

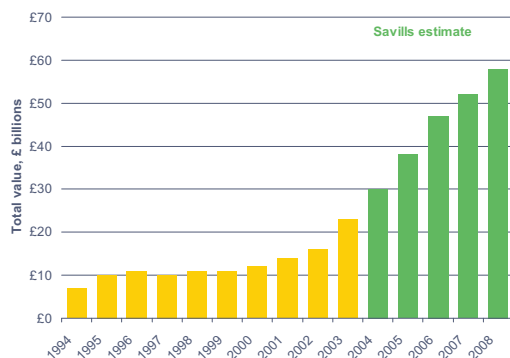
International Research

Second homes abroad

2008

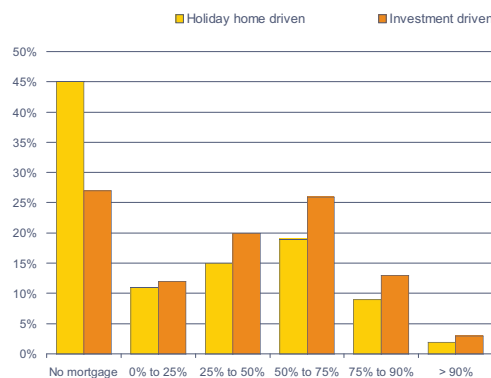
Strong sentiment remains for traditional holiday destinations despite falling capital growth

UK foreign owned property has risen to £58 billion



Source: Savills Research, ONS, DCLG

Higher levels of debt among investor buyers



Source: Holiday Rentals Survey

Summary

- Savills estimate that there are currently 425,000 UK owned overseas properties. This is an increase of 35,000 units in the past 12 months with the total value of UK foreign owned property now stands at £58 billion.
- The price differential between overseas and UK second homes is a key driver of demand. Most UK buyers estimate that they will have an average budget of £225,000 to fund their next overseas purchase, and aspire to buying a house.
- An ideal holiday location was rated the most important factor behind purchasing a property. This explains why purchasers continued to buy property in locations where capital growth had slowed or even turned negative.
- Since 2000, the number of second home owners personally financing their overseas acquisitions has fallen from 80% to just 20% in 2007, which reflects the high levels of liquidity in mortgage markets, especially in the US and Spain.
- Fly to let investors target locations that are served by low cost airlines and where there is good rental potential. They have capitalised on the rising popularity in city breaks.
- Investors' typical rental period was 18 weeks in 2007 with average weekly rents of £549 and gross yields of 5.4%. The average capital value for investors was £182,000, which was 21% lower than the average for leisure buyers.
- In contrast to investors, leisure buyers including retirement home owners, tend to use less mortgage finance when buying their overseas property, and their motivation for renting out their property is to avoid it standing empty.
- Whilst the issue of climate change is an important concern for the majority of second home owners, two-thirds of respondents felt that a rise in green taxes would not impact upon their travel to a property.
- We anticipate slower growth in second home buying activity in the next 24 months, nonetheless, buyers remain optimistic over the long term.

Savills
Research

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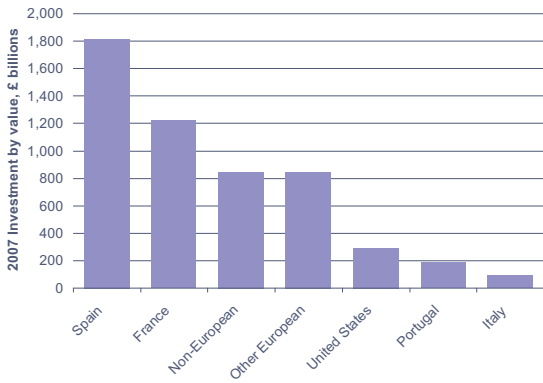
Second homes abroad

Savills Research in association with Holiday-Rentals.co.uk surveyed over 1,500 overseas property owners and identified their motivations for buying property, and analysed the rents, yields and pricing trends achieved by second homes abroad in 2007.

Growth of second home owners

We estimate that there are currently 425,000 UK owned overseas properties. This is an increase of 55% since 2003 and an uplift of 35,000 units in the past 12 months. Extrapolating Government data, we project that the total value of UK foreign owned property reached £58billion in 2008, an increase of £5.2billion in the past 12 months.

