

# UBS immo *news*

## 01 **Low interest rates: plan astutely**

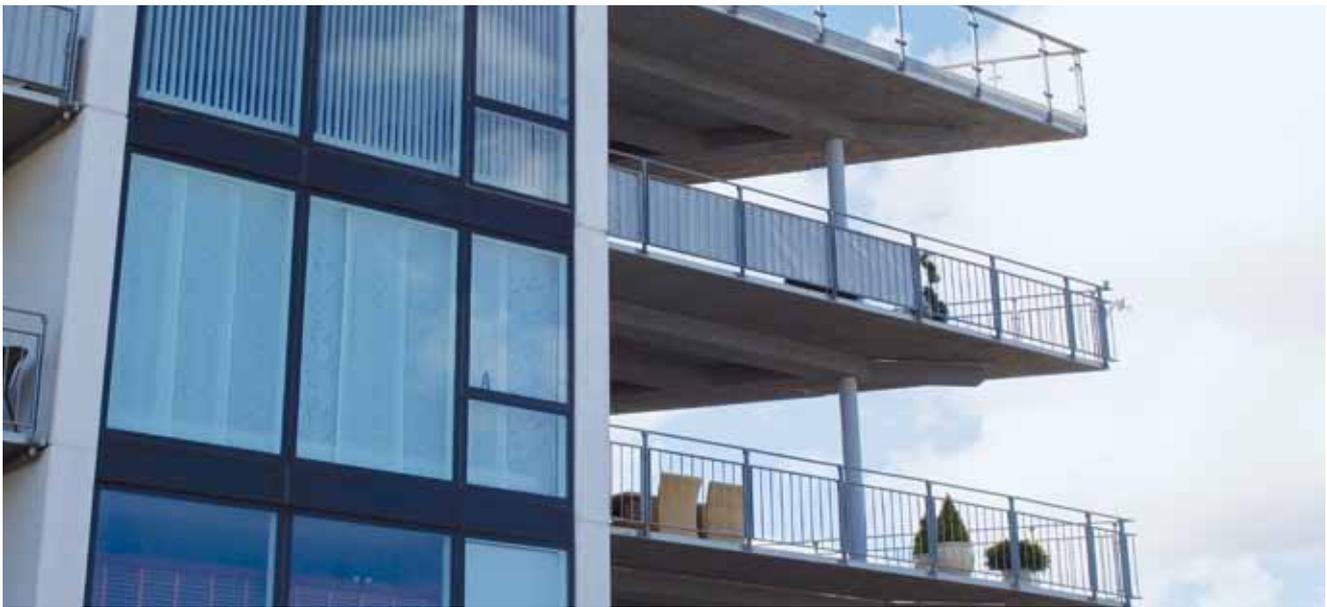
*Both Libor and fixed-rate mortgages are now fundamentally good value.*

## 02 **Renovation backlog and the role of the state**

*Time is steadily taking its toll on Swiss building stock.*

## 04 **Energy efficiency at a glance**

*Energy regulations for new buildings and conversions have become tougher over recent years.*



## Low interest rates: plan *astutely* now and reap the benefits later

**A lot of factors need to be taken into account when financing real estate – from individual risk tolerance to likely interest rate movements. Both Libor and fixed-rate mortgages are now fundamentally good value.**

There are two main kinds of mortgage available – Libor-based and fixed-rate. The rule of thumb is: the shorter the term, the lower the interest rate when the mortgage is taken out. With a Libor mortgage, the rate is adjusted at relatively short intervals to reflect prevailing market conditions. With a fixed-rate mortgage, the interest rate remains the same throughout the agreed term.

### **Libor mortgages: currently very good value**

The UBS Libor Mortgage tracks the CHF Libor rate. The CHF Libor rate is the reference interest rate that prime banks offer each other on short-term deposits in Swiss francs. 3-, 6-, or 10-month Libor mortgages are the most widely available. With a 3-month Libor mortgage, the bank adjusts the rate to the current reference interest rate every 3 months. Libor interest rates are currently extremely low, and Libor mortgages have recently become much more popular.

*Continued on page 3*

## Editorial



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

Dear Reader,

Today, it is not only interest rates for Libor mortgages that are very low; so, too, are those for fixed-rate mortgages. Bank clients are faced with a difficult choice: is it better to borrow over the short or long term? It is difficult to give a general answer to that question – just as it is to provide absolutely reliable prognoses on interest rates and inflation.

There is no doubt, though, that this is the ideal time to reassess your financial situation. This latest issue of UBS immo news shows you how to put your property on a sound financial footing. We would also be happy to meet you for a consultation and show you the various options available.

Go to page 4, and you can find out what benefits the cantons' energy certificate for buildings, GEAK®, has to offer you. This instrument will have an increasing impact on the valuation and price of real estate over the coming years.

We wish you an enjoyable read.

