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News Release

Real estate bubble index rises significantly

The UBS Swiss Real Estate Bubble Index rose to 1.30 index points in the first quarter of 2020. The revised value for the previous quarter was 1.26 index points. This puts the Swiss real estate market in the risk zone. A price correction resulting from overheating is unlikely at the moment.

Zurich, 06 May 2020 – In the last quarter, the rise in the index can be attributed to three developments. Firstly, prices rose by 1.0 percent in the first quarter, which was the highest increase since 2014. Secondly, this acceleration of rising prices in the home owner market was associated with a smaller rise in household income, and consumer prices stagnated. The fall in incomes since March, as a result of the corona crisis, isn't yet included in these calculations. Thirdly, the applications for buy-to-let investments rose to a slightly higher level than in previous quarters. On the other hand the trends in construction activity and mortgage lending remained stable. There was also little change in the price-to-rent ratio.

Abrupt end to the acceleration phase

The impact the corona crisis has on the Swiss home owner market will probably only become clear in the current quarter, at the earliest. "We expect a decline in the number of transactions. Because both sellers and buyers are behaving more cautiously, pricing is more difficult and the effect on price behavior isn't clear," says Claudio Saputelli, Head Swiss & Global Real Estate at UBS Chief Investment Office (CIO). "Particularly in less liquid segments and regions, chance and property-specific characteristics could have a greater influence on the transaction price than in the previous year."

The aggregate demand for homes is also falling against the backdrop of rising unemployment and uncertainty about the economy. So the accelerated rise in prices that started in the middle of 2019, driven by low mortgage interest rates, is over for the time being.

Sustainability of the price level is questionable

No significant price correction is to be expected in the market average. The financing conditions are tempting and the cost benefits of owning your own home compared with renting are still too great in many regions. However, there may be isolated corrections to some exaggerations. Whether some of the ambitious valuations in the market as a whole will be sustainable depends on an economic recovery in the second half of the year. "If household incomes collapse in the course of the year – which we don't expect to happen – considerable price corrections can be expected in the high-priced risk regions, in particular," says Matthias Holzhey, Head Swiss Real Estate at UBS CIO.

Additional information on the UBS Swiss Real Estate Bubble Index: Adjustment to the data basis

The aim of the quarterly UBS Swiss Real Estate Bubble Index is to reflect both long-term imbalances and short-term signs of overheating. So far, the asking price indices of Wüest Partner were used to calculate the real estate bubble index. These asking price-based house price indices started to increasingly deviate from the average of all price indices (asking prices indices and transaction price indices) in the last three years. On average the house prices on the available indices rose by just short of 6 percent since 2017, while the asking price indices fell by 1.5 percent. A gap of this magnitude might well close again over the course of the cycle, but it makes it impossible to achieve an accurate market assessment of the risks on the home owner market. This is the reason why the composite index will now be used to calculate the sub-indices "house prices relative to income" and "house prices relative to consumer prices". The composite index – compiled as the average of the most important price indices available since 2000 – should reflect the market development more closely than any single index. This adjustment is made retrospectively from the beginning of the price cycle in 2000. Due to data availability, the period from 1980 to 2000 will still be calculated using the asking price index. This adjustment led to a rise in the index of around 30 index points. The imbalances have been growing again since 2019. The new data basis doesn't change the fundamental assessment that the home owner market is overvalued, but that there are few risks of severe corrections.

Links

UBS Swiss Real Estate Bubble Index 1q2020: [Download](#)

UBS CIO Real Estate: [Website](#)

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