Market snapshot
The Algarve, Portugal
Introduction

Portugal’s Algarve region is Europe’s most southwest point, offering both an Atlantic ocean coast and a Mediterranean climate. The Algarve has developed a robust image as both an important holiday destination as well as an upmarket second home hotspot. Currently, global economic conditions are weighing on Portugal’s residential sector. However, selected areas of the Algarve are continuing to attract holiday home investment.

Portugal’s 10.6 million strong population has benefited from European Union membership, receiving significant funding and witnessing GDP per capita double between 2000 and 2008. Portugal was among the first round of countries to adopt the Euro as its currency.

Travel and tourism are key components of the Portuguese economy. The World Travel and Tourism Council (WTTC) estimated that in 2009 travel and tourism directly and indirectly generated 15.6% of the country’s GDP, and almost 19% of total employment.

Tourism

Globally, international tourism arrivals have increased at a compound average annual growth rate of 4% since 2000, with 924 million in international arrivals recorded in 2008. The rise in global tourism has been supported by factors such as the increase in household wealth and the rise in budget airlines facilitating short and frequent overseas trips. As more than half (53%) of all international tourism is to European countries, Portugal has also seen this sector expand. Indeed, as set out in Figure 1, the number of overseas visitors to Portugal has increased by 5% per annum on average in the last three years, from 10.6 million in 2004 to 12.3 million in 2007.

Visitors from Europe comprise more than 80% of international arrivals to Portugal, led by those from Spain (22%) and the UK (19%). National statistics (see Figure 2) show that approximately a third of international guests typically stay in Portugal’s Algarve region. However, because the average length of a visitor’s stay here is longer than that in other regions,
the Algarve records more than half (53%) of all Portugal’s tourism nights.

At 44% of all overseas guests, UK visitors comprise the key tourism source market to the Algarve, followed by those from Spain, Germany and the Netherlands. This trend is mirrored in flight arrivals: Figure 3 shows that 40% of passengers landing in Faro are from the UK.

The region benefits from good access both in terms of road network and flight connectivity: The international airport located at Faro has seen steady growth in passenger arrivals, rising by 6% per annum between 2004 and 2007, to a total of 2.58 million in 2007. Faro is located within a short flight time to many of Europe’s capital cities, the majority of which are within three hours’ flying distance, which is important to potential second home buyers. Indeed, Savills International Research found that two thirds of UK-owned overseas properties lie within three hours’ flight of the UK. With flight connections to 54 other airports across the world via scheduled and budget airlines, the Algarve lies within easy reach of a significant market base.

While tourism to the Algarve peaks in the summer with 37% of guests during June to August, there is also strong tourism activity in the key shoulder season months; April and May, and September and October.

Figure 3. Faro airport passengers by airport of origin

Figure 4. Tourism seasonality, Algarve 2008
This is a feature not only of favourable climate conditions during these periods, but also the strong tourism infrastructure in the region which enables visitors to stay in the region outside of the principal summer months.

Key to this is the strong golf offer in the region. According to ‘Visit Algarve’, the Algarve offers golfers around 30 top golf courses. Golf is suited to the Algarve’s clement spring and autumn temperatures and tends to attract golfers mostly from cooler northern European climates, primarily the UK, France and Germany.

The residential market
Portugal’s residential sector has been no exception to the downward trend in house prices witnessed across much of Europe since the onset of the ‘credit crunch’.

Price movement turned negative in Q3 2007 and has subsequently continued to decline (see Figure 5). Reduced buyer confidence and limited financing capacity has contributed to falling transaction levels, reflected in falling levels of mortgage lending, as shown in Figure 6.

Despite the downturn, it is the Algarve region which continues to lead the residential market in terms of values, achieving highest average prices for both apartments and villas across the country (as shown in Figure 7), demonstrating the region’s appeal to both domestic buyers and overseas holiday home owners.

