

Spotlight  
Second Homes and Vacation Homes in Switzerland

November 3, 2005



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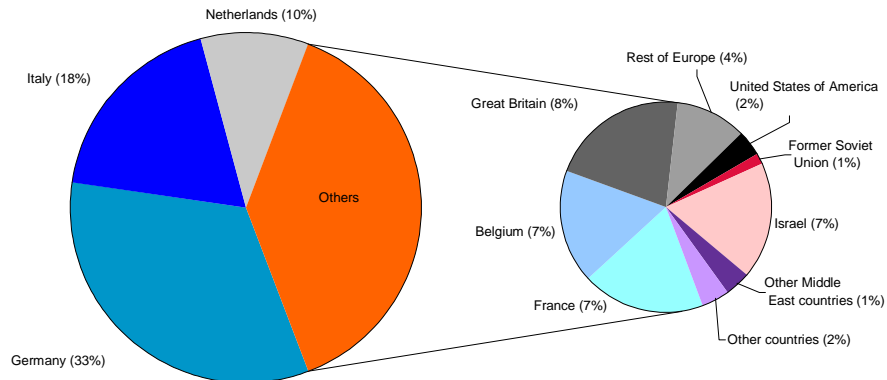
**Second homes and vacation homes are very popular in Switzerland. According to housing statistics, this sector comprises around 419,000 properties. Or to put it another way: almost one in nine dwellings in Switzerland is only used on a temporary basis. At the beginning of November 2005, the Federal Council decided that, in future, foreign nationals will be able to purchase land or property in Switzerland without being subject to a complicated authorization procedure. However, the relevant law, the Lex Koller, is not expected to be abolished completely until 2010.**

According to our calculations, of the 419,000 dwellings in Switzerland that are used on a temporary basis, around 181,000 of these are vacation homes. Some 238,000 units are second homes owned by commuters who live there during the week. These calculations are largely consistent with the results of a survey conducted by the University of St. Gallen. According to this survey, the Swiss own around 280,000 vacation homes in Switzerland or abroad, of which two-thirds (185,000) are located in Switzerland. The survey also showed that Italy, France and Spain are the most popular countries among Swiss owners of residential property abroad.

### **Vacation Homes in Switzerland Still Attractive**

Around 1,400 vacation homes are purchased by foreign nationals every year. Since January 1, 1985, however, a law known as the Lex Friedrich, and as the Lex Koller since October 1, 1997 (cf. appendix), has imposed restrictions on the acquisition of second homes and vacation homes in Switzerland by foreign nationals. Between 1996 and 2004, a total of 12,150 transfers of ownership to foreign nationals were authorized. This corresponds to around 10% of the housing stock expansion in Switzerland during this period. Figure 1 shows that the Germans are the front runners, accounting for one-third of all transfers of ownership, followed by the Italians and the Dutch.

**Figure 1: Breakdown of Transfer of Ownership to Foreign Nationals in Switzerland by Country (1996–2004)**



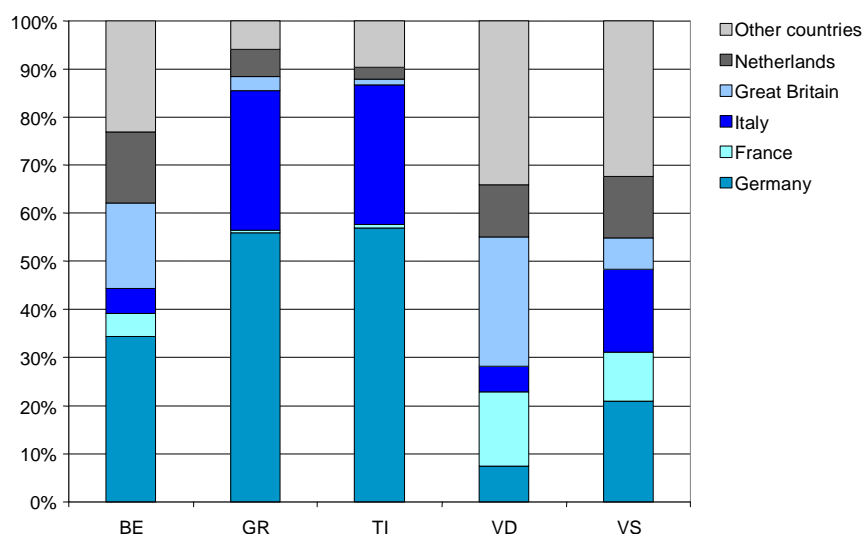
Source: Federal Office of Justice; Credit Suisse Economic Research

Different nationalities tend to opt for different regions of Switzerland, either because of well-established historical traditions, or as a result of the distances involved and transportation infrastructure. Consequently, the majority of Germans and Italians in Switzerland live in the cantons of Graubünden and Ticino (Figure 2). Between 1996 and 2003, these two nations accounted for around 85% of all property purchases made by foreign nationals. The British, however, prefer the Bernese Oberland region and the canton of Vaud. The Dutch favor the tourist areas in the canton of Valais and a few specific destinations in the Bernese Oberland region. As for the French, they primarily look for relaxation in the skiing areas in the cantons of Valais and Vaud.

