

2 November 2016

News Release

The Real Estate Bubble Index remains unchanged

The *UBS Swiss Real Estate Bubble Index* stayed in the risk zone in 3Q16 at 1.35 index points. While the buy-to-rent price ratio reached an all-time high, moderate mortgage growth and the slightly-improved economy prevented imbalances in the owner-occupied housing market from widening.

Zurich, 2 November 2016 – The *UBS Swiss Real Estate Bubble Index* stayed in the risk zone in the third quarter of 2016 at 1.35 index points, unchanged from the slightly-revised second quarter. In contrast, the sub-indicators fluctuated: the buy-to-rent price ratio rose sharply while the slower growth in mortgage debt had a dampening effect.

Divergence between owner-occupied home and rentals

The multiple of annual rentals required to purchase a similar home is currently 29.4 on average, which exceeds the previous high set in 1989. Condominium prices increased 1.1 percent compared to the previous quarter – the highest increase in offer prices since mid-2012 – while rentals declined for the third consecutive quarter due to the rise in vacancy levels.

The oversupply of the rental property market is the result of a gradual rise in construction investment in recent years. The total value of construction investments was revised significantly upwards for 2015, revealing the increased macroeconomic significance of the construction industry. Since the 2009 low, the share of construction investment has increased from 8.1 to 9.5 percent of gross domestic product. Although the figures remain significantly below the highs of the 1980s, they are an indicator of the domestic economy's increasing dependence on the property market.

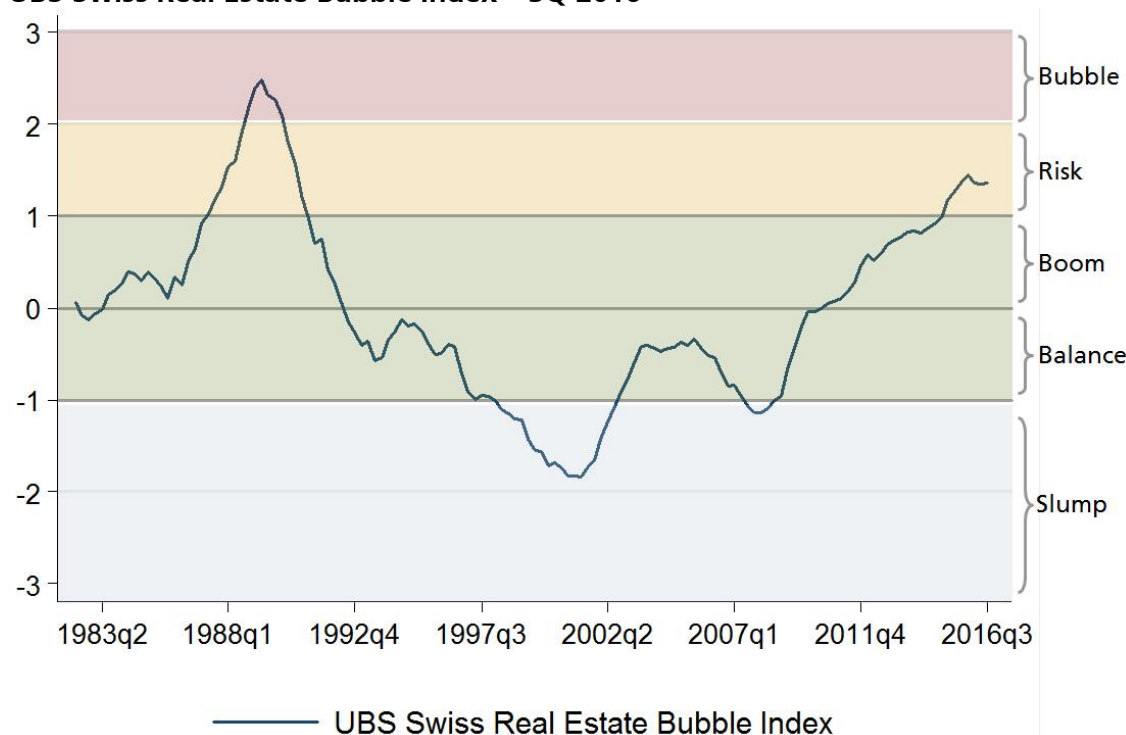
Slowdown in the increase in household debt

Compared to last year, the volume of outstanding household mortgages increased by an unchanged 2.7 percent and thus continued to grow at a below-average pace. Income growth in the current year again performed better than in the previous year. As a result, the stronger economic development balanced out the nominal owner-occupied home prices.

