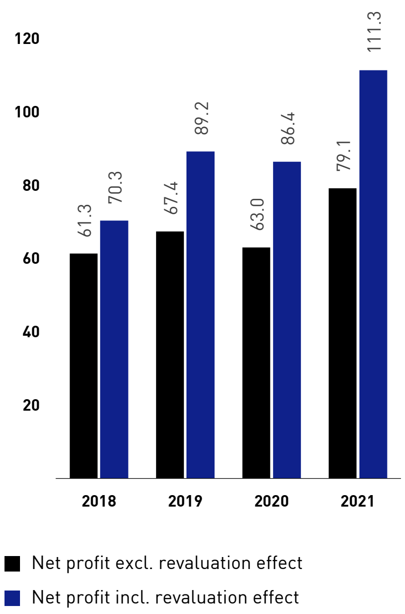
Key figures at a glance

		1st half-year 2021 as at 30.06.2021*	1st half-year 2020 as at 31.12.2020*	Change in %[1]
Group				
Total sales[2]	CHF million	262.3	278.7	–5.9
Operating profit (EBIT) incl. revaluation gains	CHF million	148.4	113.8	30.4
Net profit incl. revaluation effect[3]	CHF million	111.3	86.4	28.8
Operating profit (EBIT) excl. revaluation gains	CHF million	106.6	86.1	23.8
Net profit excl. revaluation effect[3]	CHF million	79.1	63.0	25.6
Cash flow	CHF million	94.1	68.2	38.0
Return on equity incl. revaluation effect[3]	%	9.3	7.4	1.9
Return on equity excl. revaluation effect[3]	%	8.0	6.4	1.6
Equity ratio on cut-off date	%	48.1	48.4	–0.3
Net gearing[4] on cut-off date	%	90.8	88.6	2.2
Average interest rate on financial liabilities on cut-off date	%	0.66	0.71	–0.05
Average duration of financial liability on cut-off date	months	44	49	–5
Sales Projects & Development division	CHF million	160.5	178.6	–10.1
Earnings from Projects & Development division[5]	CHF million	37.5	24.6	52.4
Gross margin third-party projects Projects & Development division[6]	%	11.4	13.8	–2.4
Employees on cut-off date	full-time equivalents	203	206	–3
Share				
Earnings per share incl. revaluation effect[3]	CHF	7.03	5.43	29.5
Earnings per share excl. revaluation effect[3]	CHF	5.00	3.96	26.3
Net asset value (NAV) per share before deferred tax on cut-off date	CHF	170.70	169.40	0.8
Net asset value (NAV) per share after deferred tax on cut-off date	CHF	151.80	151.75	0.0
Share price on cut-off date	CHF	182.20	203.50	–10.5
Valuation on cut-off date				
Market capitalisation[7]	CHF million	2 879.0	3 235.6	– 11.0
Enterprise value[8]	CHF million	5 056.4	5 374.1	–5.9

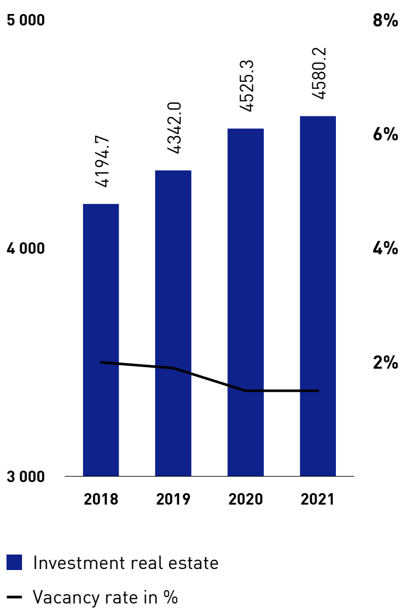
* Should no further particulars be given, values referring to the income statement concern the first half-year, and balance sheet values the cut-off dates 30 June 2021 and 31 December 2020.

