl. year-end forecasts by Swiss Life



Sources: Macrobond, Bloomberg, Swiss Life Asset Managers

Base case scenario:

- We expect government bond yields to stabilise at a rate above that seen in recent history.
- This has prompted a market repricing of assets.
- Once economic discourse stabilises, we expect transaction activity will resume, presenting opportunities in the market at new prices.
- Fixed income remains an alternative for real estate investments, so special focus need to be laid on value creation trough asset management.

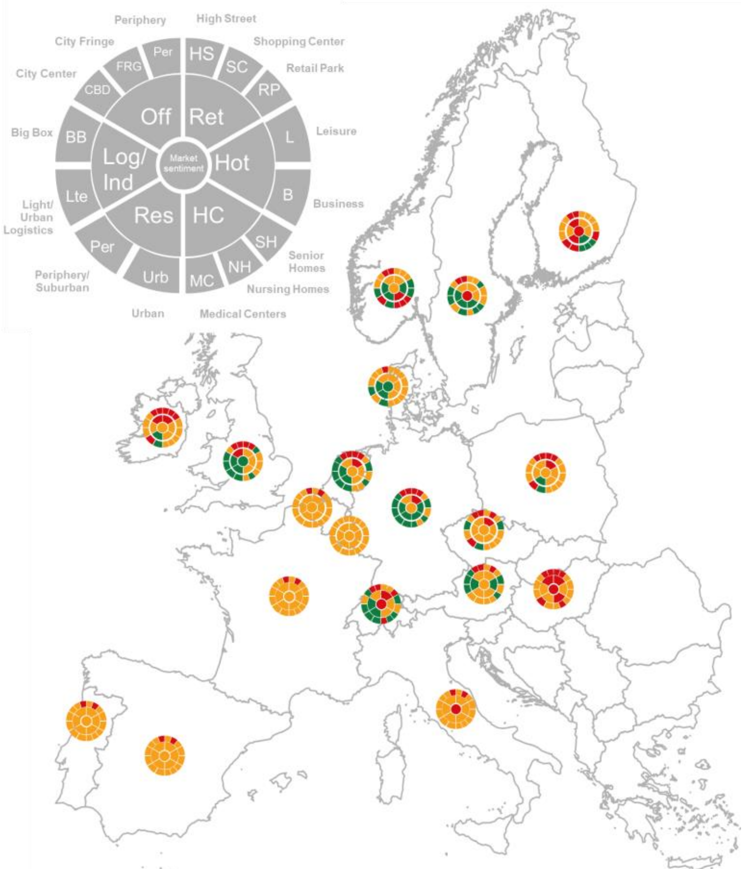
Swiss Life Asset Managers

Real Estate Strategy

Swiss Life
Asset Managers

Real Estate House View: Strategy implications

Selection is crucial: Identifying the most promising markets and sub-sectors



We expect some further price adjustments to materialise over the first half of 2024, although to a lower extent than in 2023. We will continue to monitor economic developments, as we look for a stabilisation of capital values and a narrowing of buyer-seller price expectations.

Careful consideration of capex required due to elevated construction costs and ESG requirements.

Overall real estate fundamentals (demographics, tenant demand in commercial) remain relatively stable despite the outlook of sluggish economic growth. To supplement commercial property sectors, operational real estate strategies will offer attractive performance.

Office:
Prime, high-quality and sustainable offices remain core investments although limited scope for performance over the short-term. Explore value-add strategies.

Retail:
Signs of recovery, yet we remain cautious. Prices are still decreasing in some markets and may offer opportunities.

Hotel:
Opportunities present. Risk to tourism whilst elevated borrowing costs put pressure on household finances.

Logistics:
Focus on strategic locations near urban population and the main trade corridors. Tenant demand increasingly focused on high-quality, sustainable buildings located near workforce.

Healthcare:
Ongoing strong fundamentals, yet financing will become increasingly important. Relatively small investment market so access to stock is a key challenge.

Residential:
The sector requires a tactical approach given lack of product and existing regulations. Strong recent rental growth is squeezing affordability; however, supply/ demand fundamentals remain favourable. Highest exposure to political discussions when rents are increased.

