

UBS immo *news*

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Advance planning and preparation for retirement is *vital*

It's never too early to start planning for retirement and old age. Prepare your finances, home and taxes well in advance so you can enjoy a carefree time after retirement.

Predicting interest rates, returns on savings and future pensions has become more difficult in recent years. There is a simple solution, however: address these issues early on and decide what needs, wishes, hobbies and other factors are the most important for your retirement.

It is wise to start tackling questions about your retirement when you are between 50 and 55. René Knoblauch, UBS Financial Planning expert, notes: "In our experience, many people at age 55 feel there is no hurry to plan their retirement. We think it is prudent to get advice at an early stage." Waiting until 60 or 62 leaves very little scope for making adjustments or improving one's retirement situation. Planning for your financial needs includes drawing up a budget for retirement, which can be a demanding task.

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Editorial



Roger von Mentlen
Head of Private Clients Switzerland

Dear Reader,

Switzerland's inhabitants are not only living longer, but they are also staying healthier as they age. Many senior citizens are full of vitality and pursue a variety of interests and enjoy life to the fullest. In order to make retirement as carefree as possible, you should take an early approach to planning the future and clarifying the related financial issues.

We address some of the most important of these questions in this edition of UBS immo news: What costs will your future retirement income have to cover? How can you ensure that your home stays affordable after you retire? What features should a home have to make it suitable for old age?

We wish you every happiness in planning a future you can look forward, and we will be happy to assist you in any way you require.

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Current *interest rate trends*

Short- and long-term rates are still at historically low levels. Three-month Libor has been close to zero for the past year. Yields on government bonds with terms up to five years are negative, and for ten-year terms the yield is only just 0.5 percent.

In this environment, the potential for further declines in interest rates has probably been exhausted. Long-term interest rates still show no signs of a turnaround as yet, but they do seem to have bottomed out. Rates on ten-year government bonds, for instance, have hovered between 0.45 and 0.6 percent since May of this year.

Little change expected

The Swiss National Bank is keeping the minimum exchange rate for the euro against the Swiss franc unchanged at 1.20, leaving no room for interest rate hikes. The latest figures on the domestic economy also point to a decline in growth momentum, following on the heels of a surprisingly good first half year. With few impulses for growth coming from the domestic economy, the yields on Swiss government bonds will continue to be determined by global risk tolerance. But this is unlikely to pick up much any time soon, given the persistently high global uncertainty, especially in the euro zone. Hence the potential for an increase in yields in the next two to three years is limited.

Planning your mortgage financing

From the borrower's position, it is important to take a long-term perspective when assessing the costs and risks of



mortgage financing. Our main scenario foresees a normalization of interest rates starting in 2015. We have also formulated high-interest and low-interest scenarios to represent all the potential risks. In the current environment, long-term financing would seem to be the safest strategy. A comparison of the scenarios shows that the ten-year mortgage has by far the most attractive profile. The comparison reveals that for a CHF 1 million mortgage, the cumulative savings potential with a Libor mortgage in an extreme low-interest scenario amounts to around CHF 60,000. This contrasts with high potential added costs in excess of CHF 200,000. Thus, only very pessimistic expectations for the long-term economic trend speak in favor of a short-term financing strategy. To minimize refinancing risk, combining long-term fixed-rate mortgages with different terms is also recommendable.

If you have any questions about mortgage financing, please contact your UBS client advisor, who will be glad to help you.

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UBS real estate focus

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For homeowners, a budget has to include home maintenance and running costs, mortgage interest and possibly amortization payments. These items can make a big dent in almost any budget. On the income side are the social security, pension, pillar 3a and 3b savings and personal assets you expect in the future.

Sample calculation for a married couple

Let's look at the example of Thomas and Barbara Muster from Zurich. Thomas and Barbara recently purchased their own apartment in the vicinity of Zurich for a price of CHF 700,000. The apartment is currently financed through a fixed-rate mortgage of CHF 500,000 at an annual interest rate of 1.7 percent. With the couple's gross annual income of CHF 130,000, the property is easily affordable, including all the related maintenance and running costs and a yearly amortization of CHF 5,000.

