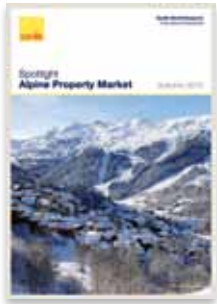


Spotlight **Alpine Property Market**

Autumn 2013





Spotlight Alpine Property Market

Ski chalets are back in fashion, as buyer numbers have risen dramatically in the first half of 2013, especially in the prime markets

Buyers have become more committed to Alpine property purchase in 2013. Transaction numbers doubled in the first half of the year compared to the same period in 2012, with increasing activity at the upper end of the market.

This reflects the 6.3% annual expansion in the global wealthy (UHNW) population in 2013. It is the most expensive and exclusive resorts in each country (including Verbier, Megève and Kitzbühel), which have seen rising asking prices in the last 12 months (see Table 1).

Asking prices have not shown any decline in 2013 following price corrections in the 2011-12 period.

Nevertheless, many prospective buyers continue to expect a discount, particularly in the second-hand market.

Holiday home buying in the Alps peaked in the 2007-08 period with high transaction volumes and robust price appreciation. During the recessionary years, there has been continued interest in Alpine markets, but prospective buyers have been cautious against a backdrop of wider economic and political uncertainties in Europe.

Reasons for purchase deferral or indifference include increasingly punitive government fiscal policies: →



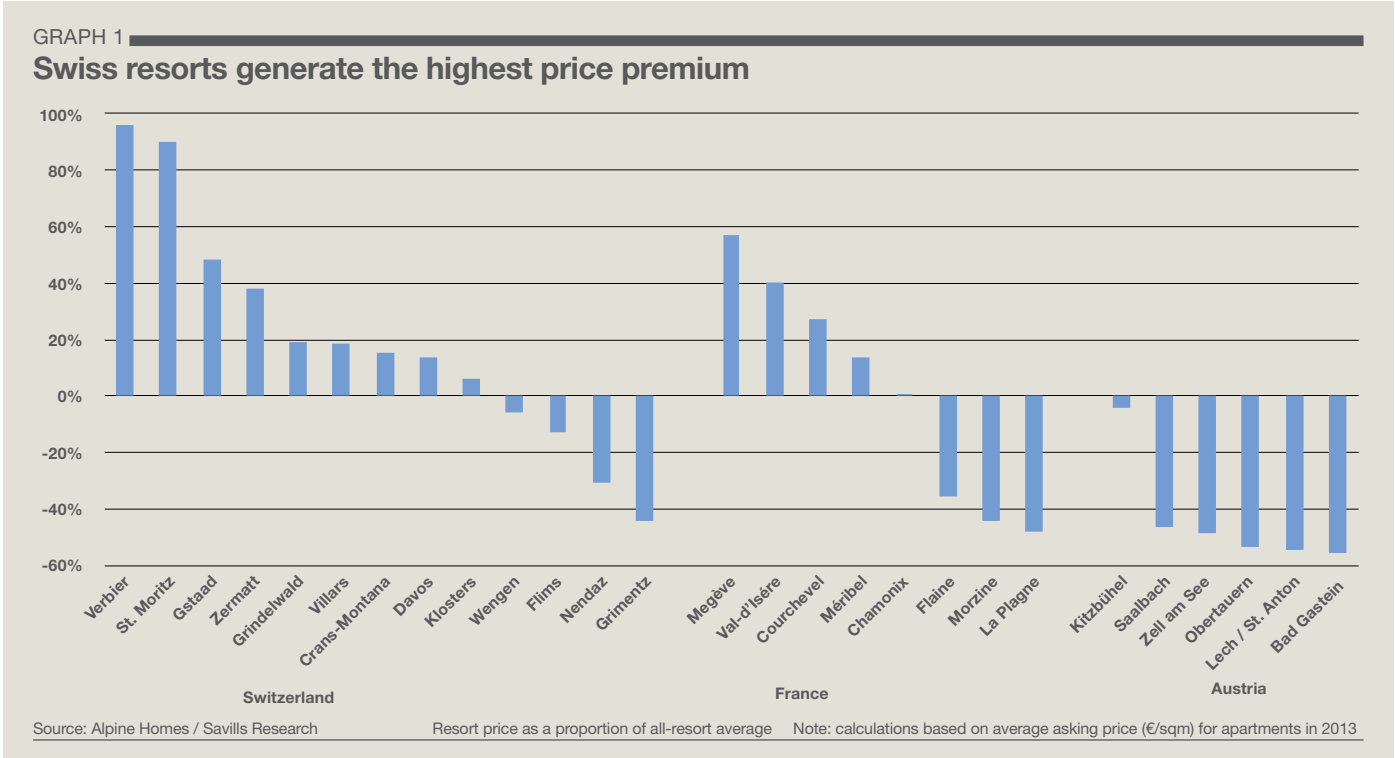
Notes about the publication
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This document was published in October 2013. The data used in the charts and tables is the latest available at the time of going to press. Sources are included for all the charts.

