

Letter to shareholders

- **Encouraging increase in net operating profit compared with previous year**
- **Very good result in Real Estate division thanks to expansion of the portfolio and low vacancy rates**
- **Stable result in the Projects & Development division, with an improved gross margin in third-party business**
- **Improved outlook for 2022 as a whole**

Allreal achieved a net operating profit of CHF 81.8 million in the first half of 2022, compared with CHF 79.1 million in the first half of 2021 – a year-on-year rise of 3.4%. Both divisions performed well overall.

However, net profit including revaluation effect fell by 25.7% year-on-year from CHF 111.3 million to CHF 82.7 million. At CHF 1.1 million before tax, revaluation effect was lacklustre, falling significantly below the previous year's level of CHF 41.8 million.

Allreal's share price was not immune to the global stock market slump in the first half of 2022 or the rises in interest rates. On the cut-off date, it closed at CHF 157.80, which represents a decline of 21.9% compared with the closing price on 31 December 2021. If the distribution of CHF 7.00 per share in April is included, a negative overall performance of 18.4% was recorded in the first half of 2022.

Real Estate division's rental income rises thanks to the portfolio expansion in Western Switzerland

Rental income in the Real Estate division increased by 4.9% to CHF 106.8 million. The reasons for the significant growth were the expansion of the portfolio of yield-producing properties in Western Switzerland, low vacancy rates and low real estate costs. At 1.5%, the cumulative vacancy rate remained at a very low level. This had a positive impact on the attractive net yield of 3.9%. Allreal had already significantly improved the maturity profile of real estate leases in the previous year. The company continued its work to extend leases early with the same intensity. The valuation of the investment real estate resulted in a net upward revaluation of CHF 1.1 million before tax. As a result of the investments made in the period under review, the portfolio value rose to CHF 5.13 billion in total as at the balance sheet cut-off date, with no acquisitions or sales being completed in the period under review.

Projects & Development division's gross margin improves considerably

Earnings from the Projects & Development division amounted to CHF 34.9 million, compared with CHF 37.5 million in the first half of 2021. As in the previous year, one-off effects resulting from the sale of development real estate contributed to the stable income of the division, albeit to a somewhat lesser extent. Business remained challenging for the Realisation department in the first half of 2022. In particular, supply shortages for various construction materials are a major challenge in respect of meeting deadlines. Nevertheless, the gross margin rose by 2.1 percentage points to 11.2% – a considerable improvement on the financial year 2021.

Implementation of initial measures contained in the sustainability strategy begins

Allreal set itself ambitious targets in the sustainability strategy it developed in the previous year. Initial measures towards achieving these targets began to be implemented in the first half of 2022. For example, the company identified a number of properties for which a broad-based expansion of solar power systems will begin in the second half of 2022. In addition, more charging stations are being installed to promote e-mobility. Allreal will equip at least 20% of garage parking spaces at yield-producing properties with electric vehicle charging stations by the end of the first half of 2024. The two initiatives comprise an investment volume of around CHF 10 million.

Improved outlook for 2022 as a whole

The first half of 2022 was shaped by rising inflation and the about-turn in interest rates performed by central banks. Despite the sharp rise in long-term interest rates, they remain at a low level by historical standards. The Swiss economy is robust and demand for Swiss real estate in central locations is undiminished.

In the Real Estate division, Allreal is expecting higher profits and a further rise in income as a result of the expansion of its portfolio. In the Projects & Development division, the company expects business to proceed as forecasted. The strategy of combining the two divisions is paying off and securing potential for growth in the future.

For the financial year 2022, Allreal now expects net operating profit of at least CHF 135 million.

Given the geopolitical changes and their impact on the economy, the first half of 2022 was a challenge for everyone. Allreal's Board of Directors and Group Management would like to thank employees for their tireless commitment, without which much of the company's success would not have been possible. Thanks also to our shareholders for the trust they have placed in us in such uncertain times.

Report on the first half of 2022

Real Estate division increases earnings considerably

The Real Estate division performed well in the first half of 2022. Rental income increased by 4.9% to CHF 106.8 million (compared with 101.8 million in the first half of 2021).

The main reason for this was the expansion into Western Switzerland in the fourth quarter of 2021. Various additions to the portfolio, in particular in Geneva and with a focus on residential, fully contributed to net income for the first time in the period under review. A large commercial building in Plan-les-Ouates GE was still being converted in the first half of 2022 and will start to generate rental income from October 2022. The annual target rental income from the additions to the portfolio in Western Switzerland is around CHF 14 million altogether. In view of the properties under construction or development in Western Switzerland, it is likely that rental income will also continue to rise in the next few years.

