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Savills World Research
International Residential

Spotlight
Prime Residential Retreats

2014

Notes about the publication

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Foreword
RETREAT PROPERTY COMES TO THE FORE

An improving global economy has brought with it an increased appetite for prime leisure property in 'retreat' locations

Welcome to this first edition of 'Prime Residential Retreats'. Here we look at a selection of the most popular and widely invested resorts and hotspots around the Mediterranean, the Alps, South Africa and the Caribbean.

The growing interest in this type of real estate comes at a time when urban real estate has been the biggest growth story of the last five years. City property defied the credit crisis, even in some of the countries that it hit hardest. Strong price growth was seen, especially in world class cities, while many out-of-town markets languished and fell in value.

But, while cities may have been the growth story for the last five years, it is likely to be city getaway locations that show the best growth in the next five. With many first tier world cities now looking fully valued, real estate buyers are casting around for alternatives. Some may find what they want in secondary markets and second tier cities, but others will spot the immense buying opportunities that now exist in the wide variety of locations that we have always called 'retreat property'.

Resorts, recreation and destination real estate is nearly always a discretionary purchase, made when economic conditions have created spare cash in the hands of second home buying households. Buoyant while the good times roll, these markets do often suffer disproportionately during economic downturns because unnecessary spending, such as that on second homes and holiday homes, is inevitably always the first to be cut back during a recession.

Add to this mix the fact that some resorts saw high levels of development during the boom years, and we see that, in these places, prices have been further suppressed by oversupply. All this means that there can be considerable buying opportunities for those wishing to catch the upswing.

Already, we have seen some Alpine markets and European and Caribbean resort markets start to recover in 2013 and 2014. In some cases, trading is taking place where none was before and in others prices are beginning to rise.

There are strong signs that the recovery which started in cities in 2009 is now rolling out to the hinterlands and boltholes inhabited during weekends and vacations by equity rich homeowners. This study looks at the most popular and active of these markets and examines their characteristics and prospects in future years.

Yolande Barnes
Twitter: @Yolande_Barnes

"While cities may have been the growth story for the last five years, it is likely to be city getaway locations that show the best growth in the next five" Yolande Barnes, Savills World Research

SUMMARY

- Prime residential retreats, reliant on international second home buyers, were hard-hit in the global economic downturn. Prices fell by more than a third in some markets, but held up better than 'mainstream' leisure destinations.
- 2013 marked a turning point – with an improving global economic outlook and a 'bottoming out' of some local markets came renewed appetite for leisure property purchase and transaction levels are beginning to recover.
- Truly prime markets in strong economies led the way. Ski apartments in Switzerland, 'turnkey' prime resort property in Caribbean, and small, high yielding apartments in Venice all performed particularly strongly last year.
- British and American buyers are returning as the economic environment improves at home. Scandinavians have offset a decline in Italians and French, who are now net-vendors. Russians continue to be a driving force at the very top of the prime retreat markets.
- 'Golden visas' and incentives have been introduced in some markets as a key pillar in economic recovery, some of which are extremely generous. Portugal has been successful in attracting significant Chinese investment in this manner.
- The Chinese have been high-profile investors in vineyards in France and South Africa, but real estate purchases by this group has been to date an investment, rather than leisure play. We foresee growth to come.
- 2015 will see the rise of other prime jurisdictions, led by high quality, low supply markets, including prime hotspots in the Algarve, Balearics, Tuscany and Caribbean. For longer term investors the more fully discounted markets provide value and will see longer term uplift as supply rebalances. The markets of the Eastern Med and South Africa pose opportunities here.
- We anticipate that many residential retreats will continue to see price growth – of up to 10% in 2014. Some will see a return to their former peaks by 2019.

THE RETURN OF THE RESORT

Residential retreats are starting to offer alternative real estate markets for new investors

Global prime second home markets expanded rapidly in the run up to 2008 fuelled, in part, by cheap credit. Resort, retreat and second homes are a particularly western phenomenon, being more popular among Europeans and North Americans than with Asians.

This meant the debt crisis, hitting 'old world' economies harder than 'new world', had a significant effect on this type of real estate. There were virtually no Asian buyers to plug the gap when westerners departed, unlike world city markets which showed more resilience and faster recovery.

The use of high loan to value mortgages pre-2008 enabled buyers to enter markets they would not otherwise have been able to, providing a means for wealthy individuals to invest in multiple properties. The withdrawal of credit after the global financial crisis shifted the dynamics of these markets. Mortgaged purchasers withdrew, equity buyers came to dominate, so only the most established prime locations saw sustained activity. Downward price corrections, especially in high supply markets, have been significant in some cases.

There are now three trends that put 'retreat properties' in a better position than they have been for the last five years. First, many prime city markets have shown good performance but have become much more fully valued, so buyers are actively looking for alternative real estate markets in which to invest. Prime second homes in the most sought after locations are an obvious choice.

Second, as credit markets begin to become more liquid, investment is returning to residential retreats. In Europe, low interest rates are making overseas property loans more affordable (although lending requirements are much more stringent than in the pre-crunch era). Equity remains the most dominant form of finance in less established markets.

