

INSIDE VIEW

SWITZERLAND 2017





For Sale: Anières, Geneva

Swiss Market Overview

In this global era of geopolitical unease, high-net-worth individuals (HNWIs) seeking to safely protect their funds and families are feeling the call of a country that has notched up more than 200 years of neutrality.

Switzerland is a country with two distinct property markets – its permanent residency market and

its holiday home market – and the former is undoubtedly influenced by international politics. There has always been a small number of French and German citizens relocating across the Swiss border, but we could see that number increase or decrease depending on the fiscal planning of the newly elected Governments.

We may also see a greater affinity between the British and Swiss. As

the UK navigates its way through Brexit, it could find a kindred spirit in Switzerland, which has its own unique relationship with the EU. Similarly, Switzerland is working closely with Britain as it scrutinises how our Brexit negotiations could benefit their own arrangements with the EU.

Where its favourable tax environment was once the main draw for wealthy overseas investors, in the last five years we have seen Switzerland start to appeal far more as a safe haven for personal and economic security. Tax still matters, but there are now factors of equal importance involved in buyers' decisions.

This is a country whose property market on the whole, resists great rises and falls, but which provides a stable environment for people to safeguard their assets. It is a place where children can enjoy world

class education and safely travel alone to school by bus. Indeed for many buyers, it is the matter of schooling that informs the choice of Switzerland in the first place. Where specifically to live within Switzerland after that, it is often down to the availability of space and choice of schools with a far greater range of world renowned international schools in the French speaking part due to the historical location of the U.N.

For those seeking Swiss residency, the continued strength of the Swiss Franc is a source of security. Yes, you pay a bit more when you buy, but it feels like you are investing in a secure currency.

It is all about asset protection, particularly for growing numbers of Eastern European and Middle Eastern clients. The increased transparency and sharing of information by Swiss banks is proving a source of concern for some - not because they fear the information being shared, but because they fear

that the receiving countries will have a lack of adequate security in place to prevent the information from falling into the wrong hands. However, the Swiss have expressed the desire to keep private banking investments held by Swiss-based residents as private and exempt from such agreements. If such a move goes ahead in line with Swiss banking laws and stringent due diligence checks, it will have a hugely positive impact on the residency market.

For holiday home buyers and especially at the lower end of the market, the main impact of international instability is being felt in their pockets. The strong Franc is proving to be a deterrent to buying property as it is not just the cost of property that seems high, but all daily expenditure from drinks to ski hire.

High-end buyers are less concerned about the strong Swiss Franc. While negative interest rates mean savings in Swiss banks are costing them money, property feels like the better option. In Verbier, the busiest price range for holiday home purchases is currently CHF 5m to CHF 20m. This is likely to be a third or fourth home, so buyers are less concerned about the rising cost of a burger and more interested in parking some of their wealth in a safe environment. It's a similar picture in Gstaad, whose prime market has seen double digit price rises in the past year. When

buyers find the right location and right quality, they are prepared to pay the price.

There is a new breed of investment to tempt holiday buyers at various price brackets, however, as seen in the luxurious Grace St Moritz apartments. Since Switzerland's Lex Weber came into force, almost no new product can be built in resorts. But if an old hotel building is re-invented to provide hotel style services, it is deemed a commercial purchase exempt from the normal Swiss ownership restrictions.

As the Swiss authorities primary objective is to provide "warm beds", exclusive usage of your property in such schemes is limited, so it doesn't work for those who want the flexibility of a last minute weekend on the slopes. But for more distant buyers who prefer to plan their holidays ahead – as seen in the high numbers of enquiries from the Middle Eastern, US and Asian buyers of the Grace St Moritz apartments – this is a holiday home that helps to pay its way with guaranteed income. For investors in Switzerland's prime market, that is something about which it's hard to stay neutral.



Alex Koch de Gooreynd
Head of Switzerland Desk



For Sale: Grace Apartments, St. Moritz (Computer generated image for indicative purposes only)



For Sale: Clarens, Vaud

Life Lessons

In the sphere of education, Switzerland can claim quite a pedigree. Its population holds the second highest proportion of PhDs in Europe.

