Newsletter on home ownership Summer 2018, Issue 2

# UBS immo news

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## Home ownership: what cohabiting couples should know

**Both legally speaking and in terms of pension provision, cohabiting couples are at a disadvantage compared to married couples. That’s why it’s important to check the key points carefully and formalize them in a contract before purchasing property.**

When an unmarried couple buys property and takes out a mortgage together, they generally bear joint liability for the mortgage debt. Both cohabiting partners become contractual parties liable to the bank. Like all other debtors, they must provide finance for at least 20 percent of the worth of the property from their own funds. At least 10 percent must be financed with money that doesn’t come from their occupational benefit plans. To see if the mortgage will be financially sustainable, the economic strength of the cohabiting couple is assessed. The total available gross income must fulfill the affordability requirements. In other words, the calculated costs for the property – calculated with an imputed interest rate of five percent, including amortization as well as one percent of the property value for maintenance and supplementary costs – cannot be higher than a third of this gross income. Generally, all of the couple’s regular and documented incomes count towards their gross income.

**Three options**

The law provides for three types of ownership: sole ownership, co-ownership or joint ownership.

Sole ownership means that one partner is entered into the land registry as the sole proprietor. This means they can decide freely what happens to the property – in practice, this is not the ideal situation for a couple. If one partner has no rights to a shared property, you’d have to set down clear rules in regard to usage and, for example, conclude a rental agreement.

In most cases, couples choose co-ownership. Co-ownership means that each partner can make decisions about their share. Each partner’s share is recorded separately in the land registry, very often at the ratio of 50:50 – other ratios are possible too. Co-ownership will be chosen if you

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# Editorial

Dear Readers,

Cohabiting couples are worse off than married couples when it comes to pension provision – and there are hardly any laws governing this. This also goes for purchasing joint property.

In order for a real estate purchase to stand on solid ground, a cohabiting couple should plan its purchase and its financing carefully. What should partners do to prepare themselves financially as best they can? In which cases do social and accident insurances pay out benefits? Which points should a cohabitation agreement, and perhaps even a will, clarify? Our main article provides some answers to these important questions and offers practical advice.

Our Chief Investment Office expects stagnating prices on the real estate market this year: single-family homes are expected to see slight price increases, condominiums a slight price reduction. Read more about this on page 4.

We hope you enjoy this issue.

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want to use your pension savings from pillars 2 or 3. For example, if one partner uses funds from an early pension fund withdrawal, this amount must be documented in the land registry.

Joint ownership involves both cohabiting partners being entered into the registry as equal owners. The property belongs to them in equal parts – even if one partner has invested more than the other. In the case of joint ownership, partners are bound to each other by legal obligations and can only decide to sell their property together. It's not possible for an unmarried couple to use retirement savings when they choose joint ownership.

**Ironing out your differences**
Partners need to be aware that for all three ownership types, varying shares of invested equity can have an impact: When granting a mortgage, banks either accept a sole debtor or a joint debtor agreement – without taking into account the actual ownership structure. This can lead to disagreement, for example, if one partner contributes 20 percent of the funds but is liable for 50 percent of the debt. In cases such as this, it's recommended that partners compensate for the varying equity shares, for example with a private loan agreement.

**Formalizing the details in a contract**
While the Swiss Civil Code contains many stipulations on marriage, there are next to none on the rights and obligations of cohabiting couples. Key issues, such as separation or the death of a partner, are either insufficiently regulated or not regulated at all. Therefore, many experts recommend cohabiting couples to conclude a cohabitation contract before buying property. This contract should contain the following points:

- Ownership: A precise description of the division of the property, i.e. type of ownership, ratios or voting rights of both partners, origin of the invested capital.
- Costs: A distribution key for current expenditures, such as interest rates, supplementary costs, maintenance, renovations, etc., in equal parts or depending on income.
- Separation: The procedure and division, in case the couple go their separate ways later. Who can take over or continue to live in the property and under which circumstances?

- Inheritance/will: As there aren't any statutory provisions for cohabitation, you should draw up a cohabitation agreement as well as a will. The will stipulates the respective portions of inheritance in consideration of statutory shares of the remaining heirs (parents, children). Further regulations can be determined with remaining heirs in an additional contract of inheritance.

Depending on the case and couple, there are other issues to discuss such as the ownership of furniture and other objects, the occupations of one or both partners, alimonies for children, etc.

**Know the risks – and be prepared**
Cohabiting partners should also think about unexpected events. What would happen if one partner becomes unfit for work, for example as a result of an accident or disability? Unemployability caused by an accident is well covered by accident insurance, but the incapacity to work caused by illness, while statistically more common, is actually less well insured. For this reason, it's advisable to identify this provision gap and, for example, to close it with a disability pension.

The consequences of death should be carefully considered. Cohabiting partners should take out fatality risk insurance on each other. If a partner dies, this insurance would pay out a sufficient amount that could, for example, help to considerably reduce a mortgage. The insured sum should be set to ensure that a partner can continue financing the property in the future. Bottom line: You should get expert advice to help you close the pension gaps in the case of an accident, disability or death.

The pension funds and occupational benefit fund (BVG) treat cohabiting couples as a special case. Pension benefits depend on the provisions set out in the regulations of the respective pension fund. The surviving partner must fulfill at least one of several conditions to prove themselves eligible to benefit at all. For example, a condition might be that the partnership lasted at least five years, or the partner had been mainly supported by the deceased person. During the benefits analysis, you should therefore inquire with the pension funds if and at which conditions benefits will be provided.

