



Spotlight **Gibraltar** **Residential Market**

2016



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Spotlight Gibraltar Residential Market



After several years of strong growth, Gibraltar still offers value on a global stage

Gibraltar is among an elite and small club of territories within Europe with special and unique governance, independence and tax status. A self-governing territory with a population of 32,000, bordering a much larger neighbour, it draws parallels with Monaco. Hybrid centres of business and leisure and located in the Mediterranean, both have the characteristics of 'city' and 'resort'. Each has developed an international professional services sector and are centres of commerce in their own right.



▲ A British Overseas Territory in the Mediterranean, Gibraltar is home to a mixture of cultural influences

Offering favourable tax regimes, they are attractive to business and high-net-worth individuals (HNWIs). Prices in these territories appreciated at a time when other national markets in neighbouring countries have been languishing.

Comparisons with Monaco only go so far. Gibraltar has its own unique characteristics, history, culture, and has developed on its own path. A modern, compliant, British jurisdiction, Gibraltar offers community and safety that makes it an appealing place in which to live. Emerging later on the global stage, Gibraltar's prime property market still offers value when compared to rival jurisdictions. This is illustrated in our 'Sunshine/Spend' index on p06. Diversification in Gibraltar's economy has supported economic growth, generating wealth in the local economy and spurred a wave of new development. Entirely new market tiers have opened up to attract the global wealthy.

The hybrid nature of Gibraltar as a conurbation, destination and recreation location diversifies risk while maximising the market for property. This comes at a time when the prime markets of many world cities are at a high plateau. As Monaco pricing rivals Hong Kong, becoming the preserve of only the super-rich, Gibraltar has the potential to fill a gap in the Mediterranean for HNWIs, at various levels. While it may not yet have the cachet of Monaco, proposed new developments, the right investment and infrastructure could propel Gibraltar onto the circuit of the global wealthy. ■

EXECUTIVE SUMMARY



Remote gambling, financial services, tourism and marine services together account for 70% of Gibraltar's GDP
See page 04



Gibraltar's prime property offers value compared to rival jurisdictions. The territory tops our Sunshine/Spend Index
See page 06



Prime prices appreciated 15% from 2013 to 2015, demand driven by Gibraltarian, UK and other international buyers
See page 08



New, off-plan developments sold strongly in 2014 and 2015. A number of super-prime developments are in the pipeline
See page 09



External risks persist around the outcome of the UK EU referendum and wider changes to global tax regimes
See page 10

“Entirely new market tiers have opened up to attract the global wealthy”

GIBRALTAR AT A GLANCE







A British Overseas Territory located at the southern tip of the Iberian Peninsula only 14km from Morocco, Gibraltar is home to 32,000 people. Self-governed, it controls almost all its own affairs, taxation and policies. Some powers, such as defence and foreign relations, remain the responsibility of the UK. A member of the European Union since 1973, Gibraltar benefits from direct access to the huge EEA market of more than 500m people, but is exempt from the harmonisation of taxes, notably VAT.

Gibraltar has transformed itself in the last four decades from Ministry of Defence outpost to a diversified, international service based economy. GDP has been growing at 10% per annum, in nominal terms, since 2010. Economic growth never dipped below 5% in recent times, even at the depths of the global recession. This puts its growth rate among the highest of the OECD countries. Growth has been supported by four pillars of industry: remote gambling, financial services, tourism and marine services. Together they account for 70% of Gibraltar's GDP (Figure 2). Public debt is low, and falling, standing at 22.8% of GDP in 2015, while a budget surplus was recorded in the 2014/15 financial year.

For centuries the Ministry of Defence and military base had been the main source of employment for Gibraltar, but today are a very small component of the economy. MOD operations now account for less than 600 jobs, a decline offset by the growth of higher value employment sectors. This, in turn, has transformed Gibraltar's prime residential markets (see p08). Employment grew 16.4% between October 2010 and October 2014, reaching a record high of 24,422.

.....
“Gibraltar has transformed itself in the last four decades into a diversified, international service based economy”
.....

