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Tel. +41-44-234 85 00

27 September 2018

News Release

UBS Global Real Estate Bubble Index 2018

Hong Kong is the most overvalued housing market this year; Zurich and Geneva are moderately overvalued

- **The UBS Global Real Estate Bubble Index 2018 report is produced by UBS Global Wealth Management's Chief Investment Office and analyzes residential property prices in 20 developed market financial centers around the world.**

- **Hong Kong faces the greatest risk of a housing bubble, followed in descending order by Munich, Toronto, Vancouver, Amsterdam, and London.**

- **Zurich and Geneva are moderately overvalued although valuations in Geneva are now closer to fair value. Prices in both remain lacklustre.**

Zurich, 27 September 2018 – The UBS Global Real Estate Bubble Index 2018 from UBS Global Wealth Management's Chief Investment Office indicates bubble risk or a significant overvaluation of housing markets in most major developed market financial centers.

Bubble risk appears greatest in Hong Kong, followed by Munich, Toronto, Vancouver, London and Amsterdam. Major imbalances also characterize Stockholm, Paris, San Francisco, Frankfurt and Sydney. Valuations are stretched in Zurich and Geneva as well as Los Angeles, Tokyo, and New York. By contrast, property markets in Boston, Singapore and Milan seem fairly valued while Chicago is undervalued.

Bubble risk soared in Munich, Amsterdam and Hong Kong over the last year. In Vancouver, San Francisco and Frankfurt, too, imbalances continued to grow. More broadly, index scores fell in no less than one-third of the cities. Stockholm and Sydney experienced the steepest drop and moved out of bubble risk territory. Valuations went down slightly in London, New York, Milan, Toronto and Geneva.

In contrast to the boom of the mid-2000s, however, no global evidence of simultaneous excesses in lending and construction exists. Outstanding mortgage volumes are growing half as fast as in the run-up to the financial crisis, limiting economic damage from any price correction.

"Although many financial centers remain at risk of a housing bubble, we should not compare today's situation with pre-crisis conditions," said Mark Haefele, Chief Investment Officer at UBS Global Wealth Management. "Nevertheless, investors should remain selective within housing markets in bubble risk territory such as Hong Kong, Toronto, and London."

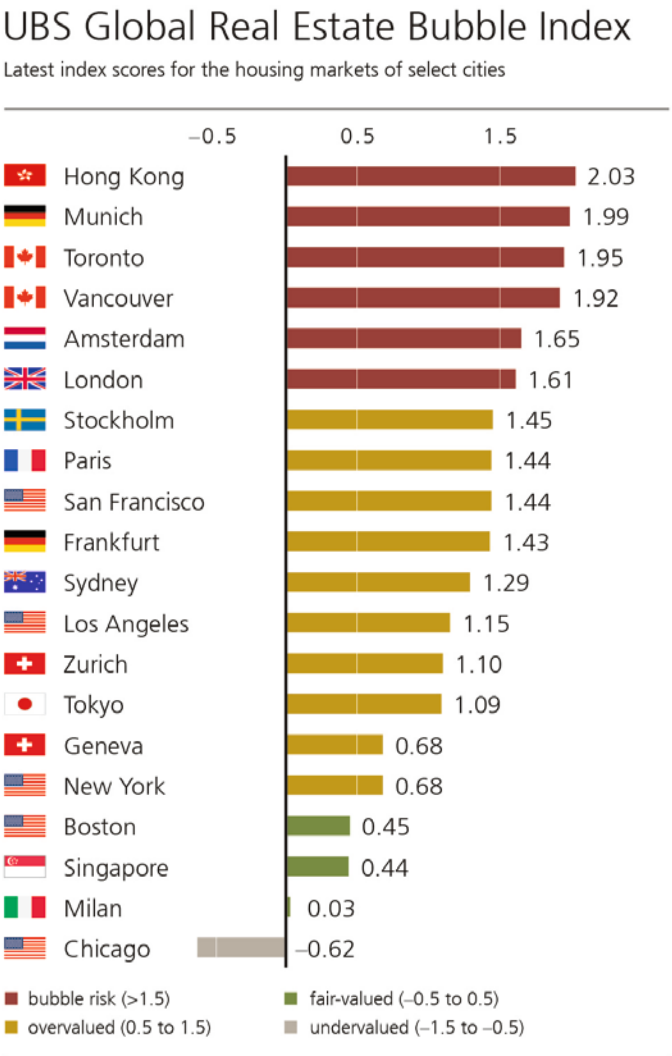
"The median total return on housing in the most important developed market financial centers was 10% annually over the past five years, accounting for an imputed rental income and book profits from rising prices," said Claudio Saputelli, Head of Real Estate at UBS Global Wealth Management's Chief Investment

Office. "How appealing returns will be in the next few years is questionable. We recommend caution when buying residential real estate in most of the biggest developed market cities."

