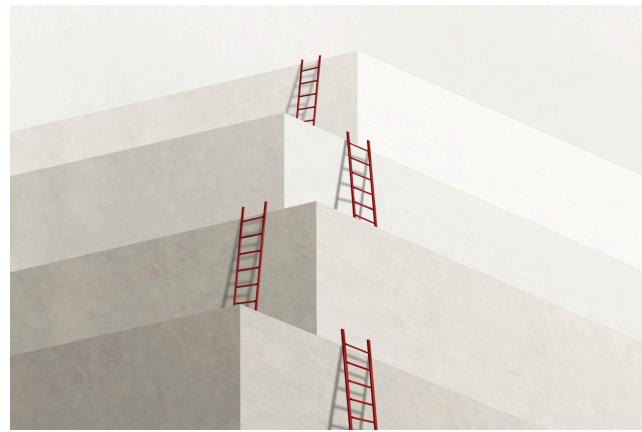


UBS Swiss Real Estate Bubble Index

Swiss real estate market

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- The *UBS Swiss Real Estate Bubble Index* increased slightly in the first quarter of 2025 but continues to indicate a moderate bubble risk in owner-occupied housing.
- The price trend has accelerated. Purchase prices rose more sharply than household incomes and rents. Mortgage lending is also increasing more strongly than in previous quarters. In contrast, residential construction activity continued to decline.
- Regional imbalances are heavily concentrated in the tourist regions of the canton of Graubünden.



Quelle: iStock

The *UBS Swiss Real Estate Bubble Index* rose slightly in the first quarter of 2025, from a revised 0.25 to 0.29 index points. The risk of a real estate bubble is therefore classified as moderate. The low user costs of homeownership compared to renting, the overall moderate demand for mortgages, and the continued slowdown in residential construction activity make a significant price correction appear unlikely.

Market development

Home prices increased 1.5% quarter over quarter, the highest rise since mid-2022. Compared to the previous year, home prices rose 3.2%. Adjusted for inflation, the price increase was 2.8%.

Asking and existing rents in the first quarter of 2025 were 2.2% and 3.2%, respectively, above the previous year's level. The momentum in asking rents has recently slowed significantly. The reference interest rate, which fell in March 2025, is likely to dampen the increase in existing rents in the coming quarters.

Outlook

Despite attractive financing conditions, a slowdown in home price increases is expected in the coming quarters.

Economic growth in Switzerland is at risk of losing further momentum due to US tariffs. Rising uncertainty regarding jobs and incomes is likely to negatively impact demand for homeownership. Overall, we expect residential property to become 3 to 4% more expensive this year.

UBS Swiss Real Estate Bubble Index

First quarter 2025, 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 1.50), risk: elevated

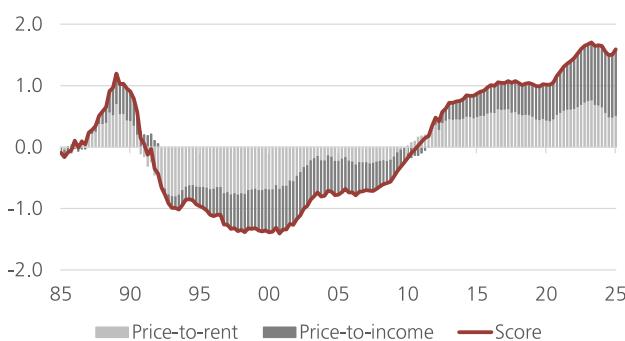
Indicators: Price-rent and price-income ratio

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: Home prices rose more strongly than rents in the past quarter, resulting in a slight increase in the price-to-rent ratio. The ratio of purchase prices to incomes recorded the strongest quarterly increase in years, also due to a slight decline in income per household.

Fundamentals

First quarter 2025, in standard deviations



Source: UBS

Dynamics

Score: 0.23 (previous quarter 0.18), 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: The momentum of price increases in the owner-occupied market has increased. On a three-year average, real prices rose at an annualized rate of 2%, above the long-term average of 1.5%. Over a 10-year average, the current growth rate is also at the 2% mark.

Dynamics

First quarter 2025, in standard deviations



Source: UBS

Costs

Score: -0.41 (previous quarter -0.22), 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 remained unchanged overall in the first quarter of 2025. The cost discount of homeownership compared to renting is almost 15%. At the peak in 2023, buying was still 15% more expensive than renting.

Costs

First quarter 2025, in standard deviations



Source: UBS

Environment

Score: -1.02 (previous quarter -1.07), 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: The volume growth of outstanding mortgages for private households remained on a recovery path and increased by 2.3% year over year in the first quarter of 2025. The net addition of apartments continued to decline. However, the development of building permit applications indicates a medium-term trend reversal.

Environment

First quarter 2025, in standard deviations



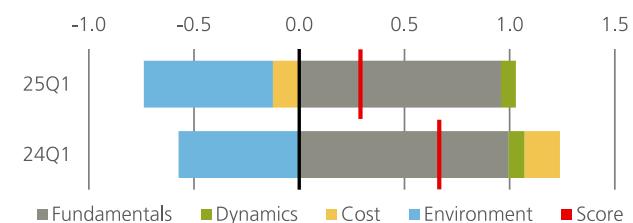
Source: UBS

Risk contributions

The analysis shows that the risk of a real estate bubble remains high from a fundamental perspective. Despite the acceleration in the current quarter, the overheating risk remains only moderate. Low interest rates in absolute terms and comparatively low user costs argue against a price correction. In addition, mortgage demand remains subdued by historical standards, and declining new construction activity speaks against a price bubble.