FIGURE 1
Gibraltar fact file

| | |
|--|---|
|  Self governed | A British Overseas Territory, Gibraltar is self governed, self financed and Gibraltarians have full British citizenship. |
|  Open for business | Gibraltar is within the European Union and the Single European Market for Services, granting it access to a market of 500 million people. |
|  Low tax | Gibraltar levies no VAT, CGT, IHT, wealth tax or tax on investment income, such as interest or dividends from quoted companies. |
|  Sterling denominated | The Gibraltar pound is fixed to the GBP and used interchangeably with the British pound. |
|  Culturally diverse | 82% of the population are Gibraltarian. EU, EEA and Swiss citizens have the right to live and work in Gibraltar. |
|  Rock of Gibraltar | 426m high, the Rock of Gibraltar is home to a nature reserve and 300 Barbary macaques. |

Source: Savills World Research

The number of jobs in Gibraltar's remote gambling sector increased from just 542 in 2002, to a high of 3,276 in 2014, making it a larger employer than the financial services sector, which recorded 2,051 in 2014 (see Figure 3). Ladbrokes, William Hill, Gala Coral, Bwin.Party and BetVictor all run their online operations from the territory, taking advantage of Gibraltar's legislative environment and favourable tax regime. Recognised as a well regulated centre of excellence in the gaming sector, local expertise and established infrastructure continue to support expansion. The sector showed resilience when the UK introduced a point of consumption tax for UK online gamblers and has remained committed to the territory.

Gibraltar is a compliant British, EU financial services centre, specialising in insurance, private clients and asset management. Around 20% of UK motor insurance is underwritten in Gibraltar. It ranks 56th in the world in the latest Global Financial Centres Index, above competing centres that include the Isle of Man, Liechtenstein and Monaco. Gibraltar offers competitive

tax rates, agile regulation and favourable infrastructure. NatWest, SG Hambros, Jyske Bank and Lombard Odier all have local offices.

Gibraltar is an important centre of employment across the broader region. Some 9,400 'frontier workers' commute across the border to work in Gibraltar each day. Many take advantage of the lower cost of property in Spain.

The development of local talent is supported by a quality education system. Loreto Convent, a private school, will be joined by Prior Park Gibraltar, a sister school to Prior Park Bath when it opens in September 2016. All schools follow the UK curriculum and the tuition fees of local students attending university in the UK are paid by the Gibraltar government. Gibraltar's own university opened in 2015, offering University of London affiliated business degrees, among other courses.

Connectivity

Gibraltar's strategic position at the gateway to the Mediterranean historically made it of huge military

importance. Today, this position brings commercial advantages. The Port of Gibraltar is the most important in the Mediterranean for 'bunkering', the refuelling and supplying of ships, in turn making petroleum Gibraltar's largest physical export. A major cruise ship destination, some 228 vessels are expected in 2016 with a total of 342,000 passengers, a 16% increase over 2015.

Gibraltar International Airport puts major UK cities within direct reach, including services to London's Heathrow, and also offers flights to Moroccan destinations. One of the world's most iconic airports, its runway extends into the sea and is intersected by the main road between Gibraltar and the mainland, a memorable entry point for those arriving by both land and air. Malaga airport, a few hours' drive away, offers direct flights to global destinations including Amsterdam, Geneva, Moscow and New York.

Gibraltar's location on the southernmost tip of the Iberian Peninsula grants it direct road access to mainland Europe. Several of Spain's most popular enclaves are within driving distance of Gibraltar, including Sotogrande, Marbella, Seville and Malaga, Spanish national parks and numerous golf courses. Many of those with homes in Gibraltar also have second homes in Spain. ■

