

Swiss real estate market

UBS Swiss Real Estate Bubble Index 3Q 2015

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Translation:

Chief Investment Office WM

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- The *UBS Swiss Real Estate Bubble Index* remained practically unchanged in the third quarter at 1.38.
- Stagnant nominal home prices and declining investment demand for condominiums kept it in check.
- The positive effect of negative interest rates on home-buying demand appears to be fading.

The *UBS Swiss Real Estate Bubble Index* remained in the risk zone in the third quarter but moved only marginally quarter on quarter, up 0.01 point to 1.38. Stagnating nominal house prices and declining demand for buy-to-let investments kept it flat. Third-quarter mortgage loan volume rose 3.4% year on year, however, a relatively strong showing. Relative to incomes, growth remains well above the long-term average.

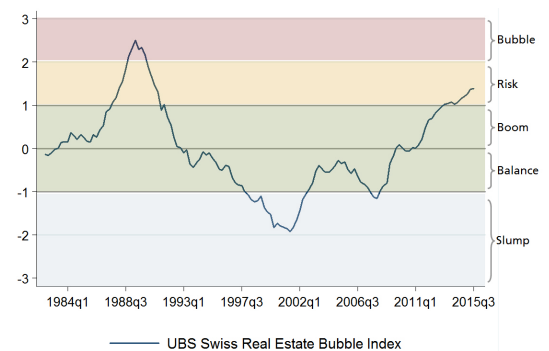
Stagnant house prices signal that the market is calming down, but in view of current disinflation and nominal household income falling 0.3% (measured in terms of economic output), the imbalances have not yet narrowed. Adjusted for inflation (or the lack of it), house prices have still risen 3.1% year on year.

Methodology

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 relationship between house prices and inflation, the relationship between mortgage debt and income, the relationship between construction and gross domestic product (GDP) and the proportion of credit applications by UBS clients for residential property not intended for owner occupancy. The *UBS Swiss Real Estate Bubble Index* 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, which is normalized to zero.

The index value is categorized into one of five levels: slump (below -1), balance (between -1 and 0), boom (between 0 and 1), risk (between 1 and 2) and bubble (above 2).

UBS Swiss Real Estate Bubble Index



Source: UBS

Index performance

		Index
2012	Quarter 1	0.66
	Quarter 2	0.70
	Quarter 3	0.81
	Quarter 4	0.88
2013	Quarter 1	0.96
	Quarter 2	1.03
	Quarter 3	1.03
	Quarter 4	1.07
2014	Quarter 1	1.03
	Quarter 2	1.06
	Quarter 3	1.16
	Quarter 4	1.20
2015	Quarter 1	1.26
	Quarter 2	1.37
	Quarter 3	1.38

Source: UBS

The index values may be slightly adjusted each quarter as a result of data revisions and varying weights of the sub-indices.

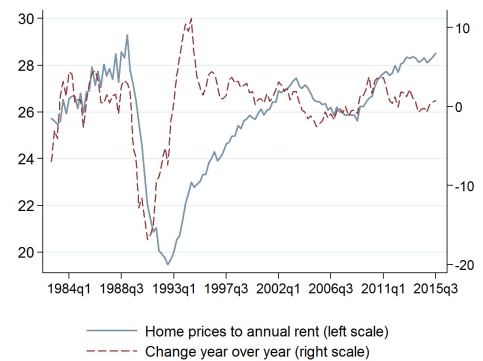
Swiss real estate market

Sub-indices of the *UBS Swiss Real Estate Bubble Index*

Owner-occupied house prices relative to annual rents

Purchase prices were unchanged quarter on quarter, while rents declined 0.6% as vacancies rose. The purchase price-to-rent ratio rose slightly to 28.5, and remains well above the long-term equilibrium of about 25.

Home prices relative to annual rent Level and change year-over-year in percent

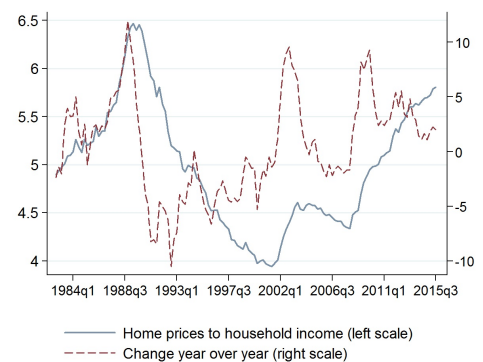


Source: SNB; UBS

Owner-occupied house prices relative to household income

House prices were unchanged in the 3rd quarter 2015 while household income declined slightly. Measured in terms of economic output, household incomes dropped by a nominal 0.3%. So it still took 5.8 annual household incomes to purchase a home in the medium price segment. The long-term average is five annual incomes.

