

UK second homes abroad

Spotlight

Enduring appeal

France has retained its popularity with buyers



This publication

This document was published in September 2011. 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.

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Spotlight

UK SECOND HOMES ABROAD

Robust revenue streams support case for investment

**SUMMARY**

An overview of the market

■ There is a strong case for investment in some locations that have suffered capital value falls but still attract visitors and have robust revenue streams.

■ The holiday home market expanded significantly in the mid-2000s but the economic downturn exposed the vulnerability of locations with high levels of new build development and where investor buyers (as opposed to lifestyle buyers) were active. These areas saw bigger price falls than others.

■ Traditional prime property hotspots which attract wealthy, lifestyle buyers have been more resilient in terms of capital values. They include areas of southern France, the Alps, the Algarve, Tuscany and high-end locations in Spanish islands such as Mallorca.

■ In areas where prices are thought to have bottomed-out, most notably in selected US locations, investors are looking at the high yield potential and capital appreciation opportunities that will come with recovery. This demonstrates appetite for investment has not disappeared.

■ Rising demand for holiday rental properties enables owners to cover their costs and generate a profit. Both lifestyle buyers and holidaymakers alike are drawn to quality product in easily-accessible locations, with access to tourist attractions, such as the beach, in low-density environments, offering outdoor space and the conveniences of home.

INTRODUCTION

In 2011, HomeAway.co.uk and Savills Research conducted a survey of almost 1,700 UK holiday home owners from a cross-section of the market, who have invested overseas over the last decade and currently let their properties to tourists.

Most owners of holiday homes own and let their overseas property in order to provide an additional source of income. 86% of owners fall into this category while only 14% are 'professional' holiday home providers using a portfolio of multiple properties as both primary and second income generators.

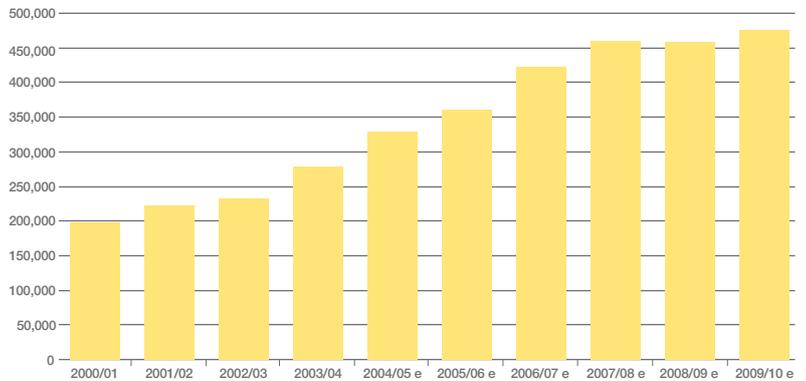
This report sets out trends in property buying trends, including analysis of prices and favourite destinations. Survey results are complimented with commentary on the prime market from Savills Residential International sales experience, reviewing the impact of the global credit crunch on the industry.

Leisure property markets have slowed under recessionary conditions recently, but international tourism is on the rise. This drives demand for holiday home rentals and enables holiday home owners to generate income from their investment: A second survey of 1,000 holidaymakers using HomeAway.co.uk shows what they are looking for and where.

Holiday home ownership by UK nationals grew substantially through the early to mid 2000s (see Figure 1), supported by easily available credit, the rise in overseas travel and budget airlines. Households saw second home ownership as an opportunity to capitalise on rapidly rising house prices (Figure 2).

The sub prime mortgage crisis impacted housing markets across the world, and the holiday home sector was hit particularly hard. Lack of finance combined with shrinking

FIGURE 1 **Number of UK households that own overseas properties** Ownership grew substantially in past decade



Data source: English Housing Survey data and Savills Research E- estimate

“Demand during the recessionary period has been for prime properties in prime locations.”

Charles Weston Baker, Savills International Residential

confidence in property investment resulted in dramatically reduced demand levels. Locations that had seen high volumes of newly-developed properties, or which depended on investment rather than 'lifestyle' buyers, witnessed particularly acute price drops.