1 Changes in number and percentage values are shown as an absolute difference
2 Income from rental of investment real estate plus completed project volume in the Projects & Development division
3 Revaluation gains refer to gains from the revaluation of investment real estate less deferred taxes on revaluation
4 Borrowings minus cash and marketable securities as a percentage of equity
5 Income from realisation Projects & Development, sales Development, capitalised company-produced assets and various revenues minus direct expenses from realisation Projects & Development and sales Development
6 Earnings from realisation Projects & Development as a percentage of income from realisation Projects & Development
7 Share price at balance sheet date multiplied by the number of outstanding shares
8 Market capitalisation plus net finance debts

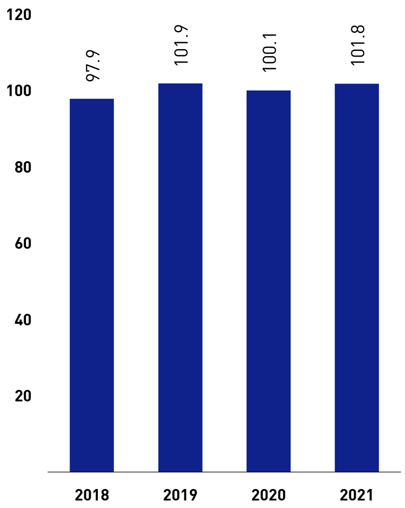
Net profit
1st half-year (CHF million)



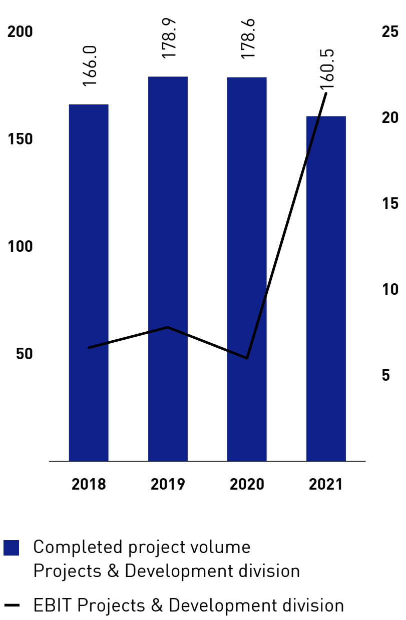
Market values and vacancy rate
As at 30 June and 31 December (CHF million)



Income from investment real estate
1st half-year (CHF million)



Completed project volume and EBIT Projects & Development division
1st half-year (CHF million)



Real estate at a glance

		1st half-year 2021 as at 30.06.2021*	1st half-year 2020 as at 31.12.2020*	Change in %[1]
Yield-producing properties				
Residential real estate on cut-off date[2]	number	22	21	1
Commercial real estate on cut-off date[3]	number	43	45	–2
Market value on cut-off date	CHF million	4 457.3	4 428.5	0.7
Rental income from investment real estate	CHF million	101.8	100.1	1.7
Vacancy rate[4]	%	1.5	1.5	0.0
Real estate expenses	CHF million	–10.0	–13.2	–24.2
Real estate expenses	in % of rental income	9.9	13.2	–3.3
Gross yield[5]	%	4.6	4.7	–0.1
Net yield[6]	%	4.2	4.1	0.1
Investment real estate under construction				
Buildings on cut-off date	number	1	1	0
Market value on cut-off date	CHF million	122.9	96.8	27.0
Investment volume	CHF million	173.0	80.2	115.7
Development real estate				
Book value development reserves on cut-off date	CHF million	142.2	179.7	–20.9
Estimated investment volume development reserves	CHF million	334.9	515.2	–35.0
Book value buildings under construction on cut-off date	CHF million	42.0	44.0	–4.5
Estimated investment volume buildings under construction	CHF million	88.0	74.3	18.4
Book value completed real estate on cut-off date	CHF million	0.0	0.0	–

* Should no further particulars be given, values referring to the income statement concern the first half-year, and balance sheet values the cut-off dates 30 June 2021 and 31 December 2020.

1 Changes in number and percentage values are shown as an absolute difference
2 The accruals in the case of residential real estate are a result of the reclassification of the Grünhof site, Zurich Aussersihl, in that the majority of properties on the site are now for residential rather than commercial use
3 The disposals in the case of commercial real estate are a result of the reclassification of the Grünhof site, Zurich Aussersihl, as residential real estate, as well as the reclassification of the property at Bellerivestrasse 36, Zurich Riesbach, as investment real estate under construction
4 As a percentage of target rental income, cumulative as at cut-off date
5 Rental income from investment real estate as a percentage of continued market value of yield-producing properties as at 1 January
6 Rental income from investment real estate as a percentage of continued market value of yield-producing properties as at 1 January

Letter to shareholders

- **Significant increase in net operating profit**
- **Gratifying result in Real Estate division strengthened even further by revaluation gains**
- **Projects & Development division performs well thanks to gains on sales**
- **Clear vision for sustainability: portfolio of yield-producing properties will be fully carbon neutral by 2050**
- **Net operating profit for 2021 now expected to be above CHF 130 million**

Allreal reported net profit including revaluation effect of CHF 111.3 million in the first half of 2021, compared with CHF 86.4 million in the same period 2020 – a rise of 28.8%. This gratifying performance was partly a result of an upward revaluation of the portfolio by CHF 41.8 million before tax compared with CHF 27.7 million in the first half of 2020.

