

# UBS *immo news*

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for regulators



## *How much is my home worth?*

**When real estate changes hands, a lot of money is usually involved. There can be a big discrepancy between what buyers and sellers think is the “right” price. That’s why it pays to get thoroughly informed on the topic ahead of time, and in any case, to involve an expert when it comes to setting the price.**

Barbara and Markus Muster have lived in a large, single-family detached home for many years. After their children moved out their house became too big for them. They decided to sell it, and consulted a real estate agent. He promised them the moon, holding out the prospect of selling their much-loved property within a very short time for 1.7 million Swiss francs. A year later the house was still on the market. The agent lowered the price three times, but no buyers were interested. Conclusion: trying to sell residential property at a ridiculously high price and without a serious appraisal will scare off potential buyers. According to Daniel Hengartner, President of the Swiss Association of Real Estate Appraisers (SIV), this example is far from an isolated case: “Real estate agents frequently name prices that are far too optimistic because they want to be hired to sell the property.”

### **What is the “right” price?**

A particularity of real estate appraisal is that there are never two completely identical properties with exactly the same features. In addition, real estate values cannot simply be found on a list of prices, as with equities, for example.

Instead, the price must be determined based on numerous specific characteristics. Various models are used for this purpose, which can lead to a huge range of values. You can find an overview of the different models on page 2.

Alongside these various appraisal methods, there is another reason why it is difficult to set an objectively correct price: real estate has an individual value for each buyer, depending on the plans they have for it. Someone who wants to live in an older property in its current condition will not be prepared to pay the same price as a person who wants to convert the house into rental apartments.

### **What factors determine the price ...**

Several very different factors are relevant for setting a price. One of the most important is the location of the building. Real estate in peripheral regions with poor connections is often worth 40 to 50 percent less than comparable properties in a central location, due to the position of the property alone. The number of rooms, area and volume, year of construction, plus the standard and quality of the interior fittings, also carry weight. Other issues to take into consideration are any neglected building maintenance or restrictive conditions, such as rights of first refusal or building codes.

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# Editorial



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

## Dear Readers,

The value of real estate is not something that can be calculated exactly. Different factors come into play when setting prices for residential property. An expert appraisal helps sellers to set a realistic price that they can expect to receive for their property on the market.

Recently, the case of a hotel needing renovation created headlines when it was sold by a church parish: "Millions in profits given away" wrote the press. The parish relied on an outdated property appraisal when making the sale. The new owner immediately resold the property – undoubtedly at a significantly higher price.

Expert appraisals are not just important for property transfers, however. When distributing an estate, or in the case of gifts or a divorce, the parties involved must be clearly informed about what the property is worth.

Our article on pages 1 and 2 explains what to consider when setting a price, and lists the most common appraisal methods. On page 3 you'll find tips from an expert on how to sell your property.

We hope you'll enjoy reading this issue.

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## ...and how do you set this?

A seller can have an expert appraise the market value and use this as the basis for determining the selling price. Or sellers can define a certain minimum price and then conduct an auction, so that the person who bids the highest is awarded the contract. A price is considered fair when the buyer and the seller are completely and objectively informed about the property, and when neither side is under pressure during the negotiations.

## Support when setting a price

Experts are skeptical about cheap appraisals, which sometimes even owners can do themselves: "An online appraisal that you do yourself can lead you to completely the wrong conclusions," warns Daniel Hengartner. Experience shows that owners tend to evaluate the features of their properties much more positively than independent experts.

If you decide to obtain an expert appraisal, it is best to seek out an industry association, for example the Swiss Association of Real Estate Appraisers (SIV), the Swiss Real Estate Association (SVIT) or the Swiss Homeowners Association (HEV). When selecting an appraiser, you should pay attention to references and qualifications – the titles to look out for include CAS in Real Estate Appraisal, MAS Real Estate Management Valuation or Swiss-certified Real Estate Appraiser.

## Don't forget taxes

In addition to all these aspects, you should also consider that when selling your home you will need to pay property transfer tax and real estate profit tax, in addition to the notarial and land registry fees. These taxes are regulated by the cantons (in individual cases at the community or municipality level), and each canton has its own provisions, with different tax rates and fees accordingly.