Source: Swiss Life Asset Managers
Sector abbreviations: Off = Office, Ret = Retail, Hot = Hotel, HC = Healthcare, Res = Residential, Log = Logistics, Ind = Industrial

European Investment Markets

Focus on selective deals via strong & disciplined investment processes

	Office	Retail	Industrial/ logistics	Residential	Hotel	Healthcare
Investment conviction	Supply shortages of high-quality assets and convergence of occupational demand on high quality space should support rental growth for prime assets.	High exposure to inflation, muting consumer spend Prices/ rents of non-food retail continue to correct. Repositioning through new tenant formats. Refurbishing/ repositioning opportunities. Discounters, convenience, luxury brands.	Supportive trends: e-commerce, re-shoring, improving supply chain resilience is driving additional demand. Brown field is becoming more valuable.	Stable income (less volatile than other sectors), but exposed to growth of regulations. Tactical approach needed due to lack of product and existing regulations. Student and senior housing as alternative opportunities.	Relatively attractive sector in a rising inflationary environment as lease agreements with budget operators are usually long-term and index- and return-linked. Hospitality lags behind, impact of inflation/price increases are not visible/felt yet	Favourable demographics, stable long term income. Increase of middle-class in the medium-term (more expense to health). Diversification within health care important (needs at 65 vs 90 years)
Asset factors	Central, well-connected location («commutable») Modern and flexible Internal and external amenities should be extensive ESG credentials	Location non negotiable Flexibility of space (attention to the use of floors other than the ground floor) Tenant strength Accessibility Retail as part of a bigger concept	Location (e-commerce catchment area) Transport connectivity and access to workforce Tenant strength Flexibility High specification (eaves height, number of doors, yard depth) Asset quality (construction year, ESG, technical equipment)	Urban location Commutable Environment (ESG credentials, outside (green) space) Access to infrastructure/ local amenities (services a plus)	Operator and lease structure Tech-enabled operations to allow staffing flexibility Internal and external amenities should be extensive Automated service facilities Accessible for all, good quality. 100 to 200 rooms	Clear long-term occupancy levels Operator strength Regulation High land values (in case of repositioning) Workforce availability / access
Investment selection	Superior location and superior assets in European capitals	Local and well-located high-street assets «best in class» Tourist attraction: high street in main metropolis. Retail parks in urban areas; affluent towns; prime locations; convenience locations	Greater London, Barcelona, Netherlands, key German markets, Copenhagen and Oslo. Ile-de-France-Paris, Lille-Paris-Lyon-Marseille and main regional cities outside of the axis. No strong conviction for Switzerland. Urban Logistics, well connected routes close to transport hubs (e.g. airports/seaports)	Metropolitan areas with favourable socio-economic fundamentals, overweight in multi-family housing Germany, Switzerland, France, UK and Netherlands	7 day trading city: London; Paris, Madrid, Barcelona, Berlin key cities / markets where there are multiple drivers of footfall (e.g. university, business anchor), proximity to national and international transport hubs.	Focus on care in old age, later living, strong operators. Around wealthy populations in Germany, Netherlands, France, UK

Source: Swiss Life Asset Managers

Seize the opportunity

Promising trends including cyclical ones across sectors

Residential

Sustainability premiums

Multi-family, student, serviced ap

Asset management: common areas for social/ working use

Office

Increase service offering/ active management

Reposition office > other (med centres, hotel)

