RESIDENTIAL
RESEARCH

SWISS RESIDENTIAL DEVELOPMENT 2011

Analysis of market performance, world-class offer and future capacity for growth

Knight Frank

GROWTH OF HNWI MARKET

DESIGN AND BRANDING

MARKET OUTLOOK

INTRODUCTION

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Switzerland has long been associated with wealth, low tax and superlative brands, its property offering, however, has often fallen short of the expectations of wealthy global buyers. With Switzerland forecast to have the third highest density of millionaire households in the world (US$) by 2020 (accounting for 24% of its total population), a number of niche developers have started to address this issue.

In this report we present an overview of the Swiss residential market's recent performance, assess what state the development market is in following the global recession, and highlight some of the key projects aimed at the world's expanding super-rich population. The report outlines the strategies and aspirations of developers and architects working in this niche market and we assess which nationalities are targeting Swiss property, along with the factors that are motivating them.

Raising the bar

Historically, only a few locations including New York, London and Hong Kong have been the main focus of luxury property acquisitions for high-net-worth individuals (HNWIs). For those seeking the best in architecture, interior design, technology and leisure amenities, these cities have been part of a select few capable of meeting this group's exacting requirements.

In the last two years key Swiss locations have entered into this club as developers such as The Swiss Development Group (SDG) and Peach Property Group Ltd have overhauled the quality of product on offer – by commissioning high-quality architecture, sourcing improved build materials and ensuring the highest levels of privacy and security.

This view was reinforced by a recent Knight Frank survey which assessed the views of more than 350 wealth and property professionals. Respondents saw Switzerland as one of the few luxury residential markets with high growth potential. Switzerland performed particularly well in relation to education, tax and security, with the main Swiss cities being ranked higher than a number of key western and Asian economies.

What has driven the flight to quality in Switzerland? It is partly due to significant global wealth generation and greater mobility amongst HNWIs. Switzerland is home to 573,000 millionaire households – a figure forecast to rise by 52% to 872,000 households by 2020. Research suggests millionaire households in Switzerland have an average of $4.2 million in wealth, the highest amongst the developed and BRIC economies. With this scale of demand developers have been forced to realign their offer with the demands of this expanding global elite.

"Switzerland is home to 573,000 millionaire households, a figure that is forecast to rise by 52% to 872,000 by 2020."

Table 1
Top luxury global housing markets by purchaser motive

	Education	Business	Tax	Lifestyle	Security	Investment
1	London	New York	Grand Cayman	St. Moritz	Monaco	Cape Town
2	Boston	London	UK Channel Islands	London	Geneva	Abu Dhabi
3	Zurich	Shanghai	Zurich	Paris	Zurich	Hong Kong
4	Hong Kong	Sydney	Singapore	Cap Ferrat	Singapore	Sydney
5	Singapore	Hong Kong	Monaco	Algarve	UK Channel Islands	London

Source: Knight Frank Residential Research

Swiss market overview

No market was able to avoid the impact of the global recession that took hold in 2008 and is still being played out today. However, Switzerland attests to being one of the least affected markets and remains one of the few bright spots in what is still a troubled European economy.

Not only was Switzerland's GDP growth stronger than its neighbours before the financial turmoil but it is projected to show more robust growth going forward than the rest of the eurozone or EU (figure 1). Switzerland's relatively strong performance has been driven by buoyant domestic demand, and despite being hampered by a strong Swiss franc (CHF), a solid export market.

Overall, the Swiss economy's main characteristic is one of stability. Solid growth, historically low interest rates (figure 2), a modest rate of inflation, a steady and low unemployment rate, and a low budget deficit has made the economy a safe haven for investors, particularly at a time when other western economies have been struggling with low growth and ballooning budget deficits. Geopolitical turmoil, particularly across many emerging markets in the Middle East, has made Switzerland even more attractive.

Switzerland's relative macroeconomic stability has been reflected by the performance of its housing market; capital value growth has been consistently positive and has equated to 4.6% per annum over the past five years. Most regions of Switzerland have shown similar growth trajectories, although the housing market around Lake Geneva has been particularly robust, with an average annual growth of 8.6% (figure 3).