SUMMARY

An overview of the market

- Activity in the Alpine property market doubled during 2013.
- The Alpine property market has become increasingly attractive to the growing number of ultra-high net worth individuals (UHNWs), following the trend to ‘ski and be seen’.
- A quarter of Alpine homebuyers are Europeans living abroad, often in high-growth Asian and Middle Eastern countries.
- Most buyers are purchasing for ‘lifestyle’ reasons and aim to use their property in both winter and summer.
- 80% of prospective buyers say they will let their homes when not using it themselves in order to cover finance and operational costs.
- Overall, Swiss resorts remain the most expensive, and therefore the most exclusive (see Table 1). Supply restrictions will likely lead to price appreciation in the most sought-after of these Swiss locations.
- Current fiscal and economic policy uncertainties mean buyers remain apprehensive about investing in French second homes. However, with historically low lending rates and prices below their peak, there are some good investment opportunities in France, the world’s most visited country.
- Austria’s stable housing market and cheaper property prices (half those in Switzerland) have led to a substantial rise in buyer activity this year.
- Some Austrian provincial law changes have facilitated access to the property market among non-European Union (EU) nationals, including buyers from Russia.



“Currently, 8 out of 10 prospective Alpine home buyers plan to let their property when not using it themselves”

→ for example France’s tax hikes and Italy’s move to tax luxury assets.

Fears of ‘boom and bust’ property markets, like over-built Spanish resorts have also acted as a deterrent. Concerns about the security of overseas investments following the Cypriot bank grab are another. However, this has recently lead to a ‘flight to safety’, with buyers looking to invest in economically-stable locations with trusted regulatory and legal environments.

Most of the purchasers who are currently active in the market are ‘lifestyle’ buyers who will use the property themselves rather than buying solely as an investment. They are also looking to cover their costs through letting their property. Currently, 8 out of 10 prospective Alpine homebuyers aim to let their property when not using it themselves.

23% of Alpine homebuyers are expatriates. They typically comprise US, UK and other European nationals

working in key international financial centres such as London, Singapore, Hong Kong and Geneva. As a proportion of buyers, they increased considerably during the recessionary period between 2008 and 2012.

Some Alpine homeowners also possess holiday homes in summer coastal destinations. However, over 90% of current prospective buyers are entering the overseas property market for the first time. This demonstrates growing confidence in the sector despite events in the recent downturn. Evidently, some have witnessed second-hand the benefits of overseas homeownership. More than half of buyers currently looking to purchase with Alpine Homes say they have friends who own ski properties.

