

# UBS *immo news*

## Buying a home

Read the small print carefully!

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The residential property market – what's in store for 2015?

## *Buying a home: read the small print carefully!*

**Over 10,000 homes come onto the market every year. Prospective buyers are well-advised not only to examine their dream home carefully, but also to take a close look at the general contractor, the purchase contract, and the condominium documentation, for example.**

It is common practice, particularly in the case of medium and large construction projects, for the seller or general contractor (in the following, we will always use the term "general contractor") to start pushing the project long before the ground has been broken. Invitations go out for an open day when prospective buyers can study plans and artists' impressions, and create a picture in their minds of their future home. However, this type of off-plan purchase means that prospective buyers are acquiring an apartment that doesn't exist yet. For inexperienced clients, there's a certain risk in the fact that sales documents such as brochures, plans, digital impressions, and the furnishings in the show apartment, if any, are non-binding. In extreme cases, buyers cannot be sure when a contract becomes valid, what the object of the contract is, and what rights and duties arise from it.

### **Get references for the general contractor**

Before starting to do business with a general contractor, it's important to keep a cool head: "General contractor" is not a protected term, and it tells you nothing about the firm's technical background or professionalism. So it's essential to seek information in advance and check references. Contact some of the general contractor's previous customers, and if possible, visit projects that have already been completed. Another



precaution to take is to check the creditworthiness of the general contractor – ideally by requesting a current extract from the debt enforcement registry.

### **Check reservation contracts ...**

Demand generally exceeds supply when it comes to property for sale. General contractors often conclude a contract with prospective buyers that reserves a property for them against payment of a deposit. These so-called reservation contracts for buying off-plan are generally not notarized – however, under the Swiss Civil Code, purchasing real estate and hence an apartment is subject to public notarization. Since this requirement is not met, reservation contracts are invalid in this case and ultimately mean that the prospective buyers will not necessarily get the home of their choice.

### **... and take care with deposits**

Given the risks involved, people should be very careful when paying deposits. It makes sense for the deposit to be no more than a few percent of the total purchase price. When setting the deposit, it's also important to consider what loss the general contractor could incur if the prospective buyer backed out of the purchase, obliging the general contractor to re-advertise the apartment.

If larger deposits prove unavoidable, they should only be made via a blocked account at a bank, or other security

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

## Condominium ownership is still popular

Dear Reader,

According to the latest market report from Wüest & Partner, there were over 61,000 owner-occupied apartments for sale throughout Switzerland in the second quarter of 2014, ranging from new-builds to older properties. The choice is wider and more diverse than ever before. At the same time, low interest rates are making condominium purchase very attractive.

But what should you watch out for when you want to fulfil your dream of owning your own four walls? A home of your own is a long-term investment, which is why you must research the property, as well as the general contractor, with care. Before buying the apartment, make sure you have all the required documentation and information. Our article on page 1 includes important advice and points out some potential risks.

Anyone already fortunate enough to be a home owner has to submit a tax return once a year. On page 3, we provide clear answers to frequently asked questions on the tax implications of owning your own home.

We hope you have an interesting read.

**UBS AG**  
P. O. Box  
8098 Zurich  
Mortgage line: 0800 884 558  
[www.ubs.com/immonews](http://www.ubs.com/immonews)

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should be requested, such as a bank guarantee. Even in the later stages of the project, once the purchase contract has been concluded and become binding, or when you have already been entered in the land register as the owner, payments must be monitored very closely. Always match payment with delivery. Further instalments should only be transferred once there is actual progress on the construction site in line with the payments. A final basic precaution is to secure yourself against liability for capital gains tax. If your contractual partner still owes the tax authorities capital gains tax from its business activities, you could be obliged to pay this due to a lien. This is why you should determine the probable tax amount in advance and secure it through payment into a blocked account.

### Define the features precisely

The features the buyer is entitled to will depend on the plans and building specifications. The building specifications should be as thorough and detailed as possible, and must be expressly described as part of the contract. Verbal promises or assurances made in other documents can be difficult to prove, and are therefore also hard to enforce. It's important for the building specifications not to contain vague phrases like "a Swiss kitchen" or "parquet in the living rooms", but to promise precise details. Ideally, the quality of the parquet should be precisely defined, including details of the price per square meter budgeted. Clients should check each budget item to see what they're getting for their money. In most cases, for example, a budget of 10,000 to 15,000 francs is too low for a kitchen; a sum of around 40,000 francs is more realistic for discerning clients.

