RESIDENTIAL RESEARCH

Knight Frank

HOT PROPERTY?

PRIME SKI PROPERTY INDEX 2014

SKI PROPERTY INDEX RESULTS | ALPINE FOCUS | FUTURE DEMAND

KEY FINDINGS

Performance: Of the 20 ski resorts tracked, Queenstown recorded the strongest annual price growth, up 24.8% on average in the year to June 2014

Post-Lehman: US ski resorts experienced stronger price falls post 2008 than their European counterparts

Investment: A new ski chalet in Courchevel Village can produce a 6.7% gross yield

Price range: €1m provides a buyer with around 117 sq m in Chamonix but a lesser 50 sq m in Courchevel (1850)

Future demand: the decline of the baby boomer generation is likely to be offset by new wealth creation in emerging markets

"The index reached its lowest point in June 2009 and has since risen by 14.9%."

OVERVIEW

For the world's wealthy a ski home is a key component of their global property portfolio, but increasingly it is being bought not just as a lifestyle acquisition but one that can provide an investment return as well.

This report analyses the results of 2014's **Prime Ski Property Index** which tracks price changes across 20 of the world's top resorts.

Our **Alpine Focus** on pages 4-5 explores in detail the key market trends observed across the French and Swiss Alps; we look at who's buying, the extent to which new development is now re-emerging, as well as which resorts and price bands are generating the most enquiries.

With the average price per sq ft varying significantly across the French Alps we look at which resort offers the best value for money, albeit at the luxury end of the market.

For those considering a ski home as an investment opportunity we have calculated the potential return for buyers purchasing in Courchevel – a classic investment location.

Finally, we look at what impact the stronger pound has made in 2014 for buyers considering purchasing in the French and Swiss Alps and crucially we explore where future demand is likely to come from given the fading demand from the baby boomer generation.

Post-Lehman

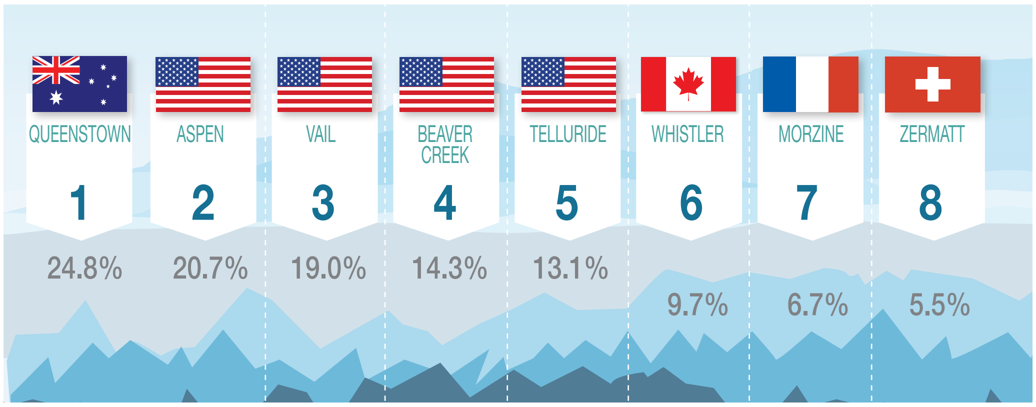
Bricks and mortar – of the Alpine variety – did not benefit from the safe haven shift that prime property in cities like New York and London saw post Lehman's collapse in 2008. Prime prices dipped in the Alps but did not plummet like they did in some of Europe's oversupplied second home coastal markets.

But the story was a little different on the other side of the Atlantic. Prices and sales volumes in several of the key resorts tumbled. Luxury prices in Aspen hit £1,670 per sq ft in 2008 before falling 36% over the next eighteen months. A ski home in the US fitted the mould of a "nice-to-have" but it was one of the first assets to be disposed of when the sub-prime crisis took hold.

In contrast, the lack of supply in upmarket resorts such as Courchevel and Val d'Isere – along with the sheer level of wealth amongst homeowners in these markets – meant that there was no kneejerk reaction to the shifting global financial landscape.

