



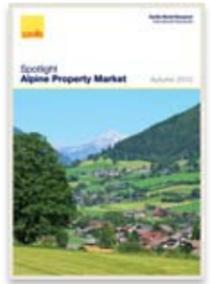
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Savills World Research
International Residential

Spotlight **Alpine Property Market**

Autumn 2012





Spotlight Alpine Property Market

Investment has increased and become more diverse as global wealthy seek real assets in mature and stable markets

While holiday home buying activity has reduced dramatically since the global financial crisis, conversely, the proportion of buyers investing in ski properties has risen. For these buyers, there is a clear opportunity to use their Alpine property themselves and benefit from long-term capital growth, with the potential to generate income while their property is vacant. This income typically serves to partially or wholly offset annual running and finance charges.

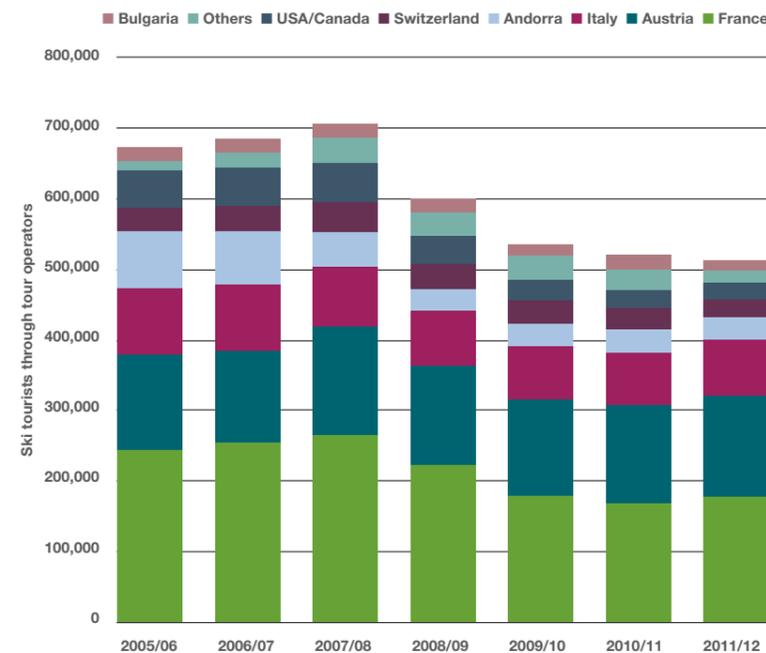
Most of Savills and Alpine Homes' clients are motivated equally by a mix of both lifestyle and investment reasons

(62%), followed by just lifestyle (30%) and investment only (8%).

Transaction numbers are below their 2007 peak, but for those seeking high-specification properties in desirable locations, the market remains competitive. Top-end destinations are most resilient (see Table 1) to the downturn, as they draw on a deeper and more diverse international buyer base and an expanding global HNWI population.

In the prime market segment, buyers seek access to the piste, ski-in, ski-out properties, with mountain views, →

GRAPH 1
France is the favourite destination, followed by Austria



Graph source: Crystal, DataLoft

SUMMARY

An overview of the market

- For wealthy individuals, a portfolio of properties across the globe would not be complete without an Alpine bolthole.
- Lifestyle and personal enjoyment of a property are key reasons for purchase. In Europe's prime winter sports destination, The Alps, there is an abundance of activities throughout the year.
- With a few exceptions, property markets worldwide have been impacted by global economic instability. Lack of finance and confidence has led to house price decline and reduced transaction numbers. The holiday home sector has been particularly affected.
- Prices have softened in some Alpine resorts although generally, there is increasing stability in top end destinations benefiting from strong international identities and limited supply.
- A further challenge to the second home sector is that in order to drive financial stability, governments across Europe are seeking new legislation to holiday home ownership rules. The aim is to prevent overheated housing markets driven by speculation and curb excess construction in certain areas. Also, to build up the public purse and help to reduce national deficits.
- Against these challenges, property investment continues to be seen as a means of hedging against risk and currency fluctuation, with the added potential to generate rental income.
- Traditional buyer markets, like the UK, Scandinavia, Benelux countries and Germany, are increasingly supplemented with those from further afield, such as Russia, eastern European countries and Asia.
- Buyers continue to seek out the quality resorts, with access to the piste and proximity to a transport hub (airport / train station) being paramount.
- Key property attractions remain ski-in, ski-out, central location and mountain views. At the top end of the market, properties with home spas, cinemas and the latest in electronic gadgetry are essential.