### Watch out for liability issues

Since every project experiences teething problems, it's important to be able to hold the general contractor liable for any defects. Under the law, the general contractor is liable for obvious and hid-

den defects in immovable projects, in other words, newly built properties, for a period of five years. The general contractor is obliged to repair any defects that appear during this period and are reported promptly. Miss the deadline and there's a risk of losing the right to have the defect rectified. "In practice, we're increasingly finding that general contractors are limiting this liability in the contract, passing it on to other parties, or even refusing to accept it altogether," warns Pavlo Stathakis, attorney at the Swiss Home Owners' Association (HEV Schweiz). In the case of a newly built property, you should never accept a reduction in your rights under the law. However, declined liability is more understandable in the case of older real estate. If the property is already 20 or 30 years old, it is common practice for the general contractor to no longer accept liability for any defects.

### Study condominium documentation

In addition to the contract, you should also thoroughly examine the regulations and records of the condominium owners' association. Among other things, the regulations contain important provisions on administration, voting arrangements, and the use of specific parts of the building. The value of each individual apartment as a proportion of the overall value is defined right from the start. This is particularly important for the distribution of shared costs. In the case of older buildings, you should also look at the level of the renewal fund. If major refurbishments are required, the fund should have reasonable reserves available.

### In summary

Before signing the final contract to buy an apartment, take plenty of time to do a thorough check on the general contractor, plans and building specifications, features, regulations on liability, as well as condominium documentation. If you're uncertain about anything, contact a specialist for advice, such as a notary or a lawyer.



# Is my faulty heating system tax deductible?

Home owners are well-advised to plan their finances with care. Building maintenance, repairs and insurance premiums, as well as income and wealth taxes, can place a heavy burden on the budget. That's why it's so important to know your tax deduction options. The following article contains answers to seven frequently asked questions.



## 1. Are heating oil, electricity and water costs tax deductible as property maintenance costs?

No. The purchase of energy, i.e. electricity or heating oil, is regarded as a normal living or running cost, the same as water, waste water, television, and phone charges. These costs cannot be deducted as building maintenance costs. However, if your oil-fired heating system breaks down, that is different. The repair or replacement of technical equipment and other parts of the building is deductible.

## 2. I had ongoing costs during the year for a gardener and a painter, as well as for refurbishing the bathroom. Can I deduct all that?

Everything involved in the refurbishment and maintenance of the building is fully tax deductible. However, if you replace your small bathroom with a luxurious wellness oasis, the value-enhancing portion of the investment would not be tax deductible. Furthermore, every canton lets you choose whether to claim your actual expenditure or a flat-rate amount (generally 10% to 20% of the imputed rental value).

## 3. I'm building a solar installation to save energy. This also involves plumbing and roofing costs. Can I claim these as well?

Yes. Photovoltaics and solar heating systems can be deducted as energy-saving measures. If the plumber works on the new installation, the cost is assigned to the installation and can be deducted. If this direct connection is less clear, you should generally be able to deduct the plumbing and roofing costs as building maintenance, unless the tax authorities consider that this enhances the value of the property.

## 4. Could the imputed rental value rise after renovations and energy-saving improvements?

Yes, that could happen. Energy improvements to the building are deductible from income during the appropriate tax year. However, the investments often result in an increase in the value of the property. In certain cantons, properties are reassessed at the next available opportunity. "Investments, major refurbishments, or a new conservatory can lead to a rise in the imputed rental value of the property," confirms Pavlo Stathakis, attorney and Head of Taxes and Charges at the Swiss Home Owners' Association. In the case of energy-saving measures, it is possible for the initial tax benefit to be cancelled out by a higher imputed rental value over the longer term.

## 5. Do I have to provide evidence of property-related expenditure and repairs?

Yes, keep all invoices, receipts and other documents and photos carefully. If you choose the flat-rate deduction, you don't need to present any documents. In all other cases, if you've made large or additional investments in the relevant tax year, you should have the documentation to hand. In most cases, the documents will be requested and checked by the tax authorities. In the worst-case scenario, if important documents are missing, or if the costs cannot be verified by the tax office for any reason, the maximum deduction permitted will be the flat rate.

## 6. What costs can be deducted for financing, such as mortgage interest, mortgage arrangement charges, or ground rent?

It is primarily interest on loans that is deductible, irrespective of whether this is a mortgage with a bank or another interest-bearing loan. Mortgage arrangement charges are classed as investment costs at the start, and, like all other expenditure for construction and purchase, play a role in the subsequent

taxation of capital gains. You cannot deduct repayments if you hold the property as a private asset. Ground rent cannot be deducted from federal tax or from most cantonal taxes. However, if the property is rented, ground rent can be deducted.

## 7. I receive a pension of CHF 36,000 and pay tax on an imputed rental value of CHF 24,000. How can I reduce this very high imputed rental value?

