

Projects & Development division

The Projects & Development division's area of activity includes development and realisation of construction projects for third parties, for sale and for Allreal's own portfolio. The earnings produced from general contracting in the year under review amounted to CHF 66.7 million.

Owing to clearly lower profit derived from the sale of development real estate of CHF 11.8 million (2016: CHF 34.6 million), the division's result is reported as 20.6% below that of the previous year which was characterised by the positive sales results of the Guggach project in Zurich Unterstrass.

Compared to the comparable period of the previous year, the realisation of projects for third parties resulted in higher earnings of the Projects & Development division's Realisation department of CHF 45.0 million for the period under review. This corresponds to a gross margin increase of 13.1% over that of 2016 which, in a market comparison, is extraordinarily high.

Based on own projects implemented in 2017, Allreal's capitalised internally generated performance rose to CHF 7.5 million.

Of the total earnings from general contracting in the year under review CHF 19.4 million or 29.0% are accounted for by own projects (2016: CHF 40.7 million / 48.5%), and CHF 47.4 million or 71.0% by third-party projects (2016: CHF 43.3 million / 51.5%).

Due to an adjustment to the employee count in previous years reflecting the lower project volume and the connected reduction in personnel expenditure, operating expenses for the year under review are shown as CHF 51.2 million, or 6.6% below the comparable value reported the previous year, although a charge of CHF 1.7 million affecting income (personnel welfare plan) was made in connection with IAS 19.

As the earnings growth reported by Realisation and the higher capitalised internally generated performance were unable to fully compensate for the significantly lower profits resulting from the sale of development real estate, operating profit (EBIT) of CHF 20.8 million reported by the Projects & Development division was shown as 39.5% below the comparable value for 2016 despite the lower operating expense.

Net profit of the division for the year under review amounted to a gratifying CHF 15.1 million (2016: CHF 21.4 million).

Project Development

Project Development, under the management of Stefan Dambacher since 1 January 2018, showed good utilisation of capacity. By developing projects for third parties and for Allreal's own portfolio and the sale of development real estate designated for sale, the department in the 2017 financial year again made a significant contribution to the company's success.

A residential complex in Zurich Seebach developed for a private owner was transferred to the Realisation department at the construction stage. The project resulting from an architectural competition includes four seven-storey buildings comprising 66 rental apartments plus a new replacement building on neighbouring land with eleven rental apartments and office space. The construction sum amounts to about CHF 39 million. The project will be completed in stages, and construction is scheduled to start in the first half of 2018.

Project Development carried out a study contract with eight participating firms of architects in view of the planned replacement of a building on the Escher-Wyss site in Zurich-West which was erected in 1962 and no longer meets today's requirements. The project submitted by Caruso St John Architects was unanimously recommended for implementation by the jury. Its six storeys represent useful space of 5,800 square metres in total, of which 4,900 square metres are reserved for office and about 900 square metres for trade use. The building on Hardstrasse is excellently connected to public transportation and borders on the commercial building completed and transferred to Allreal's own portfolio on Schiffbauplatz in the period under review. Demolition and construction work of the own project, which upon completion will be transferred to the portfolio of yield-producing properties, is planned for 2018. Allreal makes use of Building Information Modelling (BIM) for planning and execution of the project. Digitalisation allows for comprehensive optimisation of the planning and construction process concerning coordination, deadline compliance, quality and cost control. The replacement building represents an investment volume of about CHF 40 million.

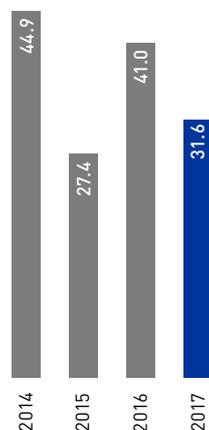
A project submitted by Allreal in cooperation with A E2A Piet Eckert und Wim Eckert Architekten AG won an architectural competition for a new building for FHNW School of Business carried out by the Canton of Basel-City's real estate department. The building to be erected on the Dreispitz site in Basel provides space for about 1,200 students and 150 staff members. The School of Business will take up operation in the new building in the second half of 2020. The construction sum amounts to about CHF 69 million.

