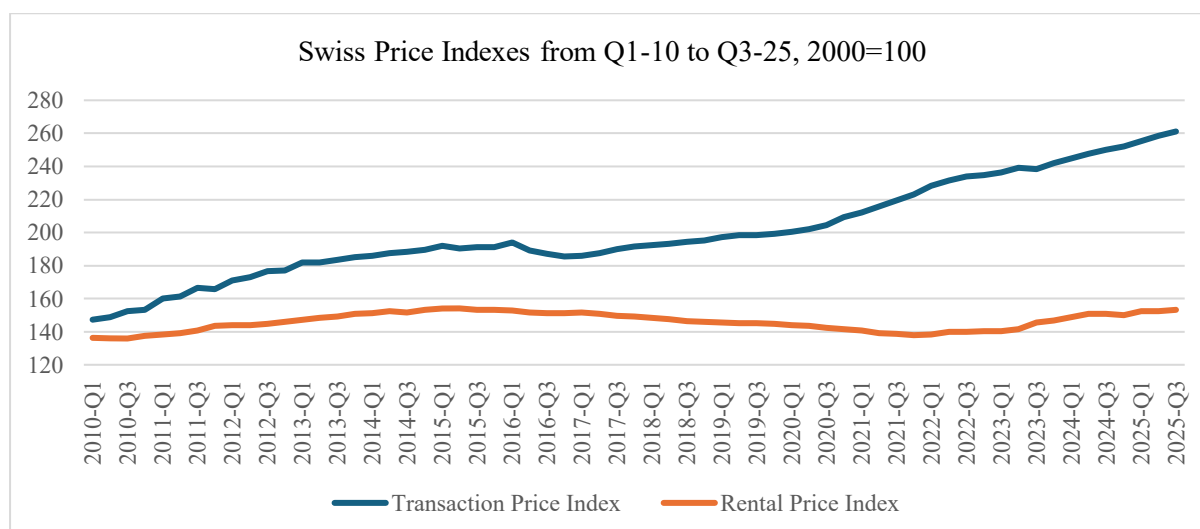


Why the swiss real estate market is a safe haven for investors

Switzerland has long been viewed as a safe haven for investments and assets of all types. It stands as a neutral country since the Battle of Marignano in 1515, not having been involved in any wars that would shake wealth since then. Switzerland even managed to stay unoccupied and uninvolved in both the first and second world war. Another factor makes Switzerland an attractive investment domicile: From 1713 onwards, the Great Council of Geneva required bankers to keep written records of clients but forbade them from disclosing information, which is one of the earliest forms of banking secrecyⁱ. This was further solidified through the Swiss Banking act of 1934, which made disclosing client data a criminal offence by federal law. This further strengthened the nation's position as popular investment destination but also attracted illegal sources of money. An additional success factor for the country to attract foreign capital is the stability of its currency, the Swiss Franc. It fluctuated very little in value throughout time due to the countries' political and economic stabilityⁱⁱ. Over time, these factors made Switzerland an attractive place for foreign investors to invest in and manage their assets, leading to the institutionalisation of a large wealth management industry serving both private and institutional clients.

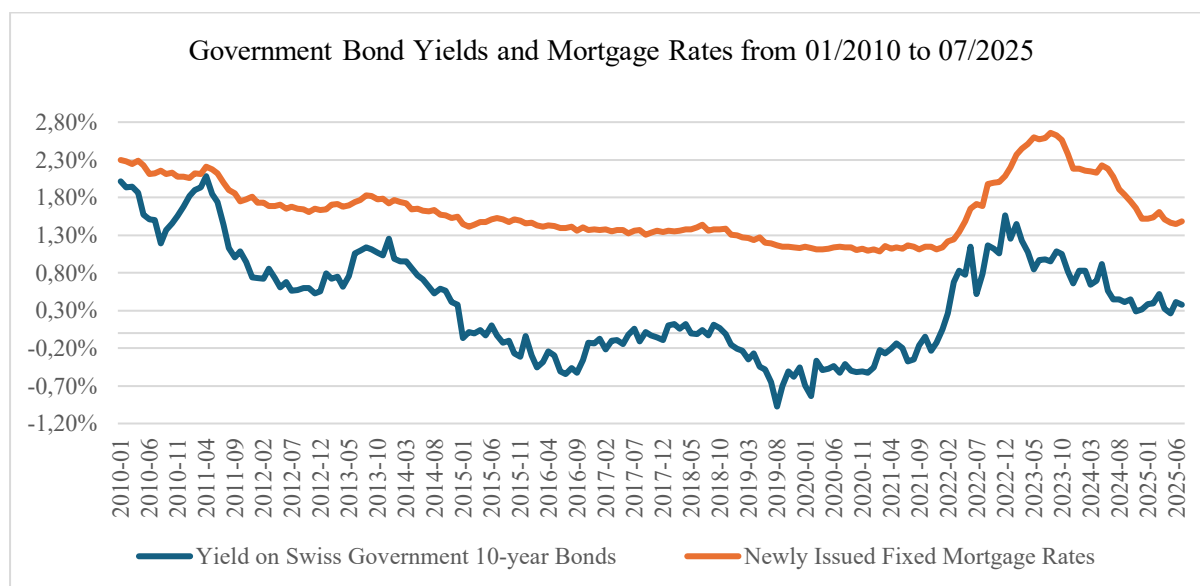
The Swiss real estate market is part of this investment universe, where domestic and foreign money is invested. A real estate safe heaven can be summarized as a market where investors are willing to accept lower returns because they have exceptionally high confidence in the stability, liquidity, and long-term value of the asset. A bubble on the other hand is defined by speculative expectations, easy credit, and oversupply. Looking at the development of prices for real estate in the country, in particular to the relation between the purchase prices paid and the rental revenue received, some might fear that Swiss Real Estate is overpriced and poses a large bubble risk that might burst if macroeconomic factors change. One particular risk factor are increases in interest rates, that could potentially lead to rapid decreases in property value. This has been observed in the US during the financial crisis of 2008/2009, where an overvalued real estate market and defaulting loans after an interest rate increase caused a huge crash of financial securities, leading to devastating losses of corporates and individuals' wealth. It also weakened the trust in the financial system around the globe. With prices at an all-time high for Swiss property and a potentially changing interest rate environment due to global uncertainties, the fear of such a catastrophic crash happening in of the most stable countries in the world is growing. This fear, however, is not justified.