Notes about the publication

This research has been sponsored by Alpine Homes International.

This document was published in October 2012. 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.

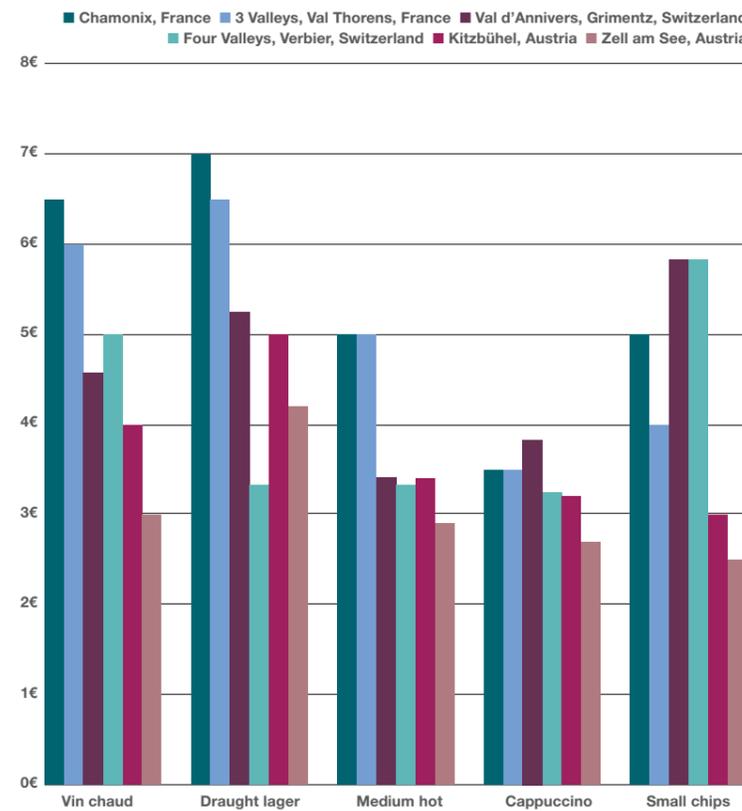
TABLE 1
Price movement is generally more stable in resorts at the upper end of the market

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

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

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

GRAPH 2
Austria is considered a more price accessible destination



Graph source: Savills & Alpine Homes

“While holiday home buying activity has reduced dramatically since the global financial crisis, conversely, the proportion of buyers investing in ski properties has risen”

→ and in easy proximity of an airport or altport. Sought after property features include in-home spa facilities and swimming pools, cinema and media rooms, temperature controlled wine cellars, lifts, balconies, terraces, underground garages and staff accommodation.

Global overview

Economic growth has been weak in both emerging and advanced economies and there continues to be a number of risks to financial stability impacting residential property markets. Eyes are turned to European leaders to address the Euro crisis which threatens

southern countries on the continent in particular.

Peripheral economies remain at risk, as funding and budgetary pressures deepen. Concerns about the stability of banks and the assets behind their balance sheets mean that there has been a flight of money out of the most vulnerable countries, as both investors and wealthy individuals seek to avert risk through safer investments in more mature and stable economies.

Globally, the number of High Net Worth Individuals (HNWIs) expanded by just 0.8% in 2011 according to Cap Gemini and RBC Wealth Management, to



11 million people, and their total wealth contracted by 1.7% to US\$42 trillion.

However, at the very top end, research by Forbes shows the population of super wealthy has expanded in 2012, with a record number of billionaires globally at 1,226, with an average of US\$3.7 billion each.

These individuals drive demand for the most sought-after properties around the globe and remain active in Alpine hotspots.

There is continued growth in the international travel and tourism industry, which is closely related to the holiday home sector, as property hotspots tend to mirror the most desirable locations.

