

# UBS *immo news*

## Home ownership

How dreams of owning your own home can become reality

## Use all the potential

Build on, build up, and make the most of your property

## Real estate expert

Residential property prices – stagnation with a negative outlook



## *How dreams of owning your own home can become reality*

**Thanks to low interest rates and plenty of homes on the market, the dream of owning your own four walls can become a reality. We show you what the requirements are and how best to budget.**

As a result of years of low interest rates, the burden on the household budget of mortgage interest and amortization repayments is often less than the cost of a rental property. But anyone wanting to live the dream of owning their own home must still meet certain requirements in terms of income and savings.

The bank will first check your financial capacity based on your guaranteed regular income. This includes annual gross pay and other long-term wage elements. Dual-income families can include both incomes, provided there is a joint and several debt arrangement: in other words, joint liability of both partners.

### What can I afford?

Your anticipated fixed costs shouldn't exceed one third of your calculated total income. When working out the fixed costs, you should include mortgage interest and amortization payments, as well as maintenance and other home ownership costs. Interest charges are usually calculated not on the basis of the current interest level, but using a longer-term average interest rate of five percent. Together with maintenance and other costs, plus the repayments, this produces a burden of around six to seven percent – a lot more than you might expect when making a rough estimate at a time of low interest rates. When deciding if a property's price is

affordable for a household, the key factors are disposable income and available equity capital. For example, someone who wants to buy their own house or apartment for a million francs, and has a gross income of 150,000 francs, will need to produce around 280,000 francs of their own capital.

### Where can your capital come from?

As always, the "golden rule" applies: 80 percent of the purchase will be financed by a mortgage. The remaining 20 percent must be covered by the buyer's own funds. At least 10 percent of the equity capital must be "hard" capital, and may not draw on pension fund assets. "Hard" capital comes, for example, from savings, gifts, advances on inheritance, money from 3a (restricted) or 3b (unrestricted) retirement plans, or from selling securities. According to the current minimum standards of the Bankers Association, advances from relatives or friends are allowed only if they're without interest and don't have to be repaid.

Because younger would-be buyers don't usually have large amounts of savings, retirement assets are often used as equity capital. If you're thinking of doing this, you should bear in mind that this will be at the expense of your retirement capital and sometimes also the pension fund's risk benefits. Find out about the possible consequences, and let your client advisor show you possible solutions – for instance, how to close any gaps with a separate insurance policy.

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# Editorial



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

Dear Reader

Interest rates have been low for years. So owning your own home has never been as inexpensive to finance as it is today – and many people believe it's time to make their dream of owning their own four walls a reality. Anyone who's planning to buy a property needs to be clear on the most important points: the costs incurred now and in the future, the equity capital required, and the financing of the purchase price. The article on pages 1 and 2 shows you what you need to reckon with to stay on the safe side. Our advisors will be happy to assist you on your journey to owning your own home.

The desire for more space in an existing home can be met by building on, building up, or making the most of the property. On page 3 you can read how best to go about this.

We hope you'll find UBS immo news an informative read.

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## Save with pillars 3a and 3b

If your calculations show that you don't yet have the equity capital you need, you'll have to save the missing amount. The UBS Fisca account is ideal for this. In 2015, you can pay in a maximum of 6,768 francs, which is fully tax-deductible. This means that your annual payment not only lets you build up assets towards your goal, but you save on taxes too. The money can also be invested in UBS Vitainvest investment funds, which offer higher earnings potential over the longer term.

If you have extra funds to spare, you can invest these in a pillar 3b plan. UBS offers a 3b unrestricted retirement account for this purpose. You can use this account to invest a maximum of double the amount you pay into your UBS Fisca account. It offers the same preferential interest rate as the UBS Fisca account, and the same withdrawal limits. However, your payments are not tax-deductible. As soon as you reach your savings target you can use the money saved in the third pillar to buy a home.

## Find the right property ...

It's important to take a systematic approach to searching for your dream home. Do you want to build it yourself, or buy an existing property? What are you looking for in the property and its location? Your client advisor can help you find suitable offers in your area and assess them correctly. Using our UBS Regio Tool, he or she can give you detailed information on over 2,000 Swiss communities, for example on price trends and taxes.

## ... and value it correctly

In today's market environment, the selling prices asked by construction firms and real estate agents often differ

from the valuations made internally by banks or professional appraisers. Note that in case of doubt, it's not the selling price but the valuation by the bank that sets the maximum mortgage amount. The mortgage from the bank will finance 80 percent of the valuation price. The buyer must be able to cover the remainder, plus any difference from the purchase price, from their own resources.

