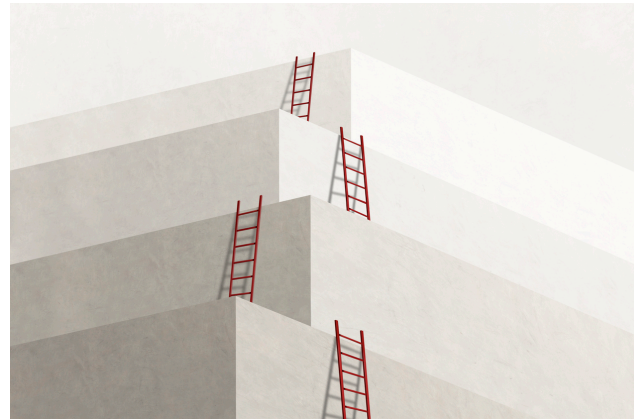


# UBS Swiss Real Estate Bubble Index

## Swiss real estate market

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- **New:** The *UBS Swiss Real Estate Bubble Index* model has been revised. Index values are no longer directly comparable with previous editions of this study.
- The *UBS Swiss Real Estate Bubble Index* declined in the first quarter of 2024 and currently points to a moderate bubble risk in residential property. There are signs of a further slowdown in the price development of owner-occupied homes.
- An analysis of regional price developments shows an increase in imbalances in the major centers and the tourist region of Graubünden.



Source: iStock

The *UBS Swiss Real Estate Bubble Index* continued its decline in the first quarter of 2024 and now stands at 0.95 index points. The risk of a real estate bubble has thus fallen from "elevated" to "moderate." This means the benchmark is significantly lower than during the real estate bubble in the early 1990s.

### Market developments in the first quarter of 2024

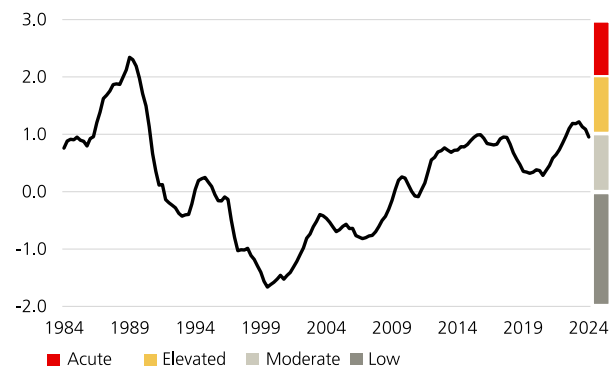
Home prices rose by 0.7% in the first quarter of 2024 compared to 4Q23, similar to the previous quarters. Compared to 2023, this resulted in an overall price increase of 3.2%, which was significantly more than the increase in consumer prices of 1.1%.

The momentum in rents was much stronger. Asking rents rose by 1.5% in the first quarter of 2024, and are now 6% higher than a year ago. Existing rents also saw an above-average increase of 2.7% compared to the previous year.

**Outlook:** There are signs of a further slowdown in the annual growth rate of owner-occupied home prices to 1–1.5% by the end of the year. Subdued economic growth, continued higher financing costs, and the high absolute price level are putting pressure on demand. This should further reduce bubble risk.

### UBS Swiss Real Estate Bubble Index

1st quarter 2024, in standard deviations. Depending on the current index value, the real estate bubble risk is divided into the following four categories: low (below 0), moderate (between 0 and 1), elevated (between 1 and 2), and acute (above 2).



Source: UBS

## Real estate bubble risk from four perspectives

The existing imbalances and risks in the housing market are considered from four angles.

### Foundation

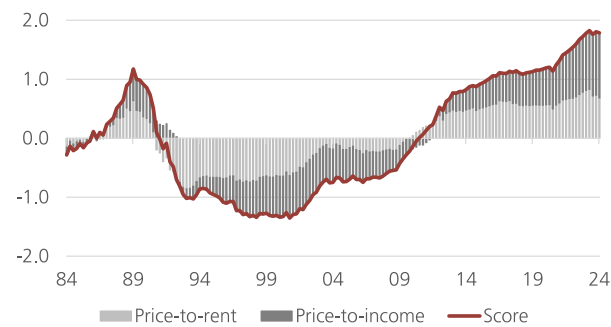
Score: 1.86 (previous quarter: 1.88); risk: elevated  
 Indicators: price-to-rent and price-to-income ratios

The deviation of home prices from household incomes on the one hand and rents on the other is an indicator of a possible fall in prices and a sign of stress. These two variables are combined under the umbrella term "foundation."