Property transfer tax is levied when the residential property changes hands, and is usually paid by the buyer.

Real estate profit tax applies to the gains that are often made when selling property and land. This is a separate tax with a special rate, and must usually be paid by the seller.



## Different appraisal values for real estate

### Market value (market price):

The market value of a property is the average price at which a property of the same or similar size, location and condition in the same area can be sold for. Market value and market price generally mean the same thing.

**Loan value:** The amount up to which a lender will provide a mortgage loan for the real estate (usually the market value).

**Hedonic method:** The market value is often determined using the hedonic appraisal method, which is based on the market prices actually paid for comparable apartments or houses. Using statistical methods, a property is divided theoretically into its individual components (location, size, number of rooms, etc.) and

appraised accordingly. Banks usually rely on this model.

**Real value:** Put simply, this is the new value of the same house (less depreciation over time) and the value of the land.

**Earnings value:** This assesses the property as an investment whose value is based on how much rent it could bring in and the anticipated risk-adjusted returns.

**Tax value:** The value set by the tax authorities for property and wealth taxes.

**Insurance value:** The amount assessed by an insurer that it would pay if the property was completely destroyed (without land).

# How do I sell my property?

**Deciding to sell a property brings up all sorts of questions: How to proceed? What criteria should you use to award a contract? Roger Kuhn\* of the Zurich Homeowners Association explains what to watch out for.**

*Mr. Kuhn, what are the advantages and disadvantages of a real estate agent?*

Roger Kuhn: The services of a real estate agent or other professional sales organization entail fees. The sales commission is usually two to three percent. The most important advantage is that the agent acts objectively and neutrally. In contrast, people who take selling into their own hands often act and negotiate too emotionally.

*In what way?*

Imagine someone who has lived in their own home over many years and maintained it lovingly, and now has to sell it due to their old age. Under these circumstances, it's difficult to make an objective appraisal of the property's strengths and weaknesses. In another case, someone might feel morally obliged to their nice neighbor, who has indicated an interest in buying the property. A serious professional agent with a good reputation can create trust and present the property objectively. I know that in practice these transactions are often conducted between private parties. This means there are two lay people dealing with each other, who often don't know much about the formal selling process.

*But are there instances when selling a property yourself makes sense?*

Certainly, but people shouldn't underestimate the complexity and effort involved. The biggest mistake sellers make is to take a great deal of time before making the decision to sell – and then expect it to happen extremely quickly.

\* Roger Kuhn heads the Sales/Agency and Appraisal/Survey departments at the Homeowners' Association of Zurich. He has many years of professional experience, is a Swiss-certified real estate trustee, and has a master's degree in real estate management.

*What do you mean exactly?*

When the process is too hasty, precise objectives and a clear-cut selling strategy get lost. Private sellers often fail to address both the procedure and process, and the criteria for acceptance. Should the highest bidder get the property, or a nice family? The interested parties need to be informed how the process will work. Preparing good sales documentation also takes time.

*What should be included in the sales documentation?*

A detailed description of the property, floor plan, map of the area, photos, etc. The documentation should present the property well; it must be honest and believable. There's nothing worse than hidden problems. As a consequence, potential buyers will turn away as soon as they realize that serious problems with the property have been omitted from the documentation.

*What does the viewing involve?*

I think it's very important to address the questions of the interested parties, instead of just praising the property to the skies. You need to prepare thoroughly ahead of time, and think about what could interest potential buyers. Naturally the property should be well presented, best of all in daylight. But in most cases it's not worth making major renovations, since the future owners will want to decide on these themselves.

*How much time is required for a sale?*

When a real estate agent advertises that they have sold a house within two days, the price was probably far too low – to the detriment of the seller. For a serious sale, we usually plan on six months. But if a property is on the market for too long, at some point it will decrease in value.



*Where should you advertise your property for sale?*

As part of the selling strategy, you should clarify in advance which channels you want to use for advertising. Marketing online can be powerful, simple and inexpensive. But we're still achieving good feedback using daily newspapers. A real estate agent should have their own, up-to-date file of interested parties.

