

savills

SPOTLIGHT | 2018

# Second Homes

Global trends in  
ownership and renting

Purchaser Trends | What Renters Want | Cost & Returns

savills





# Foreword

Digital technology has given birth to a new generation of income-seeking second home owners

**W**e have been surveying second home markets for more than a decade. A lot has changed in that time.

New technology, coupled with economic change has continued to alter what is possible for both owners and renters. Accommodation can be searched for, let and managed in faster, cheaper and more effective ways. Platforms such as HomeAway are part of this digital revolution.

The availability of digital solutions and the ease of letting property have generated a new breed of second home owners. Economic change has also made these owners more likely to want an income from their residential assets at home and abroad, as well as the lifestyle pleasures of owning an additional home.

In future, more sophisticated and new technologies – and, with them, changing attitudes and practices among holidaymakers and tenants – will continue to shake up the hospitality, short-let and residential markets.

These industries will continue to develop as new technology opens up new opportunities and creates different ways of doing things. It is possible the distinctions between each sector will become increasingly blurred.

This report highlights the ways international second homes have changed over the last decade. It shows what owners have available, what they want in their new purchases, how they finance them and what short-term tenants and holidaymakers are looking for. In doing so, it points the way that future trends might lead.

## Summary

**The global market for second homes has changed** since the Global Financial Crisis (GFC). Buyers are prioritising income returns in a low interest rate environment.

**The rapid expansion of the short-let sector** is at least partly due to digital technology which has helped to broaden the renter base.

**New digital service lines**, and changing perceptions of the short-let and holiday home market, are likely to increase demand for second home renting in future.

**Demand from buyers has strengthened**, especially for cheaper, high yielding and easy to manage new-build apartments.

**The British are no longer the dominant foreign purchasers** in the Mediterranean. Other nationalities are growing faster: Germans, Dutch and Scandinavians are now as important.

**Broadband, balconies and beaches** are the top three property features desired by buyers. Renters demand property-specific features such as air conditioning or swimming pools.

**The average purchase price of a second home** in 2017 was \$291,000. Annual rental income achieved was \$21,000.

**Gross short-let yields average 6.4% (3.9% net, before taxes)**. One third of owners reported making a profit from their letting activity.

**Spain has risen in appeal** as its recovery continues and was identified as the top foreign destination for future investment. Portugal is also on the rise, benefiting from a diverse and growing demand base.





# The market for additional homes: a decade of change

Rental returns have overtaken holiday usage as the primary driver for second home purchase

The credit-fuelled boom of the 2000s saw a rapid expansion in the market for additional homes. Buyers sought capital appreciation as some properties experienced double digit annual price growth.

The credit crunch and the Global Financial Crisis (GFC) of 2007/8 rapidly changed all that. Buyers retreated and only the equity-rich were active in the core, prime second homes markets.

In countries such as Spain and cities like Miami, where the housing markets had been fuelled by overseas buyers and characterised by rapid building, these markets experienced painful contraction and rapidly falling values.

But recent years have once again seen a shift in fortunes. Every major global economy is now expanding. Buyers are back in most international second homes

markets. This time, they are seeking income in a low yield environment, and finding that short-let residential property and holiday homes can provide it.

Globally, international tourist arrivals grew by 7% in 2017 to reach a record 1.3 billion. The Mediterranean outperformed all other global regions with tourist growth of 13%. This rise in tourism coincides with the growth of the sharing economy, and the rapid expansion of online marketplaces for short-term rental accommodation.

This means a broader, and rapidly changing, demand base for short-lets. It provides additional impetus for those who wish to own second homes or homes abroad.

The investor landscape is evolving too. For the first time, owners' primary motivation for ownership is rental

returns, which has overtaken holiday usage as the primary driver for a second home purchase. Partly as a consequence of this, along with enabling technology, occupancy rates in additional residential properties are higher than they used to be.

### About the survey

In February and March 2018, Savills World Research surveyed 4,300 property owners who let their properties on HomeAway in seven major markets (US, UK, France, Spain, Italy, Netherlands and Portugal).

A second survey was carried out of 7,700 renters planning their next trip on HomeAway, from the same seven countries. Where applicable, we have benchmarked these findings against the last Savills / HomeAway survey, conducted in 2011.

# The trends shaping the second home market today

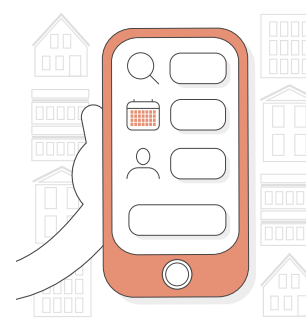
From technological disruption to the return of Spain, these are the trends that characterise the second home market today

The market for second homes expanded rapidly in the early 2000s, fuelled by readily available credit and an expanding tourist sector. Low cost airlines opened up previously unserved regions to buyers, especially the British, who drove the market in those years. When the GFC hit,

national housing markets suffered, personal finances were squeezed, and demand for second homes fell.

In recent years growth has resumed, but the sector looks very different to how it did before the GFC. These are the trends that characterise the second home market today:

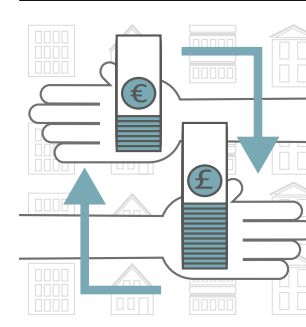
1.



### Digital revolution

Online short-let rental services, such as HomeAway, have expanded rapidly and are increasingly competing with the hotel sector. Instant booking, mobile platforms, feedback and rating systems make these services appealing to tech-savvy millennials, time-poor business travellers, and globally mobile students and professionals. This has helped diversify and broaden the demand base beyond the traditional holiday rental market, providing more opportunity for owners to let on a full or part-time basis.

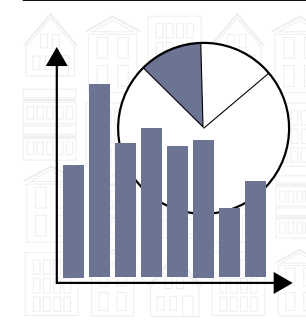
2.



### A source of income

In a low interest rate environment, investors of all types are seeking out income generating assets. Today's second home buyers need properties to work for them financially and, increasingly, to make them a profit. The majority of buyers today purchase their property with the intention of renting it out in some form (see chart). The number of buyers intending to use their property solely for their own use has fallen from over 90% in 1971 to less than 40% today.

