

# Immo-Update

May 2020

News on our **UBS** real estate investment products



**Market report:** In times of uncertainty

**Focus/Insight:** Climate change: (not) an underrated white swan?



# Editorial



Dr. Daniel Brüllmann  
Head of Real Estate Switzerland

## Dear Readers

The corona virus has been defining our lives for many weeks now. The steps that have now been initiated to lift the lockdown continue to challenge all of us.

We are very keen to mitigate the economic impact of the current situation, which is why we are in constant dialog with all of our stakeholders (investors, tenants, suppliers, partners). Our fund teams are working tirelessly. We are responding to the concerns of our commercial tenants by seeking solutions in partnership with the property management companies we appoint. At the same time, we naturally remain committed to the interests of our investors.

Real Estate Switzerland is well prepared for this exceptional situation. Our investment products are broadly diversified, feature moderate leverage ratios and have a sustainable focus. The market for Swiss real estate funds has recovered well and significant factors such as the low interest rate environment, the pressure to invest and the attractiveness of our cash flows continue to support investing in Swiss real estate for the long term. For this reason, we have decided that the UBS «Sima» issue, which was postponed in April, will now take place in June, as to further develop the fund with attractive projects. You will find more on the assessment of the market situation from page 6 onwards. Starting on page 24, our research specialist Brice Hoffer draws an interesting comparison between the COVID-19 pandemic and the challenges in the area of environment and climate.

Even in this extraordinary situation, we are working tirelessly on further developing our real estate investment products. Our new construction and refurbishment projects as well as our letting activities will continue within the bounds of possibility. You will find more on this topic on the next pages of this issue of Immo-Update.

We wish you an enjoyable read!

Dr. Daniel Brüllmann  
Head of Real Estate Switzerland

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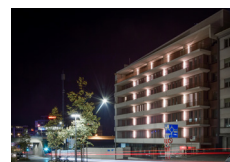
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Further information can be found on our real estate fund homepage at [ubs.com/realestatefunds-switzerland](https://ubs.com/realestatefunds-switzerland)  
UBS Fund Infoline: 0800 899 899

# In times of uncertainty



Brice Hoffer  
Research & Strategy – Switzerland

## COVID-19 pandemic drives the Swiss economy into recession

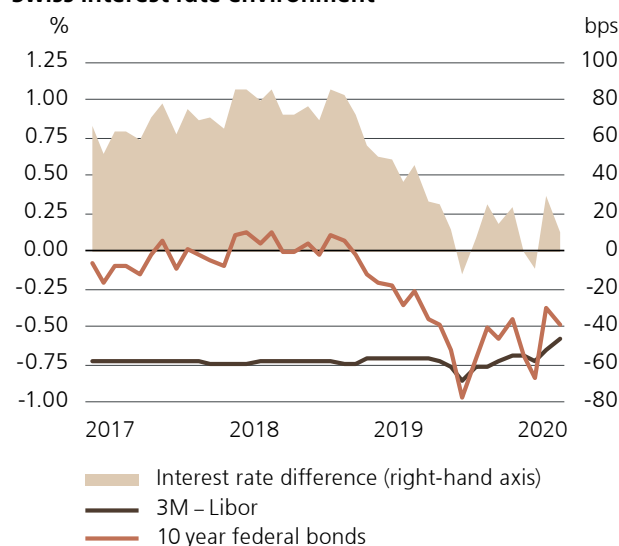
It is only a few months ago that the annual outlook for 2020 was talking about modest but positive growth for the Swiss economy. However, the outbreak of the coronavirus led to a sudden and dramatic change in these expectations. The measures introduced to combat the spread of the coronavirus – in particular the forced closure of shops in the non-food sector and many commercial enterprises – are a major challenge for economic operators. With this in mind, the question is not whether Switzerland will experience a recession in 2020, but how severe the economic downturn is likely to be. The intensity of the downturn will ultimately depend on the duration and extent of the social distancing measures, particularly in view of the possibility of the virus spreading in a second wave, and the effectiveness of the state support plan for the economic operators concerned. Although the final effects of this shock on the Swiss economy and the real estate market remain difficult to quantify, we can already make some initial qualitative estimates.

## The low interest rate environment to persist for longer

Over the course of the COVID-19 pandemic, various factors arguing in favor of maintaining the Swiss National Bank's negative interest rate policy for a longer period have grown in strength. The prevailing economic downturn, a slightly deflationary environment and upward pressure on the Swiss franc are all current developments pointing to a sustained low interest rate environment. In the short-term the level of long-term interest rates has risen slightly due to sales triggered by a shortage of liquidity and the discounting of increased uncertainties. But now the trend is moving downwards again and we expect macroeconomic developments to result in federal bond yields stabilizing in longer term at a level that is still very low. This should continue to support the relative attractiveness of Swiss real estate investments. In the first quarter

of 2020 the average risk premium when buying Swiss properties in the prime segment was still 2.4%, about 70 bps above the historical average.