If vendors in these markets achieved their asking price they would sell but

FIGURE 1 **Knight Frank Prime Ski Property Index**
Annual % change in prime ski property prices, Jun 13-Jun 14



Source: Knight Frank Residential Research, DQ Data, Ginesta Research, Guinnard Immobilier & Tourisme, Andrew Ernemann of Sothebys International Realty, Real Estate Board of Vancouver there was no urgent need to reduce prices in order to release capital to shore up other investments. The situation in nearby Chamonix was different, however, particularly below the €1.5m threshold which saw a raft of properties entering the market post 2008.

One shared trend on both sides of the Atlantic was the decline in sales volumes post 2008. The French Notaires estimate sales volumes in the French Alps dropped by 60% in 2009 year-on-year. Sales data from the Multiple Listing Service in the US shows it was not a European phenomenon with sales in Aspen and South Lake Tahoe falling 57% and 52% respectively between 2007 and 2008 (figure 9).

PRIME SKI PROPERTY INDEX

The average price of a luxury ski home located across 20 of the world's top resorts increased by 5.9% in the year to June 2014, following growth of 4.6% a year earlier.

The index reached its lowest point in June 2009 and has since risen by 23.5%. Interestingly, this trend mirrors our Global House Price Index and Prime Global Cities Index.

Queenstown and Aspen recorded the strongest rise in luxury prices, up by 24.8% and 20.7% respectively in the 12 months to June. New Zealand's economic upturn, foreign investment and low interest rates are fuelling price growth in New Zealand's top resort.

In Aspen despite annual price growth of over 20% luxury prices are still 18% below their pre-crisis peak.

Overall, North America outperformed Europe by some margin in the year to June, recording average price growth of 13.3% compared to 1% in Europe (figure 2). However, average prices across the North American resorts remain 9.9% below their 2008 peak whilst the comparable figure for Europe is already 8.8% above.

Amongst Europe's top performers is Morzine, a resort which arguably comes the closest to being recognised as a truly year-round destination and one that is investing heavily in its infrastructure. Luxury property prices here rose by 6.7% in the year to June.

Val d'Isere, which has seen sales strengthen in 2014, particularly in the €1m-€2m price bracket, saw prices increase by 3.2% following two years of largely flat growth.

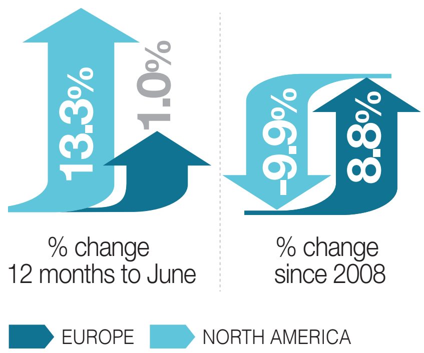
The Swiss resorts are broadly mid-table this year with Zermatt leading the pack having seen annual price growth of 5.5%.

The uncertainty in the market surrounding Lex Weber – the introduction of a 20% cap on second homes per commune – has delayed some purchase decisions. It will take another year for the law to be fully implemented and thereafter we fully expect confidence to return. Already, speculative investors are starting to take advantage of some lower prices, confident that stock levels will tighten in the coming years driving prices upwards.