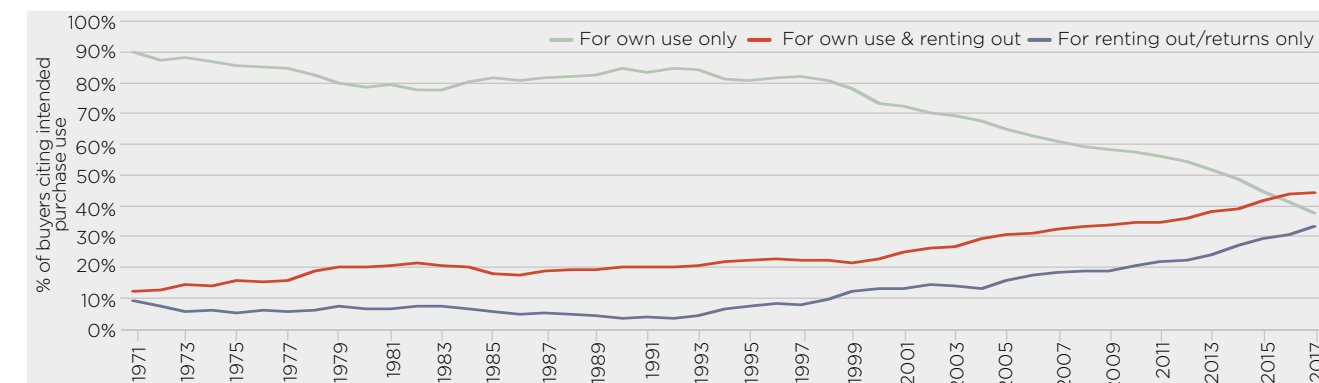
3.



### Demand for market intelligence & new services

Forty five percent of owners want their property to at least earn its keep when they are not using it. These buyers are going to want to know about achievable rates, letting voids and operating costs in advance of purchase. They are also an increasing source of demand for letting and management services (both digital and conventional) as well as on-the-ground hosting/hospitality/housekeeping services.

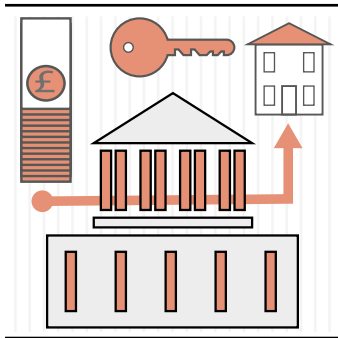
The focus is now on income Intended use of property at time of purchase



Source: Savills World Research & HomeAway



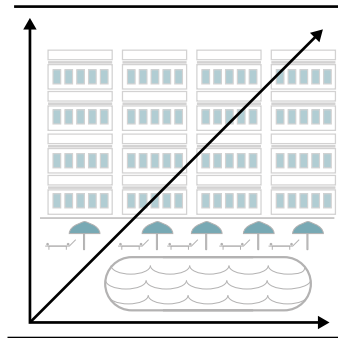
# 4.



## Changing finance

Demand for smaller, cheaper properties has grown since 2013 as a wider variety of buyers has returned to the market. Immediately after the GFC, the market retreated to prime, established locations and was led by wealthy, capital-rich individuals with little or no reliance on mortgages or other borrowing. The gradual easing of credit conditions since then has led to a modest resurgence of borrowing but nothing to rival the early noughties.

# 5.



## Cheaper apartments are on the rise

As lending has opened up again, and at record low rates, the lower tiers of the market are expanding. In 2017, 37% of sales were of properties priced under \$200,000. Based on our survey sample, the average price of a property purchased last year stood at \$291,000, 37% lower than a decade prior. This has gone hand in hand with the expansion of the apartment market, which accounted for 34% of the properties purchased in our sample in 2017, compared to 26% in 2007.

# 6.



## A global market

British buyers dominated the European second home market in the years preceding the GFC, accounting for 29% of second home buyers in 2007 (based on our sample). Today, a much wider range of nationalities are participating in the global second homes market. In 2017, the British share dropped to 17% of buyers as the demand base diversified. British activity is now back to where it was a decade ago, but other national groups have risen faster. The number of Dutch purchasers has doubled over the same period, for example.

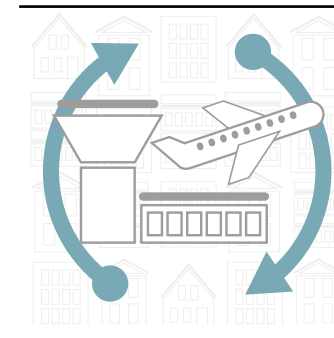
# 7.



## Spain is back

Spain has grown in appeal as its housing market recovery continues. It accounted for just over 21% of all sales within Europe last year, up from 2011, a low, when its share was just 11%. Back on the radar for many prospective buyers, Spain was cited as the top foreign destination for their next investment by the British, Dutch, Germans, Italians and Portuguese survey respondents, among others.

# 8.



## Air connectivity matters

Air routes continue to have a profound impact on where people want to go and where people want to buy. While the opening up of new routes can have a strong positive impact on local property markets, so too can route closures - or the threat of them. So the fortunes of some second home owners are intimately connected to the fortunes of flight operators. Those on routes served by multiple airlines are probably less exposed.

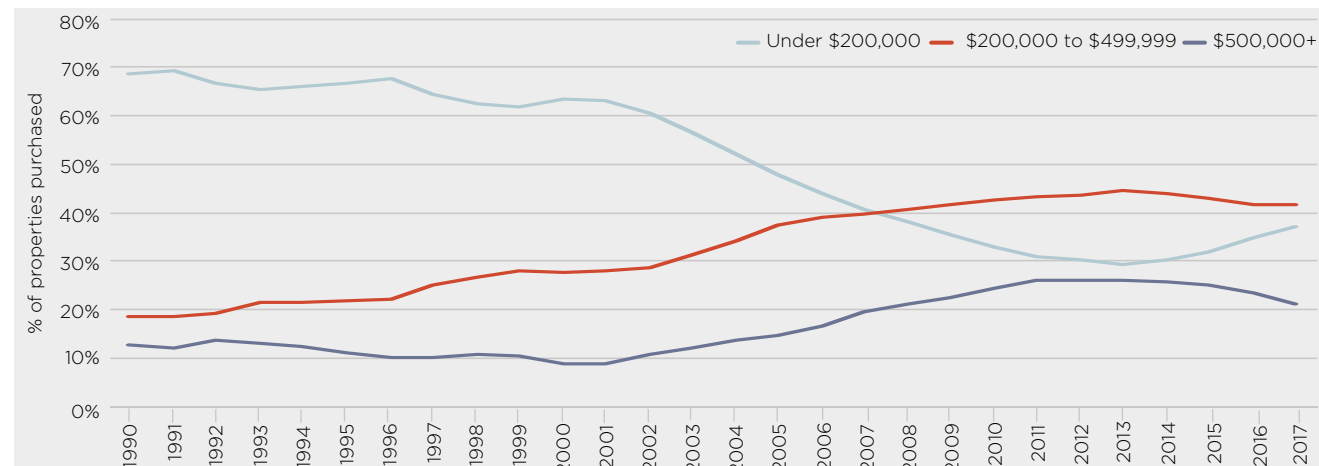
# 9.