Home prices relative to household income Level and change year-over-year in percent

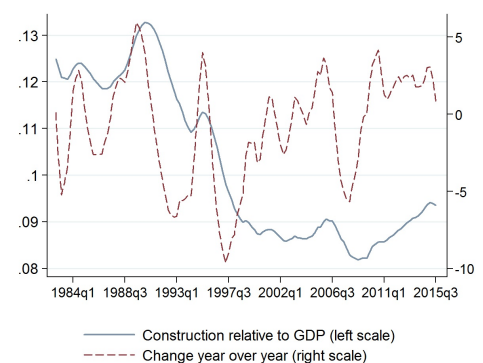


Source: SNB; FSO; UBS

Construction relative to gross domestic product (GDP)

Nominal construction investment fell slightly, though relative to economic output there was little change. Relative to gross domestic product, construction investment remains under 10% with no significant upward trend. The long-term average value lies at 10.3%.

Construction relative to gross domestic product Level and change year-over-year in percent



Source: seco; FSO; UBS

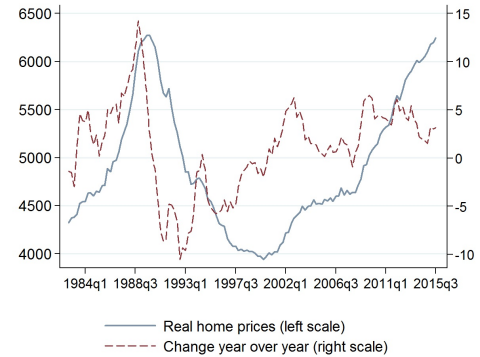
Swiss real estate market

Owner-occupied home prices relative to consumer prices

Nominal house prices, as a mean value of prices for single-family homes and condominiums, were unchanged relative to the previous quarter. Year-on-year prices are 1.6% higher and, adjusted for inflation, they have risen a considerable 3.1%. If real prices continue to increase, they will exceed the peaks of the 1990 real estate bubble by year end.

Home prices relative to consumer prices

Real home prices (CHF/m²) and change year-over-year in percent



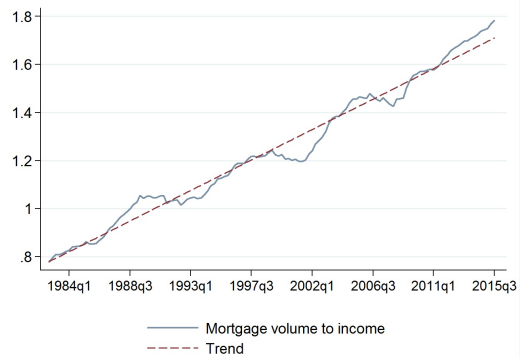
Source: SNB; FSO; UBS

Mortgage volume relative to disposable household income

Mortgage loan volume growth slowed slightly again in the last three months. But the indicator climbed again in the quarter on declining nominal economic output. However, household debt is still rising at a faster pace – 3.4% – than it was before negative interest rates were introduced.

Mortgage volume relative to income

Mortgage debt of private households relative to income and trend line



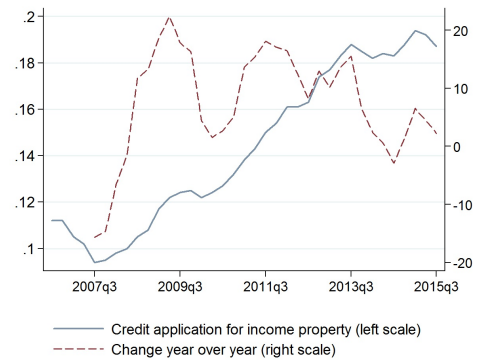
Source: SNB; FSO; UBS

UBS loan applications for real estate intended for leasing

The number of loan applications for non-owner-occupied real estate fell, as 18.7% of all credit applications were for properties not intended for self-occupancy. Investment demand for condominiums remains high, due chiefly to negative interest rates.

