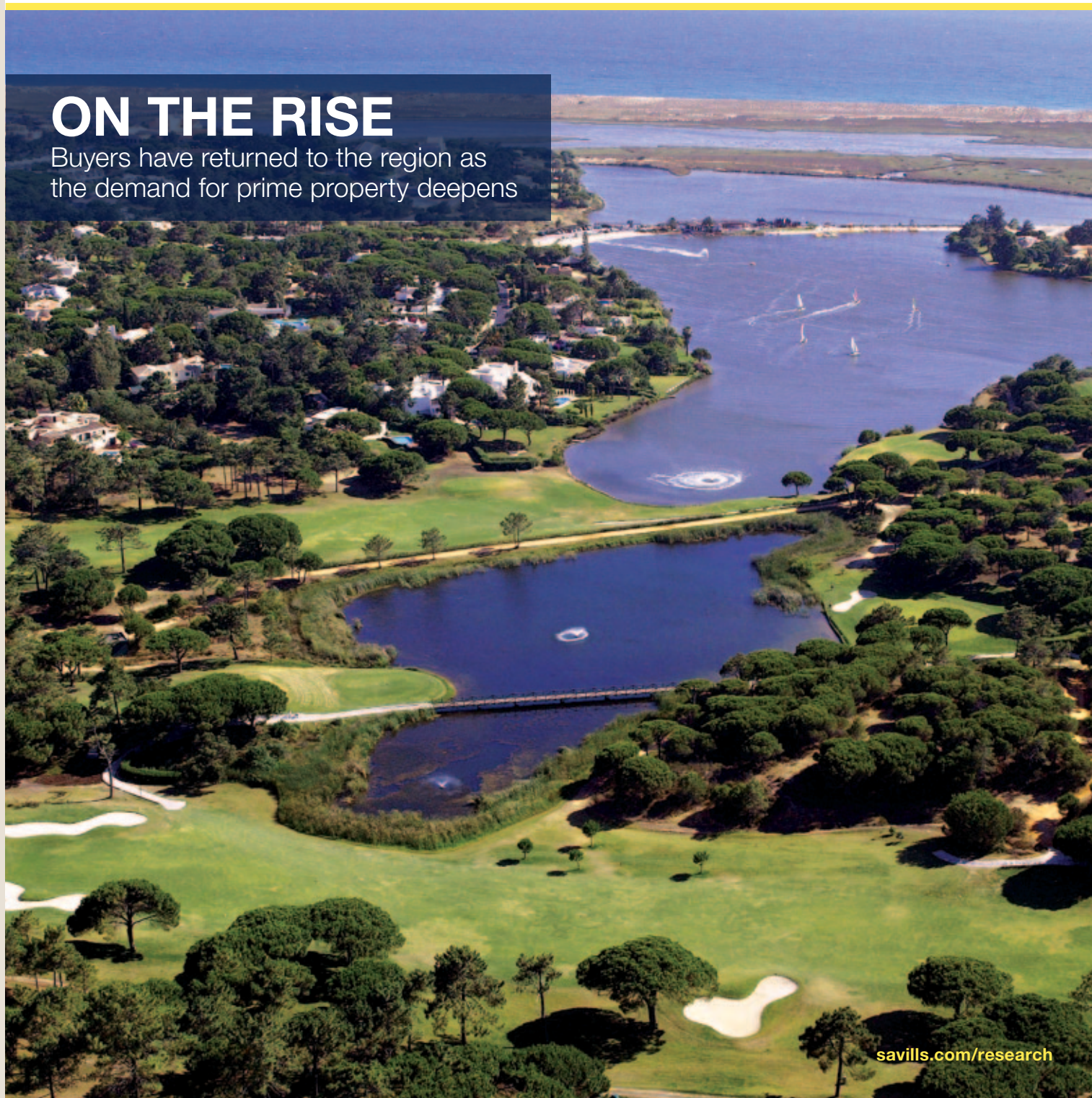


# Spotlight **Prime Algarve Residential Market**

2016

## **ON THE RISE**

Buyers have returned to the region as  
the demand for prime property deepens



**Notes about the publication**

This document was published in March 2016. The data used in the charts and tables is the latest available at the time of going to press. Sources are included for all the charts.



