

Lucerne University of
Applied Sciences and Arts

**HOCHSCHULE
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Wirtschaft

Real Estate Asset and Investment Management for institutional investors in Switzerland

Prof. Dr. Michael Trübstein
ARES-Conference
Fort Myers, April 17th 2015



Agenda

- 1 Introduction and current trends
- 2 Empirical results for direct real estate investments
- 3 Empirical results for indirect real estate investments
- 4 Summary and outlook

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1 Introduction and current trends

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4 Summary and outlook

Pension funds in Switzerland and current trends

- Strong **decrease** in the number of **pension funds** to currently 2,000 institutions
- Real estate investments of **CHF 120 bn**, therefore „only“ **CHF 10 bn** abroad (of CHF 720 bn)
- **Positive macroeconomic conditions** might lead to higher investments in real estate (eg. negative interest rates of the SNB, low unemployment rate, economic upturn)
- Challenges with **strong currency, regulation of immigration** or a possible **economic downturn**
- Strong **increase** in the **real estate markets** in the last years might lead to a suboptimal allocation of real estate investments
- Challenges might be seen in a lack of **suitable real estate assets**, the future importance/increase **of indirect real estate investments**, targeting **real estate strategies** and **management of the investments**

Targets of the study and empirical approach



With the support of the
Association of Pension Funds in
Switzerland



Folie 5, April 17th, 2015

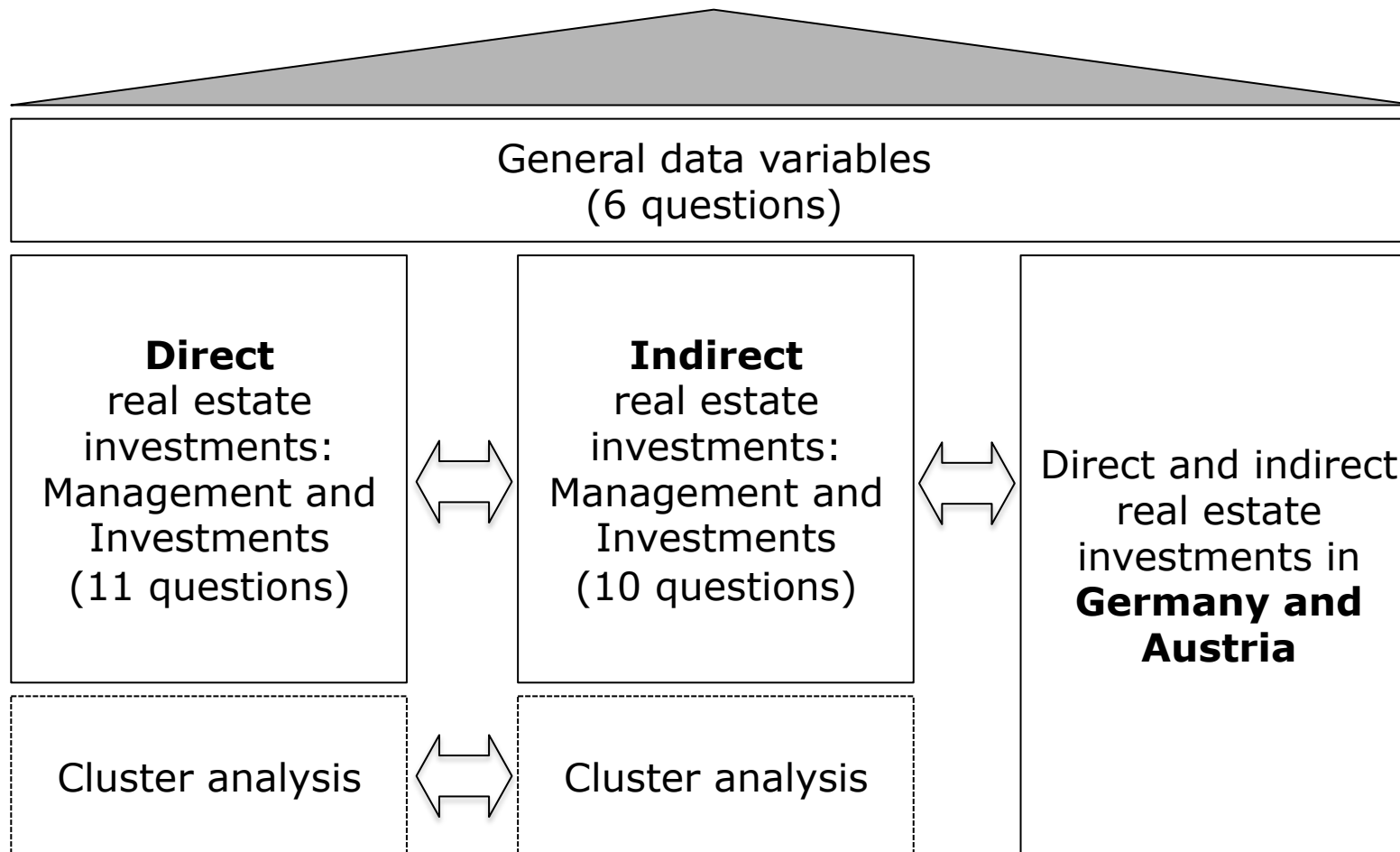
Targets of the study

- Obtain a **general overview** of real estate investments and real estate asset management of **institutional investors**
- Analysis of **direct** and **indirect** real estate investments and discussion of **investment and management** trends
- **Classification** of investors based on their **behaviour**

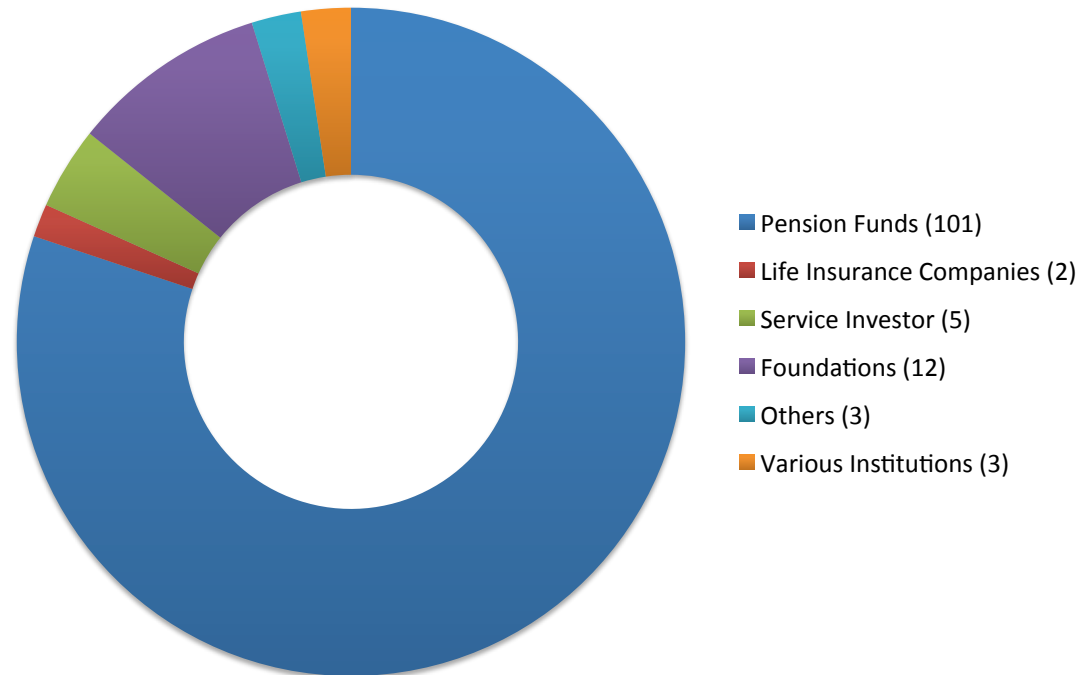
Empirical framework

- **Empirical study** with questionnaires sent to pension funds, life insurance companies and foundations.
- **Questionnaires** were split up in 3 parts with a total of 27 questions, mostly „multiple choice“
- For Switzerland, **126 institutions** answered, representing **CHF 440 bn** of invested assets and **CHF 56 bn** of investments in real estate
- The survey was conducted between **July and September 2014** in **Switzerland** and the Principality of **Liechtenstein** (as well as in **Germany** and **Austria**)

Structure of the empirical study of Real Estate Asset Management



Structure of the sample: Dominance of pension funds in the sample



- In the sample, **pension funds** obtain a dominant position with over **80 %** of the analyzed **questionnaires**
- Clustering based on **behavioural aspects**

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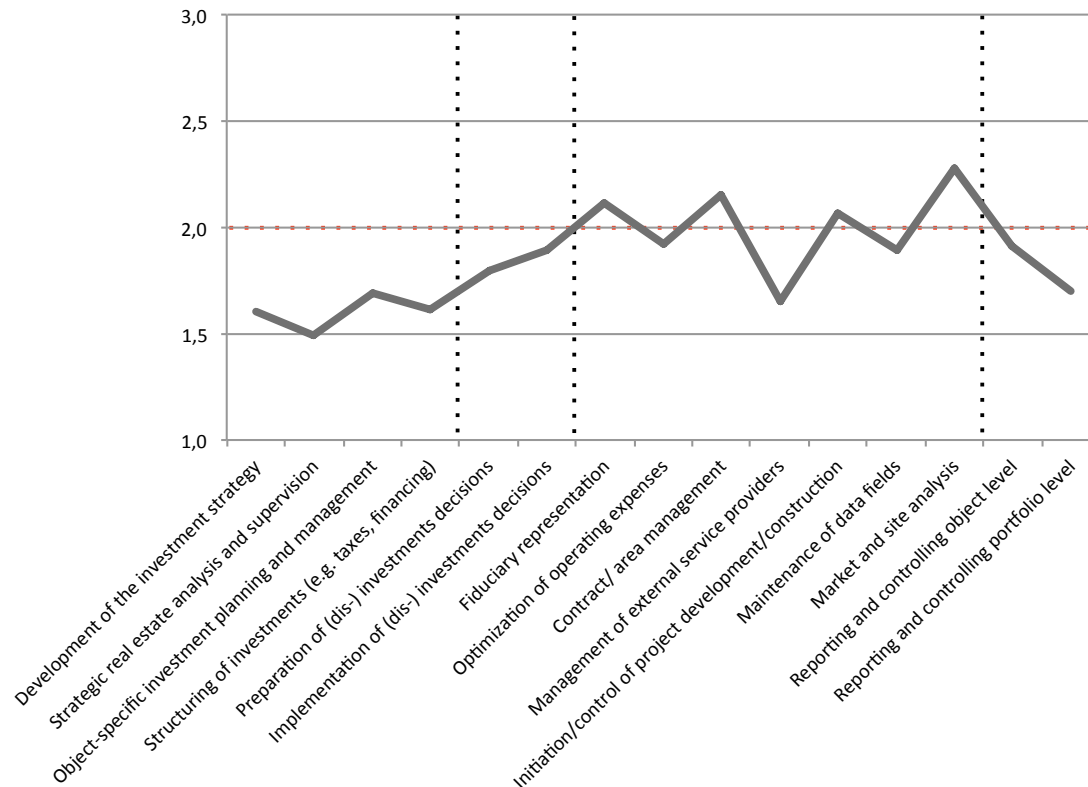
Strategic and operational tasks of a Real Estate Asset Management for direct investments