Construction of new and replacement buildings and the refurbishment of existing buildings on the Grünhof site in Zurich Aussersihl measuring 7,870 square metres permits higher utilisation and, consequently, a higher value of Allreal's site. The project has been issued a legally binding building permission. Realisation will be carried out in two stages starting the second half of 2018. Investment volume of the entire project amounts to about CHF 50 million.

Further project developments started on in 2017 or substantially continued were:

Dietlimoos-Moos*	Residential, trade	Adliswil ZH
Postareal/Bahnhofstrasse*	Office, trade	Baden AG
Neuwisen-Areal	Residential, trade	Dielsdorf ZH
Delta-Areal*	Residential	Solothurn

Operating margin
Projects & Development division
in percent



Arealüberbauung Florenstrasse	Residential	Winterthur ZH
Forchstrasse*	Residential	Zollikerberg ZH
Poststrasse*	Residential	Zurich City
Refurbishment Wohlfahrtsgebäude Escher-Wyss	Trade, office	Zurich-West
Alter Züriweg	Residential	Zufikon AG

* On behalf of third parties

Realisation

The project volume processed by the Realisation department in the period under review amounted to CHF 420.0 million. The volume is 14.9% below that of the previous year and reflects Allreal's consistent focus on profitable new and conversion projects with a calculable risk and realistic contractual terms. For the 2017 financial year the department consequently reported a gross margin of 13.1% on projects realised for third parties.

The share of third-party projects in the completed project volume worked on in the year under review amounted to CHF 343.3 million or 81.7% (2016: CHF 414.7 million / 84.0%), that of own projects to CHF 56.6 million or 13.5% (2016: CHF 51.8 million / 10.5%) and that of development projects for sale to third parties to CHF 20.2 million or 4.8% (2016: CHF 27.1 million / 5.5%). As intended, the share of own and development projects will continue to grow in the coming years.

The share of new building projects in the completed project volume amounted to CHF 297 million or 70.7% (2016: CHF 353.4 million / 71.6%) and that of refurbishment and conversion projects to CHF 123 million or 29.3% (2016: CHF 140.3 million / 28.4%).

The order backlog as at 31 December 2017 secured by projects for third parties, own projects and development projects amounting to CHF 710.8 million (31.12.2016: CHF 702 Mio.) corresponds to a capacity utilisation of about 18 months.

Projects completed in the 2017 financial year

Allreal developed a residential complex for two institutional investors on the Tonwerk site in Lausen BL. The project comprises eleven apartment buildings located along the edges of the site with a total of 115 rental units, 580 square metres services area, a generously dimensioned green space in the courtyard and a central underground parking garage. Construction of the complex began in the summer of 2015 and was completed in the summer of 2017. The construction sum amounts to about CHF 40 million.

Allreal constructed two new buildings in the village centre of Bülach ZH for a cooperative owner comprising 47 age-appropriate rental apartments, 18 nursing care rooms, a local community centre, a crèche and a corner shop. The project, which was jointly developed by Allreal and two cooperative owners on land measuring 6,300 square metres, won an investors' competition organised in 2010 by the Bülach city council. The project with a construction sum of about CHF 26 million began in April 2016 and was transferred to the owners at the end of 2017.

