Gratifying result in 2020 financial year despite coronavirus

- **Gratifying net operating profit**
- **Continued growth of portfolio value owing to addition and revaluation gains**
- **Volume of projects completed within the Projects & Development division increased despite challenging environment**
- **Annual financial report in line with Swiss GAAP FER for the first time**
- **Proposal for stable profit distribution of CHF 6.75 per share**

Allreal's net profit for the 2020 financial year was gratifying despite the challenges posed by the coronavirus pandemic. The company's net profit including revaluation effect amounted to CHF 167.2 million (2019: CHF 243.2 million), with revaluation gains positively impacting the total as in the previous year. If revaluation gains are excluded, the company managed to record a decent net profit of CHF 124.7 million (2019: CHF 142.0 million). This decrease of 12.2 percent is largely down to one-off effects from selling development properties in the previous year.

In response to the outbreak of the coronavirus pandemic and the subsequent officially prescribed regulations, Allreal was faced with numerous requests for deferral or waiver of rent payments. The company sought quick and uncomplicated individual solutions with tenants of office or commercial space, who suddenly had run into payment difficulties. Allreal came to an agreement with every single tenant who was struggling during the lockdown in spring 2020, and waived rent payments amounting to CHF 1.5 million.

Proposal for stable profit distribution

During the reporting period, Allreal's share held its ground impressively despite the high volatility on the stock markets, reaching new peaks in challenging market conditions. The share price on the cut-off date closed at CHF 203.50, or 5.8 percent above the comparable value reported in the previous year. The share thus clearly outperformed the sector. The increase in the share price and the dividend distribution of CHF 6.75 per share carried out in April 2020 resulted in a satisfying overall performance of 9.3 percent.

Based on the good result and the stable business development expected in the long term and considering the short-term uncertainty caused by the coronavirus pandemic, the Board of Directors will propose profit distribution of CHF 6.75 per share – in line with the previous year – at the Annual General Meeting of Shareholders scheduled for 16 April 2021. This is composed of an ordinary dividend of CHF 3.50 per share and a distribution of CHF 3.25 per share from capital reserves, which is tax-free to Swiss private investors.

Impressive stability within the Real Estate division

During the second half of 2020, Allreal purchased an office building in Wetzikon ZH for around CHF 84 million, which started to fully contribute towards earnings in November 2020. This attractive, modern property is occupied by long-term tenant Reichle & De-Massari, a leading global provider of cabling and connectivity solutions for communication networks. In the previous year, full ownership of a residential property in Zurich Schwamendingen was also transferred to the company. With the addition of properties being completed from own development projects by the end of 2020, rental income is expected to increase. During the period under review, rental income amounted to CHF 200.4 million (2019: CHF 203.1 million).

The cumulative vacancy rate saw another considerable drop of 0.8 percentage points to 1.4 percent compared to the previous year, marking its lowest level that Allreal has ever achieved. This value reflects the robustness of the portfolio and the excellent performance in both portfolio and property management. Despite the ongoing challenges posed by the coronavirus pandemic, the vacancy rate is only expected to increase slightly in the coming year.

As expected, direct expenses for yield-producing properties in the period under review increased slightly to CHF 27.9 million, putting the expenditure rate at 13.9 percent. The net yield amounted to a gratifying 4.1 percent.

The transaction market continues to be characterised by strong yield compression. The overall value of the portfolio grew by CHF 55.2 million based on the low vacancy rate and stable rental income in the following years. The revaluation carried out by the external property valuer as well as changes in the portfolio resulted in the market value of the entire portfolio being increased by around 5 percent to CHF 4.53 billion.

Good result within the Projects & Development division

During the period under review, earnings from the Projects & Development division amounted to CHF 46.6 million (2019: CHF 66.3 million), which is a decrease of 29.7 percent compared to the previous year. The division did, however, significantly benefit from a positive one-off effect due to the partial sale of a development reserve in the 2019 financial year. The gross margin in third-party business fell slightly to 12 percent, as the volume of projects to be completed did not increase quite as much as expected, particularly during the second half of the year, due to the ongoing global situation.

The Projects & Development division reported operating profit (EBIT) of CHF 10.6 million (2019: CHF 25.5 million).