strategy	transaction management	management	controlling
<ul style="list-style-type: none">• Development of the investment strategy• Strategic real estate analysis and supervision• Object-specific investment planning and management• Structuring of investments (e.g. taxes, financing)	<ul style="list-style-type: none">• Preparation of (dis-) investments decisions• Implementation of (dis-) investments decisions	<ul style="list-style-type: none">• Fiduciary representation• Optimization of operating expenses• Contract/area management• Management of external service providers• Initiation/control of project development/construction• Maintenance of data fields• Market and site analysis	<ul style="list-style-type: none">• Reporting and controlling object level• Reporting and controlling portfolio level



- Analysis of **15 variables** in the area of strategy (4), transaction management(2), management of the assets (7) und reporting/controlling (2)
- Development of different **structures of the organization**

Current organization of real estate asset management tasks



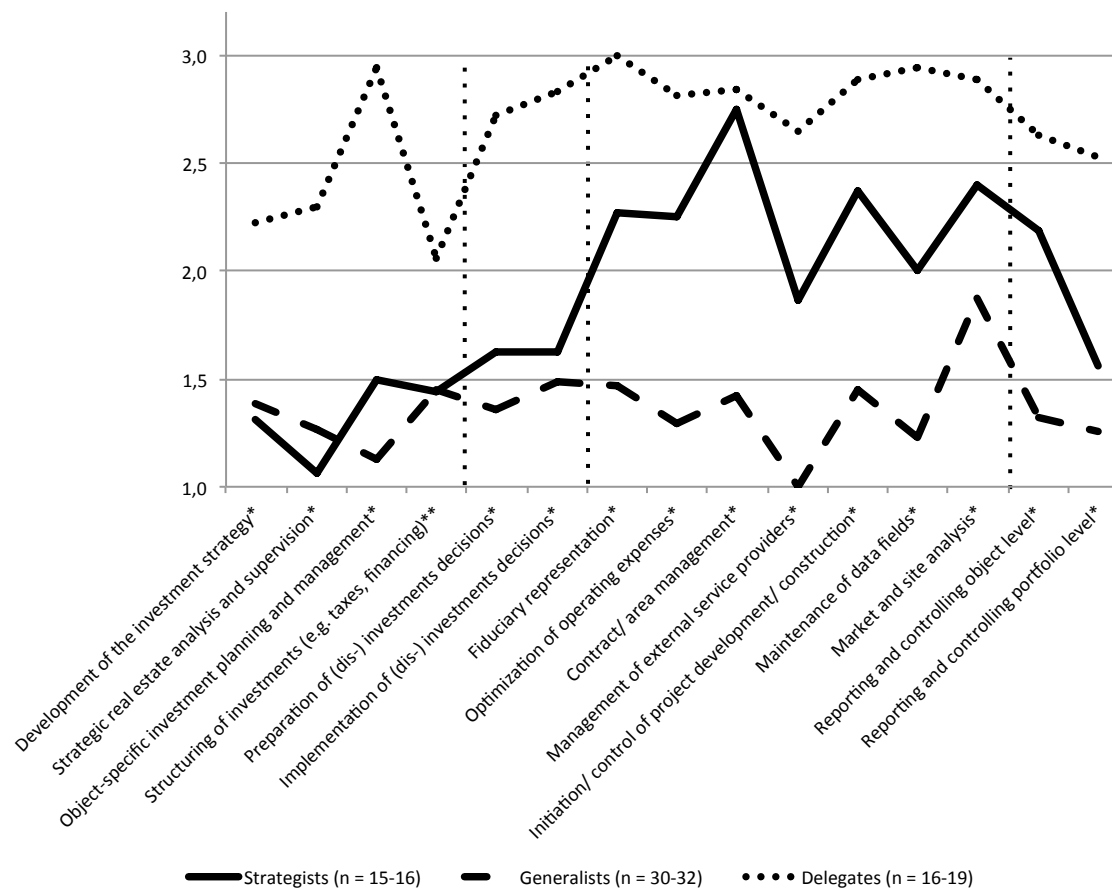
1 = internal organization
2 = in cooperation with external services
3 = external organization

(n = 63 – 66)

* highly significant
** significant

- Tendency towards an **internal** organization, especially for strategic tasks
- Alternating organizational structures for the **management** of real estate