## Swiss interest rate environment



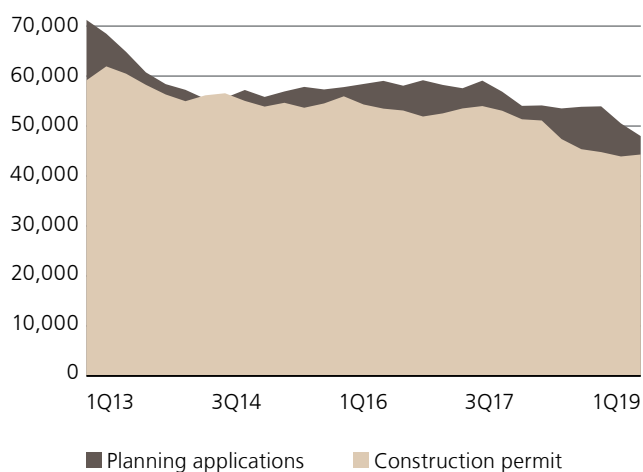
Source: Swiss National Bank April 2020; UBS Asset Management, Real Estate & Private Markets; Research and Strategy – Switzerland

## Rental apartments: resilience expected

Despite lively migration dynamics in the first quarter of 2020, the COVID-19 pandemic is expected to lead to a significant decrease in immigration this year due to the prevailing health and economic uncertainties, which should put pressure on the absorption potential in the rental housing market. At the same time, planning activity for new apartments has cooled down slightly in recent quarters and several construction projects are being delayed due to the state of emergency. However, the annual volume of residential projects approved for construction remained very high at the end of the first quarter of 2020, at

over 44,000 units. Supply is therefore likely to continue to exceed demand in the Swiss rental housing market in the coming quarters, although the slight downward trend in asking rents is likely to continue. However, the major centers and their immediate surroundings are likely to remain more robust due to the very tight market situation. Overall, we expect the Swiss residential rental market to be little affected by the COVID-19 shock thanks to its less cyclical drivers, even though short-term rental growth prospects may be revised down slightly, depending on location and property quality. Until the state of emergency is lifted completely, liquidity in the transaction market is likely to remain reduced, with the price level of residential investment properties being maintained in most cases.

**Planning activity in the Swiss housing market (annual total in number of residential units)**



Source: Construction Information 1Q 2020; UBS Asset Management, Real Estate & Private Markets; Research and Strategy – Switzerland

**Office space: stabilization grinds to a halt**

2019 was a very positive year for the Swiss office market. The supply of space declined, particularly in the Zurich region, and asking rents bottomed out in most local markets. One important driver of this positive development was the very healthy situation on the labor market, which showed strong growth in the number of employees. However, the outlook for the office market has now been clouded by the negative impact of the COVID-19 crisis. The expected deferral of many

companies' expansion plans and the possibility of bankruptcies in sectors severely affected by the state of emergency (e.g. tourism and foreign travel) will likely weigh on the market's absorption potential in the coming quarters. In addition, the current project pipeline of new office space in the major Swiss centers is rather full, and JLL estimates that the pre-letting rate for completions planned for 2021 and 2022 is fairly modest. Against this backdrop, the stabilization trend that has prevailed in the Swiss office market to date is likely to grind to a halt and the level of asking rents will come under renewed downward pressure. In the transaction market, some peripheral assets or properties with a weak lease structure could see corrections as a result of the deterioration in market fundamentals. By contrast, the price level of core office space in good locations and with strong tenants should remain stable despite the crisis.

**Retail: stress test for a fragile sector**

The COVID-19 crisis is putting the sales and commercial property market under a real stress test. Non-food shops and commercial enterprises have been directly affected by the compulsory closure of their facilities. As a result, apart from food stores, which remain open, many players in the physical retail trade were experiencing an abrupt and massive collapse in revenue. The reopening of the retailers and businesses concerned on 11 May is a positive development, but the road to a normal level of activity in this sector will still be long and complex as a result of the increased hygienic requirements. This shock is hitting a sector that was already very weak even before the outbreak of the crisis. The stagnation of real wages and growing market penetration of online trade have been challenging the businesses of physical retailers for several years. As a result of this fragile situation and the additional burden of the COVID-19 pandemic, rents in the retail market are likely to come under increased pressure over the coming quarters and the probability of rent defaults will increase. These sort of negative developments are likely to affect prime retail properties too, as prestigious shopping streets are strongly affected by the collapse of tourism flows. Against this backdrop, the liquidity of retail investments is likely to be very limited over the coming months and investors will probably demand higher risk premiums due to the numerous challenges in this user market. This could lead to a significant acceleration in the correction of the value of retail properties on the transaction market, especially for properties in secondary locations.

# Acquisition of a property in the heart of St Gall



Residential and commercial property on Multergasse in St Gall



Stephan Pellegrini  
Fund Manager since 2015

On 1 December 2019 UBS Direct Urban acquired a residential and commercial property on Multergasse in the center of the old town in St Gall. The building which lies within in a prime location is fully leased and the investment volume amounted to approximately CHF 12 million.