## Home sweet home

A major trend has been the tendency for buyers to purchase in their home country rather than abroad. This is particularly true of British buyers. In the last three years, some 39% of Brits in our sample bought their short-let property in the UK. Only 14% bought at home in the years preceding the 2007 GFC. We think this is a trend that is likely to continue because properties are easier to visit, manage and service if they are in the same country as the owners who are seeking to maximise income.

**The lower end of the market is expanding** Sales of smaller and cheaper properties have grown since 2013

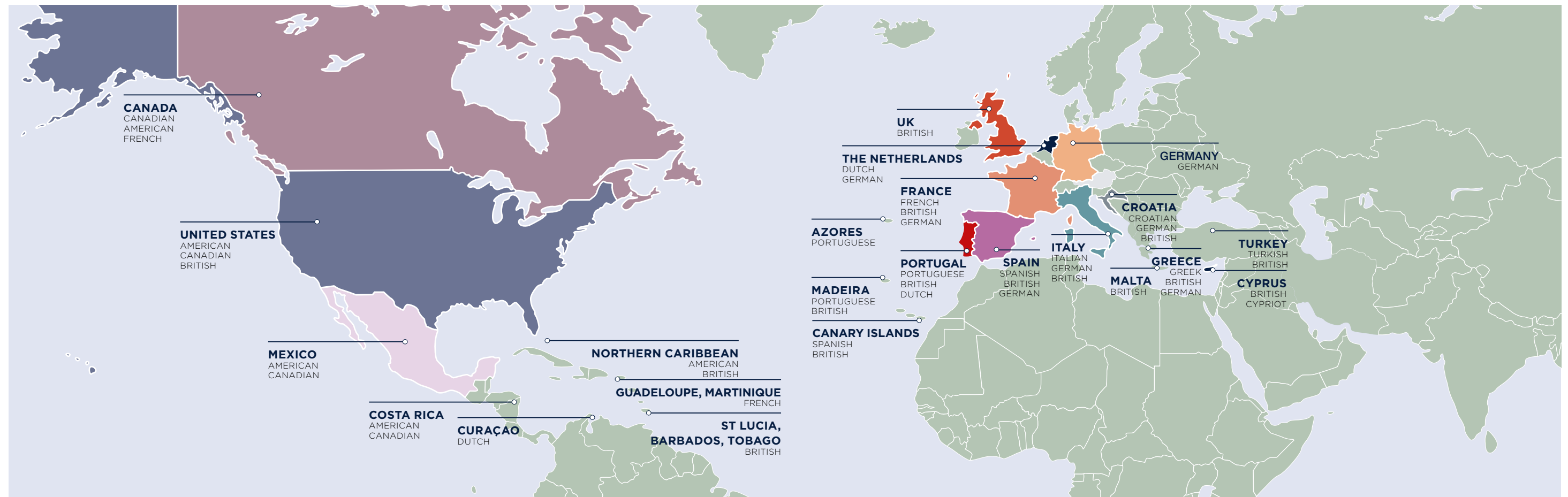


Source: Savills World Research & HomeAway, based on our survey sample



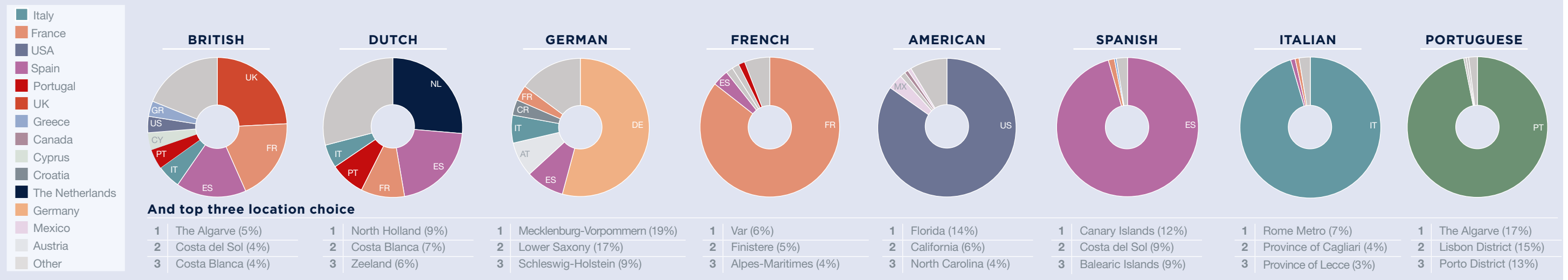
# Second homes: Who owns what where

Top nationalities owning second homes in country



Source: Savills World Research & HomeAway. German data supplemented

## Ownership by nationality



Source: Savills World Research & HomeAway. German data from 2018 FeWo-direkt survey

# Purchaser trends

What are second home buyers seeking, and how are they funding their purchase? Here's an overview of the second home market today

## What are purchasers' priorities when choosing a property?

The availability of broadband is the single most important feature cited by owners when choosing a property. In the digital age, connectivity is key, a factor common across all nationalities and ages (see chart).

The next most important factors are property-specific, such as balconies and terraces and also the availability of parking. Proximity to a beach is an absolute must-have for many, as is air conditioning. These are all 'very important' features that might be considered non-negotiable in property searches.

When broadening to 'important' factors, local amenities come into play. Proximity to shops, restaurants, and local cultural attractions all rank highly. Seeking a 'home from home', convenient local amenities and entertainment are highly demanded features in a second home by owners.

Developers of resorts where a proportion of accommodation is targeted at second home owners therefore need to understand the importance of creating (or finding a site in) the right type of location. Mixed-use neighbourhoods and a sense of place will have an impact on the saleability of a scheme – even if it isn't a 'must have' from the short-term holidaymakers they usually cater to.

The strength of the local rental market is another important factor, and reflects current owner emphasis on income. This is particularly the case for American, Dutch and 'young' owners (under 44s), and those who bought their property after the GFC. Good, evidence-backed advice on rent levels, voids and running costs will be of increasing importance to buyers.