Current organization of real estate asset management tasks in different clusters

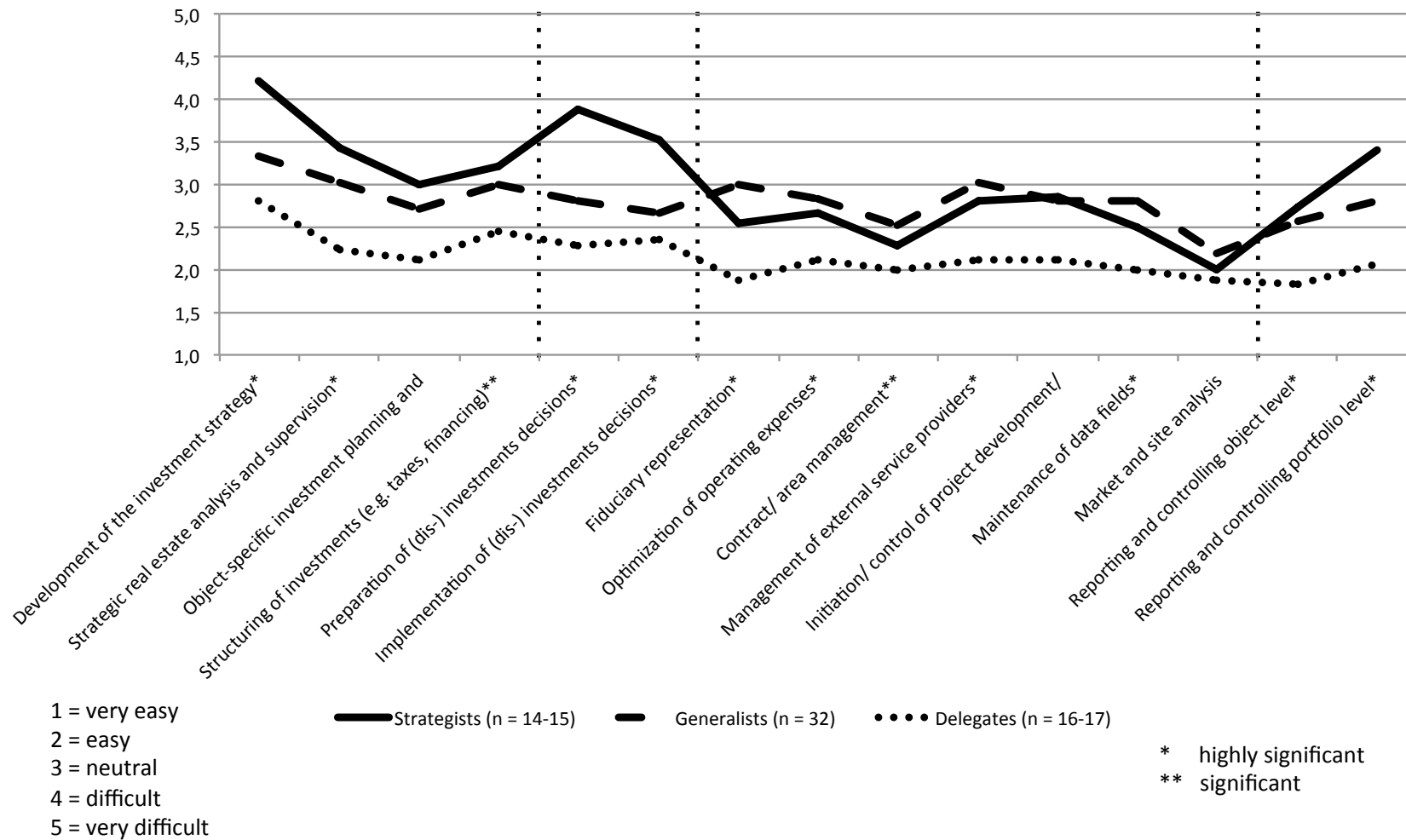


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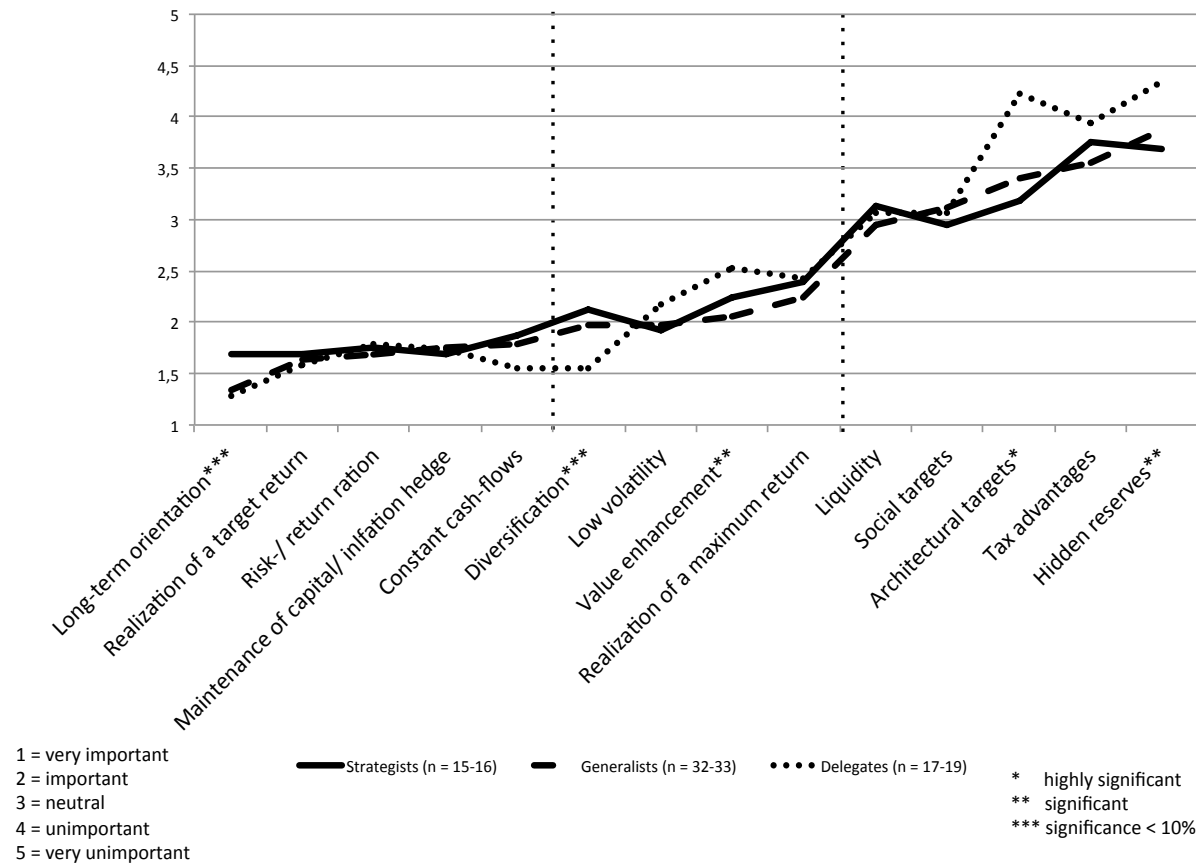
* highly significant
** significant

- Clustering in **3 groups** with the *k-means-method* based on the **actual organization** and the **possibility to externalize** these tasks
- Different attitudes to **internalize** and **externalize** management tasks

Evaluation of a (possible) externalization of real estate asset management tasks



Investment criteria for direct real estate investments in the clusters



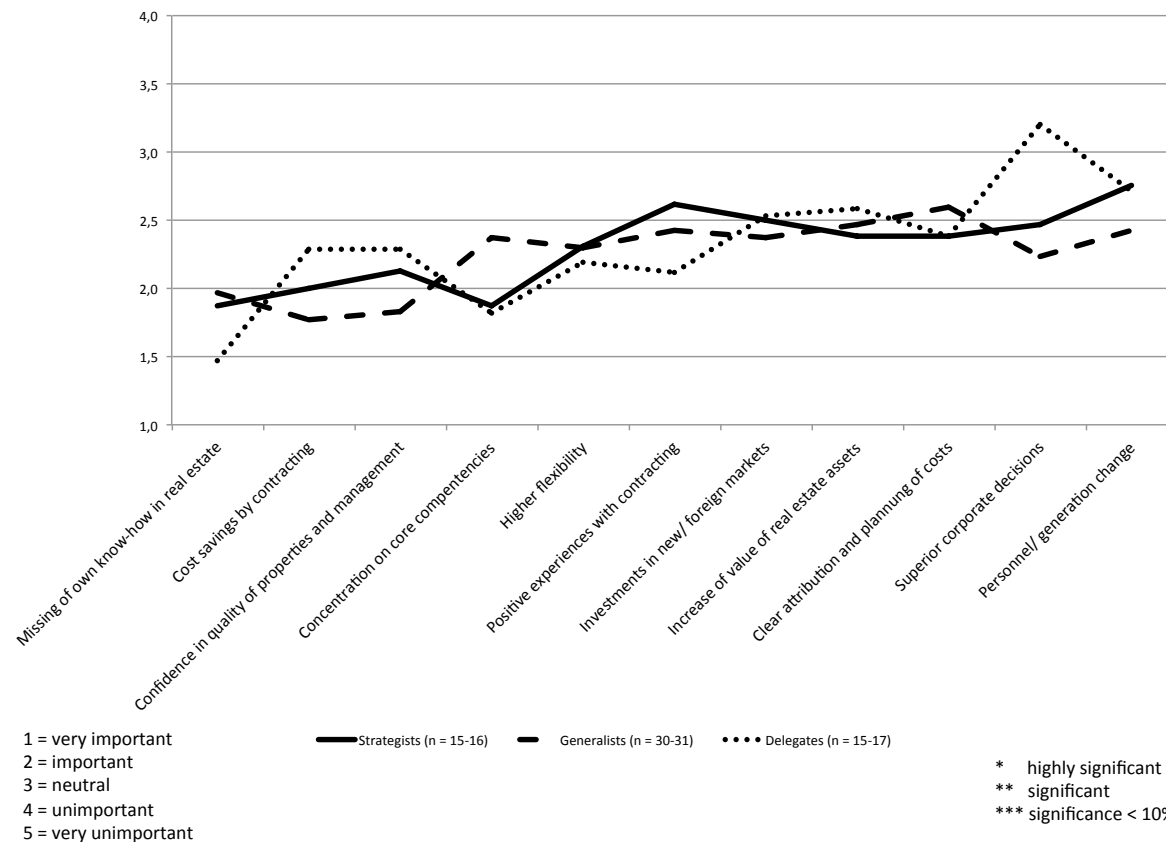
- **Long term orientation, security aspects and risk-/return-structures** as important criteria for direct real estate investments
- **Additional targets** are of lower importance

Returns for direct real estate investments

		Total return CH in 2012	Total return CH in 2013	Change (in %)
Strategists (n = 14)	Average	5.70	4.92	-13.62
	Deviation	3.66	3.05	-16.68
Generalists (n = 27, n = 26)	Average	5.40	5.29	-1.97
	Deviation	2.06	1.30	-37.02
Delegates (n = 17)	Average	6.68	5.46	-18.26
	Deviation	4.56	1.96	-56.92
Total (n = 58, n = 57)	Average	5.85	5.25	-10.18
	Deviation	3.34	2.02	-39.65

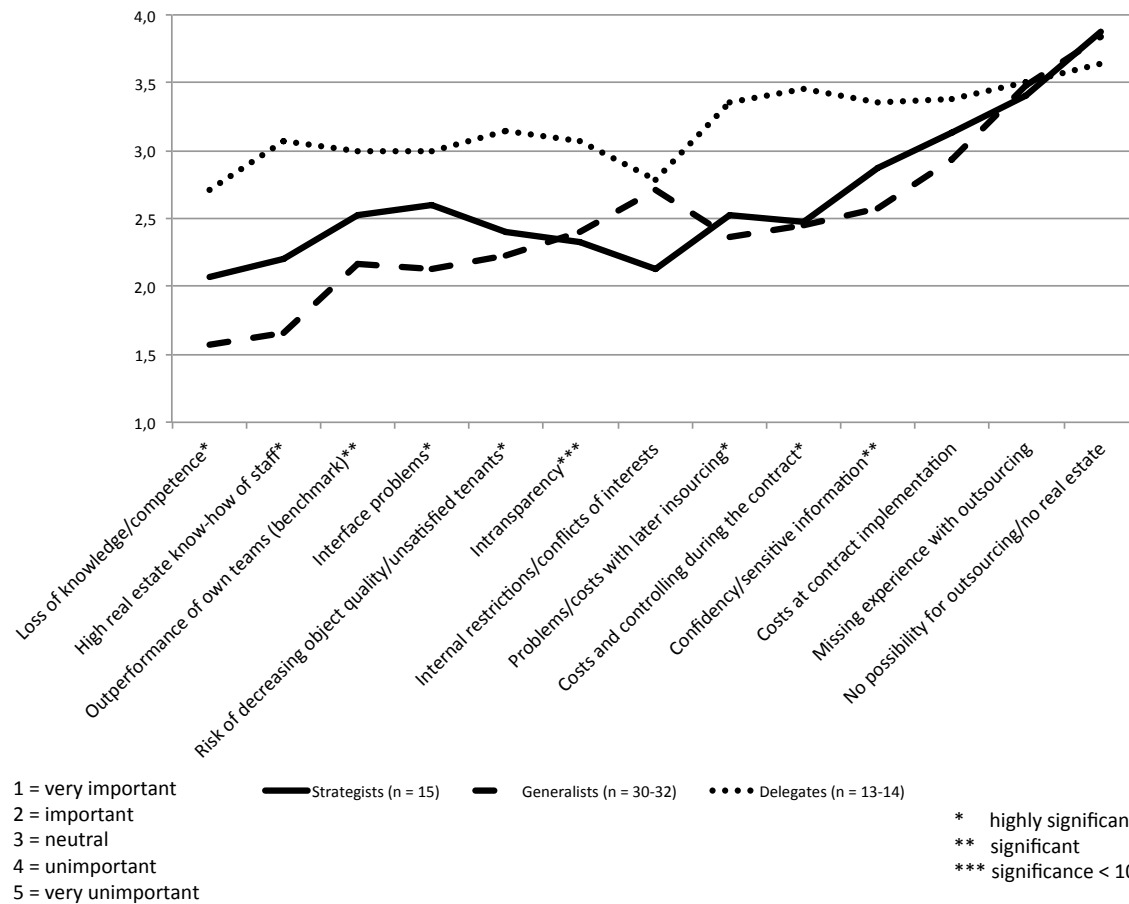
- **Returns** (total returns) decreased during the last year and fluctuate **between 5 and 7 %**
- Decrease of the **standard deviation** implying a homogeneous market with difficulties to find investment opportunities