Almost all prospective buyers are keen or regular skiers, who frequently travel to Europe’s Alpine resorts. The UK outbound ski market expanded by 1% to 899,700 ski trips in the 2012-13 season, according to ski operator Crystal. This marked

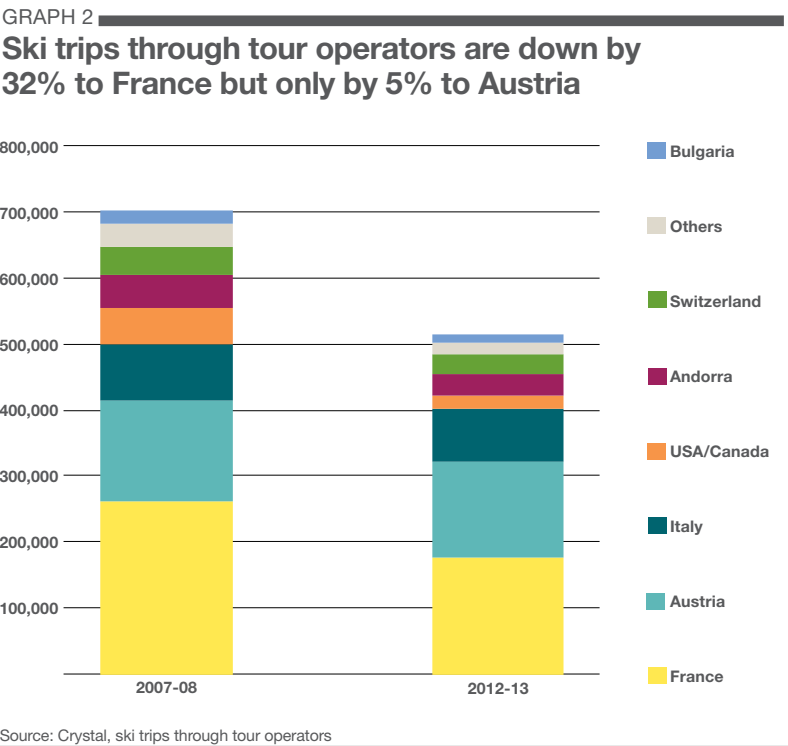
the end of a period of falling trip numbers but still leaves them some 27% below the 2007-08 peak. The same figures indicate that Austria was affected the least by this fall in visitor numbers compared to other European destinations (see Graph 2).

The decline in winter ski trips may be counter-balanced by the summer season holidays. All of the prospective buyers surveyed in this study aim to use their ski property outside the winter season, taking advantage of the year-round mountain sports and leisure pursuits available. Alpine homeowners have therefore contributed to the growth in 2012 international visitor numbers in France (+1.8% to 83 million), Switzerland (+0.4% to 8.6 million) and Austria (+5% to 24.1 million).

Country profiles Switzerland

Appetite for Swiss Alpine properties is now at its highest level during the last three years, with an impressive 57% rise in transactions in the first half of 2013 compared to the same period in 2012.

Across Switzerland, house prices are continuing to record steady growth. To September 2013, house prices were



2.1% above their 2012 values, with growth slightly slower than between 2011 and 2012 at 3.1%. Economic expansion, low interest rates, growth in real wages and immigration (although now restricted from the EU), are factors supporting housing demand. In turn, this has led to a rise in investment activity in the residential sector.

Exchange rate stability is also boosting confidence as the Swiss National Bank reaffirmed its minimum exchange rate of CHF1.2 per euro this summer, to avoid pressure on the already-strong Swiss franc and support the relatively expensive Swiss tourism industry (see Graph 3).

In the first six months of 2013, tourism activity expanded slightly in Switzerland with a 0.5% rise in overnight stays compared to the same period in 2012. Records showed a marked rise in Asian tourists, primarily from China (up by 22%) and those from Gulf countries (+11%).

While the UK remains the chief source of Alpine home demand, there has been a noticeable increase in buyers from other northern European markets, namely the Benelux and Scandinavian countries, although typically with half the budget of UK buyers. Russian buyers comprise a far smaller

proportion of the market, however, they tend to spend the most. In the last 12 months, Russians have spent 1.5 times the average price spent on all Swiss Alpine properties, according to Alpine Homes sales data.

There continues to be strong interest among Asian buyers, primarily from Singapore, who are usually much younger (early 40s) than UK buyers (early 50s) according to our survey. Almost a quarter (24%) of buyers are expatriates living and working away from their country of origin, with a strong proportion taking residency in Switzerland for work purposes. 41% of buyers who have invested in Swiss property in the last three years, have been employed in financial services.

