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Purchasing real estate – astute buyers *think ahead*

The real estate market continues to flourish. However, some market observers are starting to question current housing prices. Quality and value for money are what ultimately matter to buyers.

Peter and Claudia Gehrig spent weeks viewing property after property. Prices in the city center were too high for them, while away from the center, they soon discovered that “excellent transport links” actually meant excessive traffic noise. They finally found what they were looking for in the suburbs: a brand-new condominium with five bedrooms, a large terrace and a countryside view.

So far, the Gehrighs have only signed a reservation agreement as they want a little more time to think about it. There is no escaping the fact that years of low interest rates and population growth in many conurbations have boosted the real estate market. In particularly coveted locations, prices for single-family homes and condominiums have risen as sharply in four to five years as in the previous 20 years. What constitutes a property’s “correct” price may consequently be a point of contention. In some cases, the market value determined by the bank and used in credit checks turns out to be lower than the purchase price set by the seller. Clients must finance the difference out of their own pockets. Fortunately, Peter and Claudia Gehrig were smart

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Editorial



Roger von Mentlen
Head of Private Clients Switzerland

Dear Reader,

There is a discernible trend towards home ownership. Thanks to low interest rates, purchasing a home for personal use, investment purposes or as a form of retirement planning is an attractive proposition for many Swiss. High demand and frenetic building activity are driving prices up. We won't know until a few years from now whether the prices of certain properties are sustainable.

If you are dreaming of owning your own home, you should not focus solely on costs. Purchasing and living in your own home is a long-term commitment. A good location, the quality of architecture, the interior fittings, choosing the right construction partner and getting the maximum benefit from your home are therefore of great importance. That's why it's worth contacting your UBS client advisor at an early stage, as he or she will assist you with financing and negotiating the ins and outs of your real estate purchase. Find out more on pages 1 and 3.

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Is a *real estate bubble* looming?

The Swiss real estate market appears to be approaching the high point in another price cycle. Since the lows of 1998, prices for residential property have increased by an average of around 60 percent. Employment, population and income levels have grown considerably – but does this justify the price rises of recent years? Or is Switzerland on the verge of a real estate bubble?

The UBS Swiss Real Estate Bubble Index uses indicators to compare current developments on the real estate market with the situation during the height of the last real estate bubble at the end of the 1980s. In the fourth quarter of 2012, the UBS Swiss Real Estate Bubble Index stood at 1.11 points. Depending on its value, the index points to one of the following five stages, in order of increasing risk: slump, balance, boom, risk and bubble. According to the index definition, a score greater than 1 means that the market is in the risk zone. In recent years, the market has become imbalanced in numerous regions, and further price rises are therefore often seen as a sign that the market is overvalued. Nevertheless, the Swiss real estate market as a whole still shows no clear symptoms of a price bubble. Yet if the current trend continues, the UBS Swiss Real Estate Bubble Index should reach the bubble zone (with a score greater than 2) by the end of 2014.

What prospects for the market?

In last few quarters, the dependency of high prices on low financing costs has become even more acute, and this will determine the future state of the market. For a start, extremely affordable loans are distorting the price-to-rent ratio, which is now significantly above its long-term equilibrium value.

Secondly, low interest rates are making real estate appear relatively inexpensive in relation to income – an illusion likely to sting many households once interest rates go up. And thirdly, the quest for returns is fuelling interest in real estate as an investment.



No trend reversal in sight

The latest recovery on the financial markets and a decline in investors' search for safe havens could somewhat dampen the rise in real estate prices. The extent of the impact of the recently approved countercyclical capital buffer and the minimum requirements placed on mortgage financing that came into effect last year (down payment of at least 10 percent that is not drawn from occupational pension savings, plus obligation to amortize two-thirds of the market value of the property over a maximum of 20 years) is also unclear. However, a trend reversal, and hence falling prices, is still not expected before the end of 2014.

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enough to contact their UBS client advisor in good time. Advisory consultations that explore the scope for financing in advance are an important guide for home buyers.

Weigh up the pros and cons

Buying your own home should not simply be about the price, however. Instead, you should focus on long-term personal use and increased quality of life. Before signing a binding purchase agreement, you should carefully evaluate the quality of the location. Visit the site of the property at different times of the day, during the week and at weekends. Is it sunny and quiet? Are shopping, leisure, cultural facilities, schools, etc. within easy reach? Or is the last bus in the area as early as six in the evening? What are your impressions of the neighborhood?

The value of a property very much depends on its proximity to the town or city center. Other factors such as utility connections, the financial strength of the municipality and the tax rate, the view, the slope of the terrain, and, of course, the size of the plot and the available living space also play a crucial role. In the case of existing properties, the quality and age of materials, appliances and interior fittings also matter, while the practical usability of the building's layout should complement the overall assessment.

Scrutinize your contractual partner...

If, like the Gehrigs, you decide in favor of buying a house that has not yet been built, you should always insist on references.

The general contractor of the housing development or the selling party normally starts commercialization at an early stage. Interested buyers usually sign advance reservation agreements and make substantial down payments. Paying particular attention to the contractual partner's creditworthiness and credibility is therefore important. It is standard procedure to ask your contractual partner to provide references from existing clients, details of previous projects and even a recent excerpt from the debt enforcement office. Any transfers of funds should be based on clear progress being made at the construction site. Even in the case of careful planning and execution, mistakes can occur. You should therefore ensure that you know your rights should building defects arise, and obtain contractual assurances that the contractor will deal with any shortcomings fairly and speedily.

“Buying your own home should not simply be about the price.”

