Switzerland

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IN A NUTSHELL

→ GDP only grew by 0.7%, but unemployment remained low at 4.1% thanks to robust employment growth.

→ Rising finance costs and decreased demand ended years of record price growth. However, prices for single-family homes still rose by 2.2% and for condominiums by 5.9%.

→ On the rental housing market, net immigration and low new construction led to historically low vacancies and significant rent increases.

→ Mortgages outstanding grew by 2.5%, slightly less than previously. With a 95% market share banks continue to dominate.

→ The Basel III banking package is expected to come into force In January 2025 and will lead to more risk-sensitive capital requirements for mortgages.

MACROECONOMIC OVERVIEW

The war in Ukraine and the energy crisis led to a deceleration of the economy's recovery from the pandemic. Swiss industry, which is less energy-intensive, was not hit as hard by the rise in energy costs. However, the slower global economy and falling demand from key trading partners in Europe had a noticeable negative impact on exports. In addition, the large pharmaceutical sector was also unable to grow as strongly following the boom in demand during the pandemic. As a result, GDP growth slowed from 2.6% to 0.7%.

The labour market was resilient, employment in industry continued to rise slightly and in services more strongly. The general shortage of labour was offset better than elsewhere by increased immigration. Thanks to robust employment growth, the unemployment rate remained low at 4.1%.

Consumption was also resilient. In addition to rising aggregate incomes, the comparatively much lower inflation rate of 2.3% helped to keep purchasing power high. The strong Swiss franc massively mitigated the surge in import inflation. This helped to keep wage pressure and second-round effects moderate. As a result, the Swiss National Bank (SNB) did not have to raise interest rates any further than 1.75%. Furthermore, inflation worries have dissipated more quickly in Switzerland, providing scope for rate cuts.

Stabilization of the EU economy and a return to lower interest rates should gradually support the economy. However, in contrast to higher wage increases in the eurozone, moderate wage adjustments of Swiss companies may imply a more modest upward potential for GDP growth.

HOUSING MARKETS

Property prices have risen continuously and sharply since the turn of the millennium. Between 2000 and 2023, prices for condominiums and single-family homes more than doubled . Very high annual price growth occurred particularly during the pandemic (in 2021 condominium prices increased by +10.3%; single-family homes by +7.2%). The combination of extremely low interest rates and more time spent at home boosted demand for residential property, which was met by extremely tight supply. However, with the end of the negative interest rate era and the rise in mortgage rates across all maturities from 2022, the home ownership market has entered a new phase.

With the rise in financing costs, the cost advantage of owning rather than renting, considered a main argument for the decision to buy, has disappeared. Even with the most favorable financing purchasing residential property was significantly more expensive than renting a comparable property in 2023. The rise in interest rates has also significantly reduced the attractiveness of buy-to-let investments. As a result, demand for single-family homes and condominiums has fallen noticeably. Compared to pre-pandemic levels search subscriptions for properties on online platforms fell by around a third by the end of 2023. At the same time, the supply shortage has eased slightly. Due to high prices and financing costs, a few more existing properties have recently come up for sale. In addition, the noticeable decline in transaction activity means that properties are generally on the market for slightly longer.

However, this easing only slowed the upward trend in prices to a certain extent. Prices for single-family homes kept rising by 2.2% and for condominiums by 5.9%. In view of the expected further rate cuts and the sharp rise in rents, the cost advantage of buying is likely to return boosting demand. The current shortage of rental apartments should also have a positive effect on demand for owner-occupied homes. Prices can therefore be expected to continue to rise. However, persistently higher mortgage interest rates, very high prices and strict regulatory equity and affordability requirements are increasingly restricting the pool of buyers, weakening demand in the future.