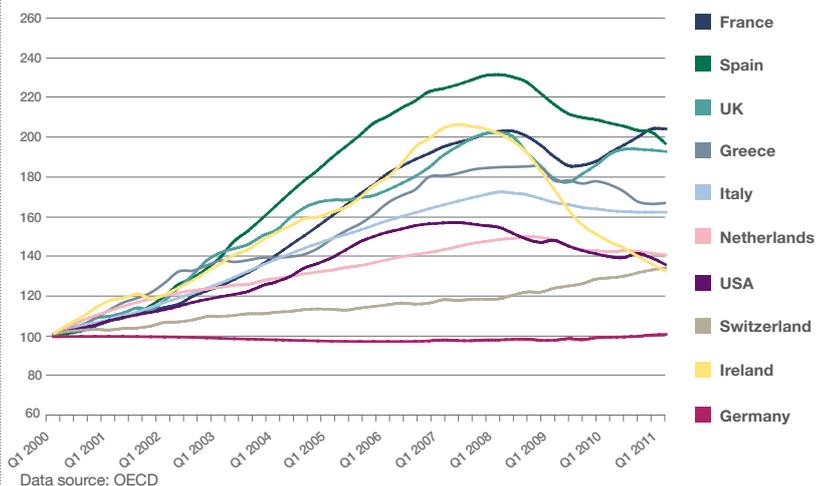
Fears of prolonged house price decline continue to decrease buyers' confidence in today's holiday home market. Eighteen per cent of survey respondents indicated that if

recessionary conditions continue, they will consider selling their property. This risk of liquidation and increased supply is coupled with low demand as limited finance options contribute to low levels of purchasing activity. The survey shows that annual take-up in second homes has fallen below the pre-2000 level.

Where are UK buyers investing?

Fears of continued price decline mean overseas buyers are sticking to safe

FIGURE 2 **House price movement, selected European countries and the USA**



Data source: OECD

markets. Stable and easily accessible France tops the list. For UK buyers, France and Spain have traditionally been the favourite destinations to buy holiday homes. Although overall investment in overseas property has decreased, 2009-2011 sales data shows that France, which is also the world's most popular tourist destination (according to UNWTO), has retained its popularity for buyers).

France did not see the dramatic house price decline of neighbouring Spain and its banks have continued to lend on second homes thereby stimulating the market. The relative stability of this market and its ease of access from the UK mean that buyers remain confident to invest.

In contrast, the proportion of purchases in Spain has reduced considerably. Pessimistic press coverage of its boom and bust has negatively impacted confidence and the early depreciation of the sterling against the Euro compounded this. In contrast, dramatic price falls in the US have been viewed differently to those in Spain.

The perception is that subsections of this market have bottomed-out and offer bargains. Purchasing activity has recently reignited, especially in selected Florida sunbelt destinations popular with both domestic and international retirees.

This signifies that investors are keen to acquire properties before prices rise again and underlines the attraction of a discounted market and that appetite for property investment has not disappeared. Elsewhere in Europe, results show Portugal, Cyprus and Italy remain on buyers' radars, with Turkey and Greece hot on their heels.

High-end locations have been more resilient to the downturn with areas of southern France, Paris, the Alps, Switzerland, Caribbean, Portugal's Algarve region, Tuscany, New York and the Spanish islands of Mallorca and Ibiza continuing to attract buyer interest.

What are UK buyers' pricing points?

Holiday home interest during the recessionary period has been for

FIGURE 3 Where overseas property buyers invested before and after the recession France has retained its popularity with buyers



Data source: HomeAway.co.uk / Savills International Research survey

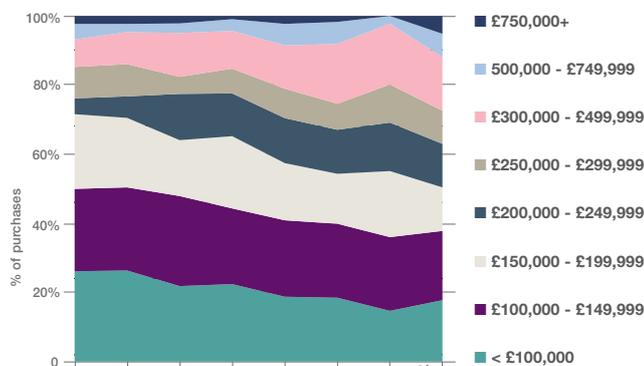
prime properties in prime locations, with the market dominated by wealthy individuals who are less mortgage-reliant.

Our survey analysis shows that over the course of the decade, upward pressure on prices has meant the average price paid for holiday homes has increased each year. In 2002, 28% of buyers paid in excess of £200,000 for their holiday home, (as shown in Figure 4). By 2008, they comprised 45% of the market.