During the period under review, the Development department worked on projects for Allreal's own portfolio and for third parties with a potential construction volume of several hundred million francs. Consequently, it made a significant contribution towards maintaining a stable workload as far as realisation was concerned. By working intensively on acquisition, the Development department managed to purchase a plot ideal for residential property development and realisation in Zurich Albisrieden representing an investment volume of around CHF 60 million.

The volume of projects completed by the Realisation department increased during the year under review to CHF 363.4 million. Of this volume, third-party projects represented 77.2 percent and own projects 22.8 percent.

The secured order backlog as at the end of the year amounted to around CHF 741 million, corresponding to capacity utilisation for around 24 months.

Strong financial position

As at the cut-off date, financial liabilities had increased to CHF 2.18 billion, putting them up CHF 177.6 million on last year. The average interest rate for financial liabilities had decreased again to 0.71 percent by 31 December 2020, by which point the average fixed-interest period had decreased to 49 months (31.12.2019: 56 months).

In September 2020, Allreal issued a 0.7 percent bond issue of CHF 175 million maturing in 2028, meaning that the company had refinanced 55.9 percent of financial liabilities through the capital market by the cut-off date. The share of fixed-rate mortgages amounted to 26.1 percent and that of fixed advances to 18 percent.

Group equity rose to CHF 2.41 billion, corresponding to a net asset value (NAV) per share of CHF 169.40. The equity ratio on the cut-off date amounted to 48.4 percent and net gearing to 88.6 percent. Thanks to its debt capacity of almost CHF 1.5 billion, the company continues to enjoy a high level of entrepreneurial freedom and space for financial manoeuvre.

Positive outlook dependent on future of coronavirus pandemic

With interest rates remaining low, the future is still looking bright for the Swiss property and construction market. The financial forecasts for the 2021 financial year suggest that Allreal will see increased returns on property within the Real Estate division and better results within the Projects & Development division. Despite those positive predictions, it is difficult to predict the impact of the pandemic.

Weighing up all of these risks and opportunities, Allreal is expecting an operating net profit of more than CHF 125 million in the 2021 financial year.

The Board of Directors and Group Management would like to take this opportunity to thank all employees for their hard work and commitment during these exceptional and challenging times. Allreal is also grateful to the shareholders for their ongoing trust and support.

Market environment

Transaction market

The transaction market is still characterised by intense competition and suffering from falling returns. With the economy weak, the low interest rate level is here to stay for the time being. Government bond yields are still negative, and property investments in Switzerland make for an attractive alternative. The demand for yield-producing properties and plots for the development and realisation of new properties and complexes remains high amongst institutional investors. This is reflected in high price levels, especially for properties in prime locations. The general situation on the transaction market continues to be clearly characterised by capital inflow and rising property prices.

Office rental market

Renting out office space is challenging given the current situation, with the recession making industry stakeholders very reluctant to sign new office leases or even renew their existing contracts. In the face of uncertainty surrounding the impact of job losses, widespread working from home and shifts in space requirements, vacancies are expected to increase with price pressure not letting up. Although the WFH trend won't ultimately replace the traditional office set-up, demand can generally be expected to drop by as much as 10 percent in the long term depending on specific circumstances. This market situation does, however, open up opportunities for landlords to come up with new ways of using space to offer customers flexible, short-term solutions tailored to their needs. Providers who are willing and able to offer tenants price concessions at short notice will also be at an advantage.

Residential rental market

In recent years, there has been intense building work in some areas of the residential rental market on the basis of macro- and micro-locational considerations that a structural supply surplus has built up. Vacancy rates increased slightly across Switzerland compared to previous years, but there are huge regional differences. For example, apartments in cities are still in high demand. Rents for this kind of living space are at a consistently high level. Uncertainty surrounding space requirements going forward is, however, linked closely to demographic developments, with net migration set to have a major impact here. Immigration and emigration in turn depend directly on general economic developments to a great extent.

