Switzerland

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IN A NUTSHELL

- → The economy recovered quickly from the coronavirus-related slump seen in 2020. GDP grew by 3.7%.
- → Housing market largely unaffected by the pandemic. Prices reached new highs.
- → The mortgage market grew by 3.1% in line with the previous year. Loans by pension funds grew much faster than the overall market.

MACROECONOMIC OVERVIEW

The year started with continued economic challenges due to the pandemic-related restrictions, resulting in a shrinkage of -0.1% for the first quarter. However, the introduction of vaccines, the gradual easing of restrictions and increasing economic and social adjustment led to a recovery, with q-o-q growth reaching 1.8% in the second quarter and 1.6% in the third. A sharp rise in COVID-19 cases in the fourth quarter slowed growth to 0.3%. The GDP growth rate for the year as a whole was 3.7%, as the economy recovered from its 2020 slump rapidly, in particular compared with other countries. Economic output exceeded pre-crisis levels by summer. Almost all sectors contributed to this growth. Manufacturing, led by the chemical and pharmaceutical industries, made the biggest contribution with almost 2%. The hospitality and entertainment industries, which were still hit hard by social distancing rules at the start of the year, posted a slight y-o-y increase. Retail, meanwhile, contributed 0.2% to GDP growth.

Despite this, new negative consequences of the pandemic started to emerge, exacerbated by geopolitical factors. Chief among these effects were supply chain interruptions and rising energy and commodity prices, increasing inflation and weakening growth towards the end of the year. Expansionary fiscal and monetary policies throughout the year, together with very high employment (the unemployment rate was down to 2.4% by the end of the year), provided economic support. A significant economic slowdown is to be expected in 2022.

HOUSING MARKETS

The housing market remained largely unaffected by the pandemic in 2021, prices reached new highs.

The owner-occupied segment remained especially strong. Demand appeared to have settled at a much higher level than before the pandemic, with medium-sized and large properties particularly sought-after. Besides low mortgage interest rates, the trend towards working from home also boosted property sales. On the supply side construction of new homes has been in steep decline for years, sending prices sharply higher. At the end of Q4 2021, prices were up 7.3% y-o-y for single-family dwellings and 5.1% for condominium apartments. These increases, combined with strict regulatory requirements, make house purchase unaffordable for increasing numbers of households, accentuating the shift in demand for owner-occupied property from urban centres to peripheral regions.

Demand for rental apartments was bolstered by continued high levels of net immigration and the strong economic recovery. Immigration used to be focused on the largest cities and their suburbs, but has recently been spread more evenly across the whole of the country. Senior households have also contributed to demand because they are staying in their own homes longer and delaying the move to a retirement or care home. On the supply side, the number of new rental apartments planned has been falling for some years. Reduced construction activity (as a result of land scarcity and an increasing surplus supply in recent years) and high demand led to a trend reversal in the rental apartment market in 2021, with falling vacancy rates and properties spending less time on the market. The vacancy rate for rental apartments thus dropped further to 2.49% by mid-year.

MORTGAGE MARKETS

MARKET DYNAMICS

The mortgage market grew by 3.1% in 2021, compared with 3.3% in 2020. Banks had CHF 1.1 tn of mortgage loans on their books at year end,making the Swiss mortgage market one of the largest in the world. This is attributable to very high and rising property prices and liberal amortisation practices compared with other countries, with mortgage loans not being fully amortised for tax reasons. Interest rates for new mortgages was slightly higher in 2021 but only minimally above the all-time low. Overall, therefore, mortgage interest costs for homeowners (including both new and existing mortgages) fell further. The reference rate for ten-year mortgages, averaged over the year, was 5 bps higher y-o-y at 1.22%. The mortgage market is competitive with an increasingly diverse range of providers. Although margins have been declining for years, it remains extremely attractive for lenders and brokers alike. Banks continue to play a dominant role, with 95% of all outstanding mortgages. The cantonal banks have the largest market share (roughly 36%), followed by the two global systemically important banks (25%) and the Raiffeisen banks (17%). Insurers and pension funds are also major mortgage lenders. The latter in particular have been rapidly gaining market share since 2015. According to the most recent figures (for 2020), their share of new business is around 18%, and they posted much faster growth than the overall market in 2021 at 10%. Online brokerage platforms grew by 30% y-o-y, bringing their market share to approximately 6%. An increasing number of banks use brokers or develop their own brokerage platforms to stay competitive. However, increasingly stringent regulation is limiting the banks' scope and their ability to compete on the mortgage market.

NON-MARKET LED INITIATIVES

In 2021, as in previous years, the Swiss National Bank (SNB) repeatedly warned of further increased risks in the mortgage market. In view of an increase in affordability risks and the rise in housing prices, the SNB announced that it would examine the reintroduction of the countercyclical capital buffer (CCyB), which had been deactivated in March 2020 to dampen the effects of the pandemic, and further macroprudential measures. However, it has been argued by the Swiss Bankers Association that the SNB's risk assessment methods overstate affordability risks. In particular, SNB reports do not sufficiently account for stabilising effects (e.g. additional amortisation duties) or fundamental factors for the development of the real estate and mortgage markets such as population growth, land scarcity, wealth and asset accumulation. Moreover, SNB analyses focus exclusively on annual new business, whereas an adequate assessment of financial market stability should be based on banks' overall, long-term mortgage portfolios with their significantly lower loan-to-value ratios.