Switzerland's appeal for international investors extends beyond its track record of strong rental returns and capital price appreciation. For highly mobile international buyers Switzerland offers good accessibility, excellent international schools and universities, a transparent legal system and a low tax environment.

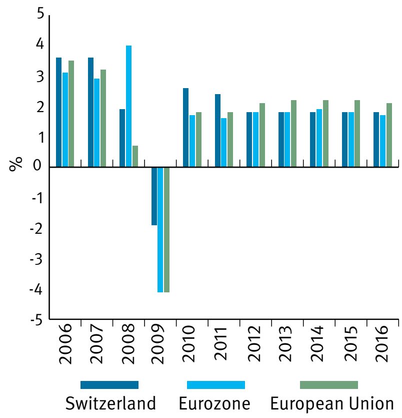
International purchasers can be broadly split into two groups, those that buy in and around the main cities, such as Geneva and Zurich, who are generally working in financial services and those that will buy second homes in more rural locations, looking to benefit from Switzerland's lifestyle offer.

Table 2
Key market comparables

	Switzerland	Vaud	Geneva	Valais
Residents per habitable room	0.59	0.61	0.64	0.63
Ratio of owner-occupied housing	34.6	28.3	15.8	61.4
New housing units per 1,000 population	5.1	4.4	2.7	7.5
Rate of vacant housing units	0.94	0.46	0.23	1.15

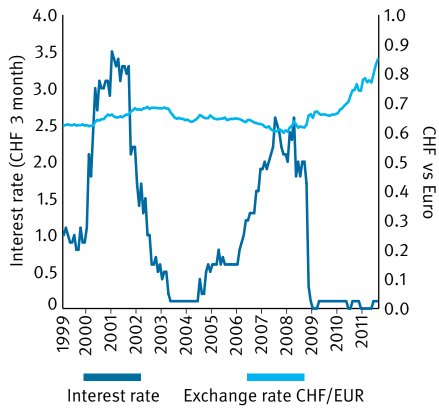
Source: Federal Statistical Office

Figure 1
Swiss stability
GDP growth per annum



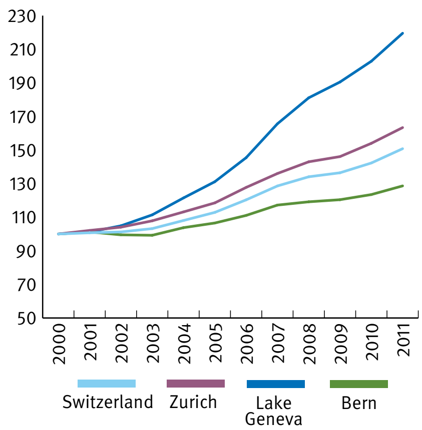
Source: IMF

Figure 2
Benign conditions
Interest rate (%) and exchange rate (CHF/EUR)



Source: Swiss National Bank

Figure 3
Lake Geneva's robust performance
Average house price inflation (Indexed, 100 = 2000)



Source: Wüest & Partner AG

SWISS RESIDENTIAL DEVELOPMENT 2011

Developer Insight

Nicolas Garnier, CEO at the Swiss Development Group, discusses the company's bespoke approach, the benefit of linking with a luxury hotel, and branching out of Switzerland.

What sets SDG apart from other high-end developers in Switzerland?

We are not typical real estate developers as we provide a range of features and services as part of our developments – we're the first to do this in Switzerland. This year, for example, we launched Rockefeller Living, an exclusive club open only to the owners of residences at selected SDG properties. Members benefit from an array of luxury lifestyle amenities and services, such as the use of luxury vehicles as well as spa and fitness facilities.

Du Parc Kempinski and 51° Spa Residences are linked to upmarket hotel brands. What are the advantages of this, both for developers and buyers?

For developers the advantage lies in being able to add value to a property by developing, branding and marketing it. More importantly, the benefit for buyers is the confidence it inspires in them that it presents a sound financial investment. In such an uncertain economic climate buyers see such schemes as a safe haven as their quality and uniqueness will ensure their value is sustained over time.