# Spotlight Prime Algarve Residential Market



The Prime Algarve attracts lifestyle buyers seeking quality properties in a safe and secure environment

**T**he Prime Algarve is part of a network of internationally invested destinations that are behaving quite unlike the nations in which they are located. While Portugal's national housing market is seeing tentative improvement, the Prime Algarve has outperformed in recent years. This is in line with the recovery in the countries from which most of the Algarve source buyers are derived, most notably the UK.

The renewed rise of the Prime Algarve comes as many wealthy individuals find themselves fully invested in 'first-tier city' property. In the years following the global financial crisis, cross-border wealth and other investment focused on the prime core of established world cities, seeking safe havens in times of economic uncertainty. In the most heavily invested cities like Hong Kong, London and Singapore, prime prices have doubled in a decade. The prime markets of these cities are fully taxed and, with prices at a high plateau, buyers are looking at second-tier cities and leisure retreats for capital growth prospects.

The privately owned and managed Algarve resorts of Quinta do Lago and Vale do Lobo appeal to additional home buyers, as they offer high-quality properties and on-site amenities in a safe and secure environment. Buyers are attracted to the region's lifestyle and an investment that can both be enjoyed or rented out for part of the year.

Tourism is the underlying fundamental for a second home destination. The Algarve is one of Europe's most popular tourist regions. Globally, international tourist arrivals grew by 4.4% in 2015 to reach a total of 1.2 billion. Europe led the world with growth of 5%, while Portugal saw growth of 8%. An improving tourist sector bodes well for the Prime Algarve, bringing more prospective buyers, and renters, to the region.

Characterised by low levels of supply and a product tailored to the luxury second home market, the Prime Algarve is positioned to benefit from deepening demand from established source markets in the years to come. ■



▲ The Algarve is one of Europe's most popular tourist destinations

## EXECUTIVE SUMMARY



The Portuguese economy is seeing some recovery, recording growth of 1.5% in 2015 and forecast to grow by 1.6% in 2016. See page 4



Portugal offers incentives to those making the country their home. The 'Non Habitual Resident' tax regime is supporting demand in the Algarve.

See page 6



Prices for the very best properties in the Prime Algarve in 2015 exceeded 2007 levels. See page 8



The region has long been popular with those from the UK, who account for 63% of buyers, but the French and other Europeans are on the rise, improving market diversity. See page 9



New development, rebuilding and resort investment is modernising the property on offer and aligning stock to current occupier demands. See page 10

## THE ALGARVE AT A GLANCE

The southernmost region of mainland Portugal, the Algarve spans an area of 5,000 square kilometres and is home to a permanent population of 450,000. One of Europe's most popular tourist destinations, the Algarve's population more than doubles in the peak summer season.




The region is home to some of Europe's top private resorts and estates. The area known as 'The Golden Triangle', including Quinta do Lago and Vale do Lobo, attracts Europeans and other buyers seeking safe, secure and private second homes in a sunny climate.

Central to the appeal of the Algarve is its excellent connectivity to the rest of Europe. Faro airport serves the Algarve and annual passenger numbers exceeded six million for the first time in 2014 (Fig 2), an increase of 34% on the previous decade.

The airport provides direct links to 80 destinations across Europe, of which 23 are to UK airports.

.....  
"Portugal offers certain competitive advantages that are helping fuel its recovery"  
.....

FIGURE 1  
Algarve fact file

 Tourism	The Algarve is one of Europe's most popular tourist regions, welcoming 3.7 million overnight tourists a year. Demand exists for quality summer rentals.
 Tax advantages	The 'Non Habitual Resident' scheme offers tax advantages for those who are eligible in relocating to Portugal.
 Appealing climate	The Algarve enjoys 3,000 hours of sunshine a year, with average summer highs on the coast of 32°C.
 Leisure amenities	The region offers 25 golf courses, beaches and two nature reserves, biking and sailing.
 National Park	The Ria Formosa is a national park extending 60km along the Algarve coast. It is an important stop over point for birds migrating to Africa.

Source: Savills World Research

Frequent services coupled with a flight time of under three hours (and a short transfer to the resorts) make the Algarve a viable weekend retreat. Faro airport is undergoing a €32 million expansion and remodelling programme that will result in a 25% increase in peak passenger flow capacity.

### National economy

Portugal has a modern, service based economy, of which tourism is an important component but it is diversified by being a major agricultural producer, also having

a large fishing industry. The Algarve is itself known for its agricultural produce, including figs, almonds, oranges, seafood and wines. It is the world's largest cork producer.

