Acquisition of Swiss owner-occupied homes by foreign buyers – a guide

Swiss real estate market

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- When buying a home in Switzerland, it is crucial to consider the legal framework, financing conditions, taxes, and fees.
- Real estate prices in a municipality are tied to factors such as proximity to the nearest economic center and the income tax burden.
- Prices in the Swiss residential real estate market continue to rise, although the pace has slowed in recent quarters. We expect the rate of price increases to further slow in 2024.

Source: Getty Images

A reliable legal system, stable political institutions, and a relatively strong economy are incentives to buy an owner-occupied home in Switzerland. The country is known for its high quality of life. In 2023, Zurich and Geneva, Switzerland's two largest cities, ranked in the top 10 of the most livable cities worldwide, according to the Economist Intelligence Unit's Global Livability Index and Mercer's Quality of Living City Ranking. This report addresses the key considerations foreign buyers should know when buying an owner-occupied home in Switzerland.

Legal considerations

The law governing property purchases depends on the buyer's residence permit status.

The rules on who can buy property in Switzerland are in the Lex Koller law. European Union and European Free Trade Association (EFTA) citizens living in Switzerland and citizens of other countries with a C residence permit have the same rights as Swiss citizens when buying property. Non-EU or EFTA citizens with a B residence permit can only buy a primary or vacation home.

Who can buy Swiss real estate?

Overview of the legal framework (Lex Koller)

Origin	Resid. permit	First home*	Second home**	Holiday home	Multi-family home	Commerc. Spaces
Persons **domiciled** in Switzerland						
EU/EFTA	C I B					
Non-EU/EFTA	C					
Non-EU/EFTA	B	(1)		(2)		
Persons **not domiciled** in Switzerland						
EU/EFTA	G		(3)	(2)		
EU/EFTA	/		(4)	(2)		
Non-EU/EFTA	/		(4)	(2)		

allowed　permit required　not allowed

* Incl. construction land, construction needs to begin within a year; ** accommodation which is not used as primary residence; (1) For self-occupation only; only one residential unit; can be kept if domicile changes; (2) Quota of max. 1,500 in Switzerland; renting throughout the whole year is not allowed; limitation of the net living space and property area; further cantonal regulations may apply; (3) Only in the region of the place of work; (4) Only if close ties to the place exist; not to rent; has to be sold within 2 years if not used anymore; limitation of the net living space and property area; further cantonal regulations may apply.

Source: UBS

Foreigners without a residence permit can only buy second homes or vacation homes, with a quota system in place. There are no restrictions for any mentioned groups when buying commercial space.

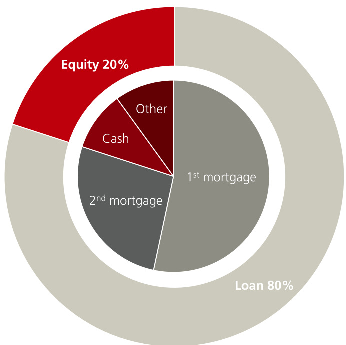
No requirement to sell when moving out
Foreign owners do not have to sell their property when moving from or within Switzerland. They can use it as a second or holiday home or rent it out even if they purchase a new main home. However, it is against Swiss law to buy a new main home and without having intended to use the previous property as a first home for an extended period. Once a property is legally purchased, no additional permission is needed for it to be inherited by the owner's heirs.

Financing

Mortgages are capped at 80% of a property's value
Purchases are often funded through a combination of mortgage borrowing and equity. Mortgages usually do not exceed 80% of the property's lending value for a main home. The first mortgage often covers two-thirds of the lending value. The second mortgage covers the remaining amount up to 80% and must be repaid linearly over 15 years. If the buyer reaches retirement age within 15 years, a shorter repayment period may be required. The first mortgage generally does not need to be repaid.

At least 20% of the purchase price must be funded from equity

Sources of funding, assuming the maximum possible mortgage



Source: UBS

Buyers must fund at least 20% of the purchase price with equity. Half of this amount (i.e., 10% of the purchase price) must consist of "hard" equity (e.g., savings, early withdrawal of private pension assets, gifts or inheritance advances). The remaining 10% can come from occupational pension assets. Here too, stricter rules on the composition of equity apply if the buyer will reach retirement age within the next 15 years.

The purchase of a second home is typically financed by a mortgage of up to 60%. In addition, no funds may be drawn from occupational pension assets (pillar 2) or private pension assets (pillar 3a).