By Zoe Dare Hall

It is the birthplace of the International Baccalaureate and of 113 Nobel prize-winning scientists, and home to 105 international schools and 12 universities. Add to this its famous finishing schools – of which only one remains – that have steered many a debutante, dignitary and royal through the minefield of international etiquette.

One example of such world class and varied education is the Ecole Hotelière de Lausanne (EHL), the oldest – and, to many eyes, best hotel management school in the world. Founded in 1893, on a verdant hillside overlooking Lausanne, the school counts 2,685 students from 106 countries. It is the only Swiss

hospitality school to be accredited by the Federal Government. While other schools are more vocational, EHL are a university and there is a federal subsidy for Swiss students. It beats overseas rivals, by being bilingual, with teaching in French or English.

So, what do you learn in the world’s best hospitality management school? Well, everything you need to know about hospitality, such as culinary arts, oenology and hospitality-focused business management. Students then begin their three-year bachelor degree which includes topics such as asset management, real estate finance, marketing and corporate strategy,

during which they must undertake the first of two internships where they take on admin roles that teach them about managerial, rather than operational functions.

In the second half of the first year, students will scoot off to operational internships all over the world. There are also two masters programmes on offer, including an executive MBA, and a Master of Global Hospitality Management that sends students to affiliate schools in Hong Kong and Houston, and the school has just launched an online MBA.

A third of graduates stay in hospitality, but the rest move on to top jobs in diverse fields. Some have become the global heads of luxury resort groups including *Four Seasons* and *Six Senses*. Others make their mark in Switzerland, such as Lorenzo Stoll, head of the Suisse Romande region of *Swiss International Air Lines*. EHL provides students with management skills and finishing gloss – the social skills and client skills that keep them at the forefront – and that applies to most jobs, whether they are in finance, healthcare or consultancy. They learn maturity, composure, savoir faire. They know what to do and how to be.

They also learn the power of networking – as you would when you are part of a bright, young generation of global twentysomethings (30-40% of students are Swiss and a similar proportion is from Western Europe, including 99 from the UK, but Asia is a growing market, including students from China and Thailand) who can afford the CHF 140,000 tuition fees for international students.

Being at EHL also affords rare exposure to corporate figureheads. Twice a year, the school hosts a career fair where 140 companies come on campus to recruit young talent. They also receive high-profile visitors, speakers and ambassadors. The CEO of the Jumeirah Group is a personal contact. Jerry Inzerillo, CEO of Forbes Travel Guide, went to EHL. These are people the students wouldn’t get to meet normally. They are given access, then it’s up to them.

“There is a huge amount on offer on the doorstep too”, adds Michel Rochat, CEO of EHL Group. He has been looking into why Switzerland – and Lausanne, in particular, which also boasts EPFL, an engineering school on a par with MIT – has

“There is the quality of life, with the social, economic and political stability that living here offers – and the nature.”

Michel Rochat, CEO EHL Group

built up such a reputation for academic excellence.

“There is the quality of life, with the social, economic and political stability that living here offers – and the nature. We are set among beautiful countryside, with views of the lake and mountains, so you can live the four seasons to their fullest,” says Rochat.

There is also an “interesting dynamic”, he comments, between the private sector and educational institutions such as EHL. “Multinational companies come here for all those lifestyle and geopolitical reasons – and they look for talent, so they partner up with schools like ours for research and development projects. Those partnerships attract more bright young minds – and they, in turn, attract more companies to move here.”

Among its other educational accolades, Switzerland has among the highest number of international students of any

country. “We are a small country with a small workforce, so we need foreigners – and the favourable tax breaks and great quality of life tend to attract people who have grown up and studied all over the world,” says Rochat. “Yes, it’s costly to live here, but the benefits more than compensate.”