Criteria for an externalization of real estate asset management tasks



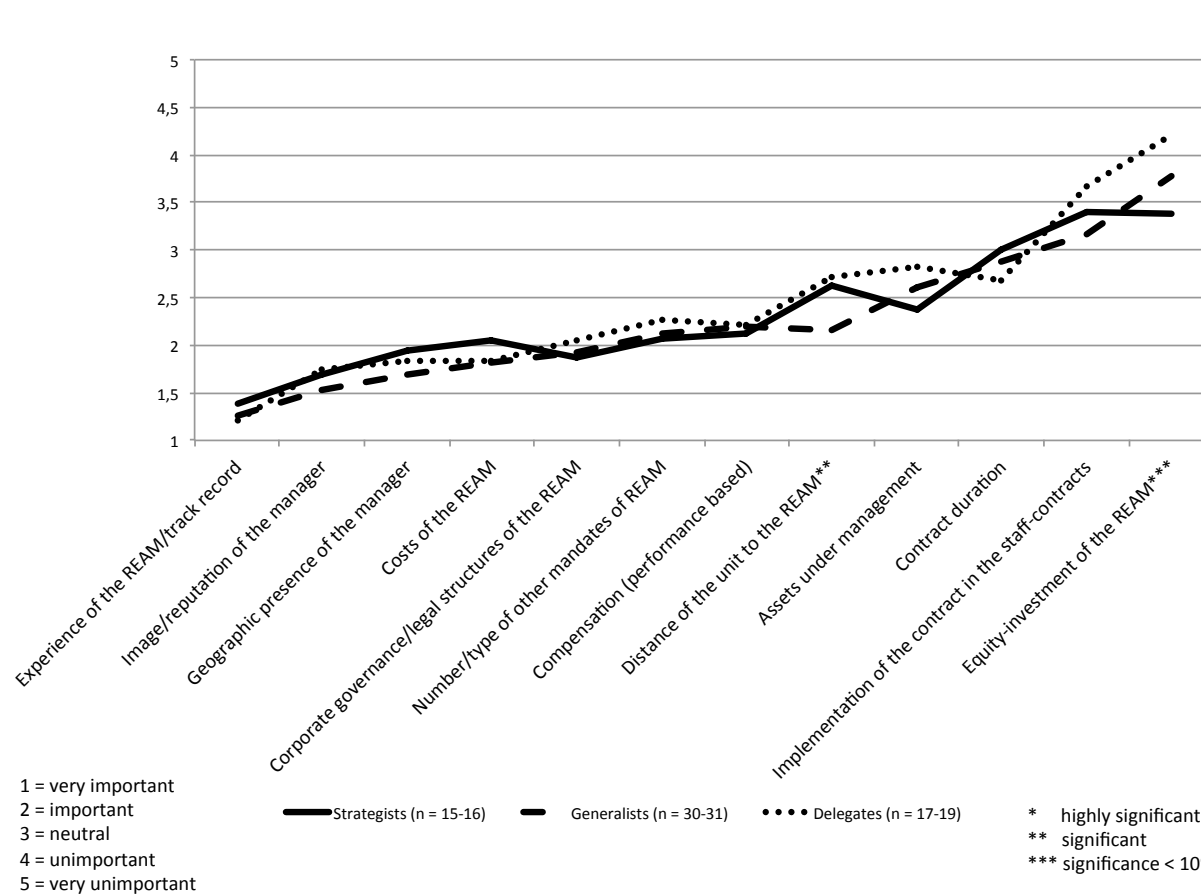
- **No** very important **criteria** could be observed
- **Missing know-how** and **cost-saving** as important **criteria**
- **Missing staff** is not seen as a **major criteria** implying also no tendency towards **indirect investments**

Criteria *against* an externalization of real estate asset management tasks



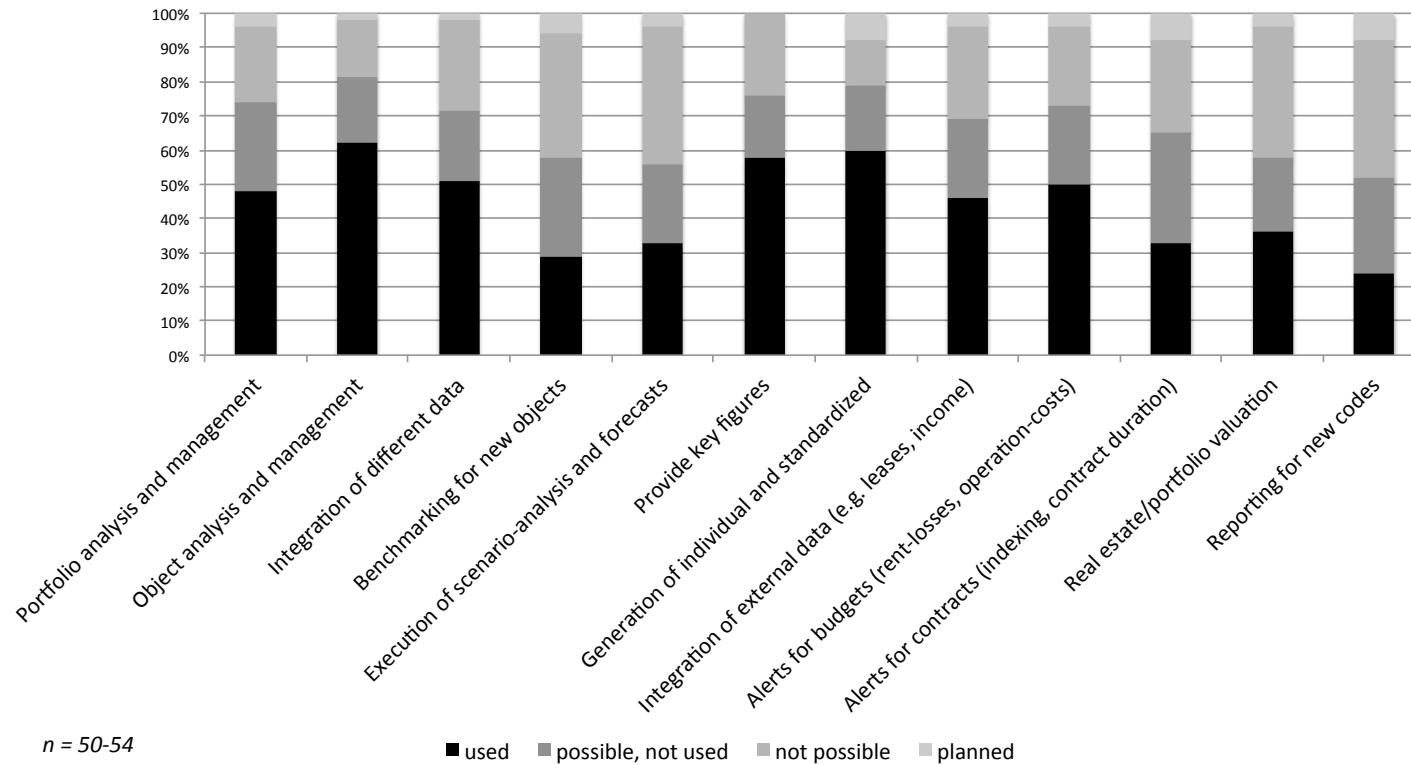
- **Competence and know-how** in the institution as important criteria
- **Risk of decreasing object quality**

Criteria for the selection of a real estate asset management



- **Experience, image and reputation** as well as **presence of the managers** and **costs** as important criteria
- **Contractual aspects** are of minor importance (vs. Principal-Agent-Theory)
- **High level of confidence**
- **Difficulties for new market players**

Use of real estate asset management-software for selected tasks

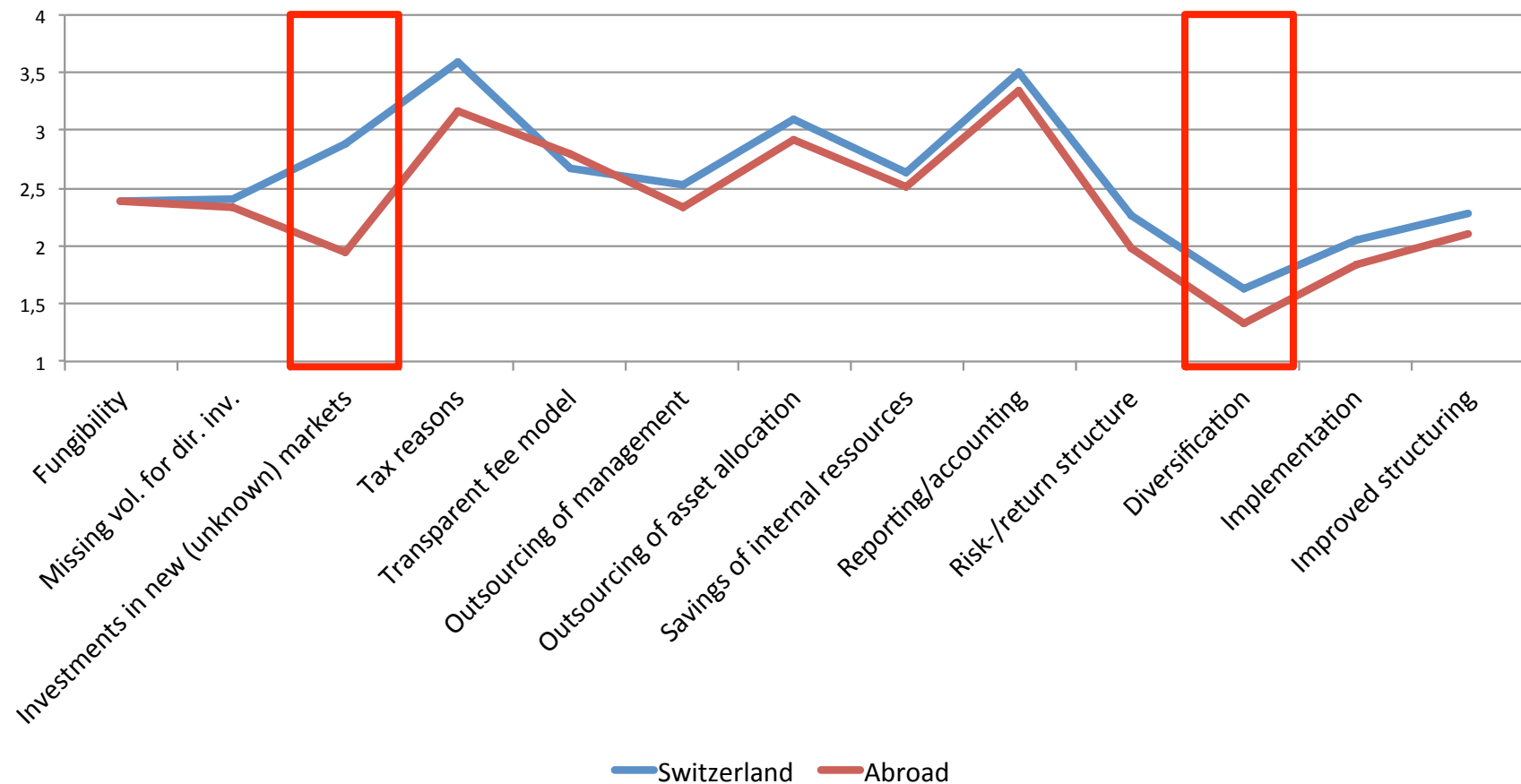


- **Use of software is of minor importance** for the analyzed investors, especially for strategic tasks
- Reasons have to be analyzed – possibly no suitable software products available?