Prospective buyers currently considering a Swiss Alpine purchase say the combination of excellent ski resorts, Switzerland’s fiscal environment and its reputation as a safe investment destination, are all influencing factors.

In the Swiss Alpine market for second homes, particularly for resales, buyers still expect to obtain discounts. The average property price paid in 2013 was higher though – by 5% on last year’s values. This suggests increasing market stability.

TABLE 1

Price movement is generally more stable in resorts at the upper end of the market

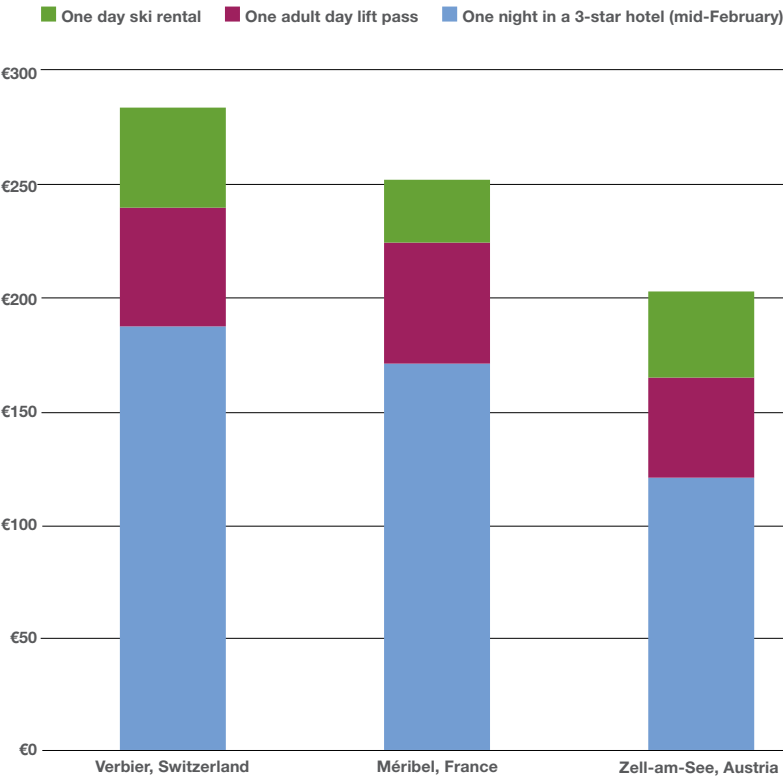
Annual price change, key
↑ More than 5%
→ 5% to -5%
↓ More than -5%

SWITZERLAND*		
Verbier		↑
St Moritz		→
Gstaad		→
Zermatt		↑
Grindelwald		↑
Villars		↑
Crans Montana		→
Klosters		↑
Davos		→
Wengen		↑
Flims		→
Nendaz		→
Grimontz		→
FRANCE		
Megève		↑
Val d'Isère		→
Courchevel		→
Méribel		↑
Chamonix		↑
Flaine		↑
Morzine		→
La Plagne		↑
AUSTRIA		
Kitzbühel		↑
Bad Gastein		↑
Zell am See		→
Lech / St Anton		→
Saialbach		↑
Obertauern		↑

Table source: Alpine Homes and Dataloft
Note: figures based on asking prices for resale properties, includes both apartments and chalets (*apartments only).



GRAPH 3
Switzerland is still the most expensive destination to stay and ski



Source: Savills and Alpine Homes

Supply restrictions

New regulation that will restrict holiday home supply levels in Switzerland, will inevitably fuel price growth in Swiss ski resorts. In March 2012, Swiss voters accepted an initiative known as Lex Weber, to restrict the proportion of holiday homes in Swiss communes to 20% of housing stock, in order to limit the volume of properties that are unoccupied out-of-season. This led to a substantial rise in planning applications by developers seeking to pre-empt the legislation. In May 2013, the Swiss Federal Supreme Court upheld an objection by The Green Party so that the new provisions would also apply to any permits issued since March 2012. According to Credit Suisse calculations, 6,000 units of the 13,000 units applied for between March and December 2012 may not be built, with the canton of Valais, (including ski resorts Zermatt and Verbier) most affected.