Sustainability premiums

L&I

Sustainability premiums

Flexible assets, scope to extend

On-site power to assist electrification/ automation

Retail

Non-seasonal operators

Convenient/ local locations

Value-add opportunities

Healthcare

Sustainability premiums

Care homes, retirement living, med centres

Reposition office > med centres

Hotels

B-leisure hotels

Reposition office > hotel

Digitally-enabled hotels

Supportive real estate trends

The world keeps changing: megatrends x sectoral beneficiaries

	Decarbonisation	Digitalisation	Re-shoring	Intensification	Diversification	Connectivity
Office	Flight to quality Increased demand for sustainability Increasing capex risk	AI risk to office employment? Office analytics to understand usage	Potential driver for office-based employment, could benefit sector	Simple, adaptable floorplates Offices as service providers, flex-office	Mixed-use environments: in the asset and surrounding area	Location: highly accessible Access to high-speed internet
Retail	Rising supply of stranded units. Value-add strategies Increasing capex risk	Experiential shopping experience Shops as hubs for q-commerce/ logistics	More independent retailers, weaker covenants. Shorter delivery times	Shop floor redesign Open design to allow pop-up/ events	Mixed-use environments: in the asset and surrounding area	Location: highly accessible/ strong footfall
Reside ntial	Energy efficient, utility bill minimization Sustainability attributes essential	WFH: configuration shifts i.e. smaller rooms/ more space 'smart homes'	Increasing demand for local housing	Densification of uses within micro-location: 'place making' initiatives	Intertwined with community, amenity, green space e.g. co-living.	Commutable locations Access to high-speed internet
L&I	Flight to quality Increased demand for sustainability Increasing capex risk	Access to power to facilitate automation	Increased demand for warehousing for greater inventory stock	Densification of supply chains creating demand for warehousing	Greater degree of placemaking/ amenities to appeal to workforce	Location: highly accessible Access to high-speed internet
HC	Driven by need to reduce operational costs Increasing capex risk	Improved operating systems: supporting quality of care (E**S**G)/ operational efficiency	Potential for improved access to medical supplies/ technologies	Mixed-use assets: divide between segments getting becomes less clear	Demand for non-residential rooms: social space, amenities	Location: embedded within community and improved access to staff
Hotel	Driven by need to reduce operational costs Increasing capex risk	Digitally-enabled hotels; AI: support customer engagement (brand)	Operators expand offering ('touch points') by local collaborations	Multiple internal amenities: work- spaces, social, shops	Mixed-use environments: target strong footfall	Location: highly accessible Access to high-speed internet

Number of sectors is widening

Growing niches are increasingly complementing well established sectors

Sector ranking in 2024:

Rank	Primary Sectors
1	New energy infra
2	Data centres
3	Healthcare
4	Student housing
5	Retirement/assisted living
6	Self-storage facilities
7	Logistic facilities
8	Co-living
9	Life Sciences
10	Serviced apartments
11	Private rented residential
12	Industrial/warehouse
13	Affordable housing
14	Hotels
15	Social housing
16	Leisure
17	Flexible/serviced offices and co-working

Rank	Secondary Sectors
18	Housebuilding for sale
19	Retail parks
20	Parking
21	Central city offices
22	High street shops
23	Business parks
24	Out-of-town shopping centres/retail destinations
25	City centre shopping centres

Rank	Poor prospect
26	Suburban offices

Sector ranking in 2004:

Rank	Primary Sectors
1	Shopping Centres
2	Residential
3	High street shops
4	Industrial/ warehousing
5	Retail parks
6	Central city offices
7	Manufacturing
8	Suburban offices

- The number of sectors has been widening quite impressively over the last years. On the one hand, that shows quite obviously, how in times of high demand for real estate, also more ideas were created.
- On the other hand, this also shows the need to diversify portfolios from just commercial to operational as well.

Source: PWC and Urban Land Institute : Emerging Trends in Real Estate – Europe 2024. Note: Respondents scored sectors' prospects on a scale of 1=very poor to 5=excellent, and the scores for each sector are averages; the overall rank is based on the average of the sector's investment and development score. The survey also covered communication towers/fibre but the number of respondents rating the prospects for this niche sector was too small for it to be included in the rankings. Released 14 November 2023

Niche Markets of interest for investors

Opportunities in Real Estate niches due to demographic and technical trends

Student housing
Strong European demand

Single-family rental
Strong European demand

Data centers
Strong European demand

Life science
Strong European growth forecast

Care homes
Reliance on government support

Healthcare
Limited scale opportunities

Manufactured housing
US sector only at present

Self storage
Limited non-UK stock

Investment Strategy

- Demographic/ ageing trends will persist
- Continued lifestyle evolution
- Technical/ data demand to grow

