

Why Savills?

Savills is a leading global real estate service provider listed on the London Stock Exchange. The company, established in 1855, has a rich heritage with unrivalled growth. It is a company that leads rather than follows, and now employs over 19,000 staff in 200 offices and associates throughout the Americas, Europe, Asia Pacific, Africa and the Middle East.

A unique combination of sector knowledge and entrepreneurial flair give clients access to real estate expertise of the highest calibre. We are regarded as an innovative-thinking organisation backed up with excellent negotiating skills. Savills chooses to focus on a defined set of clients, therefore offering a premium service to organisations with whom we share a common goal. The Savills name is synonymous with a high quality service offering and a premium brand, takes a long term view on real estate and invests in strategic relationships.

Services

Based in Berkeley Square in London's West End, the International Residential Department provides an extensive range of property services for international property owners and developers:

Consultancy

Market research, concept development, urban and resort master planning, financial investment and structuring, programme management coordination, branding, sales and marketing services.

Agency

Development sales and market services for international developments and resorts. This includes both on-site and off-site sales operations and global sales road-shows. Our Alpine Homes Division a leading specialist in the sales of ski property for pleasure and profit.

Network

Individual and multi-unit property sales services through an international network of Savills and associate offices around the world. We also offer a bespoke off-market property sales service.

Research

Knowledge of both local and international market dynamics, through Savills' global presence and research capabilities. Includes regular reporting on local market conditions and research reports tailored to clients' specific requirements.

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Market snapshot

UK second homes overseas, 2009



Cover image: Caribbean Sotogrande, Spain

Introduction

In 2009 Savills International Research and HomeAway.co.uk conducted an online survey of UK overseas second home owners attracting 1,200 respondents. Analysis of the survey shows trends in buying activity over the last decade and gauges market sentiment in today's economic climate.

Whilst UK overseas home ownership has doubled since 2001 (see Figure 1) recent global recessionary trends have seen take-up levels dramatically slow. Confidence started to ebb in mid 2007 but it was not until the banking crisis in September 2008 that overseas property purchasing ground to a halt. By spring 2009 Savills International noted that interest in international holiday homes had returned, albeit at far lower levels than previous years. The market has now reverted back to traditional, end-user buyers (as opposed to investors), and mostly in traditional, established hotspots.

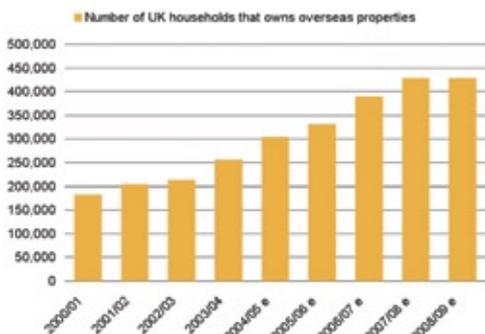
“In 2010, the overseas second home market will be characterised by cash-rich, lifestyle buyers benefiting from lower prices in traditional, established holiday home hotspots”. **Charles Weston-Baker, Head of Savills International**

Whilst 70% of survey respondents had bought their overseas property between 2003 and 2008, just 2% had invested in overseas property in 2009. A number of factors have contributed to the low level of purchases in the last year, including the contraction of the international travel and tourism industry (see Figure 2), a key driver of the holiday home sector.

Falling personal wealth levels have also played a significant role, according to Merrill Lynch / Cap Gemini, the global high net worth individual population saw their wealth reduce by 19% in 2008 compared to the previous year. Further, there is reduced financing availability. As shown in Figure 3 easily accessible mortgages with increasingly high loan to value rates have supported the market in recent years.

