

Swiss real estate market

UBS Swiss Real Estate Bubble Index 1Q-2016

Chief Investment Office WM | 4 May 2016 | Translation:

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- The *UBS Swiss Real Estate Bubble Index* stood at 1.38 points after a slight decrease in the first quarter of 2016.
- Stagnating nominal home prices and a slowdown in household debt growth kept the housing bubble index in check.
- Demand for buy-to-let investments declined for the fourth quarter in a row.

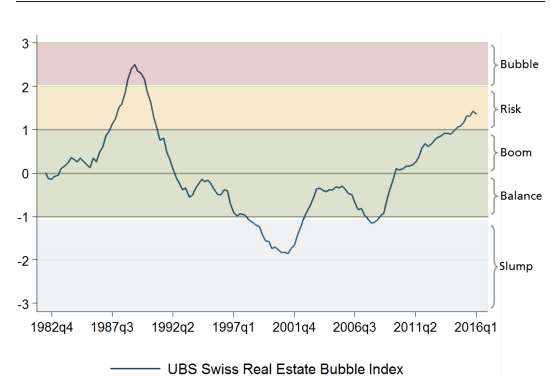
The *UBS Swiss Real Estate Bubble Index* was in the risk zone in 1Q 2016 at 1.38 index points. The index decreased 0.03 points over the previous quarter. The decline was driven by stagnating nominal home prices, shrinking demand for condominiums as investment properties and slower loan volume growth. Year-on-year growth in mortgage volumes dropped to 2.9%, its lowest level in 15 years. Persistently weak income growth, however, prevented any significant leveling of imbalances in the housing market for the time being.

UBS Swiss Real Estate Bubble Index: 5 years on

The housing market situation has clearly intensified since the *UBS Swiss Real Estate Bubble Index* was first published in May 2011. Since then, the index has increased from 0.63 to 1.38 index points, with a significant increase in all its sub-indices. It now takes 6.2 annual household incomes to purchase an average home, up from 5.5 in 2011. Likewise, 29 annual rents are now needed to purchase a comparable condominium, as opposed to only 27.5 annual rents in 2011. Household mortgage debt grew from 170 to 190% of disposable income in the same period.

The current index level in the risk zone points to an overvalued market. The housing market has not followed the typical pattern of a real estate bubble – such as exploding prices and debt – since 2011, but this should not be interpreted as an all-clear signal. The observed weakening of price growth since 2014 is attributable to established lending restrictions and expanding supply. However, this should not obscure the fact that over the last five years, the housing market has grown far more dependent on low interest rates, and has become much more exposed to deteriorating conditions in the real estate market.

UBS Swiss Real Estate Bubble Index



Source: UBS

Index development

Year	Quarter	Index
2013	Quarter 1	0.84
	Quarter 2	0.87
	Quarter 3	0.93
	Quarter 4	0.93
2014	Quarter 1	0.92
	Quarter 2	0.98
	Quarter 3	1.07
	Quarter 4	1.11
2015	Quarter 1	1.19
	Quarter 2	1.32
	Quarter 3	1.34
	Quarter 4	1.41
2016	Quarter 1	1.38

Source: UBS

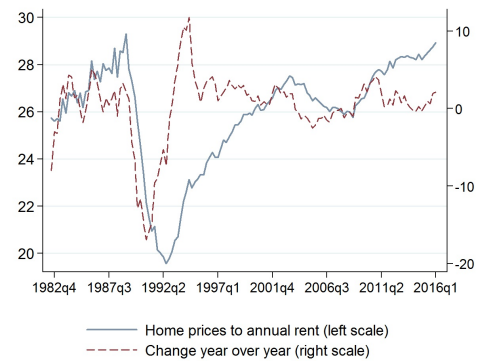
Methodology: The *UBS Swiss Real Estate Bubble Index* comprises six sub-indices. The Index is calculated as the average of trend-adjusted and standardized indicators weighted using a principal component analysis. The index level shows the deviation in standard deviations from the average, which is normalized 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).

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

Owner-occupied home prices relative to annual rent payments

Rents dropped 0.5% quarter-on-quarter. This resulted in an increase in the price-to-rent ratio. In 1Q 2016, it took nearly 29 annual rents to purchase a comparable home. The current level is well above the long-term equilibrium of about 25.

