Swiss real estate market

UBS Swiss Real Estate Bubble Index: 1Q 2013

Matthias Holzhey, economist, UBS AG
matthias.holzhey@ubs.com

Claudio Saputelli, economist, UBS AG
claudio.saputelli@ubs.com

- The UBS Swiss Real Estate Bubble Index rose from 1.11 to 1.17. The index rose less strongly than in previous quarters.
- On average, investments in real estate will only pay off if real estate prices continue rising and long-term interest rates remain low.
- The group of risk regions is being expanded to include the areas of Lucerne, Innerschwyz and Glattal-Furttal.

The UBS Swiss Real Estate Bubble Index currently stands at 1.17, representing an increase of 0.06 index points compared to the prior quarter. The increase in the index was somewhat weaker than in the quarters previous. Nonetheless, the risks in the real estate market have continued to rise.

Continued price increases and an increase in mortgage loans on the one hand, as well as stagnating household incomes and consumer prices and only weakly rising rents on the other, led to a rise in four of the six sub-indicators. In contrast, credit applications for real estate not intended for personal use again weakened slightly after the record high level in the fourth quarter of 2012.

The purchase of real estate for rental purposes continues to enjoy great interest. Yet in view of the high ratio of purchase/rental price, these investments will only be profitable with continued low interest rates or a continuation of price growth.

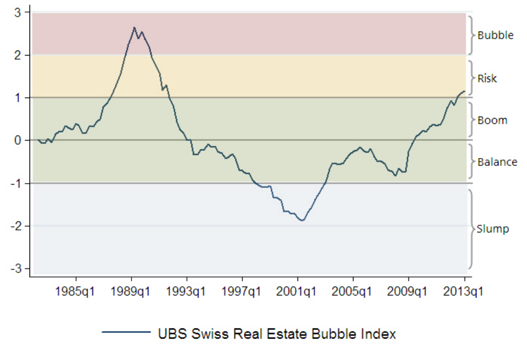
Methodology

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

Performance of the UBS Swiss Real Estate Bubble Index

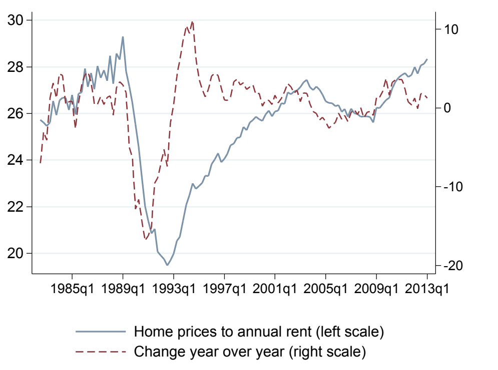
		Index
2009	Quarter 1	-0.24
	Quarter 2	-0.05
	Quarter 3	0.10
	Quarter 4	0.15
2010	Quarter 1	0.25
	Quarter 2	0.21
	Quarter 3	0.33
	Quarter 4	0.39
2011	Quarter 1	0.35
	Quarter 2	0.40
	Quarter 3	0.52
	Quarter 4	0.79
2012	Quarter 1	0.93
	Quarter 2	0.82
	Quarter 3	1.02
	Quarter 4	1.11
2013	Quarter 1	1.17

Source: UBS

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

Own home prices relative to annual rent
The purchase of an apartment or a single-family home for rental purposes is becoming less and less attractive. In the first quarter of 2013 it already required 28.3 annual rents to purchase a comparable home after 28.2 in the previous quarter, which corresponds to a gross yield of 3.5%. The long-term average lies at approximately 25 annual rents.

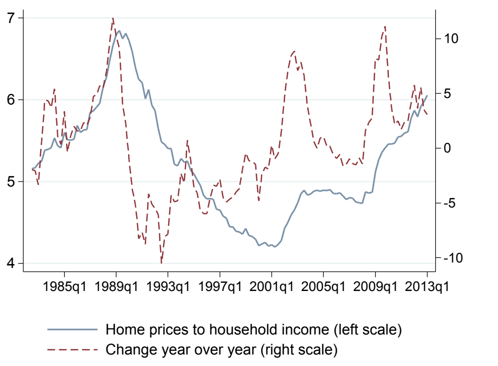
Home prices relative to annual rent
Level and change year-over-year in percent



Sources: SNB; UBS

Home prices relative to household income
Real estate prices continue to rise faster than household incomes. In the first quarter of 2013 it took 6.1 annual household incomes to purchase a home in the mid-range price segment. One year ago, 5.8 annual incomes sufficed. The long-term average lies at 5.2.

