

Strategy Implications

H2 2023

Real Estate Strategy

Management Summary

Be an active part of the new cycle

Message H2 2023

- **Continue to buy selectively (as pricing stabilises, ESG compliant)**
- **Opportunities are expected, but proceed with caution**
- **Unlock income potential on an asset by asset level (no “one fits all” solution)**

Current environment

- Transaction volume remains subdued in 2023, and bid-ask spreads remain high.
- With prospect of monetary tightening ending, interest rate security will be higher. (Re-)financing will be biggest challenge in the second half of the year for many investors. This may impact asset allocation of some investors.
- We expect selected investors to come back by the end of 2023.
- In the medium term, prices are supported by a clear lack of supply coming into the market (in the next five years).
- Fundamentals remain solid: focus on assets with business plans that have rental growth in focus and are more resilient to macroeconomic changes.
- Occupational demand will also be focused on high quality assets.
- Real estate fundamentals are robust.

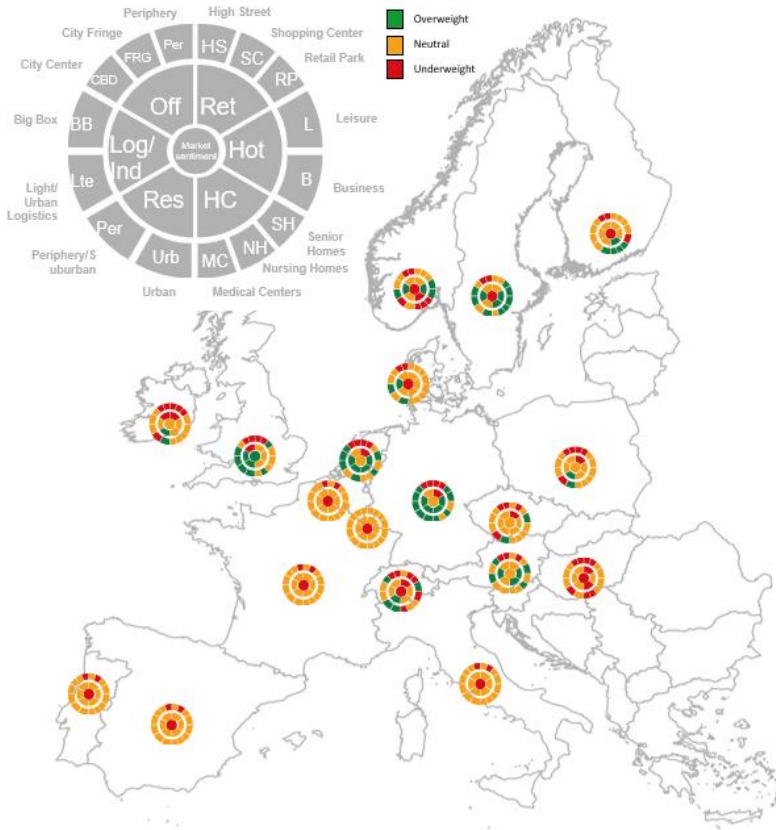
Do not forget

- Investors with equity are at an advantage
- Explore conversion/ densification potential
- Energy transition, decarbonisation and the effect on real estate (and when are costs due)
- Political discussions

Further Challenges/Thoughts

- Manoeuvre in a world of high debt cost – low risk premium – and ongoing credit tightening.

Real Estate House View: Strategy implications



We expect further price adjustments to materialise over the second half of 2023 (indicated by the inner circle within the strategy map). We will continue to monitor the developments of both central bank rates and government bond yields over the period, as we look for a stabilisation of capital values.

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.

Office:

Grade A offices remain core investments, well located but low-quality assets can offer opportunity (e.g., also develop to Grade A).

Retail:

Signs of recovery, yet we remain cautious. Prices are decreasing and may offer opportunities.

Hotel:

Opportunities given, yet some travel uncertainty with respect to the impact of lingering inflation and weak consumer confidence.

Logistics:

Focus on strategic locations near urban population and the main trade corridors. Keep operators' margins in mind with elevated inflation. Space demand expected to be slightly weaker than anticipated half a year ago.

Healthcare:

Ongoing strong fundamentals, yet financing will become increasingly important. Access to stock is a key challenge to access the sector.

