allreal

News Release

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Gratifying 2018 half-year results at a high level

Zurich, 28 August 2018: **In the first half of 2018, Allreal reported net profit including revaluation gains of CHF 70.3 million from its two divisions, Real Estate and Projects & Development. Compared to the previous year, this corresponds to a 6.5% increase.**

The valuation of the portfolio of investment real estate carried out by an external real-estate valuer resulted in a revaluation gain on the cut-off date of CHF 12.9 million.

Operating net profit excluding revaluation gains for the period under review amounted to CHF 61.3 million. The 3.4% increase over the previous year underlines Allreal's operating strength.

The company expects operating net profit for the entire 2018 financial year to be reported slightly above that of the previous year.

Real Estate division with convincingly high earnings
Portfolio growth resulting from the reclassification of an own project in the second half of 2017 and the acquisition of four fully let commercial buildings from Generali Switzerland as well as a continued decline in vacancy-related income losses resulted in an 11.9% growth in rental income to CHF 97.9 million.

The cumulative vacancy rate in the first half of 2018 was recorded at a remarkably low 2.0% or 60 basis points below the comparable value as at 31 December 2017. The low value is proof of the high quality of the portfolio, of the management of the individual properties and of the portfolio as a whole.

Direct expenses for yield-producing properties in the period under review amounted to a low CHF 8.9 million, corresponding to an expense ratio of 9.1%. Allreal expects expenses in the second half of the year to grow marginally.

Net yield again amounted to gratifyingly high 4.5% owing to the excellent occupancy rate of the residential and commercial properties and supported by lower real-estate expenses.

In the first quarter of 2018, Allreal divested Hammer Retex, a facility management company in Cham, Canton of Zug, at a profit of CHF 2.1 million. The employees of the Zurich branch, who before the divestment had exclusively managed Allreal properties, were taken over by Allreal and integrated into the Real Estate division. On the cut-off date, the share of yield-producing properties managed in-house was approximately 60% and is expected to grow to 70% in the future.

Earnings before interest and taxes (EBIT) excluding revaluation gains reported by the Real Estate division for the first half of 2018 amounted to CHF 86.4 million, corresponding to growth of 19.2% compared to the comparable period the previous year.

No changes in the period under review are reported for the portfolio of yield-producing properties. On the cut-off date it comprised 20 residential and 43 commercial properties. By contrast, the portfolio of investment real estate under construction recorded two additions amounting to CHF 40.6 million as a result of the reclassification of two own projects, namely Hardstrasse 301 (Escher-Wyss-Areal) in Zurich-West and Grünhof in Zurich Aussersihl.

Valuation by an external real estate valuer of investment real estate resulted in a positive value adjustment before taxes of CHF 12.9 million. Of this amount, the portfolio of yield-producing properties accounts for CHF 5.7 million and that of investment real estate under construction for CHF 7.2 million.

Consequently, the total value of the overall portfolio extended by two investment properties under construction amounted to CHF 3.98 billion.

The Projects & Development division continues to successfully assert itself in a market characterised by pressure on margins and profits

Income generated in the first half of 2018 by the Projects & Development division from development and realisation for third parties, sale of development real estate, and capitalised performance for own projects amounted to CHF 27.2 million.

The result is reported 27.3% below that of the comparable period the previous year and is due, on the one hand, to expected lower profits resulting from the sale of condominiums and, on the other, to the lower volume of project realisation for third parties.

Of the income derived by the Projects & Development division, CHF 20.2 million or 74.3% was generated by the development and realisation of third-party contracts. The resulting gross margin of 14.4% surpassed the record result reported for the previous year.

Income from sales development amounted to CHF 2.1 million. The sale of residential property on Kirschblütenweg Basel and on Solistrasse Bülach ZH contributed to this result. With effect from 20 March 2018, the 12,004 square metre development property on Grindelstrasse in Bassersdorf was sold to a commercial investor.

The share of capitalized performance for own projects in the earnings from Projects & Development amounting to CHF 3.4 million represents a share of 12.5%. From the second half of 2018, construction start in June 2018 of the two own projects, Hardstrasse 301 and Grünhof, will result in higher capitalized performance.

In the first half of 2018, operating expenses of the Projects & Development division amounted to CHF 24.6 million. Earnings before interest and taxes (EBIT) of CHF 6.6 million was reported clearly below that of the previous year owing to significantly lower profits from the sale of development real estate and sales-related lower earnings from Realisation Projects & Development.

In the first half of 2018, Allreal acquired land measuring 8386 square metres at the price of CHF 33.5 million in Lucerne Eggen. Allreal is planning a high-quality project comprising 72 condominiums in the medium price range for which there is strong demand. In the second half of 2018, Allreal will carry out an architectural competition to serve as the basis for the project to be developed in 2019.