Both divisions performed well overall and made a positive contribution to net operating profit of CHF 79.1 million. This represents an impressive increase on a year-on-year basis of 25.6% (1st half-year 2020: CHF 63.0 million).

On the cut-off date, Allreal's share price closed at CHF 182.20, which was 10.5% below the closing price on 31 December 2020. If the distribution of CHF 6.75 per share in April 2021 is included, an overall performance of –7.1% was recorded in the first half of 2021.

Strong real estate earnings and revaluation gains in the Real Estate division

In the Real Estate division, Allreal's rental income rose by 1.7% to CHF 101.8 million owing to various additions to the portfolio generating income for the first time. In connection with the pandemic, the company waived rent payments to the amount of CHF 0.5 million in the first half of 2021 – much less than in the first half of 2020. The cumulative vacancy rate of 1.5% made a significant contribution to the healthy net yield of 4.2%. In the first half of 2021, Allreal stepped up its efforts to extend leases early for several large customers. The company is confident that early extensions will be agreed for a number of the rental agreements that are due to expire in 2023. The valuation of the investment real estate resulted in a net upward revaluation of CHF 41.8 million and portfolio value of CHF 4.58 billion as at the balance sheet cut-off date.

Projects & Development division generates high level of income from the sale of development real estate

Earnings from the Projects & Development division went up by 52.4% to CHF 37.5 million. Allreal benefited from the high price level on the transaction market and generated a high level of income from the sale of two pieces of land. Meanwhile, business was challenging for the Realisation department in the first half of 2021. The impact of the coronavirus could be seen in inefficiencies in the construction process and a rise in additional expenses as a result. Prices and margins are under increased pressure. Because of this, the markets need to be watched even more closely and the services provided need to be kept under review.

Clear commitment to sustainability

The company continued to work on developing a clear and measurable sustainability strategy in the first half of 2021. The vision is clear: the portfolio of yield-producing properties will be fully carbon neutral by 2050 and the share of fossil fuels in energy consumption will be halved by 2030. Among the factors contributing to this will be the active management of tenants' behaviour, the broad-based expansion of photovoltaic systems and parking spaces for electric vehicles, and the consistent use of reusable materials. Allreal will also provide information about the ESG strategy at an Investors' Day in November 2021.

Improved outlook for full-year 2021

Allreal remains to be very solidly financed. This allows it to take advantage of opportunities in the real estate market, including those that arise at short notice. As at the cut-off date, the equity ratio amounted to 48.1%, net gearing to 90.8% and the interest coverage ratio to 15.1.

Allreal now expects a net operating profit for 2021 as a whole that is likely to come in above CHF 130 million.

The Board of Directors and Group Management would like to take this opportunity to thank employees for their hard work and commitment during these challenging times, as well as shareholders for their trust and support.

Report on the first half of 2021

Real Estate division increases profit significantly

The Real Estate division again performed well in the first half of 2021. Rental income increased by 1.7% to CHF 101.8 million (1st half-year 2020: CHF 100.1 million).

This positive development was partly attributable to the rental income that was generated by various additions to the portfolio for the first time. In the second half of 2020, Allreal acquired an office building in Wetzikon ZH with annual target rental income of CHF 2.9 million. Allreal has developed and realised a replacement new build at Hardstrasse 299/301 on the Escher-Wyss site in Zurich-West. The annual target rental income for this commercial property, which began to contribute to net income in the second quarter of 2021, is CHF 2.3 million. In addition, all the new apartments on the Grünhof site in Zurich Aussersihl were let at the end of January 2021. Going forward, the Grünhof site will generate annual target rental income of CHF 5.4 million.