FIGURE 2

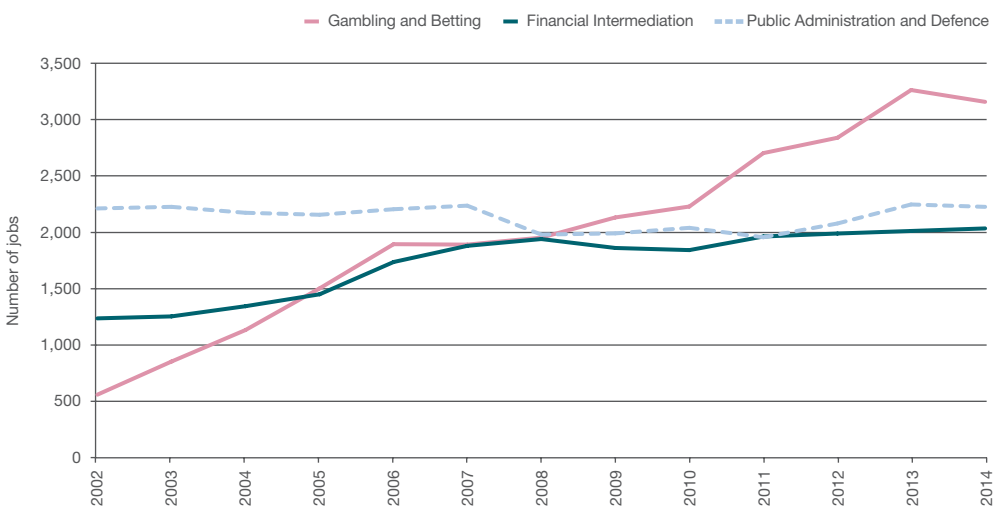
Four pillars of the economy

Together contribute 70% of Gibraltar's GDP



FIGURE 3

Job growth selected sectors



Source: Gibraltar Statistics Office

▼ The Westside is Gibraltar's commercial hub built on reclaimed land.





GIBRALTAR AS A DESTINATION FOR HNWI

For those seeking a home, Gibraltar's living environment has much to offer. Safe and secure with very low crime rates, the rule of law is supported by a legal system that follows the British model. Gibraltar is a close-knit community with a diverse range of nationalities, ethnicities and religious beliefs.

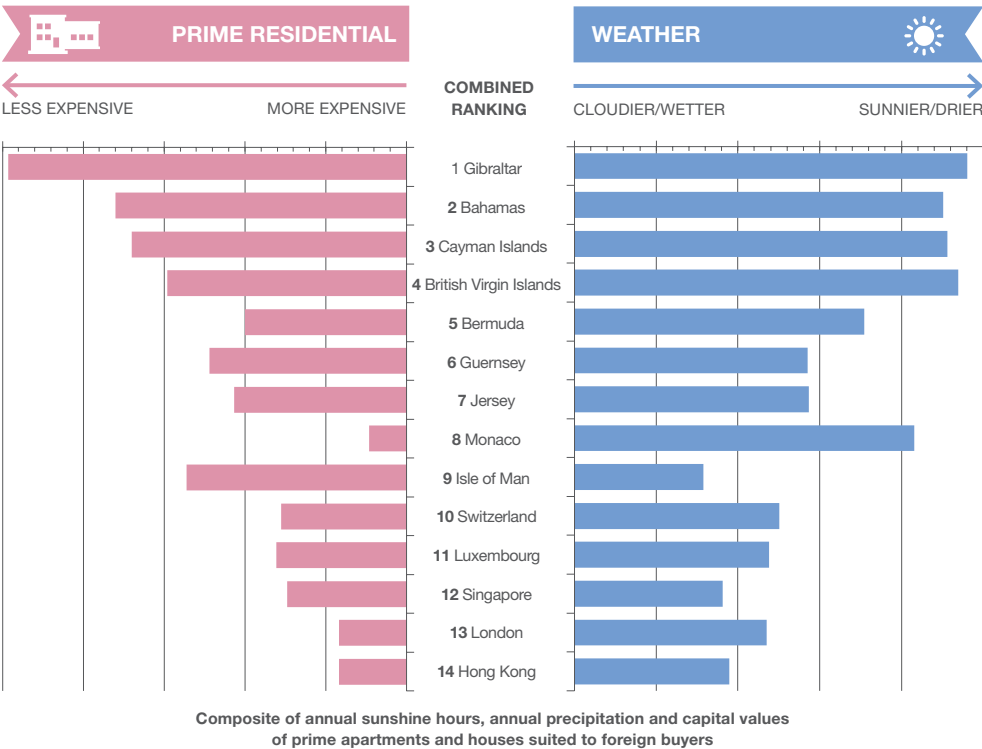
Gibraltar offers certain tax advantages for those wealthy individuals who make it their primary home. The territory levies no inheritance tax, wealth tax or capital gains tax. 'Category 2' status offers HNWI with at least £2m in net assets a maximum annual tax liability of £29,800. For those in receipt of investment or retirement income 'Self Sufficiency' status is an option. A flat 2.5% rate income tax applies to those drawing down pensions that have been transferred from the UK, all other distributions from pensions are tax free.

