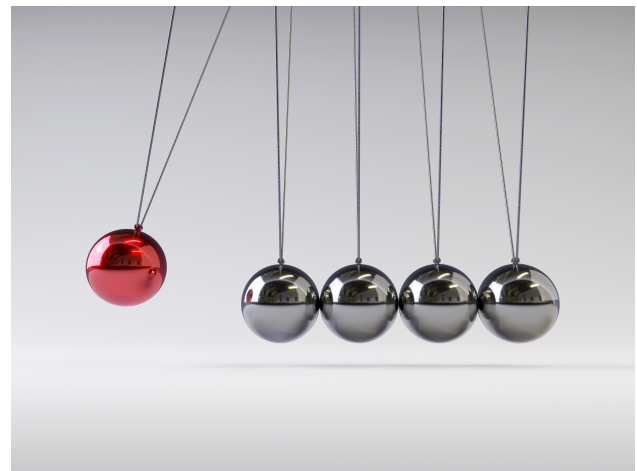


UBS Swiss Real Estate Bubble Index

UBS Swiss real estate bubble index

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- The *UBS Swiss Real Estate Bubble Index* rose only marginally to 1.54 points in the fourth quarter of 2022. This means that the market for owner-occupied homes remains overvalued in relation to historical developments.
- While real prices for owner-occupied homes continued to increase and thus led to the slightly higher index value, growth rates decreased considerably in comparison to prior quarters.
- The solid economy in 2022, a slowdown in the growth of mortgage debt and falling construction investments prevented an increase in risk on the market for owner-occupied homes.



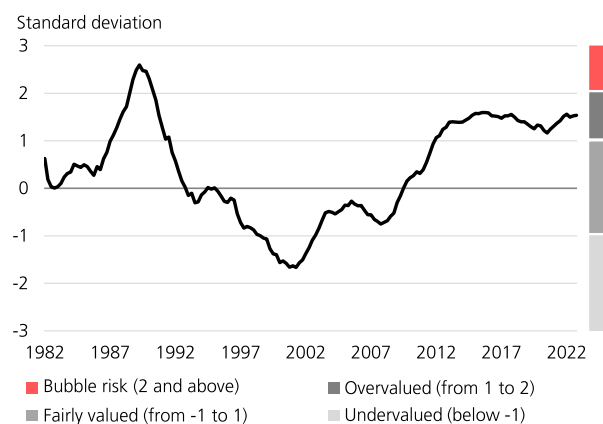
Source: Shutterstock

Development of market drivers: In the fourth quarter of 2022, prices for owner-occupied homes increased at only half the rate of the prior quarter at 0.7%. This is the first significant decline in growth rates for two years. The volume of outstanding mortgages also rose more slowly than in prior quarters. At the same time, consumer prices declined slightly and the increase in asking rents slowed. This means that rents are up by almost 1.6% on the previous year. Household incomes, in contrast, continue to reflect a strong economy in 2022 and rose 1.8% within the year.

Statement of risk: The *UBS Swiss Real Estate Bubble Index* remains significantly lower than during the real estate bubble at the beginning of the 1990s. However, the index level has risen significantly since mid-2020 and currently suggests a clear overvaluation of the local housing market. Higher financing costs and the expected cooling-off of the economy should curb demand for owner-occupied homes over the next few quarters. Low supply and falling construction activity make a price correction unlikely in the near future, in our view.

UBS Swiss Real Estate Bubble Index

Q4 2022

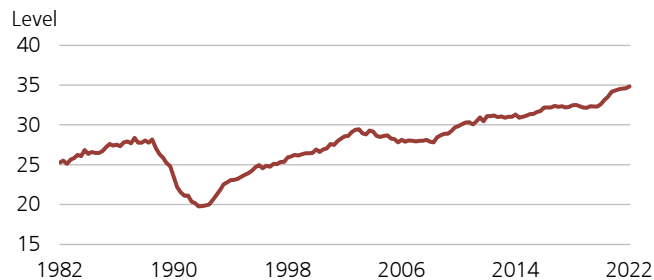


Source: UBS

Sub-indexes

Home prices relative to annual rents

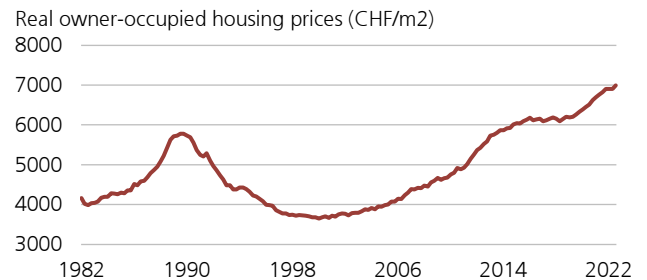
An above-average buy-to-rent ratio indicates a high dependency on sustained low interest rates or implies expectations of future price increases.