MORTGAGE FUNDING

Traditionally, Swiss banks finance their mortgage lending largely by customer deposits, although the specific share varies from bank to bank. According to the SNB, mortgage loans account for approximately 50% of Swiss banks' domestic assets, while customer deposits amount to approximately 65% of their domestic liabilities (as of 2020).

Covered bonds collateralised by real estate mortgage loans are also an important source of funding, accounting for about 13% of total outstanding mortgage loans in 2019. Historically, the Swiss covered bond market has been mainly driven by two dedicated institutions, Pfandbriefzentrale der schweizerischen Kantonalbanken AG and Pfandbriefbank schweizerischer Hypothekarinstitute AG, both with the right to issue Swiss Pfandbriefe for their member banks under the Pfandbrief Act. Lately, three institutions – Credit Suisse (Switzerland) Ltd, Valiant Bank AG and Crédit Agricole next bank (Suisse) SA – have launched their own covered bond programmes under contractual private law, thus diversifying their funding sources. As with the legacy covered bond programmes of UBS Inc. and Credit Suisse AG, however, these are structured programmes that are not subject to the aforementioned Pfandbrief legislation.

Besides customer deposits and covered bonds, banks resort to interbank loans, other bonds and equity to refinance their mortgage lending business.

GREEN FUNDING

In the late autumn of 2021, the SBA, the umbrella association of banks in Switzerland, began working on a new self-regulation regime aimed at promoting energy efficiency. The new guidelines will require member banks to discuss and assess the need for property renovations with their customers. The aim is to motivate owners to address the issue of maintaining the value of their properties and thus also preserving their invested capital over the long term. Publication of the new guidelines is expected in June 2022.

	SWITZERLAND 2020	SWITZERLAND 2021	EU 27 2021
MACROECONOMIC VARIABLES			
Real GDP growth (%) (1)	-2.4	3.7	5.4
Unemployment Rate (LSF), annual average (%) (1)	4.8	5.1	7.0
HICP inflation (%) (1)	-0.8	0.5	3.0
HOUSING MARKET			
Owner occupation rate (%) (1)	42.3	42.3	70.0
Gross Fixed Investment in Housing (annual change)(1)	-1.1	n/a	6.6
Building Permits (2015=100) (2)	86.8	n/a	134.0
House Price Index – country (2015=100) (2)	112.5	112.5	145.2*
House Price Index – capital (2015=100) (2)	n/a	n/a	146.1*
Nominal house price growth (%) (2)	5.3	9.1	10.3*
MORTGAGE MARKET			
Outstanding Residential Loans (mn EUR)[3] (2)	n/a	n/a	6,508,621
Outstanding Residential Loans per capita over 18 (EUR) (2)	n/a	n/a	17,782
Outstanding Residential Loans to disposable income ratio (%) (2)	n/a	7.8	62.8*
Gross residential lending, annual growth (%) (2)	n/a	n/a	12.2
Typical mortgage rate, annual average (%) (2)	1.3	1.2	2.0

* Please note that this value is the simple average of the available values in 2021.

Sources:
(1) Eurostat
(2) European Mortgage Federation - Hypostat 2022, Statistical Tables.

SWITZERLAND FACT TABLE

Which entities can issue mortgage loans in your country?	Mainly banks, insurers, and pension funds issue mortgage loans. However, from a legal perspective, private individuals can grant mortgages too.
What is the market share of new mortgage issuances between these entities?	Not available
Which entities hold what proportion of outstanding mortgage loans in your country?	Banks account for about 95% of the total outstanding mortgage loans. The rest of the market is shared by insurers (3%) and pension funds (2%).
What is the typical LTV ratio on residential mortgage loans in your country?	According to SNB data, the median LTV for mortgage loans granted in 2021 stood at 67%, which is roughly equivalent to the LTV of a first mortgage. A second mortgage can cover the missing loan amount up to typically an LTV of 80% (self-occupied residential real estate).
How is the distinction made between loans for residential and non-residential purposes in your country?	The Capital Adequacy Ordinance (CAO) differentiates between loans for residential properties and loans for other properties. Residential properties are defined as properties that are self-occupied and / or rented out by the borrower.
What is/are the most common mortgage product(s) in your country?	Fixed-rate mortgages are the most common mortgages in Switzerland and their maturity typically ranges between 2 and 15 years. However, money market mortgages (with different maturities) are also widespread.
What is the typical/ average maturity for a mortgage in your country?	Most of the mortgages offered on the market have a maturity between 3 and 10 years.
What is/are the most common ways to fund mortgage lending in your country?	Customer deposits and Swiss Pfandbriefe.
What is the level of costs associated with house purchase in your country (taxes and other transaction costs)?	The additional costs (e.g. property transfer tax, registration fee and notary fees) vary from canton to canton and can range from 2 to 5% of the purchase price.
What is the level (if any) of government subsidies for house purchases in your country?	There are no specific subsidies for purchasing residential real estate. However, the Swiss scheme to promote home ownership allows the early withdrawal and the pledging of pension assets for the purchase, the construction, and the modification of owner-occupied residential property as well as the repayment of mortgage loans and the purchase of shares in a housing association, or similar participations.