Switzerland

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IN A NUTSHELL

- → The economy grew by 0.9%, the slowest since 2020. Growth was driven by chemicals and pharmaceuticals and public-related services, while manufacturing and exports lagged due to weak eurozone demand.
- → The SNB cut its key interest rate from 1.75% to 0.5%
- → House prices rose by 2.4% on average, but major cities saw slight declines.
- → Mortgage volume growth slowed to 2.6% but is expected to growby 3.0% in2025.
- → Rental vacancies fell to 1.6% iwithexcess demand, pushing up rents.

MACROECONOMIC OVERVIEW

The economy[1] grew by 0.9% (1.2% in 2023), below-average[2] and the lowest value since 2020. On the production side, the main growth driver was the chemical and pharmaceutical industry. Public administration, health sector, insurances, transportation and storage, as well as the construction industry were also growth drivers. In contrast, manufacturing remained weak for the second consecutive year. Cyclical industries such as metals and machinery once again suffered revenue losses due to sluggish economic development in the eurozone, and especially in Germany.

Employment growth, measured in full-time equivalents, nearly halved compared to 2023 and amounted to just 1 percent in 2024. The main drivers of employment growth were – similarly to growth drivers – the public sector, public-related sectors such as healthcare and education, and transportation.

Private consumption grew significantly, supported by robust population growth of around 1 percent and declining inflation. Real wages increased by an above-average 0.7%. The stable labor market also provided some support for consumption, although there was a slight rise in unemployment to 2.4%, well below the long-term average value of roughly 2.8%

Inflation virtually disappeared last year. The only significant positive contribution came from housing rents. This gave the SNB considerable leeway to lower its key interest rate from 1.75% to 0.50% over the course of the year. Despite the rate cuts, the Swiss franc remained relatively stable versus the currencies of the main trading partners.

HOUSING MARKETS

Driven by ultra-low mortgage rates, a growing preference for homeownership and strong immigration, demand for owner-occupied housing surged from late 2020 onwards. The boom peaked in the second half of 2022, when prices rose by around 6 percent year-on-year. However, the return of inflation and higher interest rates slowed this. In 2024, prices increased by 2.4%, single-family homes rose by almost 3%, condominiums by 2%. The rises were virtually nationwide. They rose mostin the mountain regions, +5%. Overall, affordable regions with good accessibility saw above-average price growth. In contrast, prices in major cities such as Basel, Bern, Geneva, and Lugano, as well as in Zurich, declined slightly.

The SNB began easing monetary policy earlier than most other central banks, from 1.75% to 0.5% by year-end. Market interest rates also declined: yields on 10-year federal bonds dropped by over 30 basis points during the year to 0.3 percent. Improved financing conditions led to increased demand in the owner-occupied housing market. It is estimated that the number of search subscriptions for homes rose by 20 percent in 2024[3].

Lower interest rates are boosting demand on several fronts. First, the cost of home ownership (mortgage interest, maintenance, taxes) has fallen: by the end of 2024, the usage costs of an average condominium was about 20 percent below the peak levels of mid-2023. Second, by year-end, the cost of owning a home was almost 15 percent lower than renting a comparable apartment, whereas in mid-2023, the premium for ownership was still over 15 percent. Third, lower interest rates are supporting demand in the buy-to-let segment.

Demand for owner-occupied houses is also being supported by a shortage of rental apartments. The vacancy rate for rental units has been falling steadily since 2020 and was around 1.6% in 2024. Against the backdrop of persistent excess demand, asking rents rose by 2.3% while existing rents increased by 3.3%. To escape rising housing costs, many people are choosing to live in larger households. There is no relief in sight, as the recovery in construction activity is progressing only slowly.

However, for most households, home ownership is becoming increasingly unaffordable. Fewer households meet the lending criteria to purchase their desired property. In 2024, only just under a third of all listed homes with at least four rooms were affordable for an average family with children. By comparison, in 2009, this share was almost 60 percent[4].