UK investment in foreign property, 2007



Source: Savills Research, ONS, DCLG

House price inflation however slowed in many European countries in 2007 with house price growth averaging 5%. Higher levels of capital appreciation were recorded in Eastern European countries with cities including Sofia and Warsaw seeing over 20% growth. Lower levels of price growth will continue in 2008 and 2009 whilst the credit crisis and illiquidity problems dampen demand for residential globally.

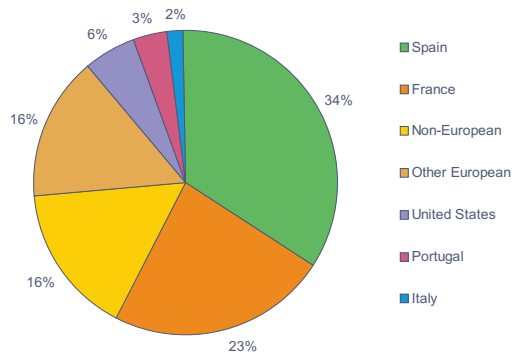
Profile of second home owners

Spain and France have the largest number of UK owned second homes, at 34% and 23% respectively. Although buying activity was lower in the past 12 months compared to the 2004 - 2006 period, acquisitions that did take place continued this trend with Spain, France, Portugal, the US and Italy comprising the top five destinations.

The growth of second homes in these countries is being driven by increasing numbers of leisure buyers and older home owners seeking retirement property abroad. Using Government data we estimate that the average property price for all UK overseas second homes is £135,000, which is much lower than the average price of a second home in the UK. This is one

of the key reasons why UK investment abroad is so strong amongst older homes owners. Retirement was the primary motivation for acquiring overseas property for 18% of the respondents included in our survey. These owners tend not to require mortgage finance and their motivation for renting out their property is to contribute towards the cost of maintaining the property and to avoid it standing empty.

Location of UK second homes abroad



Source: Savills Research, ONS, DCLG

Locations of second homes abroad

On the whole, our survey is biased towards Europe, with 71% of respondents resident in European countries. Of these respondents, the majority (86%) have holiday homes within Europe. Amongst UK buyers, villas and apartments were the most popular property types at 41% and 33% respectively. The average purchase price for leisure buyers responding to the survey was £220,000.

Price range of property acquisitions, 2007

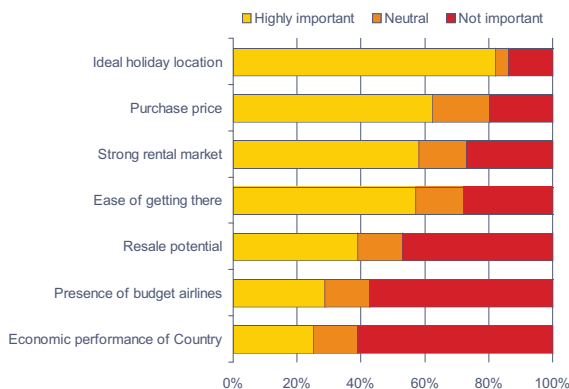


Source: Holiday Rentals Survey

Buyer motivations

Leisure is the key motivation driving second home purchase, with holiday home owners (50%) and retirement owners (17%) stating this as being their primary buying motivation. Investors made up the rest of the sample with 17% buying specifically for a fly to let investment and a further 16% targeting capital growth and resale potential.

Holiday location is key driver



Source: Holiday Rentals Survey

Purchasing property in an ideal holiday location was rated as the most important factor. This goes some way to explaining why purchasers continue to buy in locations where capital growth has slowed or indeed turned negative in the last year, such as Spain.

Although purchasers will always have some investment motivation when acquiring property and will generally target locations where they believe capital values will rise, it is not their primary motive. In fact 50% of respondents indicated that resale potential is not an important driver. This illustrates the fact that overseas buyers are seeking an asset for leisure purposes rather than investment.

The emergence of fly to let

In total, 33% of the survey included respondents with investment motives. This was split between fly to let investors and buyers whose primary motivation is future capital growth.