### AVERAGE PURCHASE PRICE IN 2017

\$291,000

### TOP 3 MARKETS

1. Spain
2. France
3. Italy

### MOST COMMON PROPERTY TYPE

2 bed apartment

### AVERAGE NO OF WEEKS RENTED OUT PER YEAR

17 weeks

### AVERAGE ANNUAL RENTAL INCOME

\$21,000

### AVERAGE PURCHASER AGE, 2017

51 years old

KEY	
Broadband internet	
Balcony or terrace	
Proximity to a beach	
Strength of rental market in the area	
Large private garden	
Allocated parking space	
Proximity to supermarkets & shops	
Proximity to restaurants & bars	
Proximity to historical & cultural attractions	
Air conditioning	
Sea views	

## Top factors deemed 'Very important' versus 'Important' Features and amenities sought when buying

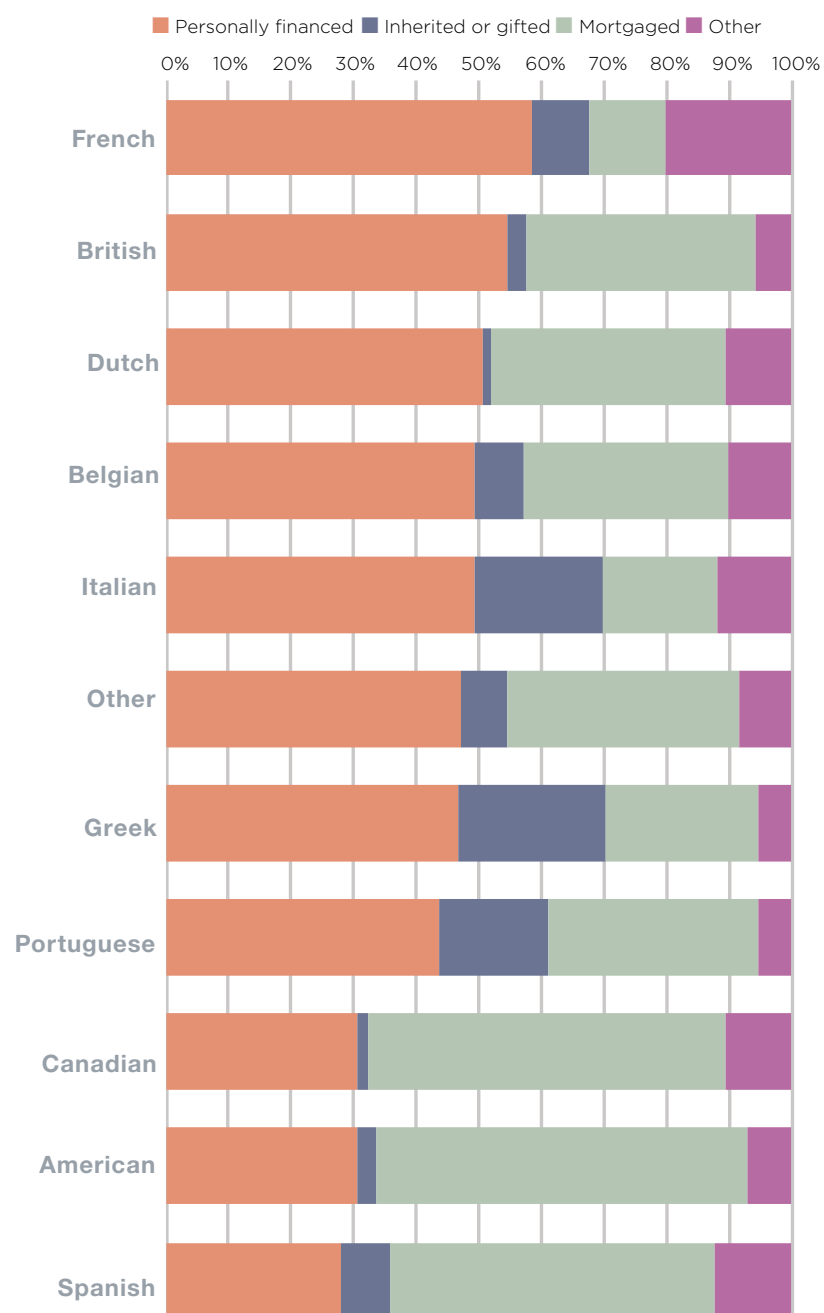
	'VERY IMPORTANT'			'IMPORTANT'		
	Features and amenities sought when buying					
	1.	2.	3.	1.	2.	3.
<b>All</b>	Broadband internet 	Balcony or terrace 	Proximity to a beach 	Proximity to shops 	Proximity to restaurants & bars 	Historical & cultural attractions 
American						
British						
Dutch						
French						
Italian						
Spanish						
Portuguese						
'Young buyers' under 44s						
Those who bought pre GFC (90-08)						
Those who bought post GFC (09-17)						

Source: Savills World Research & HomeAway





**Source of property finance by nationality** Most finance personally, but mortgaging plays a role



**Golf's in a hole?**

Many purpose-built resorts targeted at second home buyers have a golf course at their heart. Proximity to a golf course (whether on or off site) is a feature in a third of all properties in our sample of owners, but its appeal to buyers appears to be waning.

Being close to a golf course was cited as 'not important' by 45% of all respondents, and by 55% of British owners surveyed (compared to 32% in 2011). For developers, using golf courses as a major selling point may not be the marketable asset it once was. Second-hand sellers on golf courses may also find that their property no longer commands the premium value they once expected.

**Cash is King**

The majority of home owners (45%) self-financed their second property (i.e. without using a mortgage). Financing behaviour varies by nationality.

Well over half (59%) of American owners took out a mortgage in some form, usually in the US rather than the country of purchase. Spanish owners are also far more inclined to mortgage (52%) when compared to their European counterparts, often putting their main residence up for security. Southern Europeans are generally more likely to have inherited their second homes.

The share of homes financed by mortgage borrowing peaked in the lead up to the GFC, when it accounted for 43% of property finance. In 2017, a mortgage was used in 35% of second homes purchased.

The majority of home owners (45%) self-financed their second property

# What do renters want?

Understanding the rental market is essential for owners wanting to maximise their returns, but renter requirements can be very different to owner needs



Our findings suggest that owners, who have a longer term stake in the local area, place greater importance on locational factors such as proximity to historic attractions or local medical facilities. Renters, using the property for only a short time, are more interested in the property features on offer. For example, private swimming pools, hot tubs and gardens are 'under provided' for renters (see chart overleaf).

There is evidence in this chart that renters may not want a fundamentally different experience to owners but do put added emphasis on peace and nature (sea views, rivers and lakes) as well as privacy (own swimming pool/hot tub, private garden).