Portugal's economy was hit hard in the global economic downturn. Austerity measures, imposed as part of the country's €78bn 2011 bailout by the EU and IMF, coupled with improvement in the macro economic context, have paved the way to renewed economic growth.

## INSTITUTIONAL INVESTMENT

Lisbon has attracted significant foreign investment into its commercial real estate sectors, underpinned by recovering occupier demand and attractive yields (prime office yields range from 5% to 7%). German funds are active and competing for opportunities with funds from Singapore, China, Malaysia, Brazil, the US.

This pattern of purchasing in the commercial markets is an indicator of where potential new demand in residential markets could come from if the product and marketing is sophisticated enough to appeal to the same buyers. Of particular interest is Brazilian involvement in real estate which has been sparse at a global level to date, but has seen some flow into the Portuguese capital.

Lisbon's prime residential real estate looks good value when compared to the competition, at roughly half the price of that in Madrid, and less than a tenth of London prime prices. An overhaul of Portugal's leasing laws have made residential investment for long term income a more appealing proposition. This has also attracted the attention of institutional investors. US developer Eastbanc is redeveloping buildings into prime apartments in Lisbon's Principe Real, a prime district within reach of key shopping districts.

The fact that Portugal is once again on international investment lists bodes well for the Algarve, in the hospitality and resort development sectors. Testament to this was the purchase of Vilamoura by Lone Star, a global private equity fund, in 2015.

A new left-wing government coalition, united in their anti-austerity sentiment, was formed in November 2015 following October elections.

The national economy grew by 1.5% in 2015, and is forecast to grow by a further 1.6% in 2016, just below the Eurozone average of 1.9%. Unemployment stands at 12.1%, down from a high of 17.9% in January 2013.

Portugal offers certain competitive advantages that are helping to fuel its recovery. The World Economic Forum ranked Portugal 36th (of 144 countries) in its 2015-16 Global Competitiveness Report, scoring highly for quality of infrastructure.

The country ranked 23rd (of 189 countries) globally in the World Bank's 'Doing Business' rankings, in which Portugal scored particularly high for ease of trading across borders.

Tourism is performing well. The number of overnight guests grew by 8% to 17.4 million in 2015. The Algarve accounted for 3.7 million of these that year, making it the second largest tourist destination in the country after Lisbon. Services related to the tourist industry, such as accommodation and food services account for 17% of jobs in the Algarve, compared to 6% at the national level.

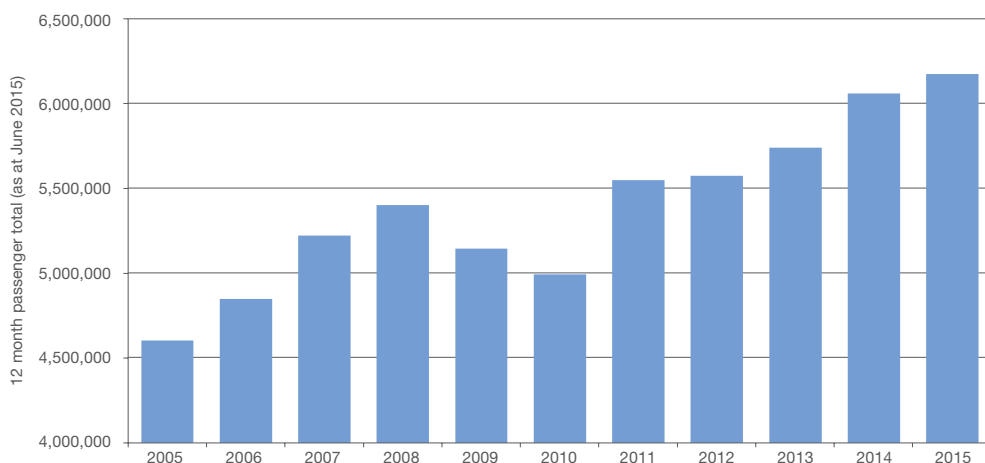
### Mainstream markets

Portugal's mainstream residential markets were hard hit in the economic downturn (in contrast to the prime markets of the Algarve, p8) but economic stability is now bringing improvement.

At the national level, prices grew by 3.4% in the year to Q3 2015, and now stand 9.1% above their lowest level of 2013. Positive annual growth has now been recorded every quarter since Q4 2013 (Fig 3).

