



# SUN SHINES ON FRESH MARKETS

**Bolt-hole investments** Investors should look to up and coming places for holiday homes, and well as the safe and secure ones. By *Nadia Eghamry*

It is that time of year when property players swap their Church's brogues for flip-flops, tuck their BlackBerrys into their Speedos and head to their bolt-holes in the sun.

But nest eggs in the south of France and pension-boosting ski chalets are not looking as perky as they used to. With investments taking a tumble, is now the time to start stashing your cash in foreign property?

Conservative is the watchword. Jonathan Seal, executive director at CB Richard Ellis residential consultancy, says that the company has shied away from taking on large residential development work. "If it doesn't make sense for us then it

won't make sense for our client to do it," he says.

The company's consultancy business has grown, along with its auction business, which perhaps reflects exactly where the market is.

"There were huge investments made about five to six years ago, but investors are now realising that it is not quite as easy as they thought it was going to be, and the need for second homes is a long way down the shopping list," says Seal.

According to Knight Frank, 2008 was the year to forget, with prices falling in almost half its global hot spots. As the year wore on, those falls accelerated, with 35 out of its 55

tracked locations dipping into the red.

Even tax havens such as the Cayman Islands, Barbados and Monaco came under severe pressure, as high-net-worth individuals took a hit. More than one-third reported a substantial decrease in the value of their property portfolios. Many seemed to turn to drink and, as the art and property markets drooped, the price of fine Burgundy actually rallied.

James Price, partner in international residential with Knight Frank, says: "People worth a lot of money were suddenly worth a lot less, and they were nervous. They were trying to understand how it affected them – would they have to put money back into

their companies to keep them afloat?"

As a guide, Price says those looking to spend £1.5m-£2m on property have now cut their budgets and will have £1m-£1.25m in their pockets.

So if you have got money, where's hot and where's not?

## Hot spots MOROCCO

Forget holiday homes and traditional riads (houses with courtyard gardens) and look at the local market. CBRE's Seal advises looking in places such as Casablanca and Rabat. "It's a huge population in a developing country, and developers are selling incredibly well to the local market and the Moroccan diaspora in Paris," he says.

Moroccan developer Addoha is launching its Prestigia brand of resorts and planning 20,000 homes across eight projects, including the Norman Foster-designed, mixed-use Anfa development in Casablanca. On average, it is selling 200 units a week.

With the government stating that 158,500 units are needed every year until 2014 to fill the housing deficit, there could still be time for international investors to get a foothold.

**Porto Montenegro:** property at the resort is fetching €4,500-€5,000 per sq ft

## MONTENEGRO

It has been dubbed the new Riviera and the port of cool, but with its €600m marina and Mediterranean climate – not to mention its growing property market – Montenegro, on the Adriatic coast, might actually be worth the plaudits.

Most agents point to one development in particular – Porto Montenegro, on the Bay of Kotor – as the one ray of hope in an otherwise depressing international market. Property owners at the resort pay 25% less than at other resorts in the Mediterranean to berth their yachts.

As a result, the development – built on a defunct naval base – will always attract buyers, even in a recession. Developers are reportedly offering no discounts and making sales at €4,500-€5,000 per sq ft.

**"There were huge investments made about six years ago, but investors are now realising it is not quite as easy as they thought it was going to be"**

**Jonathan Seal,  
CB Richard Ellis**

## Not spots CARIBBEAN

The Caribbean is just one more victim of over-development. Seal says that the area is having a very difficult time because of its high dependency on US, UK and Irish buyers.

The market in Barbados has "stopped" at the moment, says Seal,

although this could ironically make it an ideal buy, especially if favourable exchange rates are taken into account.

But he warns that, as many developments grind to a halt, "you've got to be brave to buy, and be sure the development will be finished and you'll have electricity and water".

Knight Frank's Price agrees. He points to 72 stalled projects, representing about three-quarters of all development on the islands. That said, there are some deals that sound too good to miss for investors.

The Apes Hill scheme, a subsidiary of LML in Barbados, is offering flats with around \$175,000-worth of furniture, full golf membership, and a guaranteed yield of 7% for five years. The developer can buy back the villa at the original price but will pay a \$100,000 bonus. Critics argue that someone is always going to pay for that guarantee, but Price says that "they're confident they can drive a certain level of occupancy to it".

## EASTERN EUROPE

"Areas of Eastern Europe are pretty bloody," says Seal. He adds that developers there targeted buyers from Germany, Scandinavia and the UK, and all these markets are in trouble. Recent political problems in Serbia have provided investors with one more reason not to buy there.

