allreal

News Release

Allreal Group
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Strong 2016 Half-year Result

Zurich, 30 August 2016: **Allreal very successfully held its own in an increasingly demanding market environment. Net profit including revaluation effect for the first half year in 2016 amounted to CHF 69.8 million, or 3.9% above the comparable result the previous year**.

The gratifying result is characterised by good real-estate earnings in the Real Estate division on the one hand, and by earnings from the sale of development real estate and pleasing earnings from third-party business in the Projects & Development division on the other.

Valuation of the properties held in investment real estate resulted in a value increase comparable to that of the previous year of CHF 10.3 million in total. Adjusted for the positive value correction, net profit of CHF 61.4 million was reported slightly above the very good result of the comparable period the previous year.

The company expects business in the second half of 2016 to continue developing at a constant rate and, therefore, it anticipates operating net profit for the entire 2016 financial year to compare to that of the previous year.

Continued and sustained reduction of vacancy rate
Owing to the sale of yield-producing properties in the second half of 2015 and in the period under review, rental income declined slightly by 2.3% to CHF 86.5 million. Compared to the second half of 2015, rental income in the period under review grew as a result of the lower vacancy rate and despite the reduced inventory of yield-producing properties.

Thanks to numerous achievements concerning initial letting and re-letting of both residential and commercial real estate, the cumulative vacancy rate declined by 1.4 percentage points to 6.2% of target rental income. Owing to positive negotiations with various prospective tenants, Allreal expects the vacancy rate to continue to decline in the second half of 2016. This is based, not least, on a rental agreement signed after the cut-off date concerning the office building on Lilienthal Boulevard 2-8 in Opfikon ZH comprising 13,400 square metres of useful space. As a result, the building is fully let.

Real-estate expenses for the first half of 2016 amounted to CHF 11.5 million which, in terms of total rental income, represents an expense rate of 13.3%.

The reduced loss in revenue connected with the decreasing vacancy rate and the lower real-estate expenses resulted in a net yield of 4.3%.

In the period under review, Hammer Retex recorded sales of CHF 2.2 million (1st half 2015: CHF 3.2 million) by means of management, maintenance and marketing of real estate. The decline is primarily due to the higher share of work for the group.

Operating profit excluding revaluation gains of CHF 77.0 million reported by the Real Estate division for the first half of 2016 is 12.8% below that of the comparable period the previous year which was characterised by extraordinary sales profits. The portfolio of yield-producing properties experienced one addition and four divestments in the first half of 2016.

The addition concerns a residential and commercial building from Allreal's own development and realisation located on Schiffbaustrasse in Zurich-West; at the time of completion in June 2016, all apartments and a considerable share of the commercial space in the building were let.

The profit resulting from the sale amounts to CHF 5.6 million or 6.0% above the total book value of the four divested buildings.

The portfolio of yield-producing properties as at 30 June 2016 comprised 20 residential and 39 commercial buildings representing a market value of CHF 3.42 billion.

Following the addition of a planned commercial building in Bülach ZH and the divestment of a residential and commercial building in Zurich-West – both by means of reclassification – the portfolio of investment real estate under construction comprised two projects representing a total market value on the cut-off date of CHF 45.8 million, an estimated investment volume of CHF 111.0 million and annual target rental income of CHF 6.7 million.

The valuation of the investment properties by an external estimator as at 30 June 2016 resulted in a positive total value adjustment before tax of CHF 10.3 million. Of this amount, CHF 3.8 million applied to yield-producing properties and CHF 6.5 million to investment real estate under construction.

The Real Estate division's share in the group's net operating result was 70.8%.

Pleasing result of the Projects & Development division owing to sales profits and consistently profitable third-party business

Earnings generated by the Projects & Development division in the first half of 2016 from the development and realisation for third parties, sale of development real estate and capitalised performance of own projects amounted to CHF 49.8 million.

Gains resulting from the sale of development real estate of CHF 22.1 million - of which a share of more than 80% relates to the ownership transfer of 90 units in the Guggach residential project in Zurich Unterstrass – represent a significant contribution toward the earnings result reported 38% above the comparable value the previous year.

Earnings of CHF 24.4 million generated by the Realisation department – development and realisation for third parties – remained at the previous year's level representing a pleasingly stable gross margin of 11.3%.

Profits of CHF 24.3 million reported by the Projects & Development division accrued in the first half of 2016 from the sale of development real estate and lower operating expenses resulted in distinctly higher earnings before interest and taxes (EBIT) compared to the previous year.

In Bülach-Nord, Project Development transferred the first of eight sub-projects amounting to over CHF 306 million to the Realisation department. The residential complex for Allreal's own portfolio to be completed by 2018 includes four blocks comprising a total of 76 rental apartments. A large share of the remaining project is to be sold to a certain investor who has already been determined.

The project volume completed by the Realisation department in the first half of 2016 amounted to CHF 260.2 million. The lower amount compared to the comparable period the previous year reflects Allreal's consistent focus on the realisation of projects with calculable risks and sound profit potential.

The share of the project volume handled for third parties amounted to CHF 215.5 million, that of development projects designated for the sale to third parties to CHF 17.8 million, and that of own projects for Allreal's own portfolio to CHF 26.9 million.

Of the entire project volume, 69.2% represents new construction projects and 30.8% refurbishment and conversion projects. Secured order backlog on the cut-off date amounted to CHF 714 million which will guarantee utilisation of existing capacity for a period of over 12 months.