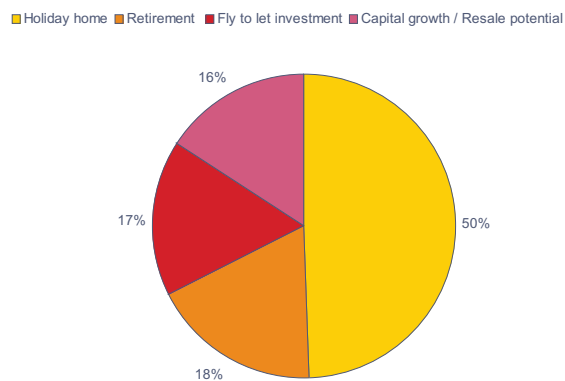
All these investors seek locations where there is good rental potential (80% of respondents), namely, in strong tourism destinations. Typically, investors in this group target locations that benefit from good access and infrastructure, and which are served by low cost airlines.

The advent of budget airlines has supported the rise in city break tourism. Investors have consequently capitalised on this growth and have increasingly bought in cities that are popular among tourists.

In Europe, this includes Barcelona, London and Paris, cities which generate high levels of rental enquiries, reflecting their year-round tourism appeal.

Other increasingly popular city break rental destinations include areas of Eastern Europe including Prague, Krakow, and Budapest, and further afield, Dubai, in the Middle East. All of these destinations have seen growth in buying activity in recent years, as their tourism sectors have rapidly expanded.

Reasons for purchasing overseas property

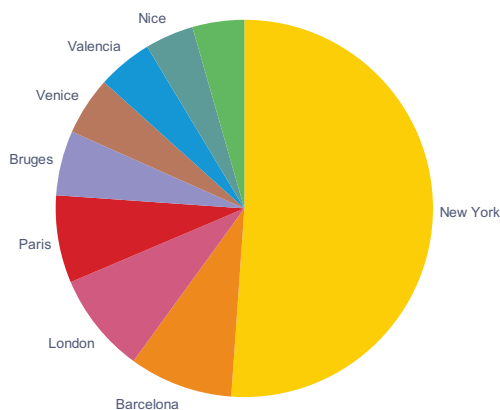


Source: Holiday Rentals Survey

For investors the typical rental period was 18 weeks in 2007 compared to 15 weeks for leisure buyers. Surprisingly, the weekly rents for investor buyers was 12% less than holiday buyers. The average rent for investors and leisure buyers are £549 and £622 per week respectively.

Investors generally however paid less for their properties (£182,000 compared to £220,000 for leisure buyers) and therefore achieved higher yields. Gross yields for leisure buyers were 4.2% compared to 5.4% for investors.

Top city destinations for travellers



Source: Holiday Rentals, Savills Research

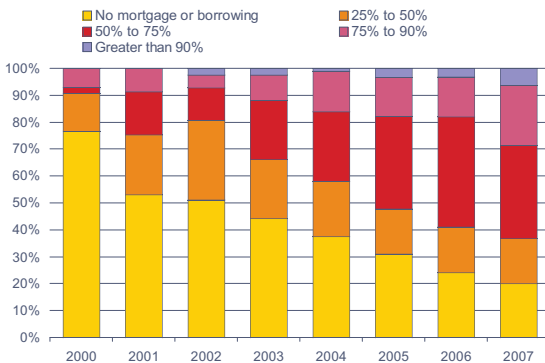
Financing second homes

Mortgages and debt levels

Since 2000, the number of second home owners personally financing their overseas acquisition has fallen from 80% to just 20% in 2007. Today, there is far greater use of debt to finance second homes for a number of reasons, such as:

- The liberalisation of mortgage markets in Europe and the growth of mortgage markets in emerging economies;
- The perception that property values increase over time;
- The ability to finance purchases from the high levels of equity built up in the main residence;
- Increased political and economic stability in countries of purchase.