## What renters look for

Average budget

\$1,000 per week

Top destinations

1. Spain
2. France
3. Italy

Top types of location

1. Coastal
2. Town or city
3. Mountains

Most sought property types

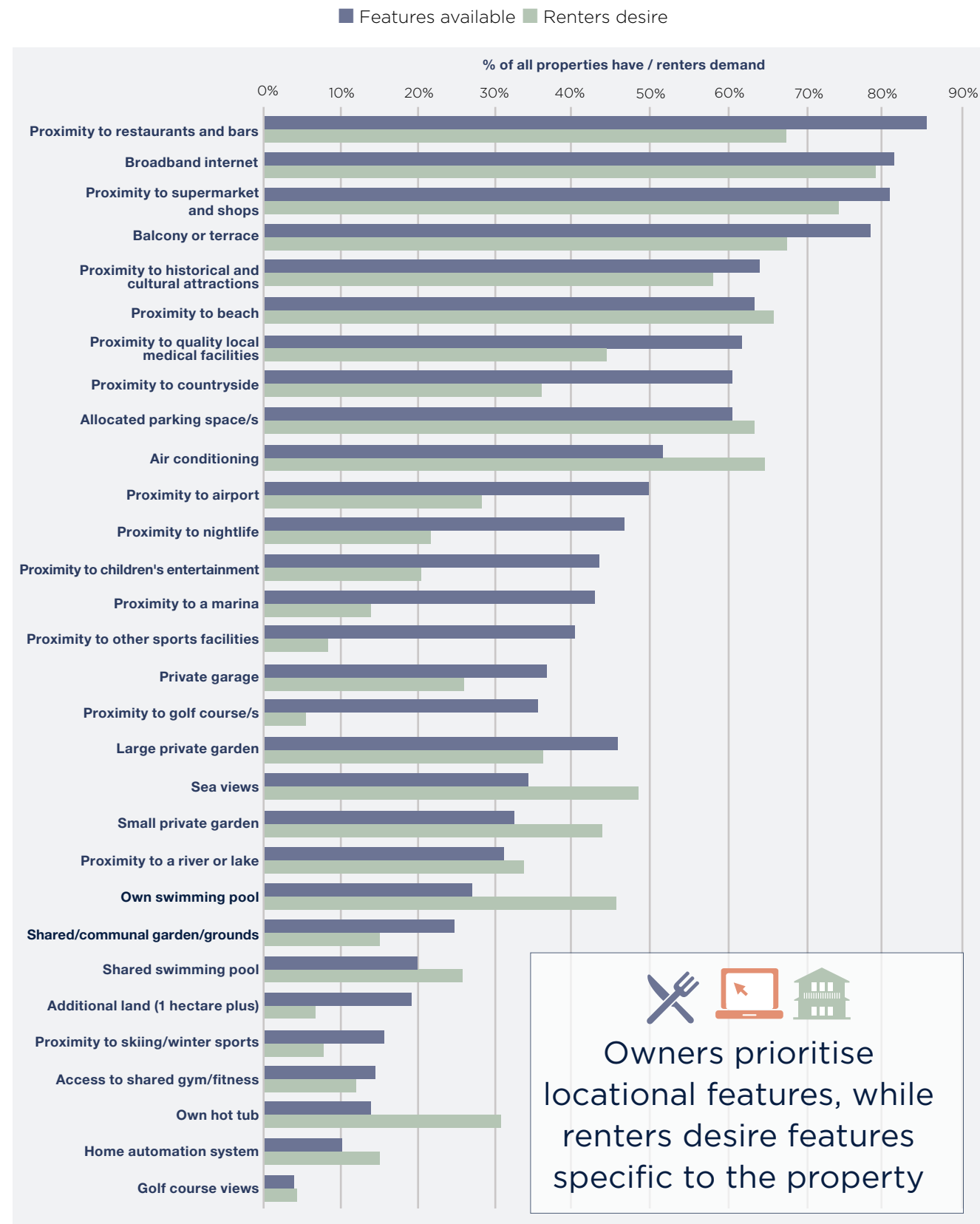
1. Detached villa/house
2. Apartment
3. Townhouse

Most important property features

1. Broadband internet
2. Proximity to a beach
3. Air conditioning

Source: Savills World Research & HomeAway

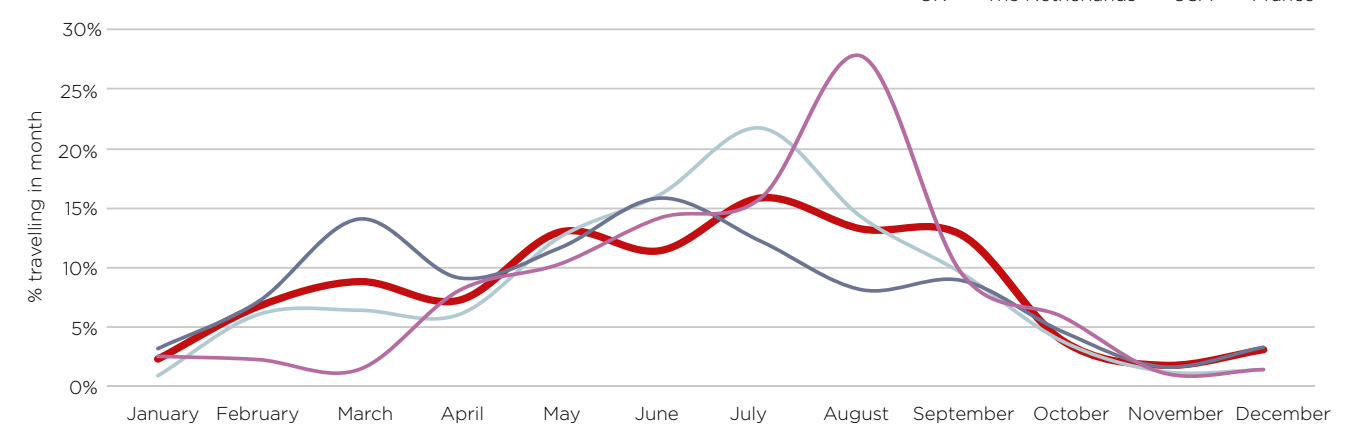
Features and amenities on offer vs renter demand



Actual property features and amenities compared to renter demand  
 Owners: features or amenities present in property  
 Renters: factors deemed 'very important', 'important', or 'somewhat important'

Source: Savills World Research & HomeAway

Month of travel by nationality Summer remains the most popular time for travel, but the British are less seasonal



Source: Savills World Research & HomeAway

Seasonality

Overseas travel has become less seasonal than it was. Spring travel, in particular, has emerged as a more important travel period (for the British in particular). But the summer months remain by far the most popular time for short-let accommodation. This varies slightly between nationalities, and is dictated in part by school holidays in the home country. Major travel times for Americans coincide with spring break and the June/July school holidays. The French are overwhelmingly likely to rent in August. They take 28% of all their trips in this month.

The British are the least seasonal among the major national groups, and more likely to travel during the 'shoulder seasons' than others. This is a marked change since 2011, when the British made over half their trips during the summer months.