The property is in a prime location in the middle of the cultural and economic center of Eastern Switzerland. The site on Multergasse, which is sought after for both commercial and residential use, offers a high quality of life and lies steps away from many points of interest. There are numerous shops and restaurants in the immediate vicinity. The nearest bus stop is a five-minute walk away. Kindergartens and schools are also located within a radius of one kilometer. The location, which is excellent for retail, is directly accessible via the city's shopping arcade.



The property underwent a total renovation in 1997 and was expanded with an addition within the inner courtyard. The commercial space in the basement and ground floor of approximately 500 m<sup>2</sup> have been leased to a Danish furnishing label on a long-term basis, who completely renovated the retail space upon tenure. The ten apartments on the floors above have a mix of 2½, 3 and 3½ rooms.

With this acquisition, UBS Direct Urban is expanding its portfolio to 17 properties in ten cantons, thus continuing its strategy of selective growth in urban locations.

## KEY FIGURES AT A GLANCE

### UBS (CH) Property Fund – Direct Urban

Security no. 19 294 039

#### Data per half year financial statement (31.12.2019)

Total fund assets	CHF	450.5 million
Number of properties		17

#### Data as at 30 April 2020

Market price	CHF	12.90
Premium <sup>1)</sup>		12.4%
Distribution yield <sup>2), 3)</sup>		2.33%

<sup>1)</sup> Calculated on the SFAMA (Swiss Funds & Asset Management Association) method based on the adjusted net asset value

<sup>2)</sup> Last distribution divided by the current market price

<sup>3)</sup> Free of withholding tax

## NEWS IN BRIEF

### Completion of the property in Locarno

The attractive residential project in the immediate vicinity of the old town of Locarno was completed on schedule and was handed over to the tenants in April. 24 modern, high-quality apartments have been created over seven floors of around 1,830 m<sup>2</sup> of space, comprising a mixture of seven 2½-room apartments, eleven 3½-room apartments and six 4½-room ones. The investment volume was approximately CHF 12 million.

### Half-year financial statements confirm pleasing trend

UBS Direct Urban again reported solid half-year financial statements as of 31 December 2019. Profitability saw a significant increase through a further reduction in vacancies (cumulative 6.4% as of 31 December 2019, or 5.5% as of 31 March 2020), the tenancy of the new building in Aarburg and the acquisition in St Gall.

# Full occupancy in Egerkingen



Residential properties in Egerkingen (SO)



Christian Sturm  
Fund Manager since 2016

The residential construction project in Egerkingen with an investment volume of around CHF 15 million was completed at the end of last year. After only little time, all 34 apartments were rented out and the tenants have now successfully moved into the apartments.

The municipality of Egerkingen in the canton of Solothurn has a population of just under 4,000 and is very well served by both public and private transport. Thanks to its central location, the cities of Basel, Bern, Aarau and Lucerne can each be reached in around 30 minutes. Egerkingen offers all conveniences for daily needs (including shopping, banks, post offices, schools, and doctors) and a wide range of leisure activities.

At the end of 2017 UBS Direct Residential managed to acquire a plot of land to build two residential properties in Egerkingen, where construction commenced in early 2018. A total of 34 apartments (including 8 penthouses) and 51 underground parking

spaces were built on a floor area of around 2,755 m<sup>2</sup>. The design of the new building was geared to the demand market: most of the 2 and 2½-room apartments on the standard floors have compact and efficient floor plans with an elevated standard of fittings and are concentrated on the target groups: singles, double-income no kids (DINKS) and senior citizens. At the same time the property, which faces west towards the agricultural zone, offers very attractive ground-floor apartments for families, creating a very harmonious tenant mix.

The challenge UBS Direct Residential set itself, and which has been successfully achieved in Egerkingen, was to offer tangible value for money; this has been reflected in the speed with which the property has been leased. Large, floor-level lift and slide windows create light-flooded rooms with step-free access to terraces and balconies, while the shading is electrically controlled by combined venetian blinds and awnings.

The residential property meets the high sustainability standards of the property fund. As an example, heating and hot water are provided by a gas heating system in combination with a solar thermal system.

The residential construction project in Egerkingen with an investment volume of around CHF 15 million has reduced the average age of the portfolio. It stands out due to its focus on the demand market, which is reflected in the occupancy rate of 100%. Our efforts to provide attractive residential living space and, where possible, meet the wishes of tenants shows promising results.

## KEY FIGURES AT A GLANCE

### UBS (CH) Property Fund – Direct Residential

Security no. 2 646 536

#### Data per half year financial statement (31.12.2019)

Total fund assets	CHF	710.6 million
Number of properties		74

#### Data as at 30 April 2020

Market price	CHF	17.05
Premium <sup>1)</sup>		23.9%
Distribution yield <sup>2), 3)</sup>		2.46%

<sup>1)</sup> Calculated on the SFAMA (Swiss Funds & Asset Management Association) method based on the adjusted net asset value

<sup>2)</sup> Last distribution divided by the current market price

<sup>3)</sup> Free of withholding tax

## NEWS IN BRIEF

### Successful vacancy reduction

The actions taken as part of our proactive letting management are having an impact and are reflected in a further reduction in the rent default rate of UBS Direct Residential. The cumulative rent default rate was reduced within six months from 7.6% (as of 30 June 2019) to 5.5% (as of 31 December 2019). The vacancy rate as of the end of March 2020 is 4.7%, which contributes to the fund's positive outlook. To take the example of the property in Schöftland (Aargau), the actions taken to achieve this include extending outdoor spaces to increase comfort and safety and an attractive marketing concept with a virtual 360° walkthrough of the apartments.