Debt levels in the second homes markets



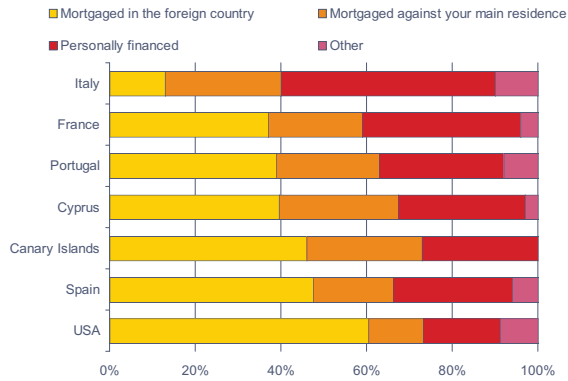
Source: Holiday Rentals Survey

Funding Strategies

57% of respondents have a mortgage on their second home. Typically, investors are more likely to use debt to finance their overseas purchase than leisure buyers.

Buyers with properties in the US and Spain were least likely to use their own equity to acquire the property, and were most likely to take out local mortgages using the holiday home as collateral. Obtaining mortgage finance in these countries has been relatively cheap and easy, with both countries having mature and established mortgage markets. Buyers in Italy on the other hand, showed the lowest propensity to finance their property purchase with a mortgage. This is likely to reflect the relatively immature mortgage market in Italy.

Financing second homes by country



Source: Holiday Rentals Survey

UK respondents had a much higher propensity to obtain a mortgage against their principal private residence compared to their European counterparts. The proportion of respondents obtaining mortgage finance in the country of acquisition was around 32% of UK and European buyers.

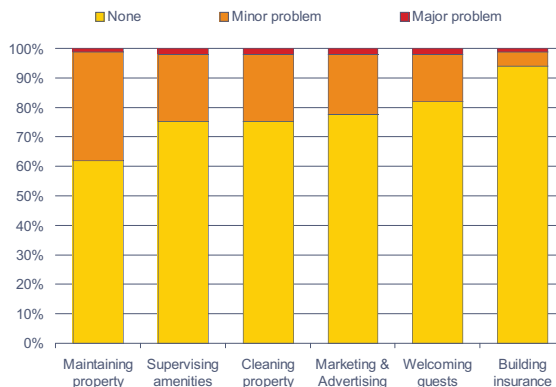
Management issues

In terms of managing rental property, 29% of investors outsourced the management of their properties compared to 24% of leisure buyers. The cost of outsourcing management was 33% higher than self-management across the survey sample.

Investors generally had lower management costs than leisure home owners. The average annual management cost for an investor that self manages was £2,000 compared to £2,225 for leisure home owners.

Maintaining property was identified as the most problematic aspect of owning property abroad with language barriers making it difficult to source appropriate people to carry out repairs.

Maintaining property is the most problematic



Source: Holiday Rentals Survey

Environmental issues

Impact of rising travel costs

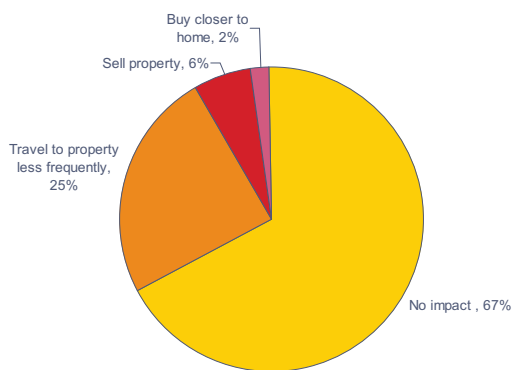
Whilst the issue of climate change is an important concern for the majority of second home owners, two-thirds of respondents felt that a rise in travel costs due to green taxes would not impact their travel to a property.

Given that the majority of UK owned overseas homes are located in Mediterranean locations, they can by and large be accessed in under three hours' flight time or by alternative means of transport, therefore limiting the effect of green taxes.

In recent years however, there has been a notable increase in the number of British second home owners buying property further away than Europe. This reflects the emergence of holiday locations such as Dubai, and the attraction of the Far East and the Caribbean, which can benefit from longer seasons and consequently, longer rental periods. It seems so far that the benefits associated with further afield holiday destinations are outweighing increasing travel costs.

Investors in particular (25%) have sought to capitalise on this trend, demonstrating a stronger propensity towards buying in long haul destinations, compared to 17% of leisure buyers.

