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Investment Research

UBS Swiss Real Estate Bubble Index

Swiss real estate market

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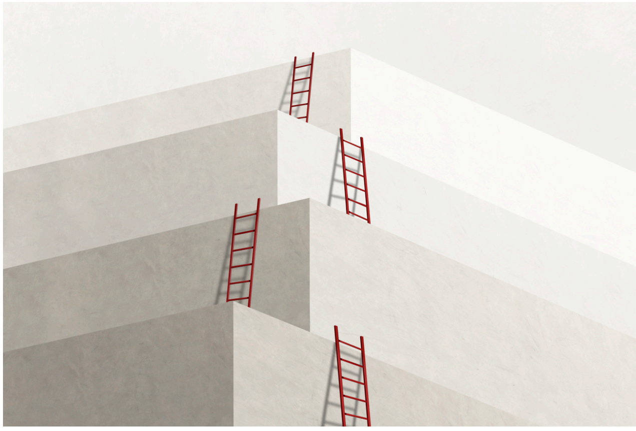
- The *UBS Swiss Real Estate Bubble Index* has been on a steady decline since the end of 2022, indicating a moderate risk of a real estate bubble in owner-occupied housing.
- The Swiss National Bank's key interest rate cuts have reduced the cost of owning a home. Although real price growth has recently slowed, purchase prices continue to rise faster than household incomes, and residential construction activity remains on a downward trend.



Source: iStock

The *UBS Swiss Real Estate Bubble Index* continued to decline in 4Q24, reaching 0.29 index points. According to the index, the risk of a real estate bubble remains moderate. Low ownership costs relative to renting, subdued mortgage demand, and a further slowdown in construction activity make a pronounced price correction increasingly unlikely.

Market development
Home prices rose by 0.6% in 4Q24. Compared to the previous year, they were up 2.4%, and after adjusting for inflation, the gain was 1.8%— slightly above the long-term average.

By the end of 2024, existing rents and offered rents were 3.3% and 2.3% higher, respectively, than a year earlier. Momentum in rental prices, however, has slowed considerably. Offered rents dipped slightly quarter over quarter, and the quarterly increase in existing rents was roughly half of what it was in summer 2024.

Outlook
Because of significantly improved financing conditions, the pace of home price increases is expected to accelerate in the coming quarters. The demand index—the number of active property searches for owner-occupied homes—was more than 20% above its prior-year level in December 2024. Home prices are projected to rise by about 3-4% this year.

UBS Swiss Real Estate Bubble Index

Fourth quarter 2024, in standard deviations. Depending on the current value, the real estate bubble risk is divided into the following four categories: Acute (above 2), Elevated (between 1 and 2), Moderate (between 0 and 1) and Low (below 0)

Source: UBS

Real estate bubble risk from four perspectives

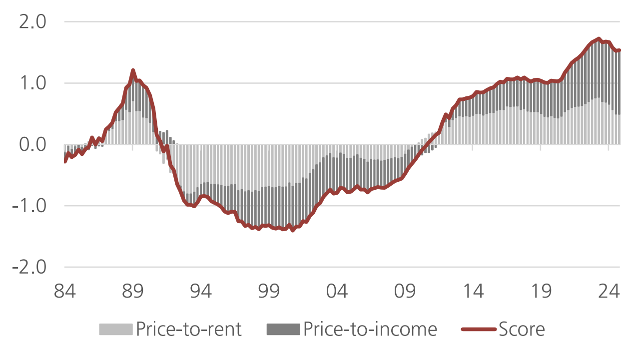
The existing imbalances and risks of the housing market are examined from four different perspectives.

Fundamentals
Score: 1.59 (previous quarter 1.58), risk: elevated
Indicators: Price-rent and price-income ratio

The gap between house prices and household incomes on one hand, and rents on the other, is an indicator of how far prices could drop and a sign of potential overvaluation. These two metrics are grouped together under the umbrella term "fundamentals."

