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UBS immo news

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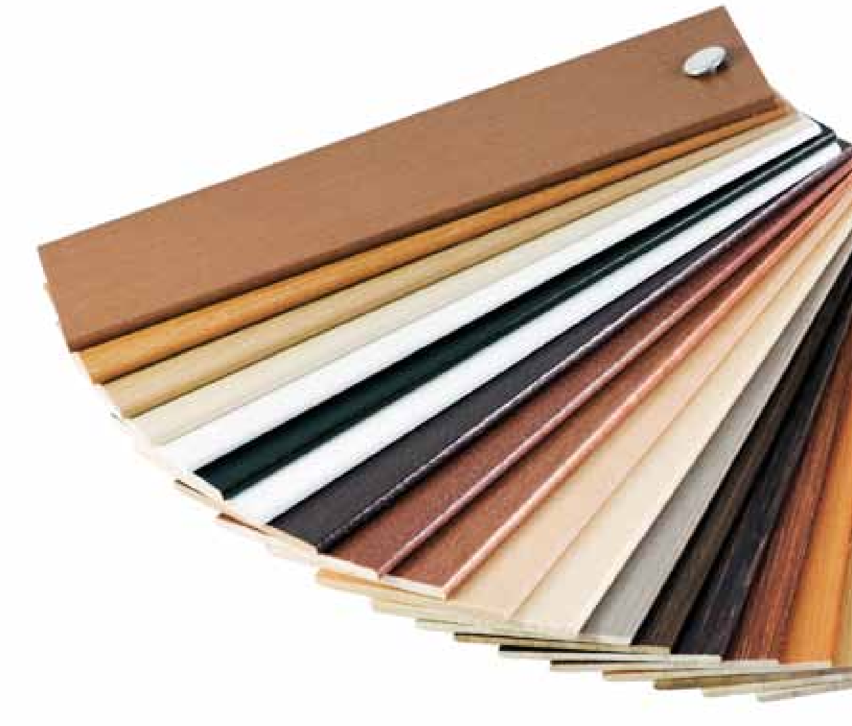

Renovation: *Keep an eye on costs through early planning*

Homeowners interested in renovating and refurbishing their home often struggle to estimate the service life of building components and the costs. This is why it's important to obtain information as early as possible about future renovation costs.

Renovating might involve fitting a new kitchen or bathroom, or even adding an extension or conservatory, depending on individual wishes and the type of property. However, it's not always easy for homeowners to keep track and to estimate when their property will need major or minor maintenance work, renovations, or the replacement of technically obsolete components. It's also possible that they may be financially unprepared for these.

What renovations should be carried out?
The individual homeowner's plans and dreams also play an important role. Is it just a case of dealing with urgent repairs? Or does the owner want to improve the quality of the property and increase its value? Many older properties offer major optimization potential, as they often consume disproportionately high amounts of energy for heating and hot water. In more and more cases energy-related and ecological considerations are prompting homeowners to plan and carry out refurbishment projects, cutting their energy and operating costs as a result, and improving the property's indoor climate, comfort and value.

It makes sense to plan ahead…
Statistically speaking, every component has a specific service life and ageing behavior. However, regular maintenance and care can extend the useful life of individual components and delay the need for their replacement.

Average life span of building components	
Sloped roof	40 to 50 years
Flat roof	25 to 30 years
Facade	40 to 55 years
Bathroom	35 to 50 years
Kitchen	25 to 35 years
Interior structures	35 to 50 years
Interior surfaces	15 to 30 years
Radiators / underfloor heating	55 to 70 years
Heating	20 to 30 years
Electrics	45 to 55 years
Windows / external doors	30 to 40 years

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UBS

Editorial

Roger von Mentlen
Head of Private Clients Switzerland

Dear Reader,

The total value of all privately owned real estate in Switzerland is estimated at around CHF 1,600 billion. To make sure that homeowners can continue to enjoy their properties, which are valuable from both an emotional and a financial perspective, these assets need to be looked after.

Regular investment is a must if the property is to retain its value and function over the years. Owners who neglect their properties have to expect subsequent costs or a lower sale price in future.

But when are renovations, such as work on your roof or facades, or even a new heating system, actually needed? Generally, there is no manual for homeowners to consult, never mind guidelines on a long-term renovation strategy. Our article on pages 1 and 2 gives you some insights from the experts and explains how you can benefit from the advice available from UBS.

The interview on page 3 with an experienced property manager and fiduciary agent also gives tips on refurbishing an apartment.