Tourist numbers rose by 4.6% in 2011 compared to 2010, reaching a record 983 million international arrivals globally. Europe receives more than half of all worldwide tourists and is the fastest growing destination, a positive indicator for homeowners letting their property. The number of winter sports tourists

peaked in the winter of 2007-2008 at more than 1.2 million according to ski operator, Crystal. The volume has since contracted overall by 27% to 894,700 in 2011-2012. However, the pace of decline in 2011-2012 slowed to just 1.8%.

France is the favourite destination, hosting approximately 35% of all tourists travelling with tour operators (see Graph 1). It is closely followed by Austria (28%), often considered the more price accessible destination (see Graph 2), which has steadily expanded its market share from 19% in 2006-2007.

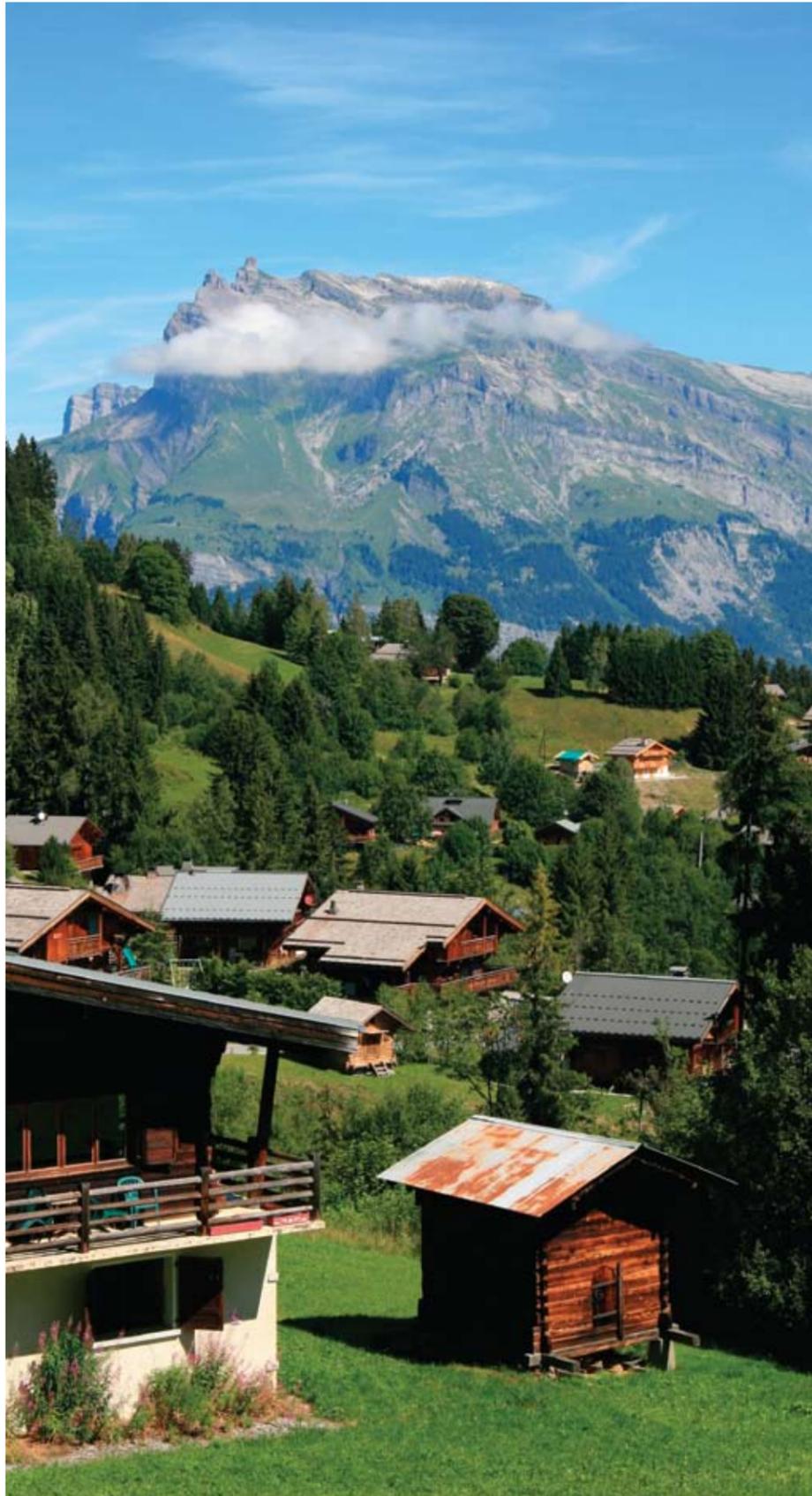
Last season's snow conditions were also to its advantage. In contrast, the strength of the Swiss franc has deterred some visitors and in the last

