

Urban expansion and the finance of building

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The demolition of the city walls, which began in 1859 after a decision of the cantonal parliament, opened the way for the expansion of Basel. New districts were laid out around the old town, with streets, squares and parks, residential buildings for the middle classes and the workers, factories, schools and public buildings. The city's area grew several times over within a few decades.¹

Building on this scale required capital. Private builders and developers financed their projects with mortgage loans, which savings banks, private banks and, from 1899, the cantonal bank provided. Building societies and cooperatives were founded to build housing for workers, financed by the savings of their members and by public support. The canton invested in roads, sewers, water supply and public buildings, financed by taxes and bonds. The real estate and construction sector became one of the largest consumers of credit in the Basel economy.

The building boom of the late nineteenth century also brought speculation. Developers bought land in anticipation of rising prices, built houses quickly for sale or rent, and borrowed heavily to finance their projects. When demand fell or credit tightened, some of them failed, leaving creditors with losses and buildings half-finished. The real estate cycles of the nineteenth century foreshadowed those of the twentieth, which affected Swiss banks severely at the beginning of the 1990s, when the collapse of real estate prices caused heavy losses to regional and cantonal banks. The regulation of mortgage lending, the capital requirements for real estate exposures and the countercyclical capital buffer, which the Swiss authorities activated in 2013 to curb mortgage lending growth, are modern responses to these cycles.²

1 Notes

1. On the demolition of the city walls of Basel from 1859 onwards (Entfestigung) and the subsequent urban expansion, see HLS, article "Basel (Gemeinde)", section on the nineteenth century. To be verified. ↩
2. On the countercyclical capital buffer in Switzerland (Art. 44 of the Capital Adequacy Ordinance, SR 952.03), activated by the Federal Council in 2013 for residential mortgage loans, deactivated in 2020 and reactivated in 2022, see the publications of the Swiss National Bank and FINMA. To be verified. ↩

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