For those choosing Gibraltar for business, the 'Higher Executive Possessing Specialised Skills' (HEPSS) is a tax status for senior executives earning more than £120,000, whereby tax is only charged on the first £120,000 of their income.

The global market for HNWI is a competitive one and rival jurisdictions across the globe offer comparable systems. One of Gibraltar's particular advantages is its low-cost prime property and sunny, relatively dry climate.

We have combined the price of prime property with average annual sunshine hours and precipitation levels in Gibraltar and 13 competitor and world city locations to create our Sunshine/Spend Index (Figure 4). By this measure, Gibraltar offers the best-priced prime property with the sunniest and driest climate. It ranks ahead of key Caribbean destinations, where climate is comparable but property a third more expensive, and the British Crown Dependencies of Guernsey, Jersey and the Isle of Man, where property is up to double the cost. ■

FIGURE 4
Sunshine/Spend Index

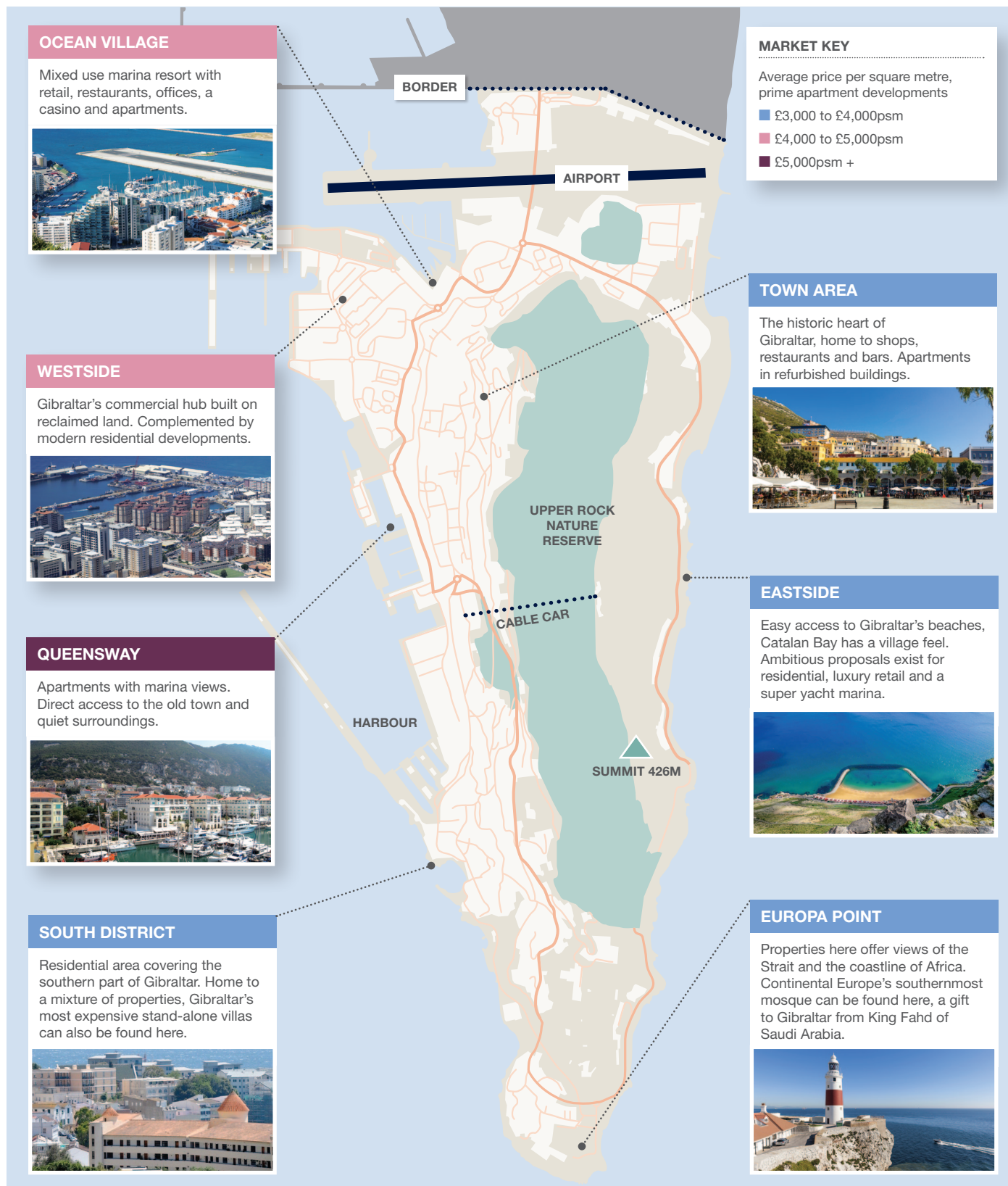


Source: Savills World Research

FIGURE 5

The prime districts of Gibraltar

Prime property is found throughout Gibraltar, but concentrated in newer, waterside developments. Historic property is located in the Town Area, while villas are found almost exclusively in the South District. The Eastside, meanwhile, is emerging as Gibraltar's next prime area.



Source: Savills World Research

RESIDENTIAL MARKETS

Gibraltar's residential market has been transformed in the last four decades as the economy has shifted from defence and associated activities, to higher-value professional services. In line with this, home ownership has grown rapidly. In 1971 just 3% of housing stock was owner occupied; by 2012 (the time of the last census) this had risen to 35%. This is still low by international standards. In the UK it stands at 64%, suggesting further room for growth.

