allreal

News Release

Allreal Group
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Sound 2017 Half-year Results

Zurich, 29 August 2017: **Earnings including revaluation effect for the first half of 2017 amounted to CHF 66.0 million. This amount is 5.4 % below the previous year's result which was strongly characterised by the sale of development real estate.**

The gratifying real estate result, profits from the realisation of projects for third parties and for the own portfolio, and lower cost of financing contributed toward the sound result.

Compared to the period the previous year, the valuation of the yield-producing properties by the external real estate valuer resulted in a revaluation gain of CHF 8.7 million.

The two divisions, Real Estate and Projects & Development, produced an operating net profit in the period under review of CHF 59.3 million.

The company continues to expect operating net profit for the 2017 financial year to remain slightly below the previous year's result.

Real Estate division with historically low vacancy rate

Owing to the ongoing reduction in vacancy-related earnings losses and despite the divestment of four income-producing commercial properties in the first half of 2016, rental income in the period under review grew by 1.2% to CHF 87.5 million.

Thanks to exceptionally successful initial letting and re-letting achievements in both residential and commercial real estate, the cumulative vacancy rate declined by 3.3 percentage points to a low 2.9%. This is due, not least, to the synergies resulting from the close cooperation with the Projects & Development division concerning conversions and extensions and to the institutionalised and regular contacts cultivated with existing and potential tenants.

Direct expenses for rented investment real estate in the first half of 2017 for yield-producing properties amounted to CHF 11.1 million representing a low expense rate of 12.7% which will, however, rise in the course of the second half of 2017. Net yield reported in the period under review resulting from the rental of residential and commercial real estate amounted to 4.4%.

Operating profit reported by the Real Estate division for the first half of 2017 from rental and management of real estate excluding revaluation gains amounted to CHF 72.5 million, or 5.8% below the comparable value achieved the previous year which benefited from sales profits.

In terms of yield-producing properties, the fully let commercial property on Grindelstrasse 3-5 in Bassersdorf ZH was reclassified and transferred to development reserves. Due to its merger with a 6,000 square-metre undeveloped neighbouring property held as a development reserve since 2008, the size of the property earmarked for project development grew to about 12,000 square metres. As at 30 June 2017, the portfolio of yield-producing properties comprised 20 residential and 38 commercial buildings.

The portfolio of investment real estate under construction remained unchanged in the first half of 2017. The two projects represent an investment volume of

CHF 113.0 million and a target rental income of CHF 6.7 million, the one a fully let commercial building located at Schiffbauplatz in Zurich-West and the other a residential complex at Fangletenstrasse in Bülach ZH. Upon completion in the second half of 2017 and the second half of 2018, respectively, the two properties will be transferred to the portfolio of yield-producing properties.

The valuation of the 58 yield-producing properties and the two investment real estate under construction carried out by the external real estate valuer with effect from 30 June 2017 resulted in a positive value adjustment before tax of CHF 8.7 million (1st half 2016: CHF 10.3 million). The share of the revaluation result represented by the yield-producing properties amounted to CHF 4.7 million and that by investment real estate under construction to CHF 4.0 million.

The total value of the portfolio on the cut-off date amounted to CHF 3.59 billion.

In the first half of 2017, the Real Estate division reported earnings excluding revaluation effect of CHF 50.2 million which represents a share in the Group's net operating result of 82.4%.

Profitable Projects & Development division in a demanding market

Earnings generated in the first half of 2017 by the Projects & Development division from development and realisation for third parties, the sale of development real estate and the capitalised performance of own projects amounted to CHF 37.4 million. As expected and owing, especially, to clearly lower profits derived from the sale of development real estate amounting to CHF 8.6 million, the result was reported at 24.9% below the previous year's comparable value, which was essentially characterised by positive sales concerning the Guggach project in Zurich Unterstrass.

The share of the income from realisation Projects & Development and generated by development and execution of projects for third parties amounted to CHF 23.6 million, corresponding to an improved gross margin of 14.5%. Capitalised services concerning own projects amounted to CHF 4.1 million.

Earnings from realisation and capitalised services for own projects were unable to compensate for lower sales profits. Despite lower operating expenses, the division's operating profit (EBIT) of CHF 14.5 million is reported below that of the previous year.

In the first half of 2017, the Project Development department carried out a study contract for a new office building on the Escher-Wyss site in Zurich-West. The new building is to replace an office and garage building erected in 1962 at a prominent location which no longer meets requirements concerning contemporary usage and economic operation. The project unanimously recommended by the jury from eight submissions comprises about 6,500 square metres of useful space on six floors. Start of construction is scheduled for 2018, but is subject to planning permission procedures.

The project volume processed by the Realisation department in the first half of 2017 amounted to CHF 203.8 million (1st half 2016: CHF 260 million). It mostly included projects with calculable risks, realistic contractual terms and sound profit potential requiring careful operating procedures and a high level of execution quality.