# New replacement building on Alte Landstrasse in Zurich-Kloten



New replacement building in Zurich-Kloten (model photo)



Marcin Paszkowski  
Fund Manager since 2014

114 new apartments are being built on an attractive south-western slope in a popular residential quarter in Zurich-Kloten.

Kloten, located in the Glatt Valley, is only 10 km from the business center of Zurich and has excellent transportation connections: The town's own railway station is served by the S-Bahn; the national road network and Zurich-Kloten International Airport are only a five-minute drive away.

The planned replacement building is located to the north of Kloten in a preferred residential area. The center and the railway station are about 2 km away. In the immediate vicinity of the property there are two bus stops and shopping facilities for daily needs.

The current building with 52 apartments dates back to 1963. By 2023, three buildings with 114 apartments and a two-floor car park with 122 parking spaces and 200 bicy-



cle stands are to be built on the site between Alter Landstrasse, Chränzlerstrasse and Weinbergstrasse. The improved usage of the property was made possible by the cancellation of a restriction on utilization under easement law and the instrument of site development.

The 1½ to 4½-room apartments are distributed over two four-floor buildings and one five-floor building. The apartments are bright and have versatile floor plans with generous outdoor spaces in the form of garden seating, balconies or roof terraces. The nine apartments per standard floor plan are efficiently accessed by a spacious and light-flooded staircase and a lift. The buildings are surrounded by attractive green spaces and will have a socializing area in the center including a playground. The range of apartments is in line with standard upscale developments and aimed at one to two-person households and families.

In implementing the project, the sustainability goals of UBS «Anfos» will be consistently pursued. The Minergie-standard buildings will have heat pumps with geothermal probes and photovoltaic systems. Charging stations are planned in the car park to promote electric mobility.

The densification associated with the new replacement building in Zurich-Kloten is in line with the strategy of organic growth and offers UBS «Anfos» an attractive opportunity to strengthen its income base.

## KEY FIGURES AT A GLANCE

**UBS (CH) Property Fund – Swiss Residential «Anfos»**  
Security no. 1 442 082

### Data per half year financial statement (31.03.2020)

Total fund assets	CHF	2,738.1 million
Number of properties		150

### Data as at 30 April 2020

Market price	CHF	79.00
Premium <sup>1)</sup>		37.7%
Distribution yield <sup>2)</sup>		2.38%

<sup>1)</sup> Calculated on the SFAMA (Swiss Funds & Asset Management Association) method based on the adjusted net asset value

<sup>2)</sup> Last distribution divided by the current market price

## NEWS IN BRIEF

### Total renovation in Schützenmattstrasse in Solothurn (SO)

The apartment building at Schützenmattstrasse 13–15 in Solothurn has 25 apartments and lies in a privileged location. Extensive renovation work began at the beginning of the year: total renovation of the building shell, renewal of the kitchens and bathrooms, partial adaptation of the apartment floor plans, selective enlargement of the balconies, and renewal of the lift for barrier-free access. The potential of densification of the site associated with the current local planning revision will be realized at a later date with a replacement building in place of the neighboring building at Schützenmattstrasse 17–21.

### Total renovation in Moosackerstrasse 4 in Fislisbach (AG)

The eleven-floor residential building with 31 apartments in a central location is to be extensively renovated by the end of 2020. Besides the renewal of kitchens and bathrooms, all windows and blinds will be replaced and the south-facing balconies with attractive views will be enlarged. The heating system and the hot water will run 100% on renewable energies using pellet heating. Since the work is being carried out in an inhabited state, out of consideration for the tenants, the start of construction was postponed by 2 months in view of the current Covid-19 crisis.

# New building on the Rue de la Morâche in Nyon completed



New building on the Rue de la Morâche in Nyon (VD)



Elvire Massacand  
Fund Manager since 2012

The architecturally striking new build project with residential and commercial use at 8 rue de la Morâche in Nyon has been successfully completed. The Minergie-certified building with 102 apartments is in a prime location. Since April 2020 the apartments in the last construction phase are now ready for occupation. Despite market conditions made more challenging by the Corona crisis, the occupancy rate at the end of April was a solid 80%.

The municipality of Nyon in the canton of Vaud has a population of around 21,200. The property is optimally located to access travel connections, standing in the center of Nyon, directly at the station with excellent links to Geneva and Lausanne. The A1 highway can be reached in about four minutes by car. The "La Combe" mall and other shopping facilities and restaurants in the city center are in the immediate vicinity. There are several schools in the nearby neighborhood.