Occupancy

The average annual occupancy of a second home (across all countries) stands at 29 weeks out of 52. This includes time spent in the property by the owners. UK-located properties are the most fully occupied, averaging 40 weeks a year. Properties in the US also average a high rate of occupancy, at 34 weeks annually, helped by long seasons in locations such as Florida and California.

We expect void periods to further fall in future as digital tools enable owners to maximise the take-up of their residences.

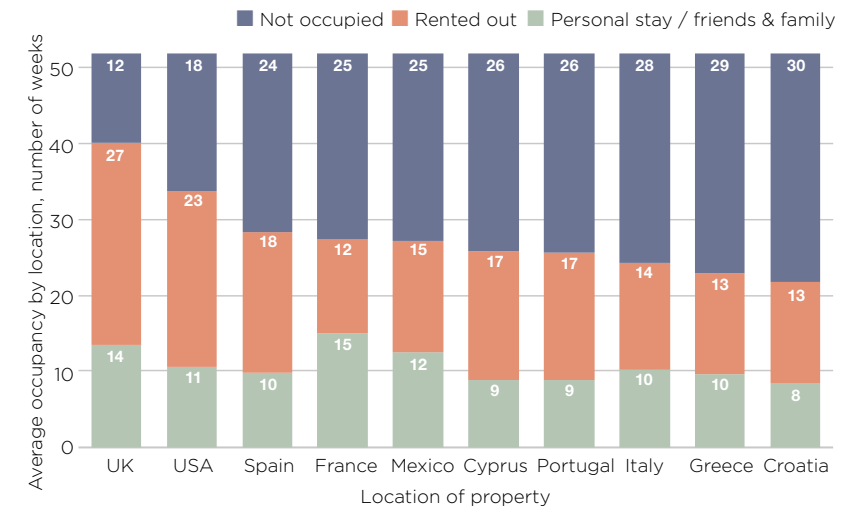
Rental demand is increasing

Some 37% of owners surveyed stated their number of bookings had increased over the last 12 months compared to the previous 12 (43% stated they had remained at similar levels to the previous year).

The rise may be attributed to demand for 'safe' summer sun destinations. While uncertainty and concerns over safety in markets such as Turkey has affected demand (57% of owners reported a decrease in bookings there).

Cyprus, Greece and Portugal seem to be rising in popularity, with half of owners citing an increase in bookings over the prior year. Although the letting season in these markets is relatively short, rising popularity should mean that owners can charge higher peak season rents.

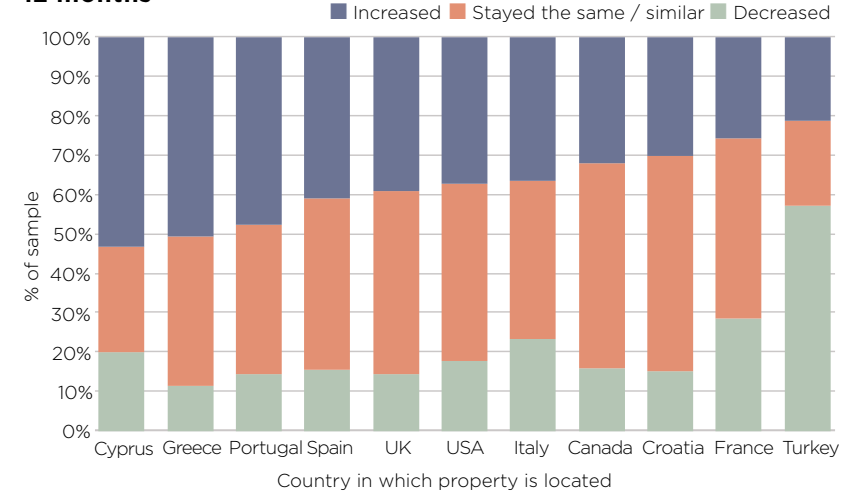
Occupancy in the last 12 months



Assumes two weeks for friends and family stays in addition to personal stays

Source: Savills World Research & HomeAway

Booking in the last 12 months compared to the previous 12 months



Source: Savills World Research & HomeAway



# Costs and returns

Our survey suggests owners are managing to rent out their properties for longer than they used to. This is good for returns, but seasonality still plays a role

### Covering costs or making a profit

Just under a third of owners surveyed claim to make a profit from renting out their property. Of the remainder, a third completely cover costs, and another third partially cover costs (see chart, right).

More owners are making a profit than they used to. Among British owners, for example, 34% reported making a profit in our most recent survey, compared to just 15% in 2011. A more buoyant global economy, together with the general expansion of the short-let market through the use of digital platforms may be contributing to this. Average occupancy has grown by 17% over the same period.

### Deduct one-third for costs

Average property running costs stand at \$7,800 per annum (across all property types and locations), which is 37% of average annual rent. Average annual running costs stand at \$10,000 per year for detached houses (39% of average annual rent). They are lowest in apartments, averaging \$4,700 per year (30% of average annual rent).

This lower cost may be due to the fact that the apartments owned in our sample are recent purchases, bought when new. Their costs may rise as they gradually age and require more maintenance and upkeep. But, with income returns at the forefront of owners' minds, it is no coincidence that new apartments are a favoured property type for new buyers.

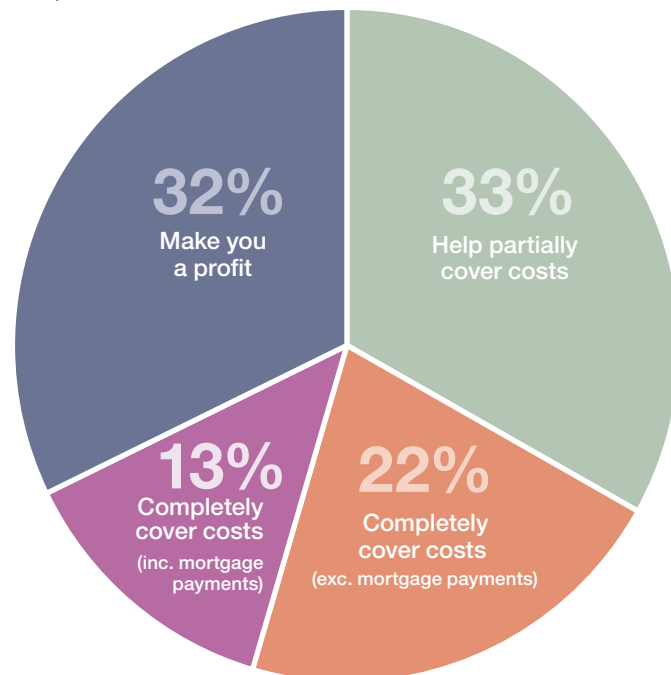
### Seasonal returns

European 'summer sun' destinations such as Malta, Turkey and Croatia are the most seasonal; peak season rents can be more than double low season charges. This has implications for rental returns, with annual income generation reliant on a very narrow window of peak charges. In the most popular destinations this can be highly profitable, but any voids in high season can quickly erode annual returns.