Opportunities present

Opportunities present, difficult to access

Limited opportunities in Europe in the short-term

European Investment Markets

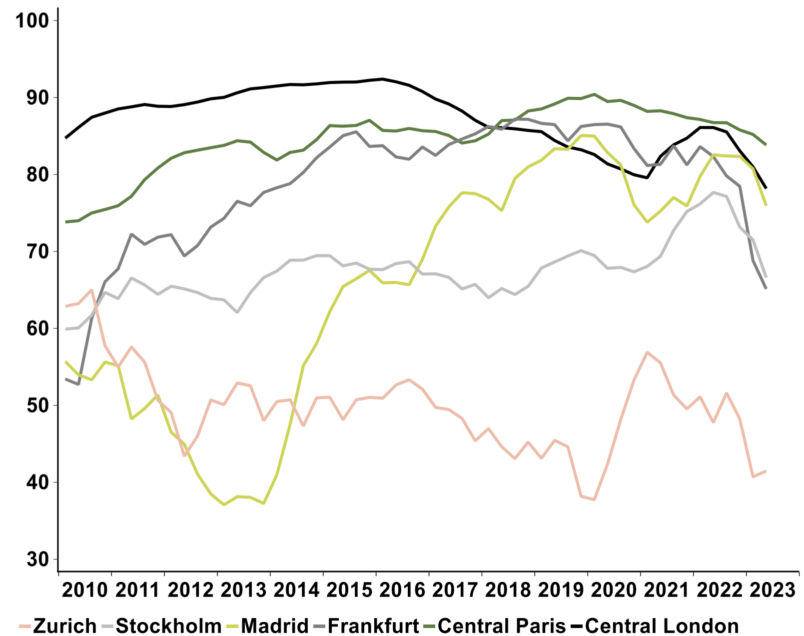
Transaction volumes expected to pick up after the setbacks experienced

Most active markets Q2 2023:

2022	H1 2023	Market	Sales Volume (€m)	YOY Change
2	1	Paris	10559	0%
1	2	London	7295	-59%
3	3	Berlin	2819	-37%
5	4	Madrid	1908	-45%
4	5	Stockholm	1561	-68%
23	6	Manchester	1472	25%
8	7	Munich	1060	-37%
16	8	Barcelona	1051	-25%
15	9	Birmingham	938	-42%
11	10	Vienna	854	-66%
10	11	Dublin	819	-72%
12	12	Amsterdam	749	-72%
31	13	The Hague	658	-2%
24	14	Ruhr Valley	649	-46%
38	15	Leipzig	615	-1%
7	16	Milan	530	-83%
30	17	Bristol	513	-62%
22	18	Zurich	489	-59%
18	19	Rotterdam	488	-63%
20	20	Dusseldorf	485	-57%
33	21	Leeds	470	-62%
13	22	Hamburg	464	-74%
45	23	Hanover	396	5%
29	24	Utrecht	390	-55%
27	25	Gothenburg	388	-55%

Source: RCA

RCA, Liquidity Scores:



Sources: Macrobond, RCA, Swiss Life Asset Managers

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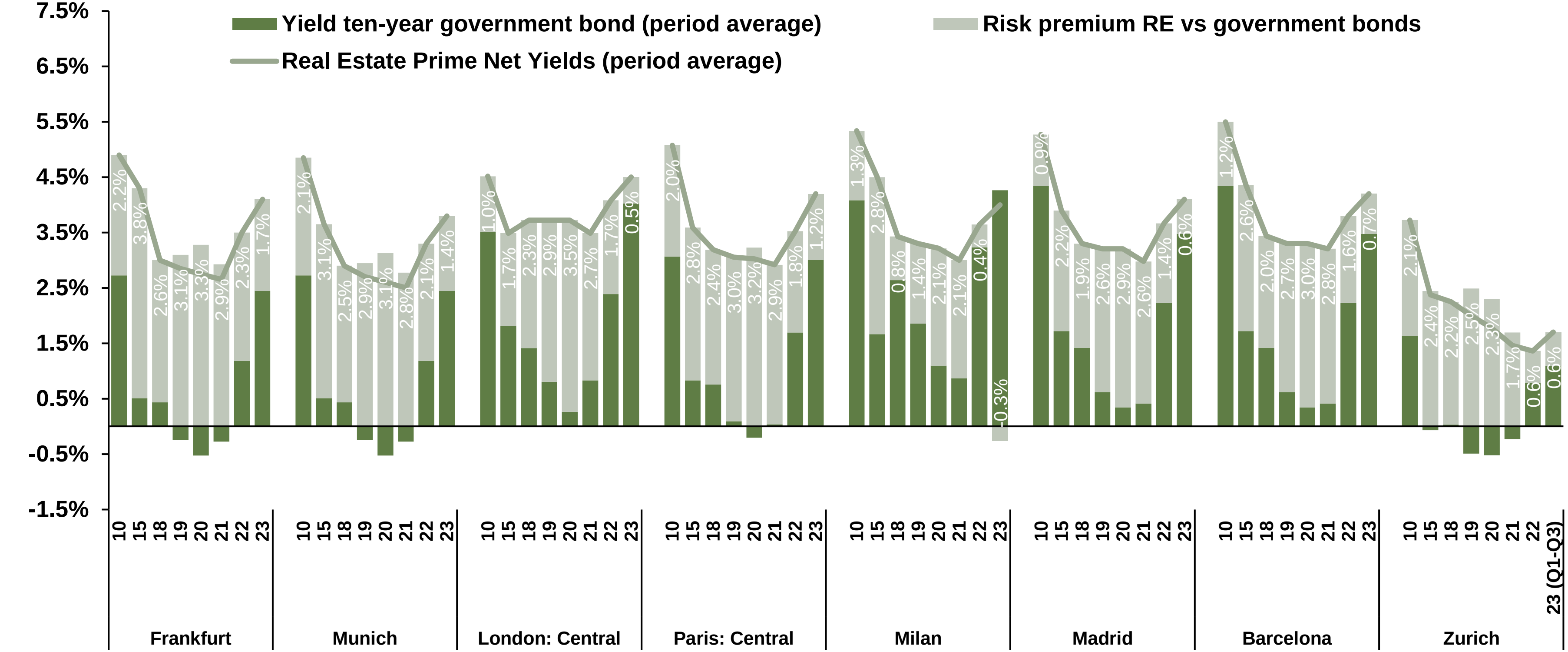
Prime office risk premia