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

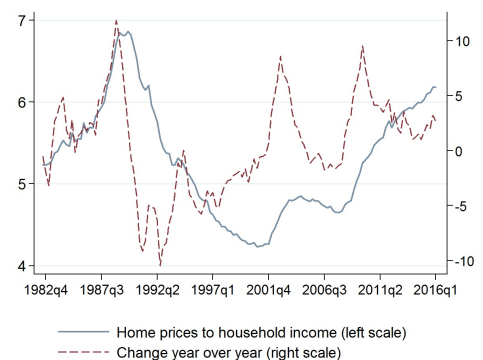


Source: SNB; UBS

Owner-occupied house prices relative to household income

Home prices were unchanged in 1Q 2016, while household incomes increased slightly. Consequently, the indicator showed only a marginal change quarter-on-quarter. Roughly 6.2 annual household incomes are still needed to purchase a home in the medium price segment. The long-term average is 5.3 annual incomes.

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

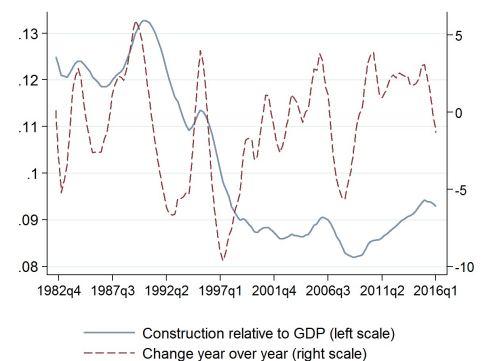


Source: SNB; FSO; UBS

Construction relative to gross domestic product (GDP)

Nominal construction investment increased slightly in 1Q 2016. However, construction investment declined 1.0% compared to the previous year. Construction investment exceeded its peak in mid 2014. Construction's contribution to gross domestic product was unchanged at 9.3%. The long-term average value lies at 10.3%.

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



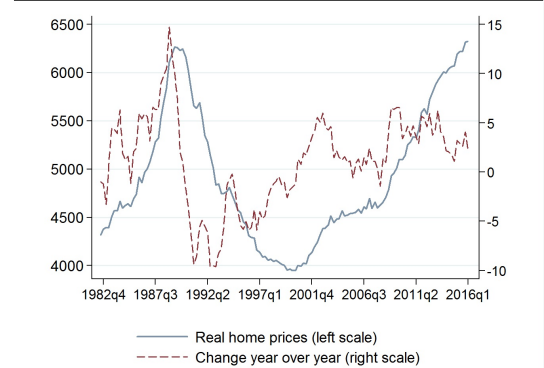
Source: seco; FSO; UBS

Owner-occupied home prices relative to consumer prices

Nominal home prices, as a mean value of prices for single-family homes and condominiums, were virtually unchanged compared to the previous quarter. Year-on-year prices were still 1.1% higher. Adjusted for inflation, price growth in 1Q 2016 stood at 2.2%.

Home prices relative to consumer prices

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



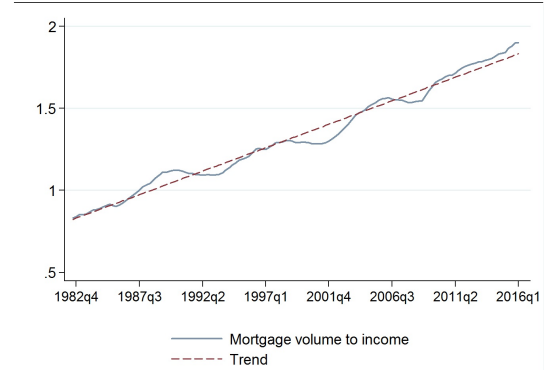
Source: SNB; FSO; UBS

Mortgage volume relative to disposable household income

Growth in mortgage loan volume is still slowing over the last three months. At only 2.9% year-on-year, growth in mortgage volume dropped to its lowest level in 15 years.

Mortgage volume relative to income

Mortgage debt of private households relative to income and trend line



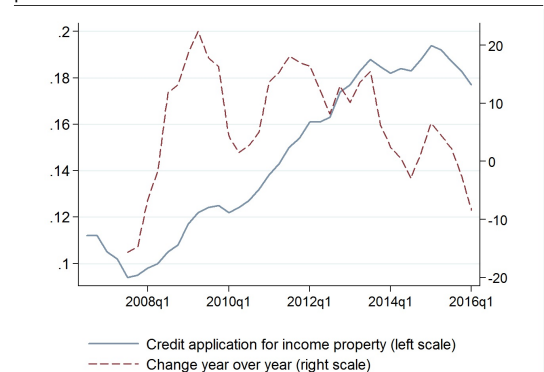
Source: SNB; FSO; UBS

UBS loan applications for real estate intended for leasing

The number of loan applications for non-owner-occupied properties dipped slightly for the fourth quarter in a row. Declining rents and increasing vacancies have made buy-to-let investments much less attractive. Still, buy-to-let investments remain highly popular, accounting for 17.7% of all loan applications.