Are good sites hard to come by in Switzerland?

Good sites are scarce, I would estimate that 60% to 70% of the land here is protected, and demand is very high. Switzerland probably faces the most acute shortage in all of Europe, this of course makes it difficult to find and secure suitable sites for our projects. It took us three and a half years to obtain the site for 51° Spa Residences, which I'm told is relatively quick. We began work on another project in 2000 and have only just completed the planning process. It takes 10 to 15 years to obtain a permit for most large-scale schemes.

What are SDG's future plans?

We are leading this field in Switzerland and we plan to extend that throughout western Europe. Along with several other projects in Switzerland, we have entered a competition to secure the rights to a hotel in Monaco. Our aim is to develop properties for niche markets in outstanding places, so I wouldn't rule out looking at Paris, London and other big cities in the future.

Development market conditions

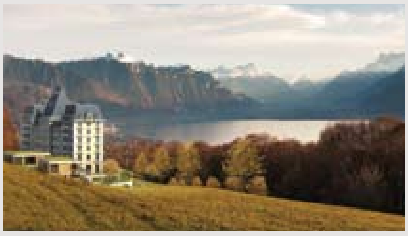
The Swiss development market has weathered the global economic storm better than many of its European counterparts. Banks, although cautious, continue to lend to both purchasers and developers, allowing land to change hands and projects to be completed.

Planning applications rose 10% in Switzerland in the two years to Q2 2011 with a sharp increase in the last quarter when some 16,920 new dwellings were granted planning permission. At the end of June 2011 there were 70,900 homes under construction, a 5% increase year-on-year. These results compare favourably with the scenario in many western economies, where tight lending restrictions, burdensome planning and sustainable building regulations are hindering the industry's recovery.

Naturally, site availability, land prices, completion levels and planning regulations vary significantly from canton to canton. For example when applying for planning permission it is the cantonal authority that will decide, based on the qualities and facilities cited in the application, the number of housing permits that will be granted for foreign residents. These permits apply only to foreign residents who are not planning to live permanently in Switzerland.

Development opportunities in some prime locations, such as Geneva, can be scarce. Here, large-scale housing sites are a rarity, leading developers to focus on conversions and infill sites. With a vacancy rate of 0.23% and completions totalling just 1,224 units in 2009 (figure 4) many developers are aware of Geneva's strong potential for future price growth. Conversion sites that are acquired in the city tend to emerge as niche developments aimed at the luxury market (see City Escape below).

Prime investment opportunities



LAKESIDE SANCTUARY

Du Parc Kempinski Private Residences

Location: Le Mont-Pèlerin, Vaud
Distance from airport: 80 km (Geneva)
No. of residences: 24
Completion date: Winter 2012

Facilities: Private spa, private cinema, cigar salon, wine tasting cellar and concierge service by Quintessentially.

Would suit: Couples or families in need of easy access to an international airport for business travel; those with children studying in Geneva; or those wanting a lakeside retreat for outdoor pursuits and relaxation.

A HEDONIST'S SANCTUARY

51° Spa Residences

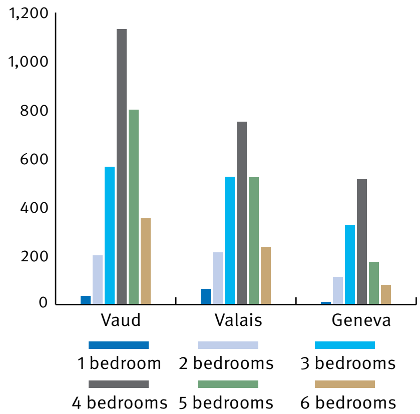
Location: Leukerbad, Valais
Distance from airport: 193 km (Geneva)
No. of residences: 10 private residences, 20 serviced apartments and 50 hotel apartments
Completion date: Winter 2013 (1st phase)

Facilities: Ski valet, fitness centre, outdoor pools, spa and wellness facilities, luxury boutiques, wine cellar

Would suit: Spa aficionados keen to trial the 51° thermal spring water pumped directly into each home; ski enthusiasts and those with a passion for outdoor living; couples or families who enjoy an active lifestyle and good restaurants.