Residential:

The sector requires a tactical approach given lack of product and existing regulations. Rising cost of living may constrain rental growth potential but supply/ demand fundamentals remain favourable. Highest exposure to political discussions when rents are increased. «Neutral» on average.

Source: Swiss Life Asset Managers

Sector abbreviations: Off = Office, Ret = Retail, Hot = Hotel, HC = Healthcare, Res = Residential, Log = Logistics, Ind = Industrial

Confronting market headwinds, creating tailwinds

What are the headwinds?

How to create tailwinds?

	What are the headwinds?	How to create tailwinds?
Interest Rates	<ul style="list-style-type: none"> • New and higher interest rate environment • Changed investor demand for real estate • Higher financing costs, refinancing risk • Reluctance of banks to provide financing 	<ul style="list-style-type: none"> • Bear in mind: Equity investors at an advantage, as less dependence on external financing • Prepare vehicles for opportunities when other investors expect refinancing and need to sell
Investment Market	<ul style="list-style-type: none"> • Change in investor sentiment • Securing new, profitable investments • Wait and see, wide bid-ask spreads • Even longer break-even 	<ul style="list-style-type: none"> • Be proactively part of (each) new cycle • Explore usage conversion/densification potential • Partner up (investment managers, investors) • Real world scenarios to challenge investments
Commercialization	<ul style="list-style-type: none"> • Significant reduction in sales speed • Exit risk after completion • Reluctance of tenants and buyers • Difficulty in drawing on financing lines 	<ul style="list-style-type: none"> • Explore other distribution channels • Coordinated centralised sales activities • Improve buyer & tenant pre-experience (virtual) • Build where demand is; don't try to create demand
Cost Inflation	<ul style="list-style-type: none"> • Significant material price increases • No cost certainty in construction management • Reduction of profit margin • Difficulties in obtaining cost certainty 	<ul style="list-style-type: none"> • Careful use of resources; recycling of already built material (start with one pilot project) • Centralized procurement/ supplier management • Sequential construction (order only once)
Construction Management	<ul style="list-style-type: none"> • Supply chain disruption, raw material shortages • Qualified labour shortage and lack of digitalisation • Reshoring to increase raw material supply • Increased health and safety requirements 	<ul style="list-style-type: none"> • Aim for operational excellence in construction and supply, and optimize purchase & sourcing strategy • Work with selected partner (incl. back ups) • Centralized procurement/ supplier management
Mega Trends	<ul style="list-style-type: none"> • Urbanisation trend vs. construction under supply • ESG increases cost pressure (greenflation) • Demographics and changing needs • Work from home, work from anywhere 	<ul style="list-style-type: none"> • Collaboration with other owners/investors to create "liveable" areas (besides E, focus also on S -> as S will be the USP going forward) • Increase tenant/ buyer experience; let them be part of the whole process

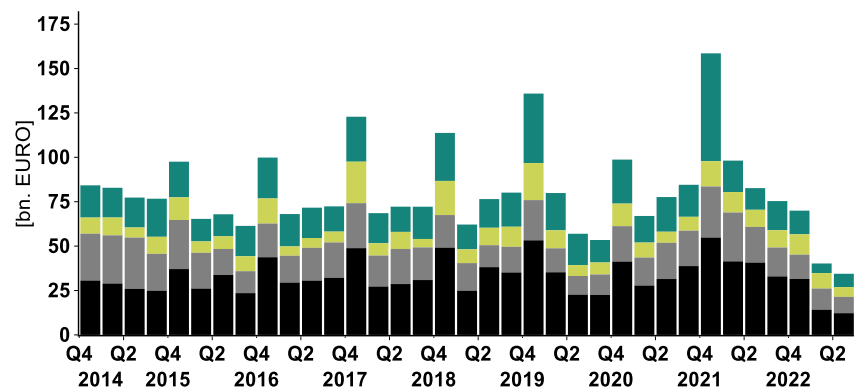
Real Estate Market Developments

European Investment Markets

Transaction volumes

Europe

Total transaction volumes (all property types)



■ Other Europe ■ United Kingdom ■ France ■ Germany

RCA, Macrobond, Swiss Life Asset Managers

- Investment volumes have declined for the sixth consecutive quarter.
- Challenging first and second quarter as investors adopt a 'wait and see' approach in response to increased market volatility.
- Distinct lack of large lot sizes transacting in many markets due to higher borrowing costs.

