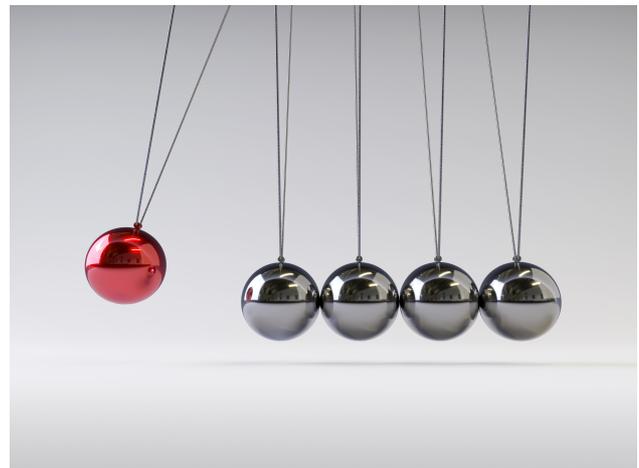


UBS Swiss Real Estate Bubble Index

Swiss real estate market

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- The *UBS Swiss Real Estate Bubble Index* fell slightly in the fourth quarter of 2023 and currently stands at 1.41 index points. That leaves the index back at the same level as the end of 2021.
- The two sub-indicators of home prices relative to household income and relative to consumer prices climbed again to new highs.
- The fall in the index was caused by a renewed slowdown in household mortgage growth and a further slight decline in the number of applications for buy-to-let financing. At the same time, investment in construction continued to lose ground compared to the economy as a whole and, adjusted for inflation, is at the same level as in 2010.



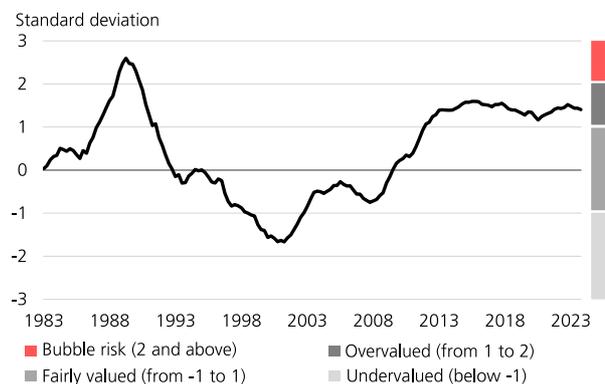
Source: Shutterstock

Development of market drivers: As a result of the weak economic situation, household income stagnated in the fourth quarter of 2023. Consumer prices were even down slightly quarter-over-quarter. The prices for owner-occupied housing, meanwhile, climbed 0.9% in the fourth quarter of 2023, further eroding the long-term affordability of residential property. Quarter-over-quarter, rents rose at the same rate as purchase prices for condominiums, but on a year-over-year basis, asking rents rose almost twice as much at 5%.

Statement of risk: The *UBS Swiss Real Estate Bubble Index* is significantly lower than during the real estate bubble at the beginning of the 1990s. Nevertheless, it still currently suggests a clear overvaluation of the local owner-occupied housing market. Owner-occupied housing prices continue to remain resistant in the face of increasing financing costs. A low rate of new construction overall and accelerated immigration mean a price correction is unlikely in the near future. In the medium term, the imbalances in the market should at least remain stable due to rising rents.

UBS Swiss Real Estate Bubble Index

4. Quarter 2023



Source: UBS

Sub-indexes

Home prices relative to annual rents

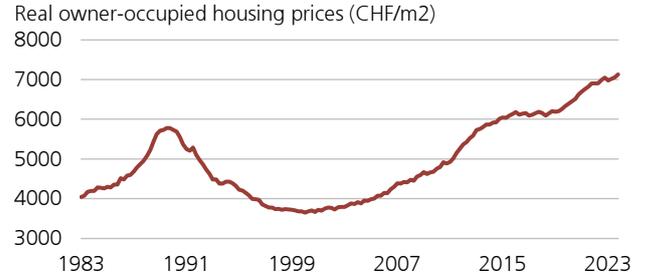
An above-average price-to-rent ratio indicates a high dependency on sustained low interest rates or implies expectations of future price increases.