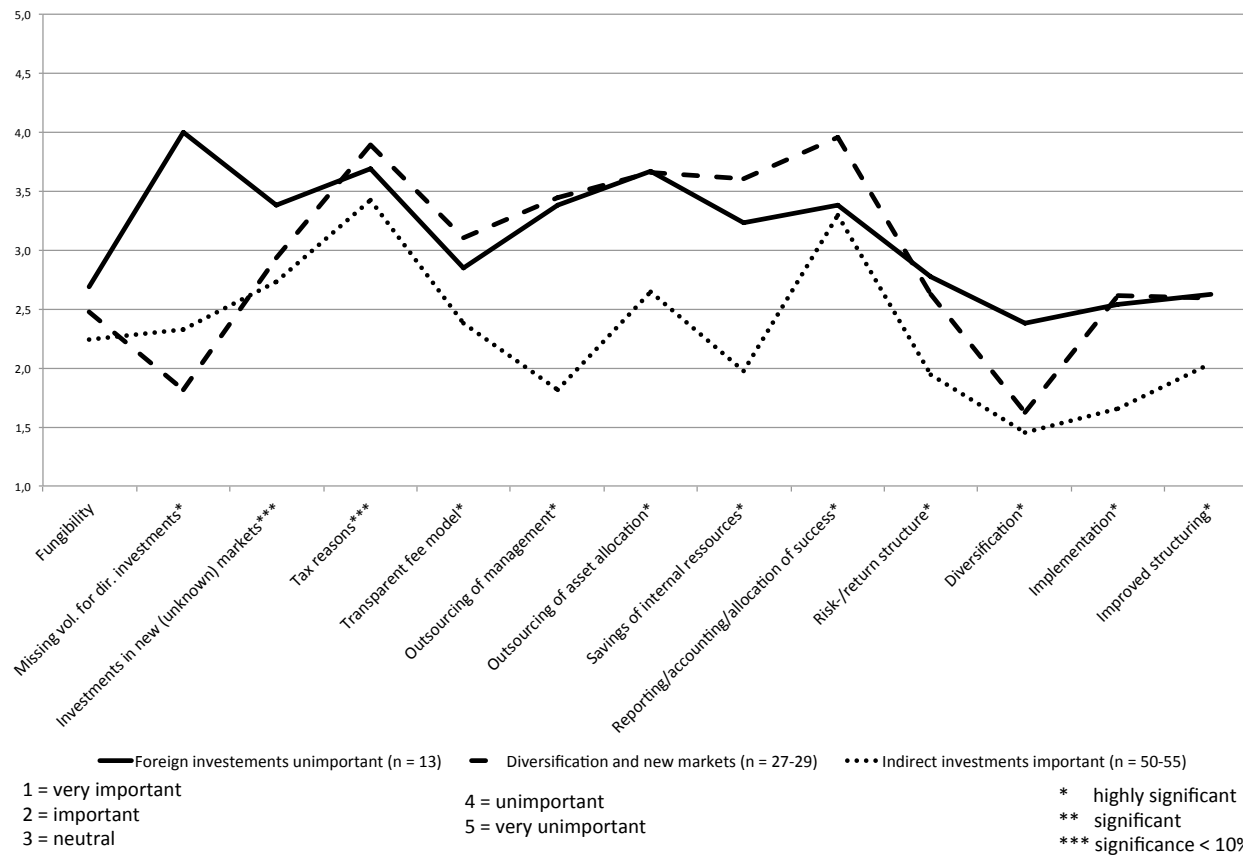
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Criteria for indirect investments in Switzerland and abroad

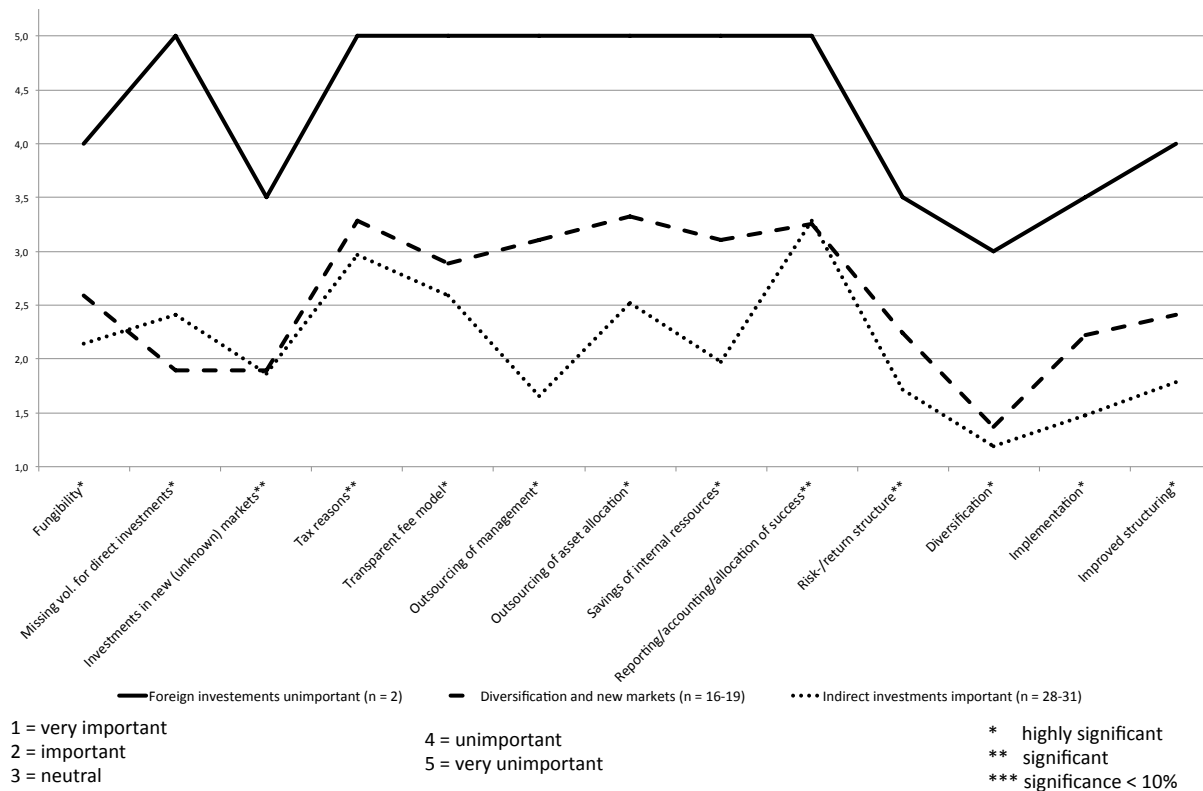


Criteria for indirect investments in Switzerland: Cluster analysis



- **Clustering** of the institutions in **3 groups**, based on their reasons for indirect investments in Switzerland and abroad
- Different evaluations implying **different investment preferences**

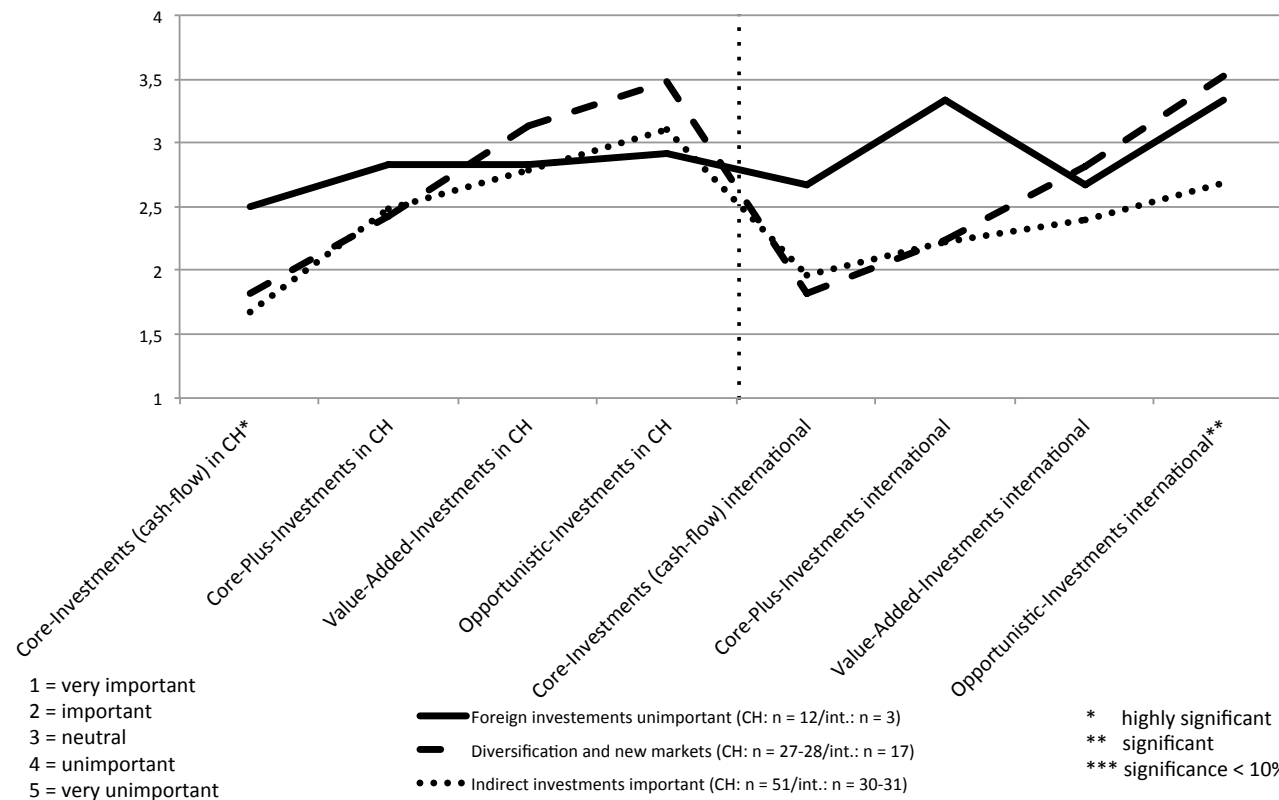
Criteria for indirect investments abroad: Cluster analysis