How will this calculation look in 2022 when Thomas and Barbara Muster retire? The future income they expect to receive from social security and their pension funds amounts to around CHF 80,000, well below their current income. Whether the apartment will still be affordable under these circumstances is determined by the "1/3 rule": The total regular costs of the apartment – mortgage interest, repayment of the mortgage, maintenance and running costs – should not exceed one third of your gross income. To allow an adequate safety margin, this calculation does not use the current rate of mortgage interest, but a

hypothetical mortgage interest rate of 5 percent. Under these conditions, the Muster's retirement budget will be exceeded. They will need around CHF 10,000 more income per year in order to make ends meet (see table). The situation looks different if they reduce their mortgage by an additional CHF 67,000 upon retirement. If they take account of this in their financial planning early enough they will be able to save the capital needed to make the extra amortization payment when they retire. UBS Financial Planning expert René Knoblauch summarizes: "Amortization upon reaching retirement may be advisable so as to make your fixed living costs a more reasonable percentage of your income."

“Living needs can change radically as you get older.”

Possibilities for reducing living costs

Many employers offer an option of making voluntary payments into your pension fund in order to increase your future pension entitlement. When reaching retirement age you may also consider taking a portion of your pension entitlement in the form of a lump-sum payout for the purpose of reducing your mortgage to a more reasonable level. Indirect amortization through pillar 3a (restricted retirement savings) is also highly recommended. With this method, the amount of the mortgage does not change. Instead, the homeowner pays the amount to be amortized into a pillar 3a solution, which is tax deductible. On retirement

(or sooner), the assets in the pillar 3a retirement savings account are then used to repay the mortgage.

Your retirement home: tailored to your needs and obstacle free

Not every house or apartment is suitable for an elderly person. As you age, your needs can change radically. A multi-story home with a big garden can become a burden for an older person. The interior and fittings have to meet the requirements of the elderly homeowner, and it should be as free of obstacles as possible. Public transport, doctor's surgery, pharmacies, home healthcare providers and shopping should all be close by and easy to reach on foot.

The decision whether or not to remain in your home after retirement may also be influenced by the current market value of the property. Depending on the property's location, age and condition, its value may have change substantially since it was purchased. "In my experience, a lot of people to decide to keep their homes in their old age," says René Knoblauch. Luckily, it is very rare that someone has to sell their home purely for financial reasons.

Interests of younger family members

Emotional factors also play a role in planning: Where will the focus of your life be in the long term? What living requirements and wishes do your children or other heirs have? It is possible to bequeath your home to your heirs but continue to live there yourself. This is accomplished by means of an easement imparting usufruct or dwelling rights, which are important legal tools for reducing inheritance and gift taxes. Usufruct is the right to live in a property oneself, or to rent it out at one's own discretion. The person who holds the usufructuary right is also responsible for the maintenance, mortgage, taxes, etc. attached to the property. Dwelling rights are a special form of usufruct where the person who holds the rights is entitled to live in the property until the end of his or her life. The right may stipulate the payment of a rent, or not. The person with the dwelling rights has to bear the costs of normal maintenance and pay taxes on the imputed rental value, while the owner pays tax on the official property value. For questions regarding succession planning or topics such as marriage and inheritance contracts, wills, usufruct, etc. it is advisable to consult a notary or specialized attorney.

Cost of home ownership

Barbara and Thomas Muster (10 years away from retirement) own an apartment in the vicinity of Zurich. Purchase price: CHF 700,000. Amortization by time of retirement: CHF 45,000. Annual income: CHF 130,000. Expected income after retirement: CHF 80,000.

	Prior to retirement	After retirement
Interest rate	5.0 %	5.0 %
Amount of mortgage	CHF 500,000	CHF 455,000
Interest expense	CHF 25,000	CHF 22,750
Amortization	CHF 5,000	–
Maintenance and running costs p. a.	CHF 7,000	CHF 7,000
Total costs	CHF 37,000	CHF 29,750
Costs relative to income	28,5 %	37 %
Minimum income required	CHF 112,121	CHF 90,152

Source: UBS Financial Planning

Tax aspects are not shown in the table. The imputed rental value of the apartment is approx. CHF 20,000, which increases taxable income (despite deductions for mortgage interest and maintenance).

The roof – an *essential part* of every house

Roofing is a central element of any building and is especially demanding in terms of its construction and maintenance. A lot of untapped potential exists for converting attics into living space nowadays.

