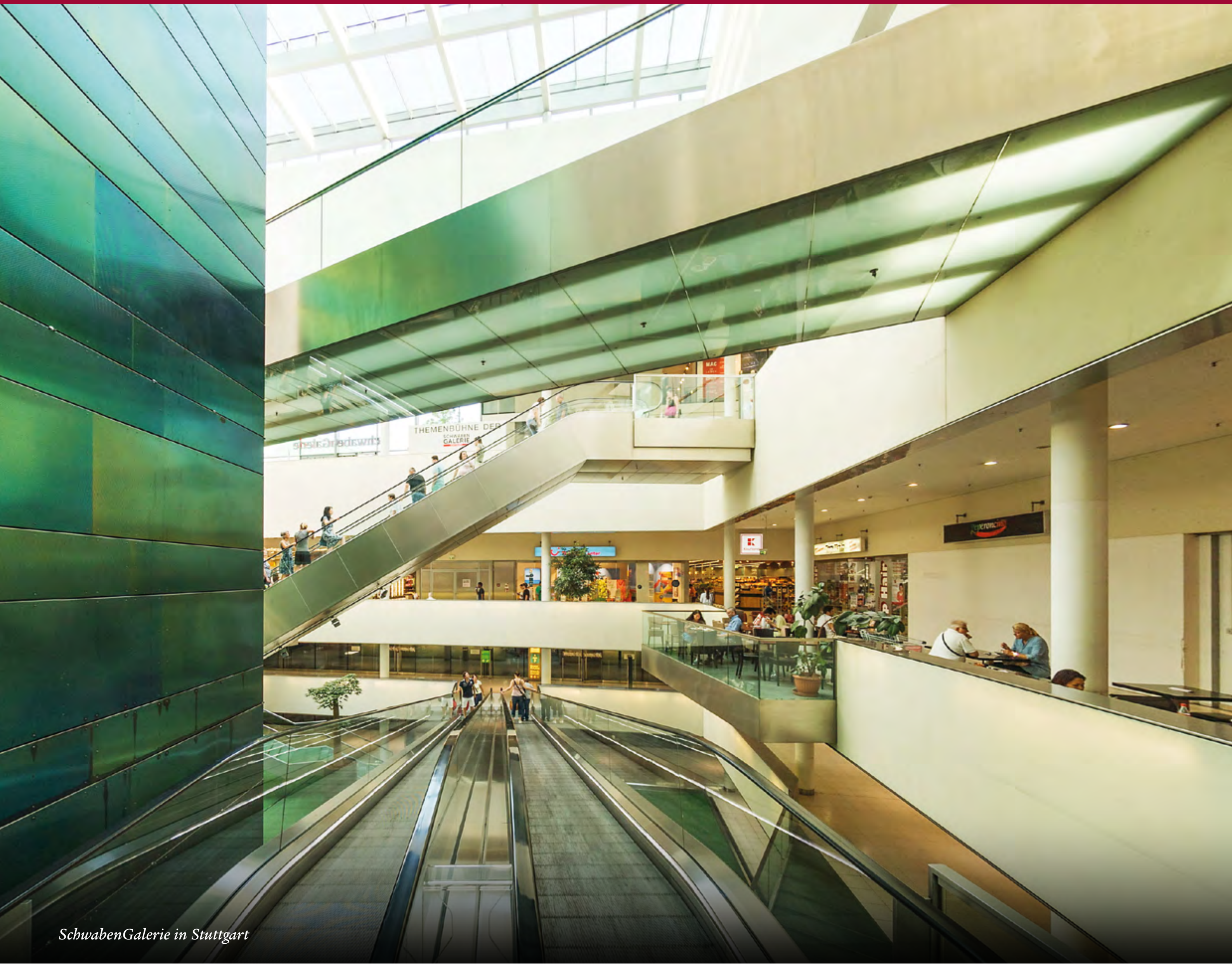
Insights

Real Estate

SwissLife
Asset Managers

October 2017



SchwabenGalerie in Stuttgart

Macroeconomic environment

The changing face of retailing is leaving its mark on Germany's major city centres

REWE plans its next moves – from expansion to digitalisation

Swiss retail spaces: catering concepts on the rise

Retail properties in France and southern Europe: dichotomy and opportunity

An appetite for restaurants – optimism for the UK retail sector

Editorial

Dear reader

The classical retail model is in transition due to a variety of factors, the most significant being digitalisation.

This transition has also triggered change in the retail real estate market. Driven by the growth in online commerce and the growing preference among customers to go shopping as part of a wider social experience, retail sites are being designed along multi-channel lines and featuring more food and beverage outlets. What challenges and opportunities does this development entail for providers and property owners?

In this issue of "Real Estate Insights", we take a close look at the latest developments and trends in the European retail market. We also have an interview with Christian Schneider of REWE, where you can find out about the supermarket manager's expansion strategy and how it is responding to digitalisation.