- **Clustering** of the institutions in **3 groups**, based on their reasons for indirect investments in Switzerland and abroad

- Different evaluations implying **different investment preferences**

Preferred investement styles in Switzerland and abroad



- "normal" behaviour for pension funds

- Higher risks with **lower importance**

- For investments abroad, **higher risks** are accepted

Investments in indirect real estate vehicles

	CH-Investment foundation (direct real estate)	CH-Investment foundation (fund of funds)	SICAVs	RE stocks/REITs	Fund of Funds	Open-ended funds	Closed-ended funds	Special fund (open-ended)	Opportunity-Fonds/ real estate private equity-funds	Infrastructure funds	Others
Switzerland											
Total	64,94	26,45	7,78	15,54	41,82	42,94	3,00	35,97	5,00	7,50	69,00
No. of institutions (n)	76	11	8	31	10	34	1	19	1	2	5
Standard-Deviation	30,73	23,11	11,03	12,00	38,27	29,97	.	28,19	.	3,54	36,47
Abroad											
Total	65,53	42,75	46,55	55,31	57,00	49,58	68,50	49,21	34,43	18,33	31,67
No. of institutions (n)	15	13	4	13	5	10	2	11	7	3	3
Standard-Deviation	31,31	31,89	38,71	40,04	42,37	37,18	44,55	34,65	28,18	2,89	12,58



- For investments in **Switzerland, Swiss Investment Foundations** are clearly of highest importance, followed by **listed vehicles** (stocks and funds)
- For investments **abroad**, a **wide range** of investment vehicles can be found

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Situation of Swiss Investment Foundations

KGAST Immo-Index	Nettovermögen	Anteil in %	Handel
Adimora Omega (Wohnimmobilien)	114'970'001	0.4%	geschlossen
ASSETIMMO G (Geschäftsliegenschaften)	700'658'997	2.4%	geschlossen
ASSETIMMO W (Wohnliegenschaften)	1'273'134'033	4.4%	geschlossen
Avadis Immobilien Schweiz Geschäft	662'883'301	2.3%	geschlossen
Avadis Immobilien Schweiz Wohnen	1'952'060'059	6.7%	geschlossen
CSA Real Estate Commercial	755'754'578	2.6%	geschlossen
CSA Real Estate Switzerland	4'657'808'105	16.1%	geschlossen
CSA Real Estate Switzerland Residential	475'404'114	1.6%	geschlossen
Ecoreal Suissecore Plus	519'209'534	1.8%	geschlossen
HIG Immobilien Schweiz	643'364'014	2.2%	geschlossen
Imoka Immobilien Schweiz	435'950'012	1.5%	geschlossen
Patrimonium Wohnimmobilien Schweiz	179'445'297	0.6%	offen
Pensimo Casareal (Wohnimmobilien)	853'179'993	2.9%	geschlossen
Pensimo Proreal (Geschäftsimmobilien)	239'580'002	0.8%	geschlossen
Sarasin Nachhaltig Immobilien Schweiz	302'553'894	1.0%	geschlossen
Swiss Life Geschäftsimmobilien Schweiz	828'854'492	2.9%	geschlossen
Swiss Life Immobilien Schweiz	1'000'238'281	3.4%	geschlossen
Swisscanto Immobilien Schweiz	5'328'999'542	18.4%	offen
Telco Immobilien Schweiz	661'520'325	2.3%	offen
Turidomus Casareal (Wohnimmobilien)	2'619'810'059	9.0%	geschlossen
Turidomus Proreal (Geschäftsimmobilien)	738'950'012	2.5%	geschlossen
UBS Immobilien Schweiz	1'648'686'890	5.7%	geschlossen
UBS Kommerzielle Immobilien Schweiz	426'801'239	1.5%	geschlossen
Zürich Immobilien - Geschäft Schweiz	501'866'791	1.7%	geschlossen
Zürich Immobilien - Traditionell Schweiz	476'829'987	1.6%	geschlossen
Zürich Immobilien - Wohnen Schweiz	1'005'689'209	3.5%	geschlossen
Stand: 02.02.2015	29'004'202'761		

Quelle: Angaben der Stiftungen, KGAST

Future indirect investments by type and country

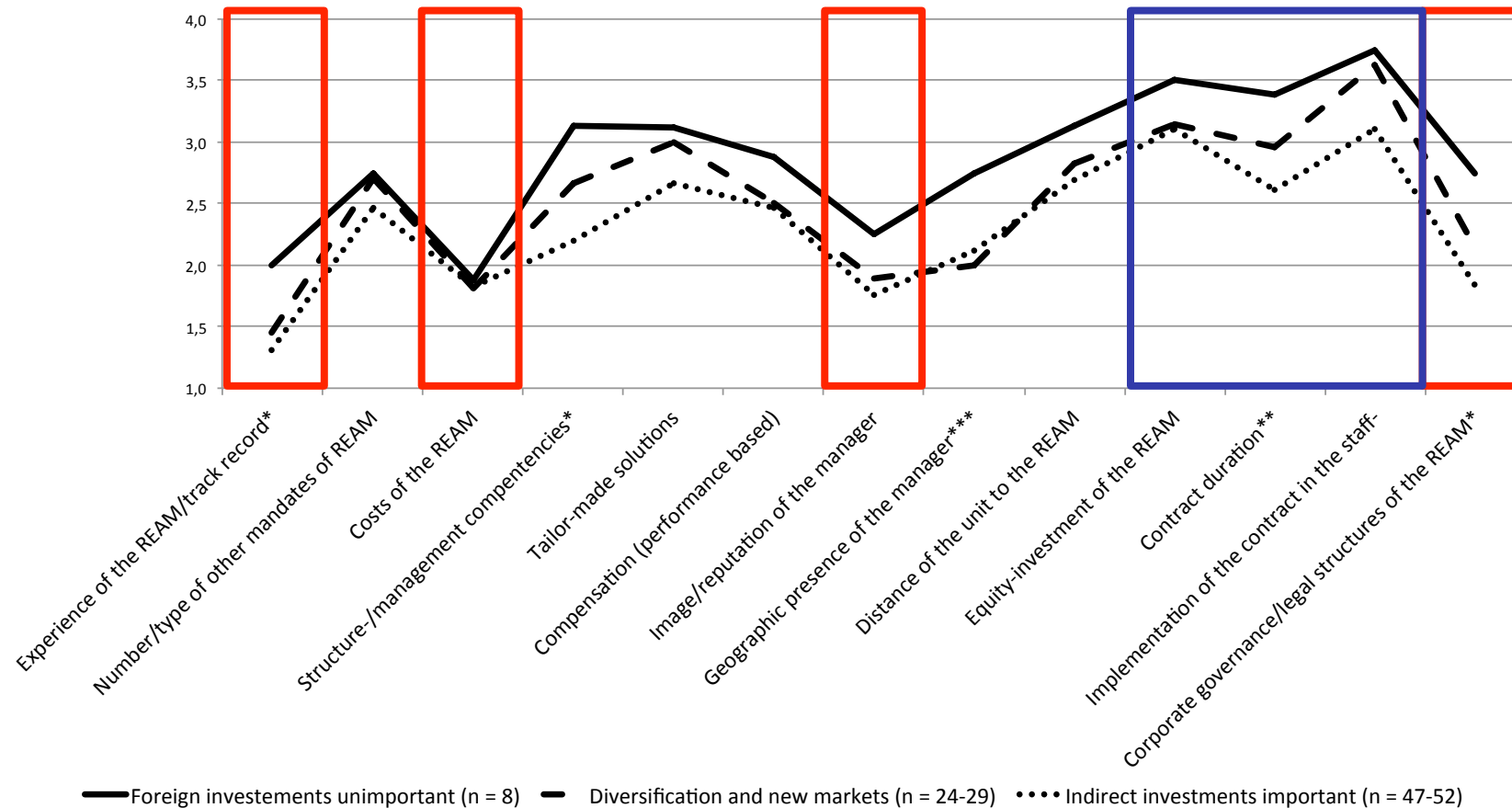


“Real estate investments of **CHF 120 bn**, therefore
„only“ **CHF 10 bn** abroad (of CHF 720 bn)”

Future indirect investments by type and country

	Office	Retail	Residential	Industry	Development	Sum
Switzerland	35	18	63	23	18	157
Germany	16	9	12	9	2	48
USA	13	9	11	8	5	46
Asia	12	10	10	9	4	45
Northern Europe	13	11	8	9	3	44
UK	7	5	5	5	3	25
Belgium/ Netherlands/Lux.	7	4	6	5	2	24
France	5	3	5	4	1	18
Others	5	5	3	3	1	17
Austria	4	2	4	2	0	12
Spain	2	2	3	2	0	9
Italy	2	2	3	2	0	9
Eastern Europe	2	1	2	1	1	7
Latin America	1	1	2	2	1	7
Sum	124	82	137	84	41	468

Criteria for the selection of an asset management for indirect real estate investments

