

2 November 2018

News Release

Real Estate Bubble Index no longer in the risk zone

The UBS Swiss Real Estate Bubble Index has fallen to a value of 0.87 index points and thus slips out of the risk zone. Both owner-occupied housing prices and mortgage volumes increased only moderately in the third quarter of 2018, and the signs of a real estate bubble in the Swiss market for owner-occupied homes have declined significantly since 2015.

Zurich, 2 November 2018 – The UBS Swiss Real Estate Bubble Index has fallen to a value of 0.87 index points. The risk of a real estate bubble in the market for owner-occupied homes was thus further reduced in the third quarter of 2018, and the index has fallen out of the risk zone for the first time since mid-2012.

Economic boom dampens market risks

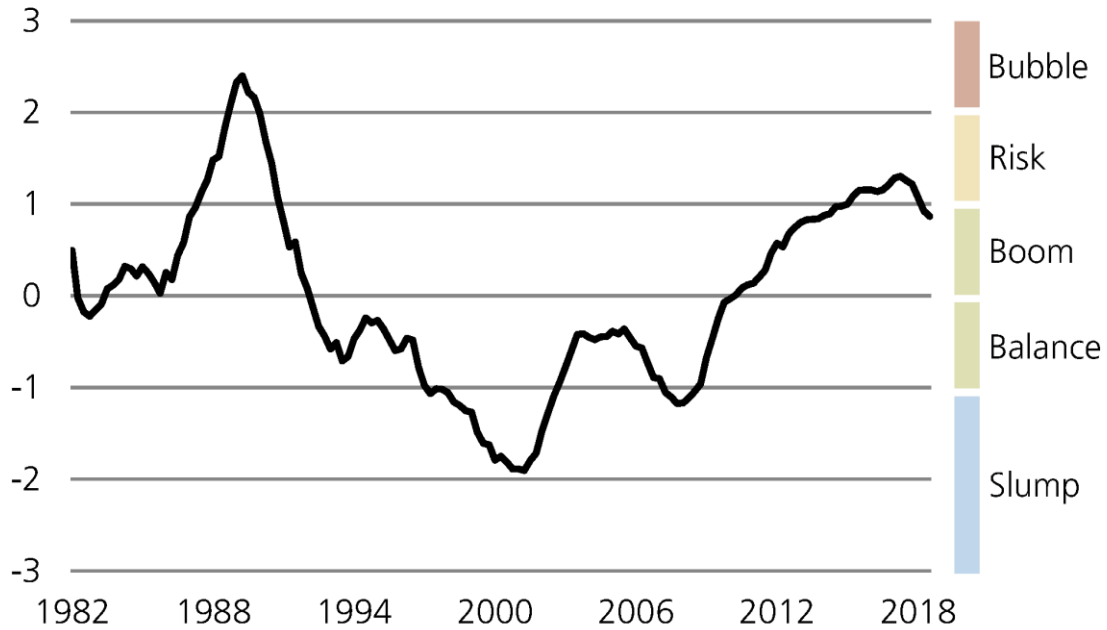
In the market for owner-occupied homes, both price behavior and the growth of mortgage volumes have shown signs of speeding up slightly in the last quarter. Nevertheless, growth rates remained low, lagging behind economic development. Following on from this, the sub-indicators of “price-income ratio” and the “ratio of the outstanding mortgage volume to cumulated disposable household income” fell, which led to the decrease in the Real Estate Bubble Index.

Barely a sign of a real estate bubble in sight

The market development over the past quarter was a mirror image of the last three years. In spite of negative interest rates and above-average economic growth, the prices of owner-occupied homes in Switzerland have risen by just 0.8 percent a year since 2015. The price increase was therefore not able to keep pace with the development of household incomes, which increased by 1 percent annually over the same period. Up until 2017, mortgage debt rose even faster than household incomes, but this is no longer the case. Only the buy-rent ratio rose almost continuously from 2015, which is actually an indicator of a booming market for owner-occupied homes, but in this case was the result of falling market rents. On balance, the signs of a real estate bubble in the Swiss market for owner-occupied homes have reduced significantly.

The risk of a change in interest rates, however, remains at the same high level. Hence, the extreme level of the prices for owner-occupied homes and the continually increasing gap between purchase prices and rents could mean significant losses in value in the future too if interest rates were to rise.