In the 2009-2011 period, although there were fewer transactions than in previous years, investment per property actually increased on average compared to previous years. Moderated prices have also meant that buyers with spending power have been able to get more value for money, and have also tended to buy larger properties. At the same time, some wealthier investors were making a Euro play, enjoying the appreciation of a Euro-denominated asset.

During the boom years (early to mid 2000s), when investment into properties abroad increased, upward pressure on house prices led to a preference for compact properties, such as apartments, usually available

FIGURE 4 Prices paid for overseas second homes Investment per property increases



Graph source: HomeAway.co.uk / Savills International Research survey

at much lower price points than larger houses. By 2008 half the market bought properties with two bedrooms or fewer, compared to less than 20% in 2002. In the 2009-11 period this tendency has reversed again. Buyers favour more spacious units, in line with traditional overseas property buying trends. This reflects that today's buyers are motivated by lifestyle reasons rather than simply the opportunity for financial returns.

High income individuals have been more active in the market since the credit crisis. Less impacted by the

need for financing and or meeting the stricter criteria set by lenders, they have had the advantage of greater choice and the opportunity of increased value for money in this climate. Cash-rich, high-spend buyers have maintained the robust property values achieved in top holiday home destinations today, such as the French Riviera, Swiss ski resorts and northern Sardinia (see Figure 5). Survey data shows a clear increase in the proportion of buyers with incomes in excess of £100,000 in the 2009-2011 period compared to 2007.

This is not to say that all high net worth individuals are cash purchasers. The survey found that in 2009-2011, 60% of buyers used a loan for their overseas property purchase. It would appear that gearing is a choice rather than necessity in this market.

The use of mortgages to finance the purchase of overseas holiday homes has grown over time. Cheaply available credit fuelled the property



investment boom of the mid 2000s (Figure 6). The use of high Loan to Value (LTV) mortgages became increasingly popular throughout the decade, facilitating access to the leisure market for those who are normally priced out, and enabling wealthy individuals to invest in portfolios of multiple properties. Over a third of all survey respondents with LTVs in excess of 50% have incomes in excess of £90,000.

Most buyers tend to source mortgages in the country where the property is purchased. Survey respondents cited a combination of reasons for obtaining a local mortgage, primarily that it was the

easiest option and also that local rates tended to be competitive. Trends in financing vary considerably by country of purchase (Figure 7). More than half of purchases in Italy and France have used no finance. In contrast, 60% and 68% of properties bought in Spain and the US respectively are acquired using mortgages (approximately 80% of which have been locally sourced). This reflects the wide range of competitive mortgages products offered in both countries during the boom period.

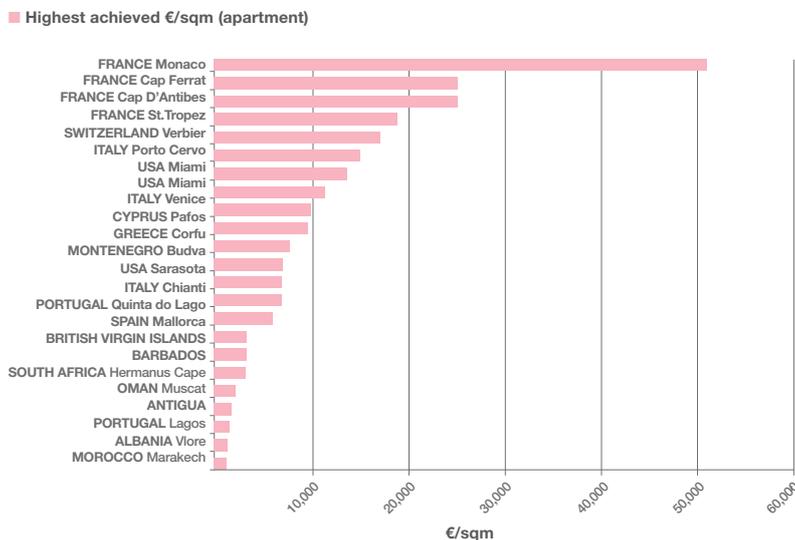
What do holiday home buyers look for?

Preference for low density environments and good accessibility,

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 "Cash-rich, high-spend buyers have maintained the robust property values achieved in top holiday home destinations."