### **Abolition of the Lex Koller Expected in 2010 at the Earliest**

On November 2, 2005, the Swiss Federal Council decided that the Lex Koller no longer serves any purpose and should therefore be abolished. In future, foreign nationals will be able to purchase land and vacation homes in Switzerland without being subject to a complicated authorization procedure. In order to avert an uncontrolled increase in the number of second homes, the Swiss Law on Spatial Planning is to be revised to prevent unsightly developments in rural and urban locations. To ensure that the cantons and municipalities have sufficient time to implement the necessary measures, the Lex Koller will not be abolished until approximately three years after the Spatial Planning Law has been revised. It is therefore expected that the Lex Koller will remain in place until at least 2010.

**Figure 2: Breakdown of Transfer of Ownership to Foreign Nationals in Selected Cantons, by Country (1996-2004)**



Source: Federal Office of Justice; Credit Suisse Economic Research

### High Proportion of Second Homes in Tourist Areas and Conurbations

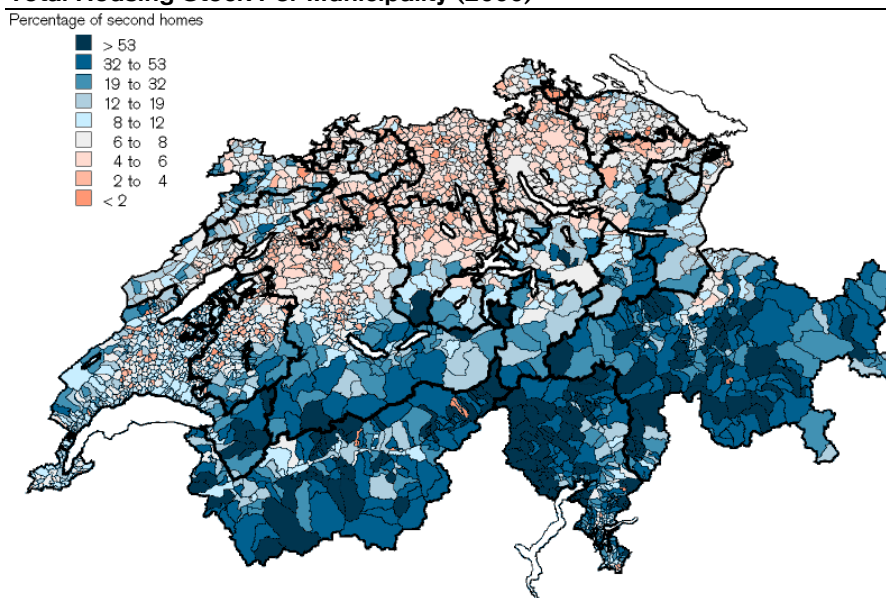
Contrary to popular belief, second homes are by no means an issue that only affects tourist communities. Some 238,000 dwellings or more than half of the total number of second homes and vacation homes (419,000) in Switzerland are located in the cities or conurbations. These dwellings serve as urban "pied-à-terres", primarily in the towns where their owners work or study. Taking five major cities into account – Zurich, Geneva, Basel, Berne and Lausanne – over 45,000 residential units are only used on a temporary basis. This corresponds to five percent of the housing stock available in the major cities.

The highest percentage of second homes and vacation homes is found in the tourist areas where, on average, one in two dwellings is currently used on a temporary basis only. Some areas have focused so strongly on tourism that in the meantime four out of five dwellings are often unoccupied. This entails problems for the regions concerned. For example, the construction of vacation homes means that the landscape becomes heavily built up, while the number of cars on the roads increases, and infrastructure (shopping facilities, medical services, etc.) is geared toward large numbers of people during peak season. At the beginning of June 2005, the citizens of the Upper Engadine – one of the most important and attractive holiday destinations in Switzerland – applied the brakes in the face of trends in the vacation-home market. An initiative to restrict the number of second homes built in the Upper Engadine in the future to a gross floor area of 12,000 square meters per year – approximately 100 apartments – was approved by a clear majority. Compared to current figures, the number of new vacation homes built in and around St. Moritz will therefore be reduced by a quarter.

