

UBS immo news



Contents

- 1 The start of the boom in the Swiss home ownership market – or the end?
- 2 Smart selling is halfway to saving
- 3 Property gains tax goes with the house
- 4 Successful opening of Home Expo in Suhr

The start of the boom in the Swiss home ownership market – or the end?

The crisis in the US housing market is reverberating through the global capital markets. In latest developments, house prices are falling in the US. This decline could affect other overheated housing markets. Will the Swiss market be one of these?

First of all, the Swiss housing market is not overheated. It is true that prices (particularly for condominiums) have risen significantly here since 2000 – around 30 percent for Switzerland as a whole, and over 60 percent in some top locations. These price increases seem particularly astonishing if you consider that the annual supply of new homes has risen from fewer than 30,000 to over 40,000.

Swiss homes are favorably priced

Despite the significant price increase in recent years, Swiss homes are more favorably priced than in 1991, the peak of the last major real estate boom. Looking at the ratio of prices to disposable household income, they are on average 20 percent cheaper than they were at that time. If you also factor in the lower mortgage rates, homes today are actually 35 percent cheaper than in 1991. Swiss home ownership is cheap not only from a historical perspective but also in international comparison. Although the growth in prices varies widely between the various regions of Switzerland, talk of overheating is out of the question, even at the top end of the

market – those rare and sought-after locations with high-quality dwellings. Another consideration is that household incomes have risen unusually fast, thanks – among other things – to an influx of wealthy immigrants.

Expensive homes are getting dearer, cheaper ones aren't

Even if real prices in the Swiss housing market are rising (particularly in the upper segment), economy-driven price declines cannot be ruled out in the medium term. The relatively high-end segment is in all probability just at the start of a boom phase. By contrast, there are a number of factors suggesting that prices in the cheaper segment will soon top out. This is because no significant stimulus can be expected there from either interest rates or household incomes. Globalization is not only leading to cheaper products, it is also capping growth in wages.

Mortgage rates forecast

UBS mortgages	Trend
UBS Libor Mortgage 3 months	→
UBS Fixed-Rate Mortgage, 5 years	↗
UBS Fixed-Rate Mortgage, 10 years	↗
UBS Portfolio Mortgage, 2 years	↗

Editorial



Marc Tutzauer
Marketing Offering
Private Clients

Dear Readers,

The financial markets are rife with uncertainty. Since the problems derive from the US housing market, many people are wondering if house prices here in Switzerland will be affected. Our experts have already explained on page 1 that they think this is unlikely, with convincing arguments to support their view.

For all the uncertainty in the markets, there's one thing we can be certain of: the next tax bill. And this will come sooner rather than later. There are several things that anybody buying, owning or selling real estate must bear in mind when it comes to taxes. This is why this issue takes a special look at taxes. Even if every case has to be considered on its own merits – there are 26 cantonal tax codes in Switzerland – we still have a couple of important tips for you.

We hope you find this newsletter informative.

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Smart selling is halfway to saving

For anyone selling a house, there are a few points that can help you save big on taxes. Careful planning is important, particularly if you're thinking about buying a new home yourself. There are clear deadlines that have to be met.

Sometimes things don't turn out as expected. Just under five years ago Hansruedi Bächler¹ bought a home for his family in the Zurich Oberland. Actually, it's perfect – except that Hansruedi Bächler's new job is in Bern. Just under two hours each way (not counting traffic jams) is too long a commute so, sadly, the family decides to sell the house and move to Bern.

Property gains tax is tied to length of ownership

As the Bächler family has a mortgage with UBS, they turn to their advisor, Dieter Maier. Can he tell them the best way to approach selling their home? Maier is an experienced advisor on real estate financing, and immediately comes up with an important tip. The longer you own a house, the lower the property gains tax. The important thing here is that the canton of Zurich only counts full years, whereas other cantons count in months. If the Bächlers can hold off on selling their property until five full years have passed, their tax bill will be five percent lower than it would be if they sold immediately. That's an easy decision – fortunately, the prospective buyer isn't in a hurry. There's another question, though – should the family buy another house at the new location, or should they rent? It would be good to buy, if they could find the ideal house. And after all, it wouldn't make any difference for tax purposes, says Hansruedi Bächler, getting up to go. Dieter Maier quickly puts him right: someone who sells a home and buys another one – a so-called replacement purchase – is a special case. And this again affects their liability for property gains tax.