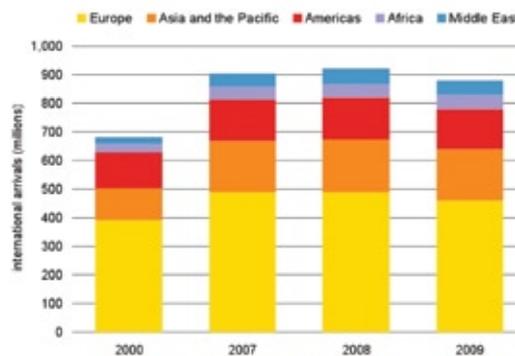
However, with tightened lending criteria and low buyer confidence, the European Mortgage Federation reported at the beginning of 2009 that continued declines in new mortgage lending brought values to early 2000s levels. In addition, unfavourable exchange rates for UK buyers in the Eurozone have also impacted purchasing activity. For Britons, the depreciation of the pound has made properties up to a third more expensive.

Figure 1. Overseas second home ownership



Source: Survey of English Housing, ONS and Savills International Research estimates. Note: 'e' Savills International Research estimates

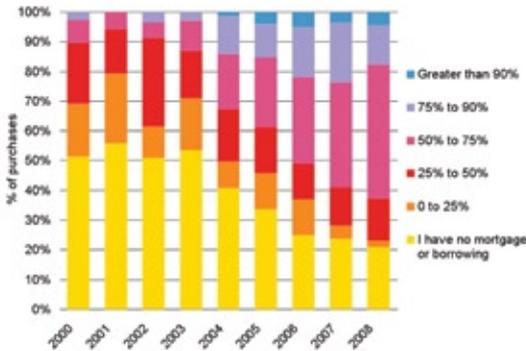
Figure 2. International travel and tourism



Source: UNWTO



Figure 3. Financing



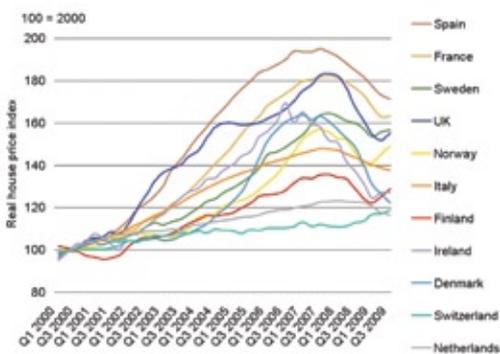
Source: HomeAway.co.uk survey and Savills International Research
 Note: 2009 data insufficient

Declining house prices (see Figure 4) have also contributed to the slowdown: Not only in terms of confidence - buyers do not want to see their purchase immediately depreciate in value - but also impacting those who would normally re-mortgage their primary home in order to finance overseas purchases.

In the current economic climate, for those struggling to keep up mortgage payments both at home and abroad, many overseas home owners have been forced to sell their property. In areas where there have been a number of such distressed sales, the high supply of properties flooding the markets has contributed to continued negative price movement in these locations. Importantly, in contrast to previous years, investors solely seeking to capitalise on upward price movement, are no longer active in the market place.

Also contributing to the low sales level are the vendors who are not under pressure to sell their properties and who are reluctant to sell at reduced values. They are therefore choosing to wait until market conditions recover before committing to a sale. These factors have led to the reduction in transactions since mid 2007. As such, ownership levels have remained relatively static in the last year, with almost 430,000 UK households in possession of overseas properties.

Figure 4. House price movement



Source: OECD

Where do Britons buy?

Previous survey data has shown that choosing an ideal holiday destination is the most important factor for buyers in the holiday home purchase process. As shown in Figure 2 the tourism industry has expanded in recent years, supported by the rise in budget airlines and consequently the growth in regular, short-break holidays, and fuelling demand for holiday homes.