Further drops in usage costs support the market for owner-occupied homes

Mortgage interest rates, which have fallen once again, maintained the high demand for condominiums. This helped the usage costs (interest costs, maintenance and provisions) of owner-occupied housing only drop 4 percent year-over-year. The high demand for property ownership can also be seen in the low number of vacant owner-occupied homes, which did not increase this year – in contrast to rental homes. The stabilization in owner-occupied home prices thus appears to remain intact. After adjusting for inflation, price growth rates are below that of the previous year, and we do not expect a further acceleration in the next few quarters.

UBS Swiss Real Estate Bubble Index – 3Q 2016



Methodology

Depending on its current value, the index falls into one of the following risk categories: slump, balance, boom, risk and bubble. These categories are specifically defined and ranked in order of risk. The *UBS Swiss Real Estate Bubble Index* comprises six sub-indices that track: the relationship between purchase and rental prices, the relationship between house prices and household income, the development of house prices relative to inflation, the relationship between mortgage debt and income, the relationship between construction and gross domestic product (GDP), and the ratio of loan applications filed for intended rental properties to total loan applications filed by UBS private clients.

Selecting exposed and monitored regions

The selection of exposed regions is tied to the level of the *UBS Swiss Real Estate Bubble Index* and is based on a multi-level selection process utilizing regional population and property price data.

Exposed regions - regions with high potential for price correction

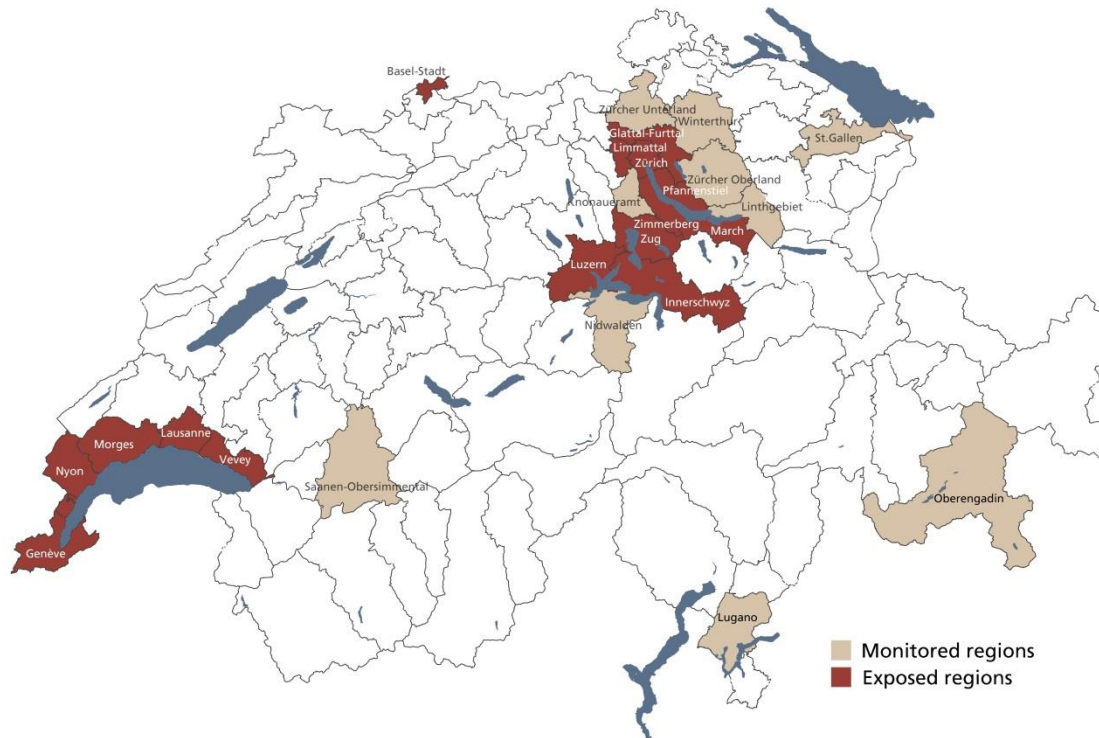
Zürich	Glattal-Furttal	Limmattal	Zimmerberg	Pfannenstiel	Luzern
Innerschwyz	March	Zug	Basel-Stadt	Morges	Lausanne
Nyon	Vevey	Genève			

Monitored regions - regions with increased potential for price correction

Knonaueramt	Zürcher Oberland	Winterthur	Nidwalden	St. Gallen	Saane-Obersimmental
Linthgebiet	Zürcher Unterland*	Oberengadin	Lugano**		

* added in Q3 2016; ** in the previous quarter classified as exposed region

Regional risk map – 3Q 2016

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The UBS Swiss Real Estate Bubble Index report is available on the Internet via this link: www.ubs.com/swissrealestatebubbleindex-en.

The index is published on a quarterly basis. The next date of publication for the *UBS Swiss Real Estate Bubble Index* is 3 February 2017.

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