In the past year, the house price boom in key cities lost intensity and scope. Inflation-adjusted city prices increased by 3.5% on average over the last four quarters, considerably less than in previous years but still above the 10-year average. They remained on an explosive uptrend in the largest Eurozone economic centers, as well as in Hong Kong or Vancouver. But the first cracks in the boom's foundation have begun appearing: house prices declined in half of last year's bubble risk cities – in London, Stockholm and Sydney by more than 5% in real terms.

Affordability crisis weighs upon outlook

The median price-to-income (PI) multiple of the cities in the study increased from 5.5 in 2008 to 7.5 today. Most households can no longer afford to buy property in the top financial centers without a substantial inheritance. As property became too pricy for citizens over the past five years in close to all cities additional regulations were introduced ranging from levying stamp duties to rent-control measures. Such regulations combined with tighter lending conditions can abruptly end a real estate boom, as the current example of Sydney shows. Overall, low affordability jeopardizes cities' long-term growth potential and could cause investors to reassess their expectations about future capital gains.



Regional perspectives

Switzerland – valuations declining slightly

Home prices in Geneva and Zurich remain lackluster. In Zurich the housing market continues to occupy moderately overvalued territory, according to the index. Pressure on prices can be attributed to ongoing weak demand for high-end properties. In the lower-tier market, favorable financing conditions and rising incomes are keeping demand for home ownership buoyant, and prices have continued to increase. The slowly rising vacancy rates for rental apartments lead us to expect that market rents will remain under pressure. Buying a medium segment property in Zurich only pays off after more than 36 years – tantamount to the lowest rental yields of all cities in this report.

In the Lake Geneva area prices have dropped slightly this year returning to levels of three years ago. The market has cooled further, in line with the broader Swiss housing market. Yet the city remains undersupplied because construction activity is low and population growth is moderate. Only 3% of all housing units have been built within the last 10 years – roughly three times less than in Zurich. Overall, the relatively strict bank lending rules not only curb price appreciation but limit mortgage growth, which has fallen below income growth in recent quarters.

Europe

All Eurozone cities except Milan boast higher index scores over the last four quarters. Vibrant income growth, excessively low borrowing rates and bullish expectations caused valuations to soar and local bubble risks to rise. The UBS Global Real Estate Bubble Index score for London declined for the second straight year but remains in the bubble-risk zone. See pages 8, 13-14, and 17-21 of the report for further findings in Europe and Switzerland.

United States

Overall, the index scores for the US cities in this study are below their 2006 peak values. The divergent rates of market valuation increases since then reflect regional differences in economic growth. In Boston and Chicago valuations remained mostly low. New York's score dropped slightly given the lack of price growth over the last four quarters. On the other hand, scores rose in the West Coast cities of Los Angeles and San Francisco. See pages 8, 15, and 19-21 of the report for further findings in the United States.

APAC

In Asia, Hong Kong tops the Index in 2018. House prices have continued to increase by an annual rate of almost 10% since 2012. In Singapore inflation-adjusted prices staged a fulminant recovery in the last four quarters after six years of correction, rising by 9%. However, the city remains in fair-valued territory. Singapore is one of this study's few cities whose affordability has improved over the past decade. See pages 9, 12, 16, and 19-20 of the report for further findings in Asia Pacific.

Links

UBS Global Real Estate Bubble Index: www.ubs.com/global-real-estate-bubble-index
Further information on UBS Wealth Management's Chief Investment Office: www.ubs.com/cio

UBS Switzerland AG

Media contact

Dr. Matthias Holzhey, Head Swiss Real Estate Investments, Chief Investment Office WM
Phone +41-44-234 71 25

Claudio Saputelli, Head Swiss & Global Real Estate, Chief Investment Office WM
Phone +41-79-513 50 45

www.ubs.com