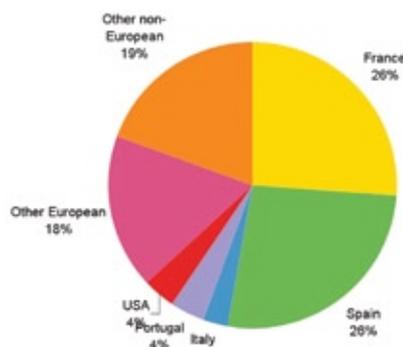
Figure 5 demonstrates that most UK buyers invest close to home, primarily in Spain, France and Portugal, followed by the US and Italy. Whilst western European countries have been traditional favourites, survey analysis in Figure 6 shows that over time, the proportion of purchases here has diminished, in favour of locations such as south eastern Europe (Cyprus, Greece and Turkey) and further afield, the US and the Caribbean.

Based on the few transactions made in 2009, European countries have remained the preferred option. In Savills International experience, it has been southern France, Spain (the Balearics) and Portugal's Algarve region that have been the most popular destinations to invest in 2009.

Quinta do Lago, Algarve, Portugal



Figure 5. Location of second homes abroad



Source: Survey of English Housing



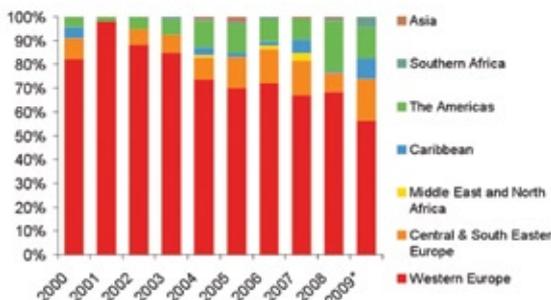
Reflecting travel and tourism trends, investments in long haul holiday destinations such as the Caribbean, southern Africa and Asia, which offer warm climates enable property owners to benefit from longer visiting seasons and consequently, extended rental periods.

Similarly, property buyers have also been capitalising on short-term lettings in the year-round city break market. Indeed, investments in the US have primarily been in major cities, such as New York, which ranks among the top city break rental destinations according to HomeAway.co.uk, following London, Nice, Paris, Barcelona and Rome.

In general however, compared to inland country and urban areas, it is beach holiday destinations that attract most second home investment. Motivated both by their own holiday plans and the letting potential, half of UK overseas home owners have bought properties in coastal locations as demonstrated in Figure 8. Spain, followed by France, Portugal and Cyprus, tops the list for coastal properties bought by UK buyers, while for those seeking rural and mountain-based holiday homes, it is France that attracts most investment. Accessibility is key to overseas home buyers, with almost 80% of overseas



Figure 6. Purchasing activity by region



Source: HomeAway.co.uk survey and Savills International Research
 Note: *2009 data from a small sample base

Figure 7. Top city-break rental destinations

London	1
Nice	2
Paris	3
Barcelona	4
Rome	5
New York	6
Cannes	7
Venice	8
Bruges	9
Edinburgh	10

Source: Enquiries sent via HomeAway.co.uk

Quinta do Lago, Algarve, Portugal

Opposite: Sveti Marko, Montenegro

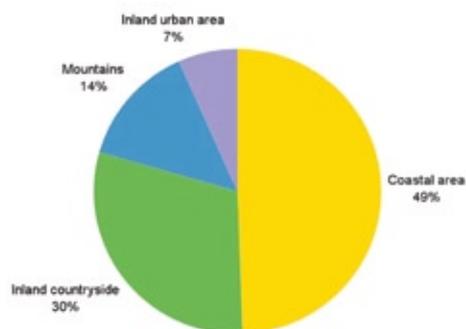
properties located within 60 miles of an airport, the majority of which (85%) are serviced by low-cost airlines.

On the whole, UK buyers seek properties in tranquil locations, affording peace and relaxation, with the benefit of easy access: Figure 9 shows that more than half of properties are located in rural and village areas. Importantly, there has been a rise in buying homes in purpose-built resorts in recent years. This reflects not only the growth in preference for such developments but also the rise in quality and quantity of such communities.