> "Banks, although cautious, continue to lend....allowing land to change hands and projects to be completed."

Figure 4
Supply breakdown
Completions by accommodation size, 2009



Source: Federal Statistics Office

Buyer insight

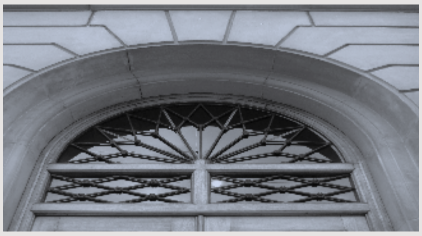
The motives behind Swiss property purchases are numerous, from wanting a holiday home for alpine pursuits, to needing a base for children studying nearby, or choosing to make Switzerland home for tax or retirement reasons. In recent years Switzerland's reputation as an established and strong performing market has fuelled interest from a new group – investors from Asia and the BRIC nations, keen to take advantage of the country's strong currency and stable economy.

Today, foreign buyers are a key driver of housing demand in Switzerland. The domestic Swiss population has grown by 5% since 1995 while the number of foreign permanent residents has risen by 17%. Europeans continue to dominate, accounting for 84% of all foreign residents, but non-European nationals have doubled in number since 1980 to reach 14.8% today. More salient still, is the growth in Asian residents, up from 77,000 in 1995 to 116,000 in 2009 (latest available data), which corresponds to a 51% increase over a 14-year period.

Much of this demand has come from a growing number of professionals whose work is not dependent on a particular location. Swiss residents can make business trips to most international centres from either Geneva, Zurich or Milan with relative ease. These buyers are evident across all price ranges and tend to focus their attention on the consistently popular cantons of Geneva, Vaud, Zug, Schwyz and Ticino.

Table 3
New-build property features ranked by importance according to Swiss purchasers

1	Location, views, aspect
2	Management and security
3	Accessibility
4	Exchange rates
5	Tax rules and financial advantages
6	Design and architecture
7	Leisure facilities (pool, skiing, spa etc)



CITY ESCAPE
Prime location, Geneva

Location: Geneva
Distance from airport: 9 km (Geneva)
No. of residences: 4 (inc. one duplex)
Sales start date: Spring 2012

Facilities: High-security concierge, spa and fitness facilities, use of a luxury car and the yacht moored in the marina.

Would suit: Young professionals or mature couple relocating to Geneva for business commitments, keen to be at the heart of the city to immerse themselves in the Swiss lifestyle and/or use it as a base to explore the Lake Geneva area.

ALPINE RETREAT
Swiss Luxury Village

Location: 4 Vallées, Valais
Distance from airport: 177 km (Geneva)
No. of residences: 5-star hotel (120 rooms), 6-star boutique hotel (35 rooms), 120 serviced apartments and chalets, 20 Alpine chalets
Sales start date: Autumn 2012

Facilities: Access to 400 km of premier ski slopes, spa and wellness centre, private home cinema, club lounge, residents club, gourmet restaurants, ski-in/ski-out infrastructure.

Would suit: Families or young professionals with a range of interests – from skiers to spa enthusiasts and from food lovers to professional shoppers.

SKIERS' HAVEN
Pinnacle, Chalets Luxe

Location: Saas-Fee, Valais
Distance from airport: 234 km (Geneva)
No. of residences: 3 deluxe chalets
Sales start date: Winter 2012

Facilities: Access to 145 km of premier ski slopes (open year-round), golf club, restaurants, bars and clubs, pedestrian village centre, boutique shops, Quintessentially Concierge.

Would suit: Families or couples with a passion for winter sports wanting breathtaking views (Saas-Fee is nestled amongst Switzerland's highest peaks) as well as a love of design and architecture (the chalets are inspired by Foster & Partners).

Design and branding

Branding as a means of identification has become increasingly important and, in a competitive marketplace, high-quality design is considered crucial in the pursuit of individuality and exclusivity.