Credit applications for residential property not intended for self-occupancy

Share of total and change year-over-year in percent



Source: UBS

Swiss real estate market

Regions with risk potential for the residential real estate market

The regional risk map remained unchanged in the third quarter 2015.

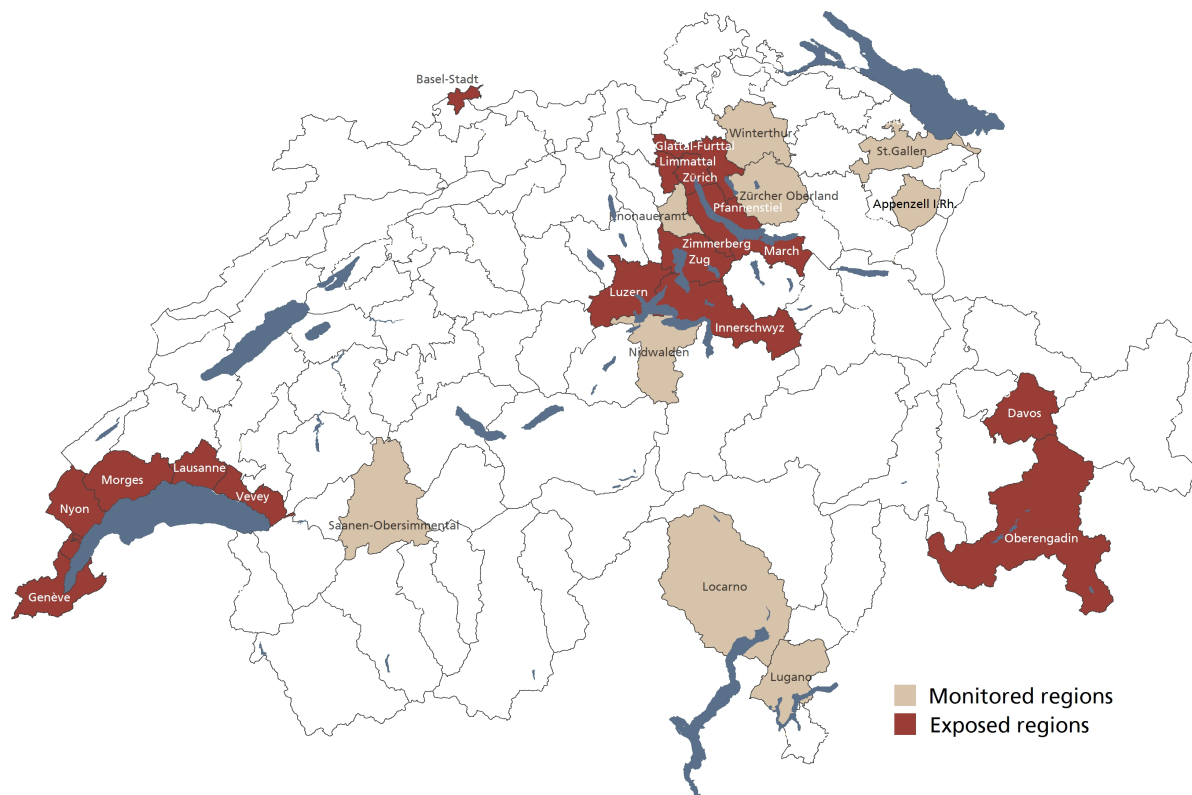
Methodology

Our selection of exposed regions is tied to the level of the UBS Swiss Real Estate Bubble Index and is based on a multi-level selection process utilizing regional population and property price data.

Exposed regions	Monitored regions
Zürich	Knonaueramt
Glattal-Furttal	Zürcher Oberland
Limmattal	Winterthur
Zimmerberg	Saanen-Obersimmental
Pfannenstiel	Nidwalden
Innerschwyz	St.Gallen
March	Locarno
Zug	Lugano
Luzern	Appenzell I.Rh.
Basel-Stadt	
Davos	
Oberengadin	
Lausanne	
Morges	
Nyon	
Vevey	
Genève	

Regional risk map - 3Q 2015

Exposed and monitored regions for the Swiss residential real estate market



Source: UBS

Swiss real estate market

Appendix

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