Home ownership

Demand for condominiums and houses remains high and has even seen new peaks. The effects of the pandemic have been negligible here, but some properties were temporarily taken off the market during the lockdown in spring 2020. Transaction prices have continued to rise and there is no sign of this trend being reversed any time soon. Mortgage interest rates are still low, which is having a positive impact on demand and pricing on the home ownership market. The requirements surrounding affordability are still high, though, with buyers needing to contribute sizeable sums. Moreover, the rise of a generation of buyers can be seen who are only able to afford their own home once they have inherited. Also, more private individuals are purchasing homes as a form of capital investment.

Projects & Development

The outbreak of the COVID-19 pandemic led to projects being pushed back or even cancelled in some cases, meaning that market players had to seriously factor in flexibility when planning their finances and capacities. Where construction sites have been kept open for ongoing projects, expenses linked to strict hygiene regulations have been negligible. Well-organised market players in a strong financial position were able to swiftly adapt to any new general conditions.

The construction of high-rise buildings had already started to cool down prior to the coronavirus, especially in the residential rental market, but the pandemic accelerated this. There has been a noticeable drop in the number of new projects in the general contractor market since the summer of 2020. Furthermore, the trend towards lower margins and higher risks shows no sign of easing up amongst market players. There are too many service providers offering the same services, with little to differentiate them from one another.

On that basis, it is crucial that general and total contractors narrow down their specialisation, focus on specific regions or carve out attractive niches. Sustainability and technological innovation – relating to new materials or increasingly cooperative workflows (BIM) – are two ways to differentiate. Other topics that influence the market refer to increasing density by means of replacement buildings and energy-related upgrading of buildings. A market consolidation is expected in the medium term. Given the circumstances, specialisation and quality are becoming even more significant.

Real Estate division

In the reporting period, rental income decreased slightly to CHF 200.4 million (2019: CHF 203.1 million), equating to a decline of 1.3 percent compared to the previous year. Waived rent payments of CHF 1.5 million during the first lockdown in spring 2020 had a major impact here.

Breaking down the rental income total, CHF 163.8 million (81.7%) came from commercial properties (2019: CHF 168.0 million) and CHF 36.6 million (18.3%) came from residential properties (2019: CHF 35.1 million).

The rental income can be broken down further by category as follows: office and services 60 percent, residential 20 percent, trade and warehousing 9 percent, parking 7 percent and retail 4 percent.

The ten largest tenants accounted for 57.1 percent of the earnings from the rental of commercial properties (2019: 56.8%). The share contributed by the five largest tenants held steady at 41% (2019: 40.6%).

As at the end of 2020, the average term of limited rental agreements for commercial properties was 5.0 years. Only 10% of rental agreements are due to expire and be up for renewal within the next two years.

The high quality of the portfolio is reflected in the steady drop in the cumulative vacancy rate. With a record low of 1.5 percent already having been reported for the first half of 2020, the rate for the whole period under review had declined by the end of the year to 1.4 percent.

By the end of the financial year, Allreal was managing around 70 percent of its own yield-producing properties. A representative customer survey conducted in the fourth quarter of 2020 revealed that the strategy of managing as many properties as possible in-house is building value for customers and Allreal alike. The results of the survey confirm that the company's 15-strong property management team provides high-level customer service thanks to its close proximity to customers and short response times.

During the 2020 financial year, Allreal successfully concluded new rental agreements representing more than 17,400 square metres of space in total. New or extended agreements representing significant earnings included the commercial properties at Bellerivestrasse 36 in Zurich Riesbach, Baarermatte in Baar ZG, Viadukstrasse 40-44 in Basel or Vulkanstrasse 106 in Zurich Altstetten..

Factoring in large refurbishment and renovation projects, such as the Unterdorfstrasse residential complex in Fällanden ZH, Hardstrasse 319 in Zurich-West and Bändliweg in Zurich Altstetten, property expenses amounted to CHF 27.9 million, putting them on a par with the previous year's figure (2019: CHF 27.6 million). The expenditure rate in terms of total rental income was 13.9 percent (2019: 13.6%), still moving towards the long-term average of around 15 percent.

With the vacancy rate and earnings losses low and the property expenses steady, Allreal recorded a high net yield of 4.1 percent.