Austria

With prospective buyers far more committed to a purchase than a year ago, the Austrian Alpine market has seen transaction levels double in the first half of 2013 compared to the same period the previous year. Rising demand has also encouraged price growth. So far in 2013, the average price per square metre paid for an Austrian property was 10% higher than in 2012, according to Alpine Homes sales data.

In 2012 Austrian house prices rose by 12.4% (Source: OeNB) on 2011 values, continuing the consistent upward trend in annual price growth since 2004. Positive economic factors continue to underpin the housing market, including GDP growth of 0.9% in 2012, according to Statistics Austria. This is above the European Union average of -0.2%. Austria's unemployment rate of 4.8% is the lowest in the EU, and compares to an average of 11% across the 28 countries (July 2013). Furthermore, Austria boasts one of the fastest growing tourism markets in Europe, recording 5% growth in international arrivals in 2012 compared to 3% across the continent (Source: UNWTO).

A survey of recent and prospective buyers shows that Austria is seen as a destination offering excellent value for money (see Graph 4), with property prices on average half those in neighbouring Switzerland.

72% of recent buyers have purchased for both lifestyle and investment reasons, seeking to let their property when not using it themselves. This complements Austria's commitment to supporting its tourism industry and helps to prevent 'ghost towns' in second home areas.

Four out of five buyers currently looking for an Austrian Alpine property consider the rental returns to be 'good'. Supply levels also remain constricted in popular resorts such as St. Anton and Lech, helping to underline price stability.

Approximately a fifth of Austrian Alpine homebuyers are expatriates living and working abroad. While the UK remains a chief source of demand, buyers from other northern European

“So far in 2013, the average price per square metre paid for an Austrian property was 10% higher than in 2012”

countries, such as the Netherlands, Germany and Switzerland, neighbouring Czech Republic and the CIS (Commonwealth of Independent States) are active in the market. On average, Russian and other CIS buyers spend twice the amount of other Europeans (excluding UK) on Austrian ski property.

Given the attractive pricing levels, most prospective buyers are currently looking for chalets rather than apartments, with activity primarily focussed on the upper-end of the market. Most sought-after criteria include traditionally-styled properties with modern features, ski-in, ski-out, unobstructed mountain views, proximity to restaurants and nightlife, and importantly, a quiet setting.

