Switzerland

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IN A NUTSHELL

→ The economic recovery from the pandemic-related slump continued; GDP grew at an above-average rate of 2.1% and unemployment reached a new low of 1.9%.

→ Increased interest rates in mid-2022 marked a turning point in a long-lasting period of low interest rates and made owning property more expensive than renting again.

→ Mortgage growth remained stable (3.5%), and the rise in owner-occupied house prices since the turn of the millennium slowed.

→ Continued population growth and reduced construction activity led to a decline in the vacancy rate to 1.31% given the continued demand for owner-occupied homes and apartments for rent.

→ The Swiss Bankers Association (SBA) has set out a new self-regulation on mortgage lending with the aim to promote energy efficiency and sustainable property financing.

MACROECONOMIC OVERVIEW

The government in early 2022 lifted all remaining travel and public health restrictions, which provided a substantial boost to the economy. Although the beginning war in Ukraine clouded the economic outlook and increased uncertainty on the global market, the economy proved resilient, not least due to the measures taken to overcome supply chain disruptions.

GDP grew at an above-average rate of 2.1%. Foreign trade contributed negatively to GDP growth for the first time in five years. However, private consumption expenditure recovered noticeably, partly reflecting a post-pandemic catch-up effect. The building and construction sector, in contrast, faced its most significant decline in value added since the 1990s. Investment in construction declined, while investment in equipment increased, but at a below-average rate.

The labour market proved very robust. Almost all key labour market indicators reached or exceeded all-time highs, while registered unemployment reached a new low of 1.9% towards the end of the year. Sectors most affected by the measures imposed throughout the pandemic experienced a particularly pronounced employment growth. The shortage of skilled labour further intensified during the year with the highest ever recorded number of job openings being reported as companies struggled to fill even unskilled jobs.

Energy price rises led to an increase in inflation. However, price increases were moderate compared to neighbouring countries, due to the specific Swiss energy mix (mainly hydro), the widespread price regulations in Switzerland and the appreciation of the national currency. The annual inflation rate reached 2.8%. Hence, the Swiss National Bank (SNB) abandoned its negative interest rate policy introduced in 2014 and raised the benchmark rate by 175 bps within six months and is expected to raise rates further in 2023. The rapid and substantial increase in interest rates, combined with geopolitical and economic uncertainties, is likely to weaken economic growth in the coming year.

HOUSING MARKETS

Residential property prices have risen steadily since the turn of the century. The pandemic has further fuelled this trend as individuals – being confined to their homes – began to reconsider their living situations, leading to a veritable surge in demand for residential properties. The housing market entered a new phase in early 2022 due to an unexpected and pronounced increase in long-term interest rates and the end of the policy of negative interest rates in September.

Within a short period of time, property owners saw the financial benefits of homeownership reduced after having benefited from low housing costs for years. Acquiring residential property in the current interest-rate environment is more expensive than renting a comparable property, even when an 80% LTV ratio and the most cost-effective financing solution (i.e Swiss Average Rate Overnight mortgage, SARON) is offered. The increase in interest costs has impacted the motivation for buy-to-let investments in a similar manner. Despite the changed interest-rate environment, single-family homes prices increased by 5.5%, while condominium prices increased by 5.2%. The figures indicate a notable cooling on the housing market compared to last year, and this trend is expected to continue over the next two years.

The dampening in prices was accompanied by a decrease in the number of open-market transactions. During the pandemic, almost all property listings found buyers within a short time. Now, it takes longer to market properties, especially if the price-performance is unfavourable. Demand for owner-occupied residential properties is likely to decrease, nonetheless a market downturn seems highly unlikely. In addition to financial considerations, factors such as security, flexibility, and status play an important role when deciding on buying a home. Furthermore, the owner-occupied property market indirectly benefits from the situation on the rental housing market.