Size of mortgage depends on gross income
The maximum mortgage loan is dictated by the buyer's gross income. Their partner's income may only be taken into consideration if both partners will be jointly liable for the mortgage. Annual property ownership costs should not exceed one-third of gross annual income. These costs consist of mortgage interest costs (at a hypothetical interest rate of 5%), as well as maintenance and ancillary costs (each normally estimated at around 1% of the value of the property). This is designed to ensure affordability even if interest rates rise and to prevent debt from exceeding five to six times gross annual income. Exceptions are possible based on wealth and personal circumstances.

Short-term versus long-term borrowing
Market interest rates significantly affect costs for financing a home. At the start of 2024, interest rates on money market mortgages were higher than those on fixed-rate mortgages. But we believe a money market mortgage is a more cost-effective financing option over a period of ten years. Should interest rates move higher in the future, a long-term fixed-rate mortgage is likely to be the cheaper financing option.

Choosing the right form of mortgage financing doesn't just depend on current interest rate expectations, but it is also a question of the mortgage holder's risk capacity. Risk-averse borrowers tend to go for long-term fixed-rate mortgages, as these provide certainty on the amount of interest payments. But every borrower must ask themselves three questions:

- Are substantially higher interest payments sustainable (interest rate risk)?

Even though a significant rise in interest rates is unlikely, your property ownership costs should not exceed one-third of your gross annual income even if rates were to reach 5%.

- How much will it cost me if my mortgage contract has to be terminated early (early cancellation risk)?

The costs of exiting a mortgage contract through early repayment depend on how lucratively the lender can reinvest the capital at that point in time. The lower interest rates are, the higher the exit costs. Conversely, if interest rates rise sharply, borrowers may even be rewarded for exiting the contract.

- How likely is it that my mortgage will have to be renewed when interest rates are higher (refinancing risk)?

If the entire mortgage volume has to be refinanced at a higher rate, that will drive up the mortgage costs. For an owner looking to minimize interest rate fluctuations, it can make sense to diversify long-term mortgages over time by taking out a mix of different maturities. By contrast, refinancing risk is not a concern for holders of short-term mortgages. In such cases, interest rate risk is decisive.

Taxes and duties

It is important not to underestimate the taxes and duties payable when buying a property and during ownership. The total costs depend on the canton and the municipality in which the person resides.

Taxation of the imputed rental value

The imputed rental value corresponds to the rental value of the owner-occupied property, and is taxed as income. On the other hand, the mortgage interest payments and maintenance costs can be deducted from taxable income. When interest rates are low, the imputed rental value tends to exceed the costs deducted, which results in an increase in taxable income. Due to the increase in mortgage costs in recent months, the taxation of the imputed rental value can currently reduce the income tax liability. An annual wealth tax must also be paid with respect to the property (minus borrowing against the property), and some cantons also apply a separate property tax (which does not take account of borrowing).

Real estate gains tax and transfer tax

Two forms of tax are levied when a property is sold. Real estate gains tax can amount to a considerable proportion of the profit from selling. As this tax is intended to curb property speculation, it decreases with the length of ownership. For example, a real estate gain of CHF 100,000 in the canton of Zurich would be taxed at CHF 44,100 if held for less than one year. The same gain would be taxed at just under CHF 28,000 if held for five years or less than CHF 15,000 after 20 years of ownership. The tax is deferred if the gain is used again to buy an owner-occupied home. The second tax—real estate transfer tax—can be up to 3% of the purchase price. It is due at the time of purchase, and depending on the canton, is payable either by the buyer, the seller, or split 50/50 between the two. On top of that, notary costs must also be paid.

What does residential property in Switzerland cost?

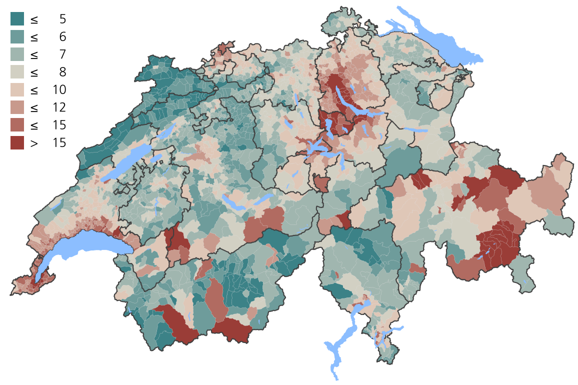
Prices

The highest prices for an owner-occupied home are observed in the areas around Lake Zurich and Lake Geneva and in the most popular Alpine tourist destinations. In these regions, prices per square meter for an owner-occupied home in the high-end segment are often well in excess of CHF 15,000. In the luxury segment, square meter prices often exceed the CHF 20,000 mark and there is no upper limit to how high prices can go, especially in the case of single-family homes.