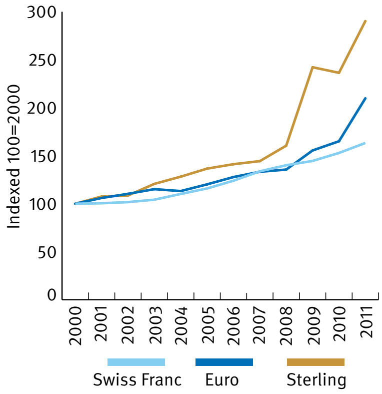
The rising profile of design and branding, especially at the top of the market, is reflected in the shift in purchaser expectations. World-class residential developments now need to provide, as standard, hotel-integrated services ranging from 24-hour concierge and security services to spa facilities and the use of a private luxury car or yacht.

Developers are adopting new strategies to enhance their brand image. Many are focussing on three key areas: providing a quality experience, optimising their development's external image (through iconic architecture and design); and ensuring its individuality. Evidence suggests such steps not only increase sales but can also help to build buyers' trust through delivery, on occasions securing repeat sales.

Figure 5

Currency complications

Average Swiss house prices taking into account exchange rates with the euro and sterling



Source: Knight Frank Residential Research, Wüest & Partner AG

Case study: 51º Spa Residences

The Swiss Development Group's 51º Spa Residences will be a newly-constructed residential and hospitality destination in Leukerbad. When complete, it will be the only development to benefit from private in-home access to the thermal waters of the local springs. Design and branding have been key to this development's success. Here Gary Lapera, architect of the scheme, talks indigenous stone, large fireplaces, and celebrating water.

SDG had a very specific vision in mind for 51 degrees – they wanted to create something urban but in keeping with this very unique alpine setting, while at the same time paying attention to global trends with luxury developments and resorts. Leukerbad is an alpine town famous for the Loèche les Bains thermal spring area. The key factor that really differentiates this development from others is that SDG wanted it to really celebrate the water in a way not done, or even imagined, before.

There are standard approaches to building private plunge pools into terraces, but SDG wanted to look beyond straightforward solutions. So we designed the outside thermal baths at 51 degrees as part of the fireplace system. It will be the world's first development featuring indoor and outdoor thermal spas, with water from deep mountain springs tapped directly into individual properties.

What's amazing about the location is that, while the development will sit in this wonderful town, it will also be surrounded by beautiful mountains – something we very much embraced in the design. By using an indigenous local stone we make reference to those mountains, and the thermal pools will be part of the building's masonry structure. It's a modern interpretation of the natural surroundings.

Continuing this contemporary yet traditional style, the various modern components are arranged in a way that celebrates the spirit of the old part of Leukerbad – its wonderful narrow streets, small plazas, and its urban yet intimate scale. At 51 degrees, the private residences represent one plaza while the hotel area represents another, following the tradition of how the town was planned.

The chimneys and timber system are two of the more modern and abstract elements, and the extensive use of glass adds to this contemporary edge, while the traditional notion of having a huge fireplace to anchor the living area is achieved with a striking three-metre-long hearth.

I think what makes 51 degrees stand out from other alpine resort schemes is that it is very rooted in the local culture. I do not know of any other hotel resorts that embrace their location as much as this does.

Gary Lapera, Michael Graves and Associates, New York

Market outlook

The Swiss property market has been in rude health in recent years, comparatively speaking. It rode the economic storm of 2008/09 better than most luxury second-home destinations, its reputation as a safe haven for global investors remains in tact, and the level of luxury product on offer has had a remarkable overhaul.

Added to this, the Swiss National Bank (SNB) gave the country's second-home market a significant boost when it made the shock decision to cap the value of the Swiss franc in early September. The SNB's main goal was to boost exports and tourism, although the country's second-homes industry could end up being as big a beneficiary, especially for vendors and agents operating at the luxury end of the market.

The move has already led to a 10% fall in the franc's value against the euro, but its impact in real terms is far-reaching. A British buyer looking to purchase a property costing CHF 20 million in late 2010 for example would have spent around £12.5 million. Due to the growth in the Swiss franc's value, buying the same property in August, prior to the SNB's actions, would have cost them closer to £17-18 million. The capping of the franc means that same property would now cost just under £14.3 million.

