

Spotlight on Geneva residential property market

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Introduction

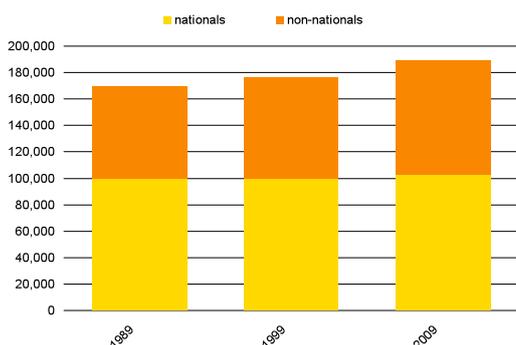
Geneva has long been the favoured choice of wealthy individuals and multinational companies (MNCs) seeking a tax-friendly environment, with stability, security and sound economic performance. It is currently home to the headquarters of around 130 MNCs including Carrefour World Trade, Colgate-Palmolive, Hewlett Packard, Patek Philippe, Procter and Gamble, Reuters and Rolex, to name but a few. Switzerland continues to make itself an increasingly attractive destination for large international companies.

Geneva is Switzerland's second largest city after Zurich. It sits within the wider Geneva canton area and is located in the west of Switzerland, bordering France. It is traversed by the Rhône river and in the north east of the city lies the famous Lake Lemman with

its Jet d'Eau water fountain. Geneva is encompassed by a dramatic backdrop of the Jura mountains to the north, and is within easy distance of prime ski areas. Indeed, each year, more than 1.03 million overseas tourists visit the Geneva area. Geneva has become a highly popular destination for expatriates to live, work and play. Today, more than half its residents are non-Swiss.

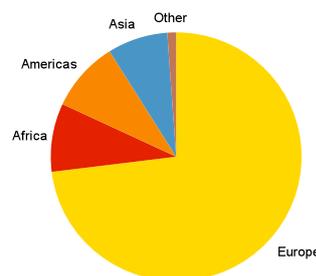
With 189,300 residents (2009), Geneva city comprises approximately 40% of the total cantonal population (457,600). The city has been expanding by 0.6% per annum (compound annual growth rate) for the last two decades, primarily due to the high influx of foreign nationals. Today, the proportion of Geneva's residents that originates from overseas stands at 46%, almost half the city's total population (see Figure 1).

Figure 1. Geneva city population by national / non-nationals 1989, 1999 and 2009



Source: OCSTAT

Figure 2. Geneva canton population of non nationals by origin, 2009



Source: OCSTAT



A number of factors have attracted the high volume of expatriates to live and work in Geneva. With Switzerland's history of neutrality and stability, Geneva is host to 25 international organisations and 150 permanent missions of the United Nations, earning the city its truly international status and attracting a diverse workforce. In addition, as a financial centre, Geneva is ranked 8th in the world after London and New York, Hong Kong, Singapore, Tokyo, Chicago and Zurich respectively, according to research published by City of London. This, coupled with Switzerland's centrally located position in Europe, its accessibility, infrastructure and attractive fiscal environment, explains why an estimated 130 multi-national corporations have chosen to have presence here. In 2009 the Financial Times reported that 8.6% of the world's hedge fund managers were based in Switzerland, many of which operate from Geneva.

The majority (almost three quarters) of non Swiss nationals living in the Geneva area are from other European countries (see Figure 2), primarily, Portugal, France, Italy, Spain, the UK and Germany respectively, followed by the US. Any foreign national nonetheless requires a permit to work and, where applicable, to reside in Geneva.

Work permits fall under a number of different categories. As demonstrated in Figure 3, the vast majority of non-nationals in the canton have either been granted long stay 'B' permits or permanent residency 'C' permits. Those holding either a long stay 'B' or 'C' permit are eligible for housing ownership, and therefore contribute to housing demand.

Residential market

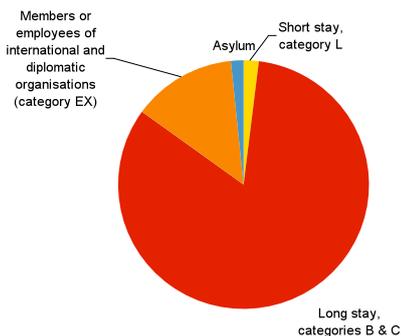
Geneva's housing market is supported by strong demand from non-Swiss nationals coming to live and work in this increasingly important international and financial centre. As the residential sector remains highly protected by strict laws on foreign ownership, the rental market, for both short and long term lets remains highly active.