ski season (2011-2012), Switzerland took a 4.9% share of tourists, compared to 6% the previous season (2010-2011).

Reflecting the profile of its buyers and the strong franc, property prices in Switzerland are considerably higher than elsewhere in The Alps. On average, Swiss apartment prices are some 30% higher than in France and more than double those in Austria (see Graph 3).

The winter sports season is only a part of the Alpine market story. Ski resorts have increasingly sought to attract visitors throughout the rest of the year, by offering sports, leisure and cultural programmes in both summer and shoulder season months. Holiday homeowners are therefore able to

“Top end destinations are more resilient to the downturn, as they draw on a more diverse buyer base”



→ benefit from longer letting periods throughout the year.

A resort's property prices reflect the spending power of its visitors, its popularity and international image, with a correlation between the most expensive ski passes and the most expensive properties (see Table 2).

Country profiles France

House prices in France have doubled over the 2000 to 2010 period, despite dipping in the end of 2008 and beginning of 2009, according to the French statistical agency INSEE. Price growth continued upwards until Q4 2011, when values in the second hand market contracted by 1.2% compared to the previous quarter.

A further quarter of 1.1% decline was recorded in Q1 2012. The change of government, coupled with concern over price falls and the wider economy, has led both buyers and sellers to adopt a 'wait and see' approach to the property market.

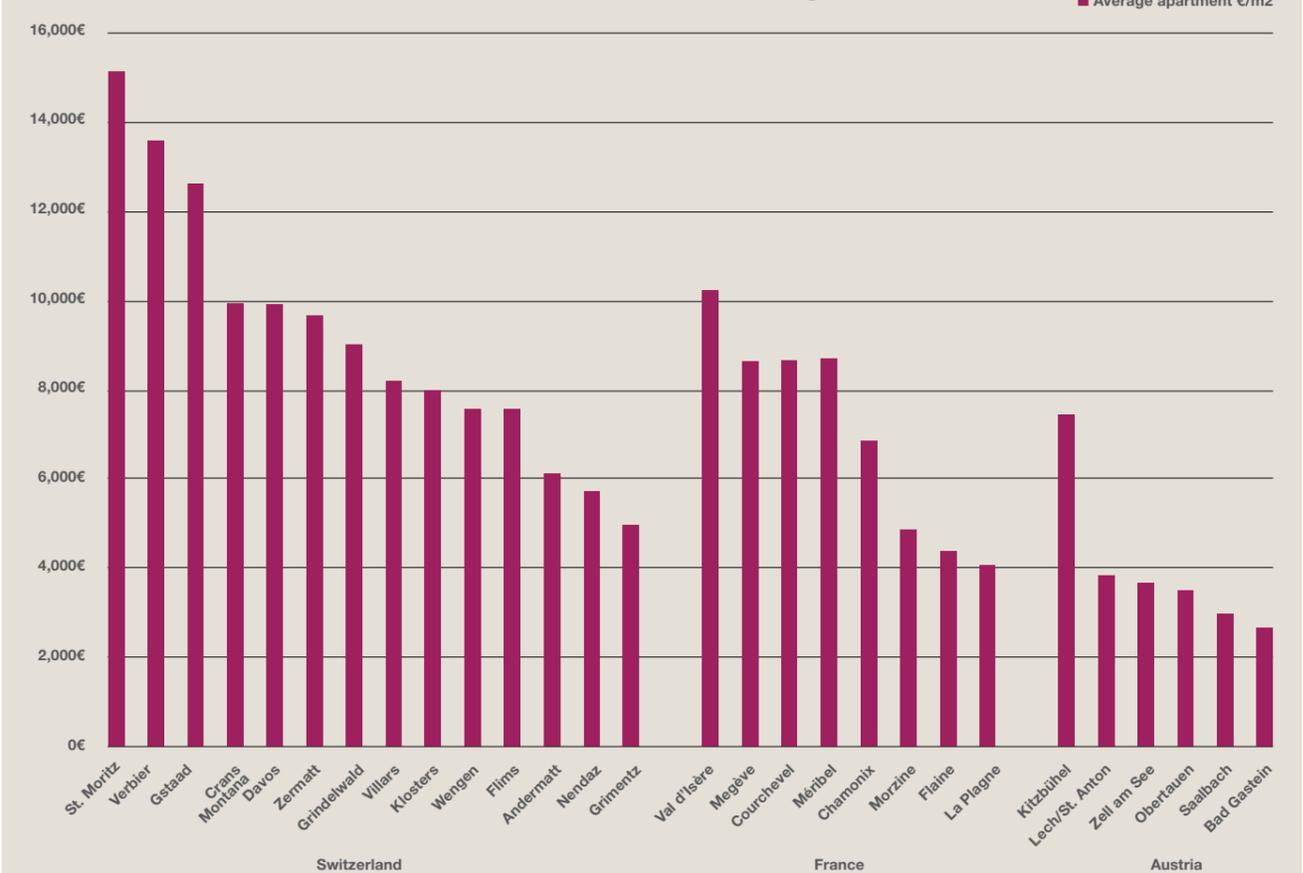
The newly elected French government brings proposed changes to taxes on foreign owners of French properties, including a 'social tax', a rise in tax on income from letting a property from 20% to 35.5%, an increase in Capital Gains Tax (CGT) on sales proceeds from 19% to 34.5%, and a possible wealth tax.