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The different service lives of the various parts of the property must be taken into account. When carrying out work on the roof, windows, facades, or technical systems, homeowners should always remember that the replacement or upgrading of components must be co-ordinated. For example, it doesn't make any sense to replace a relatively large old heating system with a comparably sized system if, just a few years later, the windows and facades are going to be insulated, thus reducing the amount of heating energy needed in winter.

Experts make a distinction here between repairs and maintenance. The figures for repairs are the costs incurred for replacing components with new items of the same quality. Maintenance work covers the expenses for ongoing maintenance, such as technical cleaning by a roofing company or having a heating system serviced.

… and to keep costs under control

A long-term maintenance and renovation strategy needs to be aligned with the individual homeowner's financial planning. Every owner should make a realistic estimate of the costs that lie ahead. This applies equally to current property owners and people who are buying a property. Buyers of older properties in particular should have a clear picture of the expected costs in the future at the time they are making the purchase. For instance, if you take into account the subsequent costs for repairs and renovations of an old property that otherwise looks good from the outside, you can enter into sensible negotiations on the price and conditions.

UBS “renovation” mortgage

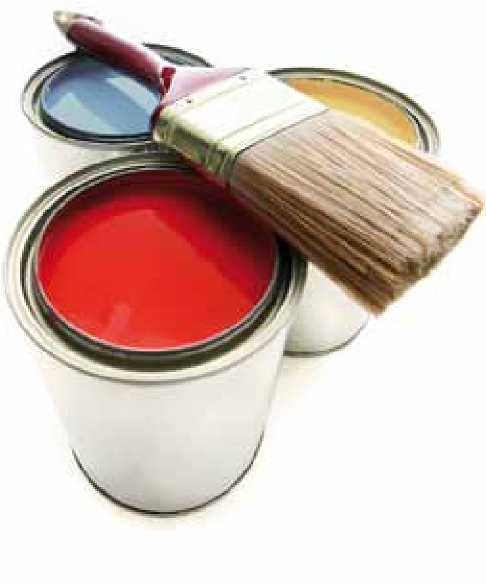
With a UBS “renovation” mortgage, there are no interest costs during the first six months. This financing solution can be used for renovations of owner-occupied properties. It is based on a fixed-rate mortgage with a term of between 3 and 10 years; the preferential conditions apply to renovation costs in a range from CHF 100,000 to a maximum of CHF 250,000.
More information is available at www.ubs.com/mortgages –> Special offers

Talk to your client advisor

The costs associated with owning a house, if calculated correctly, are considerably higher than many buyers originally anticipate. Seeking expert advice is the best way to ensure you can relax and enjoy living in your property, while securing its long-term value. Your UBS client advisor will be pleased to help you calculate your renovation costs.

UBS renovation calculator

Using the renovation calculator, your UBS client advisor can help you to estimate the renovation costs associated with your family home (or a potential purchase) based on statistical experience. The advisor needs to know basic information about the property, such as the building insurance value, year of construction and date of last renovation work. The renovation calculator is suitable for single-family homes.
Further information can be found at www.ubs.com/renovate



Condominiums: Make a success of refurbishment through good planning

Condominium owners need to set aside financial reserves from the outset and carry out renovations as soon as they are needed. This is the advice of Johann Geisser* of the Zurich Homeowners' Association (HEV).

Mr. Geisser, you have many years' experience managing property. What are the most frequent questions or problems that arise in practice?
There's sometimes the question of how to handle divergent interests. Property owners who live in their own condominium often have different interests from those who buy property as an investment and rent it out. But how to finance renovations is always a key question.

What kind of amounts are we talking about?
If more than one shared component has to be replaced, the costs can soon mount up to CHF 100,000 or even CHF 200,000 per apartment, particularly if a property needs a new heating system, roof, facade, drain pipes, or sewage system.

You sometimes hear people say that major renovation work is difficult to push through in condominiums because you can never get a majority vote in favor of the work. Is that your impression, too?
That kind of problem can be avoided if you prepare well, carrying out renovation work in several stages. First, it's important that necessary work is identified in good time. You need to look out for damage, wear and tear, and faults. Other indicators include the age of the property, damage to the roof, heating system or facade, or water damage. The condominium owners should then commission a project study and approve the funds for this. A simple majority is all it takes for this. A project study will highlight the renovation measures needed and also provide an indication of costs.

And if there is no majority support for the measures required?
Well, that would mean going back to stage one. I would try to find out the reasons for the opposition. Is it to do with money, or are the owners just not ready for renovation work? If the latter applies, the renovations might have to be replanned, perhaps in smaller stages. If it's a question of money, you need to discuss financing options.