Credit applications for residential property not intended for self-occupancy

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



Source: UBS

Regions with risk potential for the residential real estate market

The number of risk regions remains unchanged. The Oberthurgau region is no longer a monitoring region due to slower price growth.

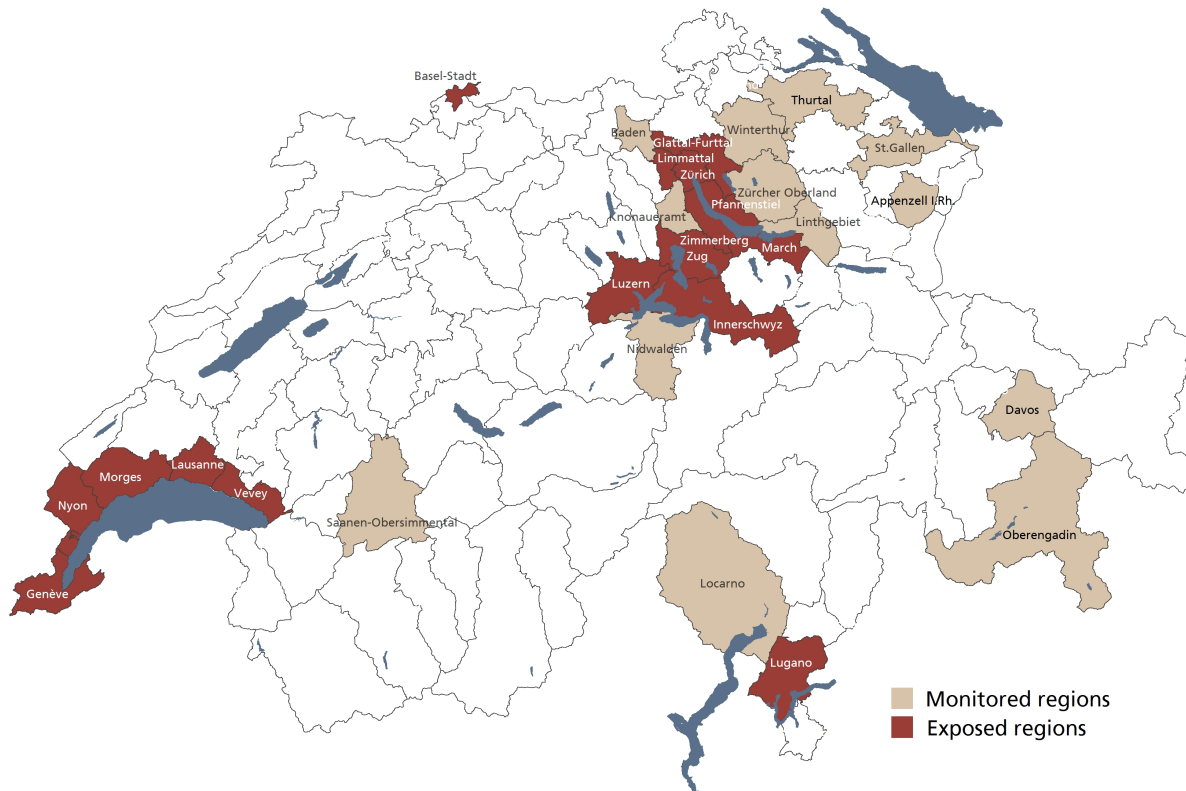
Methodology

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	Saänen-Obersimmental
Pfannenstiel	Nidwalden
Innerschwyz	Appenzell I.Rh.
March	St.Gallen
Zug	Locarno
Luzern	Linthgebiet
Basel-Stadt	Baden
Lausanne	Thurtal
Morges	Davos
Nyon	Oberengadin
Vevey	
Genève	
Lugano	

Regional risk map - 1Q 2016

Exposed and monitored regions for the Swiss residential real estate market



Source: UBS

Appendix

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