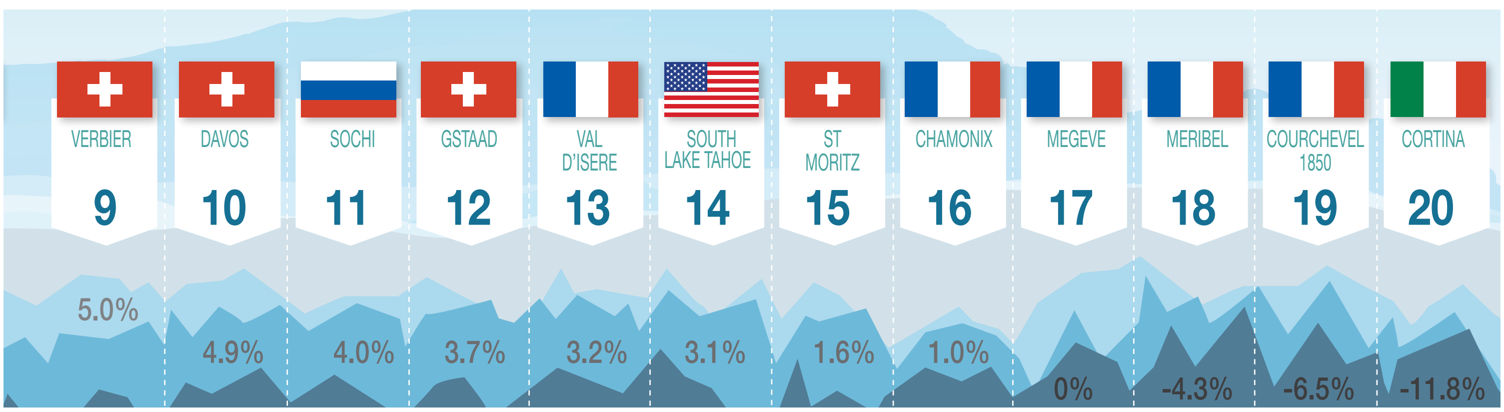
With the Winter Olympics now over it remains to be seen whether the Russian city of Sochi will break into the big league of European resorts, the suspicion is it will continue to cater almost exclusively for a domestic clientele. Despite the large amount of new supply delivered in the last year, prime prices in the resort rose 4% in the year to June.

Cortina, the most upmarket resort in the Dolomites, is at the foot of the rankings table. The Italian resort saw prices fall 11% in the year to June. As we discuss on page 6 such discounts, combined with the strength of the pound against the euro, may make for a strong buying opportunity for sterling purchasers.

FIGURE 2
North America v Europe
% change



Source: Knight Frank Residential Research



ALPINE FOCUS

The Alpine resorts have seen muted sales activity since the financial crisis took hold in 2008 but new investment in infrastructure, a broader pool of demand and the realisation that a ski chalet is able to offer a competitive investment return is reinvigorating the market.

During the 2013/14 season, demand continued to be focussed on the resorts located within an hour of Geneva Airport in particular Morzine/Les Gets, Megeve and Chamonix. The €1.5-€2m price bracket in Val d'Isere has also seen strong activity, with many buyers wanting to be in the heart of the resort.

In the year to June, Knight Frank's Alpine enquiries came predominantly from prospective European buyers, who together accounted for 61% of all applicants. Interestingly, the Europeans were followed by Asian and Middle Eastern buyers (12% each), Russians and CIS nationals (5%) and North Americans (5%) (figure 3).

Analysis of our enquiries data by price band shows that there was stronger demand for properties priced below €2.5m in 2014; accounting for 72% of applicants, compared with 47% a year earlier. The proportion of buyers looking at properties above a €20m threshold by comparison has shrunk from 7.6% in 2013 to 3.8% in 2014 (figure 4).

The price of a luxury home in the Alps can vary significantly (figure 5), a fact that surprises some non-European buyers.

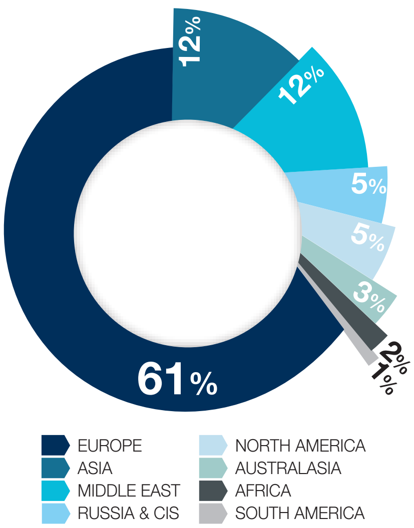
Courchevel (1850) leads the pricing stakes with the average luxury property priced around €30-€32,000 per sq m, but in Chamonix, a two-hour drive away and crucially outside the desirable Trois Vallées, prime prices are €7,000-€8,000 per sq m.