Figure 3 gives a breakdown of the percentage of second homes and vacation homes for each municipality in Switzerland. The majority of vacation homes are located in the regions of St. Moritz, Lenzerheide, Flims/Laax and Arosa. In Verbier and Goms too, the proportion of vacation homes is over 50%. As well as the cantons of Graubünden and Valais, the most important tourist destinations in

Switzerland, there is also a high percentage of vacation homes in Ticino. In contrast, the proportion of second homes and vacation homes in central Switzerland and the Zurich region is only between four and seven percent.

**Figure 3: Second Homes and Vacation Homes as a Percentage of the Total Housing Stock Per Municipality (2000)**



Source: Swiss Federal Statistical Office; Geostat; Credit Suisse Economic Research

### Growth of the Second-Home Market Predominantly in Conurbations

In addition to analyzing the housing stock, it is interesting to assess how the second-home market has changed in recent years. As the criteria underlying the housing censuses in 1990 and 2000 differed, the values in question can only be compared by combining the results for dwellings that are "occupied at times" and "unoccupied". A rough estimate suggests that, for the period under consideration, the number of second homes has risen by around 120,000. Analyses show that the increase in tourist areas has been relatively low since 1990 at 3%. The actual boom in the vacation-home market took place before that date.

Nevertheless, there are enormous regional differences here, too. For example, in the canton of Valais, particularly in the Brig region, residential construction has boomed again in recent months. This trend has been fuelled by sales of second homes and vacation homes. The increase in residential building activity is due in part to the Lötschberg base tunnel project, which will halve the journey time between Berne and Brig to 50 minutes. Investors are obviously constructing residential property with this in mind already. In our opinion, however, the impact of the Lötschberg Tunnel has been overestimated, as it will attract very few international property buyers, and the potential Berne offers is limited.

In urban areas the number of second homes rose by around 130% between 1990 and 2000. Here, however, the second-home boom only established itself after 1990. The conurbations around the major towns and cities are also experiencing high growth rates. Over the past decade, the traditional pattern of owning a vacation home in the mountains has obviously given way to people purchasing a

second home near their place of work. Tax considerations and what is perceived as a higher quality of life in the countryside are likely reasons behind this trend.

### **Tourist Areas Equal Expensive Owner-Occupied Apartments**

The demand for vacation homes in selected tourist areas has increased again in recent years, a fact which is reflected by the rising property prices. Since 1995, the price of high-quality, owner-occupied apartments in many tourist areas has climbed to well above the national average. The biggest price rises have been seen in the Upper Engadine. Between 1995 and 2005, price increases for owner-occupied apartments in St. Moritz, Celerina or Silvaplana have been 42.5 percentage points higher than the Swiss average. In Pontresina, prices have climbed even faster. Nowadays, high-quality owner-occupied apartments in St. Moritz are priced at around CHF 10,000 per square meter – a perfectly "normal" price which is comparable to those in the cities of Geneva or Zurich. In the luxury category, prices of CHF 25,000 per square meter are quite commonplace. Price trends in other key tourist areas, such as Gstaad, Davos, Ascona, Verbier or Zermatt, have also exceeded the average, though not to the extent of those in the Upper Engadine.

In recent years, investments in vacation homes at prime locations have enjoyed significant appreciation in value. However, this was by no means the case for all locations and properties. In areas where the infrastructure is less developed and where there is no guarantee of good skiing conditions, the price of vacation homes has remained the same over the last decade or fluctuated only slightly.

Abolishing the Lex Koller is unlikely to lead to an increased demand for vacation homes. First, the quotas defined by the Lex Koller are not being fully exploited even now. Second, we expect that the particularly popular tourist destinations will issue the necessary regulations based on the Spatial Planning Law in order to restrict an increase in supply.

In contrast to the housing prices in tourist areas, price trends in urban centers are hardly affected by the demand for second homes. The number of second homes in the cities has undeniably risen greatly in recent years, but they still only account for a relatively small proportion of the residential market as a whole. The most extreme price rises – particularly for primary residences – are found in the urban areas of Geneva, Zurich and Zug. Prices in Berne and Basel are developing in line with the Swiss average, however.