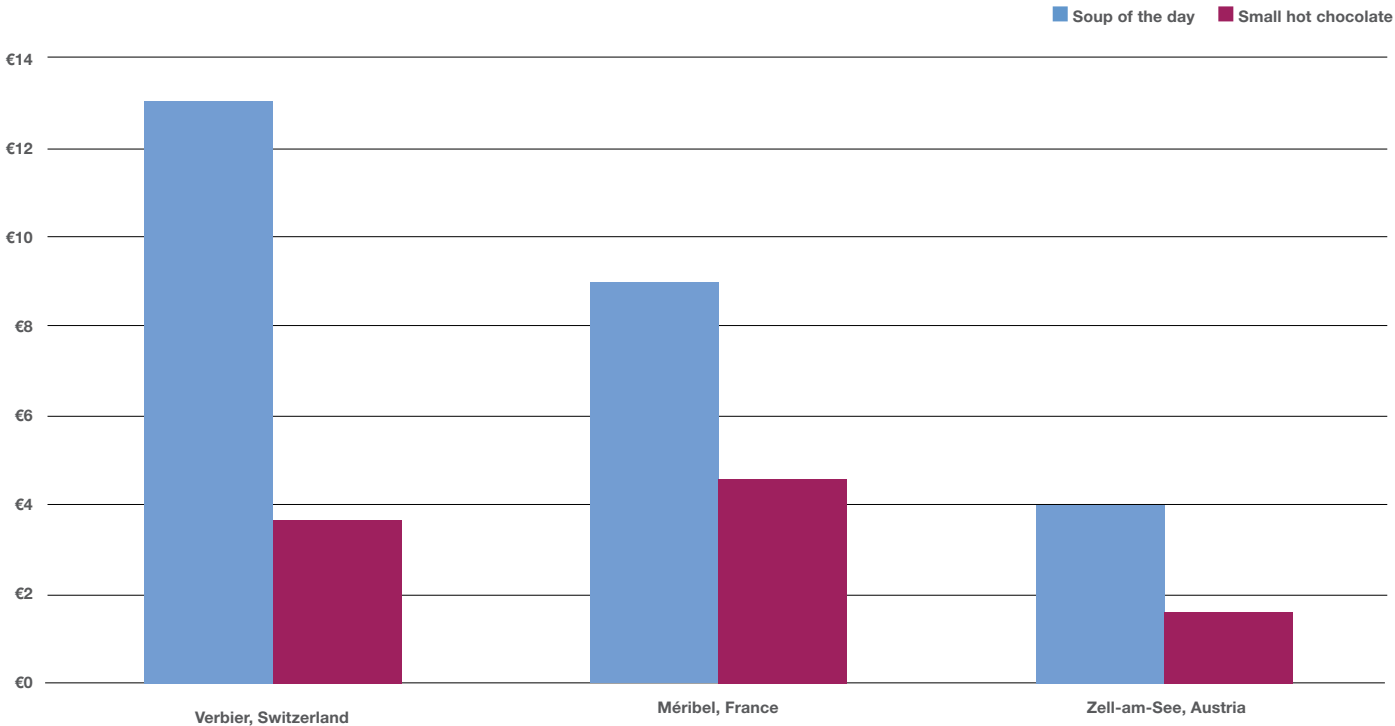
Regulated second home market

Prospective buyers from other European Union (EU) countries have the right to purchase Austrian properties but other foreign nationals are restricted. Regulations on second home buying vary by federal state. For example, authorities in the Tyrol, where resorts such as Kitzbühel are located, ruled in August 2012 that an EU-registered company, regardless of the nationality of the owners, could invest in real estate. This has facilitated Russian property investment for example, in the area via EU-registered companies. This includes the purchase of hotels.





GRAPH 4
Comparative cost of sundries



Source: Savills and Alpine Homes

→ France

Compared to other European housing markets, house prices in France had looked resilient to the global economic downturn according to official figures based on transactions. Following a 10% fall in prices between the end of 2007 and beginning of 2009, growth picked up again and prices peaked nationally in the third quarter (Q3) of 2011. But the market has been weak since, with French house prices now some 4% below peak 2011 values (source: INSEE).

In both the run up to, and since, the May 2012 French presidential election, both buyers and vendors have taken a ‘wait and see’ approach to the housing market. A number of factors have led to a fall in buyer and vendor confidence: planned budget cuts; the negative growth outlook (-0.2% in 2013 GDP according to the IMF); France’s downgraded credit ratings; proposed pension reform; high unemployment (10.5%, Q2 2013, INSEE); a wealth tax that was introduced in 2013 and a plan to tax high earners (€1 million plus) via companies, after the Government’s

initial 75% income tax proposal was blocked.

Between March 2012 and March 2013 national statistics show there was a 19% decline in house sales in France. A July 2013 survey of new home developers also demonstrated that the majority are pessimistic about the demand outlook (source: INSEE).

Despite this, commentators observe that current conditions mean the housing market is now both attractive and accessible. Reduced house prices coupled with historically low lending rates mean there are some exceptional investment opportunities at present. However, while 75% of respondents in a Q2 2013 National Real Estate Federation ‘FNAIM’ survey agree that conditions are

attractive, lack of confidence continues to restrict the market.

In the French Alps, there has been reduced buying activity among both domestic and international buyers. In the Savoy region, home to resorts such as Val-d’Isère, Courchevel, Méribel, La Plagne and Megève, foreign buyers who accounted for a fifth of all purchasers in the peak of the market in 2006-07, shrunk to 13% in 2011-12, according to Notaires France Perval.

