RESIDENTIAL RESEARCH
SWISS INSIGHT

Key findings Mar 2013

Prime prices in Geneva and Zurich fell marginally in 2012, by 6% and 2.5% respectively

Enquiries from French and Spanish HNWIs have increased since late 2012

Mainstream property prices in Switzerland rose by 3.9% in 2012, while prices fell by 2.1% across the Eurozone

Zurich has seen luxury sales volumes rise due to an increase in stock levels, rather than a step-change in market sentiment

Geneva has seen prime prices soften from their pre-crisis high and vendors are adopting a more realistic attitude to pricing

AT A GLANCE

Lex Koller-Friedrich

What is it? Restricts the ownership of Swiss homes by non-residents to certain holiday zones

When was it introduced? 1961 (formalised 1983)

Who does it affect? All non-residents

Where does it apply? Across all of Switzerland but with exceptions in holiday zones where non-residents can purchase a home with a maximum of 200 sq m of official internal living space

Lex Weber

What is it? A cap on secondary home ownership at 20% per commune

When was it introduced? 1 January 2013

Who does it affect? Residents and non-residents

Where does it apply? Whole country, but largest impact in the Vaud Riviera, Lugano and Alpine resorts

Rubik Accords

What is it?: An agreement between Switzerland and certain countries to legalise undeclared assets while keeping the Swiss bank account holder's anonymity

Which countries are affected? Agreements ratified with UK and Austria but is an on-going process

Who does it affect? UK and Austrian residents with Swiss accounts

Switzerland remains one of Europe's most stable and prosperous economies, an important 'safe-haven' for wealthy investors. Although new laws and taxes introduced some uncertainty to the market in 2012, luxury sales volumes have held firm, driven in part by stronger demand from Euro-based buyers. Kate Everett-Allen assesses current market conditions:

The Swiss economy recovered strongly in 2010-11 having proved better insulated from the ravages of the financial crisis than its European neighbours but it could face testing times in 2013 as Switzerland's key export market – the EU – still grapples with recession. This diverging trend is expected to continue with Swiss GDP growth estimated to reach 1.2% in 2013 compared to -0.3% for the Eurozone.

In 2011 the rapid appreciation of the Swiss franc led the Swiss National Bank (SNB) to adopt an exchange-rate floor of CHF 1.20:€1. Prior to this move, not only were exports suffering but some residential property buyers considered that the franc's strength negated the tax savings of relocating to Switzerland, many instead opted to rent.

Mainstream Swiss house prices have risen by 30% since the start of 2007, outperforming all of the other main European markets (figure 1). High immigration (c.65,000 pa), limited new supply and historically low interest rates have pushed prices higher. Concerns of a price bubble in the mainstream housing market have increased but the government has introduced new measures to tighten lending.

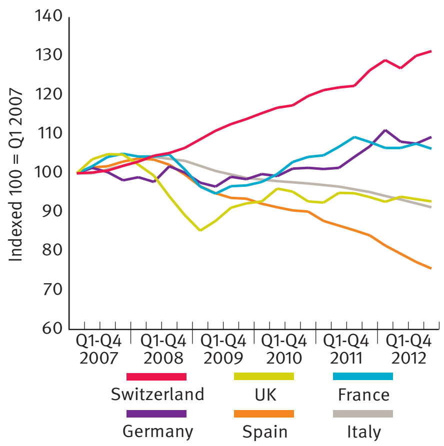
Swiss luxury housing markets by comparison have followed two different courses since 2007. The lack of available property in most of the country's principal German-speaking cities in the north and central regions (such as Zurich, Zug and Schwyz) has kept prices largely static while the French-speaking cantons in the east (including Geneva and Vaud) have seen price falls of between 10% and 15% as vendors have become more realistic, conscious that the pre-crisis highs have waned.

2012 provided mixed fortunes for the luxury property market. Despite rising sales volumes prime prices in Geneva and Zurich fell marginally, by 6% and 2.5% respectively due in part to stricter lending policy and a new set of laws and taxes which introduced a measure of uncertainty. A lack of clarity surrounding Lex Weber's introduction (a 20% cap on second homes, (see margin)), the tightening of banking rules in relation to undeclared assets (the Rubik Accords) and the proposal to change federal rules on lump sum taxation led some buyers to adopt a "wait and see" approach.

The outlook for prime prices in Switzerland looks positive. Demand looks set to remain strong and supply tight. According to the Knight Frank Wealth Report Switzerland is forecast to see a 27% rise in its HNWI population between 2012 and 2022 and strict planning regulations along with Lex Weber will curtail new development.