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# Renovation backlog and *the role* of the state

**Time is inexorably taking its toll on Swiss building stock: Properties constructed during the 1960s building boom have got to the age where they need extensive renovation work. Is there a renovation backlog?**

It is not clear from the official statistics whether the renovation market is lagging. A comparison of the CHF 10 to 15 billion that ought theoretically to be being invested per annum (based on the depreciating value of the housing stock) versus the CHF 4 billion or so recorded in the statistics as having been invested in rebuilding shows a substantial discrepancy. However, the statistics record only the refurbishment work that has to be reported, and estimates of how much is spent on it are very imprecise, so the existence of a renovation backlog can neither be confirmed nor denied.

### **The expenditure must be worth it**

In a free market economy, the rule is – to simplify it somewhat – that the expenditure must pay off. Applied to the real estate market, this means that, in a free market economy, a renovation backlog is impossible. The property owner will renovate their house when the benefit is equal to or greater than the cost of the investment. However, external factors on the cost or benefit side can influence the amount of renovation work done.

### **The state influences the renovation market**

The real estate market is tightly regulated. The question arises as to whether the legal framework and subsidies significantly influence decisions on renovation. One example is to be found in the maintenance of buildings of cultural significance and of intact townscapes. Compliance with rules on the preservation of listed buildings and of historic monuments generally makes renovations incredibly expensive, with the subsidies paid covering only a small portion of the

costs involved. The additional cost inevitably reduces the amount of renovation work being done and results in something of a backlog. The renovation market is also influenced by the promotion, in Switzerland, of refurbishments for energy efficiency purposes, for which an annual subsidy of between CHF 280 and 300 million has been payable since 2010. As the Federal Energy Office states that 70 to 80 percent of rebuilding work is done without any subsidy, the effect of this, too, is likely to be relatively minimal.



### **Conclusion**

The sight of a dilapidated building is not in itself evidence that the market has failed or even that there is a renovation backlog. All in all, though, the Swiss renovation market appears to be intact. For a start, despite a degree of regulation, the state has little influence over it, and, secondly, there are more incentives to do too much renovation work rather than too little.

#### **UBS real estate focus**

As a UBS client, you can order or subscribe to "UBS real estate focus" on the Swiss real estate market in 2012 either through your client advisor or by sending an e-mail to [sh-iz-ubs-publikationen@ubs.com](mailto:sh-iz-ubs-publikationen@ubs.com)

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### What should you do when interest rates go up?

When reference interest rates go up, so do those of Libor mortgages at the agreed interval – in other words, every 3, 6 or 12 months. For this reason they require a certain degree of risk capacity and risk tolerance. You also have to keep an active eye on interest rate movements. As soon as they go up, you have to consider whether to refinance elsewhere. With a flexible UBS Libor mortgage, you can do this at your discretion every 3, 6, or 12 months, as the mortgage can be fully or partly repaid or transferred free of charge into another UBS mortgage product whenever the due date comes around. However, you have to bear in mind that the interest rates for fixed-rate mortgages will usually have gone up by then as well.

### Fixed-rate mortgages: helping you plan ahead

With a UBS fixed-rate mortgage, the interest rate isn't adjusted periodically in line with the market rate, but stays the same throughout the agreed term. The terms of UBS fixed-rate mortgages range from two to ten years.

*“The right mix depends on the client's mortgage profile.”*

Fixed-interest financing has a wide range of advantages – not least, simplicity, easy budgeting and security. With a fixed-rate mortgage, Bank clients can benefit from the currently very favorable rate of interest over the longer term. A historical comparison of longer-term interest rates shows that interest on fixed-rate mortgages with terms of five years or more are generally



around four or five percent. Over recent years, these products, too, have become better value. Most forecasts by economists are working on the assumption that the economy – and interest rates – will normalize over the next few years and that the Swiss National Bank will raise the base rate in two to three years' time. Because long-term interest rates anticipate a change in the environment and the end of the zero-interest period, long-term rates could rise earlier than short-term ones. The relatively high probability of this happening is a powerful argument in favor of fixed-rate mortgages.

### Stay flexible with a variety of mortgage terms

That said, every fixed-rate mortgage reaches its term sooner or later, and you need to think about the risk of this happening during a high-interest period. So, in order to maintain flexibility and ensure better “diversification” of these risks, it is advisable to split your mortgage into several fixed-rate mortgages with a variety of terms. The only argument against long terms is the question as to what happens to the mortgage agreement when the property is sold. If the new owner doesn't take on the fixed-rate mortgage, the borrower could have to bear heavy costs for its extraordinary termination.

### Finding the right mix

Fixed-rate mortgages can, of course, be combined with Libor mortgages. The right mix depends on the client's mortgage profile. It needs to be decided in advance exactly how the mortgage debt is to be amortized. Libor mortgages are more flexible in this respect, but amortizations are possible for fixed-rate mortgages too if agreed in advance. It is vital that the risk profile and the amortization amount and date are discussed with the client advisor.

### Forward mortgage: interest rate fixed in advance

We're often asked whether the interest rate for fixed-rate mortgages can be fixed in advance (i.e. a “forward mortgage”), for example where the fixed-rate mortgage comes to term in six months' time. Forward mortgages are available with an advance notice period of up to 12 months. As a rule, they can be agreed up to 30 days in advance without charge; otherwise, they incur additional hedging costs. If you're after a smart financial strategy, there are many different aspects to consider. These are best discussed with your client advisor.

