

UBS Luxury Property Focus 2021: Unexpected highs

Real estate markets

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- The Lake Geneva municipality of Cologny is the most expensive luxury real estate market in Switzerland. The most expensive Swiss real estate market for second homes is Gstaad.
- The pandemic triggered a boom in demand for luxury real estate, which prompted prices to skyrocket by 9% over the past year.
- Switzerland has strengthened its position as a global luxury destination. So we expect the upward price trend to continue, albeit in a weakened form for the time being.



Source: shutterstock

The Lake Geneva municipality of Cologny is the most expensive real estate market in Switzerland.^[1] The top price bracket there invites tenders for residential homes from CHF 36,000 per square meter of living space. A 400-square-meter villa can be expected to sell for more than CHF 14mn. In the Lake Zurich municipalities of Rüschlikon, Küsnacht, and Erlenbach, the luxury bracket starts at CHF 25,000 per square meter. In the low-tax municipalities of Zug and Wollerau, the threshold is around CHF 22,000.

On the second-home market, the most expensive real estate can be found in Gstaad where square-meter prices that exceed CHF 30,000 are not uncommon. In the Engadine municipalities of St. Moritz and Pontresina, the luxury segment starts at a negligibly lower level. By contrast, in Ticino luxury real estate is being offered at square-meter prices of less than CHF 20,000.

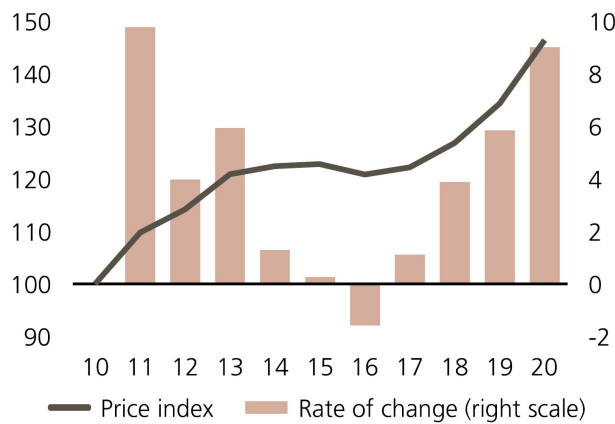
Boom in transactions and prices

When the coronavirus crisis struck at the beginning of 2020, conditions did not look promising for the luxury real estate market. After a strong 2019, the uncertainty around the pandemic initially halted price rises for Swiss top real estate. But this pause did not last long, and the crisis soon triggered a boom in demand for luxury real estate. The number of transactions last year rose by more than half compared with the previous year's, reaching around three times higher than the five-year average. Anyone who had been considering selling their luxury real estate was tempted to seize the window of opportunity for realizing top prices for their property. The backlog in demand caused prices to soar by 9% last year—significantly higher than the 4.4% price uptick in the regular Swiss residential housing market.

[1] We concentrate on 25 communities in the Swiss luxury real estate market and examine the 5% of most expensive properties in each one.

Prices are soaring

Transaction prices in the luxury segment, index 2010 = 100 and annual rate of change, in %



Source: UBS

Explanation for figure: Price trends in the real estate market are normally estimated by analyzing comparable properties. In the luxury segment, however, no two properties are alike. In addition, relatively few transactions occur each year. A price index based on this kind of data would measure not just the actual price trends, but also the differences between the characteristics of the properties sold in the various years. This problem can be avoided by comparing transaction prices for luxury properties that have changed hands several times. Their characteristics should stay relatively stable over time.

High investment gains

The robust demand is attributed to several factors. In the foreground lies the financial situation of the buyers of luxury real estate. After a historic collapse in the economy and equity markets at the start of the coronavirus pandemic, expectations picked up noticeably. Equity markets eventually reached top levels, enabling wealthy investors to realize above-average gains. In 2020, according to Wealth-X, an information provider, the ultra-wealthy population of Switzerland rose slightly.

