

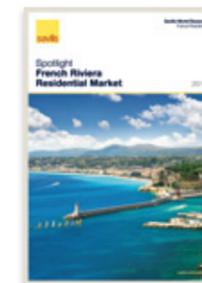


# Spotlight French Riviera Residential Market

2015



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The French Riviera is long established for residential investment and second home ownership for the world's wealthy.

**W**hile the focus of real estate commentary has been on cities and the trend of world urbanisation cited at every turn, the role of the retreat has been overlooked. For centuries, the wealthy of the world have made their money in cities but spent it in the countryside or the seaside. The French Riviera is the epitome of this trend and has attracted the rich and famous of Europe and the western world for nearly two centuries.

Now that core city markets around the world have reached a high plateau of prices and activity, wealthy homebuyers who already have the trophy city properties around the world are looking further afield for either investment returns or additional homes, sometimes both.

This means it is the turn of the retreats and resorts to perform, both primarily and as locations of choice for those with the means to afford them. While there are huge long-term opportunities for new resorts to develop, particularly to serve the growing, ageing and affluent middle classes of Asia, it is the established, diverse and 'real' places that we think will be earliest to recover.

The exceptional attractions of Monaco have already shown how the best retreats, resorts and 'alternative cities' can behave when they become a focus for ultra-prime buying activity. The French Riviera is 'next in line' for this attention along with other select Mediterranean and Caribbean enclaves. Linked to the French economy and property markets, it is nevertheless out-performing and set to do so in the future. This report will tell you why. ■



▲ Cannes attracts the rich and famous during the Film Festival

## EXECUTIVE SUMMARY



The French Riviera is among the world's most exclusive and desirable destinations for second home ownership  
See page 4



Globally mobile, ultra-high-net-worth individuals (UHNWIs) are the driving force for the top tiers of the Riviera property markets  
See page 5



Suppressed prices, a weak euro and recent changes to taxation policy have made property in the region more appealing to foreign purchasers  
See page 6



The Riviera remains a 'safe haven' option for the storage and enjoyment of wealth  
See page 9



Prime property of the region's cities are growing in appeal to those seeking an investment opportunity  
See page 10

### Notes about the publication

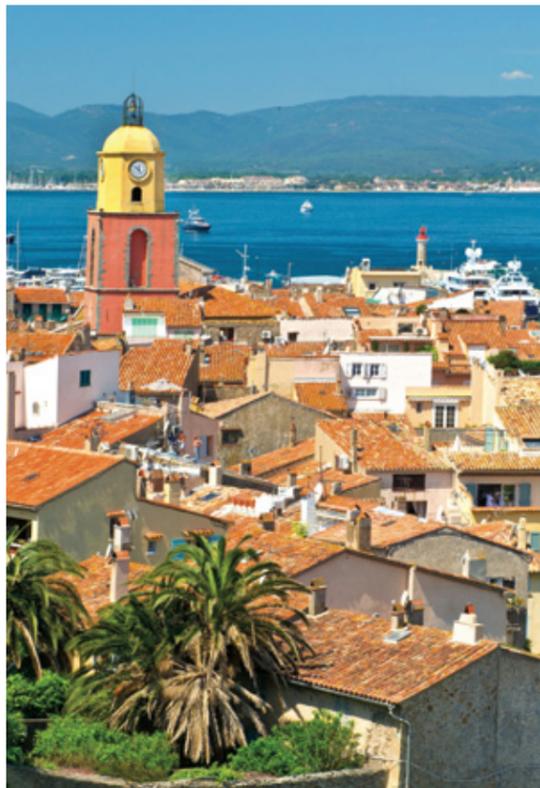
This document was published in July 2015. The data used in the charts and tables is the latest available at the time of going to press. Sources are included for all the charts.

## FRENCH RIVIERA AT A GLANCE

The French Riviera, or 'Côte d'Azur', is one of the world's most exclusive destinations for second home ownership. The stretch of coast including the towns of St Tropez, Cannes, Antibes and Nice was one of the first modern resorts, tracing its origins as a winter retreat for the British and European upper classes at the end of the 18th century.

Today, the Riviera is a popular additional home location for the global super-rich. The region offers many of the most desirable characteristics of an established resort, such as marinas and coastal property, but also has many city living benefits with high end retail, restaurants and a full social calendar.

