

Analysis of alternatively financed building projects of the Federal Institutes of Technology

ETH Board, ETH Zurich, EPFL

Key facts

With a carrying amount of some CHF 4.6 billion, the ETH Domain has one of the Confederation's largest real estate portfolios. The buildings serve various purposes, and some also satisfy infrastructure needs other than pure research and teaching (e.g. student accommodation). Alternative financing through third parties may be offered in cases such as these.

The Swiss Federal Audit Office (SFAO) analysed a total of five projects of this kind at the EPFL and ETH Zurich. The analyses focused on auditing the appropriateness of the conditions granted to investors and the possible financial consequences for the ETH and the Confederation. The models selected and the parameters applied for this are an approximation of reality. Consequently, there is a degree of uncertainty surrounding the results.

Early exit from financing must be examined for EPFL projects

On the Lausanne campus, some CHF 358 million was invested by third parties for the projects "Quartier de l'innovation" (QIE) and "Quartier Nord de l'EPFL" (QNE). The buildings constructed with building rights granted by the Confederation are being leased by the EPFL for 30 years. At the end of the 30 years, the Confederation may prematurely take over the buildings and terminate the 99-year building rights. The SFAO considers it advantageous to exercise this right.

Nevertheless, the reversion would entail a considerable financing requirement of an estimated CHF 380 million (index-linked, including repairs) for the ETH. If the SFAO's opinion regarding a premature exit from financing is confirmed, early planning of funding will be essential.

The congress center (SwissTech Convention Center as part of the QNE) is in deficit, and the SFAO analysis shows that it has a significantly negative net present value. The planned improvement of its utilisation seems challenging, and there is the risk of sustained losses if countermeasures are not taken.

Attractive conditions for investors

Among the projects analysed at the EPFL and ETH Zurich, all of them but one show a net return of over 4% for investors according to the SFAO's model calculation. This seems too high for third parties in view of the favourable risk allocation. In the event of the reversion of the building rights and the EPFL becoming the leaseholder of the two major projects QIE and QNE, the Confederation would be a very solvent counterparty.

Uneconomical real estate financing to be avoided in the future

The existing normative basis at federal level is insufficient to cover the complexity and risks of alternative forms of financing in the ETH Domain. For future financing models, greater attention is to be paid to the economic effectiveness of these structures. The SFAO welcomes the guidelines on investor models for the realisation of real estate projects in the ETH Domain, which were approved in December 2015. To improve its fulfilment of the role of owner representative of the



Confederation, the SFAO recommends that the Federal Finance Administration (FFA) ensure the flow of information on the development and application of alternative financing models as part of the development of the Federal Council's strategic objectives for the ETH Domain for 2017 to 2020.

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