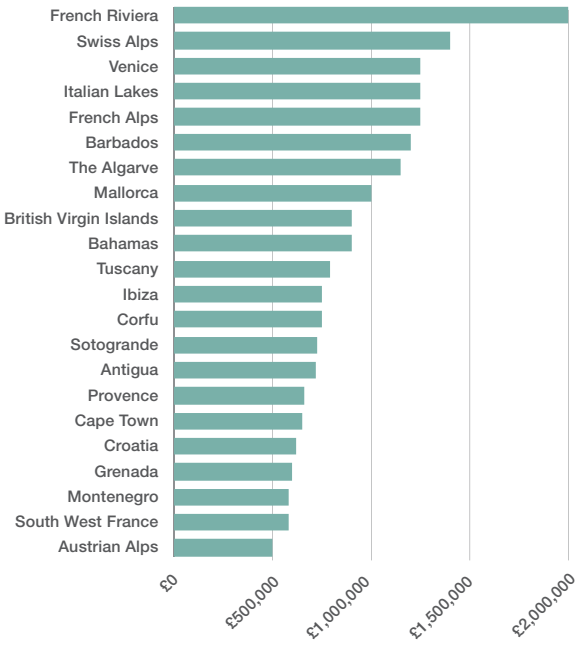
Third, some jurisdictions – as diverse as Portugal, Cyprus and Antigua, for example – are offering 'golden visas' to real estate purchasers above a certain value. This is actively boosting demand for resort and retreat properties from nationalities not often associated with this type of property.

Confidence is also building as some of the biggest second home investor nations, such as the UK and the US, see more engrained economic growth at home. In Britain, a strengthening pound has left euro denominated markets looking particularly attractive (prices in Spain are 44% off their former highs in sterling terms). Scandinavians, relatively unscathed by the global financial crisis, are in a strong purchasing position and are particularly active in the prime hotspots of France, Spain and Italy.

Given that in many of these markets prices are more than 30% below their former peak, many buyers are moving now to secure a deal. Transactions, however, were the biggest casualty of the market downturn, and the majority of 'retreat' home owners have held their assets throughout the market downturn – distressed sales in the prime locations profiled here have been relatively few.

GRAPH 1

Typical four bed villa price across prime residential retreats



Source: Savills World Research

Resilient local markets

National trends often disguise more resilient local markets. In hard-hit Spain and Portugal, where prices have fallen by 40% (IMIE Tinsa) and 18% (INE) from their former highs, respectively, the prime residential retreats so attractive to the international market have proved resilient. Portugal's Quinta do Lago, a prime residential resort on the Algarve, experienced a relatively strong 2013, this driven in part by the country's new 'golden visa' programme (see panel opposite).

Where tourism leads

Tourism often goes hand in hand with an area's success as a second home destination. So an improving global tourist sector bodes well for the long term success of these prime residential retreats.

According to the UN World Tourism Association, the number of international tourist arrivals grew by 5% in 2013 to 1.087 billion, the highest number ever recorded. Where tourists lead, real estate buyers will often follow – as long as the price is right.

If the tourist story is important for real estate, then changes in this sector are of relevance. The

"An improving global tourist sector bodes well for the long term success of these prime residential retreats"

Paul Tostevin, Savills World Research

composition of global tourists is changing: China became the number one source market for tourists in 2012. While currency and other restrictions are likely to prevent the average Chinese real estate investor buying overseas for at least the next decade, high profile, high-net-worth Chinese investors have already made moves into vineyards in France and South Africa, for example.

Real estate purchase for most Chinese has, to date, been an inward investment in home city real estate, rather than a leisure play. If the Chinese were to embrace ski resorts and sunbelt destinations in the same way as Americans and Europeans, the potential from this market to expand dramatically would be substantial. France, already the biggest recipient of Chinese tourists in Europe, is well placed to attract prospective buyers from this region.

Golden visas

A strategy for stimulating investment to revive real estate markets and the economy

Countries employing 'golden visas' are actively turning depressed real estate markets to their advantage. Many are also making a direct link, explicitly or implicitly, between the propensity for those investing in a country's real estate to also invest in other areas of its economy. Real estate investor visa programmes, or 'golden visas', are now a key strategy in reviving residential markets and building broader economic recovery in countries including Spain, Greece and Portugal.

These schemes work by investors making a minimum investment in residential real estate being granted a visa providing residency rights or, in some cases, citizenship and consequently valuable access to other European Schengen Area countries.

Portugal has been among the most successful in the golden visa initiative, with its €500,000 minimum investment scheme enjoying strong traction with the Chinese, who accounted for 78% of the 318 visas that were issued in 2013. Russians, Angolans and Brazilians have been the next biggest recipients.

Spain, Cyprus and Greece have since followed suit with their own schemes, while a number of Caribbean islands offer particularly generous programmes, summarised in the table below. In both Grenada and St Kitts and Nevis, no visit is even required.

TABLE 1

Golden visas – selected real estate investment programmes

Country	Type	Minimum Investment amount	Length of visa / citizenship	Required time in country
Portugal	Visa	€500,000	One year, renewable	7 days in first year, 14 days in following 2 years
Spain	Visa	€500,000	One year, renewable	7 days in first year, 14 days in following 2 years
Greece	Visa	€250,000	Five years, renewable	Not stated
Cyprus	Visa/Citizenship	€300,000 or €5m	3 year/ Citizenship	No visit required
Antigua and Barbuda	Citizenship	$400,000	Citizenship	35 days in first 5 years
Bahamas	Citizenship	$500,000	Citizenship	Not stated
Grenada	Citizenship	$500,000	Citizenship	No visit required
St Kitts and Nevis	Citizenship	$400,000	Citizenship	No visit required

Table Source: Savills World Research

Worldwide demand
FRANCE

France is home to some of the world's most desirable prime retreat locations

The French residential market fared well compared to some other European countries in the years immediately following the global financial crisis. Modest price falls of 10% were recorded between 2008 and 2009, and France continued to enjoy foreign investment in its high end leisure hotspots.

