Swiss Property

Short Version

QUARTERLY REPORT Q1–Q3

2016

Board of Directors' statement

Dear Readers

Business development

During the reporting period, letting activities, the optimisation of the property portfolio as well as further work on our projects and development sites were at the top of our operational agenda. We also paid special attention to the proactive management of leases which run out during the coming months. The rental market is challenging. Nevertheless, we are content with our new letting and follow-up rental activities. In some cases, we adjusted our rental conditions for new leases and lease extensions to the weaker market environment.

Businesswise, we are within expectations: in the reporting period, we generated a net income (excluding changes in fair value) of CHF 132.0 million (previous year's period: CHF 122.6 million). This increase resulted mainly from the sale of freehold apartments at the "Salmenpark" project in Rheinfelden and at the "Black" condominium tower on the Löwenbräu site in Zurich.

In June 2016, we sold the investment property located at Avenue de Beauregard 1 in Fribourg. In July 2016, we purchased an office and commercial property located at Hardturmstrasse 101, 103, 105 / Förrlibuckstrasse 30 in Zurich.

The current site developments and conversion projects progressed as planned. We are pleased with the sale of freehold apartments at the "Salmenpark" project in Rheinfelden. We will complete the first stage with an investment total of approximately CHF 180 million by the end of 2016. This will include office and commercial space, a nursing and care home as well as rental and freehold apartments. We will presumably submit the revised building application for stage two with an investment total of approximately CHF 70 million by the end of 2016. This stage includes 100 residential units for sale.

We decided to comprehensively renovate the property located at Rue du Marché 40 in Geneva. Approximately CHF 15 million will be invested until 2018. This property has been reclassified as "development property" as per the end of September 2016.

The two buildings located at Förrlibuckstrasse 178 / 180 and Hardturmstrasse 181, 183, 185 (project "Orion") in Zurich West have also been reclassified as "development properties". These two buildings will be demolished and replaced by a new one in line with today's requirements with regard to flexibility of use and sustainability. We plan to submit the building application for this office and commercial property at end of 2016. Construction is scheduled for 2018 to 2020. The investment total will amount to approximately CHF 120 million.

On the "Paradiso" site in Lugano, construction start for a residential building with 65 freehold apartments as well as offices and retail space is scheduled for Q1 2017. From today's perspective, the investment total will amount to approximately CHF 65 million. We intend to sell all units after their completion.

PSP Swiss Property is solidly financed and has a strong equity base: at the end of September 2016, total equity amounted to CHF 3.825 billion (end of 2015: CHF 3.870 billion). This corresponds to an equity ratio of 55.1 % (end of 2015: 57.0 %). In this regard, a dividend payment of CHF 151.3 million in April 2016 should be taken into account.

Economic and political environment

While most forecasts for Switzerland's real GDP growth in 2016 and 2017 were lowered slightly after the Brexit vote, they are still just above 1 %. The current negative inflation rate is expected to rise only marginally in 2017, while the negative respectively very low interest rates are unlikely to increase substantially in the foreseeable future. Consequently, refinancing costs are expected to remain favourable.

One "homemade" problem remains on the domestic commercial property market: despite the rejection by the parliament at the end of 2014, the Federal Council insists on revising the so-called Lex Koller, which rules the purchase of properties in Switzerland by foreigners. Apparently, in the legislative consultation process, which is now planned to begin in December 2016, the Lex Koller is back on the Agenda. We will of course play an active role trying to prevent any restrictions.

Property market Switzerland

Despite the fact that the forecasts for Switzerland's economy are promising for the current and the coming year, the property market will remain a challenge. The rental of office and other commercial space, in particular, will not be easy.

Office market

In Switzerland overall, the supply of office space is greater than demand in many places. However, new constructions are likely to decline slightly overall – except in certain hot spots such as Zurich North. All in all, as usual in a normal property cycle, oversupply should largely diminish "automatically" over time. In the economically strong Zurich city centre there is moderate pressure on rents. Vacancies are being absorbed slightly better than in the past. As a consequence, supplied space is diminishing a bit.