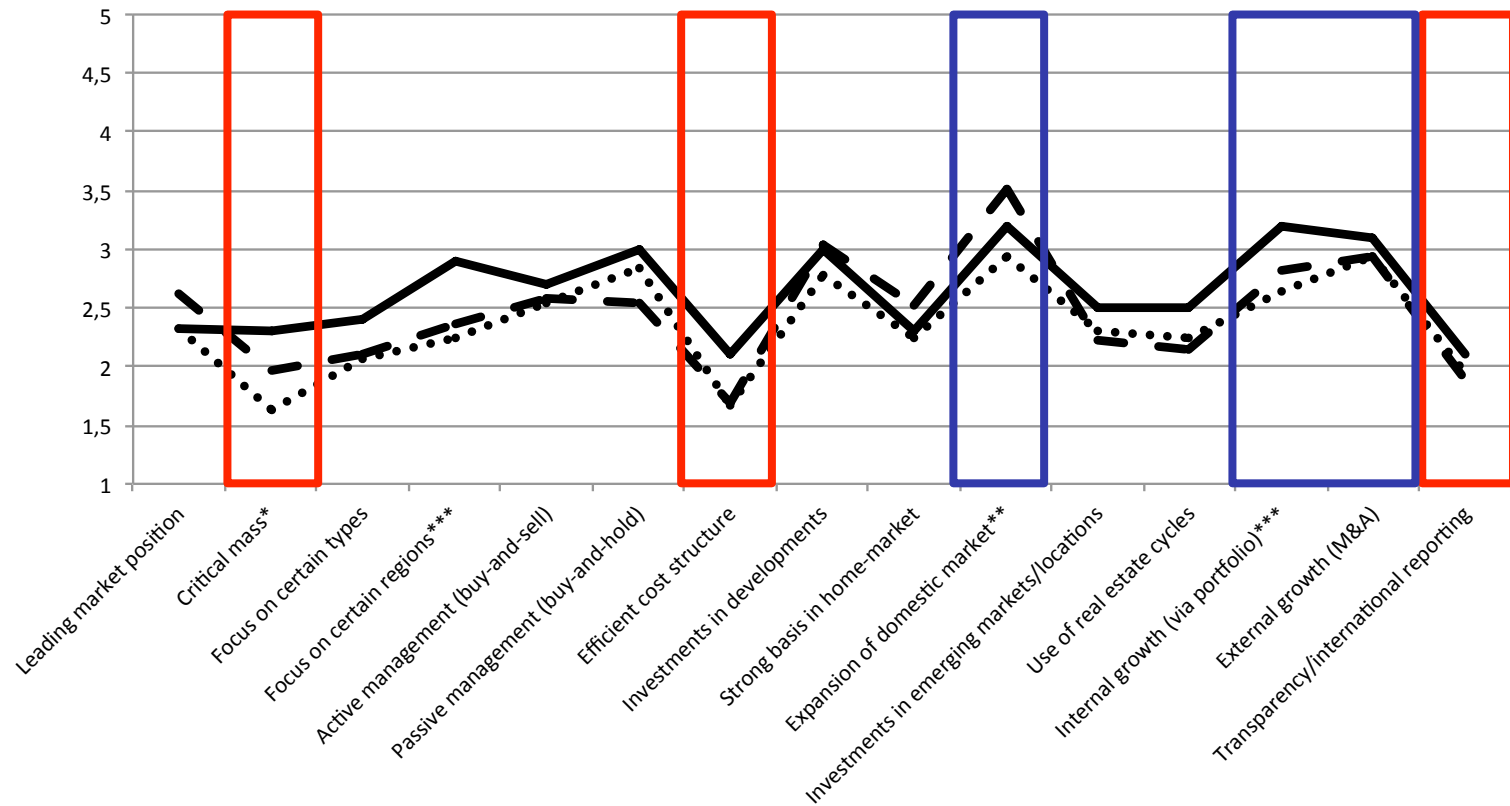


1 = very important
2 = important
3 = neutral

4 = unimportant
5 = very unimportant

* highly significant
** significant
*** significance < 10%

Characteristics of a "perfect" investment vehicle



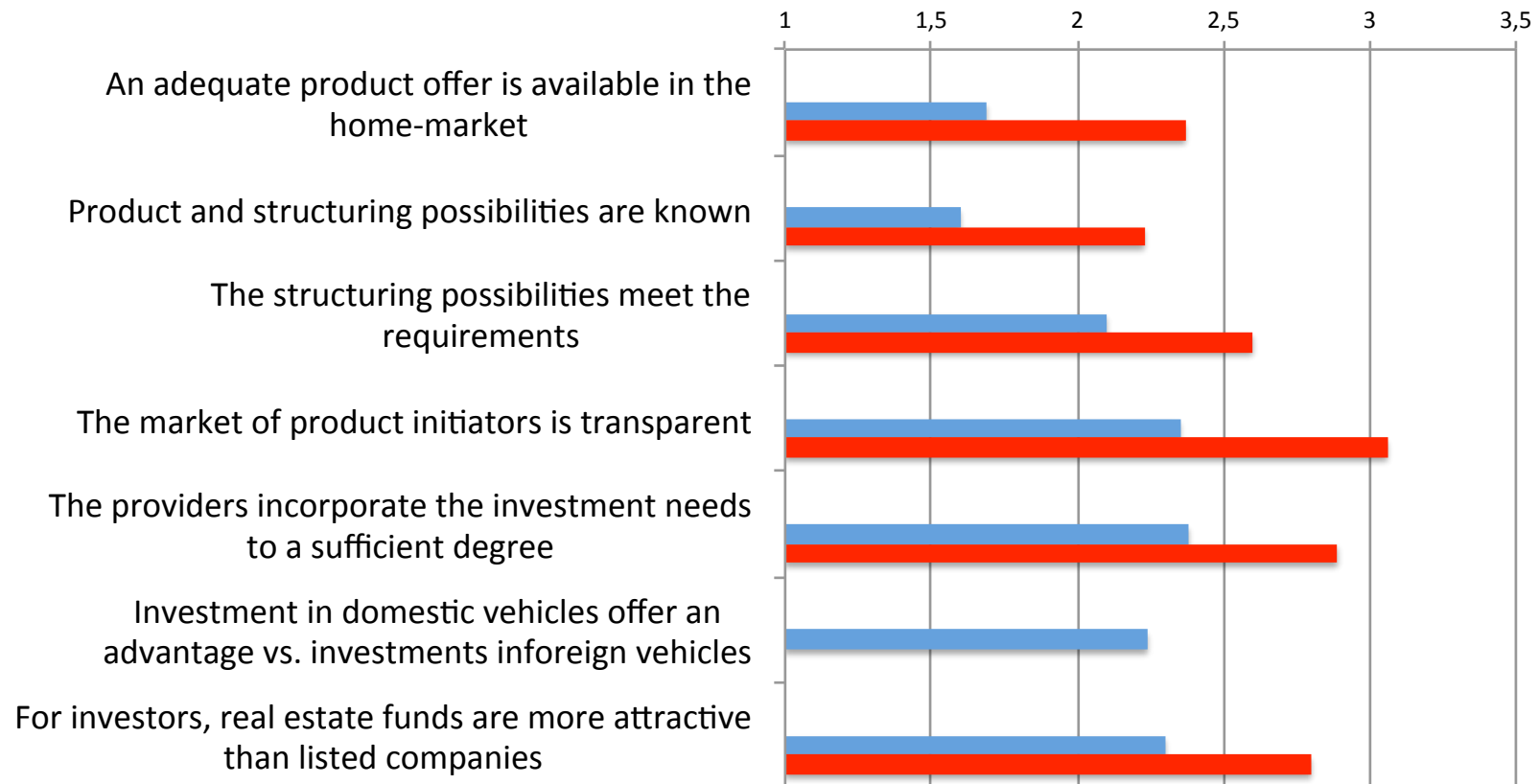
1 = very important
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3 = neutral

— Foreign investments unimportant (n = 9-10)
- - - Diversification and new markets (n = 24-28)
••• Indirect investments important (n = 50-53)

4 = unimportant
5 = very unimportant

* highly significant
** significant
*** significance < 10%

Evaluation of indirect real estate offers in Switzerland and abroad



*1 = agree to 5 = disagree –
blue = Switzerland, red = abroad*

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Summary

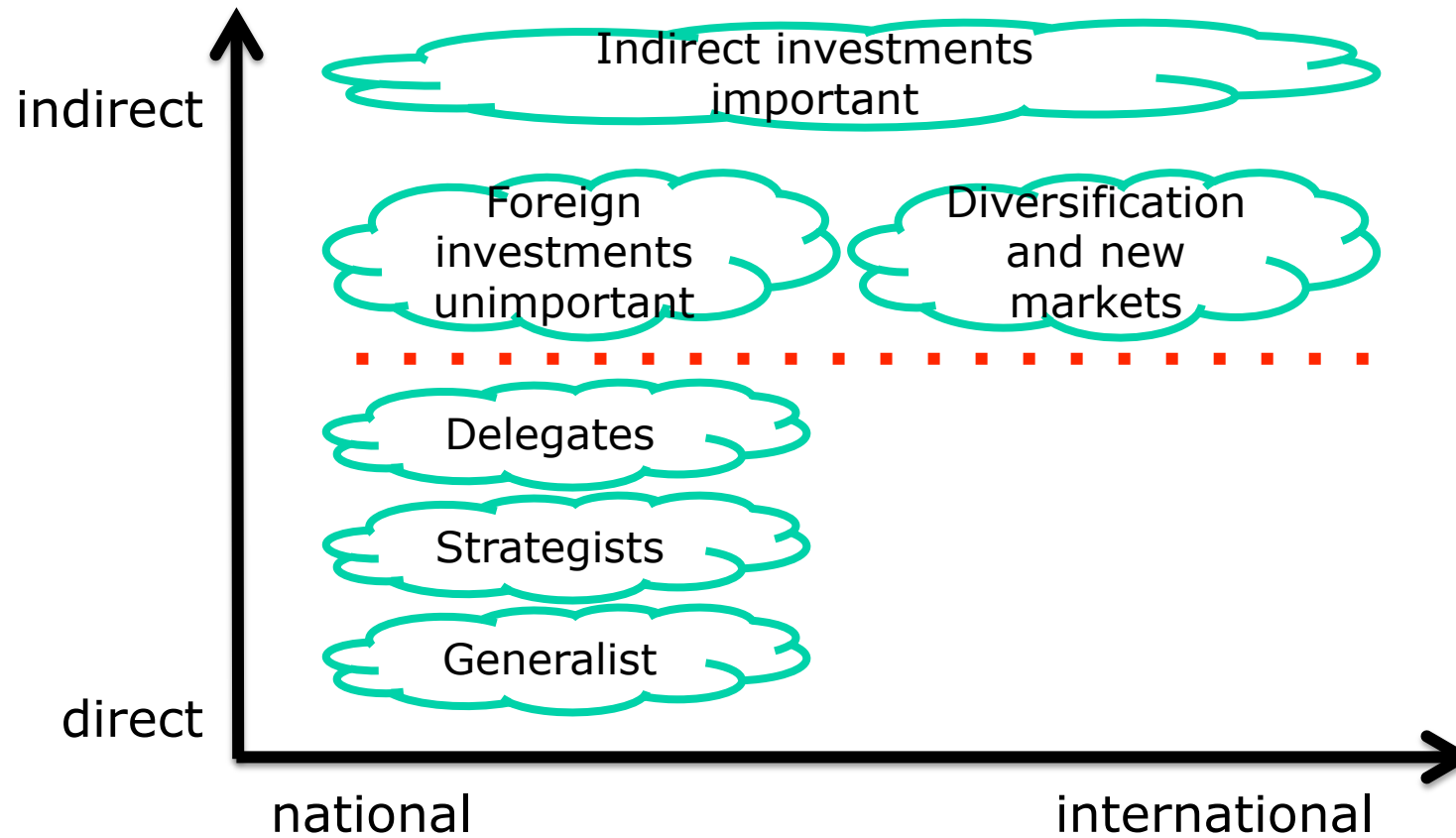
Direct investments

- **3 clusters** could be derived
- **Organization** of REAM-tasks **differ**
- The use of **software** is on a („relatively“) low level