*Development:* Rents rose almost twice as much as home prices in 2023 compared to the previous year, causing the ratio of purchase prices to rents to decline, taking pressure off the market. However, the ratio of purchase prices to incomes has risen. The reason for this is likely a slight decline in income per household because of economic growth.

### Foundation

1st quarter 2024, in standard deviations



Source: UBS

### Dynamics

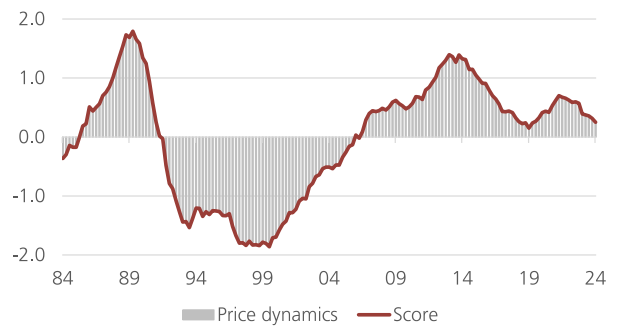
Score: 0.25 (previous quarter: 0.31); risk: moderate  
 Indicator: Real rate of price change over three and 10 years

The emergence of a price bubble is accompanied by an unusually high increase in real prices of owner-occupied homes. This is a technical view without taking into account the cause of the price change.

*Development:* The momentum of price increases on the owner-occupied housing market has slowed down. On a three-year average, real prices rose by 2% annualized, only slightly more than the long-term average of 1.5%. On a 10-year average, the growth rate is also a moderate 2% percent.

### Dynamics

1st quarter 2024, in standard deviations



Source: UBS

### Cost

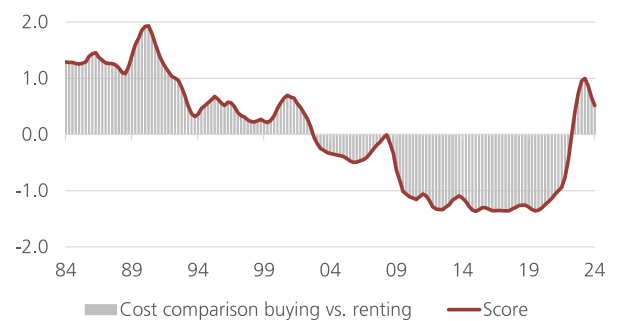
Score: 0.52 (previous quarter: 0.66); Risk: moderate  
 Indicator: Cost comparison of purchase and rent

The user cost (capital costs, amortization, maintenance) when purchasing a home and the rental cost of a comparable apartment should be roughly balanced in the long term. The risk of correction is elevated if the user cost of owner-occupied homes is above average compared to rental apartments.

*Development:* Amid stable mortgage rates in the previous quarter, rising rents reduced the premium for residential property use compared to a rental apartment. The market average is still just under 9%, which is well below the peak of mid-2023, when the premium was 17%.

### Cost

1st quarter 2024, in standard deviations



Source: UBS

**Environment**

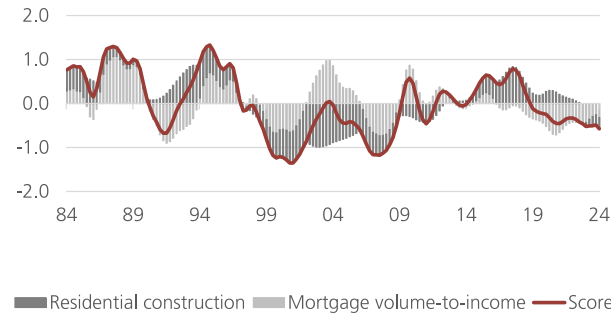
Score: -0.52 (previous quarter -0.36); risk: low  
 Indicators: mortgage volume-to-income and residential construction

Real estate bubbles are usually accompanied by a leverage boom among households. At the same time, construction activity is often elevated, which further exacerbates the economic crisis after the end of the boom.