#### Three special offers from UBS

- **The UBS “first home” mortgage** offers an attractive interest bonus for first-time buyers of owner-occupied residential property. The “Pay and Save Basic Offering” is also free of charge for the first year.
- **The UBS “renovation” mortgage** enables you to finance your renovation project and benefit from a discount (six months at 0% interest).
- **The UBS “eco” mortgage** promotes investment in energy efficiency – so you can save on costs and energy while benefiting from a preferential interest rate.

For details of the special offers, visit [www.ubs.com/hypo](http://www.ubs.com/hypo)

# Energy efficiency at a glance



**Energy regulations for new buildings and conversions have become tougher over recent years. One guide for homeowners is the cantonal voluntary building energy performance certificate, GEAK®.**

If you want to protect the environment while saving money, you probably pay attention to the energy labels on household devices and cars. There has been a similar energy label for buildings in Switzerland since August 2009. To help get the initiative off the ground, central government handed out generous subsidies, with the result that 15,000 building energy certificates were issued in a very short time. The energy label for buildings can be expected to become more important in future, both for the overall valuation of a property and that of its market value, as well as for assessing the rent-

## Cash bonus: UBS gives you up to CHF 8,500

UBS offers a cash bonus of between CHF 2,500 and 8,500 to reward sustainable renovation. This is the Bank's way of passing on to its clients the rebate from the CO<sub>2</sub> fuel incentive tax. The cash bonus is determined by reference to GEAK® and the cantons' energy certificate for buildings – as well as to the number of GEAK® classes by which the building's efficiency has improved as a result of the renovation (building shell or overall energy). If, for example, the renovation of a house's shell lifts it up from class D to class B, the cash bonus payable amounts to CHF 4,000. For more information, visit [www.ubs.com/renovation](http://www.ubs.com/renovation)

ability of apartments. GEAK® needs to be seen within the context of the various other measures, such as the more stringent energy rules for new buildings and conversions. At the same time, the Minergie association has tightened the requirements for its own labels, among them Minergie® and Minergie P®. Both the national and cantonal governments are also spending some CHF 300 million a year on the buildings program – mainly promoting renewable energies and refurbishments for energy efficiency purposes. However, subsidies from the buildings program are not absolutely dependent on a GEAK® or Minergie label. You can find the details at

[www.dasgebaeudeprogramm.ch](http://www.dasgebaeudeprogramm.ch)

## Broad-based support

From the outset, GEAK® was intended to be a voluntary instrument. "Some cantons are now discussing whether to make it mandatory in some cases," explains Adrian Grossenbacher from the Federal Energy Office (BFE). The practical details are left to the cantons. Some of them make direct grants or, starting in 2012, are tying these grants to the payment of subsidies for energy-efficient building and renovation – like in the canton of Berne, for example. There is broad support for the idea that GEAK® should be used to promote transparency and lay down guidelines. According to Thomas Ammann from the Swiss Homeowners' Association (HEV): "GEAK® was designed as a voluntary instrument, and the HEV has given it financial and moral support in this respect from the very outset right through to the present day."

## Seven energy classes

GEAK® allocates buildings to one of seven energy classes on a scale ranging from A (green) to G (red). It also provides information on how to refurbish and improve a building in order to make it more energy efficient. GEAK® assesses both the

shell of a building and its overall energy efficiency. The shell gets good marks if the walls, roof, floor and windows provide good insulation, while overall energy efficiency is evaluated with reference to heating, building techniques and electricity consumption, among other factors. The use of renewable energies – heat pumps, solar cells, etc. – pushes the rating up the scale. Homeowners can get initial basic guidance by typing in some key details on the Web site [www.geak.ch](http://www.geak.ch) and getting the GEAK® light. This, though, is not recognized as an official energy label.

## The official document

To get an official building energy performance certificate, you need to go to a certified GEAK® expert – a list of them is available on [www.geak.ch](http://www.geak.ch). Costs vary from building to building, but are around CHF 400 to 600; these figures should be understood as recommendations. "Like any other engineer or consultant, GEAK® experts are free to set their own prices", says Adrian Grossenbacher from the Federal Energy Office. You need to be aware that only recognized GEAK® experts are authorized to issue the official document.

## Many tangible benefits

In detail, the process works like this. First of all, the homeowner makes an appointment for the certified expert to visit the property. To reduce costs and inconvenience, the expert should, when visiting the house, be given copies of the heating, water and electricity bills for the past three years, as well as the plans of the building. Once the property has been examined, you are issued with the GEAK® document, which runs to four pages. The homeowner can also commission a more comprehensive advisory report, which costs around CHF 600 and offers further advice on renovation for greater energy efficiency.

## My Home UBS puts real estate online

My Home [www.ubs.com/myhome](http://www.ubs.com/myhome) is an online portal for residential property (single- and multifamily homes, condominiums), made available by UBS in cooperation with homegate.ch. If you're interested in a property, you can send its details straight to your client advisor and request a personal consultation – finding your nearest UBS branch is easy. If you, as a UBS client, upload an advertisement, you get a CHF 30 discount on the basic fee.