Important – report the new home purchase within the deadline

Now Hansruedi Bächler has a problem: should he simply buy the first house he can find that meets his requirements, or should he pay the heavy property gains tax? A call to the local tax office produces the answer: he doesn't have to buy the new house immediately – he's allowed a certain



period of time between selling the old home and buying the new one. In the canton of Zurich, the law requires him to buy a new home within a reasonable period, which in practice means two years. In the rest of Switzerland, the period of time allowed varies between one year and five years, depending on the canton. So, a few months after his first meeting with his UBS advisor, Hansruedi Bächler sells his house. Dieter Maier also advises him on investing the proceeds with UBS until he buys his new home. Just to be safe, Bächler notifies his local authority in writing before the sale that he plans to buy a new home, and thus is filing an application for the tax to be suspended. The local authority duly assesses the property gains tax, but suspends it for the time being.

Keeping your options open

If Hansruedi Bächler manages to find a suitable house within the allowed period, this still qualifies as a replacement purchase. In this way, the Bächler family can relocate quickly and rent temporarily – while preserving the option of buying a new home. If Bächler buys a new home within the two-year period, the Zurich property gains tax on the amount of the reinvested property gains will remain suspended. If the Bächler family then lives in the new house for a period of 20 years, the suspended Zurich property gains tax lapses entirely: "suspended" then becomes "waived."

¹ All names are fictitious

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Any questions or feedback concerning the newsletter? Please send an e-mail to: immonews@ubs.com

Property gains tax goes with the house

Buying a house, making renovations – the tax questions relating to real estate are complex. UBS tax specialist Christoph Haab answers some of the most important questions and points out some common pitfalls.

Mr. Haab, what's the biggest pitfall when buying a house from a tax point of view?
 Christoph Haab: Property gains tax. The seller is supposed to pay this – but the liability is attached to the house. In other words, if the former owner goes abroad or files for bankruptcy, the local authority turns to the new home owner for the tax payment.

How do you protect yourself against this as a buyer?

By entering into an agreement with the seller that secures the property gains tax. First, you check with the local authority to find out what the probable tax liability is going to be. Then, the buyer pays this amount directly into an account with the local authority in the seller's name, or into a blocked account opened for this specific purpose.

And where is this stated?

In the purchase agreement. For example, a house costs CHF 1 million. Payment of the purchase prices is agreed as follows:

First, the buyer takes over the mortgage of CHF 600,000. Second, the buyer pays CHF 50,000 to the local authority to cover the property gains tax. This leaves a balance of CHF 350,000 to be paid to the seller.

Renovations are a recurrent issue. Let's say I buy a house and want to renovate it first. What do I need to think about with regard to taxes?

The basic rule is that expenditure which increases the value of the property does not qualify as an income tax deduction. All you're allowed to deduct is that part of the renovation work which preserves the value. In the case of house purchases the so-called Dumont rule also used to apply for the first five years. Under this court rule, renovations which preserve value and would normally be deductible are treated as increasing value in the first five years after purchase, and are not deductible for direct federal tax. The Federal Supreme Court has now eased the application of this rule, but it has also extended it to all cantonal income taxes.



You said the Dumont rule "used to apply." Has there been a change?

Not quite. The corresponding amendment to abolish the restriction on deductibility after purchase is still working its way through Federal Parliament, and has not been passed yet. So it's worth watching out for.

What else should people think about?

The taxpayer is responsible for supplying proof of deductions. This is why they should keep all invoices, and in special cases they should take photographs showing the state of the house before it was renovated. With major renovations, they should think about spreading them over a number of years.

Taxes associated with real estate ownership

Real estate ownership has tax consequences. The following taxes need to be considered for personal assets.