I wish you a most enjoyable read.

Stefan Mächler
Group Chief Investment Officer

Macroeconomic environment

The economic recovery in Europe is increasingly broad based and people have more money to spend. At the same time we observe a change in consumer behaviour: money is not only increasingly being spent on leisure rather than on traditional retail items, but purchases are also more often being made online. Retailers are under pressure to adapt to new trends.

Sylvia Walter, Senior Economist, Swiss Life Asset Managers
Francesca Boucard, Economist Real Estate, Swiss Life Asset Managers

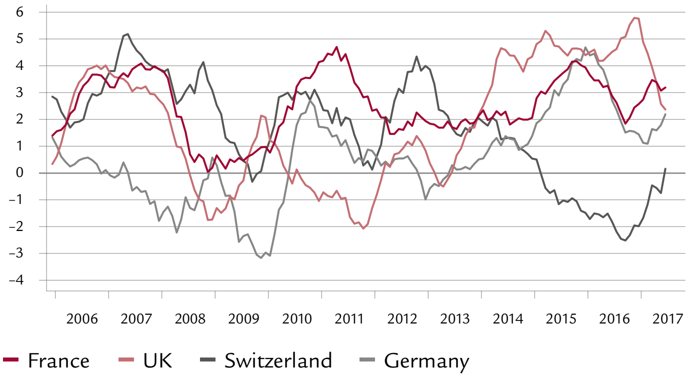
Growth dynamics in the Eurozone economy have beaten expectations over the past four quarters. Meanwhile, the Swiss economy has struggled to shed the burden of a strong currency as consumers cross the border to go shopping and tourists flocked in in smaller numbers. The British pound, on the other hand, depreciated due to the Brexit vote, which proved to be a temporary support for British exports but is bound to dampen growth dynamics going forward.

Throughout Europe, countries find themselves in different stages of the business cycle. The currency union is currently booming, and the recovery is increasingly broad based as regards both the number of member countries which participate in it and the contribution of GDP components to GDP growth. Switzerland is slowly recovering from the exchange rate shock while the UK has entered a period of declining growth rates.

Countries throughout Europe are in different stages of the business cycle.

These divergent paths are also reflected in the development of retail sales volumes (see chart). Purchasing power differences and labour market performance are mirrored in these developments. The proportion of private consumption spent on eating, accommodation and clothing, however, varies a lot between countries.

Retail sales volume, year-over-year % change, 6 months moving average



Source: Eurostat, OECD

What all of the industrialised countries have in common is the high share of personal consumption expenditures in total GDP. This share varies from around 55 % for Switzerland and Eurozone member countries to well over 60 % in the United Kingdom. Consumption by households thus constitutes an important and rather stable pillar of overall expenditures in the economy. Around a third of overall personal consumption expenditure is made up of retail sales, even though this share continues to be on a declining trend. While consumers have more money for purchases, they predominantly spend these funds on services, travelling and recreational activities rather than on classical retail items. Furthermore, retailers are increasingly being challenged by ecommerce. Also the online share of retail sales differs markedly within Europe: whereas the UK is forecasted to exhibit a share of 17 % in 2017, France may have a share of around 10 %, going down to Spain and Italy with around 5 % and 3 %, respectively (Statista).

This change in consumer shopping habits to increased buying online is combined with a growth of "experience retailing", reflecting consumers' desire to enhance their physical shopping experience with social/leisure experience. This is also seen in the retail market, albeit again in varying intensity. Where for instance the UK exhibits a significant growth in restaurants replacing traditional retail space (number of shops decreased by 2185 vs. restaurants increased by 2998 according to Cushman & Wakefield), this trend is less apparent in Switzerland but is emerging. However, it is safe to say that the development of the leisure sector taking over traditional retail space is a trend we will further observe all over Europe and notably an expansion of the food & beverage sector.

In that context, we nevertheless expect the high streets in the larger cities to experience ongoing demand, also driven by tourism spending such as in London, Madrid, Berlin and Amsterdam. However, popularity of secondary as well as tertiary retail destinations continues to decline, showing the increasing polarisation.

This is reflected in differing rental and yield movements. In combination with differing economic dynamics across Europe, expectations of rental growth vary as well: markets in Spain or in the eastern European countries are expected to experience above-average rental growth in prime shops whereas London is forecasted to lag behind. Across Europe the average retail rental growth outlook remains fairly muted. Furthermore, there is a trend of decreasing yields in the European high streets during the first months of the year. On average, yields have been flat since the beginning of 2016, only experiencing some downward pressure since the beginning of this year.

The reason we shop is changing.

Retailers all over the world are facing headwinds and need to adapt to survive. The reason we shop is changing, away from a simple product transaction towards emotional connection, interaction and participation. Retailers are therefore acting and reacting: for example, H&M launched a new line called Arket in London in August 2017, and online brands such as Amazon and Zalando have opened physical stores. This also shows that for retailers online shops are complementary rather than substitutional. So despite the challenges, we continue to believe in brick and mortar retail. However, because there will be winners and losers, investors will, more than ever, need to keep on top of retail and consumer trends.