Development: Rents and home prices increased at nearly the same rate in the past year, leaving the price-to-rent ratio steady. However, the price-to-income ratio continued to climb in 2024, even as household incomes were slightly above average.

Fundamentals
Fourth quarter 2024, in standard deviations



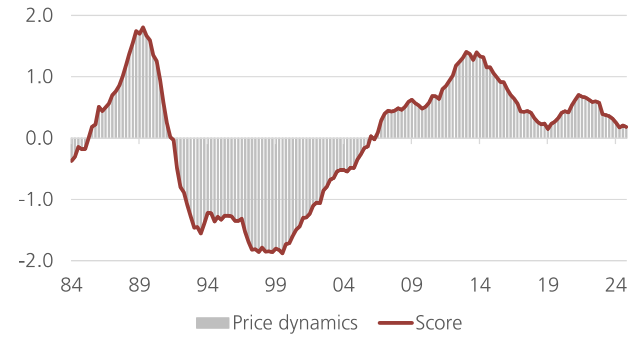
Source: UBS

Dynamics
Score: 0.18 (previous quarter 0.21), risk: moderate
Indicator: Price performance in real terms over 3 and 10 years

The occurrence of a price bubble is accompanied by an unusually high increase in residential property prices. This is a technical view without taking into account the causes of the price change.

Development: Price gains in the owner-occupied housing market have eased slightly. Over the past three years, real prices have risen at an annualized rate of 1.7 percent—marginally above the long-term average of 1.5%. Over the past 10 years, they have remained below 2.0%.

Dynamics
Fourth quarter 2024, in standard deviations



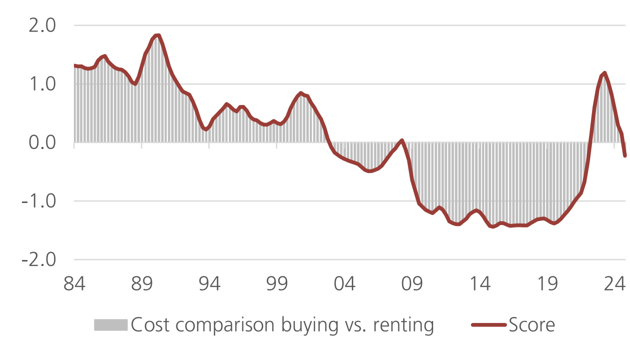
Source: UBS

Costs
Score: –0.23 (previous quarter 0.15), risk: low
Indicator: Cost comparison of purchasing vs. renting

The usage costs (capital costs, amortization, maintenance) of buying your own home and the rental costs of a comparable dwelling should roughly balance each other out in the long term. The risk of correction increases when the cost of owning a home is significantly higher than the cost of renting.

Development: Mortgage interest rates declined sharply in the 4Q24. What had been a premium for owning over renting became a discount of around 10%. At its peak in mid-2023, that premium stood at nearly 15%.

Costs
Fourth quarter 2024, in standard deviations



Source: UBS

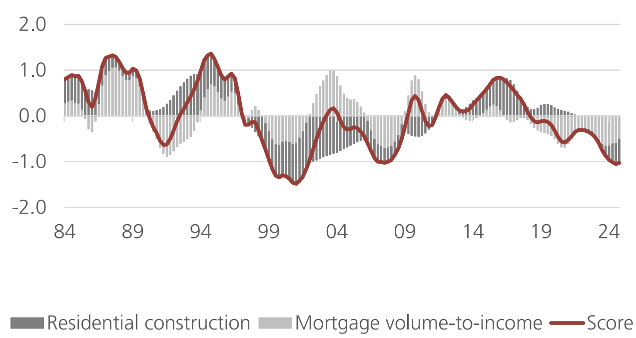
Environment
Score: –1.31 (previous quarter –1.34), risk: low
Indicators: Mortgage volume-to-income and residential construction

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

Development: Outstanding mortgage volumes among private households grew by 1.9% year over year in the fourth quarter of 2024, in line with income growth. Meanwhile, the net addition of new housing units continued to decline.