Looking at 15 years of property price developmentsⁱⁱⁱ, one can identify an increasing gap in the index of realized transaction prices for residential property and the rental price index. While Transaction

Prices rose about 80% over 15 years, Rental Prices only rose by about 12%. This divergence suggests a compression (decrease) of real estate yields, meaning that for every Swiss franc invested on a real estate asset, less rent is received per square meter. Decreasing yields generally indicate higher perceived safety and lower cost of financing. The inverse relationship of the yield is the multiplier, which expresses the amount of money required to purchase the rental income stream. With yields compressing, the multiplier increases, which generally means lower affordability. For example, with a 5% Gross Initial Yield (GIY) this would mean that the Multiplier on Gross Rental Income (GRI) is at 20. An investor would pay 20-times the yearly rental income when purchasing a property (e.g. $GIY = 5/100$). If GIY decreases to 2.5%, the Gross Multiplier rises to 40-times the rental income, which the investor would need to pay for the property (e.g. $GIY = 5/200$). This shows intuitively how such a high yield might make for an unreasonable investment, that cannot longer be justified by traditional return measures. Net return, measured by the Net Initial Yield (NIY) is even lower, because there is high transaction costs associated with real estate, increasing the initial investment. Additionally, the rental income is not received fully by the investor, as operating costs such as property management fees, maintenance, insurance and other non-recoverable costs are deducted. The Net Initial Yield for Swiss real estate for residential properties sits at just above 3% on a median basis, but the 20th percentile at just above 2 percent as of September 2025^{iv} This is a very low initial yield for residential property.

This observed yield compression means that investors are willing to accept a very low return for their investment, hinting at the safe-haven characteristic of the Swiss market. To determine if this reflects confidence in the Swiss Real Estate market or starts to become an irrational overpricing, that could lead to a bubble, one can assess the relative attractiveness of real estate yields.