"The region offers many of the benefits of city living, including a full social calendar"



▲ St Tropez has seen strong buyer interest in the last year

FIGURE 1  
Riviera fact file

Royal retreat	One of the first modern resort areas, it became popular in the 18th and 19th centuries as a winter retreat for European royalty.
Celebrity hotspot	The region was revitalised in the 1950s and has been popularised by global celebrities over the years, starting with the likes of Brigitte Bardot, Sophia Loren and a series of films including <i>The Last Time I Saw Paris</i> and <i>To Catch a Thief</i> .
Globally connected	Nice Côte d'Azur Airport serves the region and is Europe's third busiest airport for private jet traffic.
Super yacht destination	Each year the Riviera hosts 50% of the world's super yacht fleet, while 90% of all global super yachts are believed to visit the region at least once.
Arts and media	Founded in 1946, the annual Cannes Film Festival is held at the Palais des Festivals et des Congrès. One of the top film festivals, it reinforces the region as a destination for the world's wealthy and famous.
Science and technology	Sophia Antipolis, north of Antibes, is an internationally renowned technology and science park linked to the University of Nice.
Cultural heritage	The region has played host to many great artists including Chagall, Matisse, Monet, Picasso and Renoir.

Source: Savills World Research

### Economy

France is the world's sixth largest economy, and accounts for one fifth of Europe's combined GDP. The country has a modern, service-based economy (contributing to 70% of GDP) and employees are highly educated (France boasts the highest number of science graduates per thousand workers in Europe). The country benefits from a strong industrial sector, making it the second largest exporter of goods within the EU. France's export-orientated economy helped it ride out the early stages of the global financial crisis (GFC).

When the GFC hit France the economy contracted by 2.9% in 2009 and recovery has been sluggish compared to its European counterparts since. Unemployment remains high at 10.4% (youth unemployment stands at 24%). 2015 is forecast to see a return to modest economic national growth (1.2%, followed by 1.7% in 2016), while certain regions, such as Provence-Alpes-Côte d'Azur (in which the French Riviera is located), have consistently outperformed the national average (Figure 2).

Tourism is the largest industry in the French Riviera. Attracting over 11 million tourists annually, it is the second most popular tourist destination in France after Paris, and accounts for approximately 1% of the tourism market worldwide. Nice Côte d'Azur Airport is the second busiest in France and over 850,000 cruise passengers also visited the French Riviera in 2013.

According to Côte d'Azur Observatoire Tourism, the region is home to eight convention centres (providing 114 meeting rooms), 38 Michelin-starred restaurants, 17 golf courses, 15 casinos, 200 beaches with concession agreements, and 28 spas. The area's tourist industry enjoys an exceptionally diverse demand base; 48% of tourists are foreign, 36% of whom are from outside Europe (Figure 3). This wide spectrum of demand makes the industry resilient and, in turn, provides a broad base of prospective additional home purchasers.

Beyond tourism, the R&D & technology industries are the largest contributors to the French Riviera's economy.

Located in the Valbonne area, Sophia Antipolis is the largest science and technology park in Europe and home to 4,500 researchers, 5,500 students and 1,335 companies with an excess of 31,500 employees.

### The playground of the global wealthy

Globally mobile UHNWIs are the driving force for the top tiers of the Riviera property markets. According to Wealth X, these individuals number 211,000 globally, accounting for just 0.004% of global population, but holding 13% of global wealth and owning around 3% of the world's real estate. Some 5% of all the second residences owned by UHNWIs worldwide are located in France.