Portfolio expansion through own developments and acquisition

In the second half of 2020, Allreal purchased an office building in Wetzikon ZH for around CHF 84 million. The target annual rental income for this property, which started to contribute to earnings in November 2020, is CHF 2.9 million. This building dating back to 2009 covers 16,235 square metres of rentable space in total and includes 200 parking spaces.

Allreal has developed and realised a new build to replace an existing office building on a site in the Escher-Wyss industrial area in Zurich-West. This building was transferred to the yield-producing property portfolio as at the balance sheet cut-off date. The property at Hardstrasse 299/301 comprises almost 6,000 square metres of rentable floor space and is fully let. The main tenant is PartnerRe, an international reinsurance company. With a total target rental income of CHF 2.3 million, the building will fully contribute towards earnings as of the second quarter of 2021.

Allreal is developing and realising a project on the Grünhof site in Zurich Aussersihl, including a new build in the courtyard formerly used for commercial purposes and a replacement building consisting of eight rental apartments and commercial space at Badenerstrasse 131. With the construction work on the replacement building having been completed in the fourth quarter of 2020, it has been contributing to earnings since December 2020 after being transferred to the yield-producing property portfolio. The keys to the new build comprising 80 residential units will be handed over to the tenants in the spring of 2021. The target rental income for the project as a whole is CHF 4.3 million.

As at the cut-off date, the investment property portfolio comprised a total of 67 yield-producing properties consisting of 21 residential and 45 commercial buildings and one investment property under construction.

Valuation of the investment property portfolio carried out by an external property valuer as at the end of the year resulted in a positive value adjustment before taxes of CHF 55.2 million (2019: CHF 140.0 million). The higher valuation was significantly impacted by the value being added to investment properties under construction and lower discount and capitalisation rates that decreased by nine basis points on average. The high occupancy rate and the low number of rental agreements coming up for renewal had a positive influence on the valuation, too.

Of the total value adjustments, residential properties represented CHF 18.9 million (2019: CHF 70.7 million), commercial properties represented CHF 6.9 million (2019: CHF 51.4 million) and investment properties under construction represented CHF 29.4 million (2019: CHF 17.0 million).

Changes in the portfolio and its positive development compared to the cut-off date in the previous year resulted in growth of the property portfolio's market value by CHF 183.3 million to CHF 4.53 billion (31.12.2019: CHF 4.34 billion).

The market value of the portfolio of yield-producing properties amounted to CHF 4428.5 million and that of investment properties under construction to CHF 96.8 million as at the cut-off date. Of the market value as at 31 December

2020, the city of Zurich represented 51.2 percent (31.12.2019: 50.6%), the remaining canton of Zurich 36.3 percent (36.1%), the two cantons of Basel 5.3 percent (5.6%), the cantons of Geneva and Vaud 5.1 percent (5.3%), the canton of Bern 1.4 percent (1.7%) and the canton of Zug 0.7 percent (0.7%).

Within the Real Estate division, Allreal recorded a net profit excluding revaluation effect of CHF 118.6 million (2019: CHF 125.2 million).

Projects & Development division

During the period under review, Allreal's Projects & Development division recorded earnings from general contracting across its two departments, Development and Realisation, of CHF 46.6 million (2019: CHF 66.3 million). The division benefited significantly from a positive one-off effect of the partial sale of a development reserve in the previous year.

In 2020, earnings from the Projects & Development division's Realisation department amounted to CHF 33.7 million (2019: CHF 35.8 million). The gross margin in third-party business fell slightly to 12 percent, as the volume of projects to be completed did not increase quite as much as expected, particularly during the second half of the year, due to the ongoing global situation. Capitalised company-produced assets resulting from the completion of own projects amounted to CHF 7.1 million in the 2020 financial year, compared to CHF 6.7 million in the previous year.

With sales of residential properties amounting to CHF 33.5 million during the period under review, gains from sales Development amounted to a gratifying total of CHF 3.7 million.

Given the current market conditions, acquiring new plots and sites is still challenging. In the second half of 2020, a plot spanning 1,739 square metres at Badenerstrasse 501-505, close to Letzigrund Stadium in Zurich Albisrieden, was bought for CHF 31.5 million. The property has attractive potential for a residential development project.