UBS «Foncipars» acquired the project in February 2016. The former Swisscom building on the site where the new project has been built was demolished in two stages. The seven-floor property has a total area of around 6,000 m<sup>2</sup> and is attached to the adjoining property on one side. The location is ideally suited as a base for commuters, older people and students studying, for example, at EPFL or the universities in Lausanne and Geneva. The mix consists of 55 one-room apartments, 29 two-rooms, 11 three-rooms, 6 four-rooms and 1 five-room apartment, all of which have a modern, high-quality standard of fittings and open floor plans. At the rear of the building the larger residential units are found, which have larger balconies with greenery and a clear view of a park. The property also offers around 1,000 m<sup>2</sup> of sales space on the ground floor, approx. 500 m<sup>2</sup> of technical rooms for Swisscom and a car park with 42 parking spaces.

The high standards of sustainability of UBS «Foncipars» are reflected in the Minerergie certification of the building. On the street side there is a flat roof with greenery, on the rear side a pitched roof with solar panels. The windows are triple-glazed and heat generation and cooling of the commercial areas in summer is provided by two heat pumps.

The completion of the new building project in Nyon, with an investment volume of CHF 53 million, will contribute to the rejuvenation and targeted development of UBS «Foncipars», further strengthening its income base.

## KEY FIGURES AT A GLANCE

### UBS (CH) Property Fund – Léman Residential «Foncipars»

Security no. 1 442 085

#### Data at close of prior financial year (31.12.2019)

Total fund assets	CHF	1,508.5 million
Number of properties		128

#### Daten per 30.04.2020

Börsenkurs	CHF	112.20
Premium <sup>1)</sup>		30.3%
Distribution yield <sup>2)</sup>		2.50%

<sup>1)</sup> Calculated on the SFAMA (Swiss Funds & Asset Management Association) method based on the adjusted net asset value

<sup>2)</sup> Last distribution divided by the current market price

## NEWS IN BRIEF

### Renovation of residential units in the Sous Gare quarter of Lausanne

The UBS «Foncipars» portfolio includes several prestigious properties dating from the early 20th century in Lausanne (at Avenue Dapples 21–23, Avenue Cart JJ 6–8, Avenue de la Harpe 1 and Rue Jean-Louis de Bons 2). In recent years the buildings have always been well maintained. The old oil-fired heating systems were replaced sustainably by connecting to the district heating network. The facades have been renovated and are again in good condition. As tenants change, the apartments are now also gradually being renovated. Where appropriate, apartment sizes are also being adjusted, e.g. by merging or dividing them.

### Successful financial year 2019

UBS «Foncipars» increased the value of its real estate portfolio by 4.2% to CHF 1.49 billion. With the 7.0% increase in net asset value per unit and last year's distribution, the investment return is an attractive 10.3%. Rental income increased by CHF 2.6 million or 3.4% to CHF 79.0 million. This gratifying result has allowed to increase the distribution to CHF 2.55 per unit and to pay an extraordinary, one-off dividend of CHF 0.25 per unit.

# Renovation, addition of floors and new replacement building in Geneva



Properties on the Rue de Lausanne and Avenue de Sécheron in Geneva (visualization)



Martin Strub  
Fund Manager since 2013

The two properties in the popular United Nations quarter in Geneva date back to 1956 and are now in need of renovation. Since the properties have unused reserves, UBS «Sima» has decided to proceed as follows: the property on Rue de Lausanne 119 will be renovated and see an addition of two floors and a new replacement building will be built on Avenue de Sécheron 2,4.

The new replacement building will optimally complement the existing residential mix. After completion of the construction work the two properties will have a total of 68 apartments and retail space on the ground floor. The mix consists mainly of 3½-room apartments. The apartments are modern and contemporary and some have a view of the lake. After completion of the construction work, the properties meet the highest energy requirements in line with our sustainability strategy. By implementing targeted measures, energy consumption and hence CO<sub>2</sub> emissions will be significantly reduced in comparison to today.



The two properties directly border directly the spacious city park “Mon Repos”, which invites you to linger and is a popular recreation area for residents of the area. Lake Geneva can be reached after a short walk through the park. Schools, shopping, restaurants and other services for daily use are located in the immediate vicinity of the district. The central location also provides an optimal connection to local and long-distance traffic.

Construction is scheduled to start in early 2021; moving date is expected to be early 2023. The investment costs amount to around CHF 24 million. The refurbishment and the addition of the new replacement building is a representative example of the targeted growth strategy of UBS «Sima» from existing buildings.

## KEY FIGURES AT A GLANCE

### UBS (CH) Property Fund – Swiss Mixed «Sima»

Security no. 1 442 087

#### Data at close of prior financial year (31.12.2019)

Total fund assets	CHF	9,924.7 million
Number of properties		357

#### Data as at 30 April 2020

Market price	CHF	126.60
Premium <sup>1)</sup>		35.6%
Distribution yield <sup>2)</sup>		2.57%

<sup>1)</sup> Calculated on the SFAMA (Swiss Funds & Asset Management Association) method based on the adjusted net asset value

<sup>2)</sup> Last distribution divided by the current market price

## NEWS IN BRIEF

### Planned capital increase

UBS «Sima» realizes construction projects in excellent locations in the regions of Basel, Vaud, Geneva and Zurich which increase the portfolio volume by approximately CHF 221 million. To support the further development of UBS «Sima», UBS Switzerland AG is carrying out a capital increase between 11 and 19 June 2020, finishing at 12 noon. Official subscription rights trading will take place on the SIX Swiss Exchange from 11 to 17 June 2020. Further information can be found [here](#).