Since the 1970s, Europe has seen a proliferation of resort development along the lines of the US model. Integrated, master-planned resort communities comprise not just holiday homes but also leisure and sports amenities such as golf courses and spas, all set in managed environments and often with branded hotel operators. They have emerged particularly in Mediterranean locations, and increasingly in developing destinations where tourism sectors are less mature.

The range of onsite amenities and level of service provision at these resorts has helped draw tourism to these destinations even outside of the peak summer periods, supporting extended levels of rental occupancy and making property investment an attractive option. Further, many resorts offer convenient property management services, such as maintenance and

Figure 8. Property location

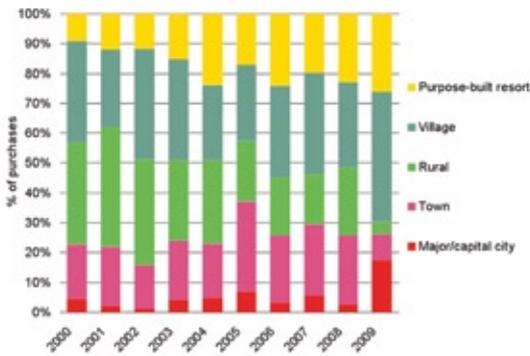


Source: HomeAway.co.uk survey and Savills International Research





Figure 9. Purchases by built environment



Source: HomeAway.co.uk survey and Savills International Research
 Note: *2009 data from a small sample base

supervision, which can alleviate home owners from the challenges of managing their property from afar.

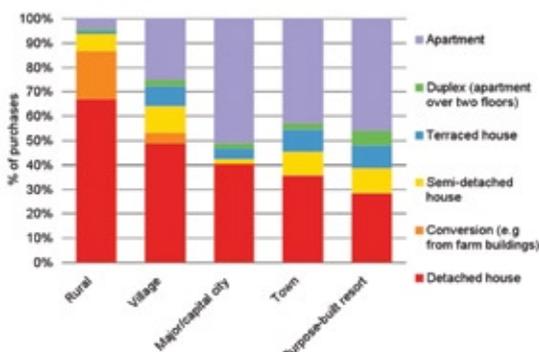
What do Britons buy?

In terms of property types, owing to the preference for buying in rural and village areas, the overwhelming majority of buyers have invested in large, detached units, typically with three and four bedrooms, which can often accommodate more than one family or a group during a holiday. As shown in Figure 10, those buying in urban locations or popular coastal destinations where prices can be higher, have tended to prefer more compact unit types; two-bedroom apartments have been the key favourite.

Britons like to add value to their property. Survey data in Figure 11 shows that a decade ago (in 1999) almost two thirds (64%) of properties bought overseas required moderate and significant renovation (from replacement of bathrooms and kitchens to major structural change) in order to be used. In the meantime however, the popularity of buying abroad has also been met by significant new second home development in property hotspots.

New build product across the budget spectrum has emerged enabling buyers to purchase properties that are readily available for occupation. Consequently the

Figure 10. Preferred property types by location



Source: HomeAway.co.uk survey and Savills International Research

proportion of properties bought requiring significant improvement had diminished to just 22% by 2009. This trend also mirrors the rise in property purchases in purpose built resorts where new product tends to require little or no attention in order to be used, thereby enabling maximum letting potential. 2003 to 2007 was also characterised by a rise in off-plan property sales at new developments, with buyers aiming to capitalise on discounted launch prices and the longer term price growth potential.

What are the implications of price movement?

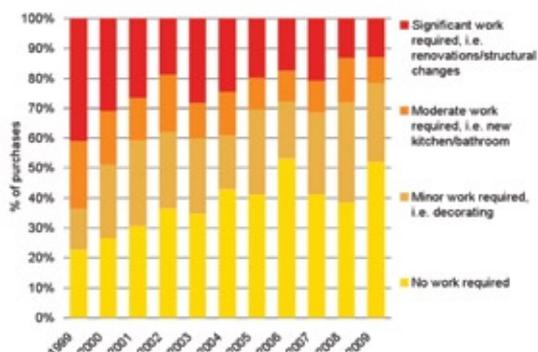
The total value of UK overseas property investment has grown rapidly not only due to rising levels of ownership, but also due to robust property price growth. Figure 12 shows that in 2001 approximately 60% of overseas property purchases were priced under £149,000. By 2009, purchases in this price category comprised less than a fifth of the market.