Would you recommend that condominium owners set up a renovation fund?
Yes. The best thing is to set aside reserves during the early years. It's likely that the buyer's financial situation will be at its most strained shortly after moving in. However, I would still say that you should build up as many reserves as possible as early as you can. The money saved in the renovation fund will be vital for ensuring that any renovation work needed can actually be financed in future. This is a much easier method than relying on individual owners to raise a relatively large sum of money from their own assets.

Is there a backlog of work needing to be done on condominiums?
I would say no. Generally, condominium properties are well maintained. After all, they are owned by the occupiers, and it's in the owners' interests to carry out maintenance and renovations where necessary.

How do you define the role of the property manager with regard to condominiums?
The manager should be proactive in his or her approach. It's their job to draw attention to any areas that require renovation, doing so in good time. They should provide information, submit applications and also brief the owners on the potential time frame and stages in the renovation process. Cooperation with recognized construction experts is also key to a project's success.

* Johann Geisser is a qualified real estate fiduciary agent and real estate manager. Working with the HEV Zurich, he manages a total of 27 condominiums.

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Real estate expert: How much does a mortgage cost?

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Anyone taking out a mortgage must consider two questions: What do I expect to happen to interest rates? And how do I want to diversify my interest rate and refinancing risks?

The long-term interest rate forecast and risk scenarios

Forecasting interest rate developments over a time horizon of ten years is an extremely inexact science. To demonstrate the potential financial risks and opportunities of mortgage portfolios, we have defined a high-interest-rate scenario and a low-interest-rate scenario alongside our forecast. This should cover the full range of possible interest rate movements.

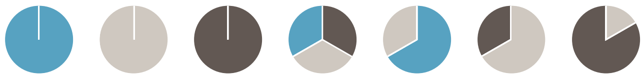
UBS interest rate forecast: We do not expect the phase of extremely low interest rates on the money market to come to an end until early 2016. As far as long-term rates are concerned, we expect a gradual normalization towards the long-term average.

The *high-interest-rate scenario* assumes a strong increase in global inflation or inflation expectations, driven primarily by the huge amounts of liquidity supplied by central banks.

The *low-interest-rate scenario* is based on a pessimistic view of the world economy. Under this, both Europe and Switzerland experience several years of low growth, preventing any renewed increase in interest rates or rise in inflation.

Overview of cumulative interest payments for various different mortgage portfolios

Interest payments for a CHF 1,000,000 mortgage, cumulative over 10 years, based on interest rate forecasts, in CHF 1,000



	Basis 1	Basis 2	Basis 3	Mix 1	Mix 2	Mix 3	Mix 4
UBS forecast	**260**	306	302	289	275	305	303
High-interest-rate scenario	**260**	358	414	344	293	377	403
Low-interest-rate scenario	260	186	**175**	207	235	182	177

10-year fixed-rate mortgage   5-year fixed-rate mortgage   3-month Libor mortgage

Source: UBS. The mortgage costs are calculated on the basis of a first-class borrower and may differ greatly in individual cases. The premiums added to interest rates may also be subject to change in the future.

Expected mortgage costs

Based on our interest rate forecast and both risk scenarios, we have calculated the costs for the 3-month Libor mortgage and the 5- and 10-year fixed-rate mortgage, as well as combinations of the two (see diagram). The analysis is limited to a 10-year term.

UBS interest rate forecast: The mortgage costs of a 10-year mortgage with no further diversification (Basis 1) are some 15 percent lower than those of a purely Libor-based mortgage or a 5-year fixed-rate mortgage

High-interest-rate scenario: The 10-year mortgage has by far the lowest interest costs (Basis 1). Both a Libor mortgage (Basis 3) and the two following 5-year fixed-rate mortgages (Basis 2) incur considerably higher costs. In such a scenario, the interest payments on a Libor mortgage are more than 50 percent higher than those on a 10-year mortgage.

Low-interest-rate scenario: The Libor mortgage is the most favorable financing option (Basis 3), with savings of around 35 percent compared with the 10-year mortgage. Diversified mortgage portfolios are also a favorable option in this scenario. In particular, the combination of a Libor mortgage and 5-year mortgage is an attractive option (Mix 3 and Mix 4).

Conclusion

- Based on the interest rate forecast and risk analysis for the different mortgage portfolios, the 10-year fixed-rate mortgage continues to look favorable. In order to reduce the refinancing risk, however, the 10-year mortgage should be combined with other long-term fixed-rate mortgage products.
- Compared with the last quarter, a purely Libor-based financing strategy is not quite as attractive now. This strategy is only recommended for risk-oriented borrowers, in view of the potential for high additional costs. In particular, borrowers with Libor mortgages must be able to cope with the extra costs that could be incurred.
- Given the wide range of potential interest rate developments, a broad diversification of the interest rate risk is recommended, encompassing a mix of long-term and money-market-based mortgages.