Narrowing risk premiums across investment markets

Risk premium of RE investments – Example Office market (%), shown on prime yield



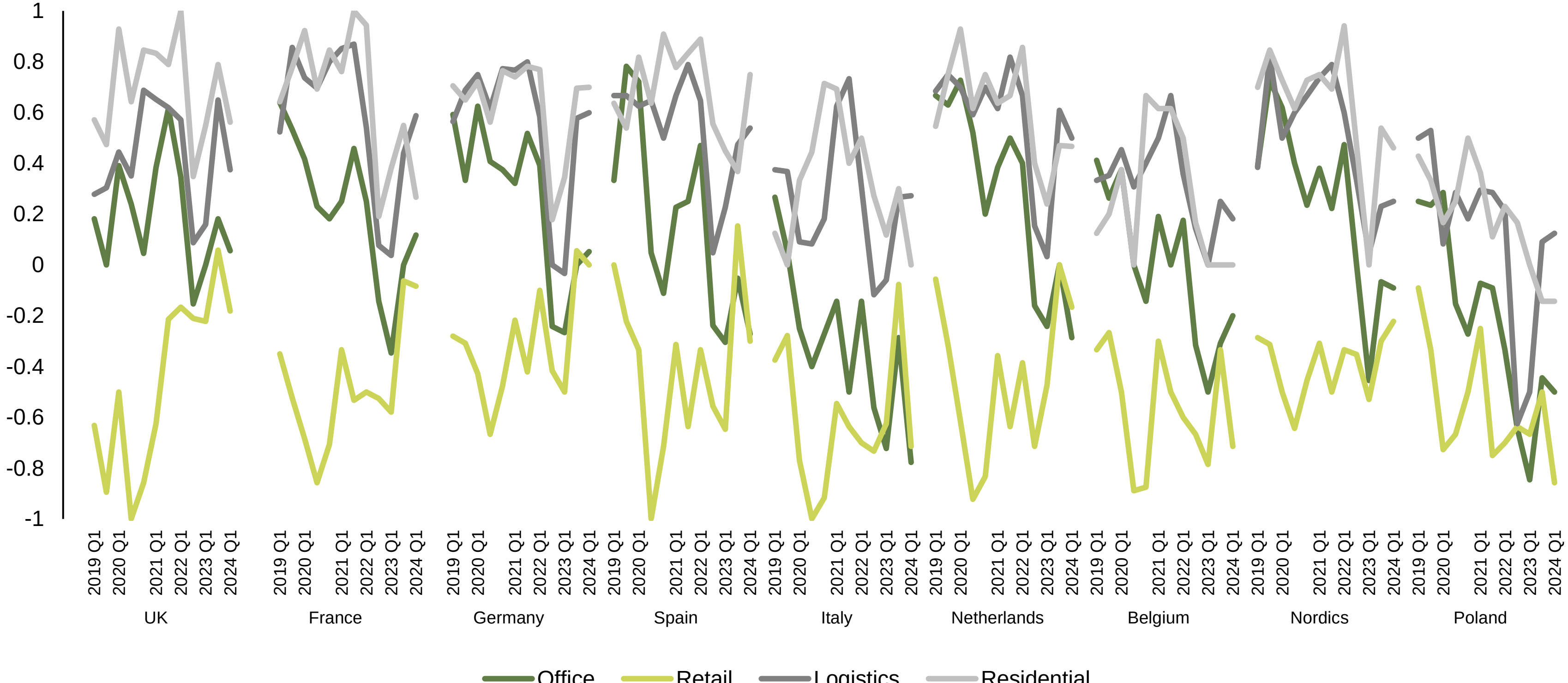
Source: PMA, Wüest Partner, Macrobond ; Yield government bonds as quarterly average data is Q4 data of the respective year. For 2023 Q2 is used.

Investor Sentiment

Western European Retail with the strongest recovery, but still no “strong” buy

Investment intentions according to PMA Survey of Investor Preference

Investors are asked whether they want to invest less, the same or more in the respective sector compared to their previous activity. The graphs represent the balance of all responses.



Source: PMA Survey of Investor Preference

European RE Performance

Non-listed, 12m total return to Q4 2023 mainly negative

Regional Indices:

UK	
MSCI/ AREF UK All Balanced (fund-level)	-1.4%
MSCI UK Quarterly Property (asset-level)	-1.0%

CH	
KGAST Immo Index (fund-level)	2.0%

DE	
MSCI OFIX GER (fund-level, open-ended only)	1.8%
MSCI SFIX (German funds) (fund-level, SIFS)	2.6%

FR	
MSCI OPPCI (fund-level)	-14.7%

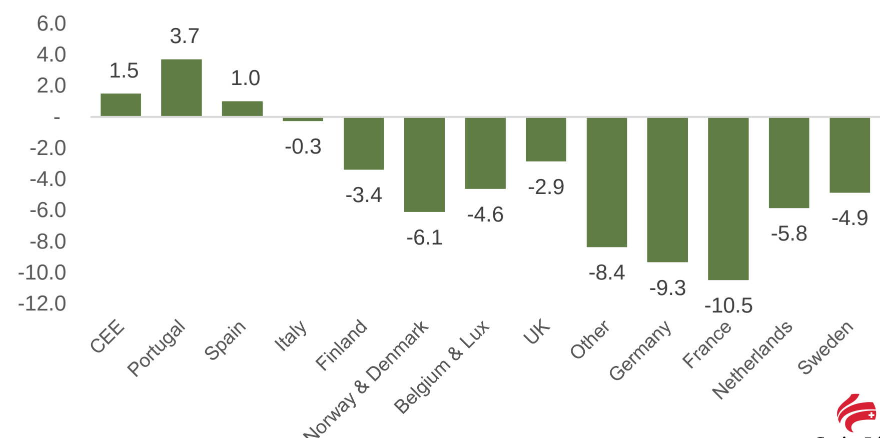
NO	
MSCI Nordic Quarterly (fund-level)	-12.5%