Editorial deadline: 16.08.2017

The changing face of retailing is leaving its mark on Germany's major city centres

Far-reaching change in retailing is increasingly calling the conventional retail outlet concept into question. Some countertrends to the alleged decline in city-centre shopping, however, point to a brighter future for the major shopping locations.

Andri Eglitis, Head of Research, Corpus Sireo

The economic environment is looking good for the German retail sector: following a nominal 2.4 % increase in sales in 2016, the Association of German Retailers (HDE) anticipates 2.0 % growth this year. Online trade is particularly buoyant with 10 % growth anticipated in 2017. However, some sectors are growing faster than others.

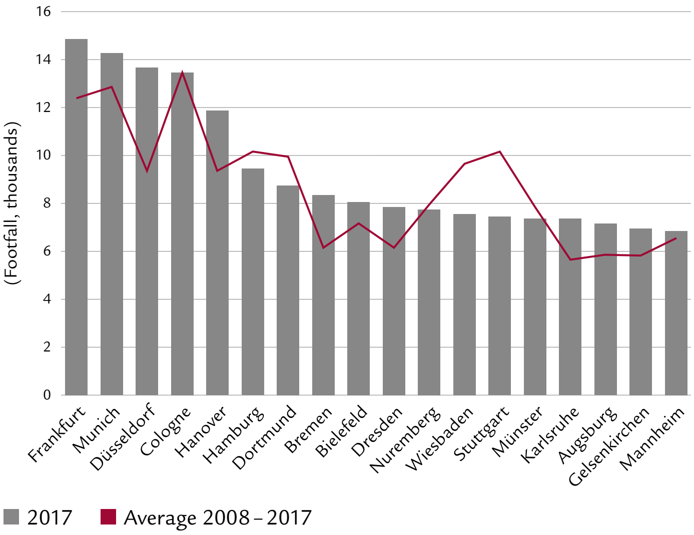
Fashion: the black sheep of city-centre retailing?

Fashion warrants particularly close attention as it accounts for approximately one quarter of total retail sales and occupies most of the space in the top inner-city locations. Fashion sales growth was relatively restrained while online shopping made significant gains. The fall in medium-sized companies and massive expansion in branches of international brands are changing the retail landscape. Multi-brand retailers, such as department or clothing stores, are coming under increased pressure and demand for medium-sized and large retail units is waning as a result. Smaller units, on the other hand, are still in demand: almost every fashion retailer is following a multi-channel concept, whereby an online presence is combined with physical stores, as a well-located branch network is considered crucial to long-term success.

Is the retail transformation bad for inner-city locations going forward? Some developments indicate that city-centre shops will retain and possibly even increase their appeal over the long term. The convenience of online shopping is raising people's expectations of "real" shopping, which is taking on the status of a leisure activity. The shopping experience and quality of the location, therefore, are the key requirements for this type of shopping.

Prime location Frankfurt: Swiss Life property in Grosse Bockenheimer Strasse, "Fressgass" (Source: Corpus Sireo)

High pedestrian volume not restricted to major city centres



Source: JLL (2017); only the value for the absolute top location per city in 2017 is shown

Retail concepts in continuous flux

The German market has a lot to offer retailers, due not only to its volume but also to its polycentric structure: in addition to the major city centres, there are many other big cities with popular commercial areas, and it is these cities which have seen an increase in footfall in recent years. In Germany, 20 to 40 international retailers are tapping into this potential every year – mainly mono-brands with a multi-channel strategy requiring visibility and therefore prime locations to penetrate the market. In addition, some large-scale companies are expanding, such as the sports suppliers Decathlon and Stadium or the Saks OFF 5TH outlets. They are taking over the sites being vacated by the multi-brand operations.

Demand from the catering sector for city-centre locations is extremely buoyant (according to consultancy JLL approx. 20% of current take-up in metropolitan areas), as not only eating out becomes more popular, but also new concepts emerge and international gastronomy chains enter the German market. Although food and drink outlets cannot keep pace with retail in the top locations, high-quality restaurants can rent up to EUR 150/m²/per month. Quality of shopping experience is thus on the rise and nearby retailers are benefiting as a result.

Tourists as a target group

According to a survey by the Berlin trade association, c. 25% of local sales are to travellers. Border locations such as Freiburg or Constance benefit from this trend as well as the metropolitan areas. It is not only the luxury brands and major department stores that have staff trained to receive tourists and merchandise labels in Chinese or Arabic. This approach is yielding results: surveys by specialist retail consultant BBE Handelsberatung show that tourists from the Arabian Peninsula and China spend EUR 376 and EUR 243, respectively, per person per day in Munich.