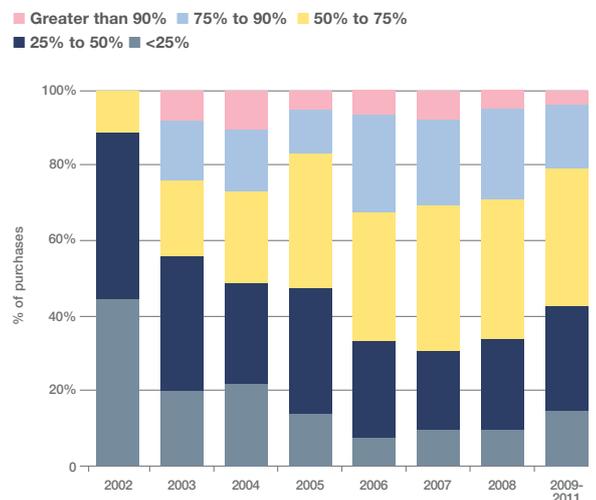
Rebecca Gill, Savills Research

FIGURE 5
Highest achieved prices in 2011 (€/sqm) in selected holiday home destinations



Graph source: Savills International Research

FIGURE 6
Mortgage loan to value (LTV) used to finance overseas home purchases



Graph source: HomeAway.co.uk / Savills International Research survey

Note: Excludes inherited or part-owned properties and those with no mortgage borrowing

proximity to beaches, and the opportunity to sample local cuisine and culture, are all factors influencing choice of holiday home destination. Almost 60% of holiday home owners prefer quiet rural and village environments to urban areas (22%). 19% of holiday home owners have invested in properties in purpose-built master-planned resort communities, which have risen in popularity in recent years. These typically comprise hotels, holiday homes, sports and recreational facilities and benefit from onsite property management companies.

When seeking a property abroad, proximity to restaurants and bars is one of the most important factors defining choice of location according to survey results (Figure 8). Sampling indigenous cuisine and engaging with the local community and its culture is important to most second home owners. In this manner, not only do home owners gain a more authentic experience from the destination, but also local businesses and attractions potentially benefit from spend incurred by home owners in the area.

While it is important for home owners to access supermarkets for groceries and household items during their stay, proximity to high street shopping is not a priority, underlining that most want to rest and relax during their holiday.

With 78% of respondents choosing to fly to their overseas property, airport access is an important factor for many holiday home buyers. The rest (22%) choose to drive from home to their overseas property, and are primarily those who have bought in nearby France. Typically 80% of overseas properties are located within 60 miles of an airport, 85% of which are serviced by low-cost airlines.

Beach access is one of the most important factors governing choice of holiday home location, according to survey results with 69% of holiday homes benefiting from proximity to the beach. Conversely, while most buyers are neutral about the availability of golf in the area of the property, 70% report that they are close to golf facilities (Figure 9). This indicates that while it is not high

on most buyers' priorities, golf is increasingly seen as an integral feature of any local tourism offer, contributing to the wider appeal of a destination.

What type of properties do buyers prefer?

Holiday home buyers have traditionally preferred spacious detached properties, but rising prices led to growth in apartment purchases in recent years. Buyers tend to favour properties with modern interiors and multiple bathrooms showing they seek at least the same level of comfort in their second home as in their primary residence.

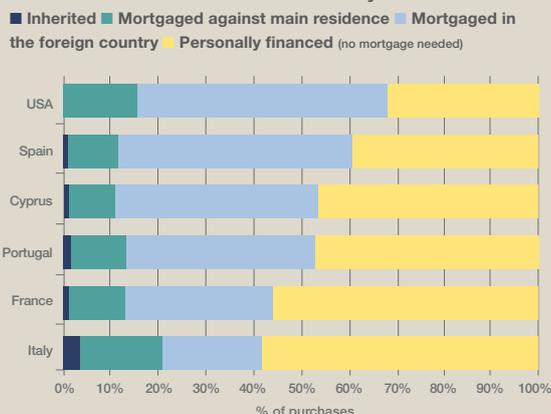
In 2002, 64% of buyers were looking for detached properties or converted farm buildings, manor houses and chateaux in preference to smaller properties. Over time though, there has been a rising preference for smaller, more price-accessible properties, leading to the expansion of the apartment market.

By 2008, more than 60% of the market was choosing to buy clustered property types such as apartments and townhouses. However, the advent of the credit crisis saw a reversal of this trend, with detached houses the single most popular property type in the 2009-2011 period. This renewed preference for larger, detached properties underlines the lifestyle-driven nature of the current market.