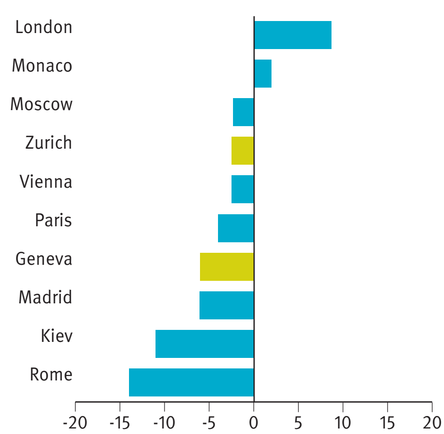
Add to this Switzerland's benign stance on tax, its high political stability and its laws protecting banking secrecy (albeit their stringency is being tested by international pressure) and Switzerland's ranking among the world's wealthy looks assured. As a global financial centre with exemplary schools, offering a safe environment and with the Alpine resorts on its doorstep many consider it the prime location to bring up a family which explains Zurich and Geneva's high ranking in the latest Wealth Report's Global Cities Survey.

Figure 1
Mainstream house prices, selected countries
Indexed, 100 = Q1 2007



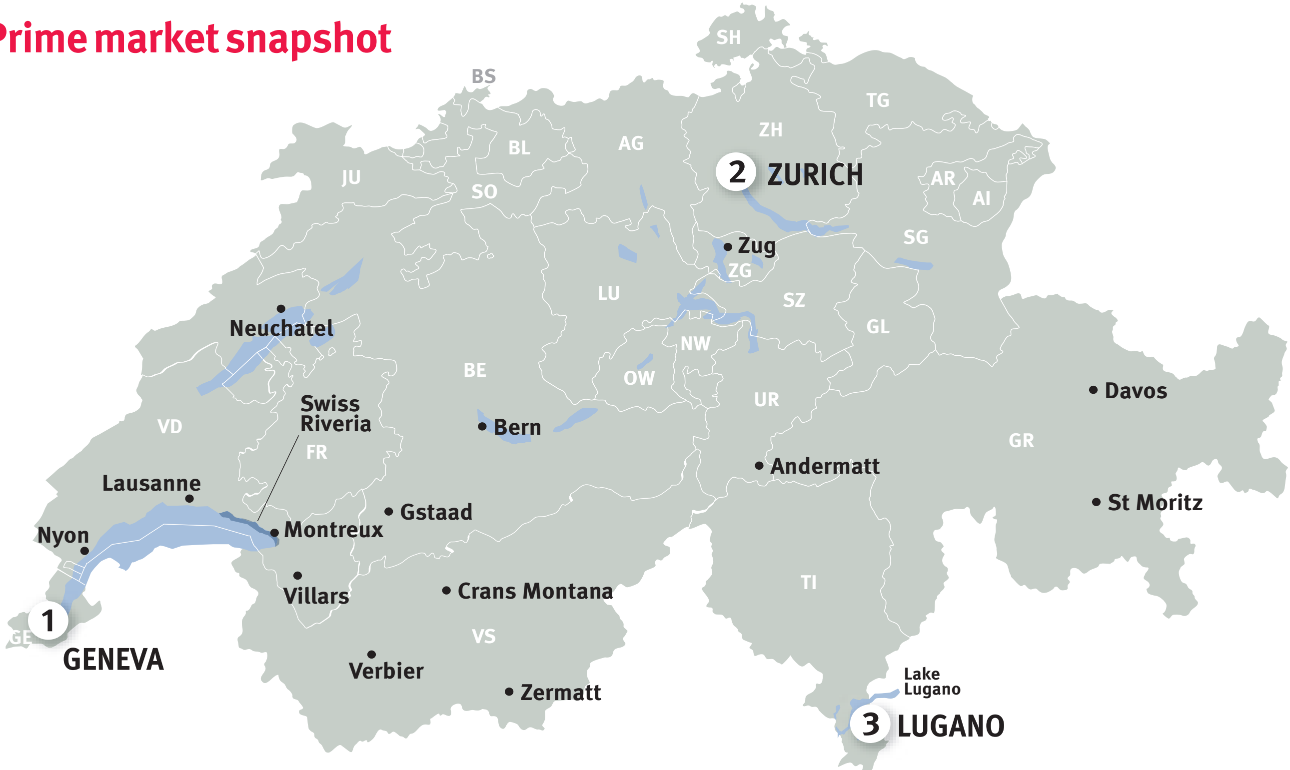
Source: Knight Frank Residential Research, Wüest & Partner

Figure 2
Prime price performance in key European cities
Annual % change, 2012



Source: Knight Frank Residential Research

Prime market snapshot



1. Geneva

2012 provided an improving set of fundamentals for the Geneva housing market. The number of homes sold above CHF 10m rose significantly from around 15 to 35 year-on-year as the sense of concern amongst buyers following the Swiss National Bank's currency cap in September 2011 started to dissipate.

