

7 August 2018

News Release

Risks falling for owner-occupied home market, contrary to SNB's fears

Switzerland's real estate bubble index underwent a further decline in the second quarter of 2018 and is currently at 1.00 index point. The owner-occupied market cooled off further, while income and consumer prices rose markedly. However, long-term sustainability risks remain comparatively high.

Zurich, 7 August 2018 – At 1.00 point, the UBS Swiss Real Estate Bubble Index was only just in the risk zone in the second quarter of 2018. This means the bubble risk for the owner-occupied home market has clearly receded in the course of a year. There was a slight correction in owner-occupied home prices despite high economic growth and rising consumer prices. For example, there was a further drop in prices for owner-occupied flats. Compared to the previous year, prices have already fallen by 2.6 percent. However, nominal economic output increased by 2.8 percent in the same period and consumer prices were also over 1 percent higher. As a result, five of the six sub-indicators declined in the last quarter. For example, the price-income ratio sank for the sixth time in a row and is now the same as three years ago.

Sustainability risks still high

Despite developments in recent quarters, price-driven sub-indicators continue to point to affordability risks. For example, the real price level and the purchase-price-to-rent ratio, as well as the price-income ratio, are close to the values seen during the last real estate bubble at the end of the 1980s. However, the real estate bubble risk is greatly reduced by the slower pace in granting mortgage loans and the economy's relatively low dependence on the construction industry.

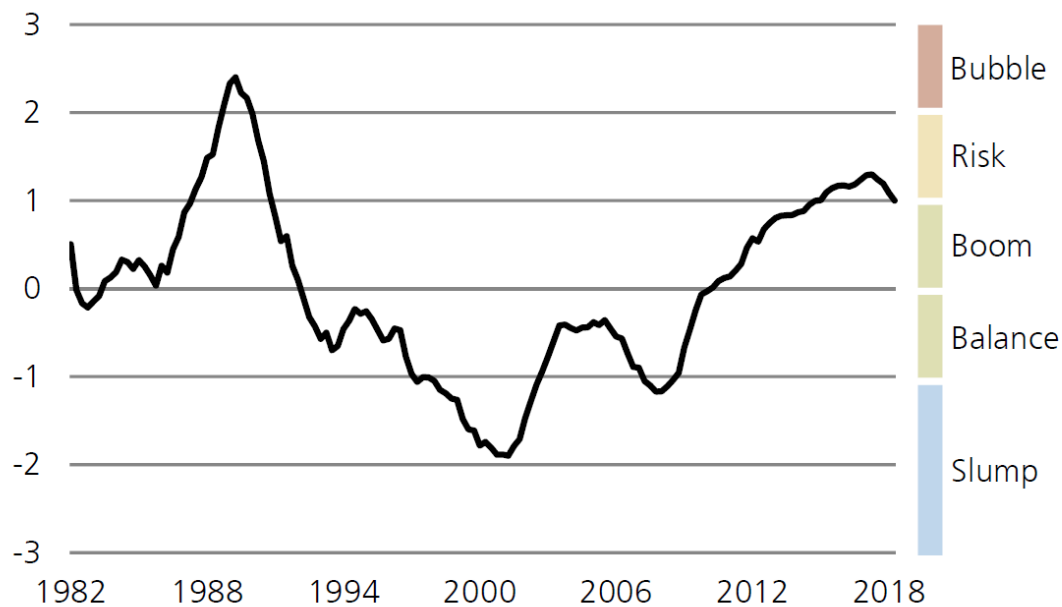
SNB sees acute risks

The changes in the real estate bubble index show a cooling-off in the owner-occupied market and indicate an end to the current property cycle. However, in its recently published financial stability report, the Swiss National Bank (SNB) warned of an acute increase in imbalances in the market for owner-occupied flats. This difference in perception is primarily due to the use of different price indices. But when observed over a long period, the divergence in the last several quarters disappears: the indices have practically stagnated since negative interest rates were introduced three-and-a-half years ago.

Price boom in Nidwalden

Nidwalden is now one of the risk regions, while Morges is no longer one of them. Currently, Nidwalden is the region with the highest price increases in Switzerland. Prices there have gone up by more than 15 percent in the past three years.

