

UBS immo news



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Earnings prospects for apartment buildings still robust

The strong upward trend observed in the average price of income property during 2004 and 2005 slowed down somewhat in 2006. Parallel to this development in 2006, rent prices accelerated their climb.

In recent years, apartment buildings have gained in popularity as income-producing property, not only among investment foundations and pension funds, but also among private individuals looking to diversify their investments and exploit the very attractive margin that we have seen since 2004 between financing costs and returns.

Upward trend now levelling out

Growing demand caused a strong, steady rise in real estate prices up until 2005. Last year prices began to level out, at least temporarily. During the last five quarters, the price index for income properties has hovered in a narrow range, signalling a return to more stable average prices. In 2004 the price index rose by 6 percent and in 2005 by a hefty 7.7 percent. What's behind this change in the trend?

There are two explanations. First of all, it should be remembered that 2006 was a record year for the Swiss stock market,

tempting lots of investors with big profits. The returns achievable on real estate seemed modest in comparison with stocks, therefore making property investments less attractive. In addition, the initial gross returns possible on income properties have recently come under increased pressure due to the extended rise in property prices.

Earnings prospects still intact

Despite this development, UBS still regards the earnings potential on investments in apartment buildings as robust, as long as no unpleasant surprises occur on the interest rate side. In general, we may still expect to see positive trends in values for properties situated in good, noncentral locations with future development potential. Financing conditions are set to remain attractive in 2007, which should keep demand among investors for apartment buildings steady and high. Property prices are also likely to be pushed up slightly as investors regain their appetite for the real estate market.

Editorial



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Investing in an apartment building – this is an option that is becoming ever more interesting for private individuals. Income-producing properties are a popular form of investment and are regarded as particularly secure. For many people, “living for free” in the penthouse apartment of one’s own apartment building would seem to be a perfect way of attaining financial security for old age.

Before a dream like this can become reality, a number of important hurdles have to be taken. In particular, issues surrounding construction plans, taxes, financing and value retention have to be addressed. Only once these points have been thoroughly and competently clarified is your “investment for the future” truly secure.

This edition of “UBS immo news” focuses on the topic of apartment buildings as property investments. It outlines the kind of assistance available to you from your UBS advisor. It also describes how UBS assesses the value of income-producing property, how UBS can help with financing and looks at the current market situation and earning trends for apartment buildings. We hope you will find “UBS immo news” an informative and enjoyable read.

Daniel Zimmerli

Added value for private owners of apartment buildings

Income can be generated on investments in apartment buildings – and this is one way individuals can provide for their financial security after retirement. But how does an owner ensure that a property’s value is maintained and an adequate return is earned on the investment over the long term? Answers to important questions like this one were offered at a pilot seminar entitled “Added value for private owners of apartment buildings” conducted in mid-March of this year by UBS Baden in conjunction with local partners.



Major interest: Thanks to the wide variety of topics addressed, all the participants in the seminar received the information they wanted.

Private individuals who own an apartment building or are thinking about acquiring one frequently find themselves confronted by a number of significant questions: Should the building be conserved or renovated? What does the cost-return analysis look like? What influence does the market have? What sort of opportunities are available, and what kind of risks do they entail? It’s a fact that if a building is not maintained properly or does not meet the latest quality standards when it is built, it will quickly lose value and may even become a financial burden.

Seminar for apartment building owners

Property owners who attended the UBS seminar held on 15 March 2007 at the TRAFO Culture and Congress Center in Baden got the answers to many of these important questions. The seminar was an event specially designed by UBS and conducted together with real estate specialists. The seminar focused on the key steps of analysis, planning and execution for both older and new properties. Property owners who master these steps are able to identify trends and unusual developments early and therefore better protect the value of their property and secure adequate returns on their investment over the long term.

The specialists from UBS

UBS would like to see apartment building owners in other regions of Switzerland benefiting from this expertise and is

therefore planning additional seminars. The response to the pilot project in Baden was enthusiastic, and 90 percent of the participants would recommend the seminar to other property owners.

If no seminar is yet scheduled near you, you can contact UBS directly anytime. UBS’s specialists for apartment buildings will conduct detailed analyses to clarify the market situation in your region, calculate returns under various conditions and estimate the renovation costs of your property. They are also available to address legal and tax questions.

Beat Eiermann, UBS client:

“Today I learned a lot and got heaps of valuable information. The topic of financing was well structured, well presented and enormously informative.”