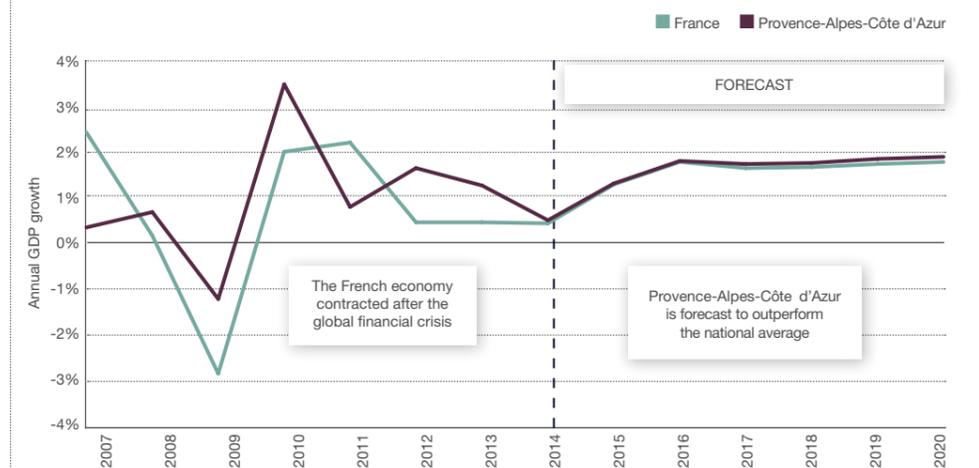
Our research has shown that the residential holdings of UHNWIs are concentrated in top-tier world cities, but are frequently paired with properties in 'retreat' locations. The French Riviera is one of the most important global retreats. With high profile events such as the Cannes Film Festival, and the Monaco Grand Prix, the Riviera provides an appealing social calendar to UHNWIs.

Analysis of Savills and Wealth X data suggests that UHNWIs holding a Riviera property most frequently hold their city base in London, followed by Paris and Moscow (Figure 4). It is no surprise that Nice airport is a top three global hub for private jet traffic.

The French Riviera is a place for global UHNWIs to mix, socialise and conduct business. It offers vibrant cities for shopping and nightlife, the coast for year-round sports, quality beaches, along with history and heritage. The diversity of its offer is something which emerging or purpose built resorts cannot emulate. This puts the French Riviera in a particularly strong position with younger wealthy individuals who seek authentic experiences and wish to maximise their leisure time.

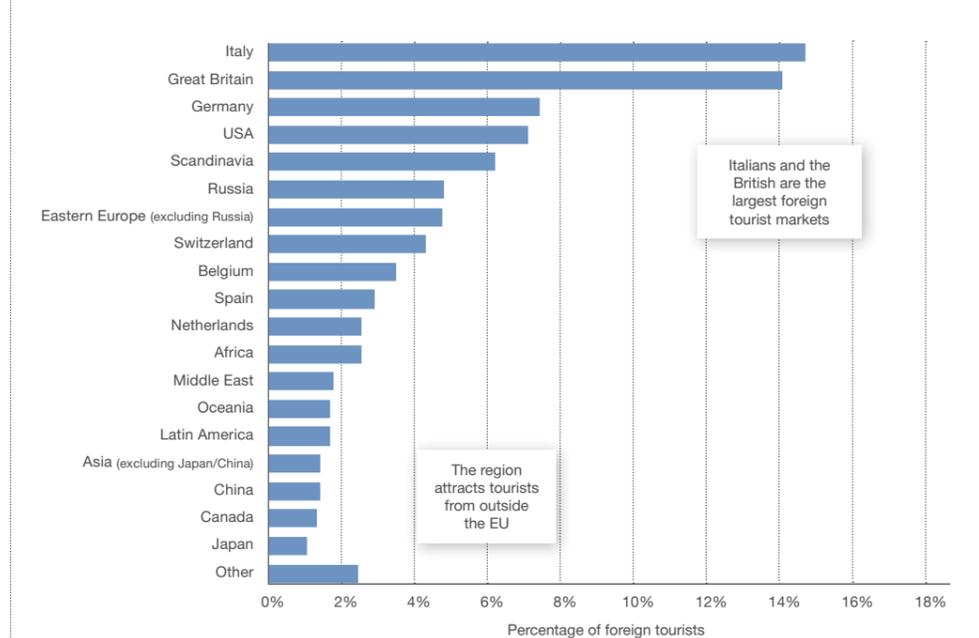
The lifestyle offer is appealing to families too. The region's international schools, favourable climate, safe environment and frequent flight connections to cities such as London, Frankfurt, Moscow and Dubai means there is a steady demand from wealthy families too. ➔