While in recent years the country's residential markets have battled with stop-start economic recovery and negative sentiment associated with some of President Hollande's policies, 2014 has seen stability begin to return to the market once again.

Mortgage-driven, international buyers are becoming active again as the lending environment becomes more favourable and interest rates remain low.

Meanwhile, a temporary reduction of 25% on capital gains on second properties has been introduced in a bid to bring greater fluidity to the French market. In the most exclusive Riviera locations, Cap Ferrat and St Tropez, transaction volumes are starting to recover off a low base.

The French Riviera remains among the world's most exclusive and desirable destinations for second home ownership. An extremely limited pool of stock (there are just 500 homes in exclusive Saint Jean Cap Ferrat, for example), coupled with demand from buyers around the world, means that the long term outlook for prices in this area are positive. Prospective purchasers will need to compare current pricing with the likelihood of a changed economic, Eurozone and political outlook. Demand – and prices – could recover quickly.

More peripheral Riviera locations such as Valbonne and Mougins have already seen British buyers return. Meanwhile, Russian and Middle Eastern buyers, central to the Riviera market, have demonstrated strong demand for rental properties.

Inland, Provence continues to stand the test of time and attracts buyers from across Europe, particularly from the UK. In South West France, the market for renovation projects has largely disappeared.

Buyers now are favouring turnkey properties, reflecting a search for convenience. Vendors have become realistic on pricing in the last five years; this is just as well because prospective purchasers are seeking good deals. Non-euro denominated purchasers find themselves in a particularly strong position against the weaker euro which is fuelling interest from Nordic and British buyers in particular.

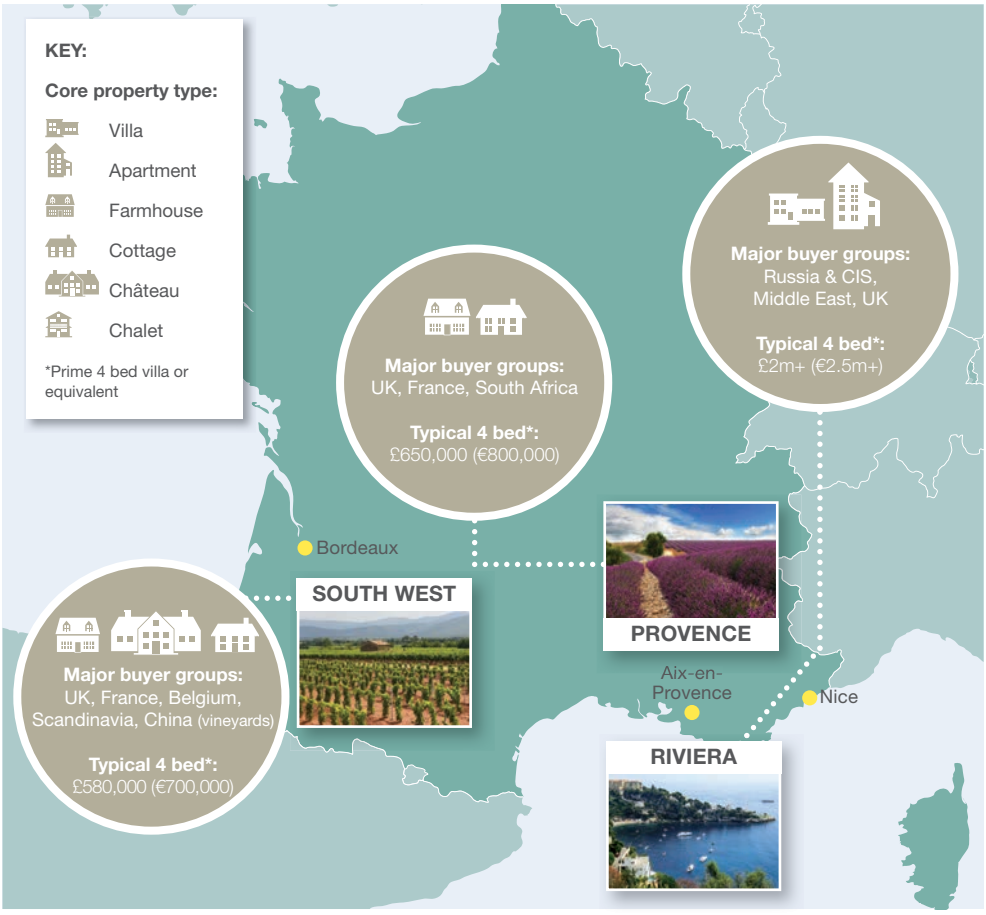
An emerging trend in the ultra prime markets of the Bordeaux region has been the purchase of vineyards by Chinese investors. These are business ventures but fall firmly in the 'investments of passion' category as they reflect the growing fashion for fine wine appreciation, particularly claret, and are the ultimate addition to a prestige cellar.

As yet, there is no evidence of Chinese buying vineyards, or other types of real estate in Europe purely for leisure purposes.

This is also reflected in an early trend we are observing in the purchase of French hotels by Chinese nationals, a business rather than a lifestyle choice. Both trends do however echo the expansion of Chinese tourism in France. France led Europe in receiving 1.2 million Chinese tourists in 2012. This could still be an early indicator of second home investment in the region to come.

MAP 1

France



Source: Savills World Research

Income opportunities
THE ALPS

The growth of summer season visits to Alpine retreats is further diversifying demand

The Alpine property market saw prices stabilise in 2013 following falls in 2011 and 2012. Both viewings and transactions increased in 2013, while both were up again – by 200% – in January and February of 2014. The market for ski homes is gaining momentum.