There is a large and growing shortage of rental houses. Vacancy rates have fallen sharply in recent years (2023: 1.15%, 2022: 1.31% and 2021: 1.54%). At the same time, new rents have recently risen significantly (2023: +4.7%). This is the result of strong net immigration and relatively low new construction activity. The market for residential investment properties therefore faced opposing trends: lower vacancy risks and rising rents suggest rising prices, while higher interest rates are putting pressure on valuations. Due to recent extremely low market liquidity, price trends are difficult to estimate, which is reflected in the different index trends depending on the issuer (IAZI +3.7%, Fahrländer -7%). However, with the prospect of interest rates falling again, the risks of a continuing fall in prices on this market are low.

MORTGAGE MARKETS

MARKET DYNAMICS

With an outstanding volume of CHF 1.19 tn, the Swiss mortgage market is one of the largest in the world. In addition to relatively high real estate prices, full amortization rarely takes place for tax reasons. In 2023, mortgage volume grew by 2.5%, slightly less than in previous years (2022: 3.5%, 2021: 3.1%) due to the significantly fewer transactions as a result of the rise in interest rates. At the end of 2023, the average Loan-to-Value (LTV) for new mortgages granted was 66% for owner-occupied properties and 65% for investment properties, relatively stable compared to the previous year. Loan-to-value ratios have been falling in recent years as the Swiss Bankers Association (SBA) has increased financial hurdles for buyers due to high and rising prices.

The Swiss Bankers Association's self-regulation limits LTV for new mortgages. For new mortgages, the 90th percentile LTV was just over 80% for owner-occupied and just over 75% for investment properties. The amortization requirements are also leading to a rapid reduction in high LTVs. Against this backdrop and in view of the favorable market conditions, Switzerland has a very low non-performing loan (NPL) ratio of 0.63% for all loan types (2022), including unsecured financing.

The SNB's abandonment of the negative interest rate policy in mid-2022 represents a turning point in the mortgage market. After a long period of stable and very low mortgage rates, volatility has returned (rates for 10-year fixed mortgages at the end of 2021 were 1.39%, rising to 3.19% in 2022 then falling to 2.30% in 2023). In anticipation of lower rates, money market mortgages were priced noticeably higher in terms of interest rates than fixed-rate mortgages across all maturities at the end of 2023, which has led to strong demand for fixed-rate financing with shorter maturities. The proportion of mortgages with a remaining term of more than 5 years fell from around 27.5% (2022) to 25% (2023). Despite the higher interest rate level, the conditions for mortgage loans remain very attractive. With a 95% share of outstanding financing, banks continue to dominate this market. The largest market share is held by the cantonal banks, followed by UBS, which merged with Credit Suisse, and the Raiffeisen Switzerland Group.

NON-MARKET LED INITIATIVES

In November 2023, the Federal Council published the revised Capital Adequacy Ordinance (CAO) implementing the final elements of the Basel III reforms. The revision will come into force on January 1st, 2025. A major implication for the mortgage market is that risk weights now differentiate between various types of properties, such as owner-occupied housing versus investment properties, and their construction status (completed versus unfinished). In general, risk-weighted assets will increase for owner-occupied properties and decrease for rented properties. Overall, the revision of the standardised approach for risk weighting is capital/RWA neutral in the aggregate. Another major change involves the introduction of a so-called value at origination, requiring banks to maintain the lending value at the value determined at the time of the initial financing for the first 5 years, with certain permissible exceptions such as property renovations. Additionally, the revision leads to adjusted property valuation requirements. In this regard, the Swiss Bankers Association (SBA) has updated its "Guidelines on assessing, valuing and processing loans secured against property". These guidelines, like previous versions, have been recognized by the Swiss Financial Market Supervisory Authority (FINMA) as minimum standards under supervisory law. The amendments cover various topics, including refinements regarding prudent and independent valuations and the use of valuation models.