FIGURE 2  
GDP growth: Provence-Alpes-Côte d'Azur has outperformed



Source: Oxford Economics

FIGURE 3  
Foreign tourists in the French Riviera: Diverse demand base



Source: Côte d'Azur Observatoire Tourism

FIGURE 4  
Top city: French Riviera pairings among UHNWI



Source: Savills World Research/Wealth X



▲ Nice's residential market is diverse

### Taxation in a global context

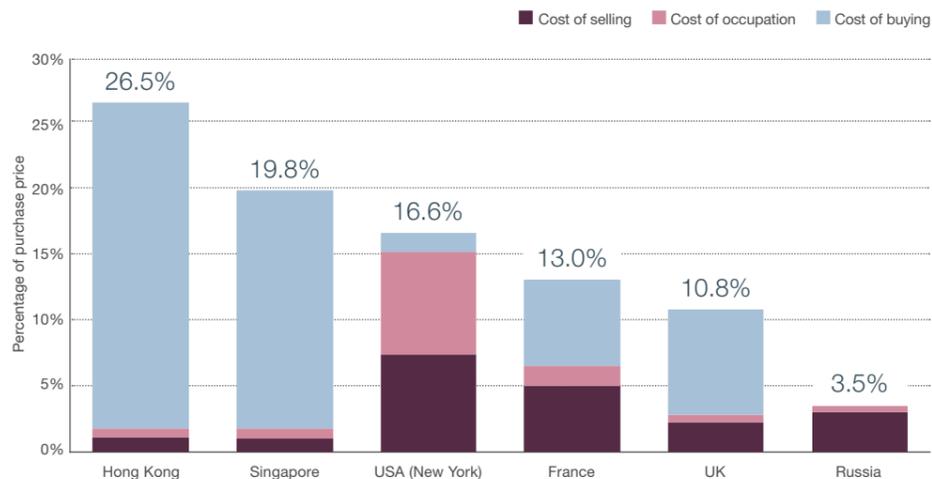
The perception of France as a high-tax jurisdiction is, to some extent, unjust in the case of non-domestic residents. France's much quoted 75% income tax rate is not payable by those whose source of income is from another country. Capital gains tax has recently been reduced for non-residents following an EU court ruling which removed the 'social charge' element, bringing the charge down from 34.5% to 19%.

Figure 5 puts the cost of buying, selling and occupying a property in France as a non-resident into a global context. The scenario assumes a £2m property held by a non-resident private individual for five years, not as main residence.

As the comparison demonstrates, when it comes to the combined costs of buying, holding, and selling property (under this scenario), France sits mid table against some of its global competitors. Both Hong Kong and Singapore levy foreign nationals with an additional 15% duty on the purchase price.

In the US, Federal, State and municipal property taxes make holding costs especially high. In New York, for example, approximately 1.6% of the property value is due annually, although this varies notably from building to building and changes over time.

FIGURE 5 Cost of buying, selling and occupying (5 years)



Source: Savills World Research Note: Estimated costs assume a non-resident private individual owning the property for 5 years not as main residence

FIGURE 6 The prime markets of the French Riviera

The French Riviera stretches from St Tropez in the southwest to the border with Italy in the northeast. Nice is the region's largest town, followed by Cannes. The most desirable locations front the Mediterranean sea and are set within their own peninsula (or 'cap'). The region is characterised by restricted availability of land and, in places, strict planning laws to preserve the area's unique character. As a consequence prices are high.



Source: Savills World Research, Notaires, population & second homes: INSEE

## RESIDENTIAL MARKETS

### France

The French residential market proved resilient in the years immediately following the global financial crisis. Relatively modest price falls (compared to those in some European countries) of 9.7% were seen between 2008 and 2009. A period of recovery quickly followed, and by 2011 prices and transaction levels had once again exceeded their 2007 highs.

This recovery proved short lived, and the last three years has seen

suppressed transaction volumes and sliding prices, set against a faltering Eurozone economy and rising national unemployment. As at December 2014, prices in France were 8.1% down on their Q3 2011 high, while transactions stood 14.6% down over the same period (Figure 7). Record-low mortgage rates have helped improve market liquidity in the mainstream markets of late, and it is low interest rates that will keep any further falls modest in 2015.

### Provence-Alpes-Côte d'Azur

The French Riviera is located within Provence-Alpes-Côte d'Azur, the third richest of France's 27 regions. This region consistently commands

the country's highest house prices, and second highest apartment prices (behind the Paris region). An important global tourist market, some 17% of properties here are second homes or occasional accommodation, compared to 11% nationally.

Like the rest of France, prices have fallen in Provence-Alpes-Côte d'Azur and the market is a buyers' one. Regional figures from the INSEE suggest prices continue to slide. Values in the region have tracked the national average closely, and are down 9.5% from a 2011 high. The market did not see the same rally between 2009 and 2011 as that experienced in Paris, so values currently look better value than those in the French capital.