Analysis of the composition of typical Geneva households and the distribution of wealth within the city reveals how property demand trends are shaped, in respect of property type, tenure and price.

On average, household sizes in Geneva are relatively small: In the city itself there is an average of 1.8 people

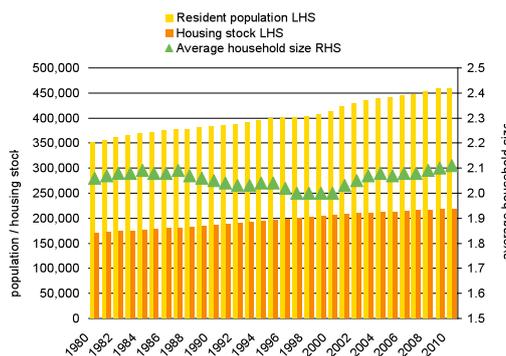


Figure 3. Foreign nationals resident in Geneva canton by permit type



Source: OCSTAT

Figure 4. Housing stock and household size, Geneva canton



Source: OCSTAT



per house, rising to 2.11 in the canton as a whole. This is low compared to the EU-25 average (2.4 in 2005) and reflective of the volume of single-person households in the Geneva area.

Census data shows that in the Geneva canton, 42% of private households comprise single-person households, a further 22% are couples without children, just over a quarter (26%) are couples with children and the rest are single parent households (7%) or other (2%).

The strong proportion of single person households underlines the volume of business executives living in the city. A study conducted by the cantonal statistical office (OCSTAT) of Geneva city residents found that the centrally-located neighbourhoods comprise a substantial share of residents who have high academic attainments and are therefore likely to have a higher disposable income. Areas such as Pâquis-Navigation, la Cluse-Philisophes, Bâtie-Acacias, Florissant, Malagnou and Champel comprise particularly small households and their residents are classified as having high socio-economic status. In addition, a number of these locations house the highest proportion of non-nationals, such as Pâquis-Navigation where almost 58% of its residents are from overseas. Such factors contribute to strong demand for compact, high-specification housing in this area, and rental properties in particular.

Geneva canton's housing stock currently stands at around 218,000 residential units, of which 48% (104,750) are in the city itself.

In the last two decades, Geneva's housing stock has expanded gradually with population growth (see Figure 4). Over this period, the city - which primarily comprises older dwellings - has seen lower levels of new supply delivery compared to other areas of the canton. In the last ten years, housing stock at a cantonal level has risen at approximately 0.6% per annum compared to just 0.2% in Geneva city in the same period.

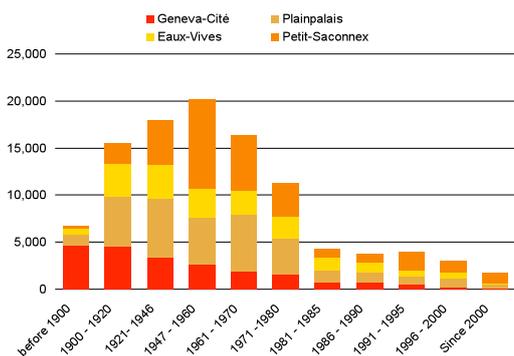
As shown in Figure 5 almost 80% of Geneva city's housing stock was constructed between the turn of the twentieth century and 1980: Just 2% of the current housing stock (fewer than 1,800 units) has been built since 2000.



As the population continues to age and with growth in single-person households expected to exceed those with children in Geneva, the need for compact, manageable properties will continue to rise. In particular, local authorities have identified that the proportion of two bedroom properties should expand over this period, whilst the share of studio properties should diminish.