In view of the increasing housing shortage, finding a suitable rental apartment is becoming more challenging. Construction activity in Switzerland peaked in 2018, while the population continued to grow, leading to a decrease in the number of vacant dwellings (2022: 1.31% and 2021: 1.54%). In this market environment, quoted rents in Switzerland have grown significantly at 2.9%.

Although rents have increased, higher interest rates and valuation risks associated with multi-family buildings prove to be less beneficial for landlords. Property prices according to the index of Fahrländer Partner declined by -4.5%, not according to the indices of Wüest Partner and IAZI, they increased by 4.6% and 5.6% respectively. It is expected that these indices will also turn downward. The rise in interest rates brings alternative investment options to the forefront, which will presumably dampen the willingness to invest in multi-family buildings.

MORTGAGE MARKETS

MARKET DYNAMICS

The mortgage market grew by 3.5% compared to 3.1% in the previous year to CHF 1.16 tn by year end making the national mortgage market one of the largest in the world. The growth is largely due to property price increases. Also, for tax reasons, mortgages rarely fully amortise.

The median LTV ratio for mortgages granted in 2022 has remained stable or decreased slightly. For owner-occupied residential properties, the median LTV remained at 67%, while for investment properties, it was 64%. The Swiss Bankers Association's (SBA) self-regulation limits the LTV ratio of newly issued mortgages. SNB numbers proved its effectiveness: in 2022, the 90th percentile for owner-occupied residential properties was at 80% and for investment properties at 75%. Furthermore, SBA's amortisation requirements contribute to a rapid debt reduction for borrowers. The attractive market conditions and moderate loan-to-value ratios result in a very low non-performing loan (NPL) ratio of 0.63% for all types of credit, including unsecured financing.

The increase in interest rates in mid-2022 marked a turning point in the long period of low rates and had a significant impact on interest costs for new mortgage contracts. The interest rate for 10-year fixed-rate mortgages more than doubled compared to the end of 2021 (2021: 1.39% | 2022: 3.19%). Due to the normal yield curve, shorter loan terms continue to be preferred. The share of mortgages with a remaining maturity period over 5 years decreased from approximately 29% (2021) to 27.5% (2022). With the departure from the policy of negative interest rates, banks stabilised their interest margins.

Increasing rates are likely to limit mortgage market growth. Nevertheless, the mortgage market remains competitive. Banks continue to play a dominant role with 95% of all outstanding mortgages. The cantonal banks hold the largest market share with 38%, followed by UBS and Credit Suisse with 26%, and the Raiffeisen Switzerland Group with 18%. The remaining 8% are distributed among regional and savings banks.

NON-MARKET LED INITIATIVES

At the request of the SNB, the Federal Council reactivated the countercyclical capital buffer (CCyB). Banks are therefore once again required – effective as of 30 September 2022 – to hold additional capital equivalent to 2.5% of loans secured by residential properties in Switzerland. SNB has explained its decision to set the capital buffer at 2.5% – half a percentage point higher than before its pandemic-related deactivation – with further increase in risk on the real estate and mortgage markets.

However, the decision to reimplement the countercyclical capital buffer has been questioned by the SBA as banks have arguably remained cautious in their lending practices. In particular, the SBA has stated that SNB's risk assessment methods overstate affordability risks and do not sufficiently account for stabilizing effects (e.g. additional amortisation rules) or fundamental factors such as population growth, land scarcity, wealth, and asset accumulation. LTV ratios confirm that banks have introduced measures to minimise affordability risks regarding income producing real estate (IPRE). The share of new IPRE mortgage loans with an LTV ratio exceeding 75% has decreased substantially in the wake of the revised SBA guidelines on minimum requirements for mortgage loans in 2020.