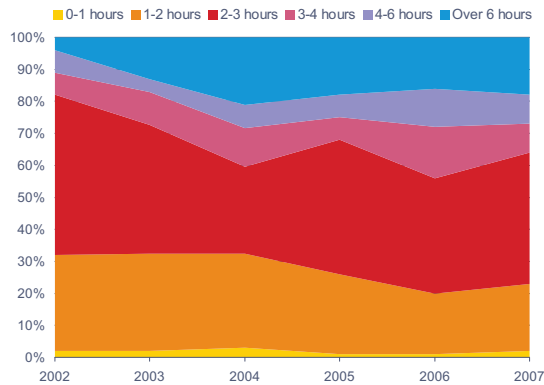
Low impact of green taxes on overseas buyers



Source: Holiday Rentals Survey

Higher incomes and high levels of equity in UK property have also contributed to the growth of this further afield market. 18% of UK buyers that travel over six hours to their second home have salaries in excess of £100,000 per annum.

Long haul destinations becoming more popular



Source: Holiday Rentals Survey

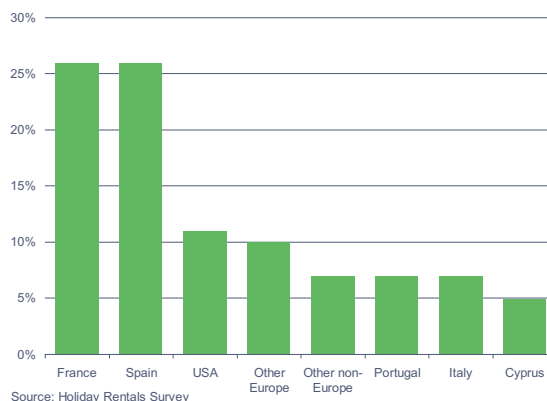
Future buying priorities

Due to the credit crisis, which is impacting global mortgage markets, we do not expect to see a significant increase in the volume of investment in the holiday home market over the next two years.

Nonetheless, in the longer term, buyers are still optimistic about buying properties abroad, most particularly in traditional hotspots including Spain and France. Other European destinations such as Cyprus, Greece and Turkey also feature as increasingly desirable.

Most UK buyers estimate that they will have an average budget of £225,000 to fund their next overseas purchase, and aspire to buying a house rather than a smaller property.

Popular future overseas investment destinations



Source: Holiday Rentals Survey

Savills services and contacts

Savills International

The Savills name has become synonymous with luxury residential property worldwide. The Savills International Team is based in London and works closely with a network of Savills and associate offices worldwide.

Savills has undergone dynamic growth in recent years establishing itself as a powerful player on the international stage with offices and associates throughout the UK, Europe, Asia Pacific and Africa.

Our team has specialist knowledge of the respective countries in which we operate. We offer skills and expertise on every step of the buying process from choosing the right product to introducing you to the appropriate legal and financial advisors.

Savills International services include:

- Resale Property - First hand advice on overseas homes, areas as well as the buying process.
- New Developments - Information on all types of new build overseas development from France to Mauritius.
- Mortgage Advice - Savills Private Finance offer you the specialist advice and guidance you need to make the right choice on financing your property abroad.
- Investment and Consultancy: The team can provide experienced advice on developing property worldwide and knowledge on investing in residential property abroad.

Savills Research

Savills Research team is based in London and provides advice and analysis to clients on the rural, residential, commercial and leisure property sectors in the UK and Europe. Savills also provides similar property research services throughout South East Asia and Australia.

In the UK, Savills has had a dedicated residential research team for the past 18 years. Over this time, the department has built up a strong reputation for producing accurate, well informed and, above all else, independent analysis and commentary on the UK's housing market. As a result, the team are a leading national commentator on market trends.

Holiday-Rentals.co.uk

Based in London and founded in 1996, Holiday-Rentals.co.uk is the UK's number one holiday rentals website and was acquired in 2005 by US-based HomeAway, Inc, which operates a global network of holiday home rental websites. Together with the HomeAway websites in the U.S. and Europe, Holiday-Rentals.co.uk provides holiday home owners with the most efficient method for marketing their property, and travellers with the largest and most trusted source for finding a holiday rental. Each year, the HomeAway websites attract more than 100 million visitors and list over 309,000 paid holiday home listings worldwide.

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