

# UBS Swiss Real Estate Bubble Index 4Q - 2019

## UBS Swiss real estate bubble index

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The *UBS Swiss Real Estate Bubble Index* measures the risk of a real estate bubble in the Swiss market for owner-occupied homes. The index increased slightly in the fourth quarter of 2019 and stood at 0.95 index points. The index thus remained outside the risk zone. The risk regions remain unchanged.



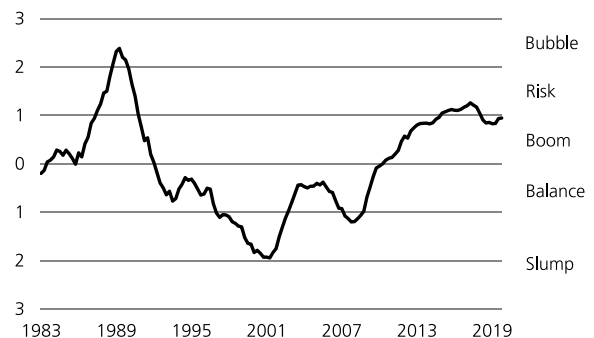
In the fourth quarter of 2019, risk in the market for owner-occupied homes remained practically unchanged quarter-on-quarter. Asking prices for owner-occupied homes trended slightly up in the fourth quarter of 2019, marking the second consecutive quarter of slight gains. Adjusted for inflation, however, prices are unchanged from a year ago. Furthermore, Switzerland's economy remained relatively robust, resulting in only a minimal increase in the price-to-income ratio in the past quarter. However, falling rents caused the price-to-rent ratio to reach a new high. It now takes more than 31 annual rents to purchase an identical home.

### Stable growth of mortgage debt

Households' outstanding mortgage volumes grew moderately in the fourth quarter of 2019. Growth rates have been stable in recent quarters and are close to the long-term average relative to income growth. Household debt is currently 195 percent of available income, and this number is set to rise.

Buy-to-let investments went up slightly quarter-on-quarter but are still below the highs reached in late 2014. However, this investment demand for owner-occupied homes increased gradually again as mortgage rates fell.

UBS Swiss Real Estate Bubble Index



Source: UBS

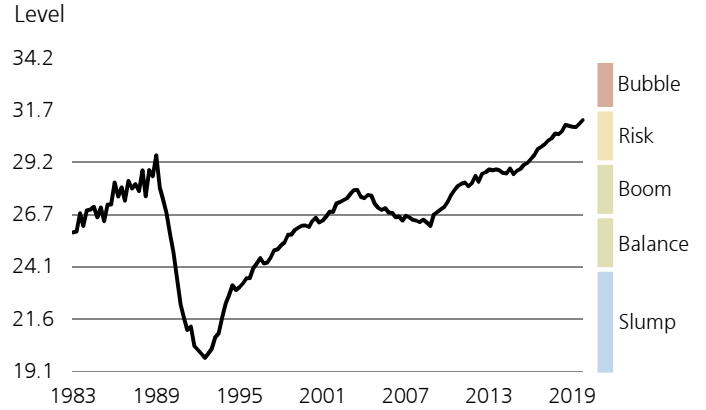
**Index calculation:** The *UBS Swiss Real Estate Bubble Index* comprises six sub-indices. It is calculated as the average of trend-adjusted and standardized indicators, weighted using a principal component analysis. The index level shows the deviation in standard deviations from the average, normalized to zero. The index value is categorized into one of five levels based on the current value: slump (below -1), balance (between -1 and 0), boom (between 0 and 1), risk (between 1 and 2) and bubble (above 2).

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## Sub-indexes of the UBS Swiss Real Estate Bubble Index

### Home prices to annual rents

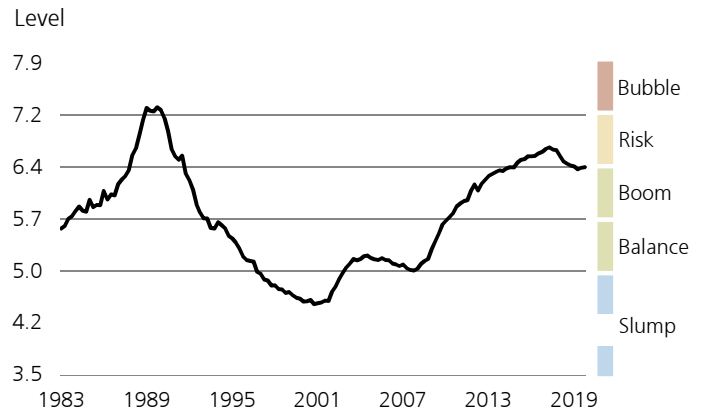
An above-average price-to-rent ratio indicates a high dependency on sustained low interest rates or implies expectations of price increases.