There were no changes in the portfolio in the first half of 2022. The cumulative vacancy rate remained stable compared with the balance sheet cut-off date at the end of 2021 to stand at the very low level of 1.5%. This means that Allreal's vacancy rate is still exceptionally low by industry standards. In the residential segment, there was a minor increase in vacancy rates (from 1.1% in the first half of 2021 to 1.2% in the first half of 2022). For commercial space, they remained unchanged at 1.6%.

Allreal is holding negotiations with several large customers on extending leases early. In the period under review the company achieved a success in early lease renewals at Vulkanstrasse 106 in Zurich Altstetten. Even though the long-term main tenant will hand back some of the space they have been renting until the end of 2023, they concluded a new rental agreement for the remaining area up to 2028. Allreal has already found attractive and long-term follow-up solutions for around half of the vacant space.

The weighted remaining term of fixed-term leases for all commercial real estate was 5.3 years as at the cut-off date (compared with 5.7 years as at 31 December 2021). When making the calculation, Allreal takes into account the earliest possible date that the tenant can terminate the lease.

Allreal expects a stable vacancy rate and no rise of note over the financial year 2022 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 rose only slightly, up from CHF 10.0 million in the first half of 2021 to CHF 10.8 million in the period under review. This was despite the larger portfolio. The operating expense ratio is expected to rise for 2022 as a whole given that work to refurbish or convert a number of properties is not due to begin until the second half of the year.

Despite higher rental income, the net return of yield-producing property fell by 0.3 percentage points year on year owing to revaluations in the previous year. Nevertheless, the net yield amounted to an attractive 3.9%, compared with 4.2% in the first half of 2021.

Construction work to extensively modernise the commercial building at Bellerivestrasse 36 in Zurich Riesbach is proceeding according to schedule. In aiming to achieve LEED Platinum certification, the conversion of the property will meet high sustainability standards. After around two years of construction, the office building will, from autumn 2023, be a new lakeside landmark in Zurich and generate annual target rental income of CHF 7.1 million.

The valuation of the investment real estate carried out by an external real estate valuer on 30 June resulted in a minimal upward revaluation of CHF 1.1 million. Of this, residential real estate accounted for CHF 8.3 million, commercial real estate for CHF –8.6 million and investment real estate under construction for CHF 1.4 million.

The total value of the portfolio of investment real estate on the cut-off date amounted to CHF 5.13 billion, compared with CHF 5.11 billion on 31 December 2021. The market value of the residential real estate came to CHF 1.66 billion, while that of commercial real estate amounted to CHF 3.30 billion. The market value of investment real estate under construction was CHF 164.5 million.

The Real Estate division reported net profit excluding revaluation effect of CHF 70.6 million in the first half of 2022, compared with CHF 66.1 million in the same period last year. Its share of the Group's net operating profit came to 85.6%.

Stable result in the Projects & Development division, with an improved gross margin

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. The Projects & Development division reported earnings of CHF 34.9 million in the first half of 2022, compared with CHF 37.5 million in the same period last year.

Income from the sale of development real estate had an impact in this respect. Meanwhile, business remained challenging for the Realisation department and well-functioning risk management is essential. On the one hand, some prices have risen considerably, while on the other, supply shortages for various materials are resulting in challenges when it comes to meeting deadlines. This environment continues to demand a high degree of flexibility in work processes. Against this background, the department proved its worth overall.

Earnings from realisation Projects & Development fell to CHF 13.4 million in the first half of 2022 from CHF 15.2 million in the same period a year earlier, again as a result of these factors. The gross margin – which was generated with the development and execution of projects for third parties – amounted to 11.2%, up from 9.1% at the end of 2021 and 11.4% in the first half of 2021. This meant that the profitability of the Realisation department moved towards the 12% target again.

Allreal disposed of a piece of land from its development reserves in the period under review. In Rümlang ZH, Allreal sold the final part of the Bäuler development reserve, in doing so benefiting from the current high land prices. As with the sale of residential real estate in Winterthur ZH and three projects in Western

Switzerland, the sale of development real estate generated sizeable income (CHF 15.6 million, compared with CHF 18.4 million in the first half of 2021).

The company secured a 4,916 square-metre site in Sünikon-Steinmaur ZH. The site comprises one property inhabited up to the end of 2023 and two uninhabited properties. Allreal will not realise residential property on the land until 2024 at the earliest.