The roof is one of the most important structural elements of a house and one that gets some of the toughest wear and tear. Roof surfaces are exposed to the effects of intense sunlight, variations in temperature, damp, humidity and wind. Negative environmental conditions and pollution make various parts of the roof age faster. Because the heat in a house rises, the roof is a critical factor for energy efficiency. Renovating and upgrading a roof – i.e. improving insulation – can substantially reduce energy utilization and running costs. Insulation is also essential for keeping attic rooms from becoming too hot in summer. This type of renovation is very demanding and should be carried out with the assistance of experienced architects and construction firms. Pierre Honegger, an architect in Herdern in the canton of Thurgau, specializes in energy-saving refurbishments. He has the following to say: “Depending on the type of roof construction, insulation can be added between the existing beams or rafters, but often the roof has to be completely opened up and raised.”

Renovating flat roofs

A “warm roof” is one that is insulated in such a way as to make the attic into living space. Otherwise, the roof is referred to as a “cold roof.” A rafter roof is a traditional method of constructing a sloping roof using wooden rafters arranged in pairs.

Since the 1960s, flat roofs have been gaining in popularity in Swiss construction. In simplified terms, this kind of roof consists of a layer of solid reinforced concrete on top of which are a waterproof sealant and synthetic insulation materials. Pierre Honegger explains, “Refurbishments to optimize energy efficiency are usually more demanding for flat roofs than for a sloped roof. For example, it’s not enough to just insulate the roof itself, the roof edges also have to be done.” If a project like this is not planned with a lot of care and carried out professionally, thermal bridges will result, which will cause unnecessary loss of heat. Before embarking on a renovation, it is important to obtain comprehensive advice. A first step can be, for example, obtaining the official building energy performance certificate (GEAK) issued by the cantons. In any roofing project it is important to correctly recognize the interaction of heating, building shell, roof, windows, etc. and plan accordingly.

Correctly maintaining a roof

Extra attention has to be given to the various structural parts of a roof, because even minor soiling, defects and damage can have major repercussions. In the case of a flat roof, it is important to visually check the protective and sealing layers, caulking and drains. It is best to carry out a functional control of the roof at the same time using a hose. Dirt, leaves, plant growth, etc. have to be removed on a regular basis. With a sloped roof, maintenance includes replacing defective roof tiles, removing moss from tiling, function testing of junctions and checking for water flow under roof sheeting and caulking.

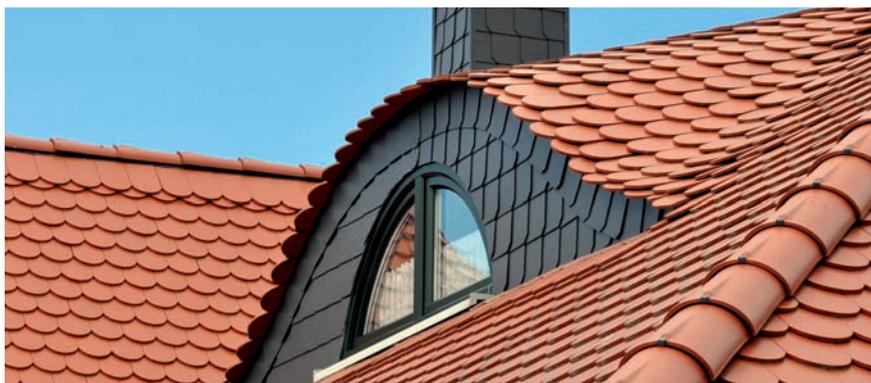
Room with a view

For a number of years now, attics and loft rooms have been experiencing a real renaissance. Particularly in urban areas where land prices are high, refurbishing attics is an attractive way of creating more living space – and it doesn’t require even a single square meter of additional building land.

“Before embarking on a renovation, it is important to obtain comprehensive professional advice.”

If a property has underused attic space, it is worthwhile asking an architect or the relevant building authority whether it would be possible to add an attic story without affecting the floor count or floor area ratio. All projects to build or modify an attic require building permission, however.

Many roofs permit the installation of photovoltaics (solar cells) or solar heatings (hot water production). The prices for the building materials and installation have dropped significantly in the last few years and the technology is already well established in Switzerland. If you are considering any projects like this, it pays to get comprehensive expert advice in advance and to coordinate the various renovation measures. Popular wisdom is right when it comes to roof renovations: careful planning is half the battle.



UBS “renovation” mortgage

The ideal mortgage for renovations:
0% interest for the first 6 months.