Last but not least, inner cities are receiving a boost from the reurbanisation megatrend: as more people with purchasing power move into the city, restaurants, retail outlets and service providers all stand to benefit.

Major changes are afoot in the significance and function of the main shopping areas in large cities. However, retailers and owners must react flexibly to cater for the demands of new customer groups if they are to make the transformation from pure shopping location to focal point for a leisure, social and shopping experience.

Retail properties in attractive, well-frequented inner-city locations remain good investments over a long-term horizon.

Retail overview Germany

	2011	2016	Change
Retail sales (EUR bn)	437.9	482.2	+ 10.1%
-food	156.8	172.0	+ 9.7%
-non-food	281.1	311.0	+ 10.6%
Online shopping share	5.6%	9.2%	+ 64.3%
Rents high street prime Berlin (EUR/sqm/year)	2700	3720	+ 37.8%
Yields high street prime Berlin	4.6%	3.5%	–110bps

Source: HDE, GfK, PMA

REWE plans its next moves – from expansion to digitalisation

Interview with Christian Schneider

Head of Expansion and National Location Development at REWE

Harry Hohoff, Head Marketing/PR Corpus Sireo

Christian Schneider: a qualified geographer who has been with REWE since 2002 and has served as Head of Expansion and National Location Development for REWE's conventional sales concepts since 2016, including REWE to Go, REWE supermarket formats and REWE Center.

REWE, one of Europe's most active food retailers and also one of our tenants in our real estate portfolios, tackles various customer types with specific concepts – we ask where the differences are on a European level and what is going to happen in the future.

Mr Schneider, what is your expansion strategy for the German market?

REWE Group has many different retail formats in its portfolio, more than any other German food retailer: the small convenience store and local market, the discounter PENNY, the classic full-range provider and the large consumer market. In terms of retail space we range from 100 square metres of retail space for REWE To Go in the highly-frequented inner-city locations, the standard REWE supermarket for almost anywhere in the city area and the REWE Center with up to 8000 square metres of retail space.

We can equip each new location with the right format and achieve an optimal result for our partners. Developers can choose from all these options when setting up a food retail outlet. They also benefit from our analysis tools, which we have developed empirically over a number of decades to ensure the property is used for maximum sustainability.

REWE is equally flexible regarding specific architectural and usage-related requirements, including for integrated locations, preservation orders or the latest technical and environmental standards. Sustainability is an integral part of that and it is invariably included in our sample building specifications. Buildings erected subsequently automatically attain Green Building certification from the German Sustainable Building Council (DGNB).

If we need to move or close one of our markets, we perform a systematic analysis to determine whether the location would be suitable for another format from our REWE Group portfolio. Our decision-making process is extremely short and therefore fast. This enables us to proactively offer our investors and tenants alternative uses, which is in turn conducive to long-term cooperation.

Which properties and locations are of particular interest to you?

Any site suitable for qualified local supply in urban, densely-populated city locations, district-based and residential areas or rural areas is basically of interest to us. The rule of thumb is that the shop should be as close as possible to the customer.

We are always on the lookout for retail space or sites and for real estate in need of renovation or at the planning stage suitable for rent or purchase. REWE supplies a wide range of products, particularly fresh produce, and we want to give the customer a special shopping ambience. Sustainable considerations are also important when constructing and operating commercial premises.

Supermarkets today must offer more than everyday foodstuffs. People want special assortments and creative gastronomic concepts in addition to high-quality and fresh produce. We also have to acquire and secure extraordinary locations.

REWE works closely with local farmers all over the country, especially for supplies of seasonal fruit and vegetables. Take REWE Richrath as an example: in the Cologne Opera Passage pedestrian area, we set up a flagship store on two floors in what used to be an electronics store: 34 % of its stock comprises products from the surrounding area. Moreover, most of the stock is not packaged. Other USPs shown by many REWE markets include independent production of food, gastronomy and pronounced individualisation.

REWE supermarket in Berlin's Schivelbeiner Strasse (Source: Architekten Kühnl + Schmidt)

REWE sells a lot of local produce in Cologne's Opera Passage. (Source: REWE)

How is the German market different from the French or UK market in your opinion?

One big difference is the regional structure, which favours the German market and its retail outlets, particularly those shops that are supplied locally.

The United Kingdom and France are strongly centralised around London and Paris with some very rural areas and few larger cities. France in particular has a high concentration of retail sites in the major centres, which means people who live in the country have to travel far to do their grocery shopping.

Germany, on the other hand, has a broader-based retail landscape to reflect its population, which is also spread out. Local suppliers are more decentralised in the rural areas and at the same time more close-knit than, for example, France. Therefore, although the customers still come by car to do their shopping, they tend to travel shorter distances.

How do you see digitalisation – what are the main opportunities and risks?

REWE realised a number of years ago that going online was the key to remaining a leading foodstuff supplier in Germany going forward. Online shopping is not a competitor to bricks-and-mortar retailing, it's more of a complement or add-on for our customers. Put it this way: online grocery selling is an extra distribution channel for REWE, it works well in tandem with conventional retailing as a means of gaining customers in a highly competitive market.