Second homes in the Algarve
Indeed, Portugal is an important holiday home hotspot and 18% of housing stock reportedly comprises second homes. Investment into overseas holiday homes has grown substantially in recent years, supported by factors such as rising overseas travel and expanding household wealth. Robust levels of house price growth have also created investor opportunities. As such, since 2000, the
number of UK second homes abroad has more than doubled, and Portugal has been a popular choice. As shown in Figure 8, Portugal, coupled with the US is the fourth most sought-after location for UK second homes abroad.

The Algarve was not always a tourism and second home hotspot however. Until the mid 1970s, the Algarve remained a predominantly agricultural region, lacking the type of infrastructure, amenities and conveniences required to attract tourism and consequently second home buyers.

With a dearth of sufficient retail, entertainment and activity in the local area, integrated, master-planned communities, such as Quinta do Lago have emerged as self-sufficient entities. They offer not just holiday homes but also supporting facilities such as sports, leisure, services and amenities in managed environments.

With the development of these communities tourism infrastructure has expanded across the region to include marinas and golf courses, improved airlift and a range of hospitality stock, in addition to other activities and entertainment. Local commercial enterprises have subsequently also flourished in the Algarve, catering to tourist demand. In addition, residential stock befitting the rising demands of overseas second home buyers has evolved across the product spectrum, creating a renown second home destination.

Rising tourism to the Algarve coupled with its image as a quality second home destination has led to robust residential price growth as well as high values in selected areas of the region over the last decade (see Figure 9). These factors have meant that today, parts of the Algarve remain exclusively available to buyers at the top end of the market.

Following tourism patterns identified above, the region as a whole attracts mostly European buyers, particularly...
from northern Europe, including primarily, the UK and Ireland, the Netherlands and Germany.

In the luxury property segment, buyers are typically motivated to purchase property here for their own lifestyle purposes whilst also aware of the capital appreciation potential, rather than purely for investment reasons.

In recent years, the strength of economies such as the UK and Ireland has supported high levels of demand for second homes in the Algarve. Rising house prices at home, easily available credit, favourable exchange rates (for UK buyers) in addition to the strong capital growth of second home investments in this location have deepened demand. As a result, there has been a rise in purchasing activity among investors here, keen to capitalise on rising values.

In the current economic climate however, tightened financial condition, uncertainty and falling house prices across the globe have led to significantly reduced sales volumes in the Algarve. The most affected segments of the market have been those where speculative investment rather than end-user buying activity had been prevalent. These factors have contributed to price falls as large volumes of new residential supply, often in the least desirable locations, remain unsold on the market.

Because much of the Algarve residential market appeals to the wealthy, end-user, buyer market, which is typically less mortgage-dependent and less vulnerable during times of economic uncertainty, it has been considered somewhat protected in the current climate. Prices in this segment have tended to decrease by between 10% and 15% as shown in Figure 9. More sensitive areas of the market have been more severely impacted with prices falling by over 30%.

The banking crisis in Q3 2008 saw purchasing activity draw to a standstill across the Algarve. However, spring 2009 witnessed renewed interest in the luxury segment of the market. In the absence of investment activity, the market is dominated by lifestyle buyers seeking to invest in high-end properties at discounted prices.

However, with very few forced sales at this end of the market, and with vendors generally unwilling to accept lower prices, the volume of transactions remains low compared to the pre-crisis period.

**Summary**

This upper end of the market should see prices continue to stabilise in 2010, with opportunities for buyers where prices have reduced. In the longer term, the Algarve will continue to be an important second home location: It possesses all the key fundamentals driving the holiday home market; location and access, climate, tourism infrastructure, image, and quality and range of residential stock, factors which offer enduring appeal to end-users.
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For further information please contact:

Charles Weston Baker
Director
+44 (0) 207 016 3741
cwbaker@savills.com

Fiona Kingdon
Associate
+44 (0) 207 016 3751
fkingdon@savills.com

Rebecca Gill
Associate
+44 (0) 207 016 3740
rgill@savills.com

Joanna Leverett
Associate
+44 (0) 207 016 3811
jleverett@savills.com

Alison Buechner Hojbjerg
Director
+351 289 396073
info@quintaproperty.com

Kerstin Ferreira Dias
Director
+351 289 396073
info@quintaproperty.com

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