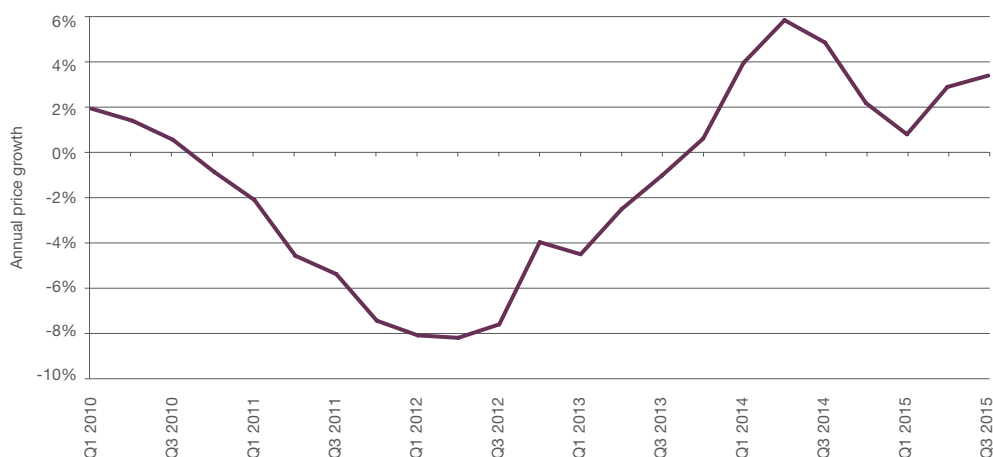
More properties are now trading. Transactions increased 24.2% on an annual basis in the year to Q3 2015 to 103,000. New construction has seen modest pick up, but remains well below pre-crisis levels; 8,000 dwelling permits were issued in 2015, 88% less than in 2007 when 65,650 were issued. →

FIGURE 2  
**Faro airport passengers**



Source: Statistics Portugal

FIGURE 3  
**National residential markets return to growth**



Source: Statistics Portugal

▼ Portugal's tourist industry is performing well







Locating in Portugal

Portugal's 'Non Habitual Resident' (NHR) scheme offers tax incentives to those that have not been a tax resident in the country for the last five years.

NHR are exempt from personal income tax on income from a non-Portuguese source such as pensions, rental income, capital income and capital gains (provided that income is subject to taxation in accordance to the Double Tax Treaty).

For those working in Portugal, NHR status offers a flat rate 20% personal income tax on those in high value-added scientific, artistic or technical jobs. The scheme has been attributed with attracting new groups to the country, most notably the French.

Portugal launched one of the world's most successful real estate investor visa, or 'golden visa' schemes in 2012. A minimum investment in real estate of €500,000 grants the non-EU buyer a visa (the right to residency and access to the Schengen area), and longer term, a route to an EU passport.

As of December 2015, 2,635 golden visa residence permits had been issued for real estate acquisitions, mainly in Lisbon, since 2012. The Chinese have accounted for 87% of these. Those from Brazil, Russia, South Africa and Lebanon make up the balance.

To date, the scheme has made relatively little impact on the Algarve, buyers instead favouring apartments in Lisbon at prices close to the minimum investment mark. ■

**2,635**  
Number of golden visa residence permits issued since 2012

FIGURE 4  
The prime markets of the Algarve's 'Golden Triangle'

Prime property is focused in the central Algarve in an area dubbed the 'Golden Triangle'. Encompassing the resorts of Quinta do Lago, Vale do Lobo and Vilamoura, properties are complemented by golf, beaches and five star hotels



Source: Savills World Research



## RESIDENTIAL MARKETS

The prime residential markets of the Algarve are concentrated in the 'Golden Triangle', incorporating Quinta do Lago, Vale do Lobo, Vilamoura and the smaller resorts in between. These are privately owned and operated resorts, benefiting from a high standard of infrastructure and an array of leisure amenities including golf, luxury retail, hotels and restaurants. Bordered by beaches and nature reserves, they are among the premier resort destinations in Europe.

Prices, and performance, are comparable to other international resorts (rather than other parts of Portugal) which represent the region's direct competition (Fig 5).

Resort real estate is nearly always a discretionary purchase, made when economic conditions have created spare cash in the hands of second-home buying households.

In common with other resorts around the world, these markets slowed during the global economic downturn (the major casualty being transaction levels). Because much of the prime Algarve residential market appeals to wealthy end-users, it is typically less mortgage-dependent and so less vulnerable during times of economic uncertainty. Consequently it was relatively protected after the global financial crisis and forced sales were few.