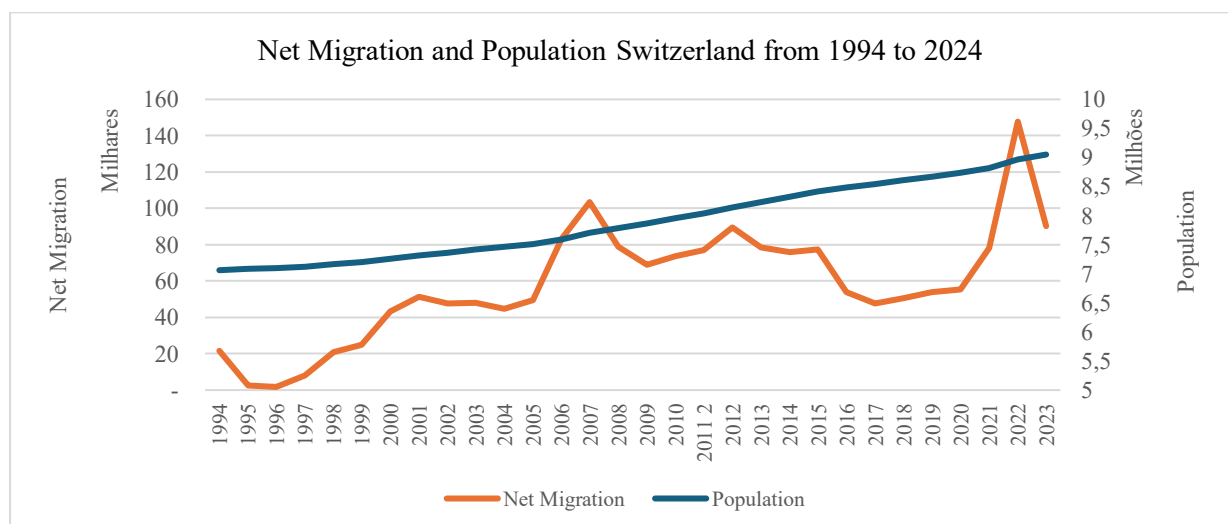


When looking at the Yield on the Swiss Government Bond for 10 Years, over a period of 2010 to 2025, one can see it remained relatively low, at an average rate of 0.41%^v. In July 2025, it's return is 0.38%. This is the risk-free rate which should be considered when making an investment. Looking at the cost of a mortgage, that is likely required when purchasing a property, the cost of financing is highly relevant. The most recent value of fixed mortgages comes at a rate of 1.48% in July 2025, which is what recently signed mortgage contracts contain as cost to the borrower. It averaged at a relatively low 1.68% for the 15-year period^{vi}. Looking at the spread between the risk-free rate and the mortgage rate shows the risk premium for real estate financing. Now, when comparing both to the previously quoted net initial yield of a median of 3.1%, two results show: First, investing in real estate in Switzerland has relative attractiveness compared to the risk-free rate, which is why capital is flowing into the asset class from

investors that seek a relatively safe investment. Secondly, the return earned on the asset is generally sufficient to cover mortgage costs, that are required for financing. Overall, the elevated yield level is therefore not an expression of irrational behaviour, but rather reasonable compared to the 10-Year Government Bond Yield and financing costs. A potential bubble is therefore unlikely.

Moreover, Switzerland's strict mortgage regulation prevents excessive leverage. Banks apply a 5 % interest-rate for affordability KPI's, a maximum 80 % loan-to-value ratio, and a requirement to amortize to 65 % within 15 years^{vii} The Swiss Financial Market Authority monitors the lending criteria and solvency of supervised institutions. It considers an affordability limit of up to 38% of net income, in conjunction with an imputed mortgage interest rate of 5% of the loan amount to be financially sustainable. Looking at the average budget of a Swiss household in 2022, the percentage of gross income that is used for renting or owning is only at 13.80%, meaning that on average, the costs of living are still bearable by households^{viii}. In a bursting bubble, mortgage costs come increasingly unbearable, leading to defaults and quick sales at decreasing prices due time pressure during the sale, that would further push down prices. There is no evidence for so-called "fire sales" in Switzerland now.

Another factor that is a critical hint for bubble risk is oversupply of rental space. The supply and demand relationship of rental space is generally measured by the vacancy rate, which measures rental units that are vacant divided by the total stock of units. For commercial real estate, this is measured by area. On the 1st of June 2025, residential vacancy rates are at a staggeringly low 1% in Switzerland^{ix}. The lowest Kanton (State) being Geneve with an incredibly low rate of 0.34%, followed by Zug (0.42%) and Zurich (0.48%). In Zurich, for every 200 units, only one is vacant. These exceptionally low vacancy rates indicate genuine supply scarcity rather than speculative oversupply. This lack of supply and strong demand puts pressure on prices and provides further evidence that there is no real estate bubble forming in Switzerland. Because of the geographic properties of the country and restrictive building policies, the supply will likely not be matched by new construction in the new future, which would alleviate pricing pressures. Additionally, the country of Switzerland has experienced a continuous population growth of 28% over the last 30 years^x, which is mainly due the continuous net migration to the country, which has been positive since 1979^{xi}. This population growth will keep demand for space stable.



Switzerland's real estate market appears expensive, yet its high prices are fundamentally supported by low interest rates, strict mortgage regulation, and structural housing shortages. The observed yield compression reflects investors' confidence in the country's stability rather than speculative excess. Overall, Switzerland remains a safe haven for real estate investment, not a bubble poised to burst. As these fundamental factors are expected to remain, the safe haven characteristic is also likely to remain.

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- ⁱ <https://en.vecogroup.ch/insights/asset-management/switzerland-a-history-of-the-worlds-most-famous-financial-center>
- ⁱⁱ https://www.goldmarket.fr/en/the-Swiss-franc-why-has-this-currency-maintained-its-stability/?srsId=AfmBOoo0KABvwpAXJ0C4Xp1_yJ0OeJEz09rZoCr4qgkw9yr1KIt5tsF
- ⁱⁱⁱ [https://data.snb.ch/de/topics/uvo/cube/plimoinchq?fromDate=2010-Q1&dimSel=D0\(EW,EH,MH,MW\)](https://data.snb.ch/de/topics/uvo/cube/plimoinchq?fromDate=2010-Q1&dimSel=D0(EW,EH,MH,MW))
- ^{iv} <https://www.juliusbaer.com/fileadmin/publications/property-market-report-switzerland-q4-2025.pdf>
- ^v [https://data.snb.ch/de/topics/ziredev/cube/rendoblim?dimSel=D0\(10J\)](https://data.snb.ch/de/topics/ziredev/cube/rendoblim?dimSel=D0(10J))
- ^{vi} <https://data.snb.ch/de/topics/ziredev/cube/zikrepro>
- ^{vii} <https://www.finma.ch/en/~-/media/finma/dokumente/dokumentencenter/myfinma/faktenblaetter/fb-hypothekarmarkt.pdf>
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