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UBS Luxury Property Focus 2024

Swiss real estate market

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- Price increases for luxury real estate slowed significantly last year to around 2% on average. For the current year, we expect prices to fall slightly.
- The highest prices paid were in the mountain towns of St. Moritz and Gstaad. Cologny, on Lake Geneva, is the most expensive first-home market.
- Over the past ten years, the central Swiss municipalities have become among the more favored luxury locations, while Ticino has slipped somewhat in popularity.

Source: Getty Images

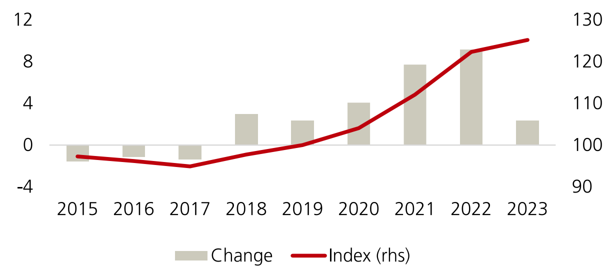
The reality of higher interest rates has swept the luxury segment in 2023.[1] Demand for luxury real estate is generally less sensitive to changes in interest rates than the overall market. This is due to typically lower loan-to-value ratios and the cushion higher earners have to support interest rate hikes. However, the tripling of mortgage interest rates since early 2022 has led to slowing of the luxury market.

Gradual weakening

The price boom we've seen in the Swiss luxury property market, which peaked at nearly 10% in 2022, appears to be drawing to a close. In contrast, last year, luxury home prices rose by just over 2%, with the slowdown most evident in single-family homes, where prices rose about 1% in 2023, a steep fall from 2022's 8%. Condominium price growth showed a similar decline, falling from 9% in 2022 to 3% last year. Overall, luxury real estate price increases lagged those of the wider market, but still sit some 25% above pre-COVID levels.

Higher interest rates dampen price growth

Asking prices in the luxury segment: change compared to the previous year in percent and index (2019=100)



Sources: Wüest Partner, UBS. Remark: Due to a data revision by the data provider, price changes are not comparable to those in previous issues of the UBS Luxury Property Focus.

Quarterly growth rates have been declining since early 2022. In the final two quarters of 2023, prices stagnated on average. In more than half of the municipalities analyzed, which have a high share of luxury real estate, prices fell. The last time this occurred was in 2017.

[1] The analyses are based on 28 selected municipalities with a high proportion of luxury properties (see graph on page 2).

Few tailwinds in the short term

As a safe haven, Switzerland, with its stable institutions and high standard of living, will likely continue to be a draw for foreign buyers, particularly given the current geopolitical climate. However, this "security" has become significantly more expensive given the strength of the Swiss franc and the cost of Swiss luxury property, likely curbing international demand. Furthermore, the average Swiss household has seen its wealth, excluding real estate, stagnate over the past two years. The economy is developing below trend, not supporting the demand for high-priced real estate.

Advertised properties are garnering less interest, and asking prices are being increasingly challenged by prospective buyers. If sellers are pressed for time, they may have to accept price reductions. For the current year, we expect a slight decline in prices in the luxury segment, in the low-single-digit percentage range. Condominiums in the mid-single-digit million range are particularly susceptible to price declines, in our view.

More affordable locations gain ground

However, the most exclusive villas, priced in the double-digit million range, especially those in the mountainous regions, are likely to be less affected by this slowdown. The number of super-rich in Switzerland has risen sharply. In 2023 alone, the number of billionaires increased by over 10% (according to the UBS Billionaire Ambitions Report). This trend is expected to continue, supporting demand for the best, high-end residential locations.

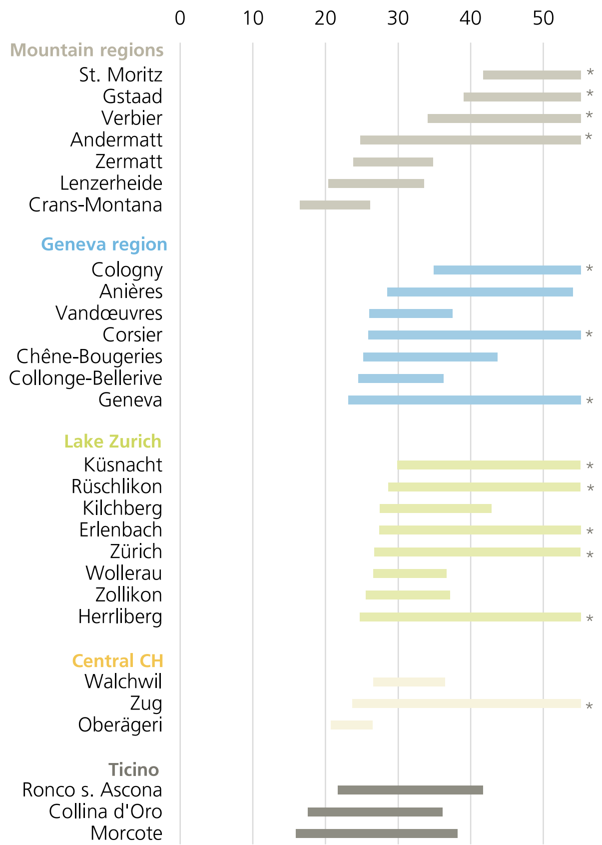
From a regional perspective, Central Switzerland has the greatest potential for further price increases due to its tax advantages. The Zurich region's strong economy and immigration are likely having a stabilizing effect. In the mountain destinations, very high absolute price levels act as a buffer against further excesses, so prices there are likely to develop below average. The same applies to the Geneva region, where prices began to fall in most municipalities last year.