The majority of Alpine property buyers are regular skiers in the region, and although the number of winter ski trips to the Alps are still below their 2007-08 peak when 700,000 trips were made, winter visitors have started to increase again. The residential markets are also aided by growth in summer season visits, as the mountains attract larger numbers of walkers and cyclists.

Switzerland's status as a safe haven – with its attractive fiscal environment and historical political and economic stability – is an attraction for buyers from around the world. International buyers are diverse, but the Swiss Alps have seen purchasers from Asia, in particular Singapore, and young buyers (on average in their early 40s).

Buyers from northern Europe are also on the increase in the Swiss Alps. The rental market is strong, so renting out a property for just three weeks a year in Verbier will usually completely cover the annual running costs of the property. Apartments are popular, especially new build properties which can provide a range of attractive offerings such as proximity to lifts, parking, 'wellness centres' and concierge services.

In scenic Austria where ski resorts and lakes are often close together, dual season properties are popular. Lower capital values in this market have meant buyers can find good, income producing investments.

New developments are underway in many resorts, so supply is not as constrained as in some other Alpine locations (especially Switzerland). Chalets remain popular and relatively affordable in Austria.

UK buyers are the biggest buyer group here, although the country is also popular with those from the Czech Republic, Russia and other countries in the CIS.

The French Alps have seen a mixed picture in terms of pricing. Where Courchevel has seen prices stabilise at 20% below 2008 values, limited supply has helped both Megève and Val d'Isère see sustained price growth over the five years to 2013.

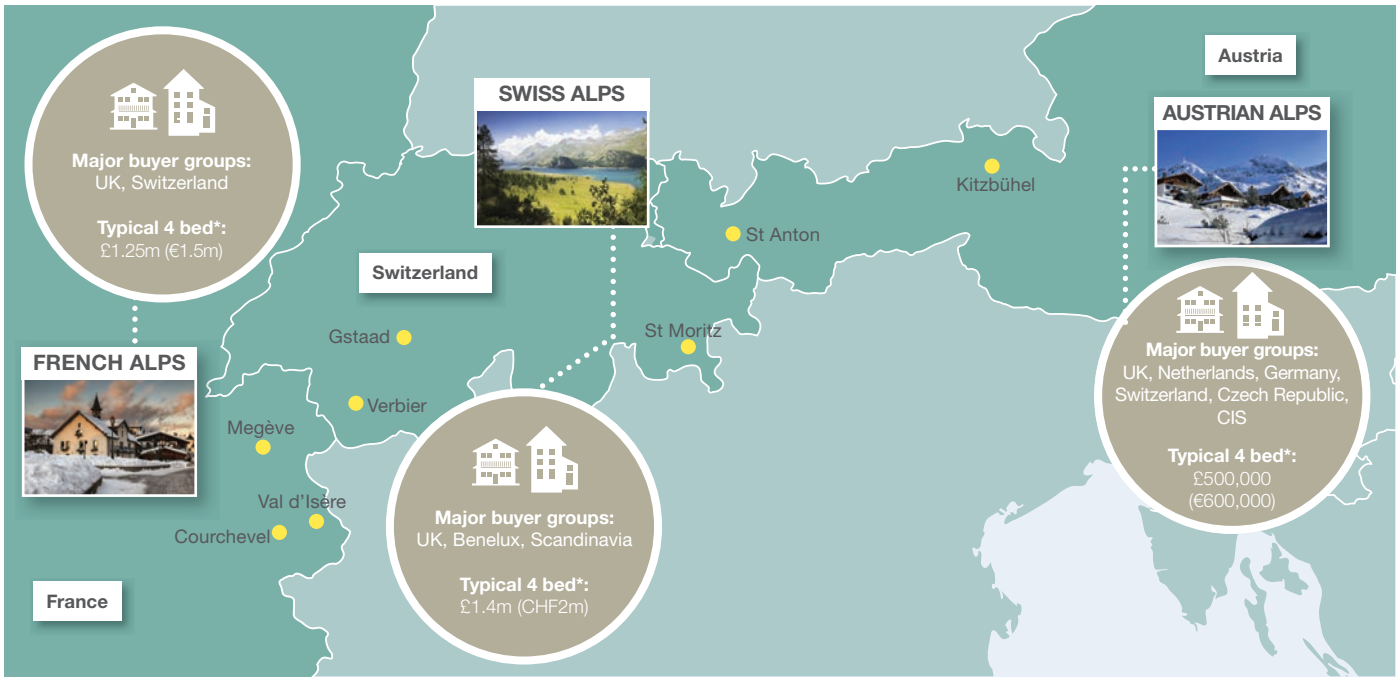
As with the rest of France, confidence in the market is still relatively weak, impacted by ongoing uncertainty around the French tax environment and economy, but has the potential to strengthen significantly should this change.

Swiss buyers have become more common in the French Alpine market over the last five years, taking advantage of the strong Swiss franc and weak euro, while UK buyers have become fewer.

Taken as a whole, the outlook for the Alpine property market looks positive with increased buyer interest and transactions in recent times.

MAP 2

The Alps



Source: Savills World Research

Golden visas
SPAIN & PORTUGAL

Real estate investor visas have helped to revive some second home markets

After a long recession in Spain and Portugal, there are signs that the second home market is starting to look brighter, at least in some places. Prices for good quality second homes have fallen by between a quarter and a third from the peak of 2007. This means there are still some bargains to be had.