Just 6.7km in area and with a population of 32,000, Gibraltar has had to be highly innovative in making use of its available space. Large tracts of land have been reclaimed for new

development and these areas are now home to 42% of Gibraltar's population. The majority of properties in Gibraltar are apartments. Villas, in limited supply, carry a price premium.

The expansion of high-paying industry in Gibraltar, coupled with its development as a centre of wealth has fuelled demand for prime property. New developments have catered to the owner occupier and investor markets, and a new market for super-prime property has emerged in recent years.

Gibraltar's prime markets are dominated by two nationalities: those from the UK, and those from Gibraltar, who have accounted for 39% and 34% of buyers in the last three years, respectively (Figure 6). The remaining 26% come from across the EU and the rest of the world, and include Swiss, Germans, Russians and Australians. The prime purchaser

profile is diverse when compared to the national population, of whom 82% are Gibraltarian.

Gibraltar is foremost a place to relocate to, not a second home market. Some 79% of prime market is for main residences, while there is also an active investment market, accounting for 20% of sales. Investors favour smaller apartments, the average size being 81sqm with an average price of £436,000, compared to 120sqm and £604,000 for owner occupied apartments (for the prime properties only).

Prime apartment prices in Gibraltar rose by 15% between 2013 and 2015, and evidence in the resale market suggest prices stand around 30% above 2009 levels. Price growth has been driven by economic expansion, occupier demand and reflects the rapid growth of prime product in the new build sector. This is in stark contrast to neighbouring Spain, where prices still remain 28% below their Q1 2008 high.