Sources: Wüest Partner, IAZI, FPRE, FSO, UBS

Home prices relative to consumer prices

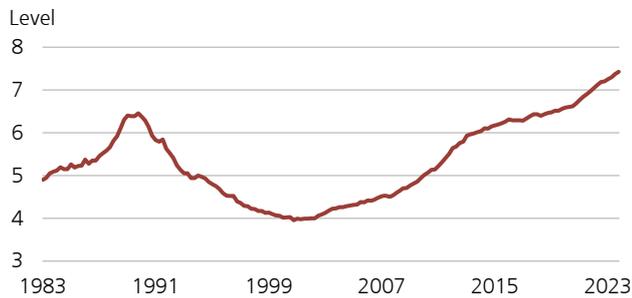
If owner-occupied home prices rise faster than construction costs and general inflation for a long time, this can be a warning of a possible correction.



Sources: Wüest Partner, IAZI, FPRE, FSO, UBS

Home prices relative to household incomes

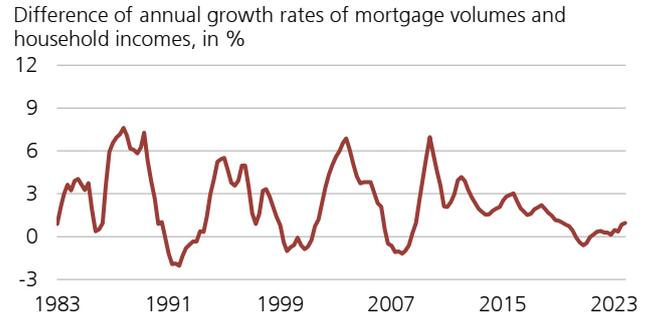
If the price development in the market for owner-occupied homes is not supported by a change in household incomes, this can be interpreted as a signal for interest rate risks.



Sources: Wüest Partner, IAZI, FPRE, FSO, UBS

Mortgage volumes relative to household incomes

An acceleration in household debt that is not accompanied by income growth is a signal of an overheating of the real estate market.



Sources: SNB, FSO, UBS

Construction relative to gross domestic product (GDP)

If the construction sector gains weight within the national economy, this can imply an overheating of the real estate market.



Sources: SECO, FSO, UBS

Credit applications for buy-to-let properties

High demand for residential property for the purpose of leasing (buy-to-let) indicates greater speculative demand.



Sources: SNB, UBS

Regional risk map

Assessment

The risk map shows the short- to medium-term risk of overheating. The market is overheated at Lake Zurich, in parts of Graubünden, in the St. Galler Rhine valley, and in the Lausanne region. In these regions, purchase prices have risen significantly faster than market rents over the past five years. This development is not sustainable, in our view, especially against the backdrop of rising financing costs. By contrast, this risk has fallen in Zurich and Geneva over the past year from "high" to "slightly elevated." In Geneva, this decline was driven by prices stagnating in the previous quarters. The sharply rising rents in Zurich have also put the price development for owner-occupied housing into perspective.