In the same timeframe, the UK market, facing less favourable euro exchange rates, reduced its share from two thirds to just one third of all foreign buyers. The Swiss, by contrast, benefiting from a favourable exchange rate, have become a more substantial buying force, responsible →

.....
“On average, Russian and other CIS buyers spend twice the amount of other Europeans (excluding UK) on Austrian Alpine homes”
.....

Capital Gains Tax on second homes

In order to stimulate the second homes market, the French government introduced some new measures in 2013 including a special Capital Gains Tax (CGT) reduction on second homes sold between 1st September 2013 and 31st August 2014. This risks an increase in supply rather than an increase in prices, which may cancel out the advantages. UK owners of holiday homes in France are liable to a flat CGT rate of 19% plus a special social security surcharge of 15.5%, therefore 34.5% in total. A further advantage is that, the minimum holding period for a second home, after which CGT does not apply, will be reduced from 30 to 22 years.



➔ for over a quarter of investments in 2011-12, compared to just 5% five years previously (Source: Notaires France Perval).

In Courchevel, home to the renowned 1850 resort, where some of the highest French Alpine property prices are achieved, prices across the resort are some 20% below peak 2008 values. However, they have remained relatively stable in the last year, providing some opportunities for prospective buyers. It is the

French themselves who dominate the Courchevel market, while wealthy UK and Russian purchasers follow.

In Megève and Val-d'Isère, where there has been sustained price growth over the last five years, asking prices are now bullish with some very high value properties currently available to buy. The highly exclusive nature of Megève and limited supply in both resorts has driven these very high price points for the best properties. ■



Outlook

The future of the market

- Rising transaction levels were a positive sign for the Alpine second home market in 2013.
- Asking prices are either up or stable across all resorts surveyed.
- Lifestyle buyers underpin the market and continued healthy demand can be expected during the next 12 months.
- In addition to other expatriates, the 4.6 million Britons now living and working abroad (Source: NatWest IPB), often in high growth markets in Asia and the Middle East, continue to represent an important source of Alpine home demand. As highly mobile individuals, they consider the global property market for both lifestyle and investment.
- In Switzerland, where values continue to outperform other Alpine markets, the reduced availability of newly developed holiday homes will undoubtedly lead to price appreciation in high-demand ski areas.
- In France, confidence will be key to boosting the housing market where reduced prices and excellent lending rates are already creating investment opportunities. The fundamentals remain in place, which will attract tourists and buyers to the world's most-visited tourist destination.
- Austria's stable and growing housing market, coupled with its comparably lower values, mean appetite for second homes is rising. By opening its doors to other buyer markets, some resorts may become increasingly competitive. Local supply restrictions are likely to keep prices positive over the longer term.

International Residential

Based in Margaret Street in London's West End, the International Residential Department provides an extensive range of property services for international property owners and developers:

- Consultancy
Market research, concept development, urban and resort master planning, financial investment and structuring, programme management coordination, branding, sales and marketing services.
- Agency
Development sales and market services for international developments and resorts. This includes both on-site and off-site sales operations and global sales road-shows. Our Alpine Homes Division is a leading specialist in the sale of ski property in the Alps.
- Network
Individual and multi-unit property sales services through an international network of Savills and associate offices around the world. We also offer a bespoke off-market property sales service.
- Research
Knowledge of both local and international market dynamics, through Savills' global presence and research capabilities. Includes regular reporting on local market conditions and research reports tailored to clients' specific requirements.

About Alpine Homes International

Alpine Homes is Savills exclusive agent for Switzerland and Austria. Operating from its base in Switzerland, Alpine Homes was founded in 2005 to provide specialist sales and marketing services to Swiss developers in the Alps. Specialising in off plan developments, Alpine Homes now also covers an increasing number of resorts in Austria and France.

Working closely with Savills in London, Alpine Homes is able to offer a comprehensive range of client services including research and consultancy, valuations, investment and transactional, as well as sales and marketing.

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