The Swiss resorts of St Moritz, Gstaad and Zermatt while not quite competing

FIGURE 3

French Alps: percentage breakdown of purchase enquiries

2013-2014

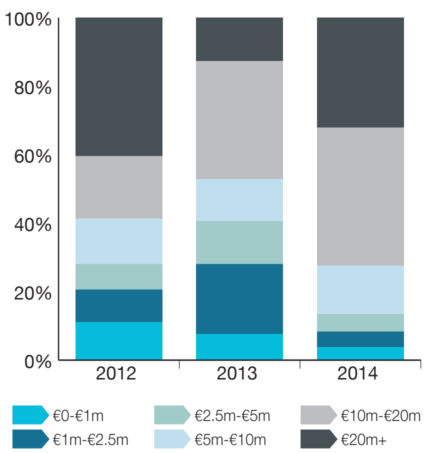


Source: Knight Frank Residential Research

FIGURE 4

French Alps: which price brackets are most in demand?

% of enquiries

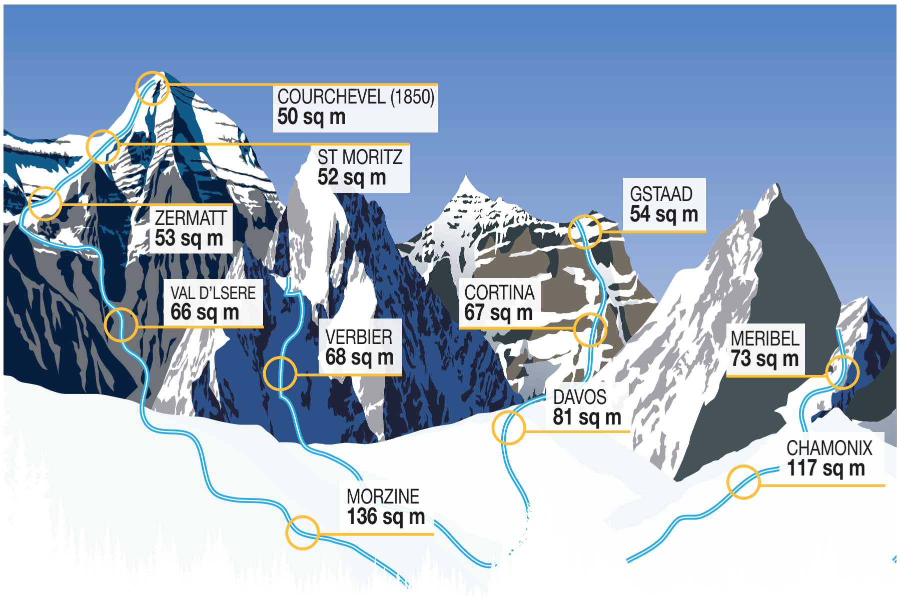


Source: Knight Frank Residential Research

FIGURE 5

What does €1m buy you in…

Based on the typical price of a luxury property in each resort, June 2014



Source: Knight Frank Residential Research with Courchevel (1850) in terms of price, all rank highly with prices ranging between CHF 20-27,000 per sq m.

Investing for the future

Most of the large ski resorts took shape in the first part of the 20th century, some even earlier, and as such their infrastructure is in need of regular upgrades. With large stakeholders such as Vail Resorts now raising the bar in the US (it has invested $500m over the last five years across resorts such as Vail, Beaver Creek, Breckenridge and Heavenly) other world class resorts are having to keep pace.

In the Alps, the authorities in Courchevel have announced they are spending over €100m on upgrading the resort's lift system, complementing the new €67m aquatic centre which is due to open in 2015. Chamonix has gone one better announcing investment of around €477m to improve its ski lift system, albeit over a longer time period.

Sales enquiries are now less seasonal than they were. Buyers are recognising the year-round appeal of the Alps with gardens now being sought by more applicants registering with Knight Frank than previously.

Switzerland: the big squeeze

The Swiss Franc proved the safe haven currency of choice during the global financial crisis, to the extent that the Swiss government opted to peg it to the euro in 2011, this has enabled some British buyers to take advantage of the currency play.

The 2011 vote that capped the percentage of second homes to 20% (Lex Webber) has added some uncertainty to the market whilst the authorities finalize the details of the law.

These restrictions, together with the existing regulations that allow non-residents to purchase in certain zones (Lex Koller), will undoubtedly create a lack of new supply. This in turn is bound to generate demand in the coming years, especially in the top resorts.

The forthcoming decision on the future of the lump sum form of taxation (Forfait Fiscal) is also adding to overall concern, however, once the position is clearer there is a good chance that we will witness a surge in activity with confidence returning.