*How do you check whether an interested party is even solvent?*

During the selling process, before you negotiate payment arrangements and a date for the transfer of ownership, there absolutely has to be a confirmation of financing from a recognized bank. Later on you should be sure not to sign the contract until the interested party has produced an irrevocable promise to pay.

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# Real estate expert: home financing *still in focus* for regulators



**Elias Hafner**  
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**Prices for residential property continue to rise, although at a reduced rate. There have been significant price corrections in the Lake Geneva area. If the market does not settle down further, there is a threat of additional regulatory tightening.**

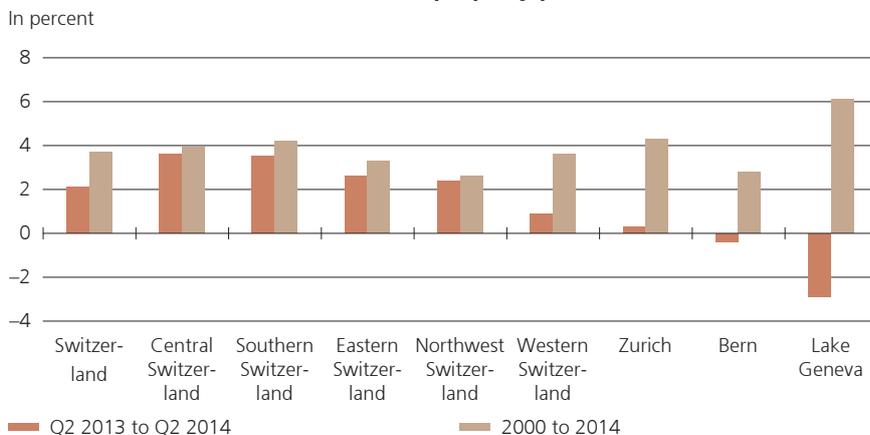
Prices on the Swiss residential property market keep rising. In the second quarter of 2014, prices rose by an average of almost one percent compared with the previous quarter. Against the previous year, prices were around two percent higher on average, roughly in line with our forecasts for 2014 as whole. Compared with past years, which saw price increases of five percent or more, there has been a significant slowdown.

The highest growth was seen in central and southern Switzerland (see chart). In the Lake Geneva area, however, there was a price correction. The downturn in prices was due less to fundamental drivers – interest rates remain low, population growth continues, and availability is only expanding sluggishly – than to stricter regulations, and in particular, to increasing doubts about the sustainability of the price levels now reached.

### Amortization from day one

The high prices in individual regions, and high levels of mortgage debt, have led regulators to get involved again. The Swiss Bankers Association tightened self-regulation measures for mortgage approvals further after 2012. First, the amortization period for the repayment of two-thirds of the lending value of the property will be shortened from the current 20 years to 15 years.

### Annual rate of increase in residential property prices



The amortization must be made in regular tranches (linear). As a result, repayments cannot be deferred, but are due from the first year. This restriction only applies to new mortgages, but not to existing financing or the extension of existing mortgages.

Second, with regard to financing real estate acquisitions or the transfer of ownership, the "lower of cost or market" principle applies to valuations, so that the loan value is determined by whichever is lower: the market value or sales price. This prevents properties being valued above the purchase price. And third, in the context of evaluating financial viability, secondary incomes are generally only applicable in the case of joint and several liability. This trio of tighter measures will come into force on September 1, 2014.

### Limit on the withdrawal of retirement savings

The Swiss Federal Council is also busy. To minimize the risk of dependence on supplementary benefits in old age, it is considering eliminating the option of withdrawing capital from mandatory retirement savings. This would have a huge impact on the Swiss real estate market, however. At least 10 percent of all transactions would no longer meet the standards for economic viability without an early withdrawal from a pension fund. We believe it rather unlikely that this suggestion will be implemented in this form. But one thing does seem highly probable: without a sustainable calming of the residential property market, the regulators will be unable to stay silent.