Meanwhile, EHL is ensuring it continues to attract the best with a CHF 200m+ redevelopment of its campus over the next four to five years, and they are not alone. In the last few years we have seen other schools in the region investing hugely, such as the opening of the new Le Régent College in Crans-Montana, the extension of the Collège Alpin Beau Soleil in Villars and the construction of the new iconic Carnal Hall Arts Centre at La Rosey. This, combined with future plans to extend the Lemania school in Verbier, demonstrates that the appeal of Swiss education is set to stay top of its game.



Ecole Hotelière de Lausanne

Safety in Numbers








The world’s wealthy are no longer drawn to Switzerland purely as a result of its benign tax regime, instead personal security, privacy and education are emerging as key motivations behind new residency applications.

By Kate Everett-Allen

The results of our 2017 Attitudes Survey, contained in The Wealth Report 2017, shows that ultra high net worth individuals (UHNWIs) deem lifestyle and personal security to be the most important factors when considering where to reside. At a time of heightened geopolitical tension this finding may come as no surprise but it helps explain Switzerland’s widening appeal.

Switzerland ranks as one of the safest places to reside in the world according to Mercer. Three Swiss cities – Geneva, Zürich and Basel – sit within the top ten in Mercer’s 2017 Quality of Living rankings. No other country is as well-represented.

Quality of Living, 2017
Top 10 rankings

1	VIENNA	
2	ZÜRICH	
3	AUCKLAND	
4	MUNICH	
5	VANCOUVER	
6	DUSSELDORF	
7	FRANKFURT	
8	GENEVA	
9	COPENHAGEN	
10	BASEL	
10	SYDNEY	

Source: Mercer

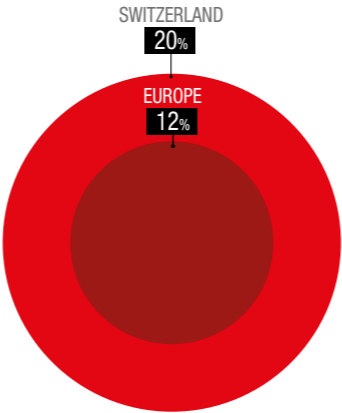
But whilst it is the lifestyle and education on offer within Switzerland that continue to attract buyers, it is the tax rules beyond its borders which are boosting the country’s credentials in the eyes of the world’s wealthy.

Swiss policymakers have introduced their fair share of measures restricting who can buy what, and where, but these have remained largely static since Lex Weber’s introduction in 2013. Since this time residential property in some of the world’s top cities has been the subject of a range of new measures, from foreign buyer taxes and stamp duty hikes to new administration fees and restrictions on multiple property purchases.

Together these external measures have put Switzerland back under the spotlight. Figures from our 2017 Attitudes Survey show 26% of UHNWIs say protecting their wealth from political interference is one of the most important factors when managing their wealth.

The OECD’s new Common Reporting Standards (CRS), which will come into force in September 2017, may also be focusing the minds of UHNWIs. Under the new rules 100 tax authorities will sign

UHNWI Forecast*
% change 2016-26



Sources: Knight Frank Research, New World Wealth
*UHNWI = net worth of US\$30m+ excluding primary residence

up to the annual transmission of personal financial information.

Whilst most UHNWIs are accepting of the need for greater transparency it has raised concerns regarding data protection in less developed markets. The majority of jurisdictions commence the automatic exchange of information (AEOI) in 2017, but Switzerland has said it will start collecting data in 2018 with a view to sharing in 2019.

26%

Of UHNWIs say protecting their wealth from political interference is one of most important factors when managing their wealth

Pricing

Geneva and Zürich saw prime residential prices dip in the year to March 2017, slipping 2% and 7% respectively but wealth preservation, not appreciation, remains the focus for most buyers in Switzerland.

Portfolio diversification is another key driver. Most UHNWIs will have some exposure to the US dollar and potentially Sterling with property assets in New York and/or London and potentially Europe too. Since the de-pegging of the Swiss Franc from the Euro in 2015 the ‘safe haven’ tag has been applied in equal measure to the country’s currency as to its bricks and mortar and some investors see exposure to the Franc as a means of spreading risk.