Switzerland's luxury markets

Three out of four of the most expensive luxury real estate locations can be found in Switzerland's mountain districts. St. Moritz tops the ranking with prices of over 42,000 francs per square meter. Gstaad comes in a close second, where prices start at around 39,000 francs per square meter, while Cologny, on Lake Geneva, commands prices of over 35,000 francs per square meter, similar to what you would have to pay in Verbier. In other municipalities with a high proportion of luxury real estate—for example in the Geneva region and on Lake Zurich—luxury properties start around 25,000 francs per square meter. For a property, in good condition sitting on 1,500 square meters of land, a purchase price of eight to ten million francs is to be expected. Luxury prices start at just under 20,000 francs per square meter in Ticino.

The most expensive luxury locations

Asking and transaction prices in the luxury segment observed from 2021 to 2023, in CHF thousands psm in selected municipalities, from the 95th percentile



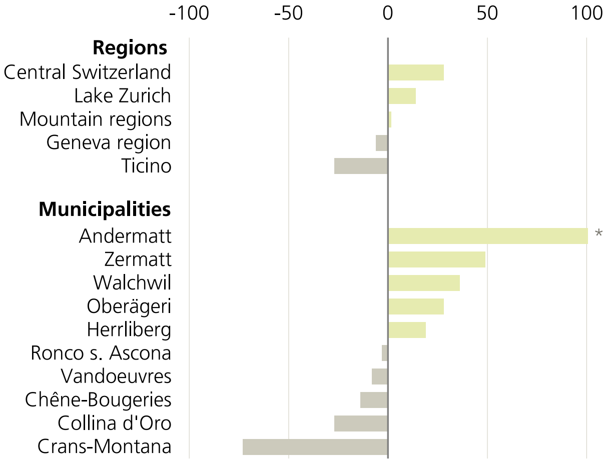
Sources: Meta-Sys, UBS. *Higher prices observed

Over a longer time horizon, luxury markets, especially traditional ones, have shown remarkable durability, with short-term cyclical price corrections over the past decade mostly recouped. Over this period, prices rose across most of the municipalities analyzed. Within the 100 most expensive Swiss municipalities, there were relatively few shifts in rank in the Lake Zurich and Geneva regions on average. Ten years ago, the established luxury locations of St. Moritz, Gstaad, and Verbier topped these rankings, where they remain to this day.

The situation is different in Central Switzerland, where Zug and its municipalities have risen on average by more than 30 ranks within a decade. This shows how the canton's low-tax strategy has made the location such an attractive draw, especially for people with high incomes and assets. But the biggest winner of the last decade is the up-and-coming municipality of Andermatt, located in canton Uri, where the influx of foreign money and the development of luxury amenities has made this more of a luxury destination. In Ticino, however, prices have failed to keep pace with other municipalities due to an oversupply of high-priced apartments.

Central Switzerland outperformers

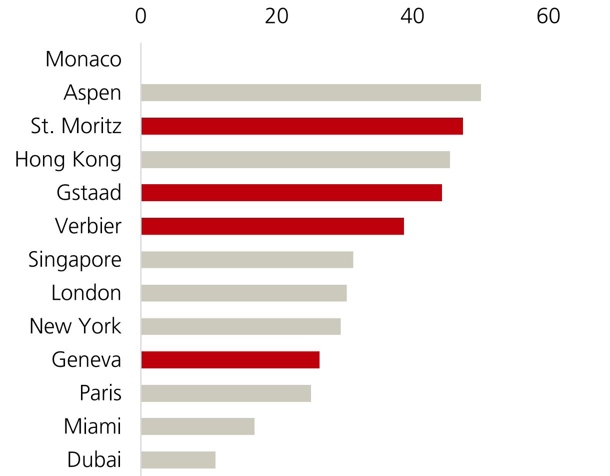
Change in rank of Swiss municipalities according to high price segment (90th quantile), regional average and for selected municipalities, 2013 vs. 2023



Sources: Wüest Partner, UBS. *Value outside of range

Global luxury real estate

Prices in the luxury segment in 2023, in US dollars thousands psm, Swiss locations highlighted in red



Sources: Knight Frank, Meta-Sys AG, UBS

Luxury markets of tomorrow

High prices and scarce supply leads to a shift in demand to more affordable communities. Municipalities that have seen strong price rises in recent years, but still offer significantly lower purchase prices than in their neighboring, established luxury markets, are potential up-and-comers. These include the municipalities of Pregny-Chambésy, Mies, Nyon, and Saint-Prex on the northern shore of Lake Geneva, and the Central Swiss sites of Küssnacht, Horw, and Hergiswil. In the Zurich region, demand for luxury properties expanded to Stäfa on the right side of the lake and to Thalwil on the left.

Global luxury markets

Monaco returned to the top of the list of the most expensive global luxury destinations (USD 63,000 per square meter) after a one-year hiatus, nudging Aspen back into second place (USD 50,000 per square meter). Rounding out the top three is St. Moritz (USD 47,000 per square meter). Gstaad and Verbier now also rank among the world's most expensive locations. They are followed by Singapore, London, and New York, all with per square meter prices of around USD 30,000, while Geneva and Paris are on an equal footing, with prices per square meter of about USD 25,000. As a result, post pandemic, these global holiday destinations have overtaken established luxury metropolitan markets. Despite very high price increases and strong demand, prices per square meter in Miami and Dubai remain significantly lower than their peers.

As in Switzerland, prices seen in global luxury markets evolved at a slower pace last year. According to Knight Frank, prices rose on average by 3.1%, significantly weaker than the 8.4% witnessed in 2021. Nevertheless, the overall picture was quite uniform: around 80% of the luxury markets recorded a positive price development, most of them in the low-single-digit percentage range.

Appendix

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