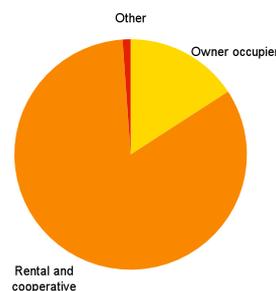
The provision of suitable rental stock is particularly important in the Geneva residential market. According to the 2000 census, the rate of home owner-occupancy in the Geneva canton is just under 16% - significantly lower than the national average of 35%, as demonstrated in Figure 6. Overall this is still far lower than the EU average

Figure 5. Housing stock by location and build period, Geneva city



Source: OCSTAT

Figure 6. Housing tenure, Geneva canton, 2000



Source: OCSTAT



(63% in 2005), underlining the high volume of rental demand in Geneva.

Despite low owner-occupier levels in Switzerland compared to other European countries, the majority (almost three quarters) of Swiss housing stock is privately owned, highlighting the strength of the region's buy to let market.

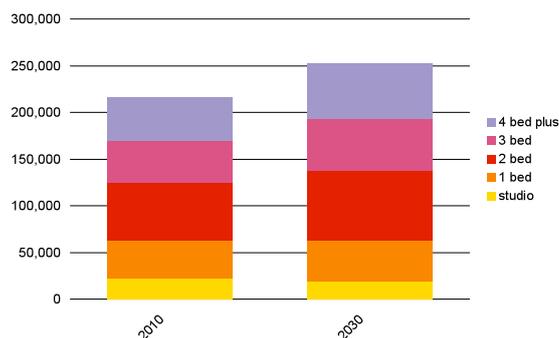
Indeed, with consistently low vacancy rates (0.23% in Geneva in June 2010), Geneva's residential market has long been considered a popular investment option. In the last two decades, annual vacancy rates have not exceeded 1.7%, according to local statistics (OCSTAT). Indeed, the annual vacancy rate has remained below 0.25% since 2001, demonstrating high, sustained demand for rental properties here.

Corporate lettings are also a key driver of Geneva's rental market. For expatriates relocating to the area, short term, compact, one-bedroom, fully-furnished properties are in high demand until a long term let is secured. Typically short periods of up to two months are normally required. Relocation managers for multi-national banks in the city indicate that strongest demand is for centrally-located properties within walking distance of corporations' offices.

According to relocation managers at multi-national companies with presence in Geneva, high property demand coupled with low availability in the city means that some prospective tenants have opted to look outside of the Geneva area, for example in the Vaud canton instead.

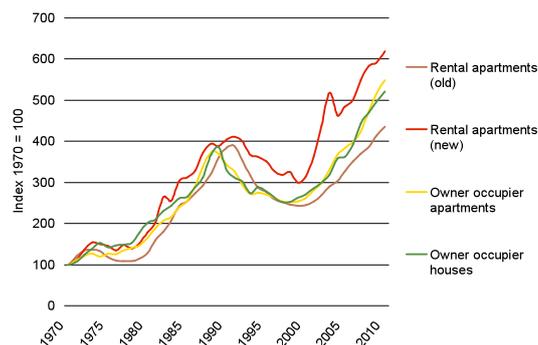


Figure 7. Projected housing need 2010 – 2030, Geneva canton



Source: OCSTAT

Figure 8. Residential asking prices, Lake Geneva area



Source: Wuest & Partner





Moving forward, if inward migration continues to expand at a robust level, it is estimated that housing stock in the canton should grow to reach approximately 253,000 units by 2030, as shown in Figure 7.

According to housing stock statistics, recent new supply levels have already exceeded housing demand forecasts. However, any short term fears of oversupply in the market or reduced demand, resulting from the recent economic crisis and diminished inward immigration, are nonetheless compounded by a number of positive long term housing demand indicators. They include firstly, the historically low vacancy rates, the changing composition of households and a return to robust immigration levels as economic activity is restored.

Residential performance

Over the last decade, with strong demand and limited supply (demonstrated by the very low vacancy rate) there has been sustained, positive price performance (5% per

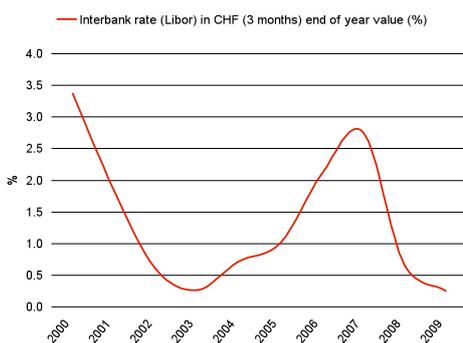
annum between 2006 and 2010) in the new apartment rental market in the Geneva area, as shown in Figure 8.