Buying	During ownership	On selling
Conveyancing tax Depending on the canton <ul style="list-style-type: none"> to be borne by the seller or buyer, or divided equally between them up to approx. 3% of the selling price in some cases, none (canton of Zurich) 	Income tax Rental income received is subject to tax. For owner-occupied housing, a rental amount (imputed) is added to taxable income, and mortgage interest can be deducted (limited to gross investment income plus CHF 50,000).	Property gains tax Per canton/local authority. Short ownership is taxed at a considerably higher rate, long ownership gets preferential treatment. (In the canton of Zurich, for example, there is a 50% tax increase for ownership under one year.)
Land registry and notary fees Differs depending on the canton, up to approx. 1%, mostly on market value.	Indirect amortization The amount paid into a pillar 3a account can be deducted from taxable income and subsequently used to amortize the mortgage. Withdrawals from pillar 3a receive preferential tax treatment.	Conveyancing tax Depends on the canton <ul style="list-style-type: none"> to be borne by the seller or buyer, or divided equally between them up to approx. 3% of the selling price in some cases, none (canton of Zurich)
	Renovations, maintenance Expenditure which preserves (but does not increase) value can be deducted from taxable income. This can be done either as a lump-sum allowance or as per the actual expenditure.	Land registry and notary fees Differs depending on the canton, up to approx. 1%, mostly on market value.

Please note: The method of tax assessment and the tax rate applied depends on the location of the property. This table gives only a general overview. It is vital to perform an in-depth analysis of the specific case which takes into account the regulations of the canton in question.

Successful opening of Home Expo in Suhr

Over 3,000 visitors flocked to the opening weekend to experience all the latest trends in home living. UBS is the exclusive financial partner of Switzerland's biggest permanent show home exhibition, and has a presence at the Infocenter on the site.

The small single-family housing development opposite the Pfister furniture store in Suhr in the canton of Aargau is now brimming with life. Switzerland's first exhibition of wood construction housing opened here at the end of October, and it's attracting no shortage of interest. The first weekend was a hive of activity as families – especially those with children – came to see their dream houses come to life.

Look, play, take a break...

All the houses have the fittings and furnishings needed for day-to-day living so that people can try them out and compare them to a "regular" home (sitting at the dinner table, playing in the children's rooms, relaxing on the sofa) and while doing so weigh up the advantages of the 13 different houses on offer. Does the house meet current minimum energy standards? What appliances should a modern kitchen have? All these questions are answered with fully functional examples. Soon, they will even be cooking at Home Expo – starting in January, kitchen appliance manufacturer Veriset will hold one cooking event a month.



Home Expo in Suhr has opened its doors.

Advice on financing

People who develop a taste for wood construction modular housing during their tour can also find the right financing at Home Expo. UBS has an office at the Infocenter, the entrance to the exhibition. UBS Home Expo sales manager Thomas Eckert and his colleagues offer initial advice and can provide a general outline of the possibilities for financing. And then? "We provide contact details for client advisors all over Switzerland – anyone who receives initial information on home financing at Home Expo will then be referred to a UBS advisor in their area who can assist them in later years," explains Thomas Eckert. Even if this is a unique way to buy a house, the financing still has to be right for a long time to come and may need to be adapted to changing circumstances.

UBS at Home Expo

If you want to set up an appointment for an initial mortgage advisory session with Thomas Eckert, you can call **062 835 92 70**. Or just drop in at the office!

Home Expo and the Infocenter are open daily from 10 a.m. to 6 p.m., except on Tuesdays. More info on Home Expo is available at: www.homeexpo.ch
www.homeexpo-services.ch

UBS dates

Permanent exhibition

Home Expo Suhr
www.homeexpo.ch

March 6–9, 2008

Eigenheim- und Immobilien-Messe, Bern
www.eigenheim-messen.ch

March 14–16, 2008

Immo-Messe Schweiz, Olma-Hallen, St. Gallen
www.immo-messe.ch

March 15, 2008

16. UBS Real Estate Market, Schaffhausen SH

March 27–30, 2008

SOCASA, Messe für Wohnen, Haus, Garten und Freizeit, Solothurn
www.socasa.ch

April 3–6, 2008

WOHGA, Messe für Wohnen, Haus und Garten, Langenthal
www.wohga.ch

April 17–20, 2008

WOHGA mit ImmoExpo, Wetzikon
www.wohga.ch

April 25–26, 2008

UBS Immobilientag, Basel

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Take our reader survey and help us tailor "UBS immo news" to your specific interests and requirements. Participants will be entered into a drawing for 10 x 500 KeyClub points, worth a total of CHF 5,000.

To take our online survey, go to www.link.ch/immonews

The details you provide as part of the online survey will be evaluated on behalf of UBS by independent market and opinion research company, LINK; all information will remain anonymous and will be treated in the strictest confidence. Everyone who takes part in the survey will have the opportunity to win.