Costa Rica and Mexico, by contrast, are all-year destinations and rental charges vary little throughout the year. In terms of location type, major cities are the least seasonal. Cities benefit from a broad demand base that ranges from tourists to business travellers. In these markets there is only a 41% difference between low and high season rents.

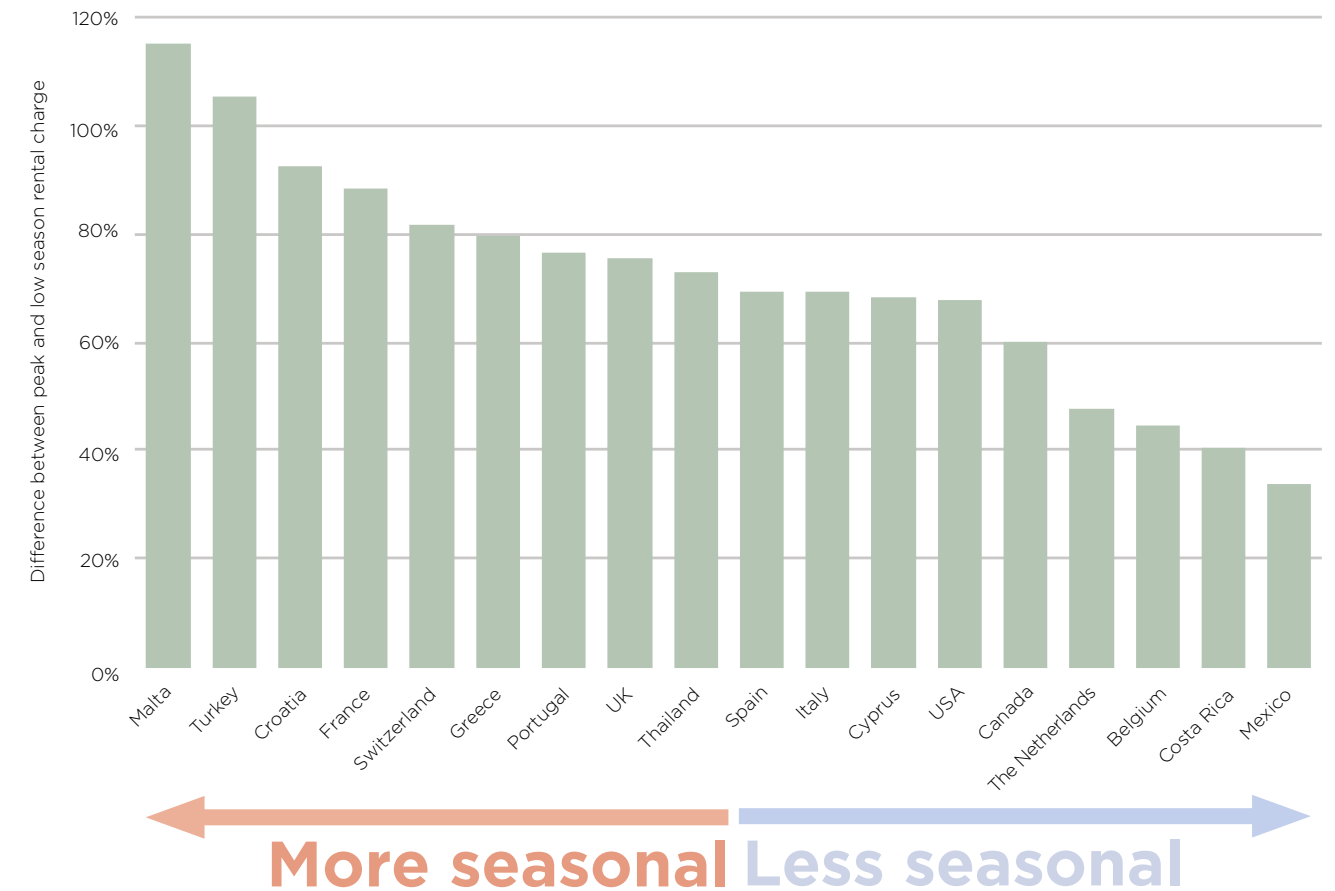


**What rental income achieves** Two thirds of owners cover costs or make a profit



Source: Savills World Research & HomeAway

**The most, and least, seasonal countries for short lets** Seasonal variation in rents greatest in Malta & Turkey



Source: Savills World Research & HomeAway

### Yields

Yields are notoriously difficult to report as definitions vary across jurisdictions and between different professionals.

We have measured two types of yield here. Gross yield is the rent actually received during the year by owners BEFORE deductions like letting fees, cleaning, maintenance and upkeep etc. The net yield is the same AFTER all property-related costs (but before taxes and personal costs). The percentage is expressed as a proportion of the purchase price as stated by the owners.

The prices recorded are for properties bought up to 10 years ago so, if there has been price inflation since purchase, yields based on this measure, will be higher than if they were based on current property value.

Just under a third of owners surveyed claim to make a profit from renting out their property

### Average short let yields

Based on annual rental income and purchase prices collected from the Savills / HomeAway survey.

	Gross (net of voids)*	Net (before taxes)**	Gross to net difference (basis points)
US	9.4%	4.9%	450
UK	7.9%	5.6%	230
Greece	6.6%	5.2%	140
Portugal	5.8%	4.0%	180
Croatia	5.5%	3.4%	210
Spain	5.4%	3.6%	180
Italy	4.5%	3.4%	110
France	4.6%	2.5%	210
Survey average	6.4%	3.9%	250

\*Annual income based on number of weeks rented  
\*\*Annual income based on number of weeks rented less annual bills/upkeep

Source: Savills World Research & HomeAway



# Future intentions

Spain identified as the top destination for future investment

## What are owners' long term objectives?

For most, a second home is a long term hold. Just 8% of owners intend to sell within the next year, and 12% in the next two to five years. With just 20% of the market potentially available for sale in the next five years, the average owner is likely to hold for around 25 years. In an era of low interest rates and modest capital growth, it is no surprise that the majority (43%) plan to continue letting their property as an income generator.