In the first half of 2016, the Project & Development division's share in the Group's net operating result represented 29.2%.

Advantageous financing despite negative interest rates

Owing to the immense inflow of funds resulting from the sale of development real estate and yield-producing real estate, financial debt as at the cut-off date decreased by CHF 170 million to 1.61 billion.

In the period under review, a 2.50% debenture loan of CHF 150 million was redeemed by a 0.625% debenture loan for the same amount to be released in 2024.

Negative interest rates applying to interest swaps resulted in slightly higher financial expenses for the period under review. The average interest rate for debt on the cut-off date was 2.14% at an average time to maturity of 61 months.

Freely available lines of credit as at 30 June 2016 amounted to CHF 643 million with a debt capacity of CHF 1.4 billion. The company thus enjoys advantageous financing and is in a position to take efficient advantage of opportunities as they arise.

As at 30 June 2016, Allreal's equity ratio amounted to 49.9% and net gearing to 80.4%.

Confirmation of expectations for entire 2016 financial year

Insecurity concerning the further course of the economy and the development of the legal and political parameters connected with an over-supply of residential and commercial space apparent in certain regions will inevitably lead to an increasingly demanding market environment.

Thanks to the combination of a stable-income real-estate portfolio with the activity of a general contractor, this development can be connected with opportunities for Allreal. Consequently, the company looks to the future optimistically and with confidence.

Allreal recognises potential especially in the development and realisation of residential and commercial properties for our own portfolio and for profitable sale to third parties. Own projects already started on or far advanced in development allow for portfolio growth in the coming years of more than 200 million francs in total.

Parallel to the stronger focus on project development and its dynamisation, Allreal aims to consistently implement measures to continue reducing the vacancy rate and to increase efficiency while securing quality and profitability.

The company expects business in the second half of 2016 to continue developing at a constant rate and, therefore, it anticipates operating net profit for the entire 2016 financial year to compare to that of the previous year.

This news release and the half-year report are also available electronically:
www.allreal.ch

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Key figures at a glance

		1st half-year 2016 resp. 30.06.2016*	1st half-year 2015 resp. 31.12.2015*	Change in % 1
Group				
Total sales[2]	CHF million	348.9	395.5	-11.8
Operating profit (EBIT) incl. revaluation gains	CHF million	110.4	103.7	+6.5
Net profit incl. revaluation effect	CHF million	69.8	67.2	+3.9
Return on equity incl. revaluation effect[3]	%	7.1	6.9	+0.2
Operating profit (EBIT) excl. revaluation gains	CHF million	100.1	93.2	+7.4
Net profit excl. revaluation effect	CHF million	61.4	59.1	+3.9
Return on equity excl. revaluation effect[3]	%	6.6	6.4	+0.2
Equity ratio on cut-off date	%	49.9	48.2	+1.7
Net gearing[4] on cut-off date	%	80.4	88.0	-7.6
Market value yield-producing properties	CHF million	3'418.6	3'475.3	-1.6
Market value investment real estate under construction	CHF million	45.8	49.9	-8.2
Income from renting yield-producing properties	CHF million	86.5	88.5	-2.3
Income from real estate management services	CHF million	2.2	3.2	-31.3
Sales Projects & Development division	CHF million	260.2	303.8	-14.4
Earnings from Projects & Development division[5]	CHF million	49.8	36.1	+38.0
Employees on cut-off date	FTE	286	312	-26
Share				
Earnings per share incl. revaluation effect	CHF	4.38	4.22	+3.8
Earnings per share excl. revaluation effect	CHF	3.85	3.71	+3.8
Net asset value (NAV) per share after deferred taxes on cut-off date	CHF	123.20	125.35	-1.7
Share price on cut-off date	CHF	135.00	133.60	+1.0
Operating key figures				
Net yield real estate portfolio[6]	%	4.3	4.2	+0.1
Vacancy rate real estate portfolio[7]	%	6.2	7.6	-1.4
Operating margin Projects & Development division[8]	%	48.8	16.6	+32.2
Average interest rate on financial liabilities on cut-off date	%	2.14	2.15	-0.01
Average duration of financial liabilities	months	61	52	+9
Valuation on cut-off date				
Market capitalisation[9]	CHF million	2'151.2	2'125.5	+1.2
Enterprise value (EV)[10]	CHF million	3'730.7	3'879.7	-3.8

* Should no further particulars be given, values referring to the income statement concern the 1st half-year and balance sheet the cut-off dates on 30.06.2016 resp. 31.12.2015

1 Changes in quantum and percentage values shown as absolute difference
2 Income resulting from rental of investment real estate and real estate management services plus completed project volume Projects & Development division
3 annualised
4 Finance liabilities minus cash and marketable securities as percentage of equity
5 Income from realisation Projects & Development, sales development, capitalised company-produced assets and diverse income minus direct expenses for realisation Projects & Development and sales development
6 Rental profit from investment real estate as percentage of continued market value as at 1 January
7 As percentage of targeted rental income, cumulated at cut-off date
8 EBIT excl. revaluation and restoration of value adjustments on projects as percentage of profit from business activity (balance of operating income, direct operating expenses, capitalised company-produces assets and earnings from sale of investment real estate)
9 Stock price at balance sheet date multiplied by the number of outstanding shares
10 Market capitalisation plus net debts