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A fine balance

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By Haig Simonian

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Klosters, the resort village with traditional chalet-style buildings and large ski area, has stable demand from affluent Gold Coasters

As property prices collapse in many international business centres stricken by recession, estate agents in Zurich, Switzerland's commercial capital, are struggling to balance smugness and fear.

Their self-satisfaction comes because, not having experienced a bubble like London or New York, the market has scant reason to burst. But the anxiety stems from concerns that even their stable, prosperous country has been affected by an economic crisis it once hoped to escape.

As a result, the euphoria that characterised house sales in top locations, such as the pretty villages along Lake Zurich collectively known as the "Gold Coast", has given way to sobriety. Talk of monumentally wealthy Russians – or just moderately rich Germans – offering outrageous sums to secure residence in safe, anonymous and usually fiscally friendly villages such as Küsnacht, Zollikon and Erlenbach has declined as the downturn has eaten into even their pocketbooks.

"There has been a return to reason," says Claude Ginesta, head of a Küsnacht agency specialising in premium homes. "Prices have remained pretty stable. What's changed is that unreasonably priced properties don't move now. Buyers are more careful. They make more visits and do much more market due diligence."

The slowdown has been most evident for villas costing SFr5m (£2.9m) or more, with grounds and lake views. "Before, we might have had 20-25 people visiting and about 10 seriously interested. Now, that's two or three," says Gerhard Walde, another leading Gold Coast agent. "If a property's overpriced, it sticks. But prices, as long as they're sensible, haven't dropped. If the asking price is fair, it sells."

The market slowdown comes after steady, if modest, annual price increases of 2-5 per cent across Zurich's Gold Coast in recent years. Recession and lower job security, even for top executives, has been the main factor but there are other reasons too, including declining immigration, notably from neighbouring European Union countries, reflecting the tougher labour market. In particular, the Germans who flocked to Switzerland to escape high income and inheritance taxes after Bern eased residence rules for EU citizens are no longer so evident.

Yet various local factors have combined to alleviate a sharper price correction. "With Swiss franc interest rates at rock bottom levels and alternative asset classes looking unappealing, there is little incentive to sell," Ginesta says. Many potential sellers have also refrained because of an unwillingness to accept the new realities. "Buyers are no longer willing to pay the irrational prices occasionally seen in the past [but] meanwhile not all vendors accept what they perceive as depressed levels," explains Ginesta.

"The market is pretty tight," Walde adds. "There's been no big change in supply, making it still hard to find the right property."

The situation might change because of a further, and as yet imponderable, development specific to the region, however. This year voters in the canton of Zurich decided to outlaw one-off tax deals for rich foreigners from 2010.

The referendum passed with a surprisingly large majority, reflecting popular dissatisfaction with rising numbers of opaque arrangements that allow very wealthy foreigners to negotiate annual flatrate tax payments with the authorities, based on their outgoings.

Villages near Zurich, such as Erlenbach, are still selling well

Quite how many potential foreign beneficiaries might now look elsewhere, or whether some existing non-Swiss residents might decamp, is unclear. The estate agents argue that the referendum's impact is marginal, as it affects only the very dearest properties, but few doubt that such foreign tax exiles were responsible for inflated prices; in many cases, their potential savings from relocating were so high as to make purchase prices secondary.

Surprisingly, the cooling at the top of the market has not trickled down. Sales of low- to middle-end properties – meaning, for the Gold Coast, flats and houses up to SFr2m-SFr2.5m – are up this year. "Demand has risen since last October," Walde says. And, while his turnover is down 17 per cent, volume has slipped by only 5 per cent.

Agents attribute the strength of this market segment to Swiss demand. Spooked by crashing equity prices and miserly interest rates on fixed income securities and buoyed by more flexible pension fund investment rules, locals are switching into property. And there is significant room for growth since home ownership in Switzerland, traditionally a rental market because of historically low and stable interest rates, stands at just 35 per cent. At SFr13,000-SFr14,000 per sq metre for a big apartment on one floor – most buyers' preference – such properties can be financed fairly easily.

"Low interest rates are driving this sector," Ginesta says. And, in contrast to many other world markets, there are also banks keen to lend. "Our customers are telling us it's never been so cheap to buy a property as today, although that surprises us in a way, as prices haven't actually gone down."

If Zurich's Gold Coast is showing resilience, Klosters, the upmarket ski resort just 90 minutes away, should be more vulnerable, considering second homes are a luxury that can be renounced in tougher times. The pretty village, with its traditional chalet-style buildings and large ski area shared with neighbouring Davos, has stable demand from affluent Gold Coasters. But interest from outside buyers, particularly Britons drawn to their royal family's association with Klosters but now hit by a struggling economy and plummeting pound, is more questionable.

"The actual number of sales hasn't changed. It has been a fantastic winter [and] I'd say 90 per cent of the people who came to my office bought," says Friedrich Hodel, the village's leading agent. But "demand is down 60-70 per cent" and the "crazy 10 years" – when prices for top developments rose 15-20 per cent annually on the back of "spiralling executive salaries and bonuses and constantly bigger, better-equipped apartments" – is over. He describes Klosters today as "a buyer's market" because while "there is no pressure yet on prices ... vendors may be willing to make some concessions, like throwing in a parking space, that they would once have charged for.

"We don't expect prices to rise, that's true," agrees Christian Fross, the village's biggest property manager, currently moving into sales. "But there is still strong demand for top new developments. I think there'll be some healthy cleaning up of the market and marginal properties will become harder to sell."

He says he recently received 60 inquiries about Gotschnablick, an 11-apartment project in two buildings, within days of the scheme going up in his window. Chalets, from 100 sq metres to 200 sq metres, will be priced between SFr800,000 and SFr2.4m. And Hodel says he sold the first 14 residences in Pardenn, a development of 16 units, most of which are 165 sq metres each and priced at about SFr2m, within eight weeks.

Klosters' resilience rests on an entrenched mismatch between demand and supply. While the former has been buoyant for years, new building, as well as purchases by non-residents of Switzerland, have been restricted. And now the criteria are being further tightened, with a local referendum last year decreeing that second home building should be slashed from an average of 9,000 sq metres annually in recent years to 3,500 sq metres in 2010 and 2011 and just 3,000 sq metres from 2012.

So while there will always be some second-hand homes on the market, supply of luxurious new apartments will decline radically, which explains why local prices might remain relatively stable, in spite of avalanches elsewhere.

Haig Simonian is the FT's Zurich correspondent

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Ginesta, tel: +41 44910 7733, **www.ginesta.ch**
Walde & Partner, tel: +41 44396 6060, **www.walde.ch**
Hodel Immobilien, tel: +41 81422 1525, **www.hodel-immo.ch**
Fross Immobilien Management, tel: +41 81420 0088, **www.fross.ch**