## Where next?

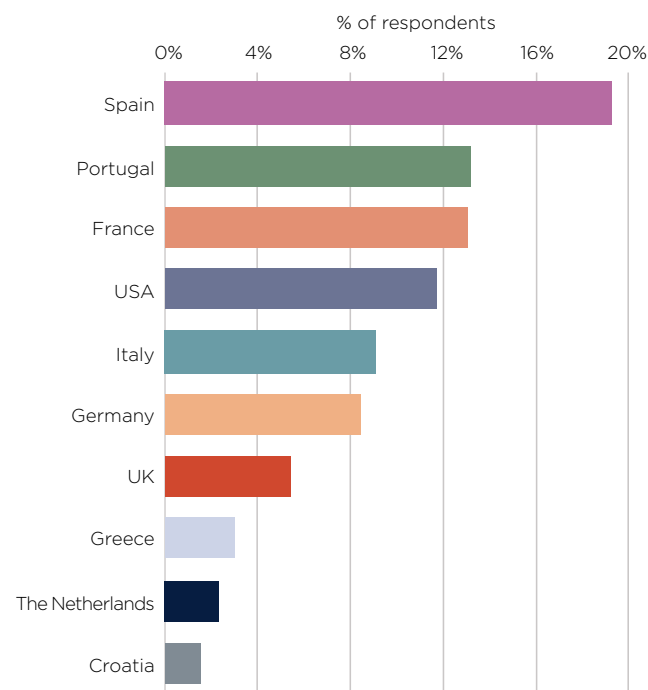
Spain and Portugal are cited as the top destinations for future investment by existing second home owners, followed by France, the US and Italy. The Spanish residential market, now secure in its recovery, is once again attracting attention from second home buyers across Europe and beyond. Portugal, in second place, benefits from a broad demand base and was cited as a top three future investment destination by the Dutch, French, Italians and Spanish, among others.

While these countries came top overall, the majority of owners identified their home market as their first choice for next investment. This reflects a broader focus on income, where local market knowledge and greater ease of management can improve returns.

## Spain now ahead of France for Brits

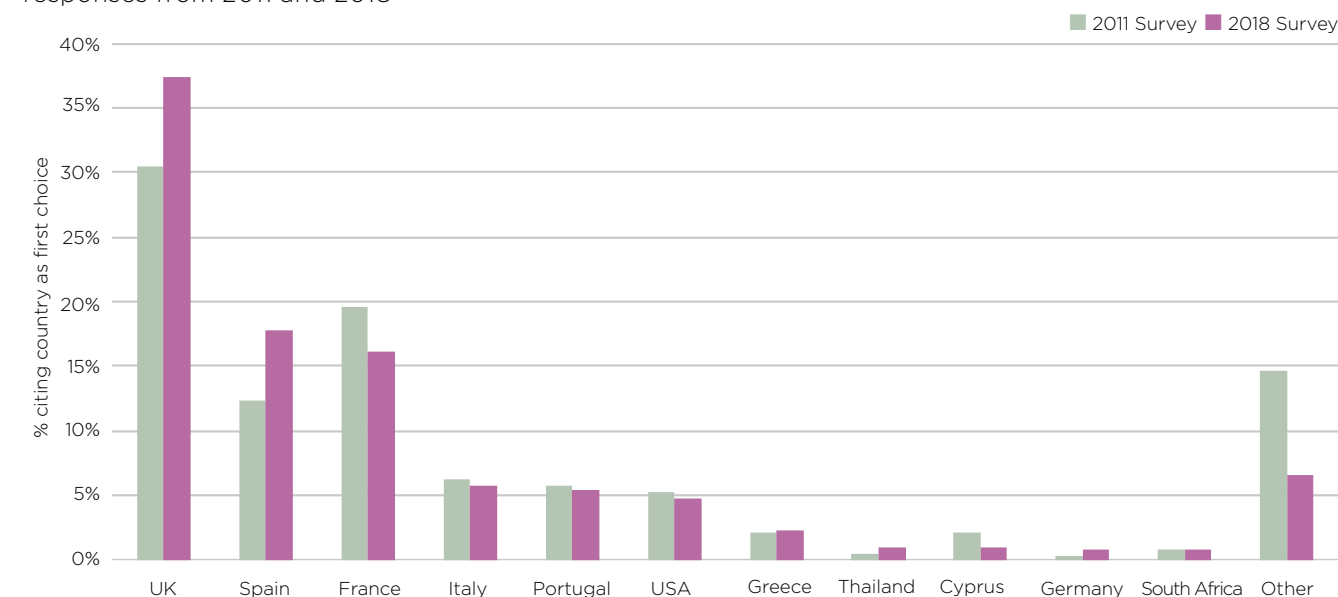
The British are also showing a greater tendency to invest at home, with 37% now citing the UK as their first choice for next purchase, up from 31% when we last asked the question in 2011. In spite of Brexit uncertainty, 52% of British respondents cited another EU country as their top choice for their next investment, slightly up from 2011. Of these, Spain has regained second place from France as the top foreign destination for the British buying abroad.

**Spain and Portugal top for future investment**  
First choice for future investment (top 10)



Source: Savills World Research & HomeAway, Germany data from FeWo-direkt survey

**Is British interest in France waning?** First choice country for next investment for Brits - comparing responses from 2011 and 2018



Source: Savills World Research & HomeAway

**Savills World Research** We monitor global real estate markets and the forces that shape them. Working with our teams across the globe, and drawing on market intelligence and published data, we produce a range of market-leading publications, as well as providing bespoke research to our clients.

### World Research

**Paul Tostevin**  
Associate Director  
+44 (0) 20 7016 3883  
ptostevin@savills.com

**Sean Hyett**  
Analyst  
+44 (0)207 409 8017  
sean.hyett@savills.com

### International Residential

**Hugo Thistlethwayte**  
Head of International  
+44 (0)20 7409 8876  
hthistlethwayte@savills.com

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

**Niki Riley**  
Director, Press Office  
+44 (0) 20 7016 3843  
nriley@savills.com

### International Development Consultancy

**Riyan Itani**  
Director, Head of Department  
+44 (0) 20 7016 3759  
ritani@savills.com

**Alexandros Moulas**  
Director  
+44 (0) 20 7016 3872  
almoulas@savills.com

Savills plc is a global real estate services provider listed on the London Stock Exchange. We have an international network of more than 600 offices and associates throughout the Americas, UK, Europe, Asia Pacific, Africa and the Middle East, offering a broad range of specialist advisory, management and transactional services to clients all over the world.

This report is for general informative purposes only. It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent. Whilst every effort has been made to ensure its accuracy, Savills accepts no liability whatsoever for any direct or consequential loss arising from its use. The content is strictly copyright and reproduction of the whole or part of it in any form is prohibited without written permission from Savills Research.



### About HomeAway

HomeAway, based in Austin, Texas, is an expert in holiday rentals with sites representing more than two million unique places to stay in 190 countries, and is a part of the Expedia Group family of brands. For more information about HomeAway, please visit <http://www.homeaway.co.uk>.

© 2018 HomeAway. All rights reserved. HomeAway and the HomeAway logo are trademarks or registered trademarks of HomeAway. All other trademarks are property of their respective owners.