Activity was markedly higher in the second half of 2012 as buyers, many interested in city centre homes as well as high-end properties in the Vaud canton, looked to secure their property prior to international taxation pressure commencing.

Prime prices dipped by around 6% in 2012, vendors are being more realistic on price, conscious that the prices have fallen 10%-15% from their pre-crisis highs.

That said, the best properties in prime locations have retained their value. Areas such as Cologny, Collonge, Bellerive, Geneva's Old Town and Champel are in the greatest demand.

Aside from existing international buyers already resident in Switzerland, purchasers based in France, Spain and the UK are currently the most active in the market.

Concerns surrounding the upcoming vote in 2015 on the future of lump sum taxation have slowed the market in the CHF 3m-CHF 8m price range. However, buyers are swiftly realising that now is the best time to agree their fixed rate given that any ruling will not come into effect until 2018 at the earliest.

2. Zurich

The performance of Zurich's prime market is strongly linked to its financial services sector which accounts for 40% of the city's economy.

Most of the city's prime markets saw prices soften in 2012, albeit by 2%-3%. Sales volumes were healthy in 2012 due primarily to the improved availability of stock rather than a marked upturn in buyer sentiment.

Detached family homes on Zurich's Gold Coast bucked the trend and saw price growth of around 5% in 2012 due to the lack of inventory. Homes throughout the Gold Coast from Zollikon all the way to Stäfa are attracting the strongest demand.

The vacancy rate for the City now stands at 0.6%, with new development now almost-exclusively on the periphery in the Glatt Valley.

The average price of a typical prime property is around CHF 22,000 per sq m.

The number of foreign nationals in the City of Zurich rose by 14.7% in the decade to 2011 and now constitutes 31% of the population. German, Italian and British-born residents are most evident.

The abolition of the lump sum form of taxation in Zurich in 2009 has not damaged the market as much as was originally feared which is reassuring ahead of the national vote in 2015.

3. Lugano

Lugano has long been favoured by northern European buyers because of its Mediterranean climate and its accessibility via nearby Milan airport. Located close to the Italian border in the Canton of Ticino, Lugano is Switzerland's third largest financial centre.

In recent years the area has become a target for a number of British buyers looking to relocate as well as more traditional buyers from Russia, Italy, Germany, Northern Europe and from other parts of Switzerland. Most are attracted to the Italian lifestyle, excellent schools (most enjoy shorter waiting lists than elsewhere in Switzerland), the safe environment and Swiss efficiency.

The CHF 4m to CHF 7m price bracket currently generates the strongest interest among incoming permanent residents. Activity in Lugano's second homes market is focused between CHF 1m and CHF 3.5m, this is because although foreigners are allowed to purchase second homes in the region, they can only acquire homes with up to a maximum of 200 sq m of official living space, above this size they would need to become a Swiss resident.

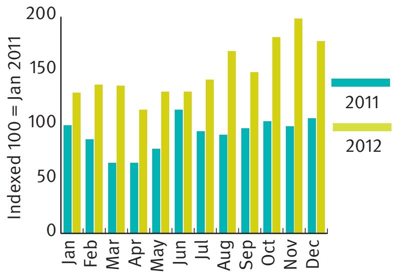
The areas around Morcote, Castagnola and Paradiso remain the most sought-after.

Like the other core Swiss markets, prices in and around Lugano softened in 2012 by around 3%-5%. However, this correction has been due to a willingness on the part of vendors to conclude sales within a reasonable period rather than a lack of buyer demand, interest remains strong for correctly priced stock.

Prime market trends

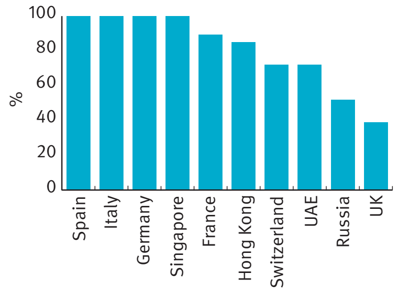
Knight Frank's Global Property Search website (GPS) receives up to 700,000 hits per month making it a unique barometer of the demand for prime international property. The following charts highlight the key trends in the prime Swiss market.