So the right valuation is essential. In a nutshell, the market value of a property depends above all on its location. In the center of a bigger city, land and property prices are around 40 to 50 percent higher than in outlying areas. Added to this are other property features such as living area, number of rooms, year of construction, as well as the standard and quality of the interior fittings. To be able to correctly assess all the advantages and disadvantages of an apartment or house, you need to inspect the property thoroughly. It's also essential to consult the building and zoning regulations and the land register (see page 3).

## Plan your reserves

To keep your home in good condition in future, take into account longer-term maintenance and additional costs. Even with newly built properties, bear in mind that you should set up reserves early on to cover later renovations and refurbishments. Add to this the fact that home owners face ongoing expenses, e.g. connection fees and public charges, insurance, unexpected repairs, as well as minor servicing and maintenance costs. In the end, though, anyone who does their calculations correctly and budgets seriously really can turn their home ownership dreams into reality, and enjoy their own four walls to the full.



# Use all the potential: Build on, build up, and make the most of your property

**There's huge hidden potential in land belonging to single family homes in cities, as well as in the countryside in many cases. By adding floors, extending the attic, or building on an entirely new part of the structure, better use can be made of existing built-on land. Careful planning and professional advice are vital.**

In practice, conversions of existing lofts or attics are the most common extensions. In many cases, the roof has to be raised to install new thermal insulation and ensure a reasonable ceiling height in the new attic. One often sees buildings raised by one or even two additional storeys, or existing balconies integrated into the living space and new balconies created on the exterior.

But how does a private home owner clarify the precise usage potential of his plot of land? The most important issues are the number of floors permitted by building regulations, and the utilization ratio: in other words, the ratio of the building's floor area to the land area. For an initial clarification, you should speak to the building authorities or district architects of your community or town. The utilization ratios and floor heights for individual zones are set out in the building and zoning regulations. Sometimes other factors can also play a role, such as any stipulated building heights, or boundary distances. In general, it's usually wise to consult the public land register at the land registry, as further details such as neighbors' rights of way, or possible specifications on the character of any building development, may need to be met.

## Choose a construction partner

Once the requirements or restrictions under the building regulations are known, the next step is to plan the work. We recommend finding an architect for this. An architect will advise you on building regulations, thoroughly examine the existing physical structure and potential for improvements, and meticulously clarify the bearing capacity of existing structures and the implementation of energy regulations. He or she will then find solutions to meet your needs, and offer you various alternatives.

## Clarify the financing

After checking the building regulations, choosing a construction partner, and

making thorough plans, it's time to deal with the financing. The overall costs and the future interest burden must be within the limits of the normal banking guidelines. Particularly for old buildings, it's important to remember that the actual construction costs are not always accepted in full as adding value to the property, and therefore might not be financed by the bank. This is why you need to clarify how much your planned investments will increase the value of the property, and what proportion of the costs the bank will finance. The estimated value of the property

after renovation is decisive for any loan. In conclusion: if you need financing, it's worthwhile getting advice from your client advisor at an early stage.



**Interview with Thomas Ammann\*, Swiss Home Owners' Association (HEV)**

## “A project stands or falls on the choice of its planner”

*Mr. Ammann, extensions and major renovations are very challenging. What does it take to make such construction projects a success?*

If you're dealing with an older property, you should almost always expect a surprise or two. Quite often, it only becomes apparent during the renovation that the condition of the roof structure or the basement is worse than expected. The success of the project stands or falls on the skills of the planner. The planner or architect must correctly assess the existing building fabric and be able to cope with such unforeseen problems. To do this, they need to have the right training and experience.

*Are such major interventions even cost-effective?*

An extension to an existing building is equivalent to a new building, and is just as expensive. Depending on the standard, this is around 600 to 800 francs per square meter of rebuilt space. The conversion of a loft into a habitable attic space costs between

50 and 100 percent of this, depending on whether the existing supporting structure is still useable.

*Wouldn't it sometimes be smarter to build from scratch on the existing land?*

A major renovation often has costs per square meter that are just as high as for a completely new building. So if you find that for exactly the same money, or just a little more, you could put up a new building, this should be factored into the planning. But it also depends on the utilization reserve, boundary distances, any requirements for historical preservation, and not least, the present and future needs of the home owner.

\* Thomas Ammann, dipl. Arch. FH, is Head of Energy Management and Building Technology at HEV Switzerland. He previously worked at Viridén + Partner AG.