...and study the fine print

You should also take the necessary time to study all the relevant paperwork such as the purchase agreement, building specifications, floor plans, condominium-related documents, etc., in a careful and considered manner. For example, condominium ownership regulations govern the future apartment owner's rights and duties. All documents and agreements certified by the notary are binding.



Check the figures before you buy

Buying your own home also means thinking of the future. Draw up a budget for the coming years that takes adequate account of interest rates, amortization payments and maintenance/auxiliary costs. An annual outlay of around one percent of the property value should be expected in order to conserve the value of the property and to cover operating expenses (such as heating and electricity). In terms of mortgage amortization, new lending principles in place since last year stipulate that mortgages on owner-occupied residential properties and investment properties must be reduced to two-thirds of the market value specified by the bank within 20 years of the date of payment at the latest. On acquiring the property, the buyer must also make a down payment of at least 10 percent of the market value that is not drawn from occupational pension savings (early withdrawal or pledging).

UBS Mortgages App – now also available for Android

With the free* UBS Mortgages App, now also available for Android smartphones, you can easily work out whether you can afford to buy a particular property and which mortgage options are currently best for you. You can also photograph or film the desired property and store its details, including GPS coordinates, on your smartphone. You can document multiple properties this way. Are you interested in an advisory consultation? Then send your UBS client advisor all the real estate information you have collected in advance – simply and conveniently via your phone.

More home-ownership-related services:

- Five steps to owning your own home
- Overview of UBS mortgage products
- Current interest rates
- Glossary
- News

* Your mobile phone provider may charge you for downloading or using the app.

UBS Mortgage Overdraft Facility – now also for investment property.

The UBS Mortgage Overdraft Facility provides homeowners, and now also investment property owners, with a credit limit for flexible use. It is the easy way to make impulse buys or to fund a home extension. You decide when to use and repay the funds without having to consult your UBS client advisor, while benefiting from an attractive loan interest rate. For more information, go to www.ubs.com/hypo.

Good design need not *cost the earth*

Materials, furniture and colors alone do not create a home. Home interior design consultant Simone Gumpp* explains how to create effective interior designs for apartments and houses.

What sort of people should seek out advice about interior design?

Simone Gumpp: I would generalize by saying that people who need advice are those who do not feel completely comfortable at home and are unable to pinpoint the reason why. The average person is often unable to tell whether it is the furniture, the lighting or something else that is not quite right. I also think a consultation makes sense for anyone moving into a new apartment or house. Seeking advice beforehand is advisable because it helps you to think conceptually rather than merely viewing individual elements in isolation.

How much does a consultation cost?

Different people have different approaches. Some consultants or interior designers charge a percentage of the total furniture bill. Others charge an hourly rate. In my case, CHF 180 per hour is the norm. It is, of course, possible to ask for tenders in advance and to compare them accordingly. Just a few hours of consultation very often go a long way towards being able to proceed methodically according to a specific concept.

How do I create the interior style that is right for me?

The best approach is simply to draw inspiration from exhibitions, furniture showrooms, furniture periodicals, hotels or your friends' own apartments. I think another way is to take a closer look at the home you live in and consider carefully which items of furniture are particular favorites. This can often help to crystallize your thoughts into a specific style.

Let's assume I'm not moving to a new place but simply want a "change of scenery". What would you suggest?

I would ask what your hobbies were, or whether, for example, trees appealed to you as a theme. If they did, you could photograph a selection of trees yourself – in a variety of colors and forms.



Generous printouts of your photos could then be put in attractive frames. Various tones of green – on textiles, on walls or on your own painted furniture – could be used to enhance the effect. A specific context can help show furniture in an entirely new light.

Which interior styles are particularly in vogue at the moment?

"Nude", an elegant, streamlined style, is especially popular at present. In contrast, you have the highly colorful, pop-inspired look, as well as the romantic country house style often comprising wooden elements. Mediterranean and Scandinavian designs are also attracting a following.

"Good design is like Scrabble – it is the sum of its parts."

Aren't some recent design trends, such as the use of earthy colors, very short-lived?

Personally, I think that completely natural colors such as beige, light brown and brown will always be fashionable. Bold shades of orange, violet, black or dark blue come and go. Specific styles usually feature matching colors. For example, white and blue will always be prominent in evoking a maritime style. However, you can and should not forget to follow your heart and intuition when it comes to furniture or accessories such as carpets, pictures or cushion covers.

What does making the best possible use of living space mean to you?

A couple recently asked me whether they needed a new apartment because they were expecting their first child. Over the course of various consultations, I found out that they had an office area at home which they very rarely used. Looking at every possible option often means rearranging and rationalizing. For example, many of the books and files that we keep in our home offices are rarely opened. And to work with a laptop, a small table is all you need.

Does good design have to be expensive?

Not at all. I could give you examples of famous designers making expensive chairs that were extremely uncomfortable to sit on. Reasonably priced furniture, bits and pieces bought on eBay or natural objects found outdoors can also help you lend a harmonious feel to your home. It is a question of getting the combination right. Good interior design is like Scrabble – it is the sum of numerous individual parts.

What role does light play?

The right light is very important. Warm lighting that can be dimmed if possible offers a lot of possibilities. Several light sources help to create a mood. They should be positioned at a height of 80 to 120 centimeters and point downwards. Even in the high-end segment, I am surprised, for example, at how cold and uninviting new living rooms can look – often due to the wrong lighting.

* Simone Gumpp is a home interior design consultant and has many years of experience in interior renovation and design. www.gumpp.ch