CRANES SPELL CONFIDENCE

The re-emergence of large cranes on the Alpine skyline is an indication of the confidence now filtering into the market.

The redevelopment of old chalets by wealthy European buyers has been a relatively steady occurrence even in the 2008-10 downturn but the commercial delivery of large-scale multiple new units is now being observed.

Buyers are no longer waiting to see the development coming out of the ground, there is a willingness to purchase off-plan which was not evident a few years earlier.

Carré Blanc, a new development of 38 apartments in Courchevel Village is a prime example of this trend. With the completion of a fast lift to Courchevel (1850) in 2015, residents will be able to get to the restaurants and shops in the centre of the 1850 resort as fast as those living at the top of 1850.

Unlike 5-10 years ago, international buyers expect their ski home to be as well-equipped in the latest technology as their base in London, Paris or New York. From underfloor heating to home gyms and cinemas these new developments are helping to improve the specification and finish by influencing the wider housing stock and introducing upmarket trends to Alpine living.

WHAT RETURN CAN A SKI CHALET PROVIDE?

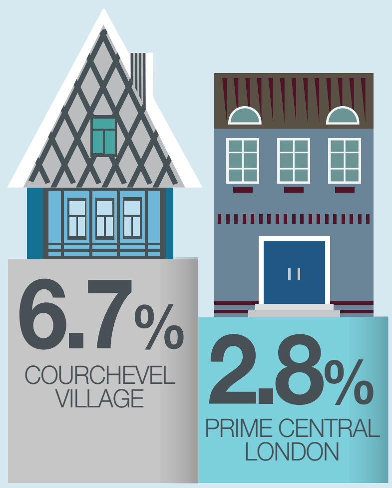
For some owners, renting their ski home beyond close family and friends is a headache they'd rather do without. But more and more purchasers are looking at the rental yield they can achieve, not just the long-term capital growth that a ski home can provide.

Savvy investors who already own a ski home in Switzerland, or who are still able to buy may, as a result of the limited supply, see some of the strongest rental demand and returns.

Wealthy owners, even those in possession of a €20m+ chalet, are increasingly looking at making a return from their property. The rise of the 'super-chalet' as a rental option is a recent phenomenon, some are 800 sq m or larger and located in unrivalled positions in the top resorts such as Courchevel.

Below, we have compared the annual gross investment yield of a ski chalet in Courchevel Village (bought off-plan) with a property in prime central London. The calculations are based on a 14-week occupancy for the ski chalet and year-round tenancy for the London property.

FIGURE 6 **How competitive is the return from a ski chalet?**



Source: Knight Frank Residential Research

Notes: Rental calculation is based on a new chalet at Carre Blanc in Courchevel Village. Assumes let for 14 weeks pa (2 wks at prime rate, 2 wks at high-rate, 4 wks mid-rate, 4 wks normal-rate and 2 wks low-rate). Annual running and maintenance costs = 20% of rent.

£319,000

THE SAVING FOR A BRITISH BUYER PURCHASING A €3M HOME IN COURCHEVEL (1850) TAKING ACCOUNT OF CURRENCY AND PRICE MOVEMENTS IN THE YEAR TO JUNE 2014

THE FUTURE'S WHITE?

Forecasting a housing market's performance is never an easy task, let alone at the top tier and for what is often a discretionary purchase or sale. The laws of supply and demand do not apply in quite the same way as they do at a mass market primary residence level.

Certainly, the world's top resorts have a lot currently riding in their favour; limited supply, rising global wealth, large-scale investment in infrastructure, easier access via new flight routes and an increasing focus on delivering a year-round holiday destination. And this is against a backdrop of a global economic recovery.