Concerns over these issues currently overshadow the market and further clarity is required before the full implications from the proposed legislation can be gauged for overseas homeowners.

France has long attracted UK buyers and since the downturn, has topped Spain as the favourite destination to invest. However, in the last three years, buyer numbers have considerably diminished. A BNP Paribas report recently reported a 7% overall drop in overseas buyers in France during 2011 compared to 2010, particularly in rural locations. Conversely, the average price paid for a property by a foreign national has increased by 12% over the same period.

This demonstrates that although transaction numbers are significantly reduced, for the right property in the right location, there is still buyer

GRAPH 3
Swiss resorts continue to lead the market in terms of average values



Graph source: Dataloft and Savills & Alpine Homes Note: figures based on asking prices of resale apartments

appetite. Interestingly, the Rhône-Alpes region, home to Mont Blanc and resorts such as Courchevel, has noted the highest growth in actual transacted values paid by overseas buyers in contrast to all other regions, up 27% compared to the previous year, to an average value of €303,000.

Courchevel, Val d'Isère and Megève command the highest average prices respectively in the French ski resorts (see Graph 4), with asking prices for chalets on average more than €10,000/m². They tend to benefit from a diverse buyer base, attracting a mix of international buyers from across Europe, including Russia, as well as generating strong domestic demand.

Austria

Since 2005, Austria has seen either static or steady positive year-on-year house price performance, according to the Austrian National Bank (ONB).

“International tourists to Austria visit more during the summer months of May to October than the winter months of November to April”

2011 saw prices rise 3.1% nationally (excluding the capital Vienna, where increases are more bullish) compared to the previous year. In Q1 2012, values had risen 11% above the level recorded a year before.

Access to the property market has historically been restrictive; buyers from European Union countries have only been able to invest since 2001 and legislation varies between each federal state. Recent property law reforms, relating to Capital Gains Tax (CGT) have been imposed to prevent investors benefiting from rapid, short-term house price appreciation, which can lead to over-inflated housing sectors.

Austria recorded strong economic growth (2.7%) in 2011 and at 4.2%, the unemployment rate was the lowest in the Euro area. Austria is also synonymous with a high quality way of life: A 2012 Economist Intelligence Unit (EIU) study ranks Vienna as the world's second most 'liveable' city. Austrian ski resorts also tend to be considered more family friendly compared to other areas of The Alps.