The share of buyers specifically seeking ski properties has also grown (Figure 10). Demand is primarily concentrated in France, Switzerland and Austria, but also in emerging Bulgaria, at a lower level. European ski resorts are increasingly marketing themselves as year-round destinations thereby lengthening the rental period and strengthening investment potential.

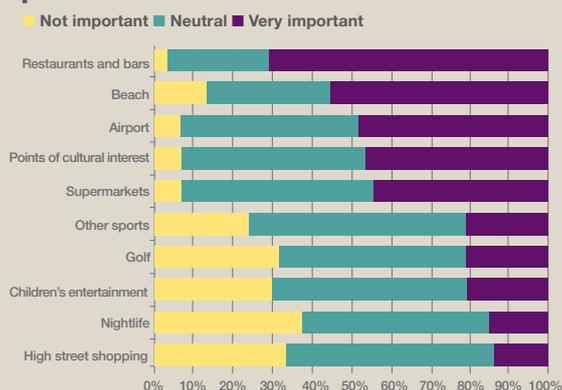
There is a marked preference for larger properties in France and Italy, while buyers veer more towards apartments in Spain. These trends reflect the supply of properties in these countries, with a higher proportion of older, rural properties being marketed in France and Italy, while Spain, Portugal and Cyprus have seen large amounts of new holiday apartment development in recent years.

FIGURE 7
How are purchases financed?
Method varies from country



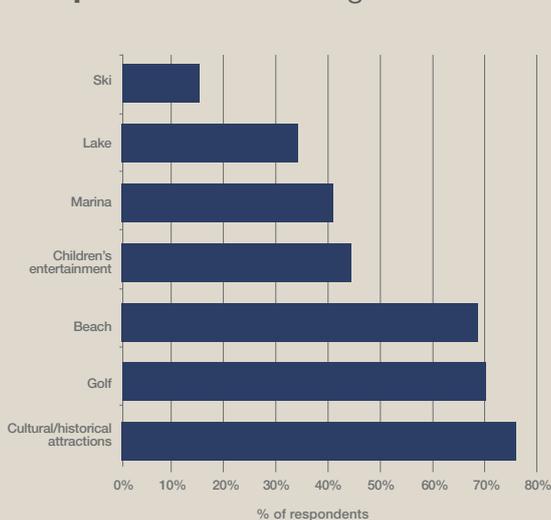
Graph source: HomeAway.co.uk / Savills International Research survey

FIGURE 8
What is important about this place? Good restaurants are vital



Graph source: HomeAway.co.uk / Savills International Research survey

FIGURE 9
Attractions and activities in this place Golf is an integral feature



Graph source: HomeAway.co.uk / Savills International Research survey

More than half of properties bought in Spain and Portugal, and over 80% bought in Cyprus and the US, are modern buildings with modern interiors (see Figure 11). This trend is reversed in France, Italy and Switzerland where buyers typically favour traditional styles that are indigenous to the area.

Often, buyers in long-haul and or emerging destinations such as the US, Brazil, Cape Verde or

Mauritius have invested in modern properties. This could be for a number of reasons, including ease of management from afar. For emerging destinations, it could reflect buyers' preferences for properties befitting the taste and lifestyles of western buyers and tourists which may only be available in new build schemes.

Some buyers have sought traditionally-styled properties in countries such as Morocco, where buyers and visitors are particularly attracted to original architectural styles.

Holiday home buyers seek the same level of comfort in their second home as in their primary residence. For example, more than three quarters of holiday homes have multiple bathrooms. Half of holiday homes now also benefit from internet access, mostly in long-haul destinations including North America and the Caribbean.

Connectivity is also high in emerging destinations, particularly in Asia and Africa, while it is far lower in such as France, suggesting the need for communication is highest when a destination is least accessible. Approximately half of all holiday

homes have air conditioning, and 80% have swimming pool access.

Outdoor space in the form of balconies and terraces is very popular in holiday homes, as shown in Figure 12. Buyers' preferences are almost evenly split between small and large gardens: Just over half (55%) of holiday home owners report having either small private gardens or access to communal garden areas. Compact garden space typically appeals to owners who prefer hassle-free property management while away from the property. The rest (45%) indicate having larger outdoor spaces and include 17% that report owning in excess of one acre of land. This shows for some buyers, privacy and seclusion are important features of their leisure property.