Sources: Wüest Partner, IAZI, FPRE, FSO, UBS

Home prices relative to consumer prices

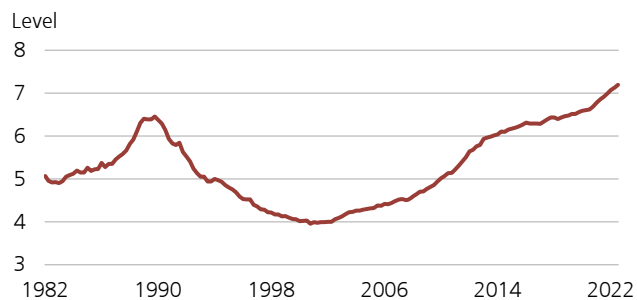
If owner-occupied home prices rise faster than construction costs and general inflation for a long time, this can be a warning of a possible correction.



Sources: Wüest Partner, IAZI, FPRE, FSO, UBS

Home prices relative to household incomes

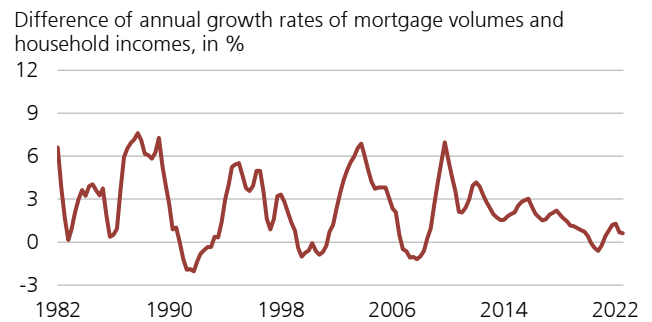
If the price development in the market for owner-occupied homes is not supported by a change in household incomes, this can be interpreted as a signal for interest rate risks.



Sources: Wüest Partner, IAZI, FPRE, FSO, UBS

Mortgage volumes relative to household incomes

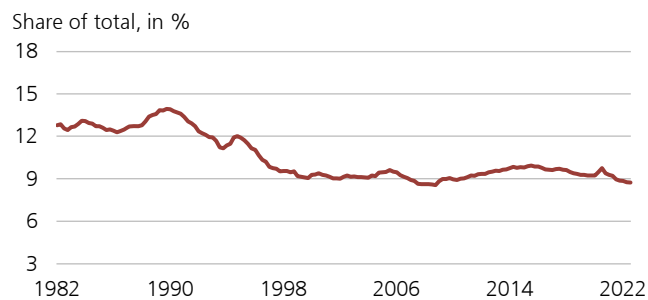
An acceleration in household debt that is not accompanied by income growth is a signal of an overheating of the real estate market.



Sources: SNB, FSO, UBS

Construction relative to gross domestic product (GDP)

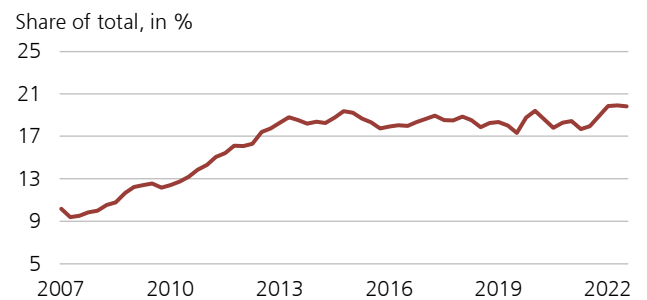
If the construction sector gains weight within the national economy, this can imply an overheating of the real estate market.



