SBB Real Estate
Evaluation of the identification and conversion of non-operating real estate

Key facts

With an area measuring 97 square kilometres, approximating half the size of the Canton of Zug, the Swiss Federal Railways (SBB) are among the largest property owners in Switzerland. 3,500 buildings on about one-fifth of this area are not used for operating purposes.

SBB Real Estate is responsible for professionally managing properties not needed for rail network access and aligning them to market requirements to improve the SBB's financial strength. The buildings and facilities required for rail network access, referred to as traffic infrastructure (e.g. rail network, signal box facilities), are owned by SBB Infrastructure. This division maintains the existing traffic infrastructure, plans new construction and expansions, and develops the rail network with a planning horizon of up to 30 years.

The Swiss Federal Audit Office (SFAO) examined how the SBB identifies sites no longer required for railway operations and how decisions on their release for further use are reached.

Active management to achieve the proprietor's financial goals

The Confederation sets four-year strategic goals for the SBB under which they should generate reasonable profits on sites that are not entitled to public sector funding. SBB Real Estate is expected to pay annual infrastructure subsidies of CHF 150 million and contributions to restructure the pension fund. To achieve the proprietor's financial goals, CHF 245 million must be generated from the real estate area over the next two decades. To this end, individual properties will have to be sold to supplement income from rental properties.

The SBB has divided its properties into three portfolios (rail operations, stations and investment properties) and defined management strategies, which are updated on a regular basis. This optimises the value creation potential of these sites with the aim of generating additional rental income or sale proceeds. The 80 development sites for which SBB Real Estate has concrete conversion plans are one such example.

According to the Federal Council report on the attainment of the strategic goals for 2010, SBB Real Estate posted good results once again, as in 2009, thus meeting its performance expectations by implementing the defined real estate strategies.

Sites with substantial value creation potential are exempted

The SBB has last identified its non-operating properties nationwide and allocated them to SBB Real Estate in 2006. They have no longer been identified on a systematic basis since. In individual cases, however, such properties are still identified, generally on the initiative of SBB Real Estate or in response to a third-party query.

From the standpoint of the SFAO, a regulated approach is necessary to ensure that changing demands on existing rail sites are identified systematically and that the possibility of exempting such sites can be assessed. Moreover, the SFAO advises reviewing whether financial incentives for SBB Infrastructure could create additional momentum to develop such potential.

Weighing of interests is ensured

Before land and buildings are put up for sale, an exemption procedure is followed. This procedure ensures that the SBB do not sell any properties still needed for rail operations. The exemption procedure involves reconciling the interests of SBB Infrastructure (securing the necessary sites for network development) and those of SBB Real Estate (lucrativeness of sites in terms of a sale). The exemption procedure enables a balanced weighing of both divisions’ interests.

Given SBB Infrastructure's rather restrained policy with respect to exemptions, there is a risk that a more economical use will not be vigorously sought. The SFAO therefore advises the systematic consideration of economic aspects for exemption procedures in which financing volumes exceed a given threshold.

SBB Real Estate assumes dismantling costs

The financing of costs relating to the purchase and sale of land and buildings is set out in an internal SBB guideline. When implemented, the regulations lead to ambiguity, particularly with respect to dismantling costs for infrastructure (e.g. tracks, overhead lines, etc.). Certain parties expressed the opinion to the SFAO that the financing of such dismantling was part of the service agreement between the Confederation and the SBB and was therefore to be paid for by SBB Infrastructure. The SFAO proposed that existing ambiguities be clarified in consultation with the Federal Office of Transportation within the scope of the guideline revision under way.

In the cases examined, the SFAO has found that the Real Estate division assumed all costs arising in connection with sales transactions. This means that the service agreement between the Confederation and the SBB is not affected. As the properties are now carried forward from SBB Infrastructure at book value and the capital gains accrue entirely to SBB Real Estate, this practice makes logical sense. One advantage of this practice is that SBB Real Estate can go ahead with its projects independently of SBB Infrastructure's financial resources.

The SBB endorses the SFAO's recommendations and will establish an organisational unit within SBB Infrastructure, among other measures, to analyse the infrastructure portfolio regularly and systematically, with the aim of ensuring that sites no longer needed for rail operations are systematically identified and dismantled for alternative

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