Convincing financial communication requires a convincing business model

Luciano Gabriel, the long-standing Chairman of the Board of Directors of PSP Swiss Property, talks to Private about profit optimisation, sustainability and financial communication.

Interview With Luciano Gabriel
Chairman of the Board of Directors PSP Swiss Property

Mr Gabriel, how does PSP Swiss Property position itself between profit optimisation and a sustainable business policy?
Gabriel: You can't have one without the other. Basically, long-term profit optimisation per share is a matter of course for a listed company like PSP Swiss Property. Nevertheless, this must be emphasised again and again. Because the term "profit maximisation" is frowned upon in today's public discourse. When you read the annual reports of many companies, you get the impression that these are non-profit world rescue organisations. As a matter of course, we also give due consideration to aspects such as climate protection or diversity, and the management is very well sensitised to this. However, economic viability must always be taken into account in all decisions. Long-term profit optimisation per share is and remains a central goal of our business policy. I am deliberately referring to "long-term profit optimisation" and not to "short-term profit maximisation"; the latter would be absurd, especially for a long-term oriented real estate company like PSP Swiss Property. Only those who are economically successful in the long term can consistently finance social goals and measures to protect the environment.

Private: How would you characterise your business model?
Gabriel: We have always pursued a simple, stable, focused and transparent business model. This enables our shareholders to comprehend and understand our business development. Our financial figures are not obscured by constant reorganisations, cost reallocations, restructuring expenses or "one-off special expenses". This allows the management to concentrate on the long-term optimisation of the property portfolio and the securing of solid financial conditions. For example, we deliberately refrain from expanding into real-estate-related activities, such as property management for third parties or co-working services. These business areas are labour-intensive and distract from the most profitable core activity. It also sometimes seems that joint ventures or project-related minority shareholdings could offer additional attractive business opportunities. On closer inspection, however, they often turn out to be only "fair-weather projects" that may run into trouble at the first sign of adversity. We prefer to do without them.

To what extent do rising interest rates affect your goal of optimising profits?

Gabriel: Investments in real estate are practically always value-enhancing in the long term, as long as the properties are in attractive locations and the space is regularly adjusted to the needs of modern tenants. However, there are also more challenging economic periods, such as now with rising interest rates. We are well prepared for such times. The ratio between debt and equity capital is crucial in this respect. We have always paid special attention to a low debt-to-equity ratio, which is currently around 30%. This is to our advantage today. In fact, in the last few years, a certain carelessness has taken hold – also among many real estate companies; the opinion has spread that inflation would no longer be an issue and that interest rates would virtually always remain at around zero. Thanks to constant appreciations and low interest rates, debt-financed acquisitions were made in many places, especially in Germany. In fact, the additional interest burden could often be compensated by higher rental income. However, the tide has now turned: Interest rates have risen, values are at risk of declining, but the high financial debts have remained. The consequences are falling share prices, rising interest charges, dividend cuts, difficulties in selling bad properties to reduce debt. Furthermore, it is practically impossible to increase equity in such a negative market environment. We, on the other hand, have always expected substantial interest rate increases and positioned ourselves accordingly. We can now look to the future "cautiously optimistic and relaxed".

Despite all your efforts to optimise profits, the trend towards ESG has hardly gone unnoticed at PSP Swiss Property.

Gabriel: Not at all. We have always been advocates of a business policy that is clearly oriented towards sustainability. We implement all objectively sensible measures in these areas. And we communicate our activities in this regard comprehensively and transparently, for example with regard to our CO_2 reduction path, the energy and water consumption of our properties, the condition of buildings from the point of view of eco-friendliness, employee satisfaction, independence of the decision-making bodies, bonus and remuneration systems. The fact that we take sustainability seriously can also be seen in our green finance concept, which we have implemented for all public bonds and bank loans. When assessing our activities in the ESG area, there are sometimes discussions with shareholder advisors, the proxy advisors: Each of these advisors has his own catalogue of criteria with detailed measurement methods, which they apply across the board to all companies, regardless of sector and size. These criteria may be generally plausible, but their practical content and standardised application to completely different companies is not always comprehensible.

Could you explain this problem in more detail? What exactly do these proxy advisors criticise?

Gabriel: Let's take the remuneration system as an example. We pay – of course – good salaries in line with the market. All employees also receive a bonus, which is determined individually. The amount of the bonus depends, on the one hand, on the overall result of the company and, on the other hand, on the individual function and performance of the respective employee. For the Executive Board, 80% of the bonus depends on the earnings per share excluding gains/losses on real estate investments and 20% on the valuation effects. There is an individual formula for the exact calculation, which we publish in the annual report. We on the Board of Directors are convinced that this simple system best aligns the interests of the management with those of the shareholders. It is transparent and has an effective business- and results-related incentive. Some proxy advisors criticise our system because, as they say, it is not an explicit long-term incentive plan, does not provide relative performance compared to a peer group, contains no qualitative elements or ESG factors or the like. However, we have looked at a number of such systems. We came to the conclusion that such systems are often opaque and difficult to quantify. We focus on transparency and measurability instead. As soon as we recognise the basis for an effective and practicable improvement of the bonus system, we are, of course, open to a corresponding adjustment. This is currently the case with regard to ESG due to the green finance concept that has just been introduced. Our Board of Directors is currently evaluating a corresponding addition.

How do you communicate your business model and results to the public?

Gabriel: We communicate in a factual, transparent and understandable way. Market-shouting media releases or comments and superlatives are not our style. After all, the real estate business is a "down-to-earth" business with a long tradition, and we do not want to "sell" ourselves as an innovative high-tech company with revolutionary visions. Of course we are a modern company, but we do not claim to be at the forefront of technological development. A central part of our communication is directly with institutional investors. Our CEO Giacomo Balzarini spends a lot of time maintaining a lively exchange with this important group. This takes place at official road shows, but also at numerous bilateral meetings. At these meetings, business performance and sustainability issues are discussed in detail and critically assessed. Relevant feedback is incorporated into our strategy and is reflected in the annual report, which contains comprehensive information on our business model and the integration of sustainability aspects. In this way, all interested parties can form a clear and comprehensive picture of PSP Swiss Property.

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