

A PLACE IN THE SUN

New research shows a real thirst for the residential sector in Southern Europe. Changing demographics are creating real estate opportunities.

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From an UK perspective, residential property has never held the institutional position that it has in, say the US or the Netherlands. More recently, sustained high price performance and a regrowth of the private rental sector have begun to change this position as have stock transfers from the public sector.

The changing demographics of Europe and the UK in particular imply an ageing population, but one that is more affluent and mobile than it has ever been.

The almost exponential growth of air travel that so broadened the horizons of the previous generations, these days is taken as read. The world has never been a smaller, or more accessible, place.

As familiarity with European destinations has risen – so their perceived risk profile has reduced. As a result of the UK's membership of the European Union, it has become apparent that living, working and retiring in another European country does not present the insurmountable barrier that it once did.

Cheap air fares from local airports have made access to work and family much easier whilst the relaxed lifestyle and warmer weather have made the prospect of a base in Spain, for example, very attractive.

As house prices have continued to rise quickly in the UK particularly, a large differential has opened up with many destination countries, making the financial prospect equally attractive.

This has manifested itself in permanent migration, an increase in overseas employment and in the purchase of holiday homes.

In parallel our appreciation and sophistication with respect to investing has changed dramatically.

In part this is to do with a decrease in the certainty of income. Employment "from cradle to grave" has long ceased to exist and it has become necessary to take more control over our own destiny. This has been assisted by an enormous increase in the volume and accessibility of information.

Large scale privatisations and conversions widened share ownership substantially to levels not seen since the 1920's and the view of houses as part of a portfolio of assets has taken firm root.

These factors have combined to increase the potential for population movement dramatically over the past twenty years. This trend has been fuelled by the falling price of flights, itself a function of increasing liberalisation.

The demand thus created has led to the opening up of new airports serving second-tier destinations and opened up the possibility of cost-effective ownership of second homes and genuine migration.

This demand has been highlighted by a raft of television programmes and interest in the popular press.

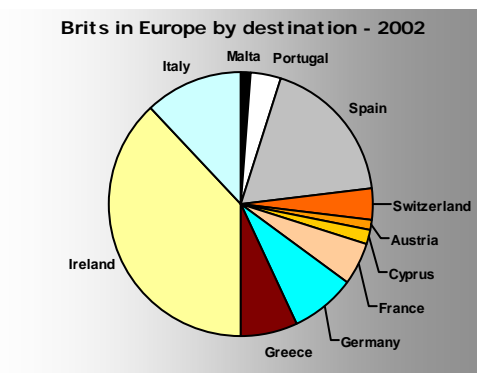
It would be easy to dismiss this as just of fashionable interest, however, a comprehensive survey of the aspirations and intentions of UK residents is being undertaken to determine the likely scale of this trend*.

Preliminary results show that over 60% of UK householders aspire to own a home overseas – either as a second or main home. 50% of those aspire to a European destination.

These aspirants would be joining a substantial expatriate community. There are estimated to be around 570,000 UK nationals living in Europe either on a permanent or long-term basis.

Currently a significant majority of these are drawing UK pensions, but the ratio between these and economically-active migrants is expected to change over time.

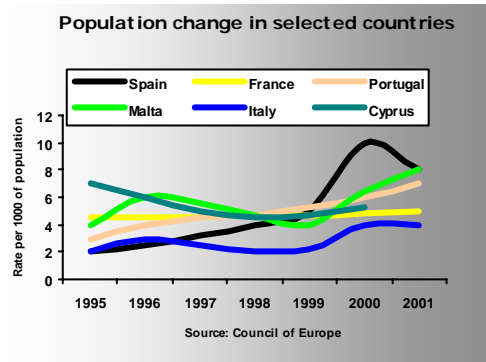
This is also an active population. In 2000, 116,700 people migrated to Europe from the UK alone.



Paradoxically Ireland sees the lions share of the UK European diaspora at 38%, but there are significant proportions in Spain and Italy particularly.

This is all part of a trend to “downshifting”. Research by Datamonitor estimates that some 2.6m Britons are “downshifters”, up from 1.7m in 1997, when the “quiet revolt against the culture of getting and spending” began. The movement is now so well established that Datamonitor predicts we will have 3.7m downshifters by 2007, part of a movement of 12m people across Europe.

To an extent the trends can be seen already in the statistics.



Figures for population change are distorted for our purposes by inward migration to Europe as a whole. Nevertheless a relatively high proportion of immigration into the countries shown comes from other EU countries – over 50% in the case of Portugal and Cyprus for example.

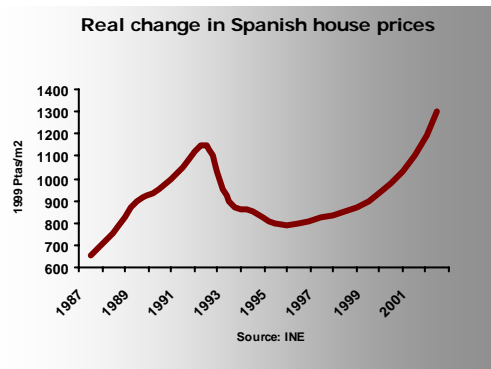
This is far from being a UK phenomenon. All over Europe affluent citizens of the northern economies are buying property in the sunbelt.

Looking forward the research shows that the majority of aspirants would have a holiday home in Europe out of preference, but over 40% would opt for a permanent base.

Arguably the sunbelt – running from Portugal, through Spain, France and Italy to Greece – is already the Florida of Europe. This movement of people, both real and prospective, holds lessons for the real estate markets throughout that region.

Conventional wisdom would dictate that the development of residential property plus retail and leisure facilities would be the main focus of attention. However, the growth of high bandwidth telecommunications, plus fundamental changes to business processes have the potential to open up these areas to mainstream office employment as well.

Of course, barriers still remain for investors not the least of which are the identification and valuation of product.



Taking Spain as an example. Average house prices soared 91 percent between 1997 and the first quarter of 2003, while Madrid and Barcelona saw rises of 118 and 125 percent respectively over the period. Although fuelled by low interest rates and increases in disposable income Foreign investors have also rushed to buy property in Spain, to the tune of six billion euros in 2002, pushing demand and therefore prices even higher.

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A Place in the Sun will be available from RETRI Group early in 2004.

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UK

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RETRI Group, 44 Stewart Avenue, Upminster, RM14 2AF, UK
+44 (0)1708 223064

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The editor is Bob Thompson - bt@retrigroup.com +44 (0)7703 234251

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