MORTGAGE FUNDING

Traditionally, Swiss banks finance their mortgage lending largely by customer deposits; albeit the specific share varies from bank to bank. According to the SNB, mortgage loans account for 49% of domestic assets, while customer deposits amount to 65% of domestic liabilities (as of 2021). Covered bonds collateralised by real estate mortgage loans are another important source of funding, accounting for about 14% of total outstanding mortgage loans in 2022. Historically, the Swiss covered bond market has been mainly driven by two specialised institutions: The Pfandbriefzentrale der Schweizerischen Kantonalbanken AG and the Pfandbriefbank Schweizerischer Hypothekarinstitute AG, both of which have the right to issue Swiss Pfandbriefe for their member banks under the Federal Pfandbrief Act. Their market share amounts to 36.7% of domestic debtors of bonds in CHF.

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 Pfandbrief legislation.

In addition to customer deposits and covered bonds, banks resort to interbank loans, other bonds, and equity to refinance its mortgage lending business. This includes green bonds, the proceeds of which are used to refinance mortgages that meet specific environmental criteria. As of the end of 2022, green bonds amounted to approximately CHF 1.5 bn.

GREEN FUNDING

In the broader context of the Swiss government's financial market policy and strategy to establish Switzerland as a leading hub for sustainable finance, the SBA has set out a new self-regulation on mortgage-lending with the aim to promote sustainable property financing. The so-called "Guidelines for Mortgage Providers on the Promotion of Energy Efficiency" relate to the provision of advice for individuals seeking finance for owner-occupied single-family homes and holiday homes to make clients aware of the importance of energy efficiency upgrades.

When providing advice on property financing, mortgage providers are required to discuss with the client the long-term value retention, and thus also the energy efficiency of the building to be financed. Furthermore, mortgage providers are expected to provide information on available public and private funds for building modernisations, as well as on independent experts or specialist bodies for the purpose of obtaining specific technical advice on the energy impact and financial effects of any optimisation measures. Finally, mortgage providers commit to provide appropriate and regular training to their client advisors regarding long-term value retention and improvement of energy efficiency.

The new self-regulation comes into force on 1st January 2023. A transition period up to 1st January 2024 applies for banks to adapt their internal processes. The new guidelines are a result of a broad consultation process with all SBA member institutions and are therefore binding; non-members can adhere on a voluntary basis. The guidelines will be subject to an annual review process. If necessary, the self-regulation will be updated and adapted to relevant market changes.

	SWITZERLAND 2021	SWITZERLAND 2022	EU 27 2022
MACROECONOMIC VARIABLES			
Real GDP growth (%) (1)	4.2	2.1	3.5
Unemployment Rate (LSF), annual average (%) (1)	5.1	4.3	6.2
HICP inflation (%) (1)	0.5	2.7	9.2
HOUSING MARKET			
Owner occupation rate (%) (1)	42.2	n/a	69.1
Gross Fixed Investment in Housing (annual change)(1)	n/a	n/a	1.5
Building Permits (2015=100) (2)	n/a	n/a	125.8
House Price Index – country (2015=100) (2)	112.5	119.8	164.6*
House Price Index – capital (2015=100) (2)	n/a	n/a	163.8*
Nominal house price growth (%) (2)	9.1	6.4	10.6*
MORTGAGE MARKET			
Outstanding Residential Loans (mn EUR)[3] (2)	n/a	n/a	6,743,197
Outstanding Residential Loans per capita over 18 (EUR) (2)	n/a	n/a	18,433
Outstanding Residential Loans to disposable income ratio (%) (2)	n/a	n/a	71.5
Gross residential lending, annual growth (%) (2)	n/a	n/a	-6.5
Typical mortgage rate, annual average (%) (2)	1.2	1.3	3.1

* Please note that this value is the simple average of the available values in 2022.

Sources:
(1) Eurostat
(2) European Mortgage Federation - Hypostat 2023, Statistical Tables.

SWITZERLAND FACT TABLE

Which entities can issue mortgage loans in your country?	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?	The median LTV for mortgage loans granted in 2022 stood at 67%, which is 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 can range between 2 and 15 years. The proportion of money-market mortgages has increased significantly in light of the general rise in interest rates.
What is the typical/average maturity for a mortgage in your country?	Most of the (fixed rate) 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 (i.e. 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 government scheme to promote home ownership allows for 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.