Transactions by property type

	2023 Q2 Volume		H1 2023 Volume	
	EUR bn	YOY	EUR bn	YOY
Office	8.3	-68%	20.4	-64%
Industrial	7.3	-55%	13.4	-65%
Retail	6.6	-53%	14.2	-50%
All Commercial	22.3	-60%	47.9	-61%
Hotel	2.3	-36%	5.9	-16%
Apartment	7.2	-54%	14.0	-62%
Seniors Housing & Care	1.3	-44%	2.7	-34%
Total (+ Dev Site)	35.7	-59%	78.7	-60%

Source: RCA

- Fewer offices traded in the second quarter than in any other quarter since GFC, highlighting how the twin issues of hybrid work and accelerate obsolescence are impacting the sector.
- Apartment sales have slowed in Q1, but improved in Q2 in many European markets.
- The hotel sector has slowed the least of all the sectors, although volumes are still down versus historical standards.

European Investment Markets

Transaction volumes II

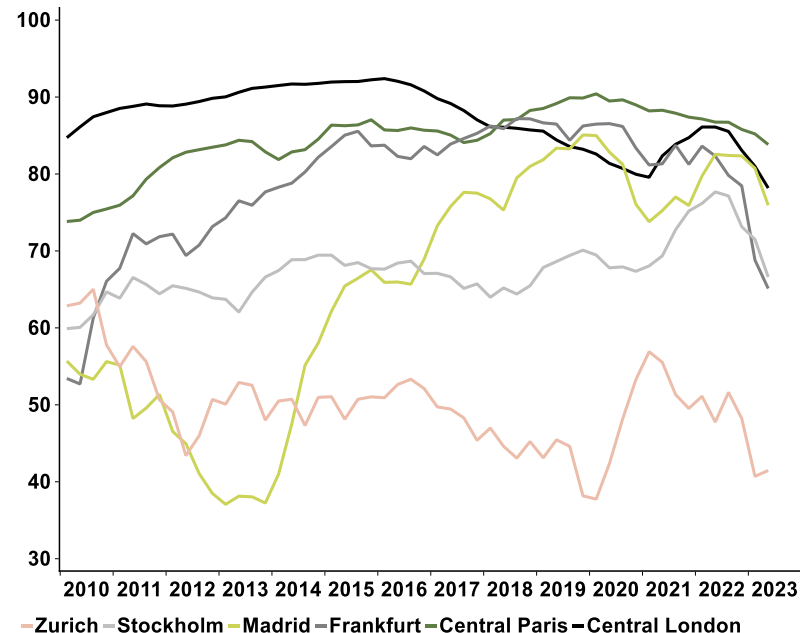
Europe

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:

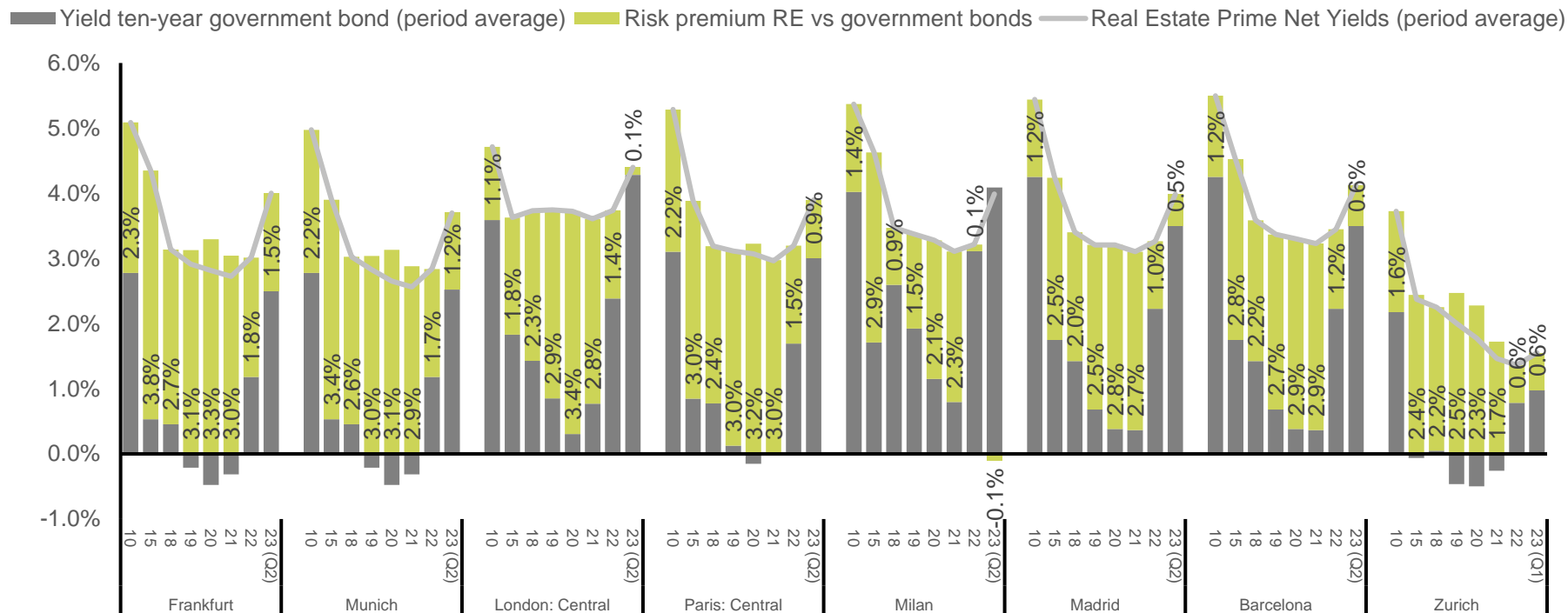


Sources: Macrobond, RCA, Swiss Life Asset Managers

Prime office risk premia

Europe

Most active markets Q2 2023



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

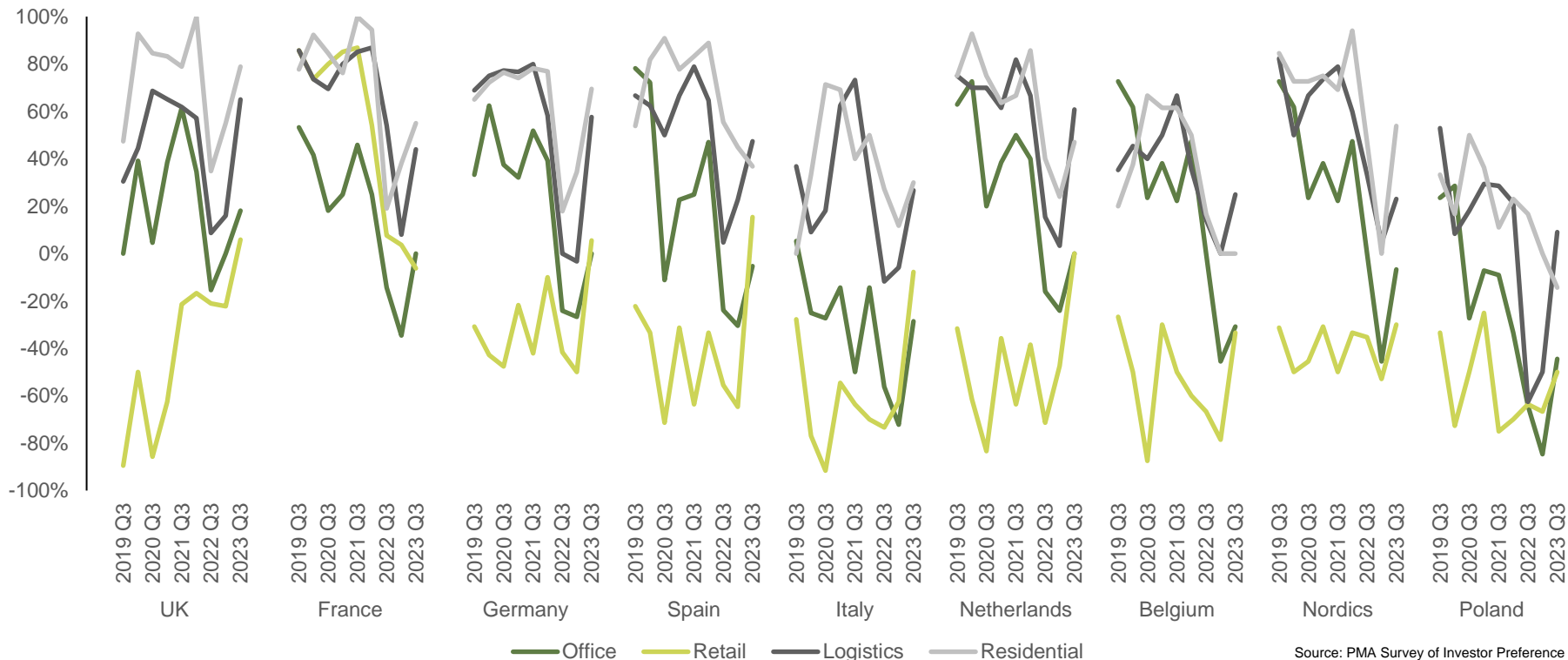
Investors' preferences

European Investment Markets

Investor Sentiment

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.