### Acquisition of a portfolio in French-speaking Switzerland

In mid-December 2019 UBS «Sima» was able to acquire a portfolio in French-speaking Switzerland. These are six residential properties with a total of 391 apartments, spread over the four cantons of Vaud, Neuchâtel, Fribourg and Berne. The acquisition makes a valuable contribution to increasing residential use within the portfolio.

### UBS «Sima» reports very successful annual results for 2019

The 3.8% increase in the net asset value per unit was achieved by a positive increase in market values and the successful completion of renovation and new construction activities, resulting in an attractive investment return of 7.7%. The portfolio value of UBS «Sima» is approximately CHF 9.9 billion.

# Conversion of office space into apartments in Locarno



Property on the Via Ciseri 2b in Locarno (TI)



Jürgen Zimmermann  
Fund Manager since 2012

In the property at Via Ciseri 2b in Locarno, which has so far been exclusively used for commercial purposes, the office space on the first and second floors will be converted into a total of 12 apartments. This will create modern, high-quality living space in the heart of Locarno.

Locarno has a population of around 16,000, is the third-largest city in the canton of Ticino and is located on the northern shore of Lago Maggiore. Its main attractions include the waterfront promenade with its numerous cafés and restaurants, and the Piazza Grande. This is where two globally renowned events are held each year: the "Moon and Stars" open-air festival and the Locarno Festival. The property on Via Ciseri is located in the center of Locarno, directly at the Piazza Grande with numerous shopping facilities as well as restaurants and only a few steps away from the lake. Directly beside the property there is a small park and a bus stop, the train station is a five minute walk away.

Most of the office space was previously let to UBS AG, which is concentrating its spaces in the adjacent building on Piazza Grande 1. In order to optimize the attraction of the property, part of the office space has been undergoing conversion into apartments with high-quality fittings since the beginning of February. The apartment mix, which is geared to current demand, consists of four compact 2½-room apartments, four larger 2½-room apartments and four 3½-room apartments. The apartments are aimed at a broad target audience. Verandas will be built behind the existing facade, so each apartment will have protected outdoor space. In addition, each unit will have its own laundry and storage room on the same floor. As part of the conversion work, the entrance area and staircase are also being renovated and a new lift installed. Construction work is expected to be completed by early 2021.

With the new residential use, UBS «Swissreal» is laying the foundations for the long-term and sustainable lease of the property in an excellent and central location in Locarno.

## KEY FIGURES AT A GLANCE

**UBS (CH) Property Fund – Swiss Commercial «Swissreal»**  
Security no. 1 442 088

### Data at close of prior financial year (31.12.2019)

Total fund assets	CHF	2,002.3 million
Number of properties		80

### Data as at 30 April 2020

Market price	CHF	72.10
Premium <sup>1)</sup>		17.7%
Distribution yield <sup>2)</sup>		3.68%

<sup>1)</sup> Calculated on the SFAMA (Swiss Funds & Asset Management Association) method based on the adjusted net asset value

<sup>2)</sup> Last distribution divided by the current market price

## NEWS IN BRIEF

### Conversion and renovation work at Forchstrasse in Herrliberg

The property at Forchstrasse 45 is situated in a very good and quiet location in Herrliberg, only 300 meters from the lake. On the ground floor there is a Coop branch, which is currently expanding its sales area. The seven apartments on the upper floors are to be renovated in the course of the year.

### UBS «Swissreal» reports pleasing performance of 23.5% in financial year 2019

Thanks to successful renovation and new building projects, the market value of all properties rose by 0.8% to around CHF 1,987 million at year-end. Rental income, at CHF 98.9 million, was 0.5% higher than the previous year, while the vacancy rate remained low for a commercial real estate portfolio at 5.1%. UBS «Swissreal» achieved an attractive return of 5.5% and increased its net asset value per share by 1.0% to CHF 63.04.

# Acquisition of the “Poya Centre” specialist mall in Granges-Paccot



“Poya Centre” in Granges-Paccot (FR)



Christian Spiess  
Fund Manager since 2018

UBS AST-KIS has been able to acquire a 50% stake in the “Poya Centre” in Granges-Paccot retroactively as of 1 November 2019 and integrate it into the existing portfolio. The property has been fully let for multiple years. The co-investor for the other 50% is the investment group UBS AST Real Estate Switzerland. The investment volume is approximately CHF 43 million.

The existing mall on the Route de Morat in the suburb of Fribourg is optimally connected to transportation and located directly on the main Fribourg – Murten axis. The property is located some 500 meters from the “Fribourg Nord” highway junction (A12) and in the immediate vicinity of the Fribourg ice hockey stadium. It is part of the municipality of Granges-Paccot to the south, which has 3,686 inhabitants. Hence it has a large catchment area: 65,000 and 202,000 inhabitants live within a radius of 10 and 20 minutes driving time respectively.



