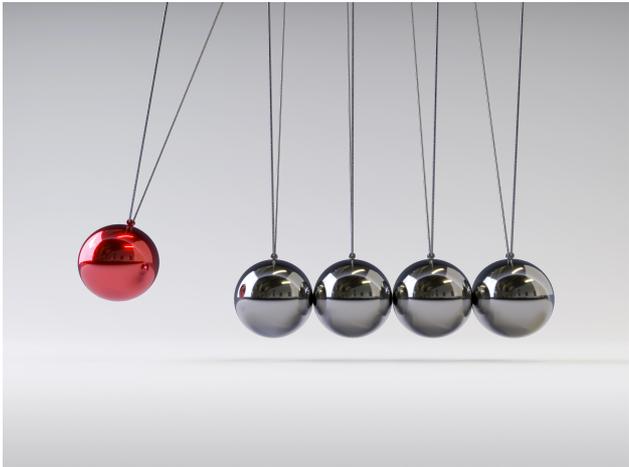


# UBS Swiss Real Estate Bubble Index

## Swiss real estate market

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- The *UBS Swiss Real Estate Bubble Index* fell from 1.49 to 1.41 points in the second quarter of 2023. Nevertheless, the market for owner-occupied homes remains overvalued compared to its historical trend.
- The considerable slowdown in mortgage debt growth, fewer buy-to-let financing applications and sluggish construction investments led to a decline in risks in the market for owner-occupied homes.
- The ratio of owner-occupied housing prices to consumer prices, rents, and incomes rose slightly in the past quarter despite the SNB policy rate increase, preventing a more substantial fall in the index.

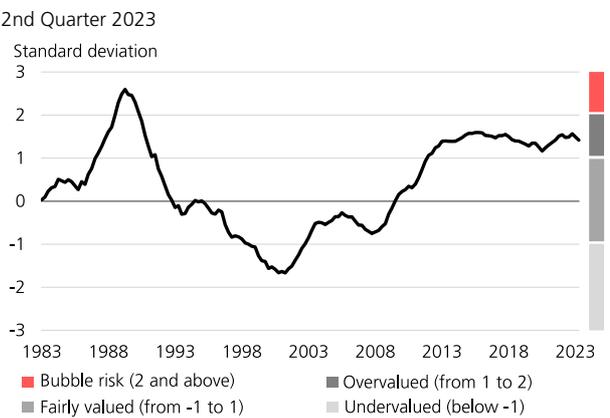


Source: Shutterstock

**Development of market drivers:** In the second quarter of 2023, prices for residential property once again increased more than in previous quarters at 0.8%. While the increase in asking rents accelerated to almost 1%, that came in slightly below the price rise for condominiums. The volume of outstanding mortgages rose the slowest since the 1990s as a consequence of higher financing costs. The economic downturn also slowed household income growth relative to previous quarters.

**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. Owner-occupied housing prices are still proving relatively resistant in the face of increasing financing costs. While a drop in transaction volumes and an increase in offers do indicate a fall in demand for owner-occupied homes, the fact that new construction activity is generally low and continues to decrease makes a considerable price correction unlikely in the near future, in our view.

### UBS Swiss Real Estate Bubble Index



Source: UBS

## Sub-indexes

### Home prices relative to annual rents

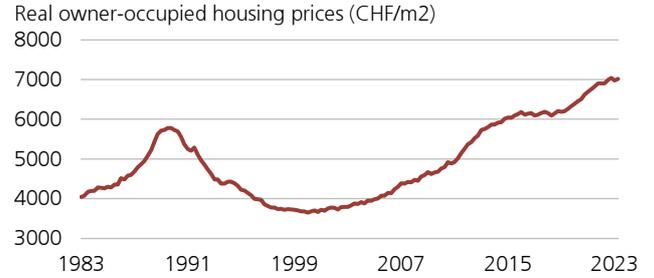
An above-average buy-to-rent ratio indicates a high dependency on sustained low interest rates or implies expectations of future price increases.



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

### Home prices relative to consumer prices

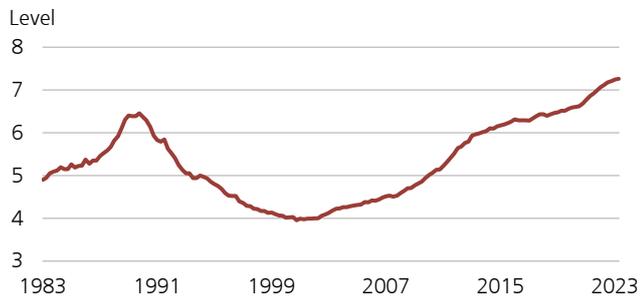
If owner-occupied home prices rise faster than construction costs and general inflation for a long time, this can be a warning of a possible correction.