## **Demographic Trends and Economic Growth Shape the Demand for Vacation Homes**

Both the age structure of the population and demographic trends are factors that influence the demand for vacation homes. In particular, higher life expectancy is extremely important for this market. By 2040, the proportion of people over the age of 65 will have increased by around 10 percentage points to 25%. This sector of the population tend to buy condominiums. The cantons of Ticino and Valais are very popular among older people looking for places to retire to, and we expect this trend to continue in the future.

In addition, the demand for vacation homes is also heavily dependent on the level of economic growth in Switzerland, as well as in countries such as Germany or Italy, its key trading partners. Additional aspects that affect demand include the attractiveness of the tourist areas, the availability of hotel rooms, and the cost of an overnight stay. Mortgage rates are another significant factor. As a result of low interest rates, residential property has undoubtedly become increasingly attractive again. On the whole, however, demand has slackened off slightly in recent months due to weaker economic growth. Nevertheless, key tourist areas are continuing to experience excess demand for vacation homes. Supply restrictions, such as the planned measures to rectify the situation in the Upper Engadine, are likely to exert further upward pressure on prices in this region over the next few years. However, we are unlikely to see any major movements in vacation property prices in the majority of Switzerland's favored locations for second homes. Instead, prices are expected to develop in line with the Swiss average in most regions.

## Appendix

### Lex Koller

Certain restrictions apply to foreign nationals who wish to purchase land or property in Switzerland. The objective set out in the Swiss Federal Law on Acquisition of Real Estate by Persons Resident Abroad ("Lex Koller"), which came into force on January 1, 1985, is to protect Switzerland against an "inundation" of foreign nationals.

In principle, foreign nationals who are neither EU/EFTA citizens, nor possess a Swiss C permit, irrespective of whether they are resident abroad or in Switzerland, require authorization from the relevant cantonal authorities to purchase residential property in Switzerland (Figure 4). Legal entities domiciled abroad and companies domiciled in Switzerland that are controlled by persons abroad also require authorization to purchase property.

On November 2, 2005, the Federal Council initiated a consultative process to abolish the Lex Koller and to approve a partial revision of the Swiss Law on Spatial Planning. In the most optimistic case, the revised Spatial Planning Law will enter into force in 2007. Consequently, it would be possible to abolish the Lex Koller in 2010, at the earliest. The following provisions will continue to be valid until this point:

### Second Homes

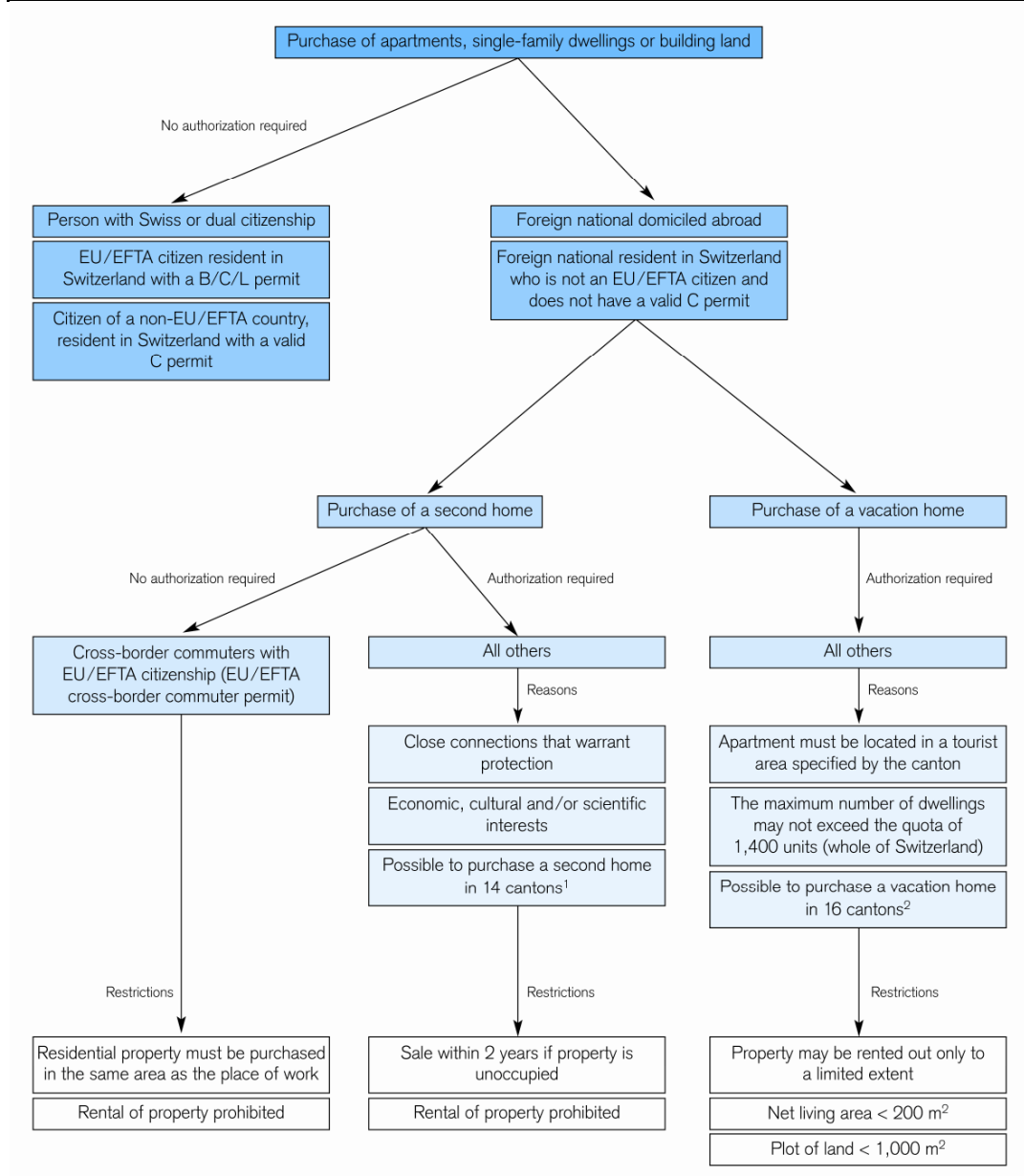
A foreign national who is resident abroad can obtain a permit to purchase a second home provided that he/she has exceptionally close connections with the place in question that warrant protection. Relatives in the area, or time spent there on holiday, recuperating or studying are not considered suitable grounds. This provision is currently recognized in 14 cantons (cf. Figure 4, footnote 1), though only seldom is it actually applied.