Government rhetoric and negative media coverage around the taxation of wealth, coupled with a faltering domestic economy has slowed activity across the Riviera's prime markets. The number of €3m+ deals fell by 44% across the region between 2007 and 2013. Cap Ferrat and St Tropez, home to the Riviera's largest prime markets, saw the sharpest declines (down 69% and 54% respectively). Although transaction numbers are down, purchasers of the region's best properties tend to hold for long periods, with low gearing (these homes are viewed as a store of wealth) so forced sales are rare and, as a consequence, there is no mechanism for prices to fall substantially. Property in the French Riviera for most is viewed as an asset with long-term appeal and therefore a safe store of wealth.

### Sub-markets

Regional statistics disguise local market characteristics. What sets the French Riviera apart is extremely limited supply in the most desirable spots. In Saint-Jean-Cap-Ferrat, a peninsula of land east of Nice, there are around 500 properties and only



Of the 500 properties in Saint-Jean-Cap-Ferrat, only a handful come onto the market in a single year

a handful come onto the market in any single year. Supply is kept low and prices high by wealthy buyers who hold for long periods and are not generally forced to sell.

Cap d'Ail, Beausoleil, Roquebrune-Cap-Martin adjoin Monaco and have benefited from the surge in activity that the Principality's residential markets have experienced. Significantly cheaper prime property is available here (albeit without the tax benefits). The area has proved popular with buyers who want quick access to the city-state at a discounted price.

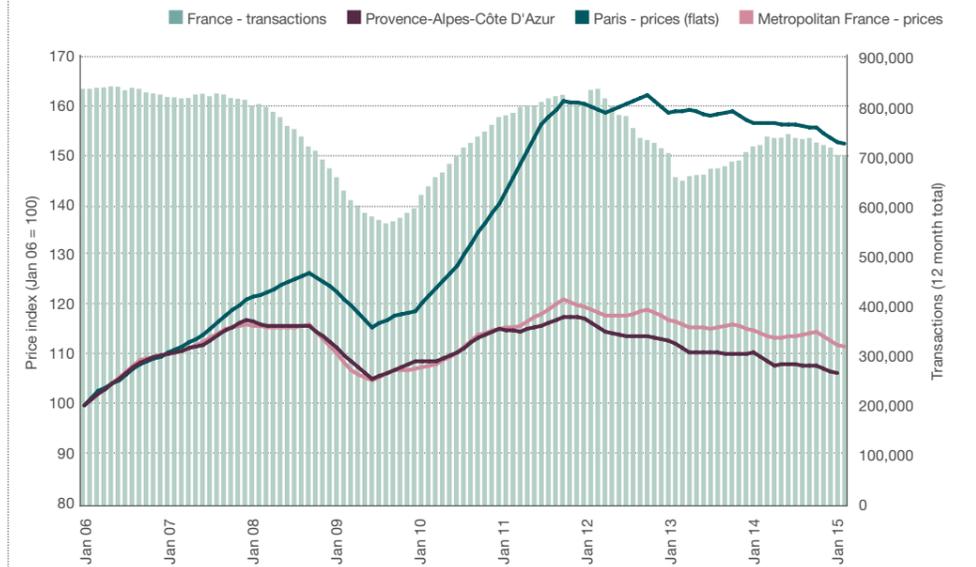
St Tropez is another small, highly exclusive sub-market in the region (see map) and has seen strong buyer interest in the last year. St Tropez offers prime property on large plots of land suited to redevelopment. Strict planning regulations enforce a generous plot to dwelling ratio, helping to retain a sense of spaciousness.

### Buyer profiles

Russian buyers have historically been active in the Riviera's super-prime markets, accounting for 30% of purchasers between 2011 and 2014 (Figure 8). They have been especially attracted to Cap Ferrat, where they have accounted for 67% of purchasers. Russians have also proved to be among the biggest spenders (Figure 9), second only to Middle Eastern buyers. Recent Russian activity has slowed considerably as economic sanctions restrict these buyers' international ambition. By contrast, geopolitical tension in the Middle East has led more wealthy individuals to choose a Riviera home alongside a London or Paris property. St Tropez, by contrast, is a far more domestic market. Even at the top end of the market, 44% of purchasers are French.

