Newsletter on home ownership

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UBS immo *news*

Good advice pays off

Many people dream of owning the roof over their heads. The questions they have to deal with are many and varied, from the moment they first choose to buy or build their own home to the day they have to decide whether to sell the property or pass it on – and this includes finding the best possible financing solution, weighing up repayment options and keeping their families secure.

Over 80 percent of Swiss people see owning their own house or flat as the ideal way to live. Those who have just started a family, for example, probably dream of living in a detached house with a garden. Once the children have moved out, they may well think of having renovation or rebuilding work done. When they reach their mid-50s, they might start thinking about life after retirement, or consider moving to smaller accommodation. In short, life presents us all with major decisions again and again, and we all welcome help from a strong partner with many years of experience. UBS client advisors are well prepared to deal with all these issues and have the resources at hand to be able to offer you professional advice from every angle.

It's never too early to seek advice
It's a smart move to make use of this source of advice even at a very early stage. Potential buyers eager to do some serious planning and proper budgeting will need to know what they can afford and how long it is likely to take for their dream to

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UBS

Editorial

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Head of Private Clients Switzerland

Dear Reader,

Building or buying a home is a special moment in anyone's life, both emotionally and financially. Homeowners are confronted with important decisions on a regular basis. What can I actually afford? How can I make the best use of current interest rates? What's the best type of financing for me?

Answering all these questions calls for expertise and extensive experience. Our new UBS Hypo Check offers you both. The UBS Hypo Check is structured in modules and covers all the issues that matter when financing home ownership. Step by step, it takes you through them all, from choosing the right property and the right mortgage to dealing with hedging and tax.

Our main article explains how you can benefit from the advice UBS can offer and when you should approach your UBS client advisor. There's also an interview on page 4, in which you can find out how best to tailor your mortgage to your needs.

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Still *risks,* but no bursting bubbles

The likelihood of a speculative residential real estate bubble forming over the next few months and then bursting has receded somewhat for the moment.

While the UBS Swiss Real Estate Bubble Index shot up to 1.20 in the second quarter of 2013 and remains in the risk zone, the increase over the preceding quarter, at 0.03 index points, was minor. This flattening out reflects the widespread perception that the residential property market is gradually settling down.

Unlike in the 1980s, the index shows no signs of acceleration. Even so, if calm does not persist, the risk of a price bubble is likely to become more acute over the coming quarters, as the market is on the top of a price cycle that has lasted 15 years so far and generally shows distinct signs of overvaluation.

Too much or too little?

Once again, the slight rise in the index is a result of the steady growth in residential property prices and the increase in mortgage-based lending at a time when household incomes and consumer prices are stagnating. However, the construction industry still accounts for only a small part of GDP, contradicting the flood of reports that claim that Switzerland is currently enjoying a veritable building boom. What's actually true? Is there too much building going on or too little?

Over the last three years, new living space has been created for just over 100,000 people each year. However, according to the population statistics, the number of people living in Switzerland went up by only 84,000, so it would follow that there was too much building going on. This would be a premature conclusion. The fact is that the average size of Swiss households is falling every year in response to social trends such as the increase in average age and in the number of people living alone. Even if the population were to remain static, approximately 15,000 additional dwellings would be needed. It would therefore appear that too little building work has been done in recent years rather than too much.

The biggest risk is curbing immigration

Even though supply has continued to expand, there is no prospect of a surplus in housing in 2013 and 2014 either. We're not assuming that increased supply will greatly outstrip the increase in demand. There's no likelihood of significant vacancies unless population growth comes to a sudden halt. For the time being, in our view, the political efforts being made to curb immigration present the greatest risk on this front.

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become reality. On close examination, it may turn out that the home they are longing for will blow their budget even if they scrimp and save and that buying it is not (yet) a realistic proposition. Aspiring homeowners need to know what financing options UBS offers and find out how best they can be helped to reach their savings target.

Is your dream home affordable…
For younger people in particular, the equity required these days is the first hurdle to overcome; clients have to be able to contribute equity of at least 20 percent of the market value calculated by the bank and used by it for the credit check. That might take the form of account balances, unencumbered shares in building land or an advance on an inheritance. In practice, many clients rely on pension assets, whether from a pension fund or Pillar 3a account. However, they must bear in mind that under the financial rules that became applicable throughout Switzerland last year, new mortgages and mortgage increases have to be funded by at least 10 percent of the purchaser's own resources not derived from Pillar 2 (early withdrawal or pledging).

"In practice, many rely on their pension assets."

In an initial consultation, which does not commit you to anything, the UBS client advisor can sit down with you and explore some important questions: How near are you – financially speaking – to your dream home? Is your budget realistic? How can you save up – step by step – for the property you want? Planned contributions to Pillar 3 open up interesting possibilities when it comes to building up reserves and reducing the tax burden. In the course of the consultation, the UBS client advisor will show you a variety of solutions that make saving so much easier.

… in the long term too?
As the consultation progresses, you will become familiar with basic financing rules. While, as already mentioned, the financial arrangement has to be made up of at least 20 percent equity to match the maximum of 80 percent lent by the bank, a primary consideration for you will be sustainability: you must be able to bear the costs of home ownership – and all the maintenance and other expenses involved – over the long term. This is determined not by the interest rates currently available on the market, but by an assumed interest rate of 5 percent in line with our experience of how rates typically develop over time. You also need to factor in another 1 percent of the mortgage for annual repayments, plus 1 percent of the purchase price for maintenance and other expenses. These three cost factors together should not exceed one third of your available gross income. Experience shows that careful planning pays off, in that it enables you to make sure that the mortgage and the property remain fully affordable in the long run.

