Newsletter on the topic of home ownership Fall 2016, Issue no. 3

# UBS immo news


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## Your own four walls – part of your personal retirement planning

**It's never too early to start making financial plans for your retirement. You need a well thought-out strategy if you own or want to buy your own home. It's important to distinguish between the different stages: purchase, asset optimization and pension planning.**

Purchasing residential real estate is an acquisition for life – and part of your retirement preparation. If you're planning to buy a house or apartment, you should start by thinking carefully about where you are in life, and the goals you want to achieve. If you're 30 or 35, you'll have different priorities from someone over 50. It's vital to have a well-defined individual financing strategy. Just as for capital investments, the aim is to achieve optimal diversification. By combining a mix of different products and terms, you minimize the risk of having to reorganize your entire financing in an unfavorable interest environment.

**Stage 1: Finance residential real estate and close any gaps**

If you dream of owning your own four walls while you're still young, you need to set yourself a savings goal as early as possible. The maximum price you can pay for a property will depend on your financial situation. With the financing guidelines that currently apply, you need to be sure you can still meet the running costs of the real estate even with a higher interest burden. Today, you need equity of 20 percent to buy or build a home of your own. At least 10 percent of this must be "real" equity, i.e. your own savings, securities, Pillar 3 assets, or the redemption value of insurance policies. Advances on inheritance or loans from relatives are also accepted, provided they do not have to be paid back and no interest is due on them. The remaining 10 percent can come from an advance withdrawal or pledge from your pension fund. The other 80 percent is usually financed via a bank mortgage.

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UBS

# Editorial

**Roger von Mentlen**
**Head of Private Clients**

Dear Reader,

Imagine a 35-year-old person. Under the current system, he or she'll be able to retire in about 30 years' time. We have no idea how interest levels and prices will have changed by then, nor how high his or her pension will be. That's why it's so important to plan your finances carefully and keep a long-term view. Your own house or apartment can form part of your retirement planning. Our main article outlines the most important topics and financial actions at each stage of life.

Find out on page 3 how to measure the energy efficiency and weaknesses of a house, for instance, if you're planning a renovation.

We hope you'll enjoy reading UBS immo news.

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As a future homeowner, you should also think about protecting your family. And if you decide to use money from your pension fund, you need to be aware of the possible impact. Depending on your pension fund's regulations, you may lose out on benefits. It's best to ask your pension fund about the benefits you can expect in the event of invalidity or death. Early withdrawals always lead to a gap in retirement pension cover, however. These gaps can be closed later by making voluntary purchases of pension fund benefits. Thanks to compulsory accident insurance, employees are relatively well insured against loss of earnings due to an accident, although they may suffer a significant loss of income if they become unable to work or die following an illness.

To make sure that the family can still afford its home if the main breadwinner is unable to work or dies, you can take out life insurance for a sum equivalent to a second mortgage. The insured sum paid out reduces the debt. You should also check whether benefits from Pillars 1 (AHV) and 2 (pension fund) would be sufficient to meet your financial obligations. If not, you'll need to make other arrangements.

**Stage 2: Plan your expenses and optimize your assets**
In the next stage of life, the main thing is to keep an overview of your total financial situation. Think about ongoing building maintenance, any repairs needed, and the risk of a rise in interest rates. A good piece of advice is that any money you save today thanks to the historically low interest rates should not be used up straight away or spent on other things. Instead, you should put these savings to one side as a financial cushion for periods with higher interest rates.

Financial retirement planning during the second stage of life also involves optimizing assets. Most importantly, make sure that you can afford your current expenses with sufficient liquidity to spare. Also consider using any available resources for amortization, or for investments other than in real estate. If you still need to close gaps in your retirement savings – i.e. if you've made early withdrawals from your pension fund – this needs to be taken into account in your financial planning. Finally, consider the relationship between debt (mortgage amount) and your tax burden. Some homeowners avoid repaying all their debt so that they can deduct the debt interest (to offset imputed rental value tax) on their tax returns. However, this is not always worthwhile and should be calculated on a case-by-case basis.

**Stage 3: Prepare for retirement**
The benefits from the AHV and your pension fund will generally not be enough to maintain your current standard of living. From the age of 65, income is often more than 20 percent lower than when you were in active employment. As a result, it's important to prepare for retirement by calculating the pension you're likely to receive (or have it calculated) and draw up a budget. It's best to start planning for retirement once you reach age 50. You can close any gaps in pension cover by making voluntary purchases of pension fund benefits, through private retirement savings under Pillar 3, or by accumulating wealth other than in real estate. Follow the motto: the sooner, the better.