The lack of affordability is forcing potential buyers to look for properties in extended suburban areas or on the periphery, where prices are lower than in city centers. At the same time, pension fund assets or advances on inheritances are increasingly being used to finance home purchases. In addition, buying a home is often only considered later in life, when income and equity positions are more favorable.

According to the UBS Swiss Real Estate Bubble Index, the risk of a price correction in the owner-occupied market was moderate at the end of 2024. While price levels have decoupled from fundamentals such as rents or incomes, low home ownership costs, limited supply, weak new construction activity, and slow mortgage growth have all helped to mitigate risks.

1 Measured by sport event adjusted GDP.

2 After adjustments to the economy caused by the one off factors of the Olympics and the European football championship, as revenues of both UEFA and the International Olympic Committee are recorded in Swiss GDP, equal to 0.4% of GDP.

3 Source: https://app.realmatch360.com/demand-index.

4 Source SNB https://data.snb.ch/en/warehouse/KRED/facets.

MORTGAGE MARKETS

MARKET DYNAMICS

The volume of the mortgage market reached CHF 1.2 tn (EUR 1.28tn equivalent), compared with CHF 1.175 tn mortgage volume end of 2023. This reflects both the prevailing property price levels and the lack of mandatory amortization requirements for loan-to-value (LTV) ratios below 66%. This environment of low interest rates, combined with the tax-deductibility of mortgage expenses, encourages households not to repay loans prematurely.

Strict debt-to-income limits, based on affordability calculations, inhibit households' capacity to accumulate excessive debt, making LTVs over 80% a rarity. The average loan-to-value ratio for these assets (the average of all real estate owned by households) decreased from around 48% in 2003 to roughly 35% now (based on the Household Wealth Statistics of the SNB).

At the end of 2024, newly granted mortgages had an average LTV of 69% for owner-occupied properties and 63% for investment properties, levels that stayed relatively stable year-on-year. Notably, the LTVs for investment properties were 70% five years ago, but the rise in mortgage rates in 2022 made high LTV for investments less affordable. With favorable financing conditions, low unemployment and persistent housing shortage, Switzerland's NPL ratio for all loan types remain below 1%, underscoring the resilience of the country's housing finance market going forward.

During 2024, outstanding mortgage volumes rose by approximately 2.6%, the lowest growth rate since 2001. In the last 25 years, the outstanding has increased by an annual average of3.6%. The slower growth rate was driven by households where the growth rate was1.6%. The lower mortgage growth waspartly due toextraordinary amortizations triggered by higher mortgage rates, while fewer real estate transactions – especially up to mid-202 – also played a role.

In contrast, companies and real estate investment firms have grown by above 5% annually, though this has recently eased to 4.2%. Overall, this trend points to a growing professionalization of the real estate market, as fewer investment properties remain in private hands.

Although the development of mortgage volumes remains below average, it has been increasing since the lows of mid-2024. According to recent trends, the Swiss National Bank's interest rate cuts may signal a turning point, with a projected acceleration in mortgage growth to 3.0% in 2025.

NON-MARKET LED INITIATIVES

In November 2023, the Federal Council published the revised Capital Adequacy Ordinance (CAO), thereby implementing the final elements of the Basel III reforms. The revision aims at an at least largely compliant implementation of the Basel Standards and will come into force on January 1st, 2025. First, the risk weights have been updated, with the CAO now differentiating between various types of properties, such as owner-occupied housing versus investment properties, as well as their construction status (completed versus unfinished). In general, risk-weighted assets will increase for rented properties and decrease for owner-occupied properties. Overall, the revision of the standardised approach for credit risks appears to be capital neutral in 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 52% of banks' domestic assets, while customer deposits amount to 62% of domestic liabilities (as of 2024). Covered Bonds collateralized by real estate mortgage loans are another important source of funding, accounting for about 17% of total outstanding mortgage loans in 2024. 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. Their market share amounts to 36.1% of domestic debtors of bonds in CHF and source 15% of Swiss mortgage loans.