Figure 3
Monthly activity
Volume of property searches Jan 2011-Dec 2012



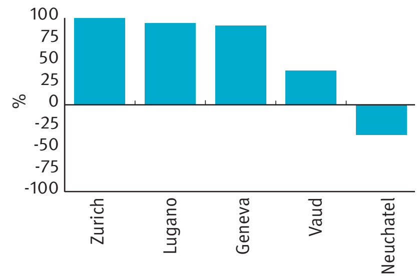
The volume of online searches for luxury Swiss homes increased 62% in 2012. The spike in activity in late 2012 was not reflected in actual sales, however it suggests buyers were researching the market while awaiting the implementation of Lex Weber in January 2013.

Figure 4
Who is searching for Swiss property?
% change 2012 versus 2011



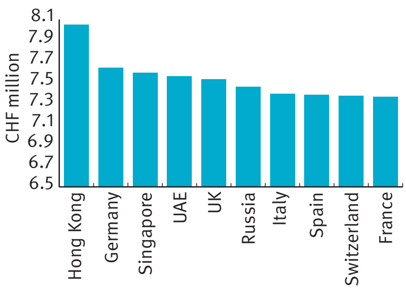
Those responsible for the largest increase in Swiss property searches in 2012 were from Spain, Italy, Germany and Singapore. Heightened property taxes and the economic turmoil in Spain and Italy may be causal factors. Interest from Asian, Middle Eastern, Russian and CIS nationals is also strengthening.

Figure 5
Change in search volumes by selected Swiss cantons
% change Q4 2012 versus Q4 2011



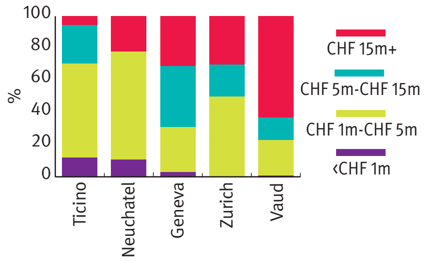
Zurich recorded the strongest rise in searches between 2011 and 2012 closely followed by Geneva and Ticino (Lugano). Online searches for homes in the Canton of Vaud which extends across the northern shore of Lake Geneva also saw activity rise, up 34% year-on-year.

Figure 6
Average price searched by key nationalities
2012



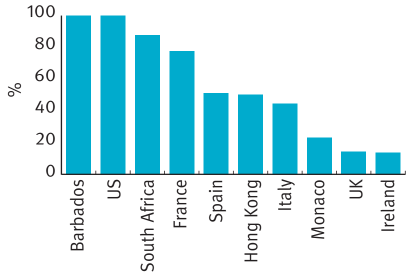
In 2012 web users in Hong Kong searched for the highest-priced Swiss properties (c. CHF 8.06m). Southern European buyers in Italy, Spain and France by comparison searched for homes around CHF 7.4m.

Figure 7
Property searches by canton and price bracket
2012



The breakdown of searches by price bracket shows a diverse split across the cantons with Ticino seeing the most even distribution across the four bands. In Geneva, Zurich and Vaud homes priced above CHF 5m accounted for 50% or more of online property searches. By comparison, the equivalent figure for Ticino and Neuchatel was 29% and 22% respectively.

Figure 8
Where are Swiss residents looking to buy a luxury home?*
% change 2012 versus 2011



The top 10 second-home locations favoured by Swiss-based web users are shown in Figure 8. The chart shows the change in search activity between 2011 and 2012 in these countries. Not surprisingly perhaps, warmer climes such as Barbados, the US and South Africa have seen the largest increase in searches.

Source: www.knightfrank.com/search

*excluding Switzerland

Table 1 **Top nationalities buying prime property by city**

Rank	Geneva	Zurich	Lugano
1	Swiss	Swiss	Swiss
2	French	German	Russian & CIS
3	British	Austrian	British
4	Russian & CIS	Russian & CIS	Italian
5	Spanish	British	Middle Eastern

Source: Knight Frank Residential Research

Knight Frank

Prime properties for sale

GENEVA

Location: Quai de Mt Blanc
Lake Geneva

ZURICH

Location: Meilen
Zurich Gold Coast

TICINO

Location: Morcote Arbostora
Lake Lugano

VAUD

Location: Promenthoux
Prangins

VALAIS

Location: Plans-Mayens
Crans Montana

GRAUBÜNDEN

Location: Suvretta
St Moritz

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Data correct as at Mar 2013