Environment

Fourth quarter 2024, in standard deviations

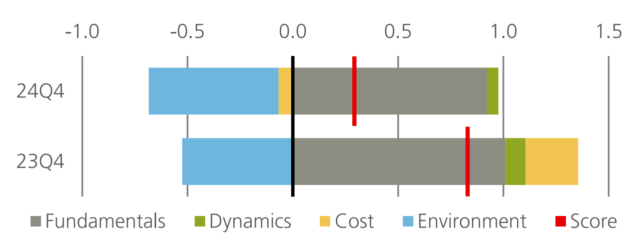


Source: UBS

Risk contributions
Although fundamentals suggest the overall risk of a real estate bubble remains significant, the threat of overheating is relatively low given moderate price momentum. Persistently low interest rates and comparatively modest ownership costs point against a price correction, while historically low mortgage demand and gradually declining residential construction activity also argue against bubble conditions.

Risk premiums

In standard deviations



Source: UBS

The recent drop in the *UBS Swiss Real Estate Bubble Index* was driven mainly by cost-related factors. Dynamics and environment also retreated slightly, while fundamentals deteriorated further as affordability weakened.

Performance over the last two years

Index value and scores of the four perspectives, in standard deviations

	Index	Fundamentals	Dynamics	Cost	Environment
2023 Q1	**1.20**	1.75	0.39	1.14	-0.38
2023 Q2	**1.16**	1.79	0.38	1.19	-0.57
2023 Q3	**0.98**	1.72	0.36	1.04	-0.82
2023 Q4	**0.83**	1.74	0.32	0.83	-1.02
2024 Q1	**0.67**	1.73	0.25	0.55	-1.17
2024 Q2	**0.48**	1.64	0.17	0.29	-1.26
2024 Q3	**0.39**	1.58	0.21	0.15	-1.34
2024 Q4	**0.29**	1.59	0.18	-0.23	-1.31