*Development:* The volume growth of private households' outstanding mortgages slowed further and, at 1.6% year-over-year, is at the lowest level since the end of the 1990s. The net addition of newbuilds has fallen further amid declining building permits.

**Environment**

1st quarter 2024, in standard deviations



Source: UBS

**Risk contributions**

The recent decline in the *UBS Swiss Real Estate Bubble Index* was broadly supported. Bubble risk was declining or stable from all four perspectives compared to the previous year.

**Development of the last two years**

Index and score of the perspectives, in standard deviations

	Index	Foundation	Dynamics	Cost	Environment
2022 Q2	<b>0.97</b>	1.66	0.59	-0.01	-0.17
2022 Q3	<b>1.10</b>	1.74	0.60	0.42	-0.26
2022 Q4	<b>1.19</b>	1.79	0.57	0.74	-0.33
2023 Q1	<b>1.19</b>	1.85	0.39	0.96	-0.43
2023 Q2	<b>1.22</b>	1.90	0.37	1.00	-0.40
2023 Q3	<b>1.13</b>	1.83	0.36	0.86	-0.38
2023 Q4	<b>1.09</b>	1.88	0.31	0.66	-0.36
2024 Q1	<b>0.95</b>	1.86	0.25	0.52	-0.52

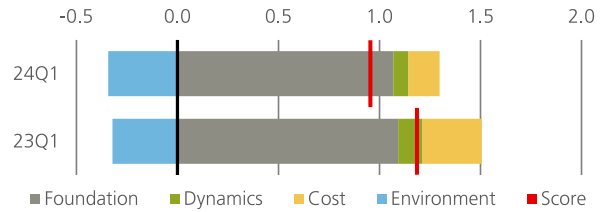
Source: UBS

However, the analysis shows that bubble risk remains high from the perspective of fundamental factors rents and income. However, the risk of overheating has decreased as

a result of weaker price momentum. Falling interest rates and the only moderate level of relative usage costs speak against a price correction. Overall low and further declining borrowing and new construction also clearly speak against a price bubble.

**Risk contributions**

In standard deviations



Source: UBS

## Regional analysis

*Indicator:* The map shows price developments over the last five years for all 106 Swiss economic regions, as well as an indication of regional risk based on the development of the price-to-income and price-to-rent ratios.

### Observations

- A sharp increase in imbalances is evident as a result of the second-home boom in the tourism region of Graubünden.
- The price-to-income ratio has deteriorated markedly since the beginning of 2019, primarily in the cities of Zurich, Lausanne, and Geneva. In the regions around Lake Geneva, this also applies to the price-to-rent ratio.

- Apart from the Limmat Valley region, there was no very high increase in imbalances in the primary home markets in German-speaking Switzerland. This is because the ratio of purchase prices to rents has risen at a below-average rate practically across the board. Zug is the exception here, but also has the strongest price growth rate.

### Regional imbalances

Development since 1st quarter 2019 (5 years)