MORTGAGE FUNDING

Traditionally, Swiss banks finance their mortgage lending largely by customer deposits, albeit the specific share varies from bank to bank. According to SNB data, mortgage loans account for 55% of domestic assets, while customer deposits amount to 62% of domestic liabilities (as of 2023). Covered Bonds collateralized by mortgage loans are another important source of funding, accounting for about 16% of total outstanding funding of mortgage loans in 2023. Historically, the Swiss covered bond market has been mainly driven by two specialized institutions: The Pfandbriefzentrale der Schweizerischen Kantonalbanken AG and the Pfandbriefbank Schweizerischer Hypothekarinstitute AG, both with the exclusive right to issue Swiss Pfandbriefe for their member banks under the Federal Pfandbrief Act. The outstanding Swiss Pfandbrief bonds amount to 36.4% of CHF denominated loan debentures held by Swiss borrowers and fund 15% of Swiss mortgage loans.

In 2023, four institutions – Crédit Agricole Next Bank (Suisse) SA, Credit Suisse, UBS, and Valiant Bank AG – had their own covered bond programs under contractual private law totaling CHF 18 bn, CHF 17.2 bn of which were issued by Swiss entities of these banks, thus diversifying their funding sources. However, these are structured programs that are not subject to Pfandbrief legislation.

In addition to customer deposits and covered bonds, banks use interbank loans, other bonds, and equity to finance its mortgage lending business. This includes green and sustainable bonds, the proceeds of which are used to refinance mortgages that meet specific environmental and social criteria. As of the end of 2023, green and sustainable bonds emitted by commercial banks active in Switzerland amounted to approximately CHF 1.9 bn.

GREEN FUNDING

In line with government policy to establish Switzerland as a leading sustainable finance hub, the SBA set out new self-regulatory minimum standards on mortgage lending, from January 1st, 2023, with a one-year transition period. These "Guidelines for Mortgage Providers on the Promotion of Energy Efficiency" encourage sustainable property financing by requiring banks to advise clients on energy efficiency and long-term value retention of the building. Furthermore, mortgage providers are also expected to provide information on available public and private funds for renovations and independent experts or specialist bodies for technical advice on the energy impact and financial effects of any optimization measures.

This development emphasizes the importance of data-availability on the energy efficiency of real estate. Since March 2023, the Federal Statistical Office (FSO) has been publishing the CO2 emissions under standard conditions for all Swiss residential properties. The FSO data is currently based on emissions from burning fossil fuels (scope 1), with emissions linked to electricity and district heating consumption (scope 2) expected to be included in the future. Banks as well as other industries can access this information and use it, for instance, for reporting, risk management and client advisory purposes.

	SWITZERLAND 2022	SWITZERLAND 2023	EU 27 2023
MACROECONOMIC VARIABLES			
Real GDP growth (%) (1)	2.6	0.7	0.4
Unemployment Rate (LSF), annual average (%) (1)	4.3	4.1	6.1
HICP inflation (%) (1)	2.7	2.3	6.4
HOUSING MARKET			
Owner occupation rate (%) (1)	n/a	n/a	69.2
Gross Fixed Investment in Housing (annual change) (1)	-5.4	n/a	-3.1
Building Permits (2015=100) (2)	n/a	n/a	94.0
House Price Index - country (2015=100) (2)	119.3	124.0	170.2*
House Price Index - capital (2015=100) (2)	131.7	136.9	165.1*
Nominal house price growth (%) (2)	5.9	3.9	3*
MORTGAGE MARKET			
Outstanding Residential Loans (mn EUR) (2)	n/a	n/a	6,782,375
Outstanding Residential Loans per capita over Total Population (EUR) (2)	n/a	n/a	15,114
Outstanding Residential Loans to disposable income ratio (%) (1) (2)	n/a	n/a	71.3
Gross residential lending, annual growth (%) (2)	n/a	n/a	-26.6
Typical mortgage rate, annual average (%) (2)	1.3	1.7	4.7

* Please note that this value is a simple average of the available values in 2023.

Sources:
(1) Eurostat.
(2) European Mortgage Federation - Hypostat 2024, 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?	According to MoneyPark, 70% of their conveyed new mortgages were issued by banks, 19% by insurers and roughly 11% by pension funds in 2023.
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 new mortgage loans granted in 2023 stood at 66%, which is roughly the equivalent to the LTV of a first mortgage. A second mortgage can cover the missing loan amount up to typically an LTV of 80%.
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.
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.