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

### Home prices relative to household incomes

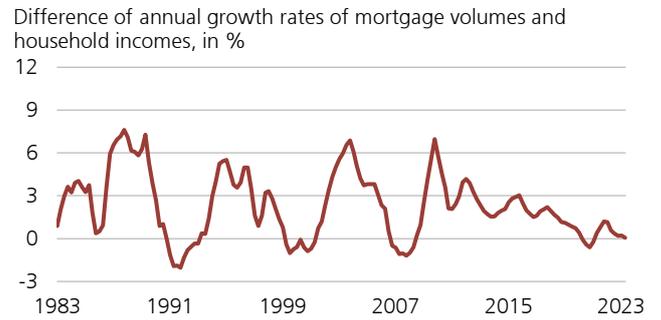
If the price development in the market for owner-occupied homes is not supported by a change in household incomes, this can be interpreted as a signal for interest rate risks.



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.



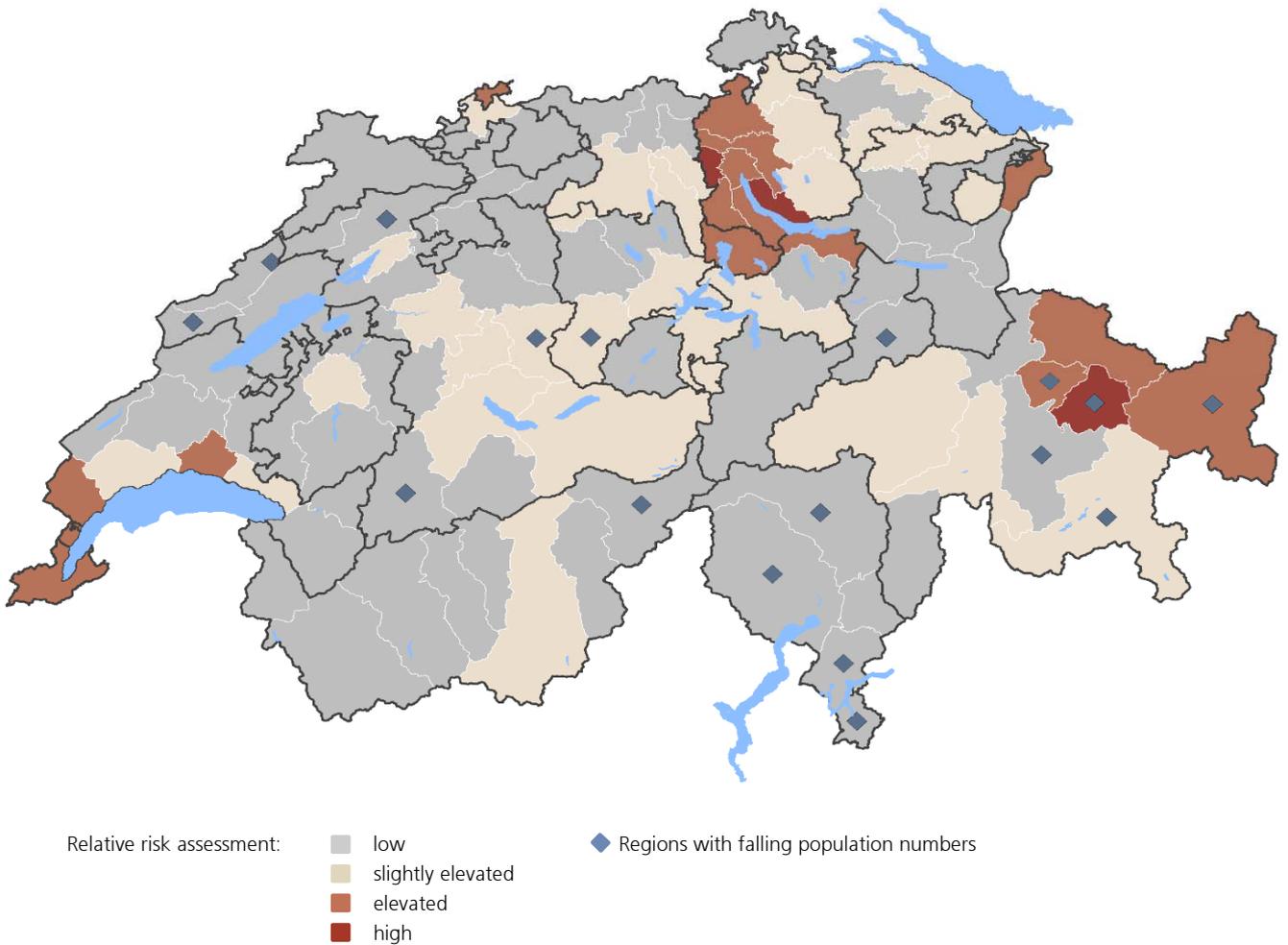
Sources: SNB, UBS

## 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 2017

Period	Index	Trend*
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	1.36	↘
2019-2	1.32	↘
2019-3	1.28	↘
2019-4	1.35	↗
2020-1	1.34	↘
2020-2	1.25	↘
2020-3	1.16	↘
2020-4	1.24	↗
2021-1	1.31	↗
2021-2	1.37	↗
2021-3	1.42	↗
2021-4	1.51	↗
2022-1	1.55	↗
2022-2	1.48	↘
2022-3	1.49	↗
2022-4	1.57	↗
2023-1	1.49	↘
2023-2	1.41	↘

Source: UBS.

\*Compared to the previous quarter

## Appendix

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