One very common mistake concerns the amount of mortgage in place after retirement. Most people enjoy the quality of life and comfort of having their own home, and want to keep their mortgage debt as low as possible in retirement. But be careful you don't underestimate your everyday outgoings. A great many costs can arise during retirement, such as for repairs or modifications to your home, nursing care, or medical treatment. Since AHV and pension fund benefits are lower than your income when you were earning, increasing your mortgage will often prove difficult – it is simply not financially viable. So you should only amortize your mortgage to the extent it is affordable, taking your liquidity requirements into account. When you're over 65, it's no use being a proud homeowner on paper if you're unable to meet the running costs of your property.

In conclusion: if you start preparing for retirement early on, you'll be able to enjoy living in your own four walls when you're older without having to worry about your finances.

# Home renovation pays off

**Many old houses use four to five times as much energy for heating and warm water as newly constructed buildings. Before planning a renovation, you need to carry out a reliable assessment, for instance with the official cantonal building energy certificate, the GEAK®. You'll find answers to the most important questions here.**

### What are typical weaknesses in a building?

The most sensitive parts of a building are the roof, walls or insulation, windows, floors and technical systems. Many buildings are still heated with fossil fuels. As a nonspecialist, you're often unable to analyze the state of the building shell or the efficiency of your systems. An old oil-fired boiler alone can cause a huge increase in energy consumption if it's the wrong size and has not been fitted properly.

### How can you assess your own home?

One option for analyzing your home is the official cantonal building energy certificate, the GEAK®. This provides reliable information on the current energy efficiency of the building shell and the building as a whole. It also shows the potential for improving the building shell and technical systems. Like the familiar energy labels for household appliances, the GEAK® assigns buildings to energy classes from A to G.

### What standard does a new construction have to meet today?

According to the applicable building regulations, a newly constructed building must not exceed an annual consumption equivalent to 4.8 liters of heating oil per square meter. This currently corresponds to energy label B.

**Benefit from a cash bonus of up to 650 francs**

If you take out a new mortgage with us, or if you increase or extend your current mortgage, we will contribute to the cost of your GEAK® energy consultation with a one-off cash bonus of up to 650 francs. In doing so, we are passing on the rebate from the federal $CO_2$ incentive tax to our clients. The offer remains valid until the rebate of approximately 300,000 francs has been exhausted, but until no later than December 31, 2016. For more information about the cash bonus go to ▸ ubs.com/geak.

Over the next few years, the cantons will gradually tighten the building regulations.

### What are the differences between one energy class and the next?

There are huge differences. Old houses in need of renovation with energy label F or G often consume four to five times as much heating energy as a new building. The aim should be to renovate these houses so they can get a C label at the very least.

### Is it true that many old buildings still do very badly when it comes to energy consumption?

Buildings in energy classes F and G use far too much energy, often the equivalent of 15 to 20 liters of heating oil per square meter. These homes urgently need renovation. We estimate that around 1 to 1.5 million residential buildings fall into this category.

### Each year, only one percent of all buildings in Switzerland are fully renovated – far too few. Why aren't more buildings renovated?

Many people make false assumptions and don't realize that energy improvements make economic sense. They often forget that there can be a cost to doing nothing. Because a building's value will fall if it is not well maintained and renovated on a regular basis.

### Is it possible to call in an energy consultant as an alternative to the GEAK®?

A consultant is certainly able to make a professional assessment of a house. However, the GEAK® is the only way to categorize a house clearly, while also offering information about possible improvements to the building shell and technical systems. This also makes it the ideal planning instrument. You can request an even more detailed report: the GEAK® Plus. This report includes specific suggestions and up to three alternative ways of renovating the building, depending on the individual situation of the homeowner.

### How far can very old houses climb up the energy class ladder?

People generally don't realize that even when carrying out renovation work, there are specific minimum requirements to be met for individual parts of buildings – windows, for instance. When renovations are made in line with these specifications, even an old house can climb to at least energy class C. If the house is fitted with very good insulation and the technical systems switched to renewable energy sources, it may even be assigned energy label A. If you produce your own electricity via a photovoltaic system on the roof, you can even reach the level of a plus-energy house. Depending on the canton, there are various subsidies to encourage this type of project for each of the higher energy classes.

### Comprehensive renovation is quite expensive. Is it possible to do it in stages?

It is important to have a good basic concept. For instance, it's worth starting with the roof, then renovating the building shell, and dealing with the heating and building systems a year later.
It's a mistake to start with the energy system. If you install new heating without renovating the building shell first, it will often be wrongly designed and far too big.