The property is a of steel construction from 2006. It has been continuously renovated and is in good condition. The front facade, a cladding of plastic panels with slate veneer, dates from 2018. In addition to 380 parking spaces, the specialty mall offers a total of 14,769 m<sup>2</sup> of sales space. This is divided into nine individual rental units between 550 m<sup>2</sup> and 7300 m<sup>2</sup>, each of which is directly accessible via the car park in front of it. The individual shop fronts have good visibility from the busy Route de Morat.

The fully let specialty mall generates annual rental income totaling CHF 2.7 million. At the time of acquisition, the weighted average unexpired lease term ("WAULT") was 9.4 years. The property is held under a building lease; the lease charge was paid by the previous owner for the entire term of the lease, which ran until 31 May 2105.

The acquisition of the mall is in line with the UBS AST-KIS strategy of selective growth to generate stable long-term cash flows and attractive risk-adjusted returns.

## KEY FIGURES AT A GLANCE

**Investment group UBS AST Commercial Real Estate Switzerland**  
Security no. 10 077 053

### Data at close of prior financial year (30.09.2019)

Total fund assets	CHF	688.1 million
Number of properties		41

### Data as at 30 April 2020

Net asset value	CHF	1646.96
Performance (YTD)		1.23%

## NEWS IN BRIEF

### Successful lease renewals

Although the lease with Coop, which operates a grocery store on the ground floor of Marktgasse 8 in Basel occupying around 500 m<sup>2</sup>, will not expire until 31 December 2020, an agreement on a long-term extension was reached at the end of 2019.

A long-term extension of the lease with C&A was also signed at Steinbockstrasse 12 in Chur.

### Value added tax on real estate in commercial use

Real estate lease is generally exempt from VAT. However, if the property is used for business purposes, exercising the option to pay VAT voluntarily can make sense. By the end of 2019, all properties in the UBS AST-KIS portfolio underwent a cost-benefit analysis and the option was implemented where the result was positive. This means that in future, input tax can be deducted for expenses (ordinary maintenance or refurbishment) of the properties. From a portfolio perspective, this means deductible input taxes can be increased and hence costs reduced.

# Total renovation with an extension in Ostermundigen



Extensive renovation and addition of additional floors at Unterdorfstrasse 35 and 37 in Ostermundigen (BE) (visualization)



Patric Caillat  
Fund Manager since 2008

Starting in early 2021 the property on Unterdorfstrasse in Ostermundigen will be extensively renovated. The simultaneous addition of new floors will create 15 additional apartments in an attractive green residential environment with a park and pond landscape.

Ostermundigen in the canton of Berne has a population of around 18,000 and is very well served by public and private transportation. The center of Berne can be reached by bus in ten minutes; there is a direct highway connection in all main directions. The property on Unterdorfstrasse is located in the north of Ostermundigen in the residential area known as Lindendorf II, which borders on extensive green and agricultural areas. Shopping facilities and schools are within easy reach. UBS AST-IS is the owner of a single property in this residential area.

The building dates back to 1981. When the renovation plans were being drawn up, initial consideration was given to adding floors. This was in need of a new local building ordinance, which was formulated jointly with the municipality and all the owners and approved by the municipal council at the end of February 2019. In mid-November, the voters of Ostermundigen also adopted the Lindendorf II building ordinance. This general acceptance resulted in no objections being received from the neighborhood in response to the building application. The implementation phase of the project has now started, and lease agreements are expected to begin in spring 2022.

As part of the comprehensive renovation work, all kitchens and bathrooms will be renovated, windows replaced and the entrance area and staircase modernized with an elevator. Measures are also planned relating to barrier-free living, earthquake safety and fire protection. The property now has four full floors and an attic floor with 22 apartments. As part of the extension, another two floors will be added to the property. For this the attic floor will be removed and three full floors added using a resource-saving timber construction method, creating 15 new apartments.

This project again meets the high sustainability requirements of UBS AST-IS. The aim is to achieve Minergie certification for the entire property. Together with the other owners, the existing central heating system will be replaced by CO<sub>2</sub>-neutral geothermal probes and the flat roofs will be fitted with photovoltaic systems.

By realizing internal densification, UBS AST-IS will be able to develop another existing property in a resource-efficient manner, further strengthening its income base.

## KEY FIGURES AT A GLANCE

**Investment Group UBS AST Real Estate Switzerland**  
Security no. 287 549

### Data at close of prior financial year (30.09.2019)

Total fund assets	CHF	2,306.8 million
Number of properties		131

### Data as at 30 April 2020

Net asset value	CHF	1820.94
Performance (YTD)		1.32%

## NEWS IN BRIEF

### UBS AST-IS wins IAZI Real Estate Investment Award 2020

The investment group UBS AST-IS has won a prize from IAZI for best real estate portfolio management in the category "Best Latin Switzerland Properties" for financial year 2019. The award is being presented for the sixth time. The winners were determined using eight key figures from the IAZI Swiss Property Benchmark®. UBS AST-IS continues to be successfully recognized by Real Estate Switzerland investment products by IAZI in recent years.