With improving economic conditions in the source markets (notably the UK), buyers have returned and prices are appreciating once again. Transaction volumes have recovered from a low in 2012, with a marked uptick in activity recorded in 2014 and 2015. In Quinta do Lago, prices for the very best properties have exceeded their pre-crisis peak.

Unlike competing resort areas in other European sunbelt and Mediterranean markets, the Prime Algarve did not see high levels of overbuilding in the run up to the

market peak. As a consequence, stock levels remained low, and this has been a major driver of price growth as demand has returned.

The region has long been a favourite with British buyers. For sterling buyers, the weakening of the Euro over the past three years has presented further investment incentives. To a GBP buyer, a €2m property cost £1.67m in January 2013. At the euro's weakest in November 2015, a property of the same value costs a UK buyer £1.41m – a currency saving of 15%. However, it is probably fair to say that price rises have since offset these savings.

### Quinta do Lago

Quinta do Lago was founded in 1971 by property developer Andre Jordan on the site of a 300 year old beach front estate. Spanning 2,000 acres, the resort is home to 695 villa plots (of which 650 are built) plus 1,267 apartments and townhouses. Resort facilities include five golf courses, a tennis centre, spa, boutique malls, numerous restaurants and two five-star hotels.

The resort is characterised by its spacious villa plots, varying in size from 1,600 to 3,600 m<sup>2</sup>, with development on each plot restricted to just 20% to 25% of the plot area. No development is permitted on the main spine road and the presence of golf courses and the Ria Formosa nature reserve grants properties exceptional privacy. This makes Quinta do Lago appealing to those seeking a private retreat. Plot values average €1,000psm, rising to €5,000psm for frontline plots. Built villa prices range from €5,000psm for an unmodernised villa to €8,000psm for a new build villa, and €3,500psm for an apartment.

Sales volumes increased 70% between 2014 and 2015, and have now surpassed 2007 levels.

Some 63% of Quinta do Lago's residents originate from the UK, with Irish, and other Europeans accounting for the rest (Fig 6). Outside of Europe, Quinta do Lago attracts small numbers of purchasers from South Africa, Russia and Nigeria.

Retirees are present, accounting for 23% of buyers in the last four years, but the majority are business owners



**63%**  
Percentage of residents  
in Quinta do Lago that  
originate from the UK

▲ The region is a favourite of British buyers

(54%), or employed in a professional capacity (20%). Many residents bring with them young or teenage children, attracted by the large properties, safe and secure environment and leisure facilities on site. This is reflected in the age range of buyers (Fig 7). Sunshine and a warm climate are tempered by Atlantic sea breezes and properties are designed to take advantage of this.

Quinta do Lago, in common with other Algarve resorts, is foremost a place for second homes. The permanent population is estimated at only 10% of the peak summer population. Investment in the resort is ongoing by the current owners, Quinta do Lago S.A. A €50m investment programme was initiated in 2009 completing in early 2017 and will include a new sports centre offering football pitches, a gym, tennis courts, a clubhouse and outdoor pools.

### Vale do Lobo

Founded in 1962, three years before Faro International Airport was opened Vale do Lobo was the first resort development in the Algarve. This low density resort extends to 1,100 acres and includes 800 villas, 700 apartments and townhouses. Golf is a major attraction; Vale do Lobo Royal and Ocean courses are among the region's most iconic. The Vale do Lobo Tennis Academy is one of the largest tennis facilities in Portugal.

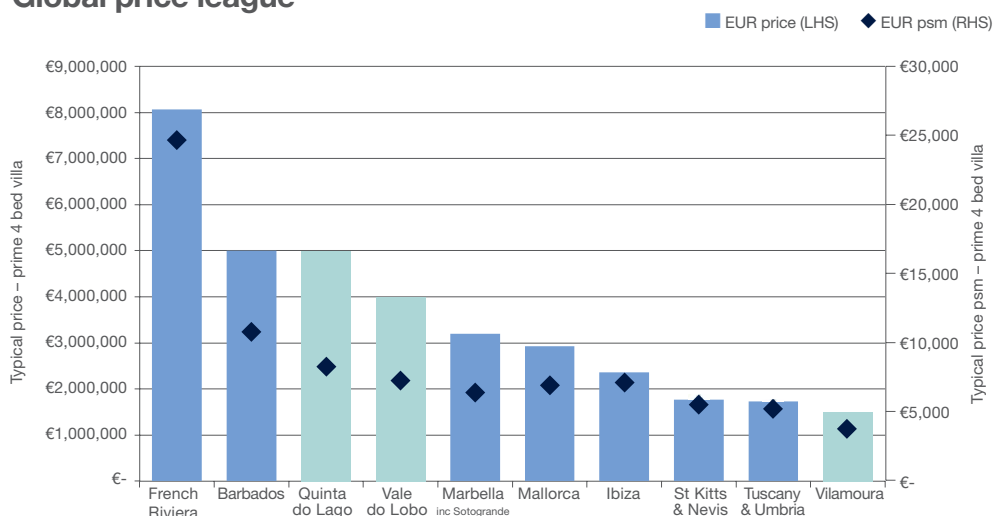
In common with Quinta do Lago, the buyer profile is predominantly British, accounting for around two thirds of purchasers. The remainder comprises mainly other northern Europeans, notably the Irish, Germans and Dutch.