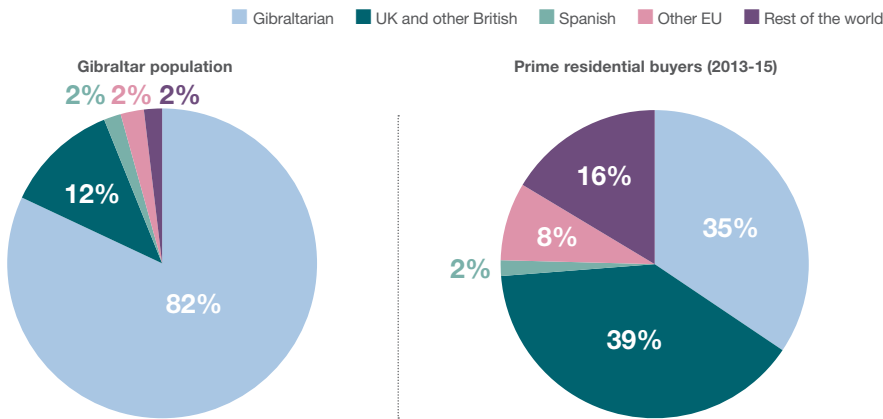
In spite of recent price growth, Gibraltar's prime markets are still developing, and price differentials with competing territories grant it some competitive edge. Super prime prices in Monaco are seven times those of Gibraltar, for example (see Figure 7).

The picture is different for those in the mainstream markets on local incomes where affordability is a constraint. Some 9,400 workers live in neighbouring Spain and commute to work in Gibraltar on a daily basis. The government has attempted to tackle this with co-ownership properties, which accounted for 10% of all stock at the time of the last census in 2012. Government rented properties made up 39% of all properties, catering to mid to low income households. There has since been delivery of several thousand additional properties into the co-ownership sector, with more in the pipeline in the coming years.

Rental market

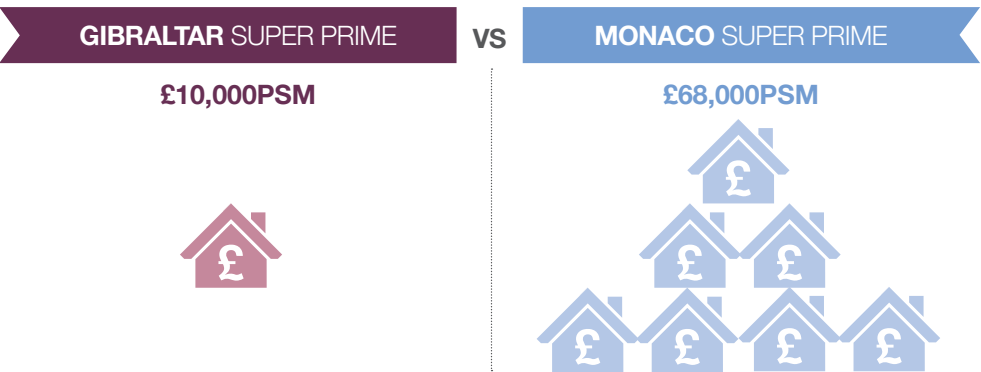
Gibraltar has a strong rental market. Across the whole market some 15% of stock is privately rented. This figure rises to around a third on newer prime developments. There is strong demand in the £800 to £1,500 per calendar month range from relocating executives.

FIGURE 6 Population profile and prime residential buyers



Source: Gibraltar Census and Savills World Research

FIGURE 7 Gibraltar vs Monaco super prime



Source: Savills World Research

Gibraltar has not seen the yield compression experienced in many major world centres and yields are relatively high, at between 5% and 6% for prime property, and 6% and 7.5% for mainstream property. This reflects strong rental demand, and from an investor perspective, a risk premium over future economic development.

New development

Gibraltar is experiencing a wave of new development, following several years of very limited new supply. Sales at recent launches have been very strong and around 375 units were sold

off-plan in 2015, double that of 2014. The bulk of sales are accounted for by four schemes: Midtown, Quay 29, West One and Ocean Spa Plaza.