In 2024, four institutions – Cornèr Bank, Crédit Agricole Next Bank (Suisse) SA, UBS, and Valiant Bank AG – had their own covered bond programs under contractual private law totaling CHF 26.4 bn, CHF 25.6 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 the Pfandbrief legislation.

In addition to customer deposits and covered bonds, banks use interbank loans, other bonds, and equity to refinance its mortgage lending business.

GREEN FUNDING

In line with the Swiss government's financial market policy and its strategy to establish Switzerland as a leading hub for sustainable finance, the SBA set out new self-regulatory minimum standards on mortgage lending, which entered into force on January 1st, 2024. 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 on the long-term value retention of the building when financing owner-occupied single-family homes and holiday homes.

Furthermore, mortgage providers are also expected to provide information on available public and private funds for building renovations as well as on independent experts or specialist bodies for obtaining specific technical advice on the energy impact and financial effects of any optimization measures.

Banks have issued 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 2024, green and sustainable bonds emitted by commercial banks active in Switzerland amounted to approximately CHF 2.1 bn.

	SWITZERLAND 2023	SWITZERLAND 2024	EU 27 2024
MACROECONOMIC VARIABLES			
Real GDP growth (%) (1)	0.7	1.3	1.0
Unemployment Rate (LSF), annual average (%) (1)	4.1	4.4	5.9
HICP inflation (%) (1)	2.3	1.1	2.6
HOUSING MARKET			
Owner occupation rate (%) (1)*	42.6	n/a	68.4
Gross Fixed Investment in Housing (annual change) (1)	-4.4	n/a	-4.3
Building Permits (2015=100) (2)	n/a	n/a	136.9
House Price Index - country (2015=100) (2)	12.4	128.3	179.8
House Price Index - capital (2015=100) (2)	124.8	130.8	171.5
Nominal house price growth (%) (2)	3.9	3.5	4.9
MORTGAGE MARKET			
Outstanding Residential Loans (mn EUR) (2)	n/a	n/a	6,879,667
Outstanding Residential Loans per capita over Total Population (EUR) (2)	n/a	n/a	15,311
Outstanding Residential Loans to disposable income ratio (%) (2)	n/a	n/a	71.3
Gross residential lending, annual growth (%) (2)	n/a	n/a	3.9
Typical mortgage rate, annual average (%) (2)	1.7	1.5	4.34

(1) Eurostat Data
(2) European Mortgage Federation – Hypostat 2024, Statistical Tables
* Eurostat Reviewed
** EU 2024 to be confirmed

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, of the roughly 32 billion CHF in new mortgages in 2024, around 95% were issued by banks. The remaining volume came from pension funds. Insurance companies, on the other hand, reduced their mortgage exposure and recorded negative growth.
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 (~2.5%) and pension funds (~2.5%).
What is the typical LTV ratio on residential mortgage loans in your country?	The median LTV for new mortgage loans granted in 2024 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?	In the context of risk weighting, the Capital Adequacy Ordinance (CAO) makes a distinction between self-occupied and non-self-occupied residential properties, as well as between owner-occupied and income-producing commercial properties. Residential properties are considered self-occupied if they are primarily used by the borrower, may include one additional rental unit financed by the same bank that finances the borrower's main residence, or are owned by non-profit housing organizations or subject to government-controlled cost rent models. All other residential properties are classified as non-self-occupied. Non-residential properties are considered commercial. If they are primarily used by the borrower, they are treated as owner-occupied; otherwise, they are classified as income-producing. Mixed-use properties (residential and commercial) are only considered self-occupied if both the residential and commercial parts meet the criteria for self-occupation.
What is/are the most common mortgage product(s) in your country?	Fixed-rate mortgages are the most common mortgages in Switzerland. The offered maturities usually reach from a minimum of 2 years up to a maximum of 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 covered bonds.
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.