Plot sizes average 1,000m<sup>2</sup>. Plot values are variable, ranging from €800psm, and rising to €7,500psm. Built villa prices average €7,000psm with apartments at around €3,000psm. In contrast to Quinta do Lago, the resort has room for expansion with land earmarked for a further 600 units and additional luxury hotel.

### Vilamoura

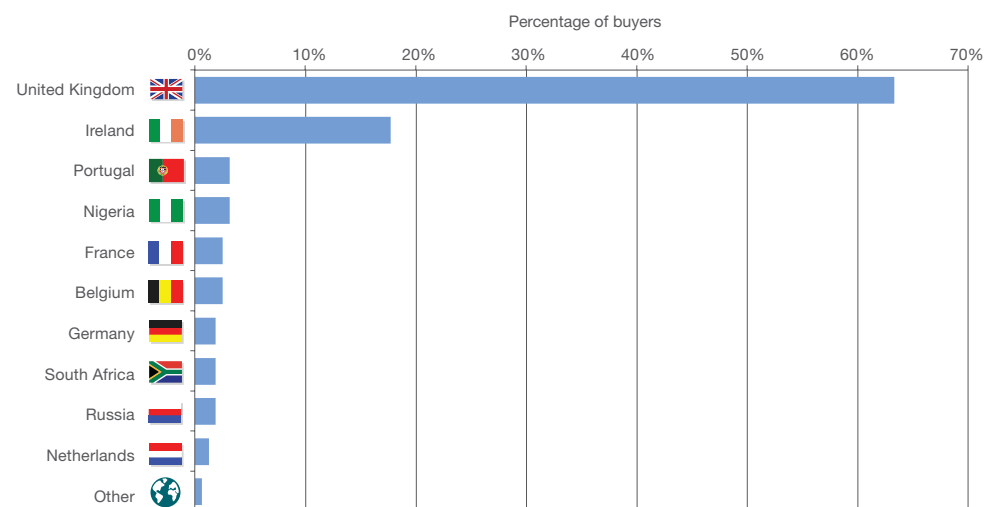
Vilamoura is a large resort, more than twice the size of Quinta do Lago and Vale do Lobo combined. Adjoining the town of Quarteira, it has a distinct commercial core, focused around an 825 berth marina (the largest in Portugal), and offers a wide range

FIGURE 5  
Global price league



Source: Savills World Research

FIGURE 6  
Purchaser nationality, Quinta do Lago (2011-2015)



Source: Savills World Research

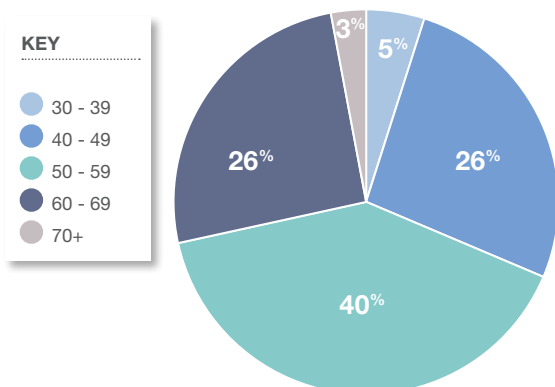


Buyers have returned and prices are appreciating



Low stock levels have driven price growth

FIGURE 7  
Purchaser age, Quinta do Lago (2012-2015)



Source: Savills World Research



of hotels, bars, restaurants, retail, equestrian facilities and a casino. Five golf courses provide the setting for lower density villa development.

