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News Release

UBS Alpine Property Focus – Holiday homes approaching a turning point UBS Real Estate Guide – Insights into other real estate topics

The price of a Swiss holiday home rose by more than 7 percent last year, according to “UBS Alpine Property Focus”. But rising maintenance costs, waning demand and the growing stock of second homes are likely to curb a further big rise in prices this year.

Zurich, 26 May 2023 – Engadin/St. Moritz is the most expensive place to buy a second home in the Alpine region. An upmarket home there costs around CHF 20,500 per square meter. This is followed by Flims/Laax and Gstaad, where prices hover around CHF 17,000 per square meter. Zermatt, Davos/Klosters, the Jungfrau region and Andermatt are not far behind, with prices around CHF 16,000 per square meter.

Prices for vacation homes were around 7 percent higher in the first quarter of 2023 compared with last year across all destinations analyzed in the Alpine Property Focus report. The largest increase was recorded in Arosa where prices have risen nearly 20 percent in the last four quarters and are now more than 60 percent above levels seen at the end of 2019. Strong price increases were also seen in easily accessible locations like Hoch-Ybrig, Flims/Laax and Engelberg, where prices rose by 15 percent in the space of a year.

More second homes as a result of increased prices

Converting a primary residence into a second home will typically add between 15 to 20 percent to its market value. As a result, the number of second homes in the destinations analyzed has increased by almost 2,500 since the beginning of 2020, an increase of just under 2 percent. And the reservoir of second homes shows no sign of being exhausted. This has the effect that the supply of primary residences is reduced and the depopulation of the Alpine regions is exacerbated.

Further price increases unlikely

The price boom witnessed in recent years has been slowly drawing to a close. In the Bernese Oberland, there has even been a slight decline in prices since the fall of 2022. Maciej Skoczek, real estate economist at UBS CIO GWM and lead author of the study, shares his prognosis: “Over the next few quarters, price increases on the vacation homes-market are expected to ease further. There is a period of stagnant prices on the horizon.”

The key drivers of demand through, and following, the pandemic have proven to be unsustainable; overseas vacations are proving to be as popular now as ever, and hybrid work—with people choosing to work from their second homes—appears to have been a temporary phenomenon. What remains after the boom is that second-home prices are a good 20 percent higher. Consequently, the average purchase price of a vacation home is currently around 1 million Swiss francs, which, coupled with the rise in interest rates, weighs heavily on household budgets. The total cost of purchasing a typical alpine apartment currently stands at around CHF 50,000 a year—double that of 2019. Skoczek adds: “Some owners will consider selling vacation homes to realize capital gains while escaping increased costs.”

UBS Real Estate Guide

Price rises also appear to be leveling off in the owner-occupied Swiss market as a whole, whilst a shortage of living space and rising rents are topics occupying the rental market. Find out what else is affecting the real estate market in the "UBS Real Estate Guide".

▶ **Chronic housing shortage looms**

The current housing shortage is as much the result of the accelerating demand for housing as it is of a prolonged construction slump. So far, the housing shortage has primarily been an issue in central Switzerland and the cantons of Zurich and Graubünden. In the past, phases of housing shortages have been followed by periods of housing surpluses. However, if market incentives for real estate investors are being stifled at the regulatory level, there is a serious risk of a chronic housing shortage. In the medium term, the most effective political measures would be to relax noise protection regulations, to restrict the right of appeal, and to simplify and accelerate building permit procedures.

▶ **Rents to increase by 10 percent by 2025**

The reference mortgage rate is set to rise by a quarter of a percentage point as of 1 June 2023. It is very likely that there will be a further increase in the second half of the year. This, when taken together with inflation and cost adjustments, would allow landlords to raise rents by around 10 percent for about one-third of all rental contracts across Switzerland. However, it is likely some landlords will not exercise their right to adjust rents, as the financial headroom for many households is limited. We expect average existing rents to increase by more than 2.5 percent in 2023. And, with a predicted third increase in the reference mortgage rate at the end of 2025, the average for existing rents is likely to be a cumulative 10 percent higher than at the end of 2022.

▶ **Real devaluation underway**

The signs of a slowdown in the owner-occupied housing market are becoming increasingly clear. Nominal owner-occupied housing prices rose by 0.5 percent in the first quarter of 2023, only half as much as the 2022 average. At a regional level, the canton of Geneva, the Basel and Bern metropolitan areas, and large parts of eastern and central Switzerland recorded stagnating or even negative price behavior in the last two quarters. The reduced attractiveness of purchasing a home also drove the available supply back up to pre-COVID levels. In 2023, however, average home prices are expected to remain unchanged. This is because immigration and low levels of unemployment are adding to stable demand for owner-occupied homes. In the medium term, home prices are likely to increase more slowly than rent levels, household incomes or general inflation.

▶ **Investment:** Attractive small-sized apartments

Aging, lack of affordability, urbanization, and sustainability efforts are all factors that point to strong demand.

▶ **Savings:** Retirement locations

Relocating within Switzerland when retiring can make a big difference to household finances.

▶ **Renovations:** Subsidies determine the relative attractiveness of energy-efficient renovations.

Tax benefits and subsidies significantly reduce the investment costs for the renovation of single-family homes.

▶ **Luxury:** Top properties cooling down

The price of luxury real estate in prime locations in Switzerland increased by just under 4 percent in 2022, which is significantly less than in the previous year.

Links

[Download Report UBS Alpine Property Focus 2023](#) (English version available soon)

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