With regard to investments, demand for commercial properties in prime locations, especially in the CBDs of Zurich and Geneva, remains high, mainly from Swiss institutional investors. Buyers of the few objects that are on the market, are willing to accept modest net yields.

Retail market

Rents remain under pressure in the retail sector due to the exchange-rate-induced shopping tourism abroad and the growing online shopping. This is not likely to change any time soon. In this market environment, central locations ("high street retail") prove to be particularly robust.

Market outlook

The prospects for offices and retail space are much better for objects in central locations or with good transportation links to the major cities than for buildings in outlying districts or smaller towns. In general, properties in peripheral regions with insufficient public transportation connections and objects with limited utilisation options find it more difficult to find buyers (and tenants). In this challenging environment, landlords that offer state-of-the-art new buildings or comprehensively renovated and upgraded properties in good locations have a competitive advantage. Therefore, we will continue to renovate and reposition existing buildings or replace them with new ones.

Despite all the uncertainties, investments in commercial properties remain attractive investment alternatives for pension funds and other institutional investors in particular, but for private investors as well. They offer steady and long-term rental income and relatively stable value.

Business forecast

We will continue to concentrate on the renovation and modernisation of selected properties. At the same time, we attach great importance to up-to-date infrastructure and ecological sustainability.

For the 2016 business year, we expect an ebitda (excluding changes in fair value) in excess of CHF 240 million (2015: CHF 232.7 million).

With regard to the vacancies at year-end 2016, we now expect an improved rate of around 9.5 % (previous forecast: around 10 %; end of September 2016: 9.4 %).

Günther Gose	Luciano Gabriel
Chairman of the Board of Directors	Delegate of the Board of Directors and Chief Executive Officer

10 November 2016

Key figures

Key financial figures	Unit	1 January to 31 Dec. 2015	1 July to 30 Sept. 2015	1 July to 30 Sept. 2016	1 January to 30 Sept. 2015	1 January to 30 Sept. 2016	Change[1]
Rental income	CHF 1 000	275 063	69 352	69 358	206 278	207 711	0.7 %
EPRA like-for-like change	%	0.2	0.3	– 3.3	0.5	– 1.4	
Net changes in fair value of real estate investments	CHF 1 000	33 791	0	– 6 653	13 085	– 38 407	
Income from property sales (freehold apartments)	CHF 1 000	3 259	2 180	2 588	2 195	13 108	
Income from property sales (portfolio)	CHF 1 000	1 374	1 374	0	1 374	1 075	
Total other income	CHF 1 000	4 588	2 133	2 422	3 660	5 374	
Net income	CHF 1 000	187 726	44 173	37 819	132 400	102 772	– 22.4 %
Net income excluding gains/losses on real estate investments[2]	CHF 1 000	161 287	43 856	43 065	122 577	132 032	7.7 %
Ebitda excluding gains/losses on real estate investments	CHF 1 000	232 690	61 932	60 220	175 896	184 618	5.0 %
Ebitda margin	%	82.0	83.0	81.0	82.5	81.5	
Total assets	CHF 1 000	6 791 923			6 731 802	6 943 844	2.2 %
Shareholders' equity	CHF 1 000	3 870 473			3 810 905	3 825 298	– 1.2 %
Equity ratio	%	57.0			56.6	55.1	
Return on equity	%	4.9	4.7	4.0	4.6	3.6	
Interest-bearing debt	CHF 1 000	1 969 035			1 978 888	2 178 438	10.6 %
Interest-bearing debt in % of total assets	%	29.0			29.4	31.4	
Portfolio key figures							
Number of properties	Number	163			161	161	
Carrying value properties	CHF 1 000	6 223 006			6 145 451	6 249 941	0.4 %
Implied yield, gross[3]	%	4.4	4.4	4.2	4.4	4.3	
Implied yield, net[3]	%	3.7	3.8	3.6	3.8	3.7	
Vacancy rate end of period (CHF)[3, 4]	%	8.5			9.0	9.4	
Number of sites and development properties	Number	8			9	10	
Carrying value sites and development properties	CHF 1 000	501 371			519 496	633 704	26.4 %
Employees							
End of period	Posts	87			87	90	
Full-time equivalents	Posts	81			81	82	
Per share figures							
Earnings per share (EPS)[5]	CHF	4.09	0.96	0.82	2.89	2.24	– 22.4 %
EPS excluding gains/losses on real estate investments[5]	CHF	3.52	0.96	0.94	2.67	2.88	7.7 %
Distribution per share	CHF	3.30[6]	n.a.	n.a.	n.a.	n.a.	
Net asset value per share (NAV)[7]	CHF	84.38			83.08	83.40	– 1.2 %
NAV per share before deduction of deferred taxes[7]	CHF	100.83			99.23	99.97	– 0.9 %
Share price end of period	CHF	88.00			80.10	92.50	5.1 %