The commercial real estate at Bellerivestrasse 36, Zurich Riesbach, was reclassified as investment real estate under construction on 1 April 2021.The office building will be totally renovated in the next two years and delivered rental income of CHF 1.5 million in the first quarter of 2021, compared with CHF 2.8 million in the first half of 2020.

In addition, rent payments were waived to the amount of around CHF 0.5 million in the first half of 2021 in connection with the pandemic, compared with CHF 1.4 million in the first half of 2020.

The cumulative vacancy rate stood at 1.5%, meaning that it was persistently at an exceptionally low level by industry standards. Indeed, vacancies actually decreased even further in the residential segment, while – as expected – there was a slight increase in the case of commercial space.

Allreal is holding advanced negotiations with several large customers on extending leases early; these should be completed in the next few months. The weighted remaining term of fixed-term leases would then increase to 5.7 years, compared with 4.9 years as at 30 June 2021.

Allreal expects the cumulative vacancy rate to rise only very slightly over 2021 as a whole based on the high quality of its real estate management and the fact that no more major leases are up for renewal in the current year.

Direct expenses for yield-producing properties fell from CHF 13.2 million in the first half of 2020 to CHF 10.0 million in the period under review. Various renovation projects will come to execution in the second half of 2021. Accordingly, the property expense rate declined temporarily to 9.9%, down from 13.2% in 2020.

The lower property expense rate and the slightly higher rental income resulted in the net return of yield-producing property reaching a healthy 4.2%, up from 4.1% in the first half of 2020.

Construction work to extensively modernise the commercial building at Bellerivestrasse 36 in Zurich Riesbach began at the end of July 2021. The property is being refurbished in accordance with the plans of the Danish architecture firm

C.F. Møller and, in aiming to achieve LEED Platinum certification, will meet high sustainability standards. After around two years of construction, the office building will be a new lakeside landmark in Zurich and generate annual target rental income of CHF 6.8 million.

The valuation of the investment real estate carried out by an external real estate valuer on 30 June 2021 resulted in an upward revaluation of CHF 41.8 million. Of this, residential real estate accounted for CHF 48.1 million, commercial real estate for CHF –12.7 million and investment real estate under construction for CHF 6.4 million.

The total value of the portfolio of investment real estate on the cut-off date amounted to CHF 4.58 billion, compared with CHF 4.53 billion on 31 December 2020. The market value of the residential real estate came to CHF 1.25 billion, while that of commercial real estate amounted to CHF 3.21 billion. The market value of investment real estate under construction was CHF 122.9 million.

The Real Estate division reported net profit excluding revaluation gains of CHF 66.1 million in the first half of 2021, compared with CHF 58.6 million in the same period 2020. This represents an 81.9% share in the Group's net operating profit.

Projects & Development division performs well thanks to gains on sales
Allreal combines the Group's development and realisation expertise in the Projects & Development division. The division plans and implements its own projects, buys and sells development real estate, and provides services in the area of developing and realising projects – including for third parties. Earnings from the Projects & Development division amounted to CHF 37.5 million in the period under review, compared with CHF 24.6 million in the first half of 2020.

Income from the sale of development real estate had significantly impacted the result. Meanwhile, business was challenging for the Realisation department. The impact of the coronavirus could be seen in inefficiencies in the construction process. In some cases, work was commissioned but cancelled by the service provider at short notice, which led to an increased need for flexibility in the construction process. Nevertheless, all the projects that were terminated in the period under review at the handover stage managed to be completed on time and, most importantly, without quality being compromised. The increase seen in the cost of some building materials on the market did not have any significant impact on ongoing projects, as delivery times and prices are normally fixed in advance.

Earnings from realisation Projects & Development fell to CHF 15.2 million in the first half of 2021 from CHF 18.8 million in the same period 2020, also as a result of these factors. Although the gross margin – which was generated with the development and execution of projects for third parties – remained at a respectable level with 11.4%, it was still below the company's expectations (1st half-year 2020: 13.8%).

Allreal disposed of two pieces of land from its development reserves in the period under review. In Dielsdorf ZH, the company sold a plot at Neuwisen comprising 46,419 square metres for a high price, and in Rümlang ZH Allreal divested part of the Bäuler development reserve for a profit. As with the sale of residential real estate from the projects at Florenstrasse in Winterthur ZH and Alter Züriweg in Zufikon AG, the sale of development real estate generated a sizeable income of CHF 18.4 million (1st half-year 2020:CHF 1.6 million).