Part of larger, mixed-use developments they offer amenities such as swimming pools, fitness centres and on site retail. Midtown, for example, has a large office component. West One, targeted at the mainstream owner occupier and investor market with prices from £150,000, sold out in just three days.

Other recent off-plan launches have included The Arches, a conversion

of Gibraltar's historic former police barracks, dating from the 19th century. Located in the Old Town, it is an area identified by the government for regeneration.

New developments have proved popular with the investor market, taking advantage of Gibraltar's strong private rented sector and yield profile. Around 220 units are expected to be launched off plan in 2016. With the exception of Quay 31 (120 units at Kings Wharf), launches will be characterised by smaller schemes. →

£5,100^{PSM}

Average price of prime properties in 2015

82%

Of purchasers are cash buyers

78%

Of prime properties benefit from a communal pool

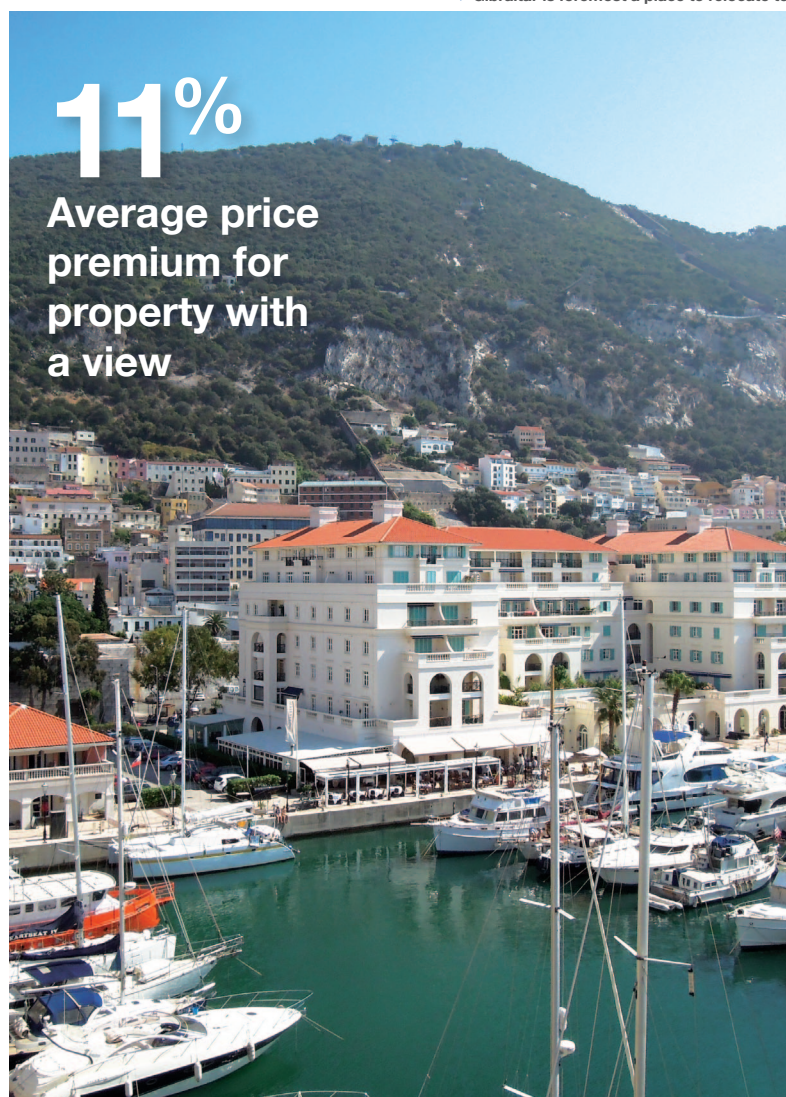
79%

Of prime buyers purchase their main residence

81^{SQM}

The average size of a prime investment property

▼ Gibraltar is foremost a place to relocate to



11%
Average price premium for property with a view

OFFICE PROPERTY

As an international centre of business with a range of professional services firms, there is demand for quality office space in Gibraltar. A dearth of new office development in recent years has seen some Town Area buildings converted from residential to commercial use.