Sources: SECO, FSO, UBS

Credit applications for buy-to-let properties

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



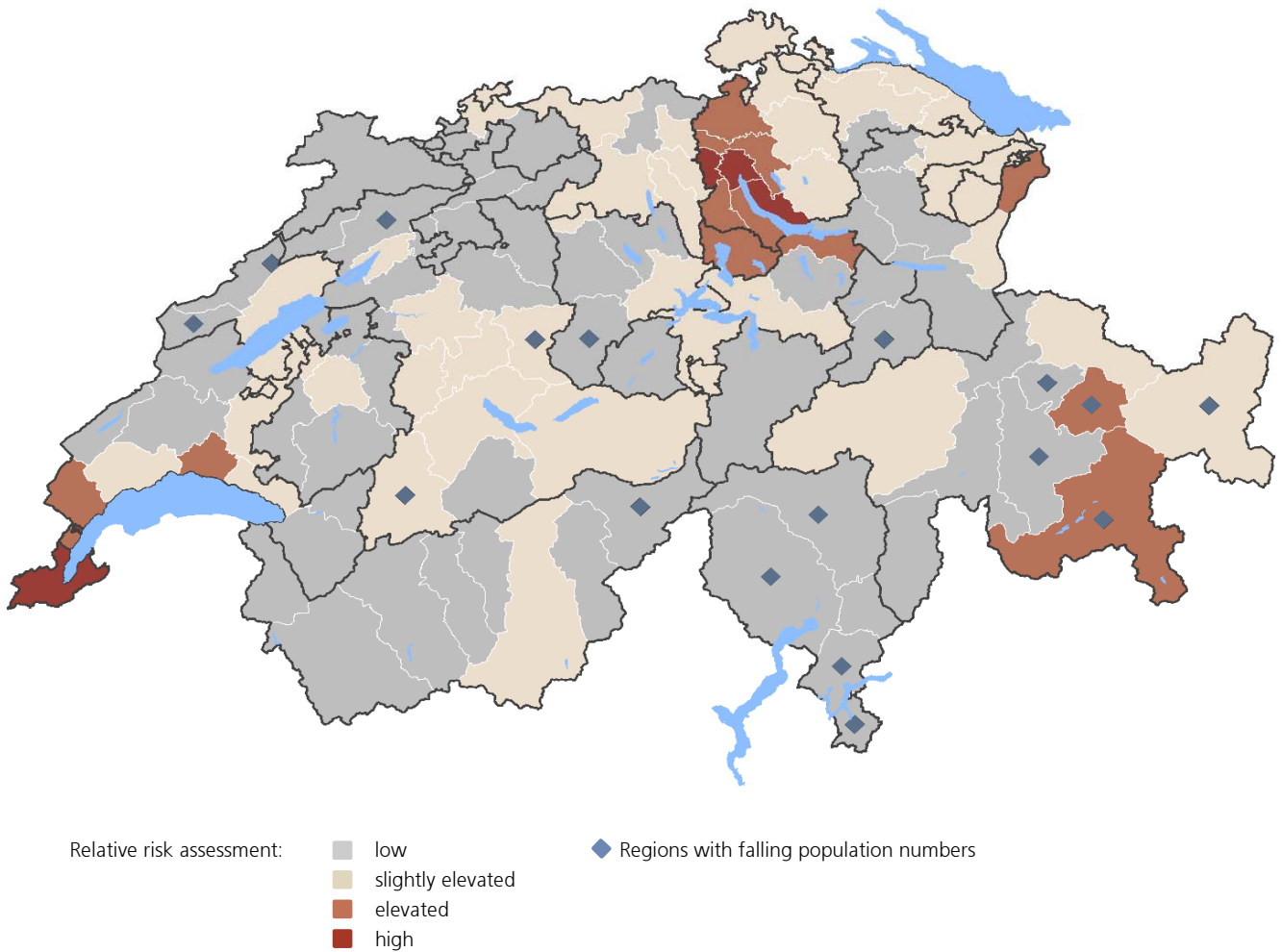
Sources: SNB, UBS

Regional risk map

The regional analysis is based on how the local price-to-rent ratio has changed over the past five years. Regions where this ratio experienced a disproportionately sharp rise have an increased correction risk. In addition, regions with falling population numbers (last three years) are highlighted.

Principles: The trend in rents shows the situation on the housing market. The price-to-rent ratio reflects the interest rate level and expectations about future increases in rental prices. If this ratio experiences a disproportionately sharp rise compared with the other regions, this may suggest that overheated speculation is driving prices in the local owner-occupied housing market. Independent of this, falling population numbers constitute an additional risk for real estate demand.

Regional risk map



Sources: Wüest Partner, FSO, UBS

Appendix

Index calculation

The UBS Swiss Real Estate Bubble Index represents the weighted average of six standardized sub-indexes using principal component analysis. The index shows the discrepancy, measured in standard deviations, from the mean normalized to zero. The index uses the following classification: Undervalued (below -1), fairly valued (from -1 to below 1), overvalued (from 1 to below 2) and bubble risk (2 and above).

Comment on the adjustment of the index history

Due to adjustments in its methodology and data, the history of the UBS Swiss Real Estate Bubble Index is no longer directly comparable with the numbers in publications prior to the fourth quarter of 2021.

The numbers are now only standardized (recursively) using the data available up to the relevant point in time. For example, the index value in the first quarter of 2015 is calculated using data from 1980 up to the first quarter of 2015. All index values up to and including 2010 are standardized (non-recursively) with data from 1980 to 2010 to ensure there are sufficient data points. That means that the published index values now reflect the imbalances from the perspective of the relevant quarter.

Deviations from the previously published index values can be explained by data revisions—in particular, household incomes according to the FSO—and the switch in price indexes from supply prices to the broader UBS Composite Index (average of all available price indexes) at the beginning of 2020.

UBS Swiss Real Estate Bubble Index

Data series since 2016

Period	Index	Trend*
2016-1	1.59	↘
2016-2	1.53	↘
2016-3	1.52	↘
2016-4	1.50	↘
2017-1	1.47	↘
2017-2	1.52	↗
2017-3	1.52	→
2017-4	1.55	↗
2018-1	1.50	↘
2018-2	1.43	↘
2018-3	1.40	↘
2018-4	1.40	→
2019-1	1.35	↘
2019-2	1.30	↘
2019-3	1.25	↘
2019-4	1.33	↗
2020-1	1.31	↘
2020-2	1.22	↘
2020-3	1.17	↘
2020-4	1.24	↗
2021-1	1.31	↗
2021-2	1.37	↗
2021-3	1.42	↗
2021-4	1.51	↗
2022-1	1.56	↗
2022-2	1.50	↘
2022-3	1.53	↗
2022-4	1.54	↗

Source: UBS.

*Compared to the previous quarter

Appendix

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Version A/2023. CIO82652744

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