Indirect investments

- **3 clusters** could be derived
- **Swiss Investment Foundations** are preferred for investments in Switzerland, followed by listed vehicles
- **Investments abroad** are conducted with a **multitude** of different vehicles
- Swiss institutional investors **want to diversify, BUT** prefer to **invest in Switzerland** – in the past and in the future
- The **“perfect” vehicle** is a **cost-efficient** and **focused vehicle** – growth-aspects are not required
- The **Swiss market** is valued with a **higher transparency** than other markets offers **many suitable products**

Summary: Clusters



... literature

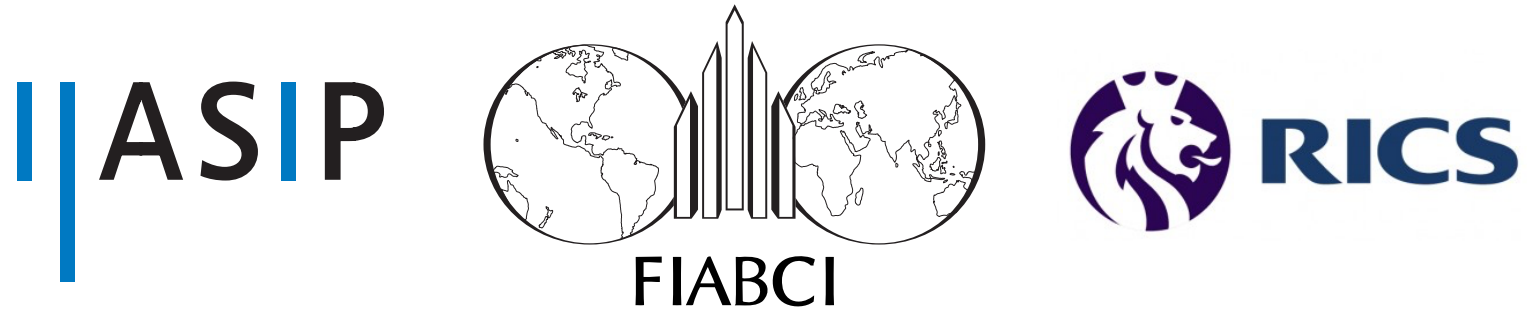


■ „Recommendation“:

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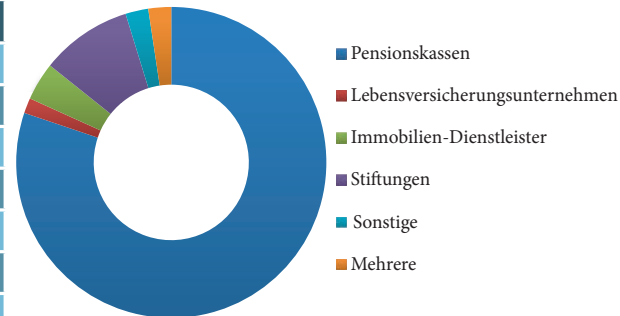
**Thank you
for your attention!**

Questions ?

Backup

Structure of the sample: Dominance of pension funds in the sample

Institutionen	Anzahl
Pensionskassen	101
Lebensversicherungsunternehmen	2
Immobilien-Dienstleister	5
Stiftungen	12
Sonstige	3
Mehrere	3
Gesamt	126



	Anzahl	Mittelwert	Minimum	Maximum	Standard- Abweichung
Gesamte Kapitalanlagen im Jahr 2010	117	2.922	0,18	146.292	13.988
Gesamte Kapitalanlagen im Jahr 2013	125	3.525	0,21	133.444	13.617
Wachstum Kapitalanlagen bis 2016 (in %)	69	11	-15	100	19
Immobilienanlagevermögen im Jahr 2010	114	407	0,1	5.100	841
Immobilienanlagevermögen im Jahr 2013	120	473	0,1	6.750	986

- In the sample, **pension funds** obtain a dominant position with over **80 %** of the analysed **questionnaires**
- Clustering based on **investment behaviour targeting**

Teil A: Immobilienanlagen im Überblick

Anzahl

		indirekt		Gesamt
		nein	ja	
direkt	nein	15	49	64
	ja	20	68	88
Gesamt		35	117	152

Anzahl

		ausland		Gesamt
		nein	ja	
inland	nein	15	2	17
	ja	67	68	135
Gesamt		82	70	152

Wachstum der Immobilienanlagen (2010 – 2016):
 Inland direkt (+25%), Inland indirekt (+42%),
 Ausland indirekt (+39%), aber **verlangsamtes
 Wachstum**

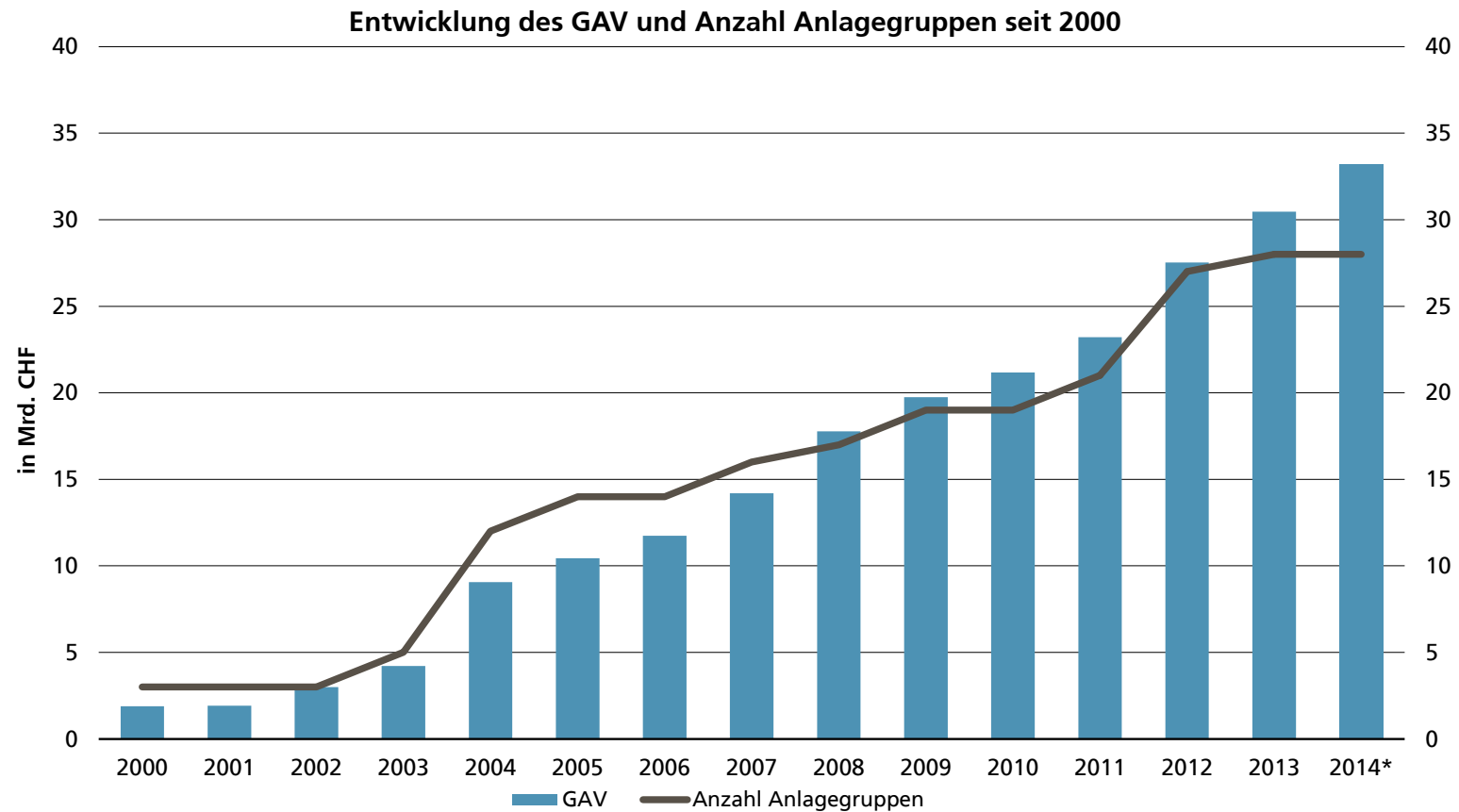
General information of the clusters

	Total investments (2013)		Investments in real estate (2013)	
		(Stand.-Dev.)		(Stand.-Dev.)
Strategists (n = 16)	11,559	33,670	698	927
Generalists (n = 33)	4,531	10,921	901	1,584
Delegates (n = 19)	1,455	2,353	304	461
Total (n = 68)	5,325	18,058	686	1,230



- (very) heterogeneous groups
- Different capital and real estate volumes in the clusters

Development of Swiss Foundations



* per 28. Februar 2015 zur Verfügung stehenden Halb- bzw. Jahresberichte
Quelle: KGAST