Find the perfect mortgage mix
With comprehensive advice, backed by the UBS client advisor's experience, you will be able to find out your mortgage profile and put together the combination of mortgages that's right for you. What matters here is not what's best in the short term, but your long-term security. Clients who take an active interest in interest rates and monetary policy and are willing to live with a degree of interest rate risk typically opt for financial arrangements that follow the market – incorporating short-term mortgages based on the Libor money market interest rate for example. Clients on a tighter budget who prefer fixed costs are better off with fixed-interest mortgages which protect them against unforeseen changes in interest rates. In much the same way as with any investment, you need to avoid putting all your eggs in one basket and instead combine a variety of mortgage types and/or terms. You can find out more in the interview on page 4.

For every stage of life
Your needs and concerns when buying a property differ considerably from those you will face later on as a homeowner. Your UBS client advisor will still be there for you when you've reached that stage. Do you have questions about tax planning? Are you wondering how to go about renovation work, how to calculate rebuilding costs and what sort of financ-

ing you need? People increasingly need advice and information about providing for their future, planning their retirement and making sure their partner and family will be looked after. It takes careful analysis to identify gaps in finance and provision in the event of being unable to work, falling ill, having an accident or your own or someone else's death. UBS has a variety of solutions available to make sure that your mortgage and your own home are financially manageable if something unexpected happens.

Many homeowners find themselves facing new issues between the ages of 50 and 65: what part can home ownership play in providing for old age? What about its financial sustainability after retirement? Might the house have to be sold or could it be passed on to the children? Your client advisor will, of course, be happy to help with these questions and others.

UBS Hypo Check
The UBS Hypo Check enables us to give you well-founded, expert advice on the financial options open to you, on the choice of property, on the right mortgage mix, and on your plans for renovation, not to mention insurance and tax issues. That way, you save yourself a lot of inconvenience and get a tailor-made solution that's right for you.

Find out more about the UBS Hypo Check: www.ubs.com/mortgages.
Or make an appointment by calling 0800 884 558.

Find the *right financing* thanks to a personal consultation

Low interest rates mean that longer-term fixed-interest mortgages are very popular – lots of clients want to stay “logged in” to low interest for years at a stretch. To limit the risk of uncertainty around interest rates, however, mortgage clients should combine a variety of terms and several different mortgage tranches – a point stressed in this interview by Alfred Ledermann, Head of Mortgage Product Management at UBS.

Mr. Ledermann, the recent trend is for more and more homeowners to take out long-term fixed-rate mortgages, running – for example – for ten years. What’s the argument in favor of this?
The primary concern for clients like these is to secure themselves a good interest rate in the longer term, of the kind they enjoy now and have done for some time. That makes sense if the investment or the purchase of a residential property really is a very long-term undertaking. Combining fixed-rate mortgages with varying terms – some of them lengthy – also makes sense, because if you don’t, there’s a risk of the whole financial package – not just part of it – maturing and the contract having to be renegotiated if interest rates go up.

What are the arguments against long-term fixed-rate mortgages?
When interest rates are at a normal level, long-term mortgages are, quite simply, more expensive than their short-term counterparts, as the long-term interest rate commitment entails higher costs. You also have to bear in mind that long-term fixed-rate mortgages limit flexibility. The contract specifies that it can be terminated prematurely only if the property is sold, and that can involve substantial exit costs.

Many clients decide to spread their financing over several fixed-rate mortgages with varying terms of, say, three, five and ten years. Is the lack of flexibility here a disadvantage too?
As a general rule, we recommend combining several tranches – perhaps different tranches of fixed-interest mortgages, or alternatively a fixed-rate/Libor combination. Adding a Libor mortgage to the mix means the client benefits immediately from low interest rates whilst gaining additional financial flexibility; if he has a three-month Libor mortgage, for example, he can make new arrangements every three months, either paying that portion off or converting it into a fixed-rate mortgage.

Don’t Libor mortgages have fixed terms?
Our Libor mortgages are among the most flexible financial arrangements on the market. Clients who take out a three-month Libor mortgage can revise their arrangements, that is to say, change over to another source of financing or pay the money back, no fewer than four times a year. Unlike many of our competitors, we don’t do fixed terms or minimum durations of, say, two to five years.

What mix of terms would appeal to you personally?
One option I see as worth considering is combining a 10-year fixed interest with a Libor mortgage, as that’s partly well hedged against interest rate increases. At the same time, the Libor mortgage would enable me to regularly review the situation and make new arrangements if necessary. For example, I could make the usual repayments of the loan indirectly by making contributions to a Pillar 3 account with a bank. If interest rates were to go up later, I could cut the costs by switching from indirect to direct repayments. Alternatively, I would have the option of swapping the Libor for a fixed-rate mortgage in order to protect myself if conditions on the money and capital markets were to change.

There’s been a feeling of uncertainty for months about whether interest rates are going to go up or not. How is the average layman supposed to reach an opinion on the subject?
If you’re a mortgage client, you have to be aware that short-term interest rates – which apply to Libor mortgages – are controlled by the central banks. The long terms offered, that is to say financing at the long end of the interest structure curve, are a consequence of a variety of expectations, not least expectations regarding inflation. In other words, if I need to work out the right time to switch from a Libor to a fixed-rate mortgage, I also have to keep an eye on what’s happening to long terms.

In practice, a client often wants to set the interest rate in advance – for example, when a fixed-rate mortgage is due to end in 2014. Is that possible?
Yes, of course it is. If you take out a UBS Forward Mortgage, the interest rate can be fixed up to 12 months in advance. A lot of clients are currently going with that option, and not just commercial clients, but private individuals too.