Survey analysis also shows that it is the higher income groups that have been responsible for the majority of overseas purchases in 2009. Higher income groups follow general purchasing trends, with investments primarily in Spain, France and Portugal. In addition, they are typically almost exclusively responsible for purchases in long-haul locations including the Caribbean, areas of Africa, and countries typically associated with high property prices such as Switzerland.

In Savills International experience, 2009 sales activity has been characterised by cash purchasers who are not reliant on mortgage market conditions to finance their purchase. The price segments of the market that have continued to see buying activity have been from €0.5 million to €2 million or between €5 million and €9 million.

As residential prices have fallen across the world, Savills International has observed that many second home hotspots have witnessed a decline of between 10% and 30% in residential values from their 2007 peak. This would suggest therefore that higher income groups, with the ability to mobilise funds, have been able to take advantage of lower prices in 2008-2009 to invest in second homes abroad. In addition, approximately 8% of all HomeAway.co.uk survey respondents indicated that if the economic situation worsens and property prices continue to decline, they will take the opportunity

Figure 11. Property renovation



Source: HomeAway.co.uk survey and Savills International Research
 Note: *2009 data from a small sample base





Villefranche Bay, France

to expanded their property portfolio by investing in distressed assets.

Why do Britons invest overseas?

Most buyers seek personal use of their overseas property; as a holiday home, for inheritance or retirement purposes respectively. Two thirds of property owners are aged between 40 and 60 years. On average, respondents use their property themselves for 12 weeks of the year and let it for a further 15 weeks. Owners whose holiday homes are located in European countries, which are more easily accessed, tend to use their property themselves more frequently than those with properties in long-haul destinations.

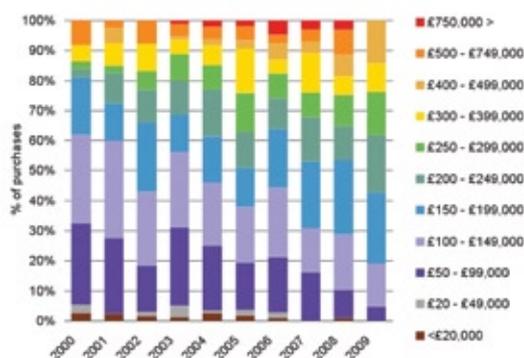
As such, properties located in far-flung locations such as the Caribbean and Africa, which offer attractive year-round climates, as well as those in US city break destinations, tend to be let for longer periods (22 weeks per annum on average), and consequently generate higher levels of income from their properties on average. Survey data shows that on average, overseas properties generate between £650 and £700 (gross) per let week.

Holiday home owners primarily let their properties in order to cover the costs of the property itself. More than half find that income from lettings partially covers their costs and a third report that costs can be completely covered through property rentals. 13% found that rental income generates a comfortable profit, indeed, 20% of respondents report that gross annual rental income exceeds £16,000, as shown in Figure 13.

In recent years (2004 to 2008), with rapid levels of price growth, holiday homes have increasingly attracted investors motivated by capital growth prospects rather than their own, lifestyle use of the property. These buyers have tended to be slightly younger than the traditional second home buying cohort.