The following projects were completed in the period under review:

Construction residential complex Duradero	Allschwil BL
Construction residential complex EbiSquare	Ebikon LU
Construction residential complex Bahnhofstrasse	Suhr AG
Construction town hall	Unterengstringen ZH
Refurbishment residential complex Dennlerstrasse	Zurich Albisrieden
Refurbishment residential complex Eulenweg	Zurich Altstetten
Refurbishment apartment building Glasmalergasse	Zurich Aussersihl
Refurbishment commercial building Bahnhofstrasse 62	Zurich City
Construction gymnasium Grütli	Zurich Enge
Refurbishment apartment building Tram-/Hugostrasse	Zurich Oerlikon
Refurbishment Zollikerstrasse 185-187*	Zurich Seefeld
Construction commercial building Schiffbauplatz*	Zurich West

* Own project

Current projects

On behalf of BVK Pension Fund, Allreal is refurbishing a six-storey apartment building on Kanzleistrasse in Zurich Aussersihl that was built in the 1980s and comprises 125 rental apartments and commercial space. The refurbishment project started on in 2016 at a construction sum of about CHF 19 million will be transferred to the owners in the first half of 2018.

Adjacent to the Aarau railway station, Allreal is implementing an eight-storey residential and commercial building consisting of 91 rental apartments and about 7,000 square metres of retail and commercial space. Construction of the CHF 55 million new building adjoining the station building began in the first half of 2016. Completion of the logistically demanding project, also in terms of safety owing to its immediate vicinity to the railway lines, is scheduled for the second half of 2018.

Projects started in 2017

Following on-schedule completion of preparatory and demolition work, Allreal in the second half of 2017 started with the construction of the Bülachguss site in Bülach-Nord subdivided into six construction fields. The major project from Allreal's own development comprises 15 newly constructed apartment buildings with a total of 343 rental apartments and 73 apartments for ownership, conversion and refurbishment of a listed formerly industrially used building with 5,640 square metres of useful space available for office, gastronomy and retail and a park with public access measuring 4,300 square metres. While the rental apartments and the industrial building are owned by two Credit Suisse Asset Management real estate funds, Allreal is constructing the five apartment buildings with 73 condominium apartments amounting to about CHF 55 million on its own land. Completion of the entire project is scheduled for the second half of 2019. Allreal began construction of on an own project on land adjacent to the Bülachguss site in the previous year: four apartment buildings comprising 76 rental units at an investment of CHF 39 million. Completion and transfer to the portfolio of yield-producing properties will be carried out in the second half of 2018.

Further projects taken up in the year under review include:

Refurbishment residential building Brückfeldstrasse	Bern
Renovation parking garage TMC-Galleria	Glattbrugg ZH
Construction apartment building Meiengartenstrasse	Jona SG
Refurbishment residential complex Loowiesen	Regensdorf ZH
Construction residential complex Mättivor	Schwyz
Construction apartment buildings Industriestrasse	Wallisellen ZH
Refurbishment office building Letzipark	Zurich Altstetten
Tenant fit out Herostrasse	Zurich Altstetten
Tenant fit out Zollstrasse	Zurich City

Sale of development real estate

Of the 13 residential units for sale at the start of the year, 12 have been sold in the period under review.

The projects Lerchenbergstrasse in Erlenbach ZH and Pfruendmatt in Mettmensstetten ZH were successfully completed by means of ownership transfer in the 2017 financial year.

Marketing the Bülachguss project in Bülach-Nord began in the second half of 2017. Of the 73 condominium apartments, 29 were sold as at 31 December 2017.

In the period under review, residential ownership amounting to CHF 86.4 million was sold (2016: CHF 232.1 million), and the connected profit amounted to CHF 11.8 million (2016: CHF 34.6 million).

On the cut-off date, a total of 45 residential units remained unsold in the two projects Guggach in Zurich Unterstrass and Fangletenstrasse in Bülach ZH, one of them ready for occupation (31.12.2016: 13 / 13).

		Number of units	Of which sold by end 2017	Of which transferred by end 2017	Ready for occupancy
Guggach	Zurich Unterstrass	197	196	192	Q1 2016
Kirschblütenweg	Basel	12	12	0	Q1 2018
Solistrasse	Bülach	73	29	0	Q3 2019

Net profit reported by the Projects & Development division for the period under review of CHF 15.1 million corresponds to a share in the Group's net profit excluding revaluation gains of 13.0%.