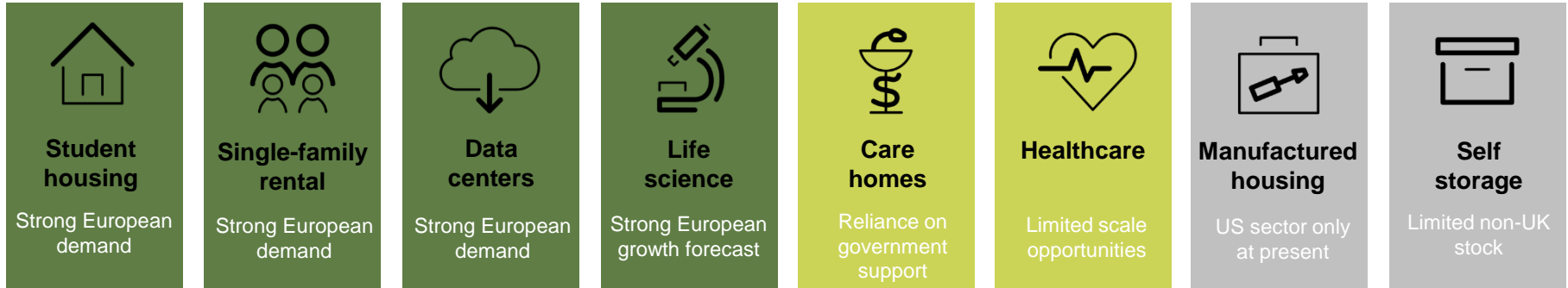


Source: PMA Survey of Investor Preference

Source: PMA

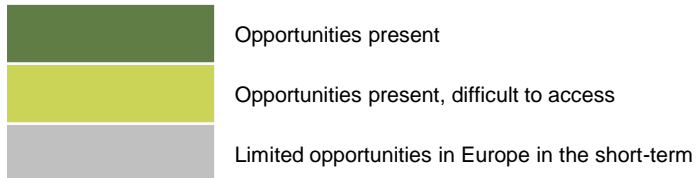
Niche Markets of interest for investors

Opportunities in Real Estate Niches



Investment Strategy

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

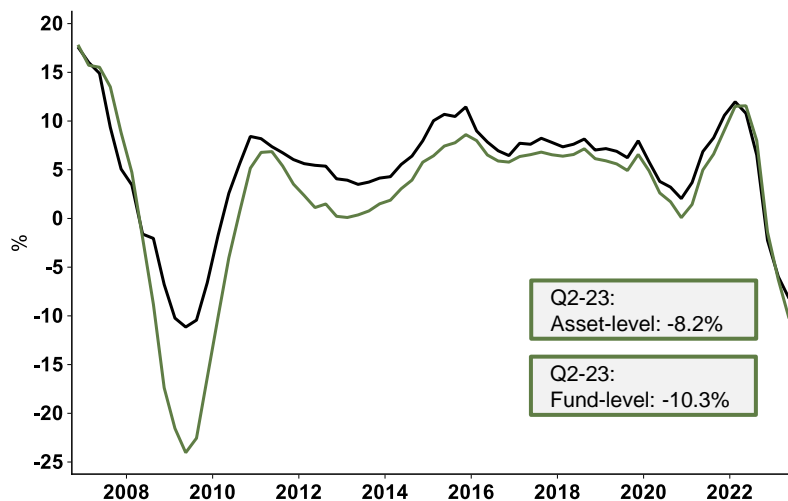


European Real Estate Capital Markets

European RE Performance

Fund and asset level returns

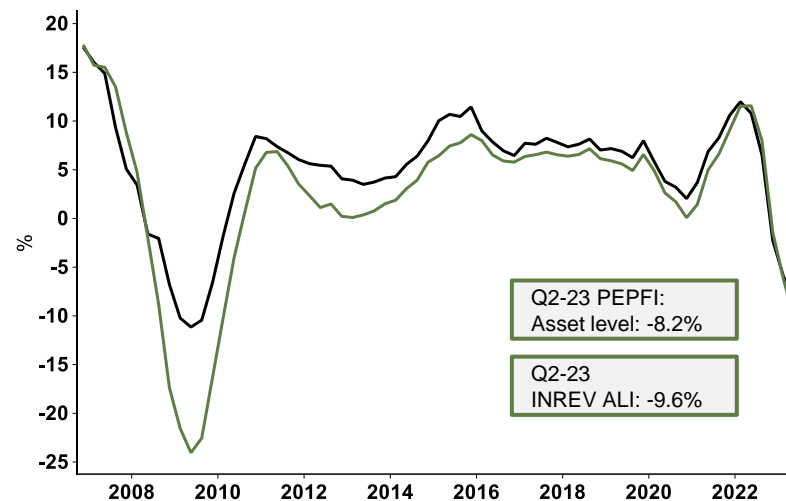
12-month rolling total return: PEPFI fund vs. asset level



—B'ced PEPFI - Net fund return —B'ced PEPFI - Direct RE return

Sources: MSCI, Macrobond, Swiss Life Asset Managers

12-month rolling total return: PEPFI vs. ALI



—B'ced PEPFI - Net fund return —B'ced PEPFI - Direct RE return

Sources: MSCI, Macrobond, Swiss Life Asset Managers