Depending on factors such as journey times to the nearest economic center, prices of between CHF 10,000 and CHF 12,000 per square meter are typical for owner-occupied homes in the high-end segment in metropolitan areas around Switzerland's larger cities. The most affordable homes can be found along the "Jura arc" as well as in the valleys of Valais and Ticino.

How much does residential property in Switzerland cost?

Prices per square meter for owner-occupied homes in the high-end segment (70% quantile), 4Q 2023, in CHF thousand



Sources: Wüest Partner, UBS

Living costs

Prices of owner-occupied homes are greatly influenced by the relative size of the local tax burden. The location-related housing costs (total of current costs on a 100-square-meter condominium with an 80% mortgage, income, and wealth tax burden as well as health insurance premiums) amount to just under CHF 70,000 a year on average for a two-person household across all Swiss municipalities.

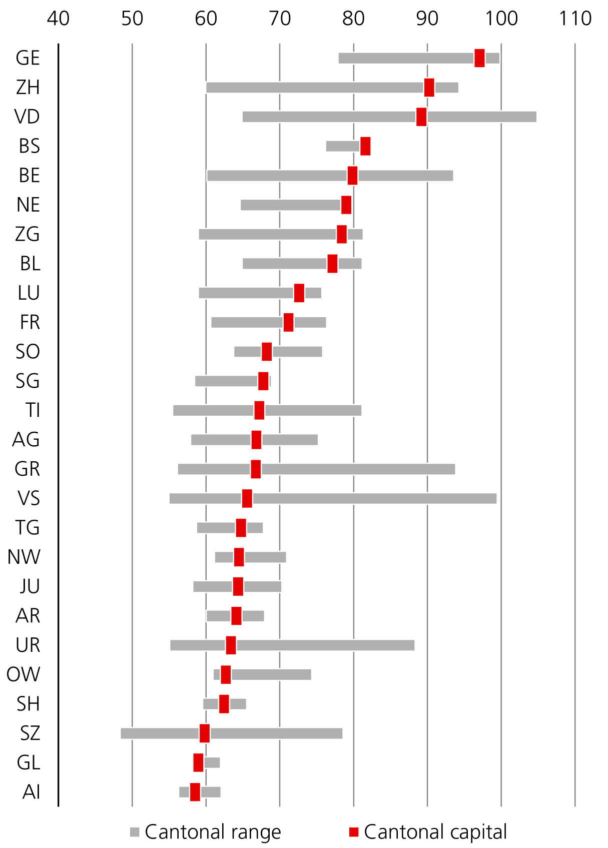
However, there are big differences between municipalities. In the municipality of Morges, total costs are anticipated to be around 45% higher than for a similar apartment in the relatively low-tax municipality of Schwyz. The annual costs in this case are estimated to rise from just under CHF 60,000 to a little over CHF 86,000. Property prices tend to be higher in the lowest-tax municipalities, but this is often balanced out by the smaller tax burden. The effect of the tax advantage is more evident for wealthier households.

Costs not related to financing

Generally, the costs for a home that are unrelated to financing are made up of operating costs (heating, electricity, and water), maintenance costs, and capital investment costs (spending for long-term value preservation). For a medium-sized condominium, they are likely to add up to about CHF 10,000 per year. However, the total can fluctuate from year to year, which means that careful planning and ring-fenced savings are beneficial. For example, the recent increases in energy and construction prices have led to higher operating, maintenance, and renovation costs.

Cost comparison for condominiums

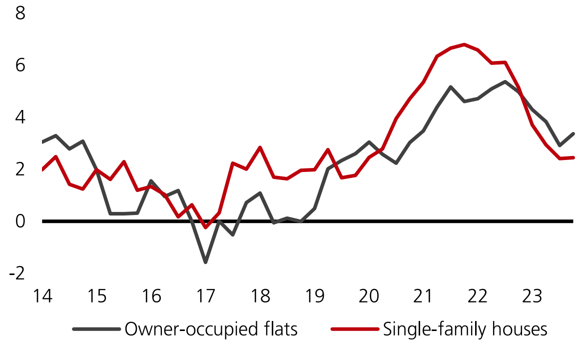
Location-related costs at municipality level (current costs on a condominium with an 80% mortgage, income and wealth tax burden as well as health insurance premiums) in CHF thousand



Sources: FTA, FSO, Wüest Partner, UBS Assumptions: gross income of CHF 200,000 per year, assets of CHF 300,000, married with no children, owner-occupied home with 100 square meters of living space, and an 80% mortgage

Rising prices for owner-occupied homes

Change in prices as of 4Q 2023 compared with the same quarter of the previous year according to the UBS Composite Index*, in %



Sources: FPRE, IAZI, Wüest Partner and UBS. The UBS Composite Index tracks price growth in the Swiss owner-occupied home market as an average of the available supply and transaction price indices.