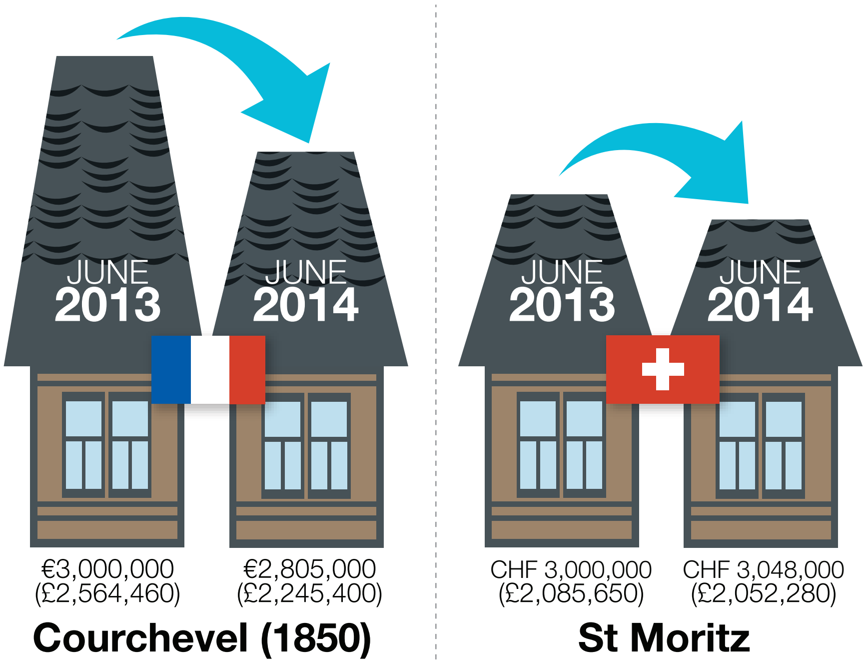
Supply and demand

With the number of UHNWIs around the world forecast to rise by 28% over the next decade continued demand for lifestyle investments in the form of a ski property looks assured.

FIGURE 7

The impact of the strengthening pound

Discount for a British buyer purchasing a €3m or CHF3m property taking price and currency movements into account



Source: Knight Frank Residential Research

Interest is also transcending the usual buyer nationalities of the US and Northern Europeans. A survey of wealth advisors representing 30,000 UHNWIs conducted as part of Knight Frank's Wealth Report shows that it is in some of the key centres of future wealth creation that demand for ski homes is strengthening with Chinese, Indians and Indonesians amongst the top nationalities interested in owning a ski home (figure 8).

Asian resorts such as Niseko in Japan and Pyeongchang in South Korea (a contender for the Winter Olympics 2018) are still in their infancy with limited luxury homes as yet forming part of the resort. However, research shows that the Chinese alone undertake on average 7 million ski visits per annum, an indication that Asian resorts are likely to expand and mature whilst at the same time provide a relatively untapped source of demand for the established resorts worldwide.

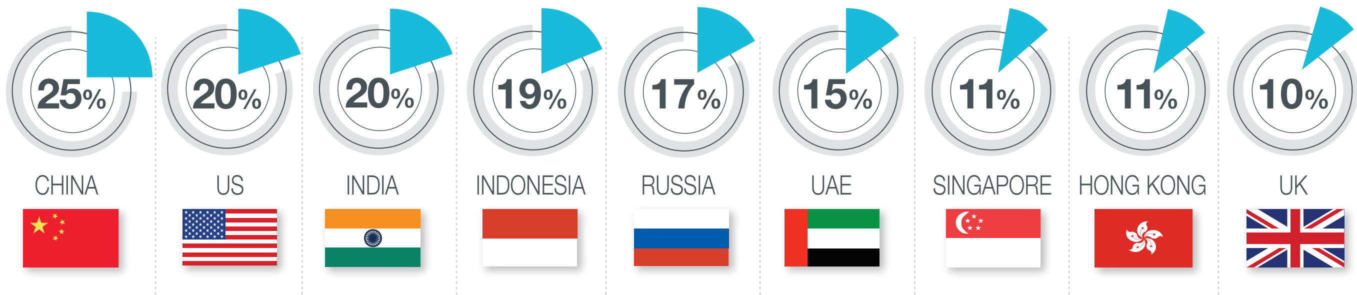
If we set this expanding demand against the limits on supply – either in the form of moratoriums on development in resorts such as Courchevel or caps on the construction of second homes (Lex Weber) in Switzerland – the gap between demand and supply looks set to remain tight, in the Alps at least.