European RE Performance

Non-listed, 12m total return to Q2 2023

Regional Indices:

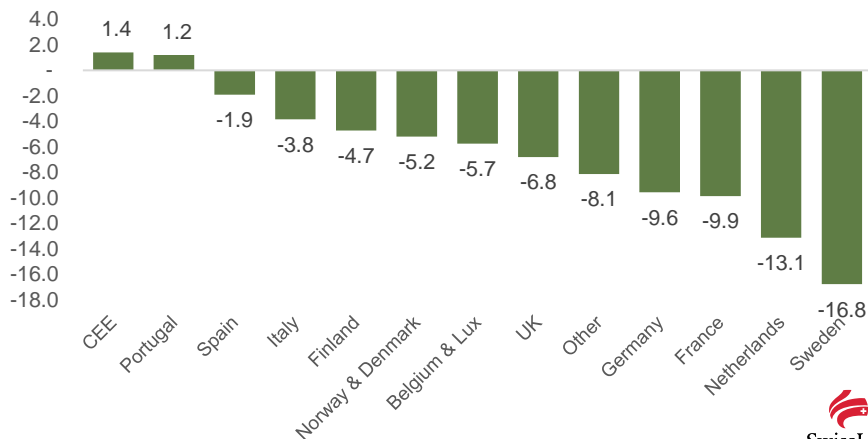
UK	
MSCI/ AREF UK All Balanced (fund-level)	-17.4%
MSCI UK Quarterly Property (asset-level)	-15.3%
CH	
KGAST Immo Index (fund-level)	3.9%
DE	
MSCI OFIX GER (fund-level, open-ended only)	2.6%
MSCI SFIX (German funds) (fund-level, SIFS)	3.4%
FR	
MSCI OPPCI (fund-level)	-11.3%
NO	
MSCI Nordic Quarterly (fund-level)	-13.5%

Source: MSCI, INREV, KGAST

European indices, diversified:

INREV Pan-European ALI (asset-level)	-9.2%
INREV European ODCE (fund-level)	-10.3%
PEPFI, Balanced (fund-level)	-10.3%
PEPFI, Balanced (asset-level)	-8.2%

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





SwissLife
Asset Managers

*We enable people to lead
a self-determined life.*