

# PSP Swiss Property – Quality on the Swiss real estate market

**PSP Swiss Property owns a very specific, focused real estate portfolio with high-quality Swiss commercial properties and development projects in prime locations. In particular, the company attaches great importance to ecological sustainability as well as comprehensive renovations and improvements – even if this entails a temporary increase in vacancy rates.**

Investments in commercial properties remain popular investment alternatives for both pension funds and other institutional as well as private investors. They offer steady and long-term rental income and stable value. Foreign investors also appreciate currency diver-

sification with the Swiss franc and the “safe haven” Switzerland.

Well maintained properties in prime locations (i.e. in city and other commercial centers) are especially known for their lasting value and attractive risk/return profile. Unlike residential

buildings, most commercial properties also have the additional advantage of indexed, long-term leases. This is exactly the market segment PSP Swiss Property has been focusing on for nearly 15 years.

On the office market, supply currently exceeds demand in many places, particularly outside the city centers. There was just too much construction in recent years. And despite the fact that construction activity in the commercial sector will slow down in the medium term, lower rents must be expected in the coming years due to the structural oversupply of office space, particularly in peripheral regions. In Zurich’s Central Business District, one of PSP Swiss Property’s main investment areas, vacancy rates have been stable for some time now; here, pressure on rents is not quite as severe. The relocation of bank jobs to the periphery seems to be coming to an end. Vacancies are absorbed mostly by smaller and medium-sized companies.

## **Ecological sustainability: good for the environment, good for business**

PSP Swiss Property is convinced that ecological sustainability is not only good for the environment; it is also good for business. The permanent monitoring of energy and water consumption at the properties not only improves their energy efficiency; it also makes economic sense: It lowers ancillary expenses and thus offers added value to the tenants. And if heating costs and CO<sub>2</sub> taxes fall, tenants are more willing to pay higher net rents. Consequently, ecological sustainability eventually generates an “eco yield” for the company and its shareholders.

With its large property portfolio, PSP Swiss Property is aware of its corporate responsibility with regard to the efficient, sustainable use of energy and resources. It is the company’s declared goal to keep its ecological footprint as small as possible at all stages of business activity, from the construction of new properties to renovations and improvements to operations and facility management. But while declaring sustainability goals is one thing, implementing the necessary measures is quite another. Therefore, PSP Swiss Property has assessed its buildings’ energy status, appointed a sustainability manager, set up a comprehensive energy management system and defined an ecological sustainability program. To document and disclose the progress it makes transparently, PSP Swiss Property has published a special sustainability report as part of its annual report since 2010. The figures show that the company is on the right track.

Independent sustainability surveys regularly offer objective proof of PSP Swiss Property’s success in achieving its ecological sustainability goals. For instance, the company always does well in the renowned “Carbon Disclosure Project” and the “Global Real Estate Sustainability Benchmark”.

### **Striving for competitive advantage**

The commercial real estate market will become more demanding in the coming years. Tenants of office and retail space expect an attractive range to choose from, with, above all, options for flexible use, the consideration of ecological aspects and excellent public transport links.

Due to the oversupply, competition will increase, displacing some market players. Consequently, it is crucial for landlords to position their properties properly and thoroughly renovate older

buildings. This means a loss of rental income during this period; on the other hand, prospects for future rentals improve overproportionally. This is exactly one of PSP Swiss Property's focal points in portfolio optimization. A number of objects have already been repositioned in recent years; currently, several properties are undergoing comprehensive renovations, e.g. on Bahnhofquai/Bahnhofplatz and on Bahnhofstrasse in Zurich. In addition, new plans are being drawn up for three properties in Zurich West; for two of them, replacement buildings are a likely option. Overall, PSP Swiss Property plans to invest approximately 300 million francs in renovations and conversions in the coming two years.