There is often a lot of discussion on the setting and periodic adjustment of imputed rental values. However, the tax authorities are generally very strict about reductions, and only grant them if there are very compelling grounds to do so, such as verifiable and obvious under-use of a property – for example, if children have moved out and their rooms are unused. Certain cantons, such as Zurich, and possibly Saint Gall in future, also have a provision for hardship cases where income is out of proportion to the imputed rental value. According to a directive of the canton of Zurich, an imputed rental value may not exceed one third of the income available to the taxpayer and those living in the home to cover living costs. You can deduct anything above this third.

# Real estate expert: the residential property market – what's in store for 2015?



Elias Hafner  
Chief Investment Office  
Swiss & Global Real Estate

**The residential property market cooled off further over the past year due to high price levels, a lot of building in recent years, and tightened regulations. Despite the favorable outlook, we do not anticipate a resurgence in price growth in the coming year, although we don't expect a drop in prices either.**

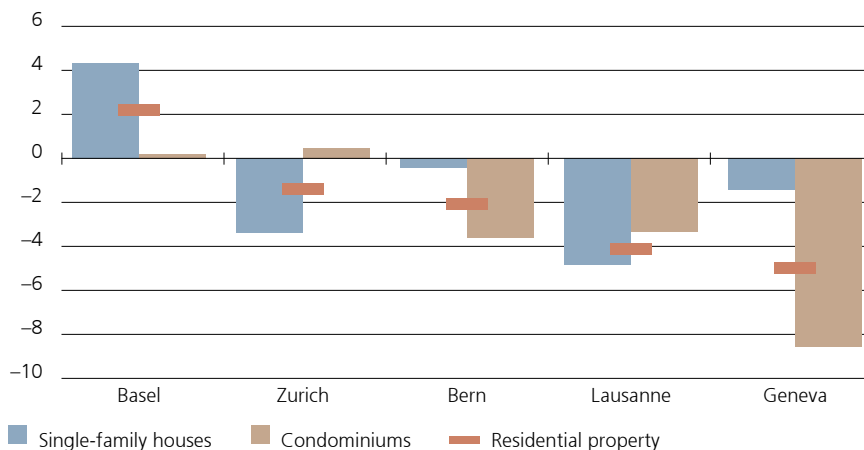
Growth was down in the market for residential property last year. In 2014, the prices of owner-occupied apartments rose by 2.3%, and those of single-family houses by 1.2%. Growth rates in both segments are well below the average over the past 15 years, when prices for owner-occupied apartments rose annually by 4%, and those for single-family houses by 3%. While in 2014 prices fell in the major centers, with the exception of Basel (see diagram), the highest rates of growth were in peripheral regions like Uri, Glarus, and the Val-de-Travers. This indicates that the current price cycle is coming to an end.

## Prices, building activity, red tape

We have identified three main factors for the slowdown: the price level, the relatively large supply of real estate, and increasing red tape. Since 2000, prices for residential property have risen by 70%, whereas average income has increased by less than 20%. As a result, owning your own home has become generally less affordable. With real prices at the level they were prior to the bursting of the real-estate bubble in the early 90s, one sometimes wonders if the prices demanded are simply made up by the sellers. We're increasingly seeing discounts of up to 20% on the prices originally asked, especially for homes at the upper end of the market.

## Marked corrections in major cities

Price growth rates in 2014, in percent



Source: Wüest and Partner, UBS

Regulatory trends also continued in 2014. The Swiss National Bank (SNB) and the Swiss Federal Council appear unwilling to accept further rises in the temperature of the market for residential property, and have increased the counter-cyclical capital buffer to 2%. The majority of the Swiss electorate have also had enough. The acceptance of the initiative against mass immigration is expected to dampen demand for housing from foreigners in Switzerland. The resulting uncertainty is having a negative impact on price expectations. Coupled with this, banks have tightened their minimum standards for awarding mortgages.

## Outlook

The fundamental outlook for the Swiss real estate market remains positive. We anticipate solid growth of 1.4% for the Swiss economy. Rising real wages and a continuing influx of foreign workers, which remains unlimited for now following the rejection of the Ecopop initiative, will further buoy demand for residential property. Furthermore, the SNB is likely to maintain its policy of low interest rates for at least another year. In this context, a renewed acceleration of price rises for residential property looks possible. However, the Swiss Federal Council, the SNB and the Financial Market Supervisory Authority will be working together to try to prevent this.

So we see very little potential for further price rises in the current year, although we also estimate that the risk of a significant drop in prices is extremely low.

You can find out more about the outlook for 2015 in our publication UBS Real Estate Focus. This is available to order from your UBS client advisor or by e-mail at [sh-iz-ubs-publikationen@ubs.com](mailto:sh-iz-ubs-publikationen@ubs.com).

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