The resorts Kitzbühel and St. Anton in the Tirol region can trace their history as winter resorts to the late 19th century, although it was not until the 1950s/60s when visitor numbers really expanded and ski schools, races and →



→ world events such as the Olympics drew attention to it. Today, the Tirol Tourist Board reports that there has been continued growth in arrivals since 1997 and demand is strongest for accommodation at the top end of the market.

With the exception of Kitzbühel, where property prices at over €7,500/m² on average are more than 80% higher than other resorts (see Graph 5), prices are generally much more affordable in Austria compared to other Alpine destinations such as France and Switzerland. Similarly, price movement does not follow a boom and bust pattern. In general, demand is concentrated on easy to manage apartments.

Latest figures show that Zell am See, typically more expensive than other resorts such as Bad Gastein, Obertauern and Saalbach, saw

“Switzerland attracts a global High Net Worth Individual audience, both as investors in residential property and also those who have permits to live and work in the country”

a record number of visitors in the November 2010 to October 2011 period, with 465,000 tourists to the region.

In particular, marketing to tourists from the Middle East has helped drive visitor numbers to the resort in recent years. 2012 is expected to have experienced another successful summer, after holding sports events such as the Iron Man competition and an International Porsche Day, as well as the traditional Lake Zell Festival.

Property buyers here are predominantly from the UK, Germany and The Netherlands. However, in recent years, there has been a rise in the volume of investors from neighbouring eastern European countries, namely the Czech Republic, as well as an increase in domestic demand.

Switzerland
The Swiss property market attracts not only buyers seeking to enjoy the lifestyle benefits of The Swiss Alps.

TABLE 2
Correlation between cost of accessing the piste and average property prices

	Adult day ski pass (€)
4 Valleys, Verbier, Switzerland	57.00
Chamonix, France	54.00
3 Valleys, Val Thorens, France (includes Courchevel, Méribel)	49.00
Kitzbühel, Austria	48.00
Zell am See, Austria	44.50
Val d'Anniviers, Grimentz, Switzerland	42.00

Table source: Savills & Alpine Homes Note: figures rounded

Other factors, including its attractive fiscal environment, historic political and economic stability are important fundamentals driving the market.

As such, Switzerland attracts a global High Net Worth Individual (HNWI) audience, both as investors in property and also those who have permits to live and work in the country. In the current global economic climate of insecurity, Switzerland offers a flight to safety. The eurozone crisis has prompted many holders of euro-denominated bank accounts to instead invest in Swiss property as a currency hedge.

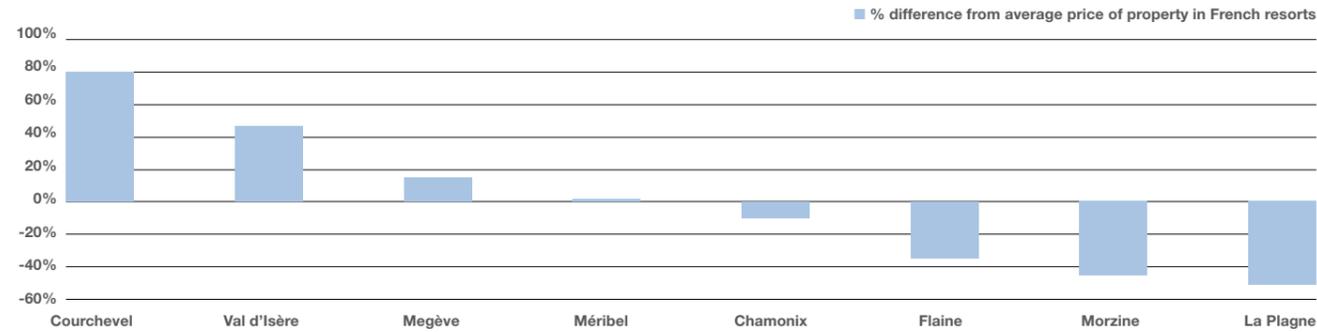
Historically, the market has been dominated by UK and other northern European buyers (Germany, Netherlands, and Scandinavia). However, over the last two years there has been a rising number of other international buyers in the market, according to Alpine Homes transaction data.