What are owners' long term objectives?

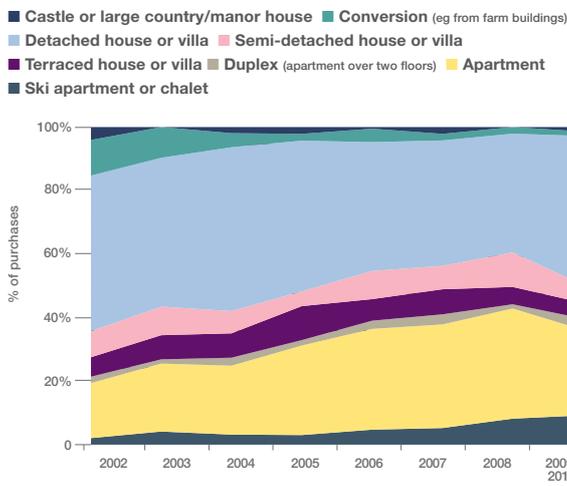
Lettings demand is on the rise and holiday homes owners have the opportunity to cover costs or make a profit from their rental income. Most holiday home owners intend to continue letting their properties into the foreseeable future.

Currently, 47% of the surveyed holiday home owners anticipate continuing to let their property into the future as an income generator, while a third intend to sell their property for profit. Almost a fifth are planning to eventually move to their overseas home, while just 1% expect to make a full time rental business out of it.

Owing to the sheer number of buyers in France and Spain, they are the most popular countries to retire to. However, as shown in Figure 13 a significant proportion (28%) of those who bought in Cyprus expecting to retire there. Historical ties, warm climate and good tourism infrastructure are big attractions here. The US is a capital growth play for many owners as more than 40% of those who invested here aim to sell their property for a profit.

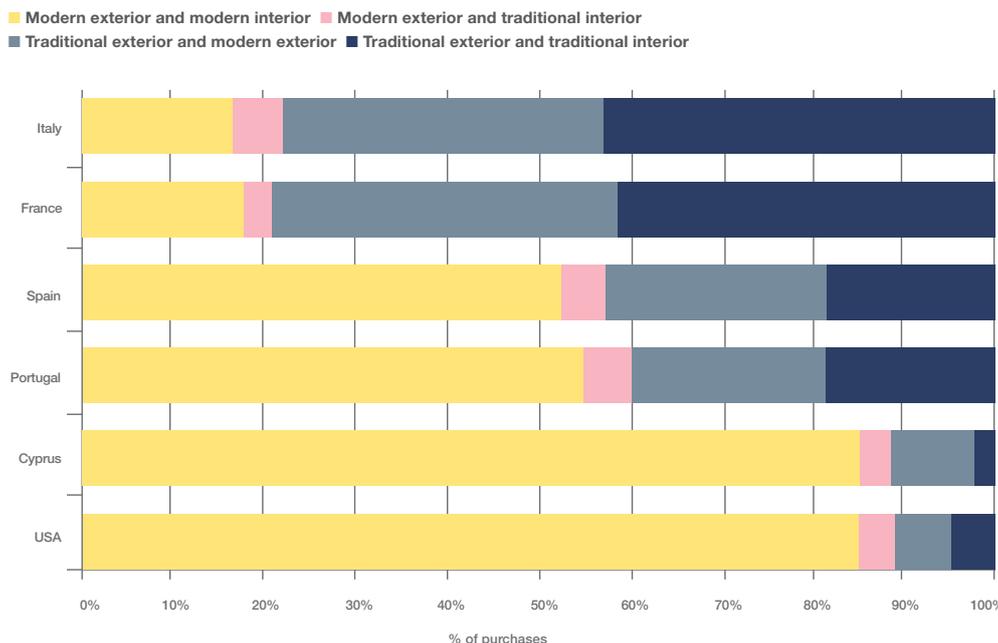
For the vast majority who are continuing to let their property, there is a strong rationale: Most (63% properties are let for up to 16 weeks per annum) and as set out in Figure

FIGURE 10
Type of property bought
The apartment market has flourished



Data source: HomeAway.co.uk / Savills International Research survey

FIGURE 11
Modern or traditional property styles? More than half of properties bought in Spain and Italy are modern



Data source: HomeAway.co.uk / Savills International Research survey



“Expansion in international tourist markets has boosted performance and 2011 will witness additional growth.”