Risk premiums

In standard deviations



Source: UBS

The current increase in the *UBS Swiss Real Estate Bubble Index* resulted from higher values in the fundamentals, dynamics, and environment categories, primarily due to stronger price development. The cost category, however, continued to decline.

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	1.67	0.39	1.14	-0.47
2023 Q2	1.15	1.70	0.38	1.20	-0.59
2023 Q3	0.97	1.65	0.36	1.05	-0.74
2023 Q4	0.83	1.66	0.32	0.83	-0.85
2024 Q1	0.67	1.65	0.25	0.55	-0.95
2024 Q2	0.47	1.55	0.17	0.29	-1.01
2024 Q3	0.35	1.49	0.21	0.15	-1.09
2024 Q4	0.25	1.50	0.18	-0.22	-1.07
2025 Q1	0.29	1.59	0.23	-0.41	-1.02

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 (fundamental perspective).

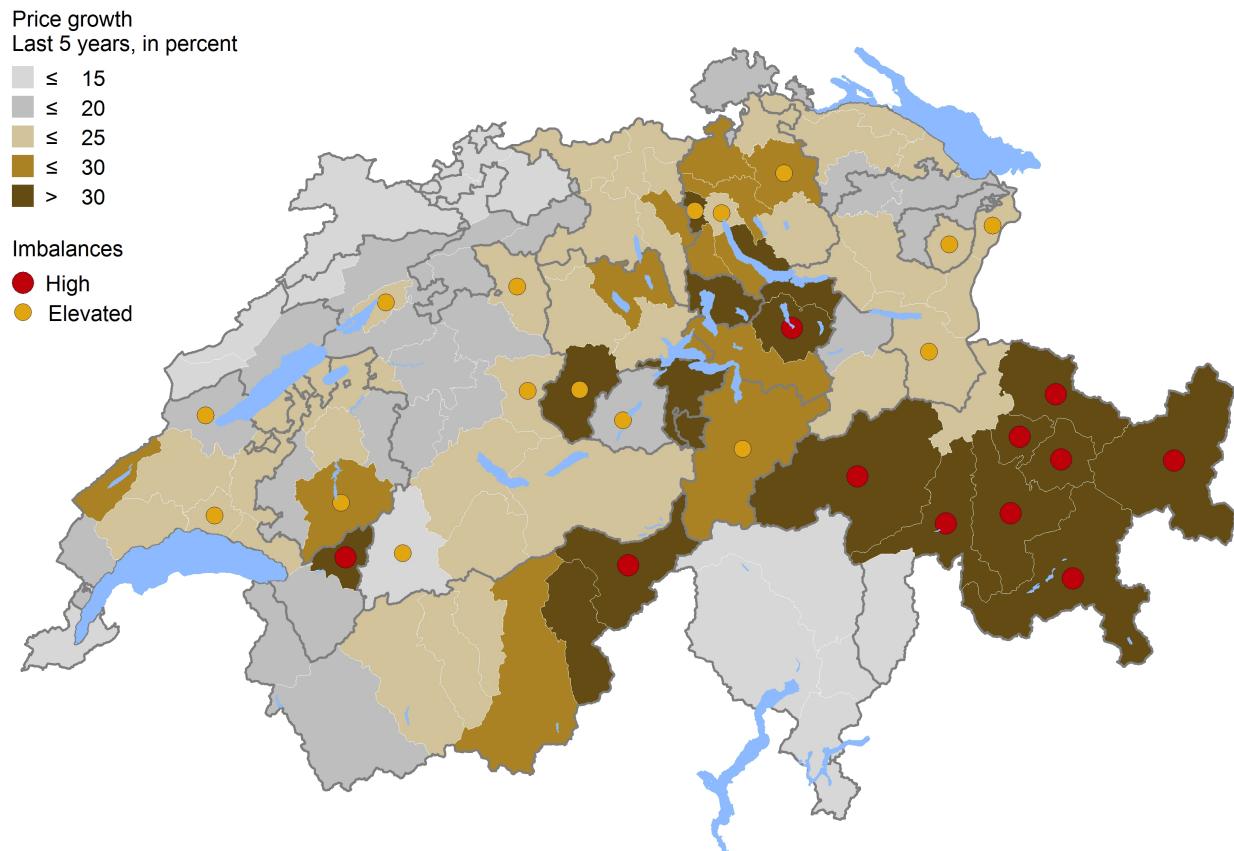
Development

- Significant imbalances exist almost exclusively in the tourist regions of Graubünden, a consequence of the second-home boom and limited supply.

- In western Switzerland, elevated imbalances are found in the regions of Lausanne and Yverdon. In the Geneva region, there is no elevated imbalance due to recently below-average price development. In the primary residence markets of German-speaking Switzerland, a significant imbalance is seen only in the Einsiedeln region.
- In most regions, the ratio of purchase prices to rents has decreased over the past year, while the ratio of purchase prices to incomes has in some cases increased significantly.

Regional imbalances

Performance since the first quarter of 2020 (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.

Fundamentals

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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