Economic expansion and new business entrants, coupled with limited supply have led to rising commercial rents, which now stand at between £215 and £380psm per annum (£20 and £35 per sq ft). Supply will be eased with the delivery of 33,000sqm of Grade A space at World Trade Center Gibraltar and Midtown in the next few years, some of which has already been pre-let. The former is part of the World Trade Center Association and will offer flexible space and leases, making it particularly appealing to new entrants to Gibraltar.

In spite of recent price pressure, rents still compare favourably to competitors, although the price differential is much narrower than that seen in the residential sector.

| Grade A office rent comparison | Psm per annum | Per sq ft per annum |
|--------------------------------|---------------|---------------------|
| London (West End) | £871 | £81 |
| Monaco | £818 | £76 |
| Guernsey | £431 | £40 |
| Jersey | £388 | £36 |
| Gibraltar | £323 | £30 |
| Isle of Man | £237 | £22 |
| Madrid | £215 | £20 |

Source: Savills World Research

→ **Emerging super-prime**

Stand-alone villas command a significant price premium, given space restrictions in the territory and are found exclusively in the South District. Houses already command a 21% premium over apartments on a price psm basis and new development is pushing the premium higher still. The Sanctuary, a development of five detached villas and three mews houses priced at up to £10,000psm represents an entirely new segment for Gibraltar catering to the global super rich.

Future schemes catering to this sector include Buena Vista Park Villas, the Caleta Apartments and Douglas Point, both on the Eastside. These super-prime schemes make use of Gibraltar's steep topography to offer dramatic views over the Mediterranean, introducing more product to cater to the international elite.

21%

Premium houses command over apartments on a price per sq m basis

Bluewater, a 38 hectare development on Gibraltar's Eastside is of sufficient scale to transform Gibraltar's profile among HNWI's in the region. Built on reclaimed land, it will include 1,450 homes, luxury retail, a five-star hotel, and importantly, a super yacht marina.

This large project, approved by the Government, illustrates the ambition to establish Gibraltar as a premier destination for wealthy individuals, and competing directly with rivals along the Mediterranean coast as a yachting and leisure hotspot. ■

OUTLOOK

■ Continued improvement in economic conditions in the UK and Spain, Gibraltar's major trading partners, will further bolster growth. A diversified economy and professional expertise across a variety of sectors will help sustain Gibraltar as business destination in its own right.

■ In common with other jurisdictions, Gibraltar faces external risks. To date, the finance, insurance and online gaming sectors have shown resilience as a low tax jurisdiction within the EU, in the face of changes to regulatory regimes outside of Gibraltar. Following the introduction of the UK's point of consumption tax Gibraltar lost some of its competitive advantage in the gaming sector. In spite of this, online gaming has remained committed to the territory, citing the benefits of established infrastructure coupled with local skills and expertise in the sector.

■ Some uncertainty exists around the UK EU referendum and the impact it would have on Gibraltar's economy and position with EU partners. The Gibraltar government is lobbying for special status in the EU in the event of UK exit, but in the near term this remains an unknown in the market, as it does for the UK.

■ New developments targeting HNWI have the potential to attract a new wave of wealth to the Rock. The territory may look at the development of Monaco as it grapples with similar issues of restricted land supply and the current demands of super rich, while retaining its own special sense of community and diversity.

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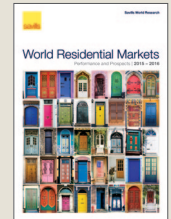
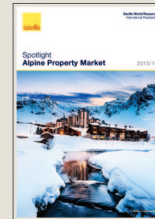
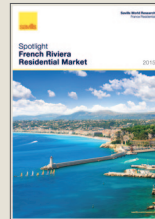


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