Of the total earnings from general contracting in the period under review, third-party projects accounted for CHF 35.8 million (76.8%) (2019: CHF 36.7 million/55.4%) and projects for sale to third parties and for Allreal's own portfolio accounted for CHF 10.8 million (23.2%) (2019: CHF 29.6 million/44.6%).

Operating expenses were down 10.1 percent on last year, amounting to CHF 43.4 million (2019: CHF 48.3 million), with spending on staff and third-party rent seeing the biggest drop. This amounts to an operating profit (EBIT) of CHF 10.6 million (2019: CHF 25.5 million).

Development

During the period under review, the Development department worked on projects for Allreal's own portfolio and for third parties with a potential construction volume of several hundred million francs. Consequently, it made a significant contribution towards expanding the portfolio of investment properties and maintaining a stable workload as far as realisation was concerned.

Allreal is planning to fully refurbish a six-floor building at Bellerivestrasse 36 in Zurich Riesbach in line with plans submitted by C.F. Møller Architects, the Danish architecture firm that most impressed the judging panel for the study contract. The planning application was submitted in June 2020 and the construction period is due to start in summer 2021 for around two years. The investment volume amounts to more than CHF 50 million.

Allreal is developing 77 condominiums on a plot spanning 8,400 square metres in Lucerne's Büttenen district. During the last year, work continued on the successful project submitted by Caruso St John Architects as part of the study contract conducted in 2018 and a design plan was made public by the city of Lucerne. It is scheduled to be processed by the city council during the first six months of 2021. The planning application for the project representing an investment volume of around CHF 73 million is due to be submitted in spring 2022 at the earliest.

Allreal is planning a residential complex with 63 condominiums to be sold to third parties and 43 rental apartments for a private owner on Spiserstrasse in Zurich Albisrieden. A study contract involving five architecture firms was conducted for the site spanning some 4,600 square metres in total in the 2020 financial year. A judging panel unanimously decided in favour of the project submitted by ADP Architektur Design Planung AG back in the summer. Construction work is expected to begin by the end of 2022 at the earliest. The investment volume amounts to about CHF 75 million.

Realisation

In the period under review, the volume of projects completed by the company amounted to CHF 363.4 million. Although this figure represents a slight increase of 6.7 percent on the previous year, it is not as strong as it would have been had the pandemic not impacted upon construction work. When it comes to third-party projects, Allreal focuses on those with calculable risks, realistic contract terms and solid profit expectations. Thanks to these high standards, the department reported a gross margin of 12 percent for the planning and realisation of third-party projects (2019: 13.3%).

Of the total volume of projects completed, third-party projects accounted for CHF 280.4 million (77.2%) (2019: CHF 270.0 million/79.2%). In contrast, the share of own projects was reported at CHF 62.9 million (17.3%) (2019: CHF 50.4 million/14.8%), whilst the share of development projects for sale to third parties was reported at CHF 20.1 million (5.5%) (2019: CHF 20.3 million/6.0%).

In the medium term, the company aims to achieve a balanced relationship between own and third-party projects at an annual project volume of up to CHF 500 million.

Over the past financial year, the share of new construction projects in the volume of projects completed amounted to CHF 219.3 million (60.3%) (2019: CHF 224.4 million/65.9%) and the share of renovation and conversion projects amounted to CHF 144.1 million (39.7%) (2019: CHF 116.3 million/34.1%).

The secured order backlog as at the cut-off date amounted to around CHF 741 million, corresponding to capacity utilisation for around 24 months.

Projects completed in 2020

Allreal completed a comprehensive refurbishment and conversion of a commercial building on the post office site in close proximity to Baden AG railway station. Turning neglected space on the ground floor into rental units has improved the owner's long-term earning power. As part of the project, an extension was also

built to the north of the plot, with space for parking and deliveries being added for the retail units. The construction sum amounted to around CHF 32 million.

After around two years, Allreal has completed a replacement building on the Grünhof site at Badenerstrasse 131 in Zurich Aussersihl, which has been added to the portfolio of yield-producing properties. The building consisting of eight rental apartments was fully occupied by tenants on the move-in date at the start of December 2020. The six-floor apartment building boasting a stunning structural façade leads into the courtyard site that is due to be completed in the first quarter of 2021. The construction sum for the replacement building amounted to about CHF 10 million.