In the period under review, all construction sectors of the former Bülachguss industrial site in Bülach-Nord obtained legal validity. Moreover, the acquisition agreements signed with an institutional investor came into force. The construction start of the large project comprising 490 rental and freehold units will result in a higher project volume.

Of the project volume completed in the first half of 2017, third-party projects represent CHF 163.8 million, development projects for sale to third parties CHF 10.9 million, and projects for the own portfolio CHF 29.1 million.

In terms of the project volume completed in the first half of 2017, the share of new construction projects was 72.4% and that of renovation and conversion projects 27.6%.

Secured order backlog of CHF 710 million as at 30 June 2017 represents utilisation of available capacity for a period of more than 12 months.

In the period under review, the Projects & Development division reported net profit excluding revaluation effect of CHF 10.7 million, representing a 17.6% share in the Group's net operating result.

Advantageous financing structure

The Group's financial liabilities as at the cut-off date amounted to CHF 1.64 billion.

In the period under review, a 0.875% loan at a nominal value of CHF 160 million maturing in 2027 was issued. In addition, long-term fixed-rate mortgages were concluded and, as a result, the average fixed-interest period was extended to 52 months.

Average interest rate for debt on the cut-off date amounted to 1.69%, slightly above the comparable value the previous year.

Freely available lines of credit on the cut-off date of CHF 675 million secure high financial scope for action.

Confident assessment of business development

The two divisions, Real Estate and Projects & Development, showed a good performance in their respective markets.

A significant contribution toward strengthening Allreal's high level of competitiveness was made by the consistent and very successful implementation of measures toward reducing the vacancy-related earnings losses.

In terms of developing and executing projects, a focus on projects with a high degree of execution quality allow for success in business operations. A strong emphasis on qualitative and economic aspects of projects goes hand in hand with continuous optimisation of processes.

Furthermore, a stronger emphasis on project development and its further progress represents the precondition for both successful acquisition and the best possible exploitation of synergies. Synergies result from the combination of a real estate portfolio providing a stable income with the activities of a general contractor.

The sound basis for Allreal's continued business development is centred on a low vacancy rate, a small number of commercial rental agreements up for renewal and growth in rental income based on portfolio expansion due in the second half of 2017.

In the Projects & Development division, progress in development and projects under construction is gratifying. Construction start in the period under review of the Bülachguss project and the connected commercial launch of 73 freehold apartments will in the medium term have a positive effect on Allreal's results.

The company continues to expect operating net profit for the 2017 financial year to remain slightly below the previous year's result.

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 2017 resp. 30.06.2017*	1st half-year 2016 resp. 31.12.2016*	Change in % 1
Group				
Total sales[2]	CHF million	293.6	348.9	–15.8
Operating profit (EBIT) incl. revaluation gains	CHF million	94.4	110.4	–14.4
Net profit incl. revaluation effect	CHF million	66.0	69.8	–5.4
Return on equity incl. revaluation effect[3]	%	6.3	7.1	–0.8
Operating profit (EBIT) excl. revaluation gains	CHF million	85.7	100.1	–14.4
Net profit excl. revaluation effect	CHF million	59.3	61.4	–3.4
Return on equity excl. revaluation effect[3]	%	6.3	6.6	–0.3
Equity ratio on cut-off date	%	51.9	52.3	–0.4
Net gearing[4] on cut-off date	%	77.1	75.7	+1.4
Market value yield-producing properties	CHF million	3'499.5	3'505.0	–0.2
Market value investment real estate under construction	CHF million	94.5	69.5	+36.0
Income from renting yield-producing properties	CHF million	87.5	86.5	+1.2
Income from real estate management services	CHF million	2.3	2.2	+4.5
Sales Projects & Development division	CHF million	203.8	260.2	–21.7
Earnings from Projects & Development division[5]	CHF million	37.4	49.8	–24.9
Employees on cut-off date	FTE	261	276	–15
Share				
Earnings per share incl. revaluation effect	CHF	4.14	4.38	–5.5
Earnings per share excl. revaluation effect	CHF	3.72	3.85	–3.4
Net asset value (NAV) per share after deferred taxes on cut-off date	CHF	130.20	131.00	–0.5
Share price on cut-off date	CHF	173.50	151.30	+14.7
Operating key figures				
Net yield real estate portfolio[6]	%	4.4	4.3	+0.1
Vacancy rate real estate portfolio[7]	%	2.9	6.2	–3.3
Operating margin Projects & Development division[8]	%	38.8	48.8	–10.0
Average interest rate on financial liabilities on cut-off date	%	1.69	1.67	+0.02
Average duration of financial liabilities	months	52	36	+16
Valuation on cut-off date				
Market capitalisation[9]	CHF million	2'763.8	2'410.3	+14.7
Enterprise value (EV)[10]	CHF million	4'363.8	3'989.6	+9.4

* 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 30.06.2017 resp. 31.12.2016

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