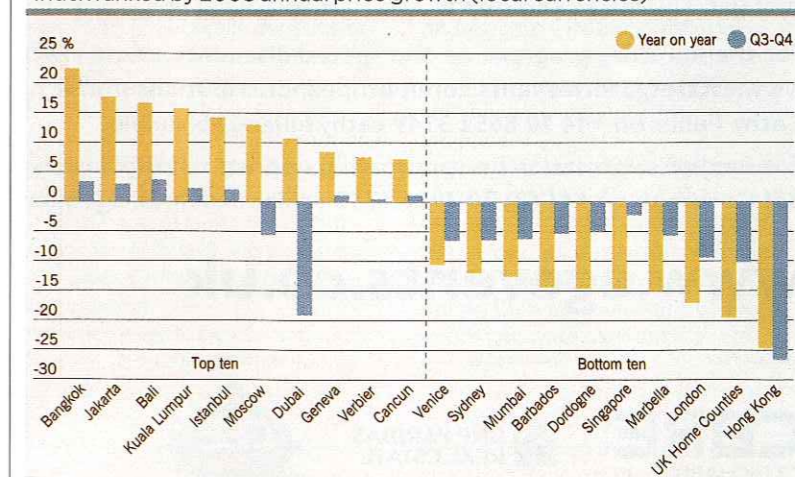
Price says that it is a similar story in Bulgaria. "You wonder where the resale market is going to come from," he says. "A huge amount of developments were planned, and many now won't see the light of day."

## SPAIN AND PORTUGAL

Spain totally forgot the fundamentals of property development, says Seal.

## Property price changes, year to 2008/Q3 to Q4\*

Index ranked by 2008 annual price growth (local currencies)



Source: Knight Frank

\*Top 10 and bottom 10 from 55-place table

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## FOCUS RESIDENTIAL

He estimates that there is an oversupply in the Spanish market of around 1m homes.

And according to Seal, homeownership in Spain is 95%, so while many international markets might be bailed out by local buyers, this will not happen here.

Compounding the problem is the Iberian practice of putting up the price of your home during a recession. "They think, 'if I have a high starting price, when a crazy offer comes in I might end up where I wanted to be anyway,'" says Seal.

### Safe spots

#### FRANCE AND ITALY

France is the most visited country in the world. According to the World Factbook, it also benefits from the third-largest income from tourism.

So investors have not been shy. According to Seal, wealthy Russian oligarchs fuelled investment in the south of France market last year, but that has now stopped.

But markets in the rest of France and in Italy, and particularly around Tuscany, remain safe and steady. While they may never offer the double-digit returns promised in, for example, Latvia a few years ago, they are unlikely to see stomach-churning descents either.

Gaining a foothold in the French market has, however, got tougher. Fuelled by law changes instigated by French president Nicolas Sarkozy to encourage locals to invest in their home turf, the market has heated up.

Nick Leach, head of Pierre & Vacances Property Investments, points to incentives that allow locals to buy leaseback properties and get the VAT rebated, amounting to 19.6% for new-build and up to 14% for renovations. They can also offset up to 25% of the property value, or up to €75,000 against income tax for nine years.

Leach says his company sold €100m-worth of property in the five months preceding the new law. In the six weeks following, it sold €150m. "It's extraordinary," he says. "We have UK clients that are haggling for a discount. Meanwhile, we are selling out very quickly to French clients." The new law is valid until 2012.

As a rule-of-thumb, Leach says P&V in France is netting returns of 4.5%. the company now has big plans to expand into Spain, where it can pick up land and resorts relatively cheaply.

The developer is also looking to Morocco, where it plans to build accommodation for 10,000 beds by 2012.



**Ski chalets, Avoriaz, France: in the six weeks after new legislation allowing VAT rebates for French citizens came into effect, property dealer Pierre & Vacances sold €150m of property in the country**

### Agents prefer to go without

Most people might be surprised to find that those who advise others for a living on buying holiday homes do not actually own one of their own, writes *Hannah Brown*.

Neither Jonathan Seal, executive director of CB Richard Ellis, nor James Price, partner in international residential with Knight Frank, have a bolt-hole in the sun.

Both blame a lack of cash, but also a desire to visit and experience new places, rather than be tied to one location.

If Price were to buy, he lists Tuscany in Italy and Gerona in Spain as his favourite spots. He thinks that, with prices dropping, now is the time to buy property in these locations. Also, more people are

looking for holiday homes, so the competition is increasing.

Seal specifies France and Italy as his first stops. He also suggests South Africa as a good investment, but voices some concerns. "There is still the risk of robbery and violence," he says.

For a ski chalet, he would opt for something off-piste, investing between £500,000 and £700,000 in a home outside a main town. "You wouldn't get as good a return during the winter season, but you might get more cash throughout the year."

However, he is not sure if it is the correct time to buy, and suggests there is no return from renting chalets in the current market.