Source: UBS

Regional analysis

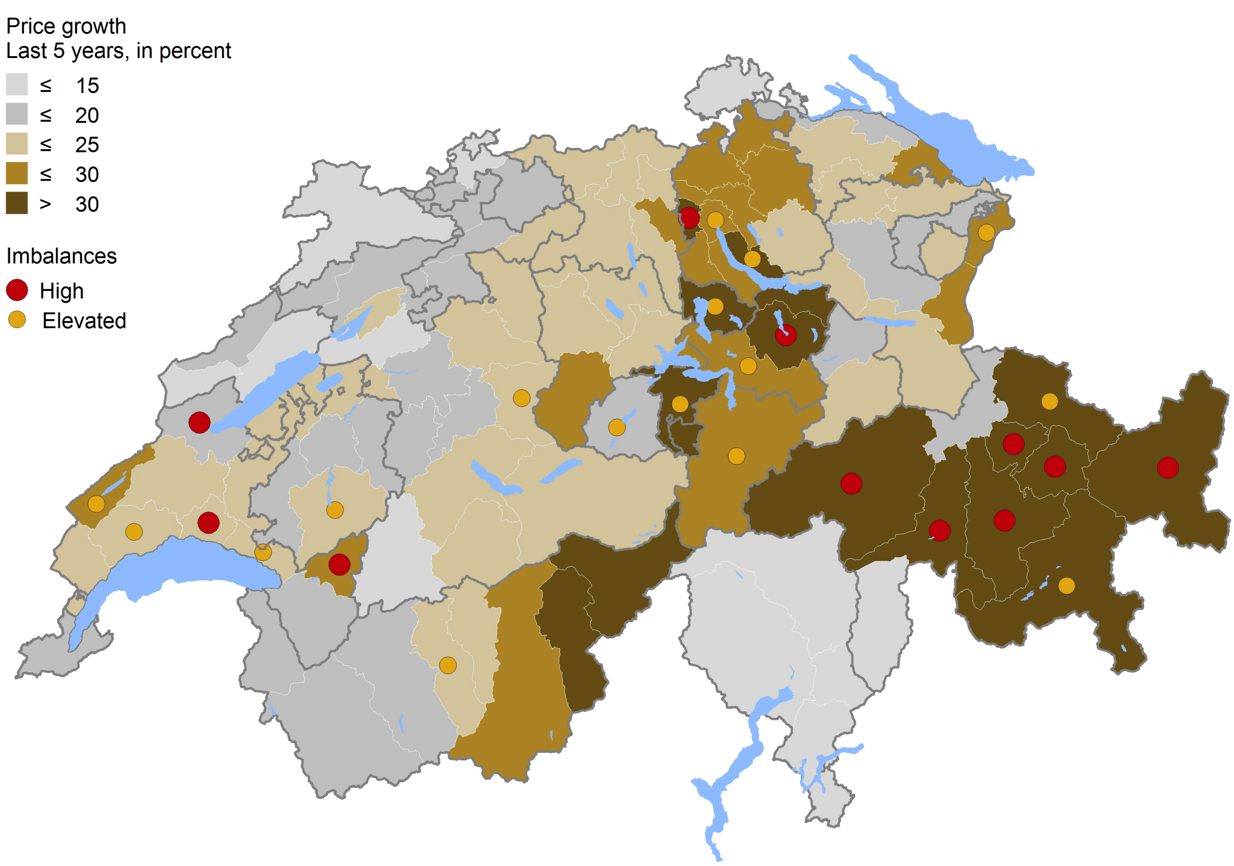
Indicator: The map shows the price development over the last five years for all 106 economic regions in Switzerland as well as an indication of the regional risk based on the development of the price-income and price-rent ratios (foundation perspective).

Development

- In Western Switzerland, imbalances are primarily found in the canton of Vaud, where prices have decoupled from rents and incomes above average since the third quarter of 2019. In the Geneva region, there is no longer an elevated imbalance, as the recent price development has been below average.
- In German-speaking Switzerland, we see high imbalances in the Limmattal region and now also in the Einsiedeln region. There is also a newly elevated imbalance in the Pfannenstiel region. Generally, in the local primary housing markets of German-speaking Switzerland, the ratio of purchase prices to rents has only increased below average across the board.
- High imbalances exist as a result of the second home boom in the tourist regions of Graubünden. In the mountain regions of Central Switzerland, the imbalances are elevated.

Regional imbalances

Performance since the third quarter of 2019 (5 years)



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

Methodology

The *UBS Swiss Real Estate Bubble Index* is a model based on sub-indices. The risk of a real estate bubble, i.e. the risk of a serious price correction for owner-occupied homes, is viewed from the following four perspectives.

Foundation
The sub-indicators *price-to-income* and *price-to-rent ratios* reflect the potential drop in owner-occupied property prices in the event of very sharp rises in interest rates or a deterioration in the economic environment.

Dynamics
The purchase prices to consumer prices sub-indicator feeds into the model as a rate of change. High *real price increases* are more or less a necessary condition for a real estate bubble.

Costs
The *occupancy cost comparison* between an owner-occupied home and a comparable rental property shows the current incentive for buying a home to live in or to rent out.

Environment
The systemic risk of oversupply in the housing market and of excessive construction activity is estimated based on the effective *net increase in housing* and the number of housing units granted planning permission. A second systemic indicator used is the *growth in mortgage debt* on the part of households as a ratio of the growth in household incomes.

Calculation
The real estate bubble index is made up of a total of six standardized sub-indices with equal weighting. The subindices in the environment category are standardized on a rolling basis over a period of 25 years in order to take account of structural changes in the economy. Other subindices are standardized with a long-term average.

Appendix

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