# Real estate expert: Residential property prices – stagnation with a negative outlook



**Elias Hafner**  
Chief Investment Office  
Swiss & Global Real Estate

**The abolition of the EUR/CHF minimum rate has worsened the outlook for the Swiss residential property market. This year, residential property house prices are likely to fall for the first time. Interest rates should remain low for the time being, and financing terms stay favorable.**

For 2015, we're expecting further economic growth of 0.5 percent. But a recession (two consecutive quarters of negative growth) cannot be ruled out. In this environment, the demand for labor is likely to drop significantly, and immigration should fall slightly. We still expect population growth of 0.9 percent. The changed economic environment will also leave its mark on Switzerland's real estate market.

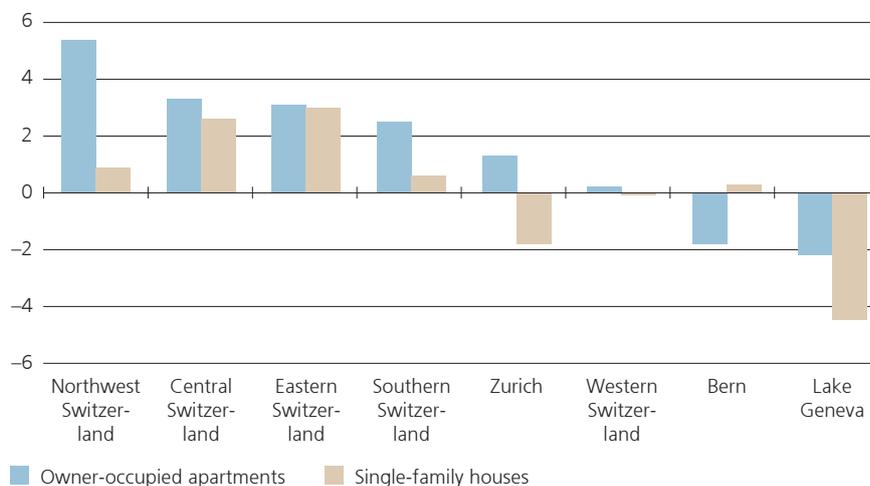
## Threat of a slump in prices if there's a severe recession

The price trend on Switzerland's residential property market has continued to lose momentum in the last twelve months. Between Q4 2013 and Q4 2014, the prices of owner-occupied apartments rose a further 2.0 percent, while those of single-family houses increased by only 0.4 percent. Whereas property values in northwest, central and eastern Switzerland grew significantly, the correction around Lake Geneva continued. For 2015, we expect prices to fall for the first time – after 16 years and an average price rise of 70 percent throughout Switzerland. For owner-occupied apartments, we anticipate a drop of 0.5 percent, and for single-family houses, a fall of 1.0 percent.

Even worse could be in store: in the medium term, the current price level of residential property is maintainable only

## Northwest Switzerland is catching up

Price growth rates for residential property (2013 Q4–2014 Q4), in percent



Source: Wüest and Partner, UBS

with positive economic growth. The price rises in the last few years in particular cannot be attributed wholly to fundamental factors (low interest rates, strong population growth). We estimate that on average, prices are around 10 percent above fair value. In the event of a dramatic recession, therefore, we're anticipating appreciable falls in prices of up to 15 percent across Switzerland over the next three years.

## Residential property as an investment

Simultaneously with the deregulation of the EUR/CHF exchange rate, the SNB has also reduced interest rates further into negative figures, so that yields on government bonds with terms of up to 16 years have meantime fallen into negative territory. Interest rates have risen slightly since then. But we anticipate that interest rates – for short to long terms – will stay at an extremely low level for the next twelve months at least, so that financing conditions will remain extremely favorable.

Low interest rates and a lack of investment opportunities also make apartments seem attractive as investments. Thus, the proportion of applications for mortgage loans at UBS for properties without direct self-occupancy rose significantly, reaching an all-time high of 18.8 percent at the end of 2014. This investment demand has a sup-

porting effect on prices, and slightly counteracts the weaker fundamentals.

## Rise in unoccupied new-builds

The vacancy rate for new-builds has risen in the last two years, reaching eight percent in 2014. There is an excess supply of homes primarily in the most expensive regions around Lake Zurich, in the St. Gallen region, and in the tourist areas where the building boom following the adoption of the 'second homes' initiative (Zweitwohnungsinitiative) has left its mark. We anticipate a surplus of newly built homes in 2015 as well. As a result, the amount of time property is on the market will increase, leading to reductions in the original asking prices.

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