Preference for long-term, secure investments

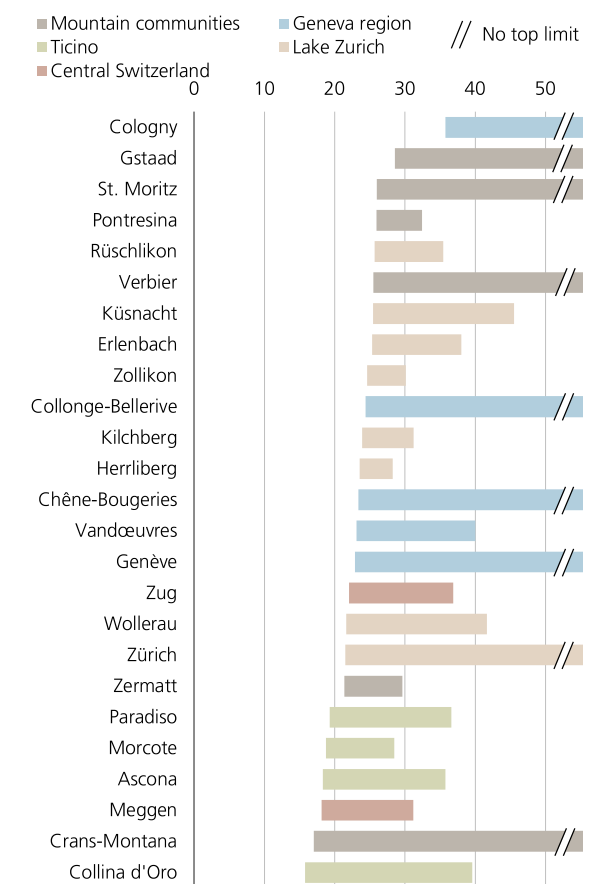
The luxury real estate market offers the promise of high intrinsic value. Luxury municipalities should be able to maintain their relative attractiveness over the long term because real estate in these locations is a finite commodity. In the face of an uncertain economic outlook last year, this same real estate was in particularly high demand. The past has also shown that luxury real estate can more than hold its own against other investments: Within the last ten years, the prices of luxury real estate rose on average by more than one-third. In some municipalities, the values even doubled.

Switzerland is internationally more attractive

Increased interest from abroad is also spurring demand. Since the start of the coronavirus crisis, Switzerland likely even strengthened its position amid the competition with foreign destinations for luxury real estate buyers. First, local measures for containing the pandemic were far less restrictive than they were, for example, in France, Italy, or the UK—and it is from these countries that the majority of foreign demand for local luxury real estate stems. Second, the relatively low level of government debt in Switzerland makes a drastic rise in taxation unlikely, whereas in the euro area the risk of higher taxes for top earners is significant in the face of greater and rising state debt. Finally, the good local healthcare system should in the future be perceived as an important criterion in the choice of place of residence.

The most expensive luxury markets

Advertised prices in the luxury segment in selected municipalities; 95th quantile up to top asking prices, average 2018 to 2021, in CHF thousand/square meter



Source: FPRE, UBS

Gold rush on Lake Geneva

The strong demand from abroad is a contributing factor for the major price rises in the luxury municipalities in the Geneva area. In these locations, within a one-year time frame, prices rose by around 16% on average. In most of the luxury mountain regions, prices also rose in the two-figure range at 10%. The Alpine region’s largely open ski slopes and its position as a place of retreat from the coronavirus turbulence fueled the demand—and not just for second homes, but also for primary places of residence.

In the Lake Zurich region and in central Switzerland, by contrast, average price rises of 6% in the luxury segment were more moderate. Both of these German-speaking markets are traditionally dominated by domestic buyers, so the increased international interest has had a smaller impact on these regions. The slight rises in tax rates for top earners in the Schwyz tax havens in recent years have likely curbed the demand for luxury real estate in those areas.

Sustained upward trend

Price rises such as those seen last year in the luxury real estate market are neither a rarity nor a permanent state. This small market segment is generally characterized by a high level of price volatility. A double-digit growth spike in prices can be followed by an equally sharp decline if, for example, the economic outlook is gloomy—for now, the skies look relatively clear. We anticipate the current demand drivers will persist in the second half of the year against a backdrop of economic recovery, with continued above-average transactions and local price rises—albeit with weakened momentum. Year-to-date, the potential demand is expected to remain higher than before the coronavirus pandemic, thereby propping up the price level. Anyone searching for a place in the global luxury market with stable institutions and established locations would be well served to take a closer look at Switzerland.