Cross-border commuters who are EU/EFTA citizens do not require authorization to purchase second homes. However, the house or apartment must be in the same area as their place of work. This vague wording allows considerable scope for negotiation, as there are no stipulations regarding how great the distance must be in kilometers. Renting out a second home to third parties is prohibited, and the house or apartment must be sold within two years of the owner moving out. Authorization is not required for residential property acquired by the legal heirs or by the seller's relatives. This also applies to people moving to a different condominium in the same building, or to property acquired in lieu of payment in the event of insolvency.

### Vacation Homes

It is permissible for foreign nationals to purchase vacation homes in 16 cantons, although only in the tourist areas specified by the canton concerned (cf. Figure 4, footnote 2). A maximum of 1400 units may be approved in Switzerland per year, and this quota is divided between the cantons. It is permissible for these vacation homes to be rented out to a limited extent. At the time of purchase, the net living area must not exceed 200 m<sup>2</sup> and the plot of land must not be larger than 1000m<sup>2</sup>.

**Figure 4: Restrictions on Property Purchases by Persons Abroad**



1 Appenzell Ausserrhoden, Basel-Stadt, Fribourg, Graubünden, Jura, Lucerne, Neuchâtel, St. Gallen, Solothurn, Ticino, Uri, Vaud, Valais, Zurich  
 2 Berne, Fribourg, Glarus, Graubünden, Jura, Lucerne, Neuchâtel, Nidwalden, Obwalden, St. Gallen, Schaffhausen, Schwyz, Ticino, Uri, Vaud, Valais

Source: Federal Office of Justice; Credit Suisse Economic Research

## Financing Aspects

In Switzerland, house buyers generally borrow up to 80% of the funds required to purchase a property. In the case of vacation homes, the borrowed capital may not exceed 66% of the market value or purchase price. Buyers are required to commit more equity because the second-home market entails higher risks.

First, the market for vacation homes is smaller than the owner-occupied property market. Second, the market responds more sensitively to economic changes. Unlike primary residences, the debt must be repaid over time until it has decreased to 50% of the purchase price. The timing and size of the repayment sums may be set on an individual basis, depending on the property.

With respect to affordability, the total cost of the primary residence and vacation home (including interest, repayment and ancillary costs) should not exceed one-third of disposable gross income. Dedicated pension fund assets may not be used to finance a vacation home. By law, retirement assets are exclusively reserved for primary residences.

Maintenance costs for vacation homes are similar to those for owner-occupied residential property. As a general rule of thumb, buyers should allow for around one percent of the purchase price, depending on the costs for electricity, heating and water.

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