REWE supermarket in Frankfurt Heidestrasse (Source: Lyson Architekten und Ingenieure)

REWE's omnichannel strategy gives it an innovative edge here too, whereby it exploits its strong position in conventional and online grocery retailing to combine the two areas. Online and offline retailing will become indistinguishable over the long term as customers want to alternate between the two as they please: if they're in a hurry they go online, and if they are looking for inspiration, choice or advice, they'll go to a REWE supermarket.

Translated from German

The REWE Group is present in 19 European countries with a total of some 15 000 stores and employs almost 330 000 employees. In Germany alone there are over 235 000 employees working in over 10 000 stores in the main centres. Every week in the region of 75 million customers go to the company's stores and travel agencies spread across Europe. Including turnover of independent REWE traders, the REWE Group achieved total sales of EUR 54 billion in its continuing operations in 2016. The company generated over 70 % of its sales in Germany (EUR 39 billion).

Swiss retail spaces: catering concepts on the rise

Shops are losing out to online retailing – Switzerland is no stranger to the sea change in purchasing behaviour in recent years. A new trend is now emerging: these days, people want to go shopping as part of a social experience.

Francesca Boucard, Economist Real Estate, Swiss Life Asset Managers
Marcel Schmitt, Real Estate Portfolio Manager, Swiss Life Asset Managers
Alfonso Tedeschi, Real Estate Product & Service Manager, Swiss Life Asset Managers

The retail malaise is making its presence felt in Switzerland, too. Its impact is most pronounced in the non-food segment, especially clothing, shoes and media. In the past five years, index-linked retail turnover has decreased by slightly more than 3.7%, while the non-food segment has fallen by 6.4% (FSO, own calculations). Over the same period, turnover in the food segment gained just around 1.9% (FSO, own calculations). This is due partly to the growth of online shopping but also to the enduring popularity of shopping tourism just over the border.

Shopping as a social experience

Retailers and property owners are aiming to counter this trend through "experience retailing". As opposed to online shopping, a shopping centre offers more scope to turn shopping into an experience, especially of a social nature.

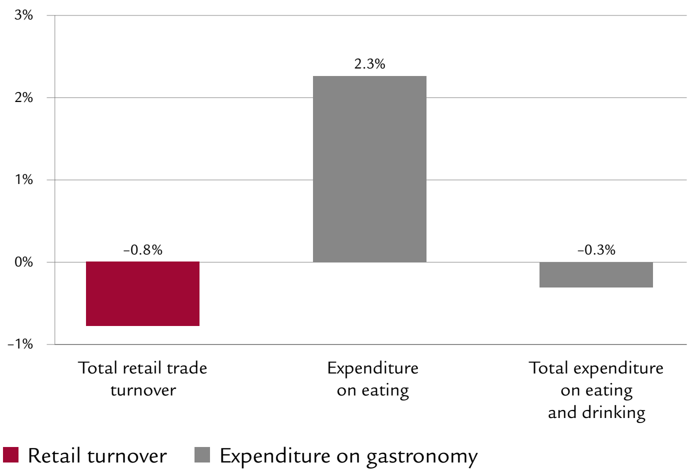
Evidence of this trend in Switzerland is mainly apparent through the new shopping centres currently at the planning stage. The "Mall of Switzerland" under construction in Ebikon near Lucerne and the "Stücki" in Basel have been designed as venues to pass the time and socialise, with a particular focus on eating out. Zurich's "Sihlcity" (2007) and the "Westside" in Bern (2008) were also designed along those lines. The customer is more likely to spend a long time there because of the wellness, sport, entertainment and food outlets.

Property owners have to stay in tune with the market and adapt their offering to the needs of the new market operators.

Quick and healthy catering at Joe & the Juice, Schifflände 26 in Zurich (Source: Joe & the Juice)

Going to a restaurant or café fulfils a fundamental need for social exchange and a "feel-good" experience. As a result, shopping centres are becoming more like places to go out for a meal, thereby exploiting the trend of eating out. According to the Federal Food Safety Office, 70 % of adults in Switzerland go out for lunch.

Retail sales development and gastronomy-related expenditure (2016 to 2015)



Source: GfK, amPuls Market Research, Swiss Life Asset Managers

Even on the high street, demand from restaurants and cafés is on the rise, whereas demand from retailers is largely stable. In 2016, total expenditure for eating and drinking out amounted to about CHF 22 billion or CHF 2600 a head (amPuls market research). By way of comparison, according to GfK, total retail sales in Switzerland amounted to CHF 94 billion in 2016 or CHF 11 200 a head. Relative to the previous year, expenses for eating and drinking out fell slightly overall by 0.3 %, which was mainly due to lower expenditure on drinks during the rainy spring and summer months. Expenditure on food, on the other hand, appreciated by 2.3 % over the previous year.