### Completion and occupation in Seefeldstrasse in Lucerne

The extensive renovation work in Seefeldstrasse in Lucerne with simultaneous expansion and densification has been successfully completed. All apartments have been released for rent and the first tenants have already moved in. In the course of the spring the greenery of the surroundings will be completed. The building lies to the west of Lucerne city center, in the immediate vicinity of Lake Lucerne, the Lido and the Museum of Transport. Further information is available at [www.seefeld-luzern.ch](http://www.seefeld-luzern.ch).



# Climate change: (not) an underrated white swan?



Brice Hoffer

Research & Strategy – Switzerland

## **The COVID 19 pandemic is redefining our daily lives...**

It would have been inconceivable at the start of the year that the outbreak of a viral pandemic could have changed everyday life of the Swiss people to such an extent. The introduction of the state of emergency to combat the spread of COVID-19 imposed profound restrictions on personal and economic freedom on a scale not experienced in this country since WWII or even longer. A ban on gatherings of more than five people, the forced closure of shops selling non-essential goods and of cafes and restaurants, the reintroduction of border controls and paralysis of long-distance travel are a few striking aspects of this "new normal". Until recently this would have been regarded as unrealistic in 21st century Switzerland. The real estate industry has not been spared the effects of the COVID pandemic. The immediate challenges in property management, for example, included increased hygiene requirements and the delay of construction projects. In addition, the spread of COVID-19 suddenly enforced far-reaching changes in behavior. These developments include the reinforcement and acceleration of existing trends, such as online retailing and working from home, as well as chang-



ing mobility and tourism habits (commuting, air travel). Given its unexpected nature and dramatic consequences, the attributes of the global COVID pandemic could be compared with a so-called black swan. This concept, which was defined in "Black Swan Theory" by Nassim Nicholas Taleb<sup>1</sup>, refers to an event that has considerable potential to cause disruption and is hard to predict. However, nowadays that researcher is arguing in the media that the current global pandemic is not a "black swan" but a "white swan", as the growing internationalization of the movement of goods and people could be expected to lead to the outbreak of such a global health crisis. Before the outbreak of the COVID crisis, another global challenge regularly hit the headlines: the increasing harm being done to the environment. Interestingly, public opinion is increasingly drawing an analogy between the prevailing pandemic and the growing environmental issue, with the latter also demonstrating the characteristics of a "disruptive" swan.

### **...and the growing environmental issue could soon do the same.**

The consequences of the increasingly harmful effects of climate change and the need for a shift towards a more sustainable economy are likely to be equally substantial. The necessary substitution of fossil fuels, air quality problems and more frequent extreme weather events are likely to increasingly lead to major changes in our lives. However, the environmental issue differs significantly from the coronavirus situation in several ways:

- firstly, the powerful effects of the COVID pandemic are expected to be largely of a temporary nature. In contrast, the impact of climate change and other environmental challenges are likely to be reversible only over a very long period of time or not at all.
- The existence of climate change and the increase in ecological problems and their negative effects have been debated by the scientific community for decades. The element of surprise that was experienced at the outbreak of the COVID pandemic does not apply in the case of the environmental issue. For this purpose, the environmental issue may be qualified as a growing "white swan", whose existence and significance are still not sufficiently understood today. This relative ignorance probably results from the gradual and long-term nature of environmental challenges.

### **Striving for robustness through proactive adaptation strategies**

The outbreak of the COVID pandemic has shown people, companies and the political class around the world that unexpected events with far-reaching consequences can rapidly place great stress on our social and economic environment. Climate change and the growing ecological problems probably have greater potential to disrupt our social structures with more irreversible effects than the spread of the coronavirus. The development and aggravation of this problem has also been studied for a long time and is therefore well known to the wider population today. In this respect, the change that has been initiated towards more sustainable development must continue and be amplified. The real estate sector has an important role to play here. In 2017, the Swiss building sector was responsible for 27% of all domestic greenhouse gas emissions, equivalent to 12.6 million tons of CO<sub>2</sub>. Real estate also provides places for people to live, work, shop and get together. This space is therefore of great social significance. However, the path towards a holistic approach to sustainability is a long and arduous one. Due to the great complexity of this transformation and the capital expenditure required, real estate investment managers should be proactive here – an observation that applies to all players in our economy. Proactive adaptation strategies are the only way our society will be able to solve environmental problems, or at least limit their negative effects. We may otherwise be in danger of experiencing another "new normal" in the not so distant future, one that we can hardly begin to imagine today.

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<sup>1</sup> "The Black Swan: The Impact of the Highly Improbable". Nassim Nicholas Taleb. 2007.

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## Our real estate investment products:

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- UBS (CH) Property Fund–Direct Urban
- UBS (CH) Property Fund–Swiss Mixed «Sima»
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- UBS (CH) Property Fund–Swiss Commercial «Swissreal»
- UBS (CH) Property Fund–Léman Residential «Foncipars»
- UBS AST Real Estate Switzerland
- UBS AST Commercial Real Estate Switzerland
- Real estate investment products for direct and indirect investments on a global, regional or country-specific basis

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- Public Private Partnership (PPP)
- Real estate management mandates

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