Of the project volume completed by Realisation in the first half of 2018 amounting to CHF 166.0 million, the share of third-party projects was CHF 140.1 million or 84.4% and that of own projects for sale to third parties or for Allreal's own portfolio CHF 25.9 million or 15.6%. By year-end and in the following year, the share of third-party projects in the overall volume is likely to decline.

In terms of project volume completed in the period under review, new construction projects represented a share of CHF 129.1 million or 77.8% and that of renovation and conversion projects CHF 36.9 million or 22.2%.

On the cut-off date, the Realisation department reported a secured order backlog of CHF 663 million representing utilisation of available capacity for a period of about 18 months.

Advantageous financing secured olng-term
In the period under review, the group's financial liabilities as at 30 June 2018 were reported at CHF 1.86 billion representing a decline of CHF 57 million. Of this amount, bond issues represent 58.2%, fixed-rate mortgages 24.4%, and fixed advances 17.4%.

In March 2018, Allreal successfully placed a 0.50% bond issue for CHF 125 million with a term ending in 2023.

As a result of long-term fixed-rate mortgages concluded in the period under review amounting to CHF 52 million, the average duration of the fixed-interest period rose by four months to 53 months.

Average interest rate for financial liabilities on the cut-off date amounted to 1.57%, only slightly above the comparable value on 31 December 2017 of 1.53%.

Freely and short-term available lines of credit available as at 30 June 2018 securing high financial scope for the company amounted to CHF 774 million.

Confirmation of profit forecast for the 2018 financial year
The two divisions, Real Estate and Projects & Development, showed a good performance in their The company anticipates continued stable business development for the Real Estate and the Projects & Development divisions.

The confident assessment is based on careful and realistic assessment of the risks and opportunities in the various markets and fields of activity. Moreover, the company's financial strength and its independence guarantee a high degree of security and freedom of action.

Owing to the low vacancy rate and the low number of commercial rental agreements up for renewal, no essential changes in the portfolio are expected for the second half of 2018.

The Projects & Development division is well positioned in the market thanks to its innovative project development and to realisation focused on commercially successful projects.

The company expects operating net profit for the entire 2018 financial year to be reported slightly above 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 2018 resp. 30.06.2018*	1st half-year 2017 resp. 31.12.2017*	Change in % [1]
Group				
Total sales[2]	CHF million	266.9	293.6	–9.1
Operating profit (EBIT) incl. revaluation gains	CHF million	104.9	94.4	+11.1
Net profit incl. revaluation effect	CHF million	70.3	66.0	+6.5
Return on equity incl. revaluation effect[3]	%	6.6	6.3	+0.3
Operating profit (EBIT) excl. revaluation gains	CHF million	92.0	85.7	+7.4
Net profit excl. revaluation effect	CHF million	61.3	59.3	+3.4
Return on equity excl. revaluation effect[3]	%	6.4	6.3	+0.1
Equity ratio on cut-off date	%	48.7	49.3	–0.6
Net gearing[4] on cut-off date	%	85.9	87.2	–1.3
Market value yield-producing properties	CHF million	3'901.9	3'931.2	–0.7
Market value investment real estate under construction	CHF million	83.0	25.4	+226.8
Income from renting yield-producing properties	CHF million	97.9	87.5	+11.9
Sales Projects & Development division	CHF million	166.0	203.8	–18.5
Earnings from Projects & Development division[5]	CHF million	27.2	37.4	–27.3
Employees on cut-off date	FTE	220	259	–39
Share				
Earnings per share incl. revaluation effect	CHF	4.42	4.14	+6.8
Earnings per share excl. revaluation effect	CHF	3.86	3.72	+3.8
Net asset value (NAV) per share after deferred taxes on cut-off date	CHF	133.80	135.15	–1.0
Share price on cut-off date	CHF	161.50	164.80	–2.0
Operating key figures				
Net yield real estate portfolio[6]	%	4.5	4.4	+0.1
Vacancy rate real estate portfolio[7]	%	2.0	2.9	–0.9
Operating margin Projects & Development division[8]	%	24.3	38.8	–14.5
Average interest rate on financial liabilities on cut-off date	%	1.57	1.53	+0.04
Average duration of financial liabilities	months	53	49	+4
Valuation on cut-off date				
Market capitalisation[9]	CHF million	2'565.8	2'622.5	–2.2
Enterprise value (EV)[10]	CHF million	4'391.9	4'497.4	–2.3

* 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 30.06.2018 resp. 31.12.2017

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 and capitalised company-produces assets)
9 Stock price at balance sheet date multiplied by the number of outstanding shares
10 Market capitalisation plus net debts