In the Development department, the company conducted several competitions to develop sites. As the owner of the existing commercial property on the Baarer-matte plot in Baar ZG, Allreal is planning a mixed-use complex with 110 rental apartments and office space spanning 7,400 square metres. Not only will the project be of high architectural quality, it will also set an example as a building project with low greenhouse gas emissions. Allreal intends to create and operate the new builds without releasing more than the equivalent of six kilograms of CO₂ per square metre of the energy reference area each year. When initially planning the project, the company invited six architecture firms to take part in a study contract. In March 2022, the judging panel recommended proceeding with the plans submitted by Roman Hutter Architektur GmbH based in Lucerne. The planning application is expected to be submitted in mid-2024.

In Western Switzerland, Allreal successfully completed two projects in the first half of 2022. In Veyrier GE, 33 apartments in condominiums were completed at Route du Pas-de-l'Echelle. The construction volume came to CHF 31.7 million. Another in-house project was launched at Chemin De-Joinville in Meyrin GE with 16 apartments. The construction volume totalled CHF 8.7 million. Work to extend the interior of one of Allreal's own commercial properties in Plan-les-Ouates GE was also completed. The new facilities for the employees in Western Switzerland, which opened at the beginning of July 2022, are located at this multi-tenant building.

The largest third-party project under construction in Western Switzerland is the Clinique de Genolier in Genolier VD. The four-floor building comprises laboratories, operating theatres, treatment rooms for radiotherapy, an auditorium, an information centre, office space and a car park. The construction volume amounts to around CHF 58 million.

The Realisation department also made significant construction progress in German-speaking Switzerland. 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 new district is being created on six construction lots, comprising a total of 325 apartments and around 9,000 square metres of space reserved for trade and services. The construction volume amounts to over CHF 200 million. The first lots were completed in summer 2022.

At Hohlstrasse in Zurich Altstetten, work on the Letzi Turm project has now entered the final stages. 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 will be completed and handed over to the client in the second half of 2022.

There was a minor decrease in the Realisation department's completed project volume to CHF 155.5 million in the period under review, down from CHF 160.5 million in the first half of 2021. Of this, third-party projects accounted for CHF 120.0 million, or 77.2%, and own projects for CHF 35.5 million, or 22.8%.

The secured order backlog as at the cut-off date amounted to around CHF 608 million, corresponding to capacity utilisation for just under two years.

The Projects & Development division recorded a net profit of CHF 11.9 million in the period under review, compared with CHF 14.6 million in the first half of 2021. This represents a 14.4% share in the Group's net operating profit.

Long-term and stable financing

As at the cut-off date, financial liabilities had increased only slightly – by CHF 15.8 million from CHF 2.73 billion on 31 December 2021 to CHF 2.74 billion – despite the distribution to shareholders in April 2022. Of this amount, bond issues accounted for 48.5%, fixed-rate mortgages for 27.2% and fixed advances for 24.3%.

On 30 June 2022, the average interest rate for financial liabilities amounted to just 0.63%. The average interest lock-in period amounted to 41 months. In the next few months, Allreal will review measures to finance debt on the capital market in order to replace expiring fixed-rate mortgages in good time. This will also enable interest lock-in periods to be extended up to the end of the financial year 2022.

As at 30 June 2022, the equity ratio amounted to 44.1%, net gearing to 107.3% and the interest coverage ratio to 11.7, compared with 44.1%, 103.7% and 12.9, respectively, on 31 December 2021.

Outlook for 2022 as a whole

Thanks to its strong operating performance in the first half of the year, Allreal is confident of achieving very good results for 2022 as a whole.

In the Real Estate division, the outlook continues to be very bright. Demand for attractive housing in urban locations remains high. Commercial space was also a sought-after commodity, particularly in central locations. In addition, no major commercial leases are up for renewal in the short term in the portfolio of yield-producing properties, which is why the vacancy rate is persistently at a very low level. Given the additional development potential of the portfolio in Western Switzerland, earnings are set to improve.

Although market conditions are challenging for the Projects & Development division, its own business activities are well under control. Thanks to the secured order backlog, the well-stocked development pipeline and the focus on projects with calculable risks and whose profit expectations remain intact, Allreal remains confident about its future performance. As part of its business model, the Projects & Development division is an important contributor to Allreal's portfolio growth, which focuses on quality.

Allreal now expects an overall net operating profit of at least CHF 135 million for 2022 as a whole.