

# UBS Swiss Real Estate Bubble Index 4Q. 2020

## 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 residential housing market.
- The index sank in the fourth quarter of 2020 to 1.75 index points due to the strong economic recovery in the second half of 2020. The strong price increases for owner-occupied homes prevented a greater decline.
- The forecast for the Index up to the end of 2021 shows that the relative valuation on the residential housing market will drop markedly again as the economy recovers. The index level will likely remain elevated though until mid-year.

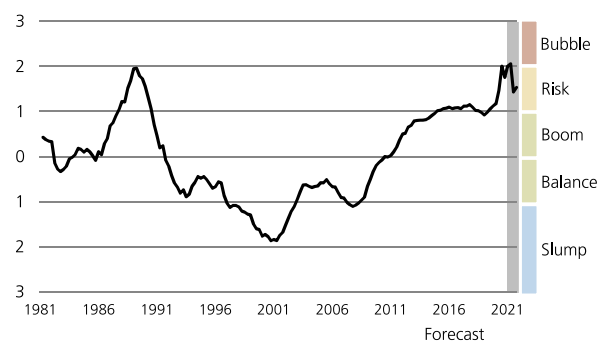


The *UBS Swiss Real Estate Bubble Index* sank in the fourth quarter of 2020 from 2.05 to 1.75 points and is thus no longer in the bubble risk zone. The high index value of the previous quarter can thus be attributed to corona-related upheavals. This brings home the fact that the residential housing market is not only dependent on central bank policy at the moment but also on state support measures.

### Price increases exacerbate imbalances mid term

The index decline can for the most part be attributed to the strong economic growth in the second half of 2020. After all, owner-occupied home prices continued to develop upwards in the fourth quarter of 2020. Adjusted for inflation, the prices gained almost 5 percent compared to the previous year. By contrast, the real rents fell by around 1 percent. The demand for buy-to-let and mortgage lending continued to be unimpressed by the economic volatility and remained at the level of the previous quarter.

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 weighted average of standardized indicators, using primary component analysis, and shows the deviation in standard deviations from the average, which is standardized to zero. The index uses the following classification: Downward Trend*

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(below -1), Balance (from -1 to less than 0), Boom (from 0 to less than 1), Risk (from 1 to less than 2) and Bubble (2 and upwards).

For the last quarter of 2021, we expect an index level of 1.54 points, which is higher than we expected prior to the pandemic. Due to the current volatility, this forecast for the end-of-year values has been added to the data (see comment below) While the economy developed better than we predicted in mid 2020, the prices for owner-occupied homes are currently increasing much more than expected. We thus expect record values by the end of the year for both the price-to-rent ratio and the price-to-inflation ratio.

### Updated risk map

The list of exposed regions remained unchanged in fourth quarter of 2020. The current risk map shows that the imbalances are very heavily concentrated in the regions around the City of Zurich and in Central Switzerland. In these regions, the ratio of owner-occupied house prices to annual rents and to household incomes is significantly higher than the Swiss average, and price increases have been clearly above average over the past ten years.

*Comment: Business restrictions due to corona continue to cause considerable volatility in the economic performance. This leads to major fluctuations in our model-based assessment of the real estate bubble risk for the Swiss owner-occupied housing market. Due to this volatility, we will, for the time being, also present the expected trend in the UBS Swiss Real Estate Bubble Index until the end of the year based on our forecasts for the performance of the economy and the real estate market.*

### UBS Swiss Real Estate Bubble Index

Year	Period	Index	Trend
2016	Quarter 1	1.10	
	Quarter 2	1.06	
	Quarter 3	1.08	
	Quarter 4	1.08	
2017	Quarter 1	1.06	
	Quarter 2	1.12	
	Quarter 3	1.12	
	Quarter 4	1.15	
2018	Quarter 1	1.10	
	Quarter 2	1.02	
	Quarter 3	1.02	
	Quarter 4	0.98	
2019	Quarter 1	0.92	
	Quarter 2	0.98	
	Quarter 3	1.06	
	Quarter 4	1.12	
2020	Quarter 1	1.18	
	Quarter 2	1.46	
	Quarter 3	2.00	
	Quarter 4	1.75	■
2021	Quarter 1	2.00	■
	Quarter 2	2.05	■
	Quarter 3	1.43	■
	Quarter 4	1.54	■

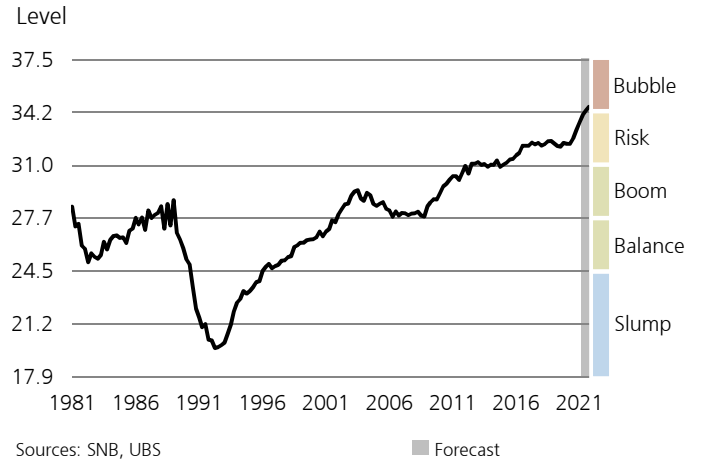
- Increase compared to the previous quarter
- Decrease compared to the previous quarter
- Unchanged
- Forecast

