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Foreigners Snap Up Swiss Property

By GORAN MIJUK

ZURICH—With average house prices nearing 800,000 francs, the Swiss residential real-estate market continues to boom. Market participants say there is no end in sight as cash-rich Europeans and Russians keen to protect their assets fuel demand.

"I'm getting calls from Greek investors almost every day who want to buy a house here," says Robert Ferfecki, managing director for Sotheby's International Realty Inc. in Zurich, who is selling luxury homes in the German-speaking areas of Switzerland, including Zurich and Lucerne.

"Had Switzerland no restrictive property laws that limit what foreigners can buy, I would probably be able to sell my portfolio within a week," Mr. Ferfecki says, noting that Germans and Britons are the top buyers.

Unlike property markets in the U.S. and many European countries, which are still smarting from the 2008 housing collapse, prices for all categories of Swiss real estate have risen steadily over the past three years, according to consultancy Wuest & Partner AG.

Prices for family homes, for example, have risen some 20% since 2008 to an average of 780,000 francs, or $830,000, the consultancy says. Also boosting the market are record-low mortgage interest rates, which hover at 2.7%, after the Swiss National Bank cut its key interest rates close to zero last summer.

Fanning the boom is a steady influx of foreigners attracted by the strong economy, Wuest & Partner says. Over the past four years, Switzerland has seen a net influx of about 330,000 foreigners, according to the national homeowners' association, HEV Schweiz.

Most are highly skilled workers from Germany, the U.K. and France, who are drawn by Switzerland's strong job market. Unemployment was 3.3% in December.

Mr. Ferfecki of Sotheby's says the financial crisis has also triggered interest from cash-rich Europeans and Russians, who want to park some of their assets in Switzerland to shield themselves from a potential breakup of the euro zone and benefit from the country's stability, as well as its low taxes, which can be less than 10% of a person's income.

In recent years, billionaires from the former Soviet Union, including Coalco Metals Ltd. owner Vasily Anisimov and Viktor Vekselberg, chairman of commodities company Renova Group, have moved to Switzerland. Dinara Kulibayeva, the daughter of Kazakh President Nursultan Nasarbeyev, reportedly paid 74.4 million francs for a villa at Lake Geneva in 2009.

"What really makes these people come to Switzerland isn't just the low taxes, but the quality of life and the stable rule of law," Mr. Ferfecki says. "They don't need huge security and can go shopping without being recognized."

But because Switzerland's property laws are restrictive for non-resident foreigners—only about 2,000 homes can be sold to non-residents every year—foreign investors who are unwilling to live in Switzerland but want to benefit from the market's strength have started to build up investments in Swiss real-estate funds and property companies.

Shares in Swiss funds such as PSP Swiss Property AG, Swiss Prime Site AG and Mobimo Holding AG, which own residential and commercial real estate in Switzerland, have sharply outperformed the Swiss stock market. Stocks overall have lost more than 7% over the past 12 months, while property stocks have gained between 1% and 4%.

"What our international investors like about us is the fact that we are a pure Swiss play," says Luciano Gabriel, chief executive officer of PSP Swiss Property. "Since we have no operations outside Switzerland, our business depends on the Swiss economy and investors have an almost pure Swiss franc investment that isn't linked to other risks." Because of the international interest, Mr. Gabriel says, PSP holds annual investor events in the Netherlands, the U.S. and the U.K.

This investor demand, coupled with Switzerland's still sound economic outlook—the government expects the economy to grow by 1.9% in 2013 after moderate growth this year—prompted Mobimo to seek 200 million francs in fresh capital last month to finance new projects. UBS AG and fund manager Swisscanto Holding AG both recently raised money for their respective Swiss real-estate-fund businesses, financing new projects in the country and spurring a building boom.

According to the Swiss government, real-estate projects worth 63.7 billion francs were launched last year, the bulk financed by private investors. This is up 3% from 2010, when 61.92 billion francs' worth of projects were planned.

"We are certainly in a boom phase," says Thomas Vonaesch, head of real-estate fund management at Credit Suisse Group, which controls around 14.4 billion francs of real-estate assets. "And demand is expected to remain sound as the financial environment with low interest rates is expected to drive demand."

UBS's Swiss Real Estate Bubble Index, which tries to measure signs of the market overheating, rose in the third quarter but showed no sign of a bubble, according to the bank. Bank Vontobel real-estate analyst Stefan Schuermann says prices will continue to rise "as investors have nowhere else to go."

He argues that Switzerland's housing market won't go the way of that of the U.S., as mortgages are usually backed by a 30% deposit. "This makes this market safe and price development stable," he says.

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