1 Change to previous year's period 1 January to 30 September 2015 or carrying value as of 31 December 2015 as applicable.

2 "Net income excluding gains/losses on real estate investments" corresponds to the consolidated net income excluding net changes in fair value of the real estate investments, realised income on sales of investment properties, impairment on the Wädenswil site and all of the related taxes. Income from the sale of properties which were developed by the Company itself is, however, included in the "net income excluding gains/losses on real estate investments".

3 For properties.

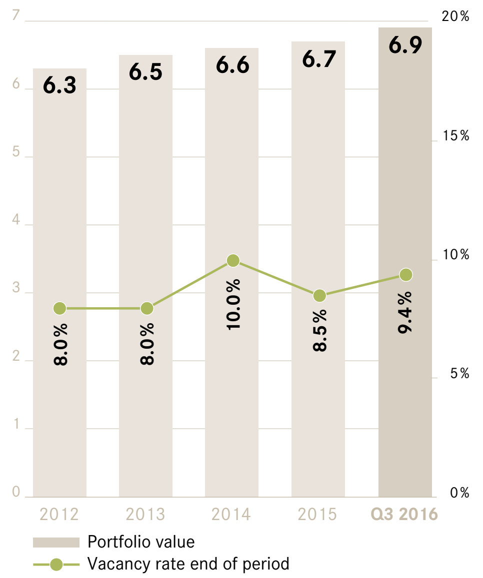
4 Equals the lost rental income in % of the potential rent, as per reporting date.

5 Based on average number of outstanding shares.

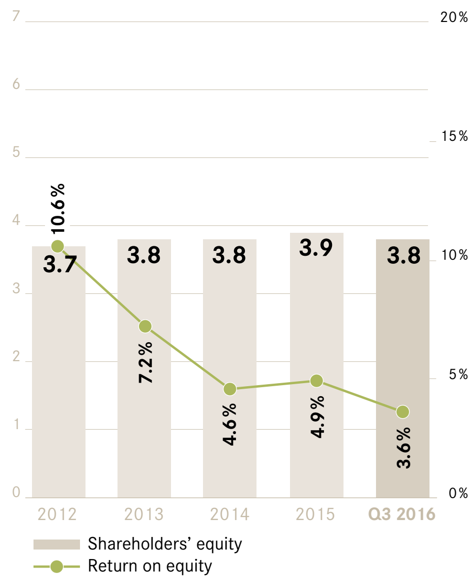
6 For the 2015 business year. Cash payment was made on 6 April 2016.

7 Based on number of outstanding shares.

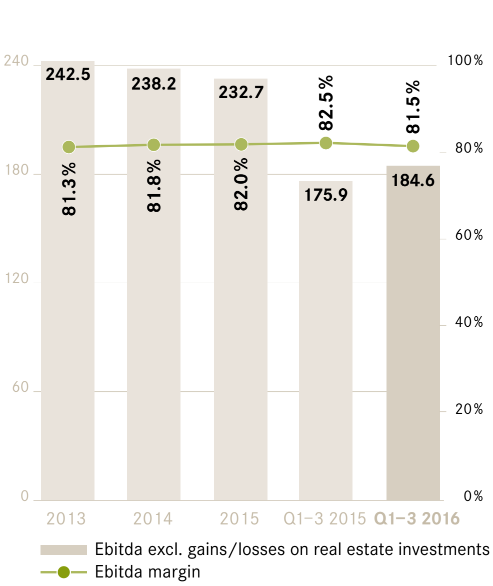
Real estate portfolio
(in CHF billion, vacancy in %)