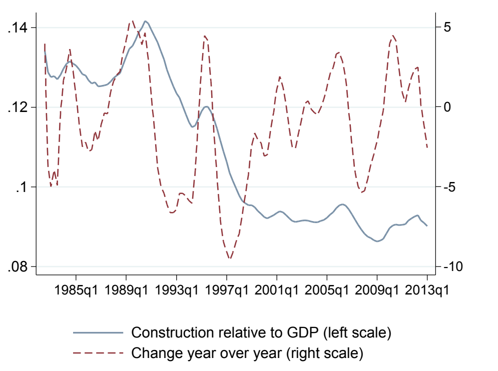
Home prices relative to household income
Level and change year-over-year in percent



Sources: SNB; BFS; UBS

Construction relative to gross domestic product (GDP)
The high number of building permits and the rise in the number of new construction projects are not manifesting themselves in the level of investment in construction. The building industry's share of gross domestic product has dropped to 9.0% from 9.1%.

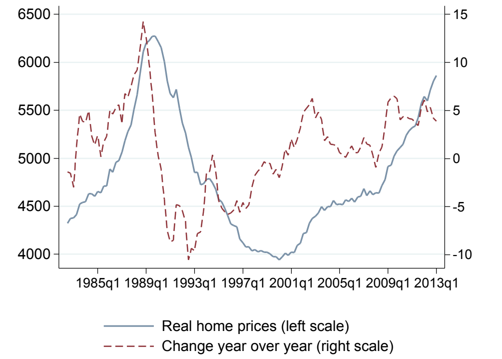
Construction relative to gross domestic product
Level and change year-over-year in percent



Sources: seco; BFS; UBS

Own home prices relative to consumer prices
Consumer prices remained largely stable compared to the previous quarter. In contrast, home prices rose 1.2%. The real price level – as a mean value of single-family homes and condominiums – still lies about 7% below the peak prices of the last real estate bubble.

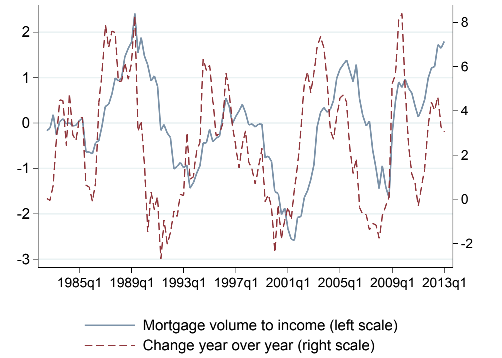
Home prices relative to consumer prices
Real home prices (CHF/m²) and change year-over-year in percent



Sources: SNB; BFS; UBS

Mortgage volume relative to income
Data still does not indicate any trend reversal regarding the growth of mortgage volumes. The growth rate has nevertheless slowed some. Since household incomes have stagnated at the same time, the indicator nonetheless rose to 1.8 standard deviations above the long-term average (mean).

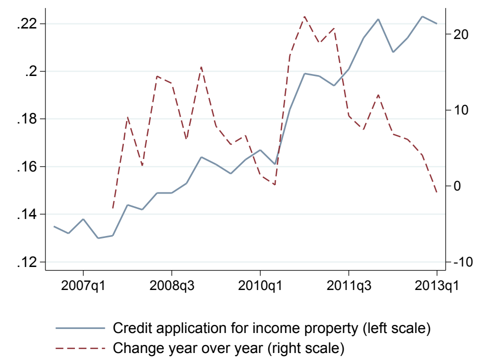
Mortgage volume relative to income
Mortgage debt of private households relative to income (detrended series) and change year-over-year in percent



Sources: SNB; BFS; UBS

Credit applications for residential property not intended for owner occupancy (UBS clients)
The number of loan applications for non-owner-occupied properties has dipped slightly. Some 22.0% of credit applications were made for properties not intended for personal use. The value thus remains just under the high of the fourth quarter of 2012 with 22.3 percent.

Credit applications for residential property not intended for owner occupancy
Share of total and change year-over-year in percent