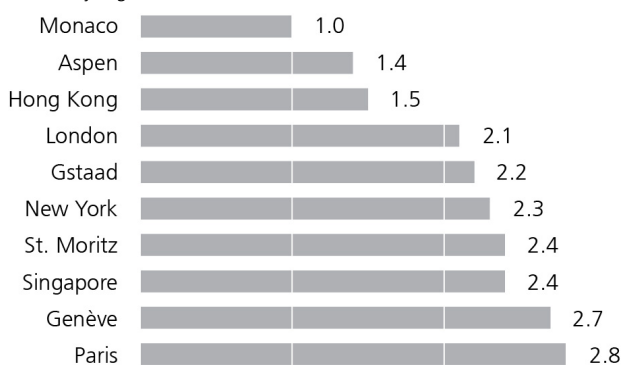
Global luxury markets

Monaco remains the world’s most expensive luxury location, and a single square meter of living space there costs more than USD 67,000. In the second most expensive first-home market, Hong Kong, the luxury segment starts at around USD 43,000 per square meter. In Geneva, the Swiss city with the most expensive luxury segment, prices are comparatively lower and typically start at USD 25,000 per square meter, similar to those in Paris. The world’s highest prices for vacation apartments are demanded in Aspen, Colorado, at around USD 49,000 per square meter. In the highly priced Swiss mountain communities of Gstaad or St.Moritz, though, the prices for second homes are around USD 30,000 per square meter.

Real estate prices at global luxury destinations varied greatly over the last year, and were dependent on the course of the coronavirus pandemic and resulting restrictions. The need for more open space and leisure activity shifted the demand away from the luxurious city loft to the sprawling vacation villa. Vacation destinations were in demand not only in Switzerland, but also across the globe. In Aspen, for example, prices in the luxury segment of the second-home market increased by around 9%. In locations with relatively strict lockdowns, however, demand dropped noticeably. Prices for luxury properties in big cities like New York and London fell in the mid-single-digit percentage range—that means Swiss luxury destination markets were among those with the biggest price increases compared with elsewhere in the world.

How much living space can you get for USD 67,000?

Living space in square meters that can be purchased for USD 67,000 in the luxury segment in selected cities



Sources: FPRE, Knight Frank, Zillow, UBS

Luxury locations in Switzerland

In our analysis, we restrict ourselves to 25 Swiss municipalities in six regions (Lake Zurich, Central Switzerland, Lake Geneva, Oberengadin, Bernese and Valais Alps, and Ticino) that are viewed as luxury locations. Then, we examine the most expensive 5 percent of advertised real estate in terms of square meter price. The summary table (see page 5) is organized by region and then by price within each region. It is not a complete list of properties. Luxury real estate is peppered throughout other Swiss municipalities; a single neighborhood can be very upmarket even if the label doesn't apply to the entire town.

Market characteristics: luxury proportion

While all the municipalities in this study have a high proportion of high-priced real estate, the actual proportion varies significantly from one municipality to the next. For that reason, market size is defined as the portion of advertised properties in each municipality that have square meter prices above CHF 20,000.

Prices above this threshold are most common in Cologny on Lake Geneva, where they make up more than 20 percent of the market. The mountain towns of St. Moritz, Verbier and Gstaad also put in an impressive showing at 10 to 17 percent. Verbier and Geneva, however, had the largest absolute number of high-priced properties.

Cost environment: tax burden and lump-sum taxation

Personal taxes vary from one municipality and canton to the next. Wollerau and Zug, for example, have among the lowest municipal and cantonal personal tax rates for ultra-high earners. While Zurich and Geneva have a relatively high level of taxation, other luxury locations on Lake Zurich and Lake Geneva boast some of the lowest tax burdens in their cantons.

The availability of lump-sum taxes often plays a role for wealthy foreign residents of Switzerland. This type of tax is levied by all the cantons except Zurich, the two Basel cantons, Schaffhausen and Appenzell Ausserrhoden.

Location characteristics

Accessibility

Proximity to regional and international airports makes business and personal travel faster and easier. Municipalities near metropolitan regions and regional centers have better access to urban infrastructure and public goods. Accessibility is measured as travel time on private transportation.

The municipalities adjoining Zurich and Geneva are highly accessible. Travel times to Wollerau and to the municipalities on Lake Zug and Lake Lucerne are somewhat longer. Among the mountain municipalities, Crans-Montana, Gstaad and

Verbier are relatively well accessible. Zermatt, in contrast, is less accessible.

Shopping / restaurants

A town's attractiveness is partly a function of the depth and diversity of its high-end leisure scene. That includes white-tablecloth restaurants and world-class shopping opportunities. This indicator is measured by the number of Michelin-starred restaurants and luxury boutiques within a half hour's drive by car; the calculation assigns smaller weights to more remote locations.

Zurich and Geneva evidently have the most qualifying restaurants and stores. Their leisure scenes benefit small towns located nearby, too. Among the mountain regions, Oberengadin has by far the best selection of shops and eateries. In Ticino, the municipalities clustered around Lugano tend to tap into its high-end leisure segment.