Source: UBS

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

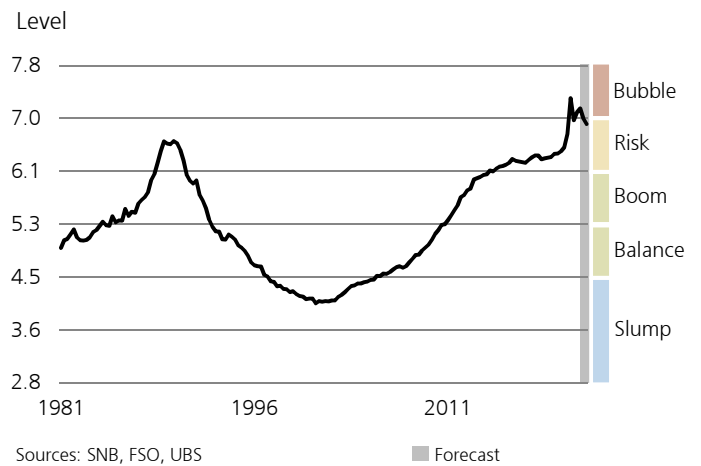
### Home prices to annual rents

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



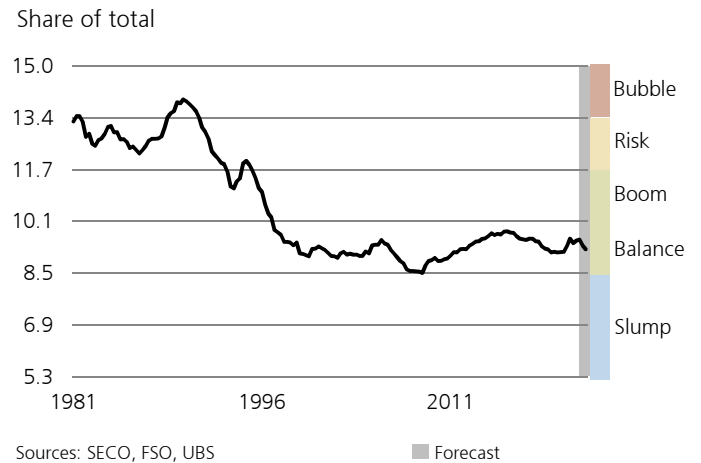
### Home prices to household income

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.



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

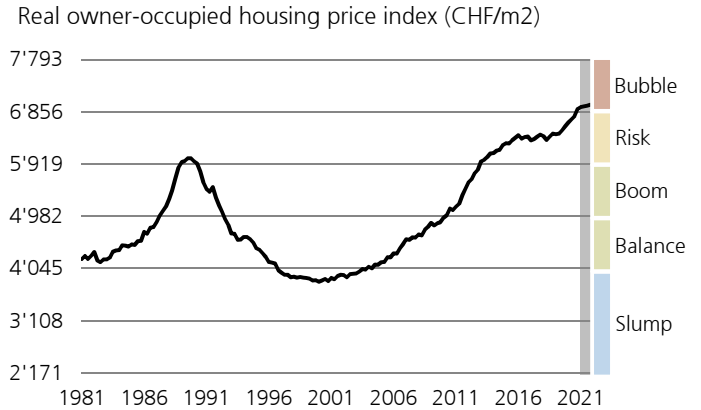
The construction sector gaining weighting within the national economy can signal an overheating of the real estate market.



## 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.

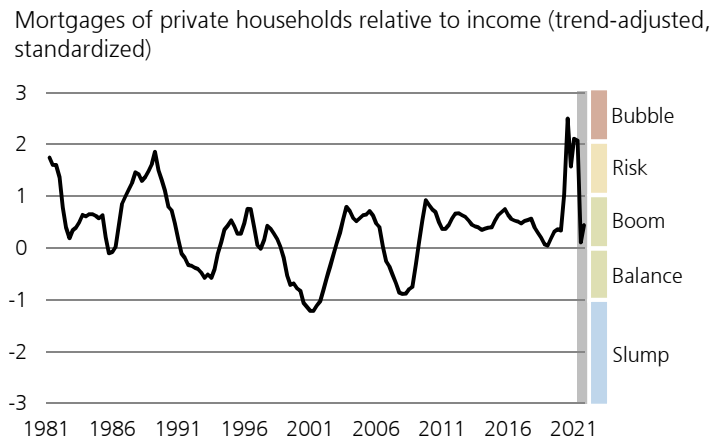


Sources: SNB, FSO, UBS

Forecast

### 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.

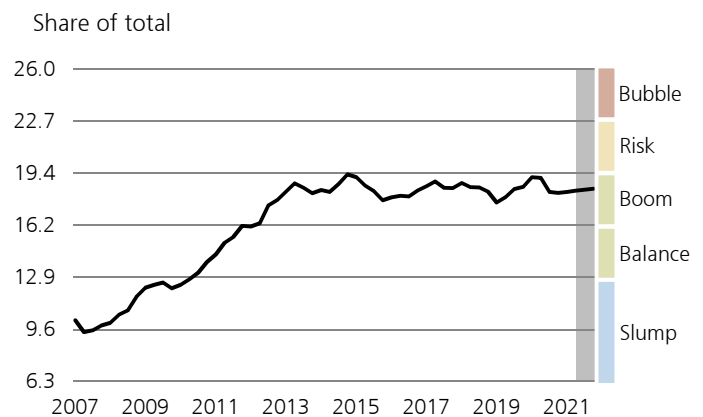


Sources: SNB, FSO, UBS

Forecast

### 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.



Source: UBS

Forecast



## Appendix

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