Allreal is realising a residential complex called 'Wohnen am Chatzenbach' on Ettenfeldstrasse in Zurich Seebach on behalf of a private investor. The site consists of four new apartment buildings and one replacement building with eleven rental apartments alongside office space and commercial units. The replacement building was successfully handed over to the owner at the end of August 2020 and the new builds are due to be completed in the autumn of 2021. The construction sum amounts to about CHF 38 million in total.

Some of the projects completed in the period under review included:

"Wohnen im Mühlacker" residential complex	Gerlafingen SO
Interxion ZUR 2 data centre	Glattbrugg ZH
Breitwiesenstrasse residential complex refurbishment	Langnau am Albis ZH
Mättivor residential complex	Schwyz
Anna-Heer-Strasse residential complex	Suhr AG
Medbase tenant fit-out*	Winterthur ZH
Forchstrasse 179 residential complex	Zollikerberg ZH
Cantonal tax office tenant fit-out*	Zurich Altstetten
Binzmühlestrasse Academia office refurbishment	Zurich Oerlikon

* Own projects

New and ongoing projects

Allreal is building a residential complex with a total of 120 rental apartments for a private owner at Letzigraben 165-173 in Zurich Albisrieden. The development consists of four five-floor buildings, with basement space and utility rooms below the ground floor along with a single-level underground car park. The residential complex is due to be completed in 2022. The construction sum amounts to about CHF 36 million.

During the 2020 financial year, Allreal won a global solution competition for the renovation and extension of the Feld/Berg school site in Thalwil ZH. The plans include renovation, refurbishment and extension work along with the construction of an underground sports hall. Following a successful ballot in November 2020, construction is now scheduled to start during the 2021 financial year. The project volume amounts to around CHF 20 million.

In Adliswil ZH, Allreal is developing and realising a residential and commercial complex in the Dietlimoos-Moos development site for a private investor. A residential and commercial estate will be created on six construction lots, comprising

a total of 325 apartments and about 9,000 square metres of space reserved for trade and services. The construction volume amounts to over CHF 170 million. After preparations got underway on the first construction lot back in November 2019, work has gradually started on three more construction lots since March 2020. These first four lots are scheduled for completion in summer 2022 and summer 2023.

Allreal is realising the Bellaria residential area in Zurich Wollishofen on behalf of Helvetia Versicherungen. The five-floor apartment buildings comprise 180 rental apartments in total. The construction sum amounts to around CHF 60 million. The construction work for this project in a prime location will be handed over to the owner in early 2021.

On behalf of an institutional investor, Allreal is currently realising the total refurbishment and extension of an office complex with over 45,000 square metres of floor space located on Badenerstrasse in Zurich Wiedikon. The construction sum amounts to over CHF 90 million. The project is scheduled for completion during the 2021 financial year.

On behalf of SBB, Allreal made a start on the Letzi Turm project on Hohlstrasse in Zurich Altstetten as total contractor at the end of 2019. The project volume amounts to around CHF 70 million. The new construction comprises two high-rise residential buildings, both measuring 70 metres in height, with a total of 178 rental apartments. Together, the two towers represent more than 27,000 square metres of floor space and a volume of 84,000 cubic metres. The project is due to be completed and handed over to the client in 2022.

Allreal is realising a third-party and own project on Florenstrasse in Winterthur Seen ZH. The residential complex includes a total of ten apartment buildings comprising eleven rental apartments and 51 condominiums. Allreal is realising the rental apartments for a private owner. Completion of the entire project is scheduled for 2022.

Sale of development properties

For the 2020 financial year, the company reported earnings of CHF 33.5 million from the sale of development properties, resulting in a gain of CHF 3.7 million. Sales included residential properties from the projects on Solistrasse in Bülach ZH, Florenstrasse in Winterthur ZH and Alter Züriweg in Zufikon AG.

During the period under review, the Projects & Development division recorded a net profit excluding revaluation effect of CHF 7.8 million (2019: CHF 20.0 million).