Prime prices are lower here, averaging €4,000psm for prime villas, with the bulk of properties at between €2,000 and €3,000psm.

Vilamoura has recently announced a new master plan for the 400 hectare, second phase in its development. The €1 Billion project represents one of the largest real estate developments in Portugal. The master plan comprises an approved low density gross construction area of 680,000 sqm in a total development area of 4,000,000 sqm. 18 development projects are available with development areas ranging between 1.5 hectares and 168 hectares, which will accommodate a mixture of residential, leisure, tourism and retail uses.

In the near-term, significant investment will take place in and around the marina and beaches in the form of new bars, restaurants, leisure and recreational facilities and a new international yacht club. Sunseeker will be opening a sales suite and lounge in the Vilamoura Marina.

Sheraton Pine Cliffs

Pine Cliffs is a Sheraton-branded resort comprising hotel, beach club, restaurants golf course and 500 residential units, located to the west of Vilamoura, adjacent to Albufeira. The development has

been one of the few in the Algarve to attract a small number of buyers through the golden visa scheme, drawn in part by rental guarantees on offer. Product ranges from apartments aimed at the investment market, and although outside the golden triangle, large villas on cliff top plots command in excess of €9,000psm.

New development

Developed in the 1960s and 70s, the prime resorts of the Algarve are established and mature. Changes in purchaser preferences mean that original properties are being redeveloped to meet the demands of modern day living.

In the depths of the recession, opportunistic developers purchased first generation properties in Quinta do Lago and Vale do Lobo and redeveloped them into modern villas. This trend has continued with end-users, replacing first-generation properties with contemporary homes fitted with modern conveniences.

Restrictions on plot ratios mean that replacement properties must adhere to strict building codes, but the price premium they command is significant, on average 31% higher on a price per square metre basis (Fig 8). Older villas are often smaller than the maximum size allowed, which also sometimes allows some room for expansion in the rebuild.

Aside from individual plot-level development and redevelopment, new supply in the Prime Algarve remains relatively limited.

Lettings market

The Algarve is an established tourist destination and some owners rent their properties to tourists. The integrated facilities of the major resorts are especially appealing to the vacation market, and demand is strong between Easter and the end of August. The best equipped houses in Quinta do Lago rent out for between €9,000 and €15,000 per week, typically for at least 12 weeks per year.

Rentals are an effective way to pay for running costs. These vary by resort and property, but equate to around €50,000 for a 4 bed villa at Quinta do Lago, or between 1% and 1.5% of property value. The running costs are usually covered at around 4-5 weeks of let.

OUTLOOK

Portugal’s economy is forecast to continue its tentative recovery. Economic reform is already making the country more appealing to investors, and Lisbon has been the major beneficiary of this. While the Prime Algarve has proved to be sheltered to nationwide economic conditions, it is not completely disconnected from national performance. A stronger Portugal will further instil confidence in the region.

The region’s best resorts have ‘safe haven’ qualities, offering prime property in a low supply, secure environment, attractive to international investors. This puts the Prime Algarve in a strong position at times of volatility in other asset classes.

The resorts of the Prime Algarve are evolving to meet modern day occupier demands. Contemporary homes are replacing first generation villas and resort investment is ongoing. The region benefits from a diverse range of occupiers, from young families to retirees. In line with an ageing European population, we anticipate growing demand from downsizers, representing a yet untapped market segment for smaller properties.

The resorts of Quinta do Lago and Vale do Lobo have an overwhelmingly British client base, supplemented by other Europeans. This means dependence on the UK economy. Relatively little demand has come from emerging markets via Portugal’s ‘Golden Visa’ scheme, who typically seek urban product close to the minimum investment mark. Longer term, the question remains if wealth from China and other new markets find its way to the Algarve. As tastes mature and budgets rise, new investment may follow.

FIGURE 8 Contemporary premium Quinta do Lago



Source: Savills World Research

## About Quinta Properties

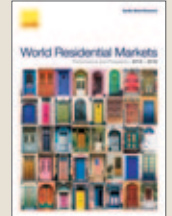


Quinta Properties is a leading luxury property agency based in Quinta do Lago serving the whole coast but focusing their efforts in the Central Algarve. Our qualified, multilingual team are

passionate about property and their expertise in the local property market enables them to maintain the highest standards of client care, ensuring our clients achieve their property goal. Quinta Properties are proud to be an international associate of Savills plc.

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