Quinta do Lago in Portugal's Algarve is a golf-centred development long popular with British buyers. In 2013 alone, 57% of all purchasers in the resort were from the UK. These are lifestyle buyers, typically in their fifties, attracted by the golf courses, sunshine and sea. Properties at the top end of the market there are still in demand and there has also been a resurgence in smaller town houses and the apartment market. This is in contrast to most of the residential markets in the rest of the Algarve, which remain extremely depressed.

Portugal's golden visa scheme (see page 05) has seen significant uptake from the Chinese, who have focused their buying mainly in Lisbon. This reflects the still dominant preference of many Asians for urban properties.

Having said this, some of these buyers have purchased at Quinta do Lago, perhaps exposing a nascent wider potential for leisure-oriented real estate. Developers in the final stages of completing schemes are tailoring their packages around the golden visa categories with the €500,000 minimum spend in mind.

Durability and investment returns are at the forefront of these buyers' minds; they are seeking a good rental and a property that will sell well in five or six years time.

The residential markets of the Balearics are as varied as the islands themselves. Ibiza has been the star performer, having refined its image in recent years. The island offers high end entertainment, retail and restaurants, attracting a diverse range of sophisticated buyers to its shores, typically aged between 35 and 50. The island is particularly popular with the British, but Spanish will also buy second homes here. In the best spots villa prices have recovered to their pre-peak levels. In neighbouring Mallorca, where supply is greater, the market has remained suppressed, although Scandinavians have been particularly active.

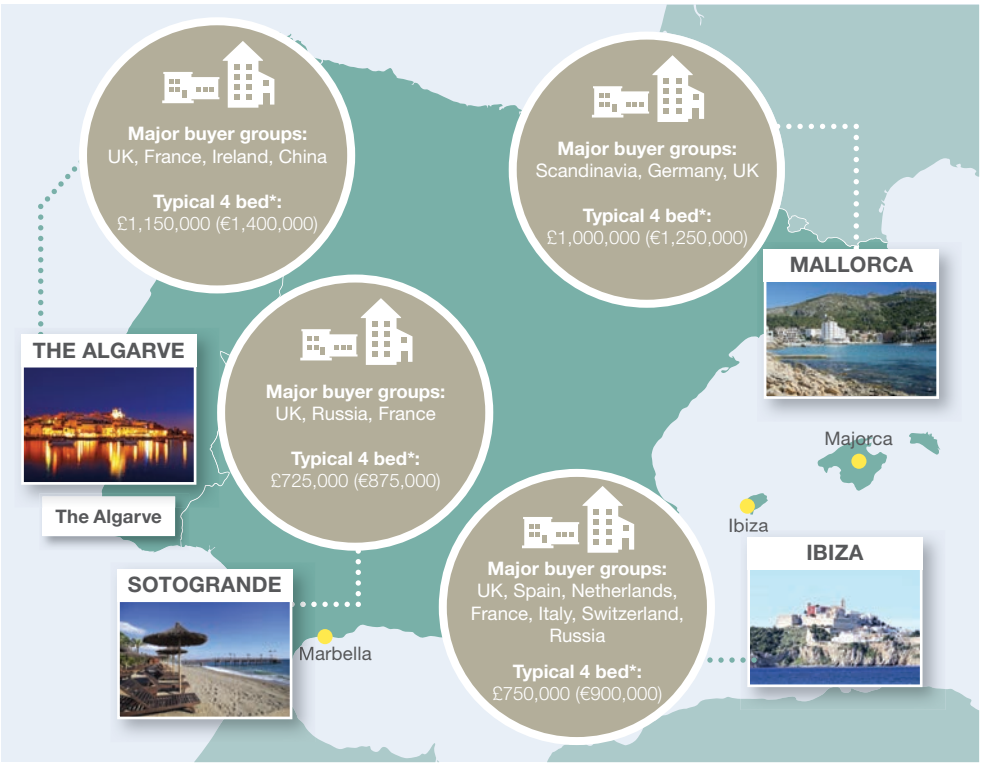
On mainland Spain, residential markets have also suffered significant price falls since 2008. Some buyers have taken advantage of this. In Sotogrande – a purpose-built resort 60km along the coast from Marbella – British, Russian and French buyers (who are often already familiar with the area) are benefiting from heavily discounted prices to buy second properties, some 30-40% below their former peak values.

Some purchasers have taken advantage of Spain's low interest rates and obtained local mortgages, although the majority of buyers are equity-rich. Sales, however, continue to be slow and volumes remain well below previous levels in the face of still high supply.

Spain experienced extremely high levels of new development in the run up to the market peak – much of it aimed at second home buyers in coastal resorts. Housing starts peaked at 760,000 in 2006, but by 2010 they had dropped to under 100,000. As a consequence, new development remains largely unviable. Market activity as a whole is restricted only to the most established locations.

MAP 3

Spain & Portugal



Source: Savills World Research

> "Spain experienced high levels of new development in the run up to the market peak"
> Yolande Barnes, Savills World Research

International appeal
ITALY

Italy has avoided oversupply while key hotspots have proved to be resilient

Italy has long appealed to second home buyers from across Europe for its relaxed lifestyle, climate, history and heritage.

Italy largely avoided the oversupply of new build properties seen in Spain and Portugal during the noughties. There has therefore been no mechanism of oversupply to significantly reduce residential values – despite the fact real estate appears less affordable for Italians than for other European countries.

Italy's residential markets have struggled, in terms of transactional turnover in the six years since the beginning of the economic downturn and Eurozone crisis.

The domestic market has been subdued and, although strict property regulations have prevented the market being oversupplied with new stock, an increase in annual property taxes has meant that Italians owning multiple homes are putting some of their properties on the market.

Mortgages are difficult to come by in Italy, especially for international buyers, and therefore cash buyers dominate.