Source: UBS

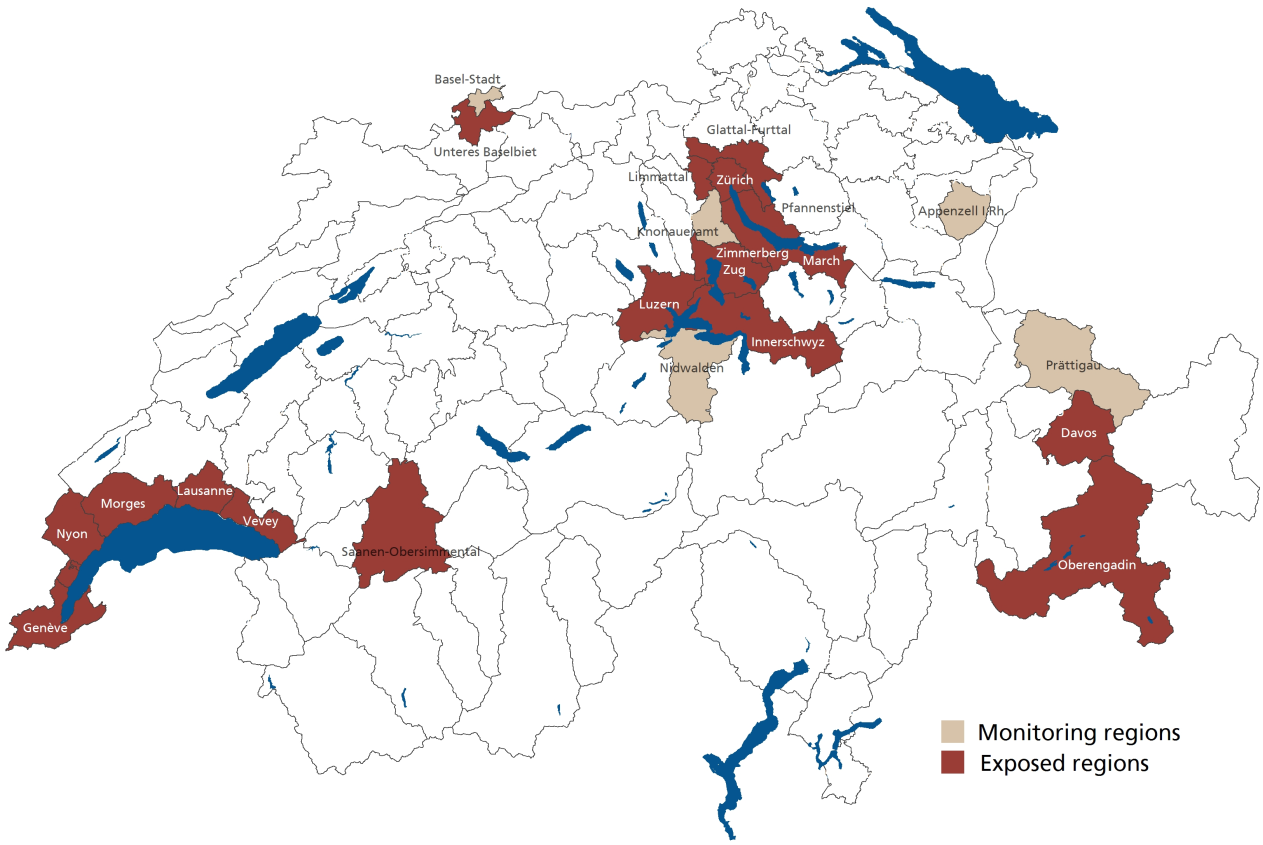
Regions with risk potential for the residential real estate market

The regions of Lucerne, Innerschwyz and Glattal-Furttal are now counted among the exposed regions. The crucial factor was the recent rise in the UBS Swiss Real Estate Bubble Index in the past quarter. Lucerne and Innerschwyz are among the regions with the strongest rise in prices of all economic regions since 2009. The region of Glattal-Furttal reported a slightly weaker increase in price, but is already among the 20 regions throughout the whole country with the highest price levels.

Furthermore, the MS-regions of Zurich, Geneva and Lausanne remain among Switzerland's riskiest due to their national importance. Other exposed regions include the large metropolitan areas of Zug, Pfannenstiel, Limmattal, Zimmerberg, March, Unteres Baselbiet, Vevey, Morges and Nyon as well as the tourist regions of Davos, Saanen-Obersimmental and Oberengadin.

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 (see appendix).

Regional risk map
Exposed- and monitoring regions for the Swiss residential real estate market



Sources: Wüest & Partner; BFS; UBS

Appendix: Regional analysis

We utilize an adjusted relative market growth matrix to measure regional risks and risk accruing to the Swiss economy in relation to the situation of the overall market.

First, every region is assigned to one of four categories on the basis of population and population growth (outer matrix):

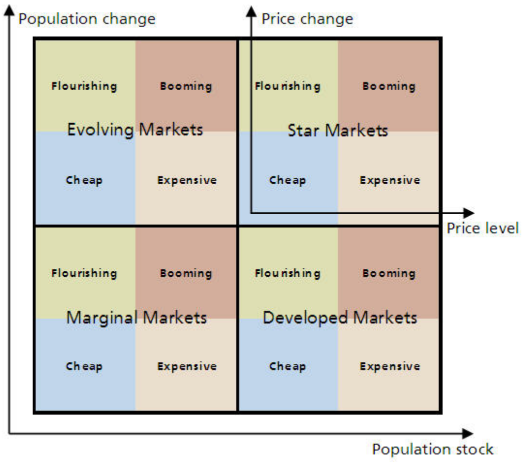
- *Star markets* – densely-populated regions with above-average population growth
- *Saturated markets* - densely populated regions with below-average population growth
- *Growth markets* – small regions with above-average population growth
- *Niche markets* - small regions with below-average population growth