At a national level however, asking rents stagnated in Q2 2010 according to Wuest & Partner (W&P). One factor behind this is that interest rates (3 month Libor in Swiss francs) to which mortgage rates are typically fixed, have reduced significantly into 2009 (see Figure 9). As such, home buying as opposed to renting has appeared much more affordable.

Indeed, Figure 10 shows that residential investment in Geneva has risen since the beginning of 2009, in particular with growth in apartment transaction levels in Q2 2010.

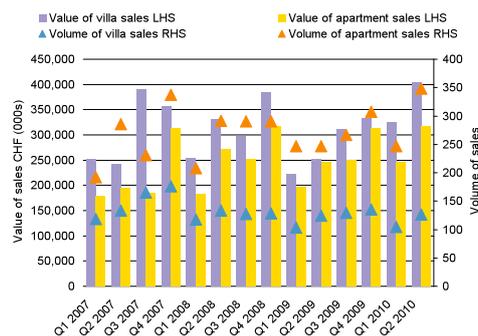
Factors supporting this trend include low interest rates coupled with comparably lower prices – in Q2 2010 the average transacted apartment price of CHF 913,000 was some 8% below the value in the same period the previous year (see Figure 11).

Figure 9. Interest rates in CHF



Source: Banque nationale suisse

Figure 10. Volume and value of residential sales, Geneva canton, 2007 - 2010



Source: OCSTAT



Owing to steady, rather than high residential price growth in recent years, Geneva has not seen the dramatic drop witnessed in other international markets.

The supply shortage of single family homes in the Geneva region has meant that prices are above 2007 levels for this product, despite some price correction in early 2009. In Q2 2010 the average price of a villa in Geneva stood at CHF3.2 million.

Geneva continues to achieve high property values at up to CHF35,750/sqm. Such high prices coupled with stagnating rental values indicate that yields in prime areas have declined slightly. According to W&P, prime yields in the Geneva area shrank between Q2 and Q3 2010 from 3.9% to 3.8% (net).

It is anticipated however that once interest rates begin to show a positive upturn and property purchasing appears less affordable, interest will once again focus on the rental market, putting upward pressure on lettings values in the city.

Summary

Reflecting the wider global economic climate, transacted apartment values in Geneva have witnessed some correction in the last few months. However, low interest rates and moderated prices have simultaneously contributed to a drive in apartment investment.

The shift in focus to buying from renting, has resulted in a plateau in rental values: a trend which is only expected to last until interest rates appreciate again. Historic and continued very low vacancy rates suggest sustained rental demand, which are positive, long term indicators for the buy to let market.

In the single family homes market, low availability and limited development space means that there has been continued price appreciation: factors which are likely to maintain values in the short term.

With restrictions to entry to the Geneva property market, prices have not seen the peaks and troughs, witnessed in other international markets. Geneva's wide-reaching appeal for both corporate entities and high net worth individuals, coupled with its distinctly international outlook, continue to make it a highly desirable address for investors.

Figure 11. Average villa and apartment prices Q2 2007-Q2 2010, Geneva canton



Source: OCSTAT



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A unique combination of sector knowledge and entrepreneurial flair give clients access to real estate expertise of the highest calibre. We are regarded as an innovative-thinking organisation backed up with excellent negotiating skills. Savills chooses to focus on a defined set of clients, therefore offering a premium service to organisations with whom we share a common goal. The Savills name is synonymous with a high quality service offering and a premium brand, takes a long term view on real estate and invests in strategic relationships.

Alpine Homes

Alpine Homes operates as Savills exclusive residential real estate associates in Switzerland. Together, we bring experience, insight and resource to deliver effective real estate consultancy services to our clients. With office locations in London, Geneva and Sion, we are well positioned to combine local expertise with global reach. The Sion brokerage is dedicated to finding the finest residential property in the Swiss and French Alps.

The Geneva brokerage is set in the heart of Geneva on the right banks of the river and assists our international clientele with the sale and acquisition of fine Geneva real estate including luxury homes. In addition, the brokerage specialises in off-plan developments in the cantons of Vaud and Geneva.

Services

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Consultancy

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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 a leading specialist in the sales of ski property for pleasure and profit.

Network

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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.

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