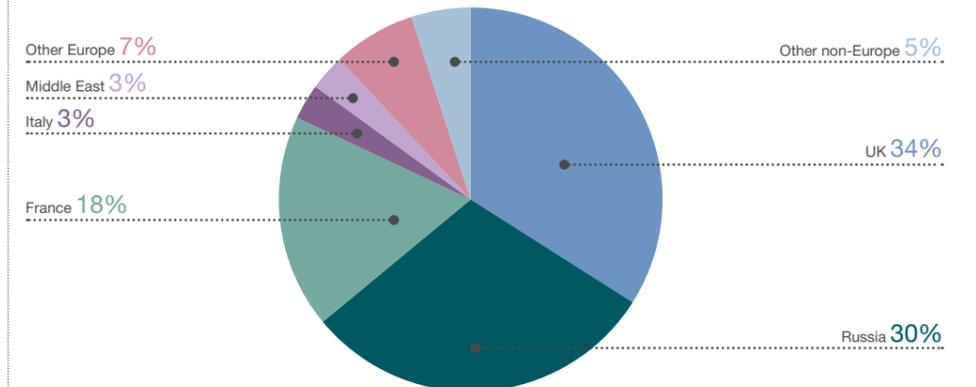
Although the market remains cautious, an improving tax environment for non-domestic buyers, coupled with a weak euro, now presents buying opportunities. For US dollar and Sterling denominated purchasers, a weak euro cheapens real estate. A €2m property cost US dollar buyers \$2.18m in June 2015, compared to \$2.72m a year before. In dollar terms, this is a reduction of 22%. The same €2m property to a British sterling buyer cost £1.44m in June 2015, compared to £1.65m the year prior, a reduction of 12%. →

FIGURE 7 France market performance 2006-2015



Source: INSEE, CGEDD

FIGURE 8 Prime Riviera purchaser profile 2011-2014



Source: Savills World Research

FIGURE 9 Top spenders in prime Riviera property (average spend)



Source: Savills World Research, 2011-2014



▲ Smaller, higher yielding units in Nice have gained favour with investors

→ Investment opportunities

While the Riviera offers some world class ‘trophy’ property, the prime properties of the region’s cities are growing in appeal for those seeking an investment opportunity. Cannes has a global reputation as a centre of film, culture and entertainment with its annual festivals. Prime property here is cheaper than the ‘Caps’ and short-term lettings are in high demand. Buyers can benefit from dual-use property with rental potential during events and festivals, or may seek to let out full time for an income stream.



Short-term lettings are in high demand in Cannes



The Middle East market favours the Riviera as a summer destination

The expansion of tourism, driven by improved connections across Europe via low-cost airlines and the new Eurostar rail services between London and Marseille, has had the effect of expanding the second home market into lower price points for non-domestic buyers in the region. Smaller, higher yielding units in Nice, for example, have gained favour with investors attracted by depressed sales prices but stable rents.

In the super-prime markets, yields are negligible, but there exists demand for short-term rentals in the best spots. It is possible to cover running costs by letting out such properties for just a few weeks of the year. The Middle East market, which favours the Riviera as a summer season destination, is an important driver here.

Unlike Spanish, Portuguese or even some Italian resorts, new development opportunities on the Riviera coast are extremely limited. This helps keep supply levels extremely low. Some developers have taken advantage of weaker market conditions to buy up existing properties on large plots and subdivide into smaller, multiple units where permitted. ■

## OUTLOOK

■ **A global brand:** the French Riviera is a destination of worldwide renown and with a long historic reputation. It is a place for global UHNWI to mix, socialise and conduct business. Synonymous with the global rich and famous, it offers an authenticity which emerging or purpose built resorts cannot emulate. A growing desire for this authenticity will underpin demand for prime property over the long-term.

■ **Buyers’ market:** suppressed prices, an improving tax structure for non-domestic buyers and a weak euro puts prospective purchasers in a very strong position. Buyers may seek to move now to take advantage of a future market upswing.

■ **The rise of the retreat:** ultra prime markets in world cities are cooling following a period of sustained price rises. Investors are now beginning to peel away from expensive city centres and seeking alternatives in other cities and leisure hotspots. The Riviera is poised to benefit from this trend.

■ **Wealth creation:** global wealth continues to be created and the number of UHNWI is poised to grow 18% by 2019. For new wealth emerging in Africa, the Middle East and Asia, France and its best known prime markets of Paris and the Riviera remain a comparative ‘safe haven’.

## World Research Publications

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