The US is a different story. Supply is less of an issue given the space and the less prohibitive planning constraints. The issue in the US is the uptake of the sport. The baby boomer generation are skiing afficionados but although wealthy milennials and thirtysomethings have adopted a broader range of snow sports, they have yet to embrace ski property investment to the same extent as their parents or grandparents. According to

FIGURE 8

Percentage of UHNWIs that are interested in owning a ski home

Selected countries



Source: Attitudes Survey, Knight Frank Wealth Report 2014

the National Ski Areas Association the over 55's in the US accounted for 7% of all skiers in 1997-8 but last year this figure rose to 17%.

Strengthening sales

The steady recovery of sales volumes in the top US resorts is an indication of the confidence returning to the market. The number of property sales in Colorado's top resorts of Aspen, Vail and Beaver Creek increased by 64%, 81% and 45% respectively in 2013 compared to 2009 according to US analyst DQ News (figure 9).

Currency advantage

For British buyers who put off purchasing in the French Alps in 2013 and instead committed in 2014, the decision was an insightful one. The pound reached a 22-month high against the euro in April of this year and the impact for British buyers – combined with price falls in certain markets – created significant discounts.

Using two examples, one French, the other Swiss, we have taken a €3m and a CHF3m property respectively as at June 2013. Calculating the change in prime prices and currency movements in the 12 months to June 2014 we have then estimated the price of that same property in sterling a year later (figure 7). In resorts such as Courchevel (1850) where prices have fallen by circa 7% year-on-year the saving amounts to c.£319,000 (figure 7).

Ones to watch

We expect the Alpine market to see limited price movement during the 2014/15 ski season with sales activity picking up thereafter. Some uncertainty across Europe's political and economic landscape, namely the general election in the UK, the finalisation of key pieces of Swiss legislation and the sluggish European economy may hinder sales volumes but only in the short-term.

If asking prices continue to come down in Courchevel (1850) we may see stronger activity in the 2014/15 season. Courchevel Le Praz and Courchevel Village are increasingly being seen as 'good value'.

The resorts that are the most successful in boosting their non-ski pursuits, enabling them to provide year-round activities, such as Morzine are likely to outperform their neighbours.

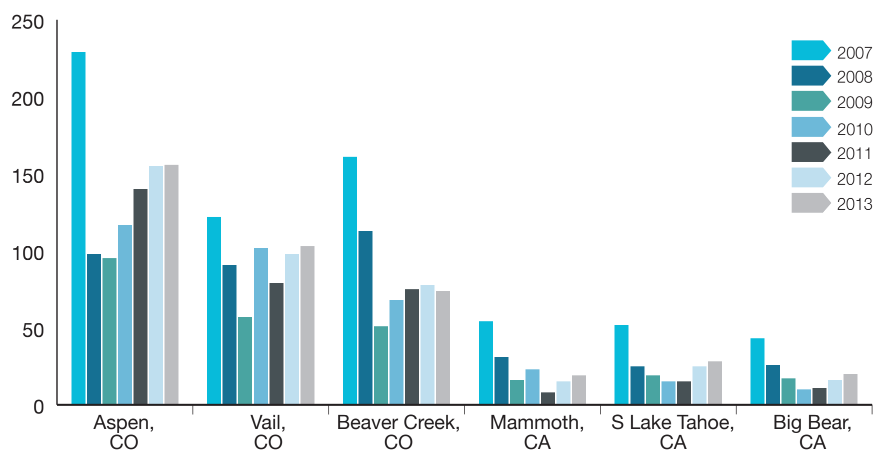
The opening of upmarket hotels, from the W Hotel in Verbier (2013) to the Four Seasons in Megeve (2016) can also be influential. International buyers visit and sample the resort before committing to purchasing.

The online viewing of properties in Verbier increased 27% in the three months after the W Hotel's opening on Knight Frank's website, it will be interesting to see if the Four Seasons has a similar impact on the Megeve market when it opens in 2016.

FIGURE 9

Recovering sales volumes

No. of sales by US resort



Source: DataQ News

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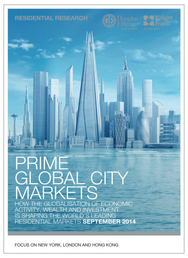

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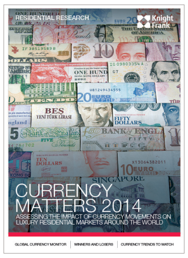

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