There are some second home markets that have, against the odds, avoided severe price correction while continuing to see transactional activity. There is still a demand from high end international buyers for lifestyle properties in Venice, Lake Como and Tuscany.

Venice remains a sought after destination for its exceptional and unique characteristics. Its real estate is highly prized and integral to the city's character. Buyers in Venice are often familiar with the city and invest in a property to occupy for part of the year themselves whilst renting it out at other times (often during the peak summer tourist season, when the city is at its busiest and rents are highest). Rentals are underpinned by solid tourist demand, and yields of 5% are achievable.

Venice is also a popular second home destination for Italians, who make up approximately a quarter of the market. Other major buyer groups include the French and British.

In the north of Italy, Lake Como's rarefied residential market has enjoyed comparatively stable prices in recent years. Traditional properties with lake views are in limited supply, and these properties continue to trade well.

Some recent ultra-modern new developments introduce a new type of product, for example floor to ceiling glass frontages and lake views with flexible living spaces, not usually seen in traditional lakeside villas.

Further south, properties in Tuscany have seen price falls of between 15% and 30% from their former highs. The more expensive Chianti region has seen some market movement because of some recent high profile sales of vineyards to Russian buyers.

The Lunigiana area closer to Milan has seen the most activity as buyers look for relatively lower price properties and this offers the possibility of weekending from the city. The area is well served by airports and has proximity to the coast and mountains, maximising its international appeal.

Russians and South Africans are present, as are the French in growing numbers, some of whom are escaping the fear of rising taxes at home. Some French have also relocated to Liguria, along the coast from Nice.

MAP 4

Italy

Source: Savills World Research

"Mortgages are difficult to come by in Italy, and so cash buyers dominate"
Lucy Greenwood, Savills World Research

Diversity of demand
CORFU & THE BALKANS

Opportunities for long term investors increase as the region becomes more established

Tourism is a major component of economic prosperity in Corfu and the Balkans, attracting visitors from across Europe, and has been tipped to lead the economic recovery in the region.

Corfu, located on Greece's northwestern frontier is a high end recreation destination, and has proved resilient when set against the markets of mainland Greece. Prices are down by around 30% from their former highs in the desirable north-eastern coast of the island. This compares to price falls in excess of 50% in the mainland cities. The market seems to have bottomed out so good deals are on offer. Demand is selective: turnkey properties are favoured, while the market for building plots has all but disappeared.

Brits, Germans and French are the main buyers while, perhaps unsurprisingly, most of the vendors are Greeks. The recent introduction of a golden visa programme is anticipated to generate interest from Chinese and Russian buyers in particular.

A sovereign state since 2006, Montenegro has enjoyed strong economic growth and inward investment in recent years. It offers a favourable tax climate and pro-business environment. Real estate investment has been focused on the Bay of Kotor around the old Mediterranean port; when complete, it will include Europe's first 'One&Only' resort. Porto Montenegro is already established as the Mediterranean's largest super yacht marina.

Russians are the biggest non-domestic buyer group, while Montenegro's open investment environment has attracted institutional investment from the Middle East.

Like the economies in many Mediterranean states, Montenegro's rapid growth came to a halt with the global financial crisis. Its emerging real estate investment suffered as a consequence, with volumes today down 40% from their former highs.

Croatia was another country hit by the Eurozone debt crisis. Residential property prices fell significantly in the global downturn, but have stabilised in the last year. Apartments on the coast have now risen slightly in value, by 1% in the year to January 2014.

Croatia is a country of 4.3 million people – with a coastline some 6,268 km in total, the 20th longest in the world – so it offers a wealth of options for those seeking seaside properties.

Buyers here are diverse. At a national level, Slovenians account for the largest proportion of international buyers, some 43% of all foreign purchasers between 2010 and 2012, for example. Germans, Italians and Austrians account for 35% of buyers, concentrated in the north of the country. Buyers in the south include Swedes, Slovakians and the British. The latter are particularly attracted to Dubrovnik, a UNESCO world heritage site. This is among Croatia's most resilient residential markets and seems to attract buyers with a preference for exceptional and historic buildings, in the same way as the Venice market. Historic apartments inside the city walls still offer rental yields exceeding 6%.

MAP 5

Corfu & the Balkans

Source: Savills World Research

> "Corfu has proved resilient when set against the markets of mainland Greece"
> Yolande Barnes, Savills World Research

Currency discounts
SOUTH AFRICA

A weak rand puts international buyers in a strong postion to purchase a residential retreat

With its desirable, cosmopolitan lifestyle and high international profile as a tourist destination, the Western Cape stands out as one of South Africa's most in demand locations for owning residential property.

Foreigners can own immovable property in South Africa without any restriction. Around 20% of sales in the prime areas of the Western Cape metropolitan area have been to foreign buyers. International buyers originate from the UK and continental Europe and, increasingly, from other parts of Africa and the Middle East. Chinese buyers, who are major investors in African farmland, have also shown sustained interest in the vineyards of the Cape Winelands.

Prices in South Africa appreciated rapidly in the years preceding the 2008 market peak, with an average annual growth of 20% between 2000 and 2006, a sustained movement linked to the expanding middle class over this period. Prices saw modest falls in the wake of the global financial crisis, although South African residential property did not experience the same kind of price correction as has been seen in some western countries.

In recent years, however, South Africa's rand has depreciated significantly. The cumulative drop since 2011 has been extreme; 20% in euro terms, 23% to the US dollar and 24% on the pound sterling. This has made the South African residential property market particularly appealing to international investors with stronger currencies who don't believe that further significant falls in the value of their rand denominated assets will occur.