For those potential Swiss purchasers, both UK and eurozone based, who have adopted a 'wait-and-see' approach; this move provides them with the green light they have been waiting for. Vendors, for their part, are relieved they no longer have to radically adjust their asking prices to compensate for the disparity in exchange rates.

Figure 5 shows the performance of average Swiss house prices and the implied cost to euro and sterling purchasers, taking into account exchange rates between 2000 and 2011. It demonstrates the extent to which currency fluctuations have inflated the value of Swiss property, particularly since 2008. With borrowing costs in Switzerland now the lowest of all the developed nations – the three-month Swiss Libor interest rate stands at 0.005% – buyer interest, although unlikely to soar given the wider global economic uncertainty, is expected to strengthen.

So where are the risks? August's announcement that new tax agreements had been reached between the Swiss banks and the UK and German tax authorities raised concerns amongst the HNWI community. But the deal, under which customers either make a declaration to HMRC or pay a withholding tax that takes into account previous unpaid taxes, has proved less probing than initially feared. In most cases, the Swiss banks will retain their banking secrecy and the names of account holders will not be disclosed to the UK tax authorities.

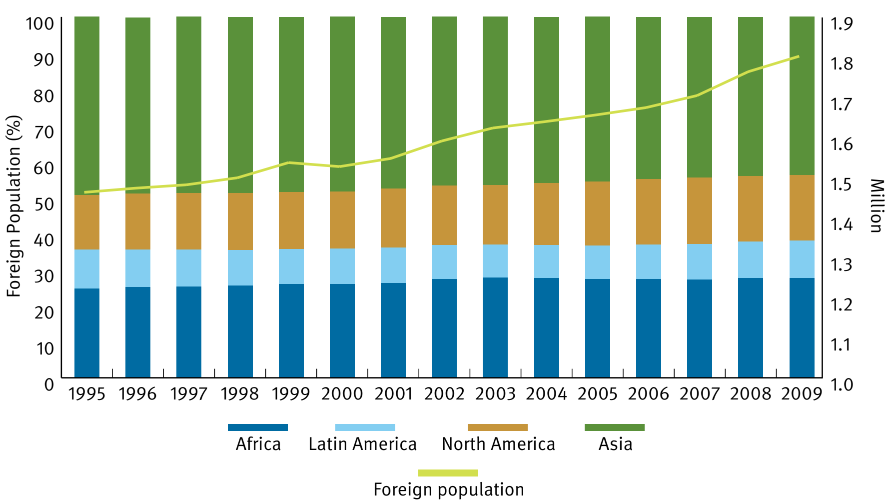
Increasing competition from other low-tax jurisdictions could also be considered another risk factor, although few will gain new business as a direct result of the recent tax agreements – the Swiss banks are duty bound to alert HMRC if customers try to move their funds to other tax havens to avoid the new rules. Admittedly, Singapore, commonly considered Asia's Switzerland, is growing in popularity amongst hedge funds, but as figure 6 suggests, this demographic trend flows both ways. Asian along with Latin American residents have relocated to Switzerland in large numbers over the past decade.

The availability of top-end development sites in Switzerland's most affluent locations, such as Lake Geneva and the Alps, remains severely restricted. Consequently, our view is that developments in the best locations which push the boundaries of exclusivity will continue to command premium prices and become increasingly de-coupled from the mainstream Swiss market in terms of price performance.

Figure 6

Foreign demand

Growth of foreign population in Switzerland and a breakdown of permanent non-european residents



Source: Knight Frank Residential Research

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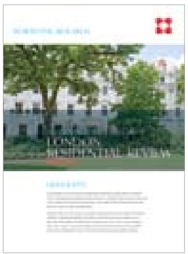
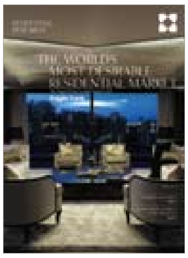


London Residential Review Autumn 2011



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Front cover image: 51° Spa Residences, Leukerbad

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