Permanent residents are undeterred by softening prices and the Franc’s strength given their long-term outlook. The CHF 4m-20m market in Geneva has been notably strong with 96 sales recorded in 2016, up 17% year-on-year.

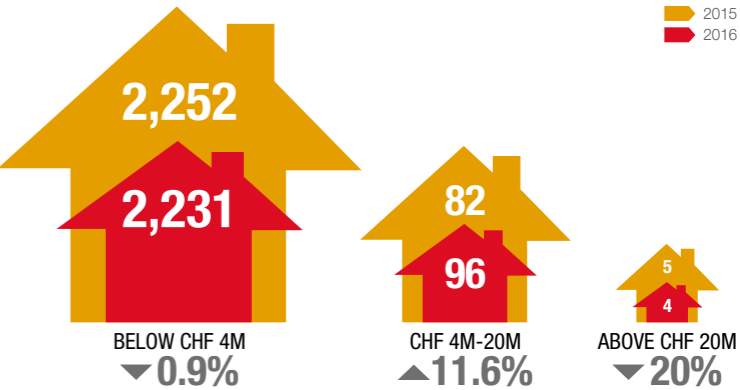
For those buying as a non-resident in one of the few holiday zones (amongst them Vaud, Valais and Lausanne) the combination of low interest rates, quality stock and limited supply is helping to support prices with sales activity focused below CHF 5m at the current time.

Top 10 nationalities living as permanent residents in Switzerland
2015

1	ITALY	311,742	6	SPAIN	82,334
2	GERMANY	300,691	7	SERBIA	71,260
3	PORTUGAL	267,474	8	TURKEY	69,215
4	FRANCE	122,970	9	MACEDONIA	64,448
5	KOSOVO	106,879	10	UK	41,766

Sources: FSO, STATPOP

Geneva residential sales Number of sales 2015 v 2016



Sources: Knight Frank Research, Naef
Graphic not to scale

Takeaways

- Plans to tighten rules surrounding non-EU citizens buying in Switzerland are on hold while Brexit negotiations progress
- The OECD’s Common Reporting Standards will add a new dimension to UHNWIs residency decisions when they come into effect in 2017 (2019 in Switzerland)
- Properties priced between CHF 5m and 20m in Geneva saw the strongest increase in sales in 2016
- The shifting landscape of tax and property market regulations globally is refocusing the attention of UHNWIs on Switzerland and the lifestyle it offers

The Purchase of Real Estate in Switzerland

The law on acquisition of real estate in Switzerland has numerous restrictions for foreigners, otherwise referred to as Lex Koller.

The law on acquisition of real estate in Switzerland has numerous restrictions for foreigners, otherwise referred to as Lex Koller. This law clearly distinguishes between categories of real estate, residential and commercial, and categories of purchasers such as those interested to purchase a property in Switzerland as a holiday home, to relocate their main residence to Switzerland or even to establish their permanent business in Switzerland.

It is therefore fairly difficult for non-Swiss residents to purchase property in Switzerland unless they are located within the designated ‘Holiday Zones’. These zones are predominately found in certain ski resorts as well as the immediate areas surrounding both Montreux and Lugano. With all these areas the maximum size allowed is 200 sq m of official living space, this does not include balconies or basement areas.

There is also a second law, Lex Webber, which limited the number of properties owned as secondary residences to 20% of the total housing stock. Unfortunately if the area of the property falls under the jurisdiction of a commune that has already exceeded this limit, It is

therefore impossible to sell unless the property is already owned as a secondary residence.

Of course there are occasional allowances such as if a buyer’s children are to be educated in Switzerland or if they can purchase through a Swiss-based and managed company and can prove that such a purchase is part of its normal business. All of these are possible, but must be negotiated with the authorities on your behalf by a local lawyer.

All of the various reasons for the purchase of real estate have very different consequences, not only from a tax and legal point of view, but also regarding succession, financial structuring and asset allocation. In addition, the costs for the acquisition, the holding and the sale are different depending on each specific case.