Sources: SNB, UBS

### Home prices to household income

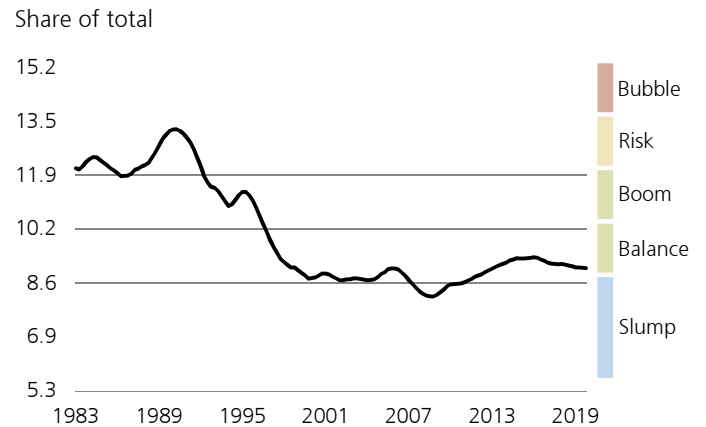
The indicator shows whether the price behavior of the owner-occupied housing market is supported by a change in household income. A decoupling of prices from average household income can be interpreted as a sign of interest rate risks.



Sources: SNB, FSO, UBS

### Construction relative to gross domestic product (GDP)

The construction sector gaining weighting within the national economy can signal an overheating of the real estate market.



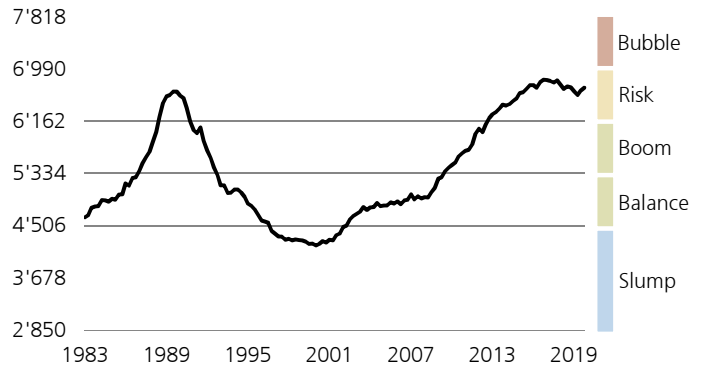
Sources: SECO, FSO, UBS

## Sub-indexes of the UBS Swiss Real Estate Bubble Index

### Home prices relative to consumer prices

Over the long term, owner-occupied housing prices are likely to relate to construction costs and general inflation. A sharp and lasting increase in inflation-adjusted owner-occupied housing prices is thus a warning signal for a possible correction.

Real owner-occupied housing price index (CHF/m<sup>2</sup>)

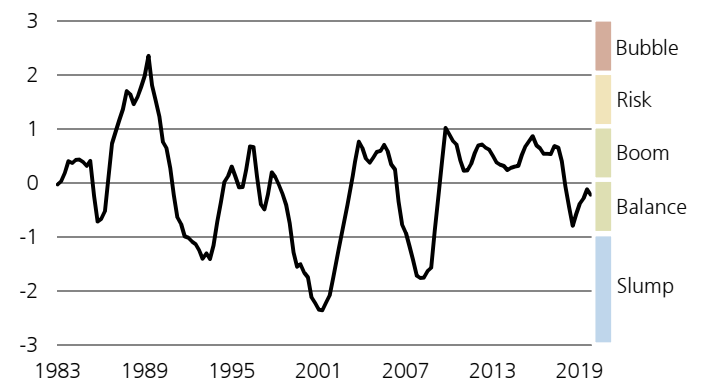


Sources: SNB, FSO, UBS

### Mortgage volume relative to disposable income of private households

Any sharp growth in mortgage debt is a clear indication of the owner-occupied housing market overheating. If interest rates rise or owner-occupied housing prices correct, high household debt increases the negative consequences for the national economy.