Secondly, the regions are assigned to one of four further categories (inner matrix), irrespective of their categorization described above, based on price levels and housing price increases:

- *Booming* – expensive regions with above-average price increases
- *Expensive* – expensive regions with below-average price increases
- *Flourishing* – cheap regions with above-average price increases
- *Cheap* – cheap regions with below-average price increases

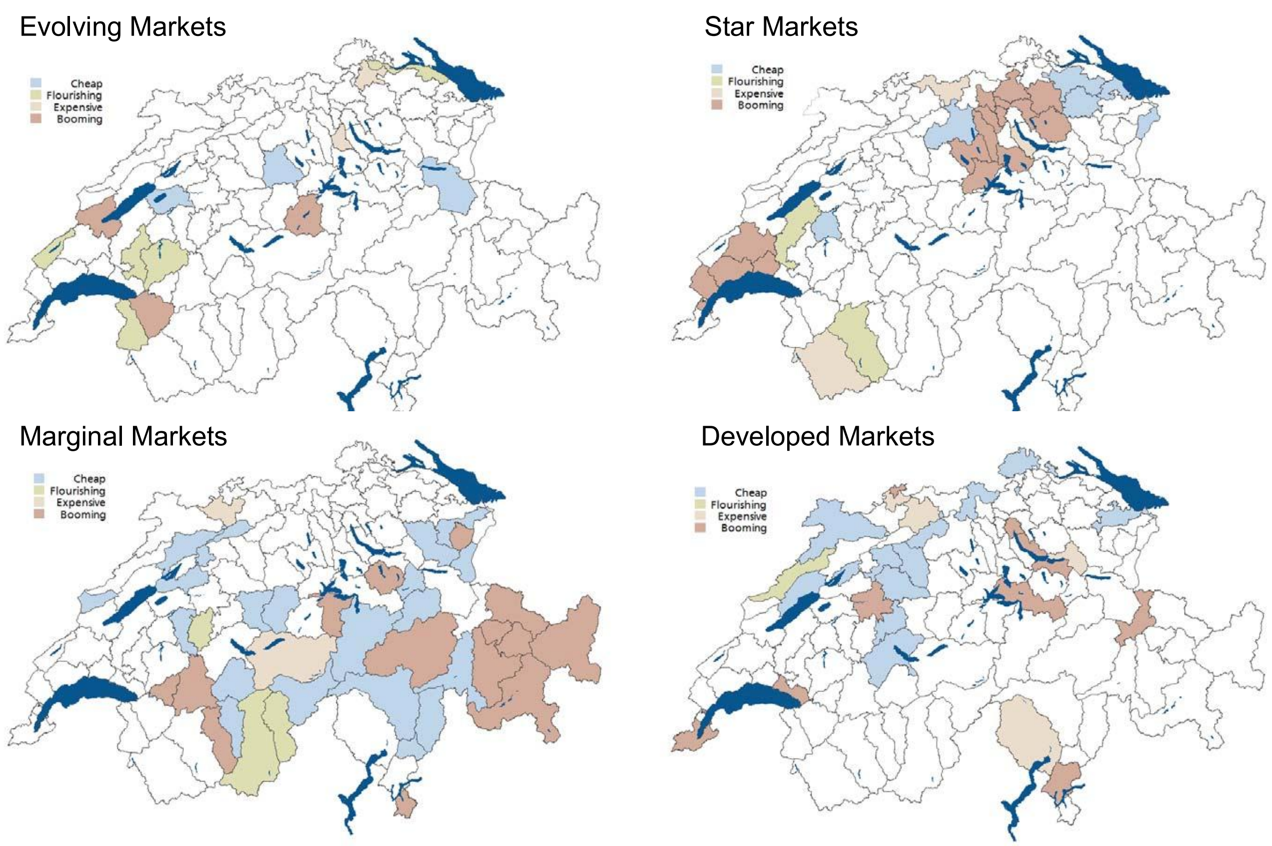
Thirdly, the relative market growth matrix is linked to the UBS Swiss Real Estate Bubble Index, rendering the selection criteria dependent on the current index level. The higher the index level, the less (relatively) restrictive the selection of regions is.

Relative market growth matrix
With population and prices as variables



Source: UBS
Example: The upper right quadrant – Star market, booming – contains all regions with both above-average population growth and price increases and that are among the most populated and expensive regions.

Categorization using the relative market growth matrix – overview



Sources: Wüest & Partner; BFS; UBS

Appendix

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