**Advantages of pillar 3**
Cohabiting couples have a lot of leeway in terms of provisions when it comes to pillars 3a and 3b. After a death, married partners and direct descendants benefit the most from pillar 3a. If there is no married partner, the benefits can go to a cohabiting partner – as long as the partnership has lasted at least five years. A fatality risk insurance (pillar 3b, unrestricted pension plan) can benefit a cohabiting partner and you can choose the benefits yourself. For pillars 2 and 3, it's important to determine the benefits of the provisional institution in writing beforehand. Thus, it's crucial to gather enough information and take appropriate measures to be prepared for all eventualities. ●



## Cohabitation checklist

**Pension provision analysis:** According to the law, cohabiting couples often don't have any or only limited benefits when it comes to accident insurance, AHV and pension funds. Which arrangements should I make in regard to the case of death? A professional consultation can help you here.

**Ownership:** Think about which one of the three ownership types works for you. Co-ownership would require you to specifically define who owns which share of the property.

**Quote:** There are different deciding factors as regards the division of property: Who can contribute with how much equity? Who will contribute what to the maintenance costs? What are the tax consequences, considering that mortgage interest rates can be deducted from the salary?

**Cohabitation agreement:** A written contract is not obligatory but it can prevent conflicts about cost contributions, ownership or in the case of separation. A cohabitation agreement must generally be drafted individually. Plan enough time for this.

**Cost contributions:** Keep track of investments in the property, contributions to the maintenance costs, etc., and document who contributes which share. Keep the receipts for the long term. Such preparations allow you to work out later on – if necessary – who contributed what to the common property, investments and value creation. If nothing is documented, the shares recorded in the land registry are deemed valid.

Maciej Skoczek, Chief Investment Office WM

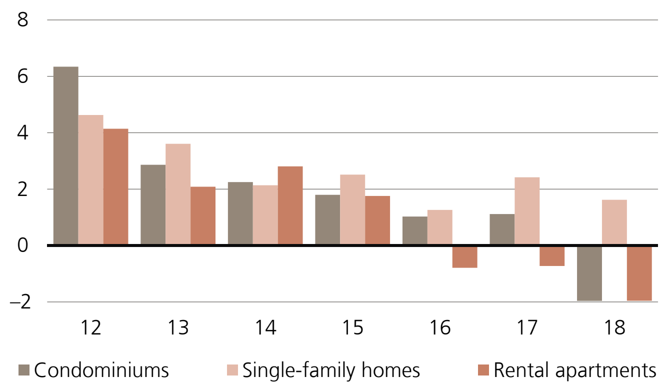
# Forecast: stagnating property prices

**The Swiss real estate market has lost more of its zeal in the first quarter of 2018. We're expecting stagnating prices for this year. Single-family homes are set to see moderate price increases, condominiums a slight price reduction.**

In a year-on-year comparison, we can see a correction of 2 percent for condominiums, whereas prices for single-family homes rose by 1.6 percent. The price change rates are considerably lower than the year before.

**Price momentum decreases in all segments**

Offer price changes in the first quarter of the respective year compared to the prior year, in percent




Source: Wüest Partner, UBS

## Regional price corrections

A correction for condominium prices can be noted in almost all Swiss regions. During the last year, prices decreased the most in the southern and eastern regions. Only Zurich and Western Switzerland saw notable price increases of up to 2 percent. However, single-family homes remained more stable than condominiums. A price increase of almost 6 percent was measured in Eastern Switzerland, and single-family homes around Lake Geneva increased in price by 4 to 5 percent, as did properties in the north-eastern part of the country. Single-family homes in Zurich and Western Switzerland, however, saw a slight decrease in value.

## Dampened price development

The continuing attractive financing conditions and the economic upswing supported the demand for properties. Owner-occupied properties seem to remain attractive in comparison to rental apartments because 10 to 15 percent of the maintenance costs can be reduced when you buy instead of rent a comparable property. For a property worth 1 million Swiss francs, this amounts to 4,000 francs a year. For many potential buyers, affordability remains tight and restricts the potential for rising prices. Slightly increasing mortgage interest rates and intensifying competition cause rental properties to be vacant and therefore dampen the price development.

## Construction booms yet the population hardly grows

Building activities on the real estate market show no signs of weakness. During the last four quarters, a total of 59,000 building applications were submitted and 54,000 building permits granted. The first quarter of 2018 saw more construction permits granted than in the first quarters of the past three years. In the current year, new apartments will be built for up to 110,000 people across Switzerland.

In 2017, the Swiss population grew by almost 63,000 people (0.7 percent), which corresponds to the lowest growth in the last ten years. These numbers were taken from the provisional data of the Federal Statistical Office (FSO). The cantons of Neuchâtel and Ticino were most affected by the setback – their population even shrank a little. The strongest growth was measured in the cantons of Zug, Geneva and Thurgau.

Due to declining immigration and rising emigration, the net immigration only amounted to 51,000 people – a decrease of 30 percent, or 20,000 people, compared to 2016. Neuchâtel and Ticino even saw negative migration numbers.

## Renting is becoming more attractive

According to the State Secretariat for Migration, the data for the first quarter of 2018 shows a stabilization of the migration development at the current lower level. This supports our forecast of a rising vacancy ratio to 1.7 percent by June 2018 (2017: 1.5 percent) and to 1.8 percent by June 2019. Vacancies still affect the rental apartment market the most. But an overlap of price pressure on the property market cannot be avoided as falling rents for new builds are making rental apartments more attractive than condominiums.



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