Yolande Barnes, Savills Research

14, two thirds of holiday home rentals generate up to £10,000 in gross annual rental income.

More than half (55%) of our survey respondents said income generated from letting their property partially covered costs, helping them to mitigate against current global economic conditions. More interestingly, almost a third of respondents said that rental income completely covered their costs and 13% indicated it made them a comfortable profit.

Other positive news shows that rental demand for holiday properties is on the increase, with 43% of owners saying that 2010 saw growth in lettings compared to 2009. An additional 39% of owners said the market had stabilised showing similar returns to the previous year.

The upward trend in performance reflects a wider expansion in international tourism markets, with 2011 expecting to see additional growth. There are a number of positive indicators for the holiday lettings market moving forward.

World Tourism Organisation (UNWTO) figures show that with the onset of the credit crisis international travel and tourism declined by 5% in 2009. Growth returned in 2010, with a rise

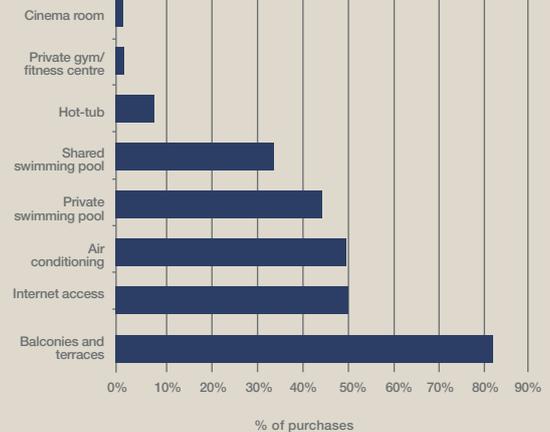
of 7% in total international tourism compared to the previous year, counting 935 million tourists in total. Growth in global tourism continued into 2011 in all world regions except the Middle East and North Africa. Overall, 2011 tourism is expected to be up 4%-5% compared to 2010.

Positive news for holiday home owners with properties located in Europe (equating to more than 85% of our survey respondents) as European countries receive half (51%) of the world's tourists, and this volume is rising. Growth in Europe's tourism industry is primarily driven by recovery of the central and south-eastern European markets, such as Turkey and the Balkans.

What do holidaymakers look for in a property?

A 2011 survey of more than 1,000 tourists who were looking to rent holiday properties showed similar to overseas buying trends, Spain, France, the UK, Italy, Portugal and the US topped the list of favourite destinations. They were followed by Cyprus, Greece and Turkey, with Ireland in tenth place. These are typically summer destinations, with almost 80% of holiday rental requests being for the months April to September, with peaks in July and August.

FIGURE 12
Your property's features



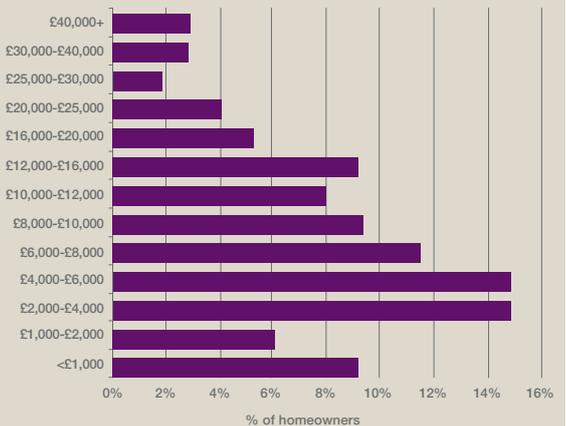
Data source: HomeAway.co.uk / Savills International Research survey

FIGURE 13
Why buy? Investment remains a prime motivator for purchase



Data source: HomeAway.co.uk / Savills International Research survey

FIGURE 14
Average gross income, 2010
£4,000-£6,000 tops list



Data source: HomeAway.co.uk / Savills International Research survey

The majority (70%) of those seeking a holiday let are looking for a coastal holiday destination. 46% of respondents are looking for a quiet country or village environment, 34% in urban environments and 20% specifically in resorts.

Tourists seek to reduce travel time by choosing properties in proximity to airports. Almost half (48%) of respondents said they would travel no more than one hour from an airport to their holiday rental, and a further 27% said they would travel no more than two hours.

A third (33%) of holidaymakers renting properties comprise couples, and a further 37% are parties of three to four people, (usually immediate family). The remainder tend to comprise groups of friends and extended family groups. Maximising bed space per bedroom is

important in holiday lettings, as a party of four would typically choose a two-bed property, a party of up to seven people would typically choose a three bed property and so on.