Typical house types include villas, townhouses, apartments and properties on secure developments. Secure developments are less prevalent in the Cape area compared to other parts of South Africa because the region is perceived to be safer. Atlantic Seaboard properties are the most desired because of their beach access, as are some properties on cliffs commanding views of the Atlantic Ocean.

Other popular locations are Stellenbosch in the Cape Winelands, which appeals to families and offers quality schools and a university.

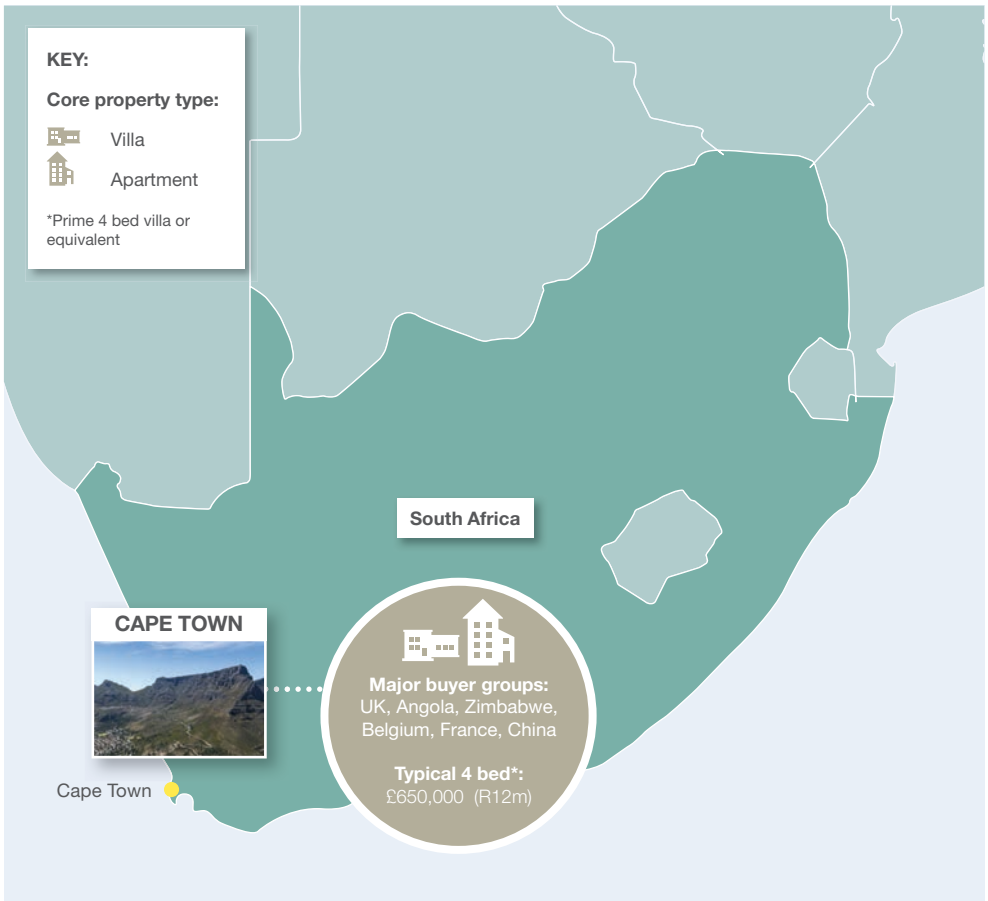
While international buyers are enjoying currency discounts, domestic buyers are battling with rising interest rates. These were increased in January in a bid to counter rising inflation.

This has impacted residential price growth, although the value of large houses (200-400sqm), as recorded by the Asba house price index, appreciated by 7.3% in the year to January 2014 (3.5% in real terms). Smaller units, by contrast, saw price falls in real terms over the same period.

While Cape Town benefits from a strong holiday rental market between November and January, high capital values mean that yields, typically under 5%, are significantly lower than those in Johannesburg.

MAP 6

South Africa



Source: Savills World Research

> "While international buyers are enjoying currency discounts, domestic buyers are battling with rising interest rates"
> Paul Tostevin, Savills World Research

Market turnaround
THE CARIBBEAN

Strong demand for 'turnkey' prime resort property has driven a recovery in the region

Residential values fell by around 30% across the Caribbean during the North Atlantic debt crisis, but 2013 saw a return of buyer interest in the Caribbean's second home market.

This was largely due to the turnaround in the US economy and a more positive outlook from American buyers as a result. Prices in the Caribbean seem now to have bottomed out and transactions are beginning to pick up; 2014 should offer buyers a window of opportunity to secure a bargain.

Tourism is the lifeblood of the Caribbean economy, a popular over-wintering destination for much of the northern hemisphere. Many of the residential markets of the Caribbean are also heavily influenced by the islands' former colonial links or relative proximity to the United States, which is the closest international buyer market.

Barbados, an ex-British colony, continues to enjoy the patronage of high profile buyers from the UK and beyond. Exclusive, world famous resorts such as Sandy Lane on the island's West Coast are the main attraction for the world's ultra-wealthy.

As a mature market, more than half the holiday homes available in Barbados – in excess of 1,500 – are located in specially developed residential communities. These offer a range of amenities including polo grounds, golf courses, water sports, marinas, spa centres, restaurants and boutique shopping. These features are tangible benefits, attractive to both end-users and investors.

Buyer preferences are generally for turnkey properties – this is because very few buyers are likely to occupy their Caribbean home for more than a small part of the year. Interest in properties that are more difficult to manage and maintain, especially the renovation or rebuild markets, is now substantially smaller than prior to the global recession.