UBS Swiss Real Bubble Index – 2Q2018

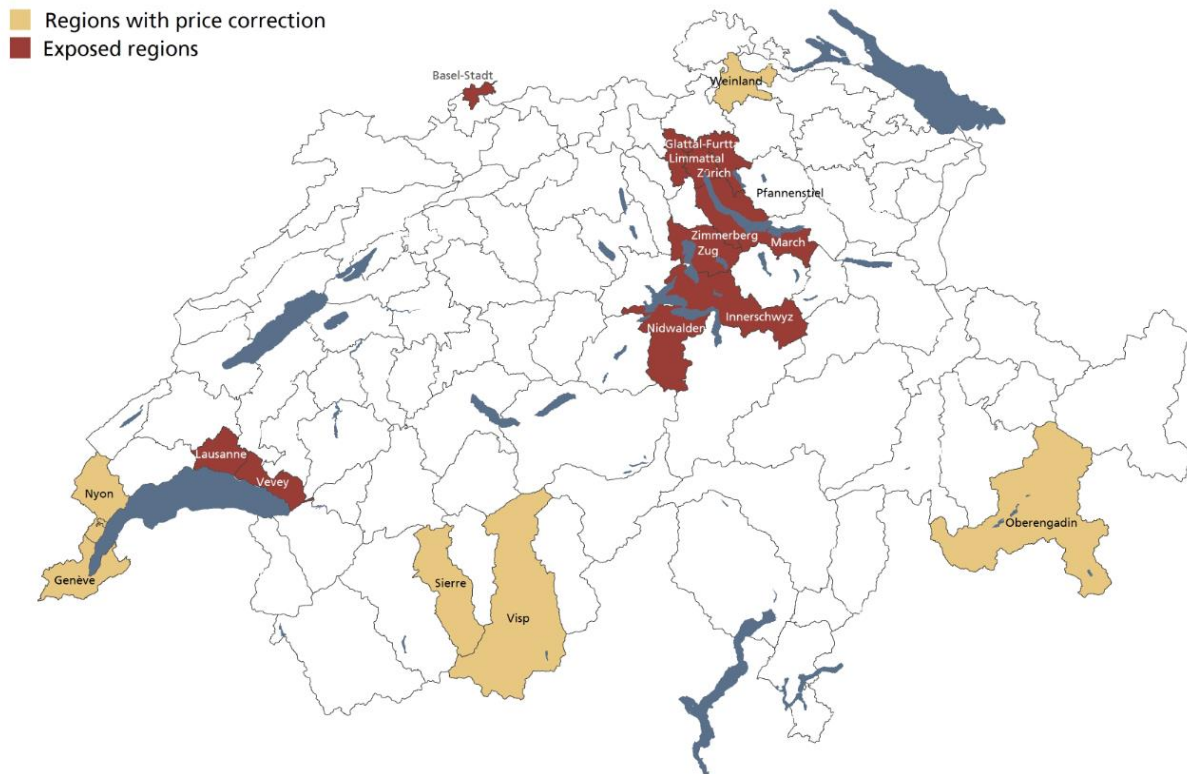


Methodology

Depending on its current value, the index falls into one of the following risk categories: slump, balance, boom, risk and bubble. These categories are specifically defined and ranked in order of risk. The UBS Swiss Real Estate Bubble Index comprises six sub-indices that track: the relationship between purchase and rental prices, the relationship between house prices and household income, the development of house prices relative to inflation, the relationship between mortgage debt and income, the relationship between construction and gross domestic product (GDP), and the ratio of loan applications filed for intended rental properties to total loan applications filed by UBS private clients.

Regional risk map – 2Q2018

Risk regions for the Swiss residential property market and regions with a price correction of more than 5 percent since 2015



The UBS Swiss Real Estate Bubble Index report is available on the Internet via this link:
www.ubs.com/swissrealestatebubbleindex-en.

The index is published on a quarterly basis. The next date of publication for the UBS Swiss Real Estate Bubble Index is 2 November 2018.

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