Price prospects

Pace of price growth easing

Sustained surplus demand fueled by strong growth in the population and incomes has supported rising prices in recent years. Increased mortgage rates have significantly raised the cost of an owner-occupied home since 2022. The costs of running an average owner-occupied home exceed those of a comparable rental apartment. Buying now costs just under 10% more than renting, which will have an impact on demand for owner-occupied homes. Furthermore, buy-to-let has become less attractive as an investment strategy because of higher interest rates, which is likely to put the brakes on demand for buying an owner-occupied home.

Although the pace of price growth eased noticeably last year, prices of owner-occupied homes increased by around 3% over the course of the year. As a result, the market significantly outperformed the world's largest economies. We forecast that the price growth will continue to slow in the coming quarters. Given how high purchase prices are now, meeting the affordability criteria is becoming an increasingly difficult challenge. Economic uncertainty is also likely to make some buyers defer buying their own home until at least the second half of the year when we expect the Swiss National Bank to lower base rates. In the medium term, the expected decline in interest rates and increasing scarcity of rental apartments are likely to favor a renewed market revival.

Vacation and luxury real estate

The tourist regions have the strongest price growth nationwide. Condominiums in the second home market rose more than 6% within a year, with single-family houses posting even more rapid growth. The rates of change are lower than during the COVID-19 pandemic. Detailed transaction data also indicates that price growth in the holiday home market is softening. Luxury properties were also less in demand last year than in both pandemic years. The prices for properties in luxury locations rose by nearly 2% on average in 2023 compared with the previous year.

But it is in the current climate of geopolitical uncertainty that Switzerland, with its stable institutions, provides a sought-after sanctuary by international standards. Plus, the likelihood of sharp tax increases is considered relatively low given Switzerland's sound public finances. However, we expect the pace of price growth for holiday homes to ease, with prices of luxury properties to decline in the current year.

UBS Real Estate Local Fact Sheets
Finding a new home in a new country is a challenge. The *UBS Real Estate Local Fact Sheets* help with the finding and decision-making process. They provide detailed information on local property prices, demographic trends, construction activity, employment, and tax burdens in all Swiss municipalities and can be obtained from UBS client advisors.

The largest residential property markets – a comparison

25 largest Swiss municipalities (by population)

Municipality	Can-ton	Price[1] Level	Price[1] Change	Population[2] Level	Population[2] Change	Tax burden[3]
Zürich	ZH	19 400	6.5	427 700	0.6	14.4
Genève	GE	17 400	1.4	203 800	0.0	18.8
Basel	BS	12 900	4.3	173 600	0.1	16.3
Lausanne	VD	13 900	2.6	141 400	0.5	19.2
Bern	BE	10 800	3.9	134 500	0.0	18.7
Winterthur	ZH	10 200	3.1	116 900	1.1	14.7
Luzern	LU	12 100	2.7	83 800	0.6	14.3
St. Gallen	SG	7 600	-1.0	76 900	0.4	17.1
Lugano	TI	10 000	0.0	62 500	-0.1	15.6
Biel/Bienne	BE	7 200	6.9	55 100	-0.3	19.0
Neuchâtel	NE	9 000	5.9	44 600	0.0	19.9
Bellinzona	TI	6 800	1.6	44 300	0.8	16.7
Thun	BE	8 000	4.6	43 700	0.0	19.3
Köniz	BE	8 200	1.5	42 400	0.3	18.8
Chur	GR	9 100	6.3	38 100	0.9	14.9
Schaffhausen	SH	7 300	0.4	37 700	1.0	14.6
Fribourg	FR	8 100	3.3	37 700	-0.5	17.8
Vernier	GE	11 900	3.2	36 600	1.5	19.2
La Chaux-de-Fonds	NE	4 900	1.2	36 500	-0.9	20.8
Uster	ZH	11 700	4.8	35 700	0.7	14.1
Sion	VS	6 300	4.7	35 700	0.9	16.9
Lancy	GE	12 700	3.0	34 700	1.3	18.9
Emmen	LU	8 100	2.6	31 600	0.6	15.9
Zug	ZG	21 100	10.0	31 500	0.9	7.1
Dübendorf	ZH	12 500	5.8	30 800	1.7	13.2

[1] Price in francs per square meter for new-build properties (70th percentile) in the fourth quarter 2023 and annualized rate of change since the fourth quarter 2020, in percent

[2] Population in 2022 and annualized rate of change since 2019, in percent

[3] Married without children with a gross income of 200,000 Swiss francs per year, in percent

Sources: FSO, Wüest Partner, FTA, UBS

Appendix

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