Don't tot up your own tab

Food courts can add attractive rental income, increase dwell time and provide additional footfall to nearby retail outlets. However, the location has to be right. Providers in the fast-casual segment want inner-city locations with a high footfall. Peripheral locations or areas with low visibility offer comparatively low potential.

The retail sector faces challenges. Property owners have to stay in tune with the market and adapt their offering to the needs of the new market operators. This calls for flexibility and familiarity with tenants' requirements. For example, restaurant operators want outdoor seating and terraces. The buildings must have the right technical installations to meet the tenants' refrigeration and air-conditioning needs – these factors need to be taken into account when carrying out a refurbishment. Joe & the Juice is an example from the Swiss Life portfolio for third-party clients in Switzerland of how traditional retail space can be converted into fast-casual restaurants or cafés. Proactive and intensive asset management focusing on tenants' requirements is the key ingredient. After all: you don't tot up your own tab.

Going to a restaurant or café fulfils a fundamental need for social exchange and a "feel-good" experience.

Retail overview Switzerland

	2011	2016	Change
Retail sales (CHF bn)	96.3	97.5*	+1.3 %
-food	48.1	50.8*	+5.6 %
-non-food	48.2	46.8*	–2.9 %
Online shopping share	4.5 %**	6.2 %	+37.8 %
Rents high street prime Zurich (CHF/sqm/year)	8500**	9000***	+5.9 %
Yields high street prime Zurich	3.0 %**	2.3 %***	–70bps

*2015; **Q4 2012; ***Q4 2016

Source: GFK, Statista, Wüest Partner

Retail properties in France and southern Europe: dichotomy and opportunity

The French retail market still appeals to investors, however they must be mindful of the specific characteristics of each market and the prospects of the tenants, who are facing competition from online commerce. Faced with a shortage of investment opportunities, attention is turning to Spain and Italy, where the economic fundamentals are improving.

Renaud Gust, Senior Portfolio Manager, Swiss Life REIM (France)

Retail market figures have been very strong over the past five years, in terms of consumption growth, rental growth and yield compression.

The difficult choice of high street assets

Low interest rates and a relative scarcity of assets aside (limited number of prime assets and strong demand from institutional investors), the situation regarding high street retail investment property in France is extremely ambivalent. We notice a two-tier market as much in terms of investment as brands. In fact, some players are profiting, for example luxury and smaller food retailers, while others are experiencing difficulty (value clothing, personal effects) due to competition from the online sector.

Vacancy rates have been rising steadily since 2006 and were about 7.9 % at the end of 2016 (source: MSCI) and the rental index remained stable over the same period. The peripheries of a growing number of small and medium-sized towns are filling up as the town centres are being deserted. On the other hand, the vacancy rates in the most prestigious locations of big cities or in tourist hotspots are extremely low, as tenants readily take on leases which seem to be detached from economic reality.

La Halle Secrétan, Paris 19th district (Source: Swiss Life REIM France)

Prime high street properties are held by many different owners and assets' valuation could be increased through appropriate institutional management.

What does the future hold for shopping centres?

Faced with a shopping centre revival and a race for size among regional and national malls, small and medium-sized retailers are progressively being absorbed by regional centres and online commerce. As a result, for centres with less than 15 million visitors, values are at best stable and at worst in free fall of up to 50 % (source: Cushman & Wakefield). Cost structures seem to penalise the tenants, while the risks incurred by the owners do not necessarily encourage investment.

Food supermarkets are also feeling the pinch (sales down by approximately 17 % since 2008 for the top 100 French hypermarkets, according to Cushman & Wakefield), increasing the difficulties encountered to the extent that even the large food retailers are being affected by new consumer behaviour.

The situation regarding high street retail investment property in France is extremely ambivalent.

Spanish market driven by economic recovery?

Are prime yields indicative of the scarcity of this asset class or a sign that the professionals believe that the economic upswing will allow value appreciation through rent increase?

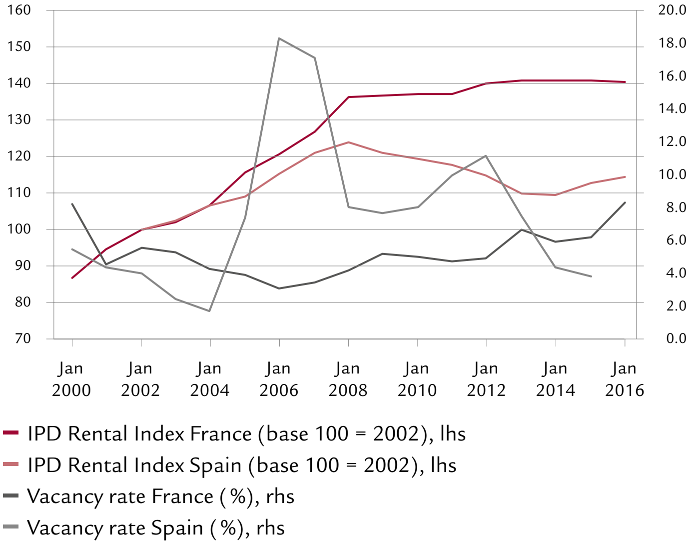
The sustained drop in vacancy rates since 2013, which is currently around 4 % (source: MSCI), combined with a pronounced upturn in consumption, seems to indicate the latter, as supported by the recovery in rental values since 2014. Lost ground is currently being made up, in terms of employment and growth, which indicates modest growth prospects, mainly due to high asset valuations.