In the Development department, Allreal launched a new project at Renggerstrasse in Zurich Wollishofen. The commercial property has been owned by the company and part of its portfolio of yield-producing properties since 1999. A new residential property with 21 units is to be built on the land, which covers 1389 square metres. The property will remain in Allreal's portfolio once completed. The investment volume amounts to about CHF 12 million. It is envisaged that construction will start in autumn 2022 and that the property will be occupied from summer 2024.

In the Realisation department, the large third-party projects are broadly on schedule. In the first quarter of 2021, for example, Allreal successfully completed a project on behalf of Helvetia Insurance Group to build 13 five-storey apartment buildings with 180 rental units and an underground car park on Bellariarain in Zurich Wollishofen. At Badenerstrasse 170-172 in Zurich Wiedikon, where Allreal implemented a total refurbishment and extension of an office complex on behalf of Swiss Life, the job was likewise completed and handed over to the client on time.

At Hohlstrasse in Zurich Altstetten, work on the Letzi Turm project is progressing well. Allreal, as the total contractor, is erecting two 70-metre residential high-rise buildings for Swiss Federal Railways comprising 178 rental units. The order volume is about CHF 70 million. The project is due to be completed and handed over to the client in the second half of 2022.

In Adliswil ZH, the company is developing and realising a residential and commercial complex on 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. The first four lots are scheduled for completion between summer 2022 and summer 2023.

The Realisation department's completed project volume stood at CHF 160.5 million in the period under review, compared with CHF 178.6 million in the first half of 2020. Of this, third-party projects accounted for CHF 133.1 million, or 82.9 percent, and own projects for CHF 27.4 million, or 17.1 percent.

The order intake was very slow in the first half of 2021, as there was a noticeable decline in the number of tenders issued on the market. The secured order backlog as at the cut-off date amounted to around CHF 638 million, corresponding to capacity utilisation for around 21 months.

The operating expenses of the Projects & Development division fell by around 12.7% from CHF 22.9 million in the first half of 2020 to CHF 20.0 million in the first half of 2021.

The Projects & Development division recorded a net profit of CHF 14.6 million in the period under review, compared with CHF 4.8 million in the first half of 2020. This represents an 18.1% share in the Group's net operating profit.

Long-term and stable financing

As at the cut-off date, financial liabilities had increased by CHF 24.6 million to CHF 2.20 billion, up from CHF 2.18 billion on 31 December 2020. Of this amount, bond issues accounted for 49.8%, fixed-rate mortgages for 25.8% and fixed advances for 24.4%.

On 30 June 2021, the average interest rate for financial liabilities amounted to 0.66%, or five basis points below the comparable figure on 31 December 2020. The average interest lock-in period amounted to 44 months.

With a fixed-income 0.6% bond issue of over CHF 170 million and a term of nine years being paid in mid-July 2021, the credit limits available after the balance sheet cut-off date again amounted to more than CHF 430 million. As a result, the average interest lock-in period increased to 52 months.

As at per 30 June 2021, the equity ratio amounted to 48.1%, net gearing to 90.8% and interest coverage ratio to 15.1, compared with 48.4%, 88.6% and 11.0, respectively, on 31 December 2020.

Outlook for full-year 2021

The strong half-yearly financial statements give Allreal reason to be confident that its results for the full year 2021 will be very good.

In the Real Estate division, the increased customer focus in recent years has paid off and allows for results-orientated discussions in order to understand tenants' needs and offer flexible solutions. By having its own Projects & Development division, Allreal is able to quickly adapt office and commercial space to meet these changing needs. Furthermore, no major commercial leases are up for renewal in the immediate future, so the vacancy rate will remain at a very low level over the year as a whole. Earnings will remain predictable even when taking into consideration the slightly more volatile real estate expenses. Net operating profit in the Real Estate division is therefore likely to be higher than in the previous year.

In the Projects & Development division, prices and margins remain under pressure. Because of this, the markets need to be watched closely and the services provided need to be kept under review. However, net operating profit is expected to be higher than in the same period last year owing to the secured order backlog and the focus on projects with calculable risks and whose profit expectations remain intact, as well as the gains already realised from the sale of development real estate.

The company's considerable financial strength gives it the freedom to invest substantial amounts of money in real estate within a short time.

Allreal now expects a net operating profit for the full-year 2021 that is likely to come in above CHF 130 million.