Mortgages of private households relative to income (trend-adjusted, standardized)

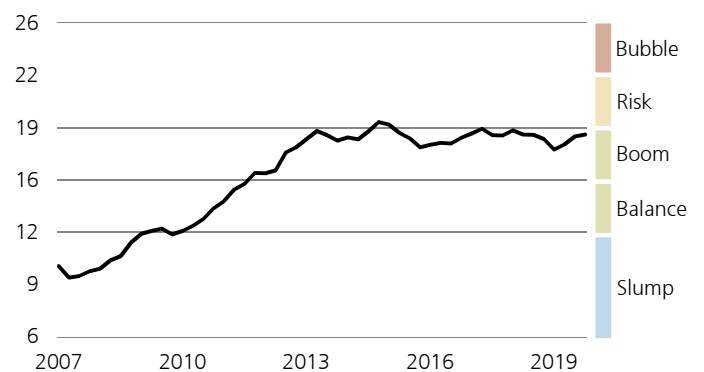


Sources: SNB, FSO, UBS

### Credit applications for residential real estate not intended for self-occupancy (UBS clients)

High demand for residential property for the purpose of leasing (buy-to-let) indicates greater speculative demand.

Share of total

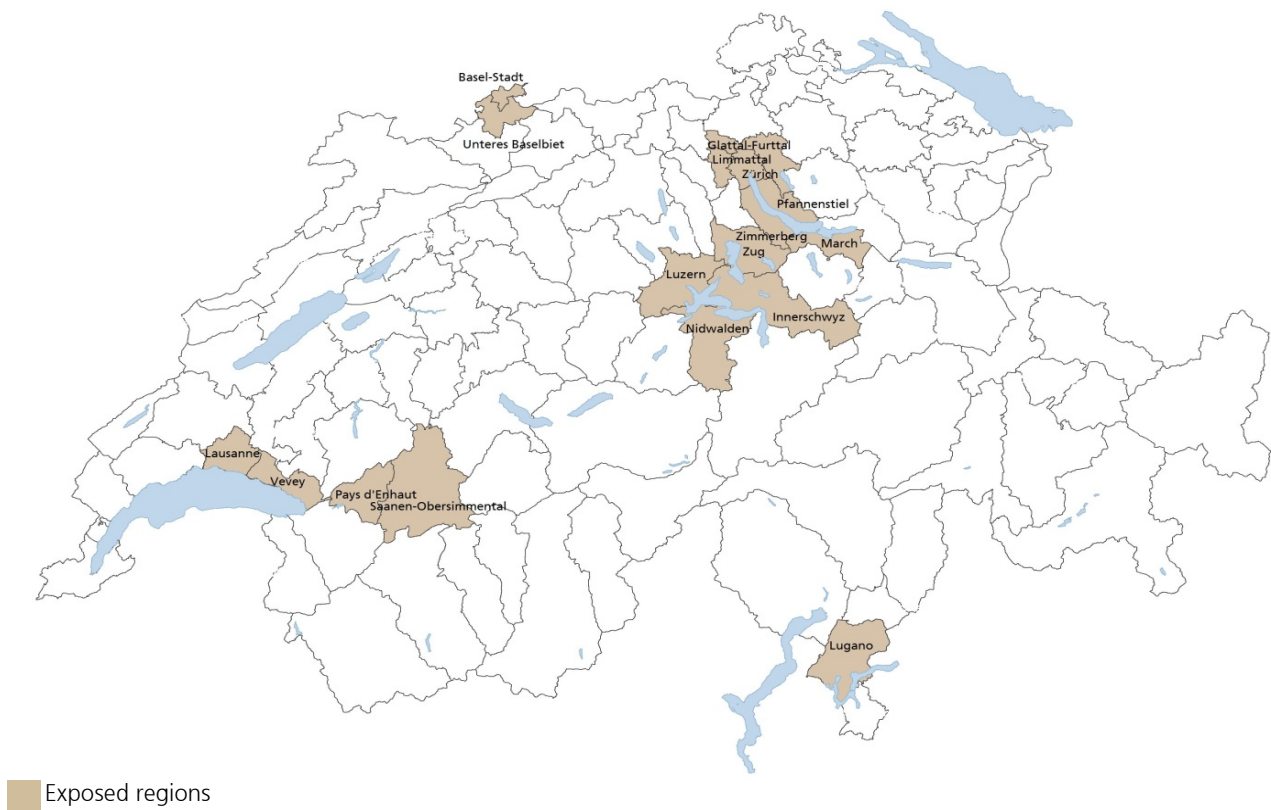


Source: UBS

## Regional risk map

The regional risk map reveals the regions in which the imbalances are most extreme. The analysis is based on the local price-to-income ratio, the local price-to-rent ratio and the long-term price development of owner-occupied homes. The selection of risk regions is linked to the UBS Swiss Real Estate Bubble Index and takes into account the size of the local second-home market. Due to adjustments made to the method, the risk map is only comparable to some extent with previous issues of the report.

### Risk regions in the Swiss residential real estate market



Source: UBS

## Appendix

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