**Good things take time**

Often comprehensive renovations and improvements can only be made, if the buildings are completely empty. This requires long lead times and intensive discussions with the current tenants. And it means vacancies. Consequently,

**PSP Swiss Property in brief**

PSP Swiss Property owns 161 office and commercial properties throughout Switzerland worth more than 6.1 billion francs. The properties are mainly in prime locations in Zurich, Geneva, Basel, Bern and Lausanne. In addition, the company owns and develops 5 development sites and 5 individual projects worth more than 0.4 billion francs. With a portfolio totalling 6.6 billion francs, PSP Swiss Property is one of the leading real estate companies in Switzerland. The company has a strong balance sheet with an equity base of 3.8 billion francs, an equity ratio of 57% and a loan-to-value ratio of 29%. Unused committed credit lines amount to 580 million francs. Net income (excluding gains/losses on real estate investments) reached 169 million francs in 2014. PSP Swiss Property Ltd has a «A-» rating with stable outlook from Fitch.  
*All figures as at December 31, 2014*

PSP Swiss Property expects an increase in vacancy rates. However, this is not seen as a problem; on the contrary: It is considered as a necessity for long-term business success.

The situation is similar to renovations and improvements when it comes to sites and individual development projects: Before rental income can start coming in, substantial amounts of money and time must be invested. One example: the "Grosspeter Tower"

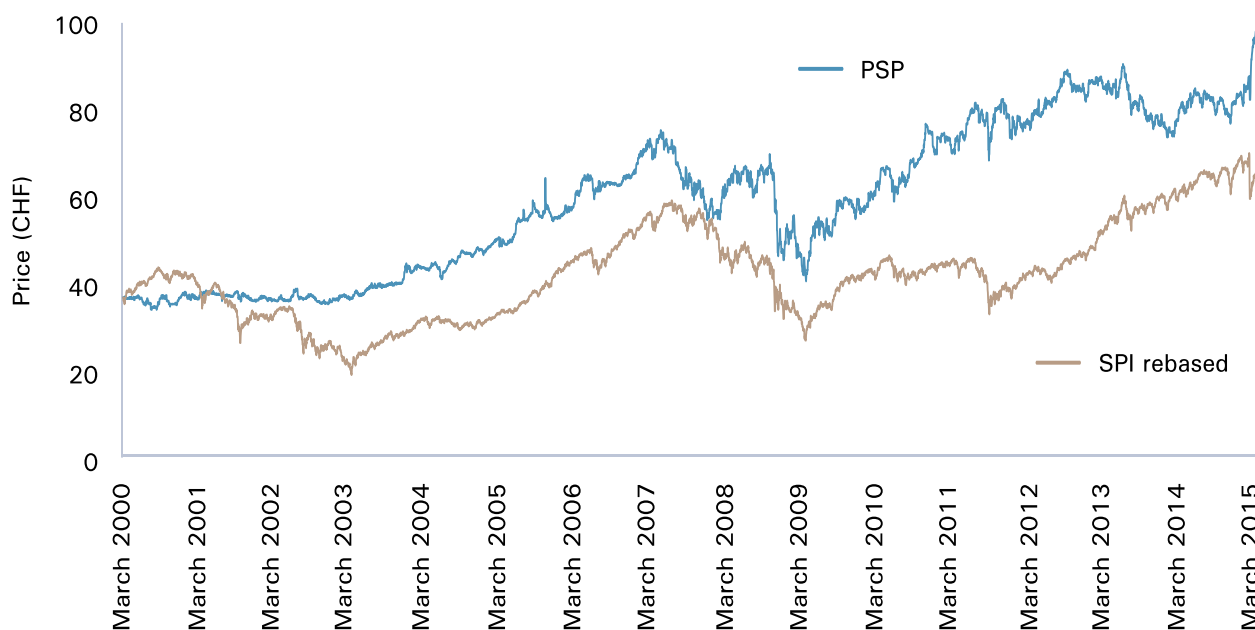
in Basel. Here, after time-consuming preliminary work, construction began in November 2014 for a new 78 meter high-rise building with 18,000 square meters of rental area for a hotel and offices. Total cost: approximately 115 million francs. Building time: probably until the end of 2016.

After all, good things take time. Most of all in the property business.

*info@psp.info  
www.psp.info*

**The PSP share compared to the SPI**

March 7, 2000, to March 2, 2015. Both lines are exclusive of dividend payments.



Since the company's IPO on March 7, 2000, PSP Swiss Property's share price clearly outperformed the Swiss Performance Index. And it did so with less volatility. The period after the Swiss National Bank stopped enforcing and maintaining the franc's minimum exchange rate of 1.20 per euro on January 15, 2015, is particularly interesting: While the SPI almost immediately dropped 14%, the PSP share price declined only slightly before rebounding and climbing to new all-time highs.