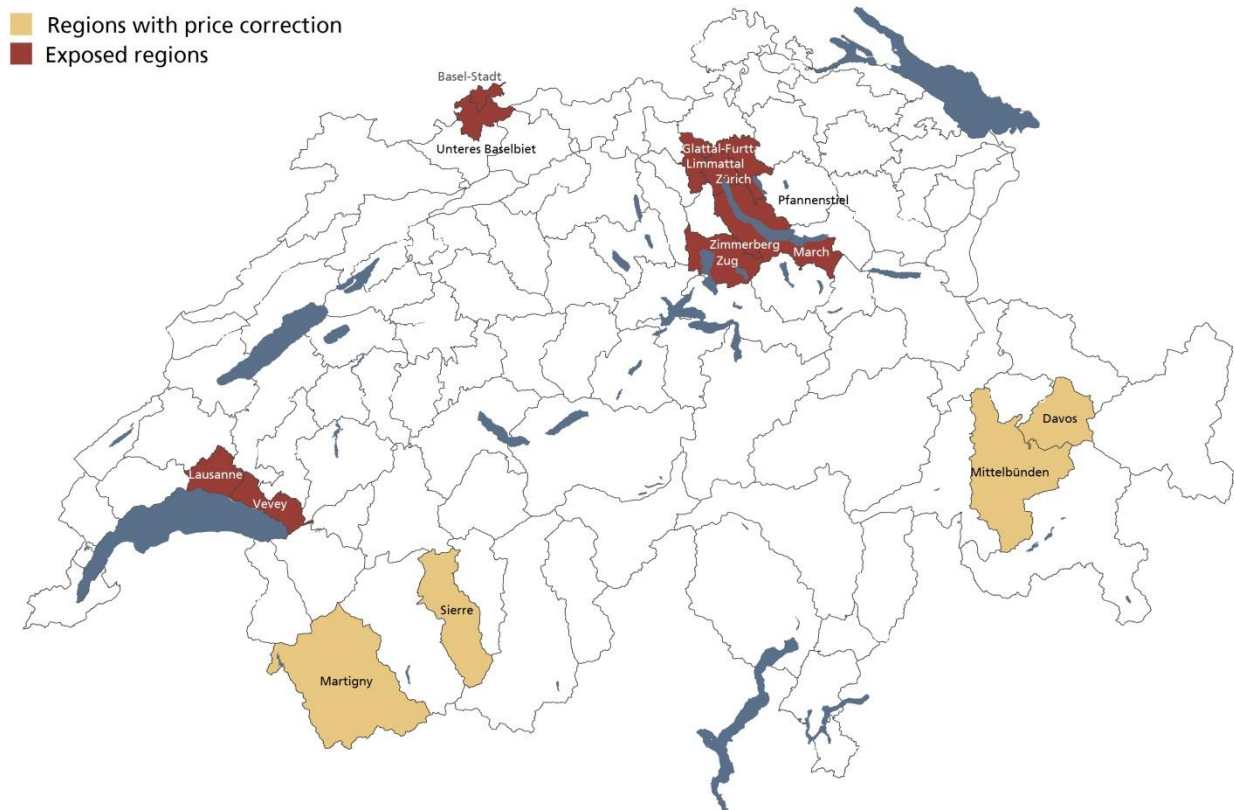
As far as we are concerned: The risk of a real estate bubble has fallen noticeably over the last quarters, so we have decided to stop issuing the UBS Swiss Real Estate Bubble Index as a press release until further notice. Nevertheless, the model will still be calculated and published in a slightly more concise format on a quarterly basis.

UBS Swiss Real Bubble Index – 3Q2018

Methodology

Depending on its current value, the index falls into one of the following risk categories: slump, balance, boom, risk and bubble. These categories are specifically defined and ranked in order of risk. 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 development of house prices relative to inflation, the relationship between mortgage debt and income, the relationship between construction and gross domestic product (GDP), and the ratio of loan applications filed for intended rental properties to total loan applications filed by UBS private clients.

Regional risk map – 3Q2018

Risk regions for the Swiss residential property market and regions with a price correction of more than 5 percent since 2015.



The UBS Swiss Real Estate Bubble Index report is available on the Internet via this link:
www.ubs.com/swissrealestatebubbleindex-en.

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