Target acquisitions on the increase in Italy?

Shopping centres have consistently attracted investors since the start of the decade. Foreign investors are showing a growing preference for locations in city centres or secondary towns, not least due to the lack of opportunities in their usual preferred locations (Milan, Rome), the price and an apparent stabilisation in prime rents.

With their growing interest in the high street or in secondary towns (traditionally associated more with local investors), foreign investors seem to be opening up to new opportunities.

Evolution in rent and vacancy France/Spain



Source: MSCI

Retail overview France

	2011	2016	Change
Retail sales (EUR bn)	434.2	443.4*	+2.1 %
-food	192.4	199.6*	+3.7 %
-non-food	241.8	243.8*	+0.8 %
Online shopping share	4.0 %	8.0 %	+100.0 %
Rents high street prime Paris (EUR/sqm/year)	6186	7600	+22.9 %
Yields high street prime Paris	4.5 %	2.8 %	–170bps

*2014

Source: Eurostat, Fevad, PMA

An appetite for restaurants – optimism for the UK retail sector

The UK is considered a retail trendsetter and currently has the highest level of online retailing across Europe. Despite the ongoing challenges for the traditional high street, there are attractive investment opportunities in the leisure and restaurant sector.

Francesca Boucard, Economist Real Estate, Swiss Life Asset Managers, seconded to Mayfair Capital

From an outsider's perspective, retail in the UK seems to be one of a kind in Europe, be it innovative store concepts or up-and-coming brands. These usually start in the UK before transferring over to continental Europe. London maintains its international retail destination status but also, throughout the UK regions, residents are increasingly spending their leisure time shopping and eating out. As traditional retailers have contracted, landlords have turned to the leisure sector as a means of enhancing the shopping experience.

The UK is a trendsetter, so the growth of online shopping should not be surprising and now accounts for over 16% of retail sales. Growth is expected to slow but with efficiencies in order fulfilment and consumer demand for more immediate delivery, e-commerce could increase to around 30% by 2030 (IPE). Due to this rapid growth and changing consumer habits, retailers, as well as landlords, need to adjust their property requirements and portfolios as many traditional shops are replaced by restaurants, coffee shops or take-away formats.

Strong appetite for the food sector

So whereas the number of clothing, footwear and white-goods shops decreased by 2185 between January 2014 and January 2017, the number of restaurants increased by 2998, growth of 9%. As a result, the food & beverage sector now accounts for 20% of retail and leisure units on the UK's high streets (Cushman & Wakefield). The casual dining sector remains dominated by long-established brands such as Pizza Express and Nando's. Restaurants owned by private equity firms are active in the market as they seek to grow their businesses often with new formats. Investor appetite is supported by forecasts of 3.8% growth in consumer spending on eating out during 2017, well ahead of overall consumer spending expectations. From 2016 to 2021, the eating-out market is forecast to increase by 17% and be valued at over £103 bn (Cushman & Wakefield).

Retailers and landlords need to adjust their property requirements and portfolios to the rapid growth of ecommerce and changing consumer habits.

Thematic approach – looking for sustainable income

Mayfair Capital's "thematic" investment approach targets locations, sectors and buildings where occupational demand will grow and therefore underpin a sustainable income stream and drive rental growth. These themes include, among others, the impact of technology on how we shop and how consumer demands and our lifestyles in general are changing. The research leads to the conclusion that restaurants address many of these themes and so are an attractive investment opportunity.

People are increasingly spending their leisure time shopping and eating out, as here in Exeter.

Restaurants – an attractive investment

There are some basic facts that make restaurants an attractive real estate investment. Firstly, restaurants tend to be let on leases of ten to 25 years, significantly longer than traditional retail units (five to ten years). Secondly, the tenant incentives tend to be shorter. Finally, restaurant rents tend to be at a premium to adjacent retail rents. This is largely a reflection of the required planning and licensing permits, which are often difficult to secure. Overall, restaurants are considered a good alternative to traditional retail investments.