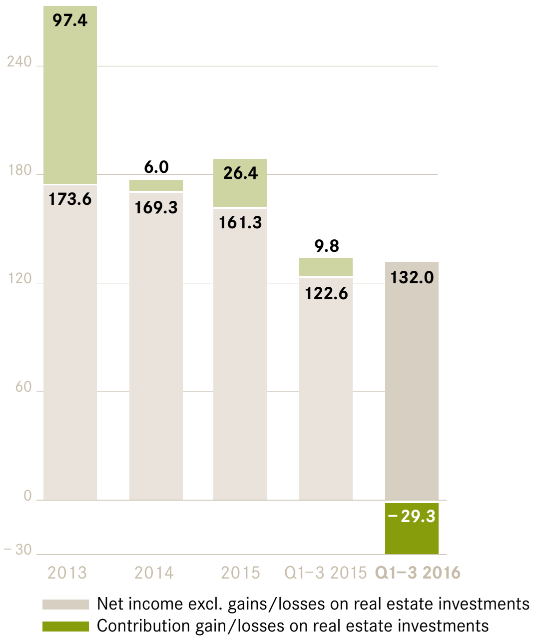
Shareholders' equity
(in CHF billion, return in %)



Ebitda
(in CHF million, margin in %)



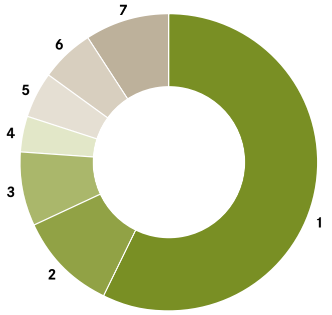
Net income components
(in CHF million)



Portfolio

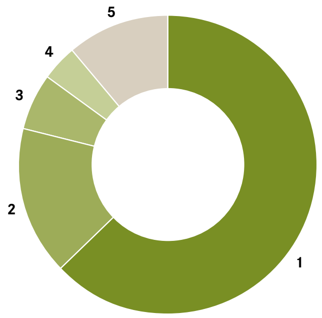
Uraniastrasse 9 – one of our top properties in a prime location in the heart of Zurich’s economic centre.

Portfolio value by area



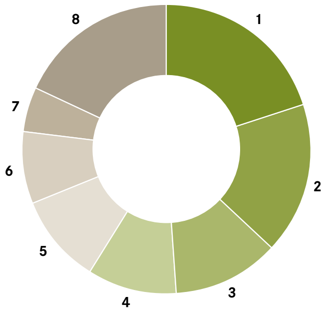
1	Zurich	58 %
2	Geneva	11 %
3	Basel	8 %
4	Bern	4 %
5	Lausanne	5 %
6	Other locations	6 %
7	Sites and development properties	9 %

Rent by use



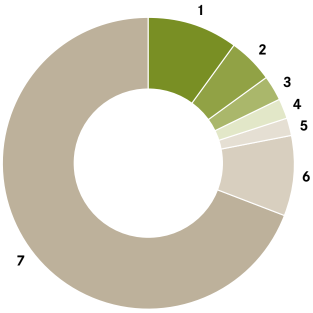
1	Office	63 %
2	Retail	16 %
3	Parking	6 %
4	Gastronomy	4 %
5	Other	11 %

Rent by type of tenant



1	Retail	20 %
2	Services	17 %
3	Telecommunication	12 %
4	Technology	10 %
5	Financial services	10 %
6	Gastronomy	8 %
7	Government	5 %
8	Other	18 %

Rent by largest tenants



1	Swisscom	10 %
2	Google	5 %
3	Schweizer Post	3 %
4	Roche	2 %
5	Bär & Karrer	2 %
6	Next five largest tenants	9 %
7	Other	69 %

Swiss Property

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Agenda

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5 April 2017, Kongresshaus, Zurich

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12 May 2017

Publication H1 2017
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Reuters: PSPZn.S
Bloomberg: PSPN SW

www.psp.info

Further publications and information are available on www.psp.info.

This short version is an extract from the quarterly report Q1 – Q3 2016.
The quarterly report Q1 – Q3 2016 is available under www.psp.info/reports.