Balconies, terraces, private swimming pools, air conditioning, internet access and small private gardens are most sought-after features of rental properties. Tourists prefer modest outdoor space compared to extensive land area (see Figure 15).

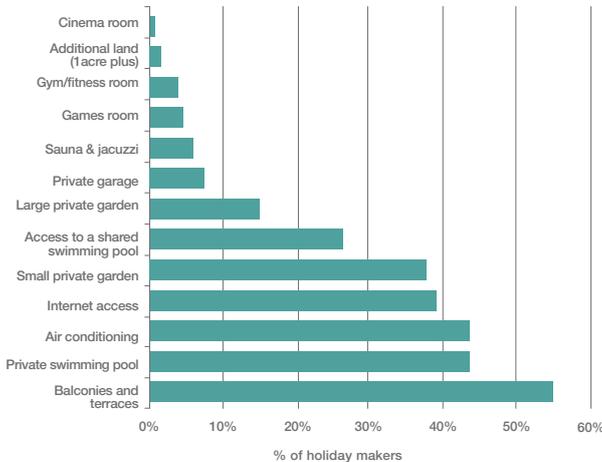
Ninety percent of holiday rental requests are for periods of up to two weeks: split almost equally between demand for up to one week and up to two weeks. Only 8% of demand is for between three weeks and a month, and just 2% for longer. Budgets vary according to destination, type of property and season. Some tourists indicate having multiple thousands

to spend on their accommodation, however, on average they expect to spend around £800/£900 per week.

Strong demand indicators coupled with lower house prices and expanding rental markets mean that there are opportunities for investors to seek both long term capital growth as well as rental income from holiday homes.

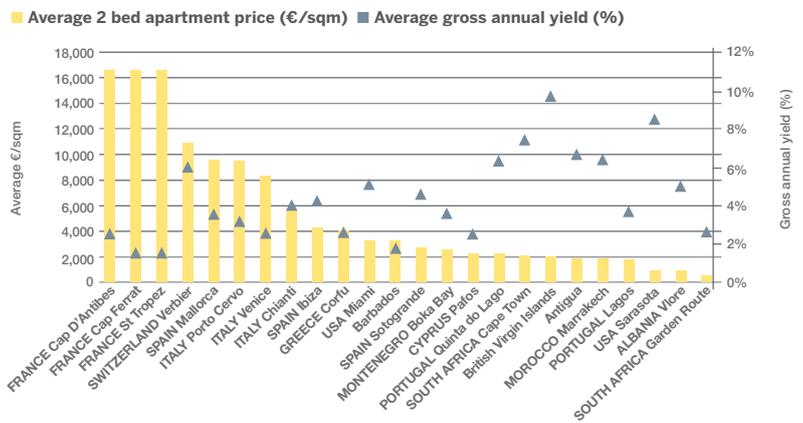
Figure 16 shows market opportunities where low house prices and high rental income can generate strong yield potential, especially in areas of the Caribbean, such as the British Virgin Isles and parts of the US, South Africa, the Spanish islands and in Portugal's Algarve region. Demonstrating that despite comparably low capital values in these locations, holiday home rental demand supported by strong tourism fundamentals, remains strong. ■

FIGURE 15
Tourists' preferred amenities



Graph source: HomeAway.co.uk / Savills International Research survey

FIGURE 16
Average price per sqm and gross annual yield potential (average two bedroom apartment)



Graph source: HomeAway.co.uk / Savills International Research survey

Note: calculated using gross mid season holiday rental income and optimum lettings periods by location

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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

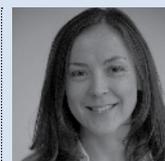
Individual and multi-unit property sales services through an international network of Savills and associate offices around the world. We also offer a bespoke off-market property sales service.

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.

About HomeAway.co.uk

Based in London and founded in 1996, HomeAway.co.uk connects holidaymakers with home owners and property managers, providing access to a huge variety of great value, unique accommodation worldwide. The site offers the best choice of any UK holiday rentals website, with over 250,000 properties which holidaymakers can browse for free and book with confidence thanks to thousands of independent traveller reviews. For holiday home owners and managers, the site provides a simple, cost-effective way to market their property and manage bookings, with unrivalled worldwide exposure for a fixed annual fee.



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