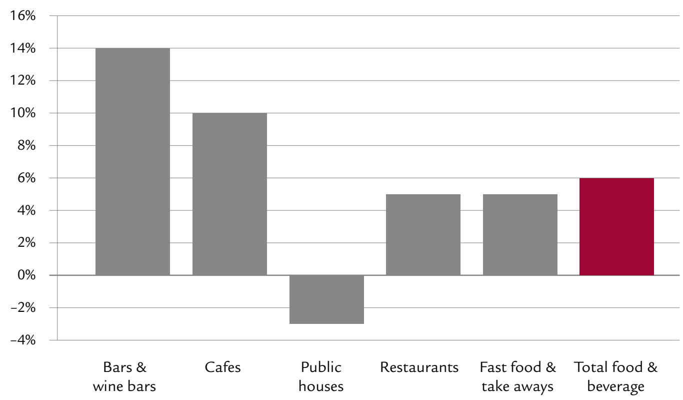
Mayfair Capital's research into the sector is increasingly focussed on a few target locations: Greater London, as opposed to Central London and university cities or tourist destinations – locations with strong demographic fundamentals which should see increased and sustained consumer demand, but where rents remain affordable. The operators need to be strong, so they tend to be the more well-established brands as mentioned above. Rents reviews, which are typically every five years in the UK, should preferably be to open market rather than fixed levels, as strong rental growth expectation is a key requirement. In one property owned by Mayfair Capital, by the O2 arena in Greenwich, London, the rent was increased at review by 44 %, resulting in value appreciation of over 25 %.

(Source: Highlevel Photography & Filming)

"Experience retailing" as a long-term trend

Potential impacts of the Brexit negotiations and its outcome on retail and the restaurant sector need to be kept in mind, as the latter is heavily dependent on foreign workers. With inflation rising, consumer spending will also be increasingly affected. However, some experiences can never be ordered online, such as a get-together with good food and drink. This "experience retailing" is a trend that is expected to increase in the UK and there is good reason to believe that continental Europe will follow.

Growth in food and beverage units 2014 – 2017



Source: Cushman & Wakefield, Experian GOAD

Retail overview UK

	2011	2016	Change
Retail sales (GBP bn)	303.2	351.1	+15.8 %
-food	141.8	154.5	+8.9 %
-non-food	143.0	163.5	+14.3 %
Online shopping share	8.2 %	14.5 %	+76.1 %
Rents high street prime London (GBP/sqm/year)	7804	10 226	+31.0 %
Yields high street prime London	4.0 %	2.8 %	–120bps

Source: ONS, PMA

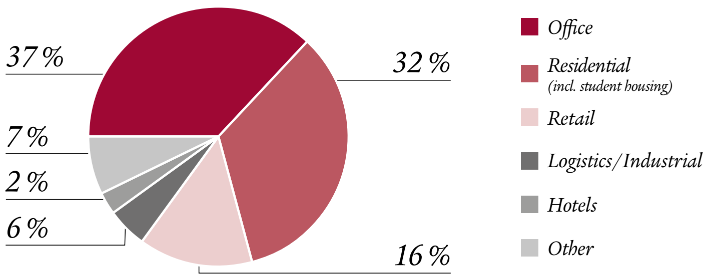
Real estate – facts and figures

Assets under management and administration

(in CHF bn)	*AuM*	*REuA*[1]		*AuMA*[2]
Total	209.8	27.8	▶	237.6
REuM[3]	*46.5*		▶	*Total REuMA*[4] *74.3*

[1] Real estate under administration (not included in Swiss Life AuM definition) [2] Assets under management and administration [3] Real estate under management [4] Real estate under management and administration

Breakdown by real estate sector

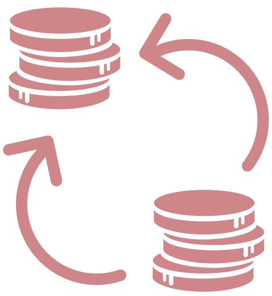


REuM CHF 46.5 bn

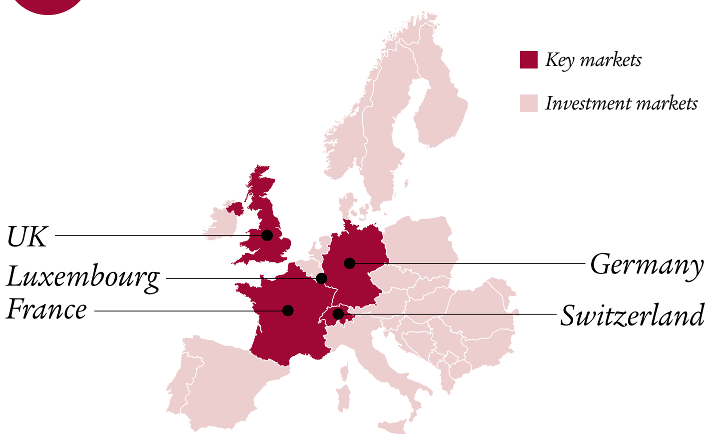
Transaction volume real estate *(in CHF bn)*

8.0

(as of 31.12.2016)



Our investment universe



All figures as of 30 June 2017, unless stated otherwise

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