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News Release

UBS Alpine Property Focus 2024: Vacation apartments remain "en vogue"

Verbier is now the most expensive tourist destination in the Alps. Overall, prices for Swiss vacation homes have risen by just under 4% in the last four quarters, although prices are expected to stagnate this year.

Zurich, 28 May 2024 – Verbier (VS) is now the most expensive location for a vacation home in the Alps, with a second home in the upper segment costing upwards of CHF 21,500 per square meter. The previous leader, Engadin/St. Moritz (GR), is in second place with a price per square meter starting at CHF 21,200. Zermatt (VS) ranks third, with a price of at least CHF 19,900 per square meter.

On average across all Swiss destinations we analyzed, prices rose by just under 4% year-over-year in the first quarter of 2024. As a result, price momentum in the tourist regions continued to decline (2023: 6.2%; 2022: 7.9%). Arosa recorded the highest price increase at 18%, while from a regional viewpoint prices rose the most in Graubünden at just under 6% on average. The development was weakest in the Bernese Oberland, where prices stagnated compared to the previous year.

Alpine vacation boom drives up prices

Since the end of 2019, prices of vacation homes in the Swiss Alps have risen by almost 30%, cumulatively, partly as a result of the generally strong demand for vacations in domestic mountainous destinations. The average occupancy rate of hotel beds recovered completely soon after the pandemic—with room rates around a third higher than before 2020.

Fully booked hotels at peak times support the value of vacation homes and increase people's willingness to pay for their own property in the mountains, as the possibility of vacationing at a top destination at any time, even during the peak season, becomes more valuable.

(Still) not enough on offer

As a result of the strong demand for real estate in recent years, the market remains dry, which is also an important support for price levels. Many vacation homes are no longer advertised, but offered directly to prospective buyers by real estate agents. For the time being, new construction activity is unlikely to provide much impetus for the development of supply.

An additional supply of second homes is likely to come from the conversion of existing first homes, however. The UBS Chief Investment Office Global Wealth Management (UBS CIO GWM) estimates a grandfathered apartment used as a primary residence can be sold at a premium of around 20% if it is put on the market as a second home instead. The conversion of unprofitable hotels into vacation apartments or the creation of managed tourist apartments could also add to supply.



A breather on the horizon

Maciej Skoczek, real estate economist at UBS CIO GWM and lead author of the study, shares his prognosis: "There is currently a lot to be said against a continuation of the current price boom. The economic downturn will reduce demand for second homes, and prospective buyers are more likely to challenge asking prices." Current owners more often consider selling in view of increased usage costs and to realize the price gains of recent years. Given the shortage of supply, prices on the second-home market are expected to stagnate this year.

Baby boomers and foreigners as the driving force

In the medium term, price developments will depend heavily on buyer preferences. Even three years after the pandemic, second homes are still "en vogue." Despite lower prices and a more attractive supply, they were much less in demand before the pandemic than they are today.

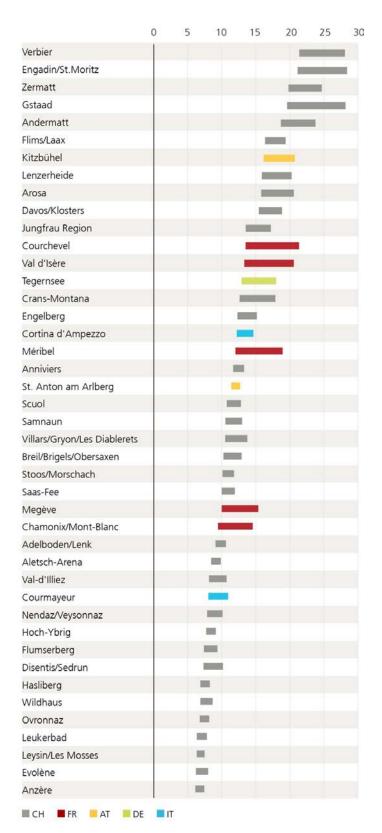
The baby boomer generation in particular could keep demand in the mountainous regions going for a few more years. This age group has sufficient capital and income, as well as the time and leisure, to purchase a residence for retirement, particularly in regions with more attractive tax rates.

At least in internationally renowned locations, demand from abroad remains strong and less price-sensitive, as Swiss real estate is considered a safe and attractive investment despite the strong Swiss franc.



Price overview of the holiday destinations

The bars show the range of prices for holiday homes in the high-end segment, in CHF thousand per square meter.



Source: UBS



Links

<u>UBS Alpine Property Focus 2024</u> (download the study in German) <u>www.ubs.com/cio</u> (UBS publications and forecasts for Switzerland)

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