In particular, there has been growth in Asian investment in Swiss property reflecting the rising wealth in the Asia-Pacific region, where there are now more HNWIs than in North America.

Developers of Swiss property have sought to target this increasingly affluent market which is attracted to the historic steady capital appreciation of Swiss property as well as the income potential from lettings.

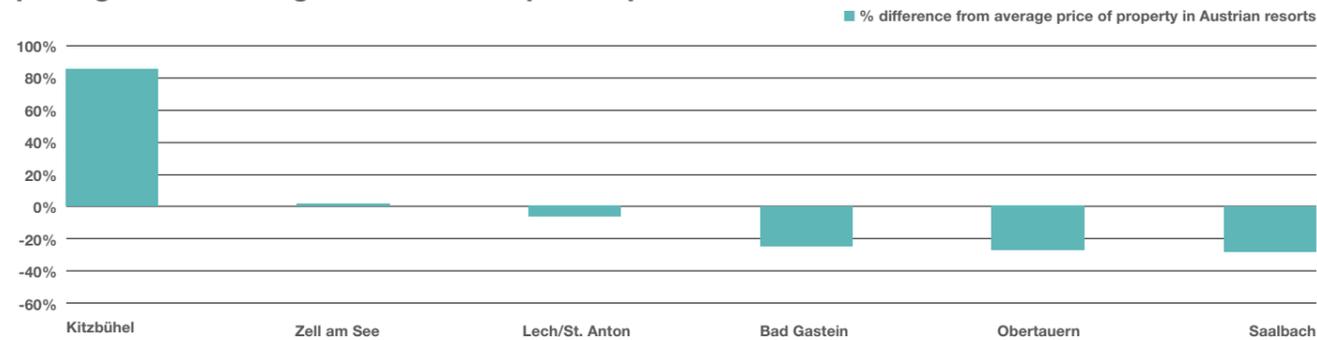


GRAPH 4 Residential property prices in Courchevel are 80% higher than average French ski resort prices, primarily driven by the high value chalets



Graph source: Dataloft Note: figures based on 2012 asking prices, includes both apartments and chalets

GRAPH 5 Property prices in Kitzbühel are more than 80% above average asking prices in Austrian resorts, putting it into the league of other European top end resorts



Graph source: Dataloft Note: figures based on asking prices, includes both apartments and chalets

Price stability is a consequence of limited supply in Switzerland, with varying restrictions imposed on both ownership and development levels, depending on the location of the property. In spring 2012, the Swiss population voted (50.6% majority) in favour of limiting second home ownership development in Switzerland to just 20% of housing stock in residential areas.

This has sparked controversy given the importance of the construction sector to the economy (5.7% of GDP). Residents in many ski resorts such as Davos, Klosters and St. Moritz, did not back the proposal. Government is now charged with preparing legislation. It is likely that definitions of second homes, questions over properties in the construction pipeline, and how new legislation will fit alongside existing restrictions in selected cantons, will be part of the process.

2012 has already seen a reduction in construction permits, with 11% fewer permissions to construct apartments recorded in Q1 2012, compared to the same quarter the year before.

It is likely any proposed limits to supply would mean upward pressure on prices of existing second home properties. Currently, property agents in Swiss resorts report that there is insufficient stock on the market relative to interested buyers.

From a finance perspective, mortgage rates presently offered in Switzerland are highly attractive to residential property buyers. However, the Swiss National Bank is supporting increasingly stricter capital requirements for mortgages in order to prevent a build-up of imbalances and over-heating the market. Ultimately, it is their aim is to maintain financial stability. ■

Outlook

The future of the market

- Sources of demand for Alpine property are becoming more diverse, with increasing interest from eastern European and Asian markets.
- Despite the strength of the Swiss franc, there is a strong appetite for Swiss property which is seen as a means of hedging against instability in the current economic climate.
- Future restrictions on the new supply of second homes in Switzerland is likely to cause upward pressure on the prices of secondary residences.
- Austrian resorts continue to offer value for money to both tourists and prospective property buyers.
- Questions over fiscal tightening in France mean buyers are taking a 'wait and see' attitude to the property market.

International Residential

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

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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