Luxury share

- 1 Cologny
- 2 Verbier
- 3 St. Moritz
- 4 Pontresina
- 5 Kilchberg



Tax burden

- 1 Zug & Wollerau
- 3 Meggen
- 4 St. Moritz
- 5 Kilchberg



Accessibility

- 1 Genève
- 2 Zürich
- 3 Chêne-Bougeries
- 4 Vandœuvres
- 5 Cologny



Shopping / restaurants

- 1 Zürich
- 2 Genève
- 3 Chêne-Bougeries
- 4 Vandœuvres
- 5 Cologny



Luxury locations in Switzerland

By region and price

Region	Rank 2021, by region	Luxury location	Market characteristics		Cost environment		Location characteristics	
			Price range**, in 1,000 CHF/m ²	Luxury share	Tax burden	Lump-sum taxation	Accessibility	Shopping / restaurants
Lake Zurich	1	Rüschlikon	26-35	◆◆	◆◆◆	×	◆◆◆◆	◆◆◆◆
	2	Küsnacht	25-46	◆◆	◆◆◆	×	◆◆◆◆◆	◆◆◆◆
	3	Erlenbach	25-38	◆◆	◆◆◆	×	◆◆◆◆	◆◆◆◆
	4	Zollikon	25-30	◆◆◆	◆◆◆	×	◆◆◆◆◆	◆◆◆◆
	5	Kilchberg	24-31	◆◆◆	◆◆◆	×	◆◆◆◆◆	◆◆◆◆
	6	Herrliberg	24-28	◆◆	◆◆◆	×	◆◆◆◆	◆◆◆◆
	7	Wollerau (SZ)	22-42	◆◆	◆◆◆◆◆	✓	◆◆◆◆	◆◆◆
	8	Zürich	22-55*	◆◆	◆◆	×	◆◆◆◆◆	◆◆◆◆◆
Central Switzerland	1	Zug	22-37	◆◆	◆◆◆◆◆	✓	◆◆◆◆	◆◆◆
	2	Meggen (LU)	18-31	◆	◆◆◆◆◆	✓	◆◆◆◆	◆◆
Lake Geneva	1	Cologny	36-55*	◆◆◆◆◆	◆◆	✓	◆◆◆◆◆	◆◆◆◆
	2	Collonge-Bellerive	24-55*	◆◆	◆◆	✓	◆◆◆◆◆	◆◆◆
	3	Chêne-Bougeries	23-55*	◆◆	◆	✓	◆◆◆◆◆	◆◆◆◆
	4	Vandœuvres	23-40	◆◆	◆	✓	◆◆◆◆◆	◆◆◆◆
	5	Genève	23-55*	◆◆	◆	✓	◆◆◆◆◆	◆◆◆◆
Oberengadin	1	St. Moritz	26-55*	◆◆◆◆	◆◆◆◆	✓	◆◆	◆◆◆
	2	Pontresina	26-32	◆◆◆◆	◆◆◆	✓	◆◆	◆◆◆
Bernese & Valais Alps	1	Gstaad (BE)	29-55*	◆◆◆	◆◆	✓	◆◆◆	◆◆
	2	Verbier (VS)	26-55*	◆◆◆◆	◆◆	✓	◆◆◆	◆
	3	Zermatt (VS)	21-30	◆◆	◆◆	✓	◆	◆
	4	Crans-Montana (VS)	17-55*	◆	◆◆	✓	◆◆◆	◆◆
Ticino	1	Paradiso	19-37	◆	◆◆◆	✓	◆◆◆◆◆	◆◆◆
	2	Morcote	19-29	◆	◆◆	✓	◆◆◆◆	◆◆
	3	Ascona	18-36	◆	◆◆	✓	◆◆◆◆	◆
	4	Collina d'Oro	16-40	◆	◆◆◆	✓	◆◆◆◆	◆◆◆

◆◆◆◆◆ Well above average ◆◆◆◆ Above average ◆◆◆ Average ◆◆ Below average ◆ Well below average

* No top limit to prices
 ** Price range: 95th quantile to top asking price, average 2018-2021

Source: UBS

List of sources

Variable	Sources
Real estate prices (current and past)	Fahrländer Partner Raumentwicklung, IAZI, Wüest Partner, UBS
Transactions	UBS
Share of luxury real estate stock	Fahrländer Partner Raumentwicklung, UBS
Tax burden	Swiss Federal Tax Administration (FTA)
Accessibility with private transport	TransSol, Federal Office of Civil Aviation, UBS
Shopping: luxury brands	Interbrand, websites of the luxury brands
Restaurants	Guide Michelin 2021
Real estate prices in select global destinations	Knight Frank, Zillow, UBS

Appendix

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