**Specialist information:** Ulrich Nyffenegger, CEO of the GEAK® association. You'll find a list of experts who can issue an energy certificate at ▸ geak.ch. ●

# Real estate expert
# Housing when you're older – buy or rent?

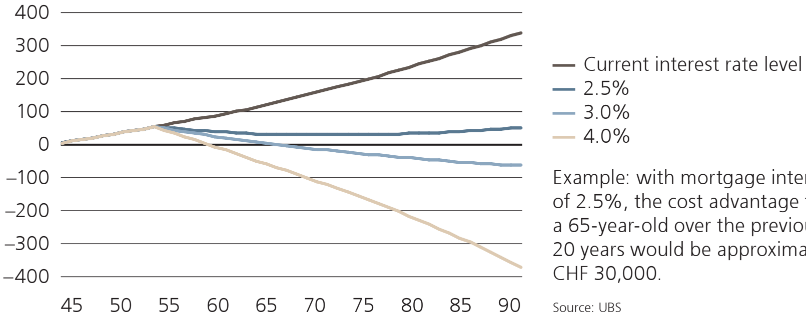
**Owning your own home gives you a sense of financial security as you get older. Despite the current low mortgage interest rates, don't underestimate the risk of buying property. You should also carefully compare the costs of renting and buying.**

The current record-low interest rates are fueling dreams of homeownership. But the running costs of owning residential property go beyond mortgage interest payments. The following factors also come into play:

- When buying residential property, also think about the maintenance and ancillary costs of the property, as well as taxes (imputed rental value, property tax), plus renovation costs, which are often underestimated.
- Since external financing can cover a maximum of 80 percent of the purchase price, you need relatively high levels of equity. This ties up capital that can no longer be invested. Although it is possible to make early withdrawals from pension fund assets for the partial financing of equity, this reduces your retirement capital and impacts pension payments later in life.
- After 15 years, the mortgage must be paid back, up to a maximum of two thirds of the collateral value of the property.

**Accumulated savings compared with renting**

Depending on long-term mortgage interest rates, in CHF 1,000




Example: with mortgage interest of 2.5%, the cost advantage for a 65-year-old over the previous 20 years would be approximately CHF 30,000.

Source: UBS

## Cost progression

The Miller family – two children, 45-year-old parents – wishes to purchase a new apartment in a medium-sized Swiss municipality. The parents intend to live in the apartment for the rest of their lives. The Miller family could afford to buy a home for 1 million francs, with 80 percent of the cost borrowed and financed in the medium to long term (mortgage interest of 1 to 1.5 percent). Alternatively, a comparable rental property would cost them 3,000 francs a month. Taking the above into account, the running costs of owning their own home would currently be a good 5,000 francs below those of a rental property. However, the solution that represents the best financial strategy in the long run depends on long-term interest rate trends and changes in property values.

## Interest rate trends

In our example, we're assuming that the savings made each year in relation to the rental property would be invested at a profit. In addition, the Millers would set money aside in a renewal fund, paying in 8,000 francs a year (0.8 percent of the purchase price), which also earns interest. After 20 years – just in time for retirement – the Millers spend 200,000 francs on comprehensive renovation work.

In this example, the Millers would be better off buying their own home – provided that mortgage interest rates do not climb much higher than 2.5 percent in the long term. There is enough of a margin to cover double the mortgage costs. In this scenario, there are also enough savings left over to finance a renovation after 20 years. If the mortgage interest rate rises to 3 percent, the cost of the renovation would still be covered, but overall, the costs for a rental apartment would be lower over the parents' lifetime. However, if the mortgage interest rate rises to 4 percent or more in the long term, they might no longer be able to afford the renovation – and the cost of owning their home would exceed a third of their income after retirement. The financing would then only be possible if they substantially cut back on their expenses in other areas.

## Price progression

When considering whether to rent or buy, it's important to take changes in property values into account as well as costs. Real estate not only protects against inflation, but homeowners have also benefited from significant price increases in the past 15 years (with real rises of +60 percent since 2000). Further substantial real-price increases are unlikely, however, and a drop in prices cannot be excluded, depending on the economic situation, the attractiveness of the location, or a big rise in interest rates. At the moment, there's a cost advantage of 5,000 francs each year over ten years by comparison with a rental apartment. This offers a financial cushion of about 5 percent if prices should drop. Should prices fall by up to 40 percent on the other hand (as has been the case in the past), the financial cushion would be insufficient. To make sure that in the event of being forced to sell their home for cost reasons, the Millers (or their children when they inherit) will not be left with debts, buying residential property in retirement is only advisable if they have enough additional assets or if the mortgage has been sufficiently amortized. ●

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