Method

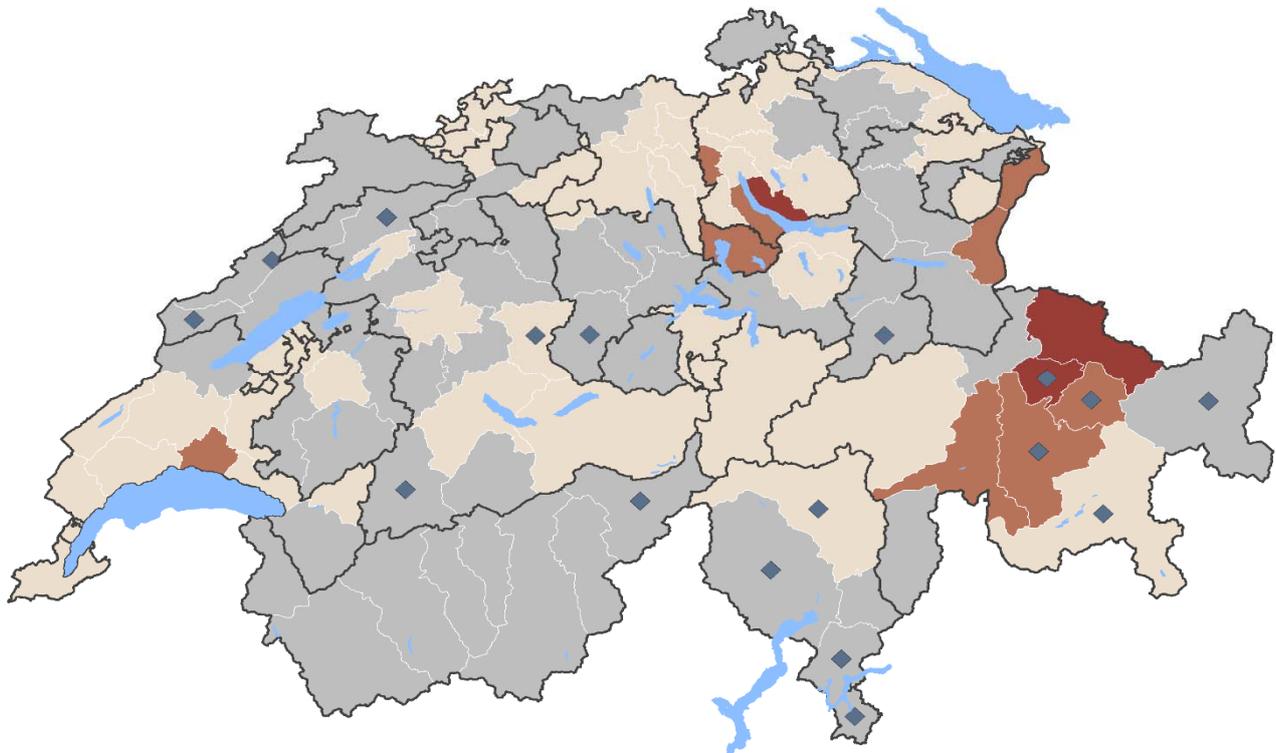
The regional analysis is based on how the local price-to-rent ratio has changed over the past five years. In addition, regions with falling population numbers (last three years) are marked.

The development in rents shows the situation on the housing market. The price-to-rent ratio reflects the interest rate level and expectations about future increases in rental prices. If there is a strong, above-average increase in this ratio compared to other regions, this can indicate overheating in the local market for owner-occupied homes. Independent of this, a decreasing population represents a risk for real estate demand.

Remark

According to the UBS Global Real Estate Bubble Index 2023, Zurich is in the bubble risk zone. The risk there is considered in a longer-term context, and calculated on the basis of more indicators. However, sharply rising rents have also led to a decline in the price-to-rent ratio and, as a result, to a falling risk assessment.

Regional risk map



Relative risk assessment:

- low
- slightly elevated
- elevated
- high

◆ Regions with falling population numbers

Sources: Wüest Partner, FSO, UBS

Appendix

Index calculation

The UBS Swiss Real Estate Bubble Index represents the weighted average of six standardized sub-indexes using principal component analysis. The index shows the discrepancy, measured in standard deviations, from the mean normalized to zero. The index uses the following classification: Undervalued (below -1), fairly valued (from -1 to below 1), overvalued (from 1 to below 2) and bubble risk (2 and above).

Comment on the adjustment of the index history

The numbers are standardized (recursively) using the data available up to the relevant point in time. For example, the index value in the first quarter of 2015 is calculated using data from 1980 up to the first quarter of 2015. All index values up to and including 2010 are standardized (non-recursively) with data from 1980 to 2010 to ensure there are sufficient data points. That means that the published index values now reflect the imbalances from the perspective of the relevant quarter.

Deviations from the previously published index values can be explained by data revisions.

UBS Swiss Real Estate Bubble Index

Data series since 2018

Period	Index	Trend*
2018-1	1.50	↘
2018-2	1.43	↘
2018-3	1.40	↘
2018-4	1.40	→
2019-1	1.36	↘
2019-2	1.32	↘
2019-3	1.28	↘
2019-4	1.35	↗
2020-1	1.34	↘
2020-2	1.25	↘
2020-3	1.16	↘
2020-4	1.24	↗
2021-1	1.28	↗
2021-2	1.32	↗
2021-3	1.35	↗
2021-4	1.41	↗
2022-1	1.44	↗
2022-2	1.43	↘
2022-3	1.46	↗
2022-4	1.52	↗
2023-1	1.48	↘
2023-2	1.44	↘
2023-3	1.44	→
2023-4	1.41	↘

Source: UBS.

* Compared to the previous quarter

Appendix

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