Buyer interest has now grown again, particularly in the most well-known and prominent islands. High quality, serviced resort developments have been the star performers across the Caribbean, such as St Lucia's Sugar Beach and the Pink Sands Resort on Canouan in the Grenadines. A dearth of new development during the downturn means that there is little or no new supply available and so off-plan sales have resumed in the most established markets. Even the sale of individual development land plots is showing early signs of a come-back in some locations.

Reasons for buying in the Caribbean are becoming more diverse: tax, lifestyle, investment, family ties, even flexible working arrangements, are part of the real estate story. On Cayman, a new medical tourism facility is anticipated to drive economic growth and underpin the residential markets for years to come.

Other islands are positioned earlier on the investment curve. The Antigua and Barbuda Citizenship by Investment Program provides qualification for citizenship through a $400,000 investment in real estate (or an investment in the national development fund or business). The scheme has already resulted in significant activity from Chinese investors. Antigua follows in the footsteps of St Kitts and Nevis, which has a longstanding visa scheme established in 1984.

Other major Caribbean markets include the Bahamas, consisting of more than 700 islands and cays, the closest Caribbean country to the United States and a major recipient of US investment. Such close ties to the US meant that the Bahamas saw particularly large price falls between 2007 and 2010 (up to 40%), but the market has since stabilised and sales volumes have started to recover as

buyers seek to secure deals.

The British Virgin Islands (BVI), part of the Virgin Islands archipelago, consist of Tortola, Virgin Gorda, Anegada, and Jost Van Dyke, along with over 50 other smaller islands and cays (only around 15 of the islands are inhabited). Unlike other parts of the Caribbean, there are few large resorts on the BVI – instead, individual properties dominate the market. Without direct flights to the US mainland or other major destinations, most buyers discover the BVI through sailing, attracted to its low-key and understated lifestyle.

The BVI residential market peaked in 2007, and as a third or even fourth home market (rather than a second home market) supported by the strong offshore finance sector, there was no major price crash, although transaction volumes suffered.

Recent developments offering townhouses on the waterfront, such as Nanny Cay Marina, have sold well in the last year. Yacht Club Costa Smeralda on Virgin Gorda, the sister club to the famous northern Sardinian resort, may well raise the island's international profile. The vast majority of buyers hail from the United States, with Canadians and some British also present.

In the southern Caribbean, just 160km north of Venezuela, lies Grenada. The island's relaxed, laid-back character attracts British and some Canadian purchasers, although the market is much more domestic than some. Low entry values are offset by comparatively high transaction costs (a 10% licence fee applies for foreign buyers on purchase and a 15% land transfer tax applies on sale). As a consequence many buyers choose to make the island a permanent home, and it is particularly popular with retirees.

> "Developments offering townhouses on the waterfront have sold well in the last year"
> Paul Tostevin, Savills World Research

MAP 7

The Caribbean

Source: Savills World Research

OUTLOOK

Conditions are positive for price growth in quality residential retreat markets

Our round-up of global resorts illustrates some important global trends and some pointers to what might shape global retreat markets over the next decade.

The recovery in real estate values, which started in world cities in 2009, is now beginning to extend beyond the prime markets in those cities and towards retreats and resorts. With faith in many urban real estate markets now restored, it is now the turn of the second home and retreats markets to benefit from an inflow of capital from wealthy purchasers.

We anticipate that many residential retreats will continue to see price growth – of up to 10% in 2014. Some will see a return to their former peaks by 2019.

The market is likely to continue to be equity led rather than debt reliant. The easing of lending conditions in the industrialised economies will eventually be matched by interest rate rises, offsetting the attraction of borrowing. This means that transaction volumes are likely to remain lower than pre-2008 for some time.

> "The recovery in real estate values is now beginning to extend beyond the prime markets in world cities and towards retreats and resorts"

2015 will see the rise of other prime jurisdictions, led by high quality, low supply markets, including prime hotspots in the Algarve, Balearics, Tuscany and Caribbean. For longer term investors the more fully discounted markets provide value and will see longer term uplift as supply rebalances. The markets of the Eastern Med and South Africa pose opportunities here.

There is a special category of residential real estate buyer attracted by world class heritage. The growth of these markets is dependent on the number of ultra-high-net-worth individuals willing to make such an investment of passion. We think that the sheer rarity and a growing interest in heritage and antiquities among this group will secure and even enlarge these markets – but over the longer rather than shorter term.

Overall, we foresee price growth resuming and continuing in most high quality residential retreat markets for the next seven years, concentrated in the prime sector which will be equity driven rather than debt reliant.

The highest performers will be those that benefit most from changing fashions and preferences among the world's wealthy. These locations could be different from those that proved most popular prior to the crisis of 2008.

Savills team

World Research

Yolande Barnes
World Research
+44 (0) 20 7409 8899
ybarnes@savills.com

Paul Tostevin
World Research
+44 (0) 20 7016 3883
ptostevin@savills.com

Lucy Greenwood
World Research
+44 (0) 20 7016 3882
lgreenwood@savills.com

International Residential

Rupert Sebag-Montefiore
Head of Global Residential
+44 (0) 20 7409 8845
rmontefiore@savills.com

Jelena Cvjetkovic
International Residential
+44 (0) 20 7016 3754
jcvjetkovic@savills.com

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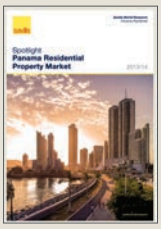

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For more information, visit savills.co.uk/research

33 Margaret Street
London W1G 0JD
+44 (0) 20 7499 8644

savills.co.uk

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