In the top right hand corner are three examples for buying, owning and selling a property in Switzerland. In each canton and in some cantons in each commune, the costs are different. Furthermore, the taxes and costs can be different for residents and non-residents. Income and wealth taxes are progressive and different



in each commune and canton. The three following examples are indicative examples to understand the different systems.

For more information please consult our Guide to buying property in Switzerland, prepared for us by *Transforma Consulting*, which is a general introduction to this complicated legal system. In practice, each individual transaction must be analysed according to local laws and regulations and expert advice must be sought.



BUYER	OWNER	VENDOR
PURCHASE IN GENEVA	RESIDENT IN GENEVA	SALE IN GENEVA
Transaction costs <ul style="list-style-type: none">Notary fee: total 0.2145%Transaction tax: 3%Land registration fee: 0.25%Other costs: CHF 1,000Registration or overtaking of mortgage: 1% of mortgage amount	Annual costs (Based on a property valued at CHF 10m) <ul style="list-style-type: none">Deemed rental value of CHF 300,000 taxed with other income at a maximum tax rate of approximately 40%Tax value of CHF 10m taxed with other wealth at a maximum tax rate of approximately 1%	Transaction costs (Based on a CHF 10m purchase) <ul style="list-style-type: none">Agency commissionCapital gains tax: maximum of 50% (less than 2 years holding), 0% after 25 years of holding
PURCHASE IN ZUG	RESIDENT IN ZUG	SALE IN ZUG
Transaction costs <ul style="list-style-type: none">Notary fee: maximum CHF 3,300 (usually 50/50 by parties)Transaction fee: maximum of CHF 6,000Registration or overtaking of mortgage: maximum of CHF 4,500	Annual costs (Based on a property valued at CHF 4m) <ul style="list-style-type: none">Deemed rental value of CHF 144,000 (rental of CHF 12,000/month) taxed with other income at a maximum tax rate of approximately 21%Tax value of CHF 2.8m taxed with other wealth at a maximum tax rate of approximately 0.27%	Transaction costs (Based on a CHF 4m purchase) <ul style="list-style-type: none">Notary fee: maximum of CHF 3,300 (usually 50/50 by parties)Transaction tax: usually paid by the purchaserCapital gains tax: maximum of 60% (less than 1 year holding) and a minimum of 10% after 25 years of holding
PURCHASE IN TICINO	RESIDENT IN TICINO	SALE IN TICINO
Transaction costs <ul style="list-style-type: none">Notary fee: 2% (usually 50/50 by parties)Transaction tax: 1.1%Registration or overtaking of mortgage: maximum of 2%	Annual costs (Based on a property valued at CHF 3m) <ul style="list-style-type: none">Deemed rental value of CHF 84,000 (rental of CHF 7,000/month) taxed at a maximum tax rate of approximately 34%Tax value of CHF 2.25m taxed at a maximum tax rate of approximately 0.6%	Transaction costs (Based on a CHF 3m purchase) <ul style="list-style-type: none">Attorney fee: 2% (usually 50/50 by parties)Transaction tax: paid by purchaserCapital gains tax: maximum of 31% (up to 1 year holding), minimum of 5% after 20 years of holding

The Swiss Network

The London team works closely with our network of local experts in Switzerland. Our local agents have been carefully selected for their integrity, experience and professionalism, and speak English as well as French, Italian and German.

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Other locations covered:
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Gstaad, Lugano, Neuchâtel,
Verbier, Villars and Zürich

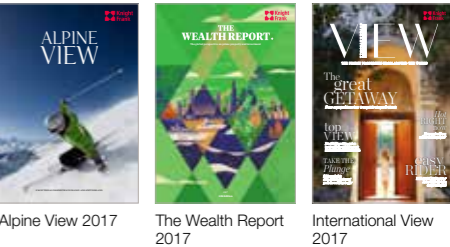
Knight Frank in Switzerland



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