#### Price growth

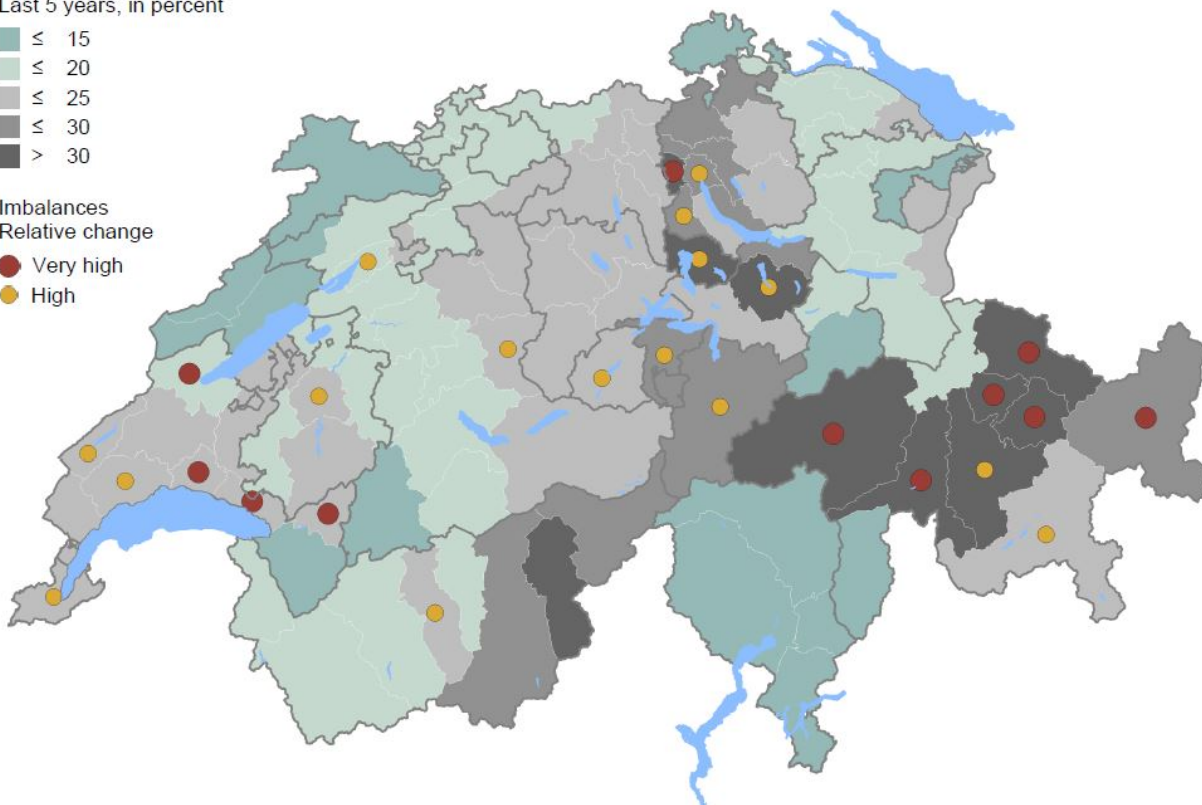
Last 5 years, in percent

- ≤ 15
- ≤ 20
- ≤ 25
- ≤ 30
- > 30

#### Imbalances

Relative change

- Very high
- High



Source: UBS. Imbalances: Very high: change in the price-to-income and price-to-rent ratios greater than in 90 percent of the regions. High: Change in the price-to-income and price-to-rent ratios greater than in 75% of the regions.

## Adjusted methodology

The concept of *UBS Swiss Real Estate Bubble Index* as a subindex-based model has been retained. However, the subindexes have been conceptually further developed and adapted to the improved data with the aim of being able to capture different risks on the owner-occupied housing market more precisely. The real estate bubble risk, i.e., the risk of a drastic price correction for owner-occupied homes, is now assessed from the following four perspectives.

### Foundation

The sub-indicators price-to-income and price-to-rent are kept unchanged. These indicators reflect the fall in home prices in the event of very sharp interest rate increases or a deterioration in economic conditions.

### Dynamics

The former sub-indicator price-to-consumer prices is now included in the model as a rate of change. High real rates of price increase are an almost necessary condition for a real estate bubble.

### Cost

The model is expanded by relative user costs. The comparison of the usage costs between an owner-occupied home and a comparable rented apartment shows the current incentive to purchase residential property. This measure replaces the previous buy-to-let indicator.

### Environment

The systemic indicators will be retained conceptually. However, the risk of oversupply on the housing market and a bloated construction industry is no longer mapped by the ratio of construction investment to gross domestic product, but by means of actual housing construction, estimated on the basis of the building permits. The second systemic indicator—the growth in mortgage debt of households to household income growth—remains unchanged.

### Calculation

This means the index still includes a total of six subindexes. They are equally weighted and no longer calculated by means of a principal component analysis. In addition, the variables of the environment category are standardized on a rolling basis over a time window of 25 years to take into account structural changes in the economy.

## Appendix

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