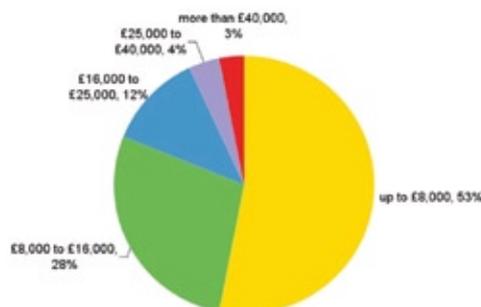
The downturn in property markets has led 10% of survey respondents to regret having made their overseas purchase. The majority are those who had invested in 2006 when prices were close to their peak values before experiencing depreciation. In particular, these were mostly buyers who had invested in the property for capital growth purposes only. In contrast buyers who had bought the property for their own use as well as for

Figure 12. Purchases by price band



Source: HomeAway.co.uk survey and Savills International Research
Note: *2009 data from a small sample base

Figure 13. Gross annual rental income, 2008



Source: HomeAway.co.uk survey and Savills International Research





letting potential, were less likely to report regretting their purchase, despite the fact that most respondents felt their property had lost value.

6% of survey respondents started letting their property as a direct result of the economic downturn, with the aim of generating some income and covering costs. And indeed, despite the contraction of the travel and tourism industry as a whole, almost 60% of respondents reported that their 2009 bookings exceed the number recorded in the previous year. Home owners have achieved this through initiatives such as maintaining last year's rates, increasing marketing or advertising and introducing special offers to attract travellers.

A fifth of all respondents reported that they are considering or planning additional holiday property purchases in the future, demonstrating optimism for overseas investments moving forward. However, whilst approximately 43% of these potential buyers would finance their purchase in cash, the remainder would either require mortgage finance (45%) or need to re-mortgage their existing home (12%).

It is clear therefore that it will be essential for market conditions and mortgage availability to improve, in order to support any volume of future purchasing activity. When asked about where they would intend to expand their property portfolio, respondents named the following top ten destinations, including traditional

favourites France, Spain, Portugal, the US, Italy, Greece and Cyprus, followed by Morocco, Brazil and Turkey respectively.

What is the outlook?

2010 is likely to be another quiet year for holiday home purchasing. It will be essential for mortgage market conditions to improve before residential prices can stabilise, confidence can return to the leisure property market and transaction volumes can recover.

Sentiment among end-users indicates that despite the current economic climate, the attraction of overseas property investment has not disappeared, and indeed for those with cash or financing there are opportunities to invest in hotspots at significantly reduced values. The bulk of sales in 2010 are likely to be in traditional, established, hotspots including selected areas of France, Portugal and Spain (mostly the Balearics). These will typically be locations that appeal to high-income buyers and the market will continue to comprise core, lifestyle, end-user buyers as opposed to investors. It is unlikely to be a year for speculative or off-plan buying.

There are also positive indicators for the overseas letting market as the United Nation's World Tourism Organisation (UNWTO) anticipates growth in global travel and tourism markets of between 3% and 4% in 2010, as economic conditions and confidence recover.

Opposite: Monte Carlo, Monaco



REPORT PRODUCED IN ASSOCIATION WITH HOMEAWAY HOLIDAY-RENTALS

About HomeAway Holiday-Rentals

Based in London and founded in 1996, HomeAway Holiday-Rentals connects travellers with home owners and managers, providing access to a huge variety of great value, unique accommodation worldwide. The site has the largest selection of homes available online, with over 185,000 properties which travellers can browse for free and book with confidence thanks to the HomeAway Rental Guarantee and independent traveller reviews. For holiday home owners, the site provides a simple, cost-effective way to market their property and manage bookings, with unrivalled worldwide exposure for a fixed annual fee.

About HomeAway, Inc.

In 2005 HomeAway Holiday-Rentals (formerly Holiday-Rentals.co.uk), was acquired and joined with CyberRentals, GreatRentals and A1Vacations to make HomeAway Inc., which aims to make finding and staying in a rental as simple and secure as finding a hotel. HomeAway is based Austin Texas, USA and led by an experienced team of online publishing experts. The worldwide leader of the online holiday rentals market, the company has contributed significantly to the growth of the industry and HomeAway sites globally now list over 430,000 properties worldwide.