Source: MSCI, INREV, KGAST

European indices, diversified:

INREV European ODCE (fund-level)	-4.3%
INREV Pan-European ALI (asset-level)	-1.6%
PEPFI, Balanced (fund-level)	-10.3%
PEPFI, Balanced (asset-level)	-8.2%

PEPFI, Balanced (asset-level), by country:



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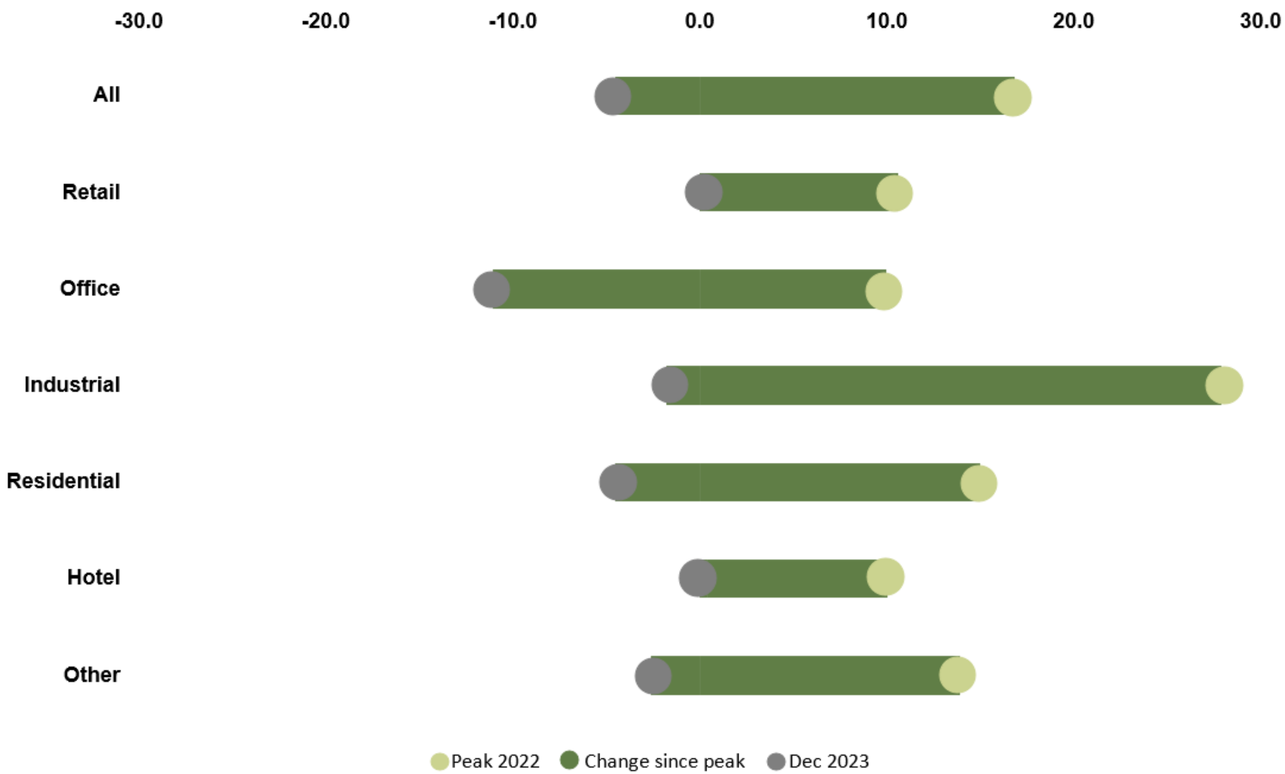
European RE Performance

Strong decrease in total returns since peak in 2022 provide for recovery potential

Change in Annual Total Returns since Peak



Source: MSCI

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