Roman Müller, Hasli Treuhand AG:

“Today’s seminar confirmed that Minergie is the standard of the future. Within 15 years, there will no longer be any demand for buildings being built today that do not comply with this standard.”

i Further information, including a checklist for financing income-generating property, may be found at the following UBS Website:

www.ubs.com/multi-family-residences

How UBS assesses the value of apartment buildings

UBS has teamed up with a specialized partner to develop its own model for appraising property value. This is designed to calculate capitalization factors that are as objective and consistent with the market as possible. Using this model, real estate experts can assess the value of an apartment building individually, taking into account the specific features of the property and the region where it is located.

When UBS evaluates a mortgage application for an apartment building, it assesses the property's value using a method based on capitalized income. A UBS specialist determines the amount of rental income the property can effectively generate on a sustainable basis and then capitalizes this amount to obtain a corresponding value for the property. This figure is then corrected for the cost of any renovation work required that cannot be passed on to the tenants.

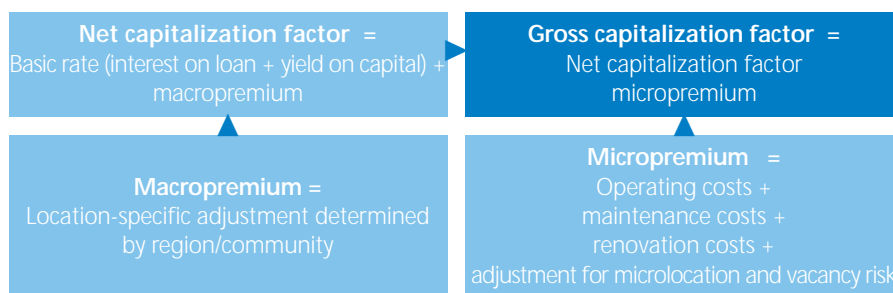
The capitalization factor represents the gross return an investor can typically expect to earn on the property. In order to calculate objective capitalization factors that resemble the market as closely as possible, UBS applies a capitalization factor model it jointly developed with Wüest & Partner AG, which incorporates market data and cost benchmarking that is updated on a regular basis.

At the same time it allows UBS's real estate specialists to assess the value of apartment buildings taking due account of the individual property's specific features and the region where it is located. This professional assessment is the foundation of every advisory discussion UBS has with clients concerning mortgage financing of apartment buildings.

Capitalized income method

$$\text{Capitalized income value} = \frac{\text{sustainable gross rental income}}{\text{capitalization factor}} = \text{renovation costs}$$

Capitalization factor model



UBS financial advising services for apartment buildings

Real estate is gaining in popularity as an investment, particularly among private individuals as a vehicle for securing their financial well-being after retirement. Long-term value retention and adequate return on invested capital are important factors to keep in mind when investing for this purpose.

Investments in real estate (especially apartment buildings) can be an interesting option for private individuals to consider as they plan financially for retirement. For a property investment to be secure and successful, prudent planning is necessary, plus a comprehensive, future-oriented strategy that takes due account of all the factors important in retaining the property value and generating income with an apartment building.

Careful property analysis

To be certain that a given property can retain its value and generate income in the long term, the property should be subjected to a thorough analysis. With UBS you have a competent, reliable partner to assist you in tackling such an analysis and subsequently devising appropriate financing.

A careful, detailed analysis by our real estate specialists includes the following:

- Evaluation of the market situation in your region

- Income calculations for various scenarios
- Tax implications for private individuals
- Rough estimate of renovation costs
- Customized financing solutions

Advantages offered by UBS financial advisory services:

- At UBS you can count on professional all-round advice from real estate specialists
- UBS helps you optimize the return on your investment through comprehensive analysis and individualized financing

From property analysis to customized financing solutions

Taking a comprehensive analysis of the property you are interested in as a starting point, our real estate professionals will help you determine what makes the best sense and what needs to be done if you decide to go ahead and invest. This process culminates in a detailed, medium-term plan for maintenance and remodelling work or investments in renovation, and goes hand in hand with optimizing your individual financial structures from the point of view of asset diversification and taxation. You may choose from UBS's entire range of mortgage products to finance your apartment building investment, and individually combine mortgage products.

Call your UBS advisor today to arrange for a free property analysis and customized financing proposal.

Extract from UBS Financial Advisory analysis

Market information

The location of your property is of key importance. General economic factors and real estate trends can have a significant impact on the value of your apartment building. Should you require additional information about your municipality or region, please do not hesitate to contact your UBS advisor.

Vacant housing rates compared ('06)

Fribourg	2.02%
Cant. Fribourg	0.97%
Switzerland	1.06%

The vacant housing rate indicates the proportion of all properties unoccupied. This chart depicts the margin of flexibility in the real estate market. The lower the vacant housing rate, the greater the chances of letting.

