

# Investing in overseas property



**...is not a game**

**Tenerife Property Shop Market report**

**June 2010**



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# Introduction

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Ask five people what the property market is doing at the moment and you'll get five different answers.

Some are full of doom and gloom, whereas others (possibly with a sprinkling of bravado) report new buyers registering in their droves. The truth, of course, is somewhere in between.

Some of the media continue to be like the haggard witches and soothsayers of old, pointing grizzled fingers into a dark and gloomy future and assuring us all of certain doom. But as we all know, the media tend to follow what is happening, reporting after the event and if past recessions are anything to go by they will still be doling out dire warnings after the bottom of the market is long gone.

On the other hand there are those who have been quoting "the green shoots of recovery" during the past three years as

the global property crisis worsened, not because there were any real signs of recovery but more because there was a combination of vested interest and wishful thinking.



## Market Confusion

There has been some confusion which is attributable to a general misconception in the marketplace.

The misconception was a basic confusion between Tenerife and mainland Spain, and specifically the Costas. A short summary of goings on in the Spanish property market will start to make it all clear. There has been a massive amount of building along the coastlines of Spain, and despite warnings from the IMF, plus dire predictions in publications ranging from the Wall Street Journal to the Economist and even pessimistic reports from Spain's own Banks and Government, the pace of building continued unabated. This caused a glut on the market and vendors are finding it tough to sell, with properties sometimes spending years on the market.

This combined with corruption scandals in Marbella and land grab exposés in Valencia meant that consumer confidence in the market became further eroded. In contrast, Tenerife had limited building applications as the island authorities voted in a moratorium on touristic building in 2001, which continues to be extended to this day. But although Tenerife has experienced no such greed inspired feeding frenzy by developers, it is still part of Spain and for a while, it was tarred with the same brush.

So although there has inevitably been a dip in demand for property in Tenerife due to the recession, it was also partly due to the misconception that the Tenerife market was the same as the Spanish mainland market. Misconceptions don't last long, property interest has rapidly recovered and confidence is returning. However, this has led to unique conditions in the market today with many properties available at prices below what they should be, even in the current depressed market place.

## *Rising Demand*

People have contacted Tenerife Property Shop from places as far diverse as Lithuania, China and India (no really!!) asking if we can tell them where they can find, or if we could provide, detailed up to date information about the property market in Tenerife and the future prospects for investors and normal purchasers, as they have been unable to find it elsewhere.

So, this is intended to be a serious factual report covering the recent, present and future prospects of investing in property in Tenerife. No doom and gloom! No false hype! Just fact, not fiction! All this intermingled with the views of Tenerife Property Shop's considerable experience, being the most respected 'hands on' real estate agency in Tenerife.

# *Market trends*

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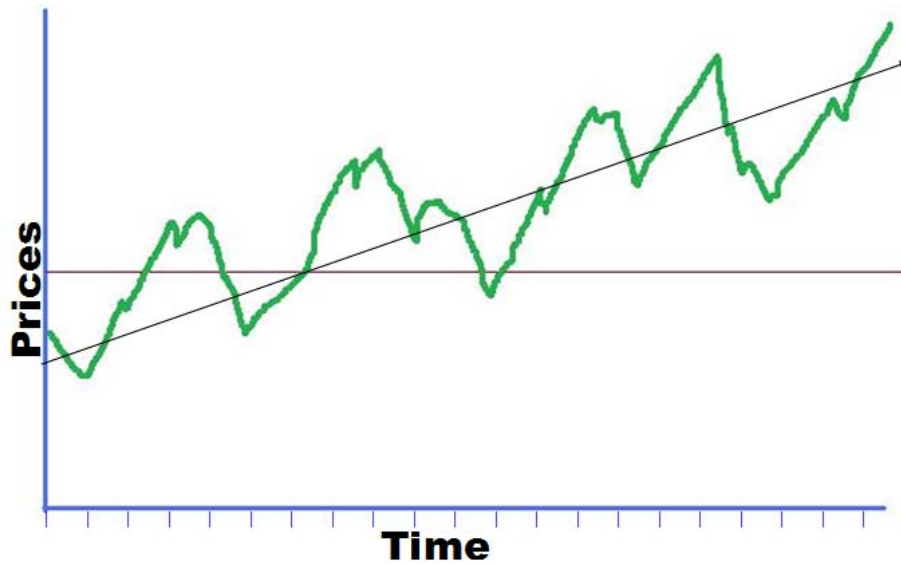
## *Cyclical trends in property prices*

Property markets are really no mystery. Like all markets, they obey a cyclical law, rising and falling with a rhythm. Over time, the average between peaks and troughs tend to get higher, and market prices trend upwards, although at any day or minute the fluctuations seem haphazard.

The key to profiting from these market ebbs and flows is to understand at what point you are in the cycle. To make the best profits, you naturally want to buy when the market is at its very bottom and sell when it reaches its zenith. In order to do this, investors look behind the general trends to analyse the specific influencing factors that affect local demand and supply.

We know that there are literally tens of thousands of people waiting to be sure that the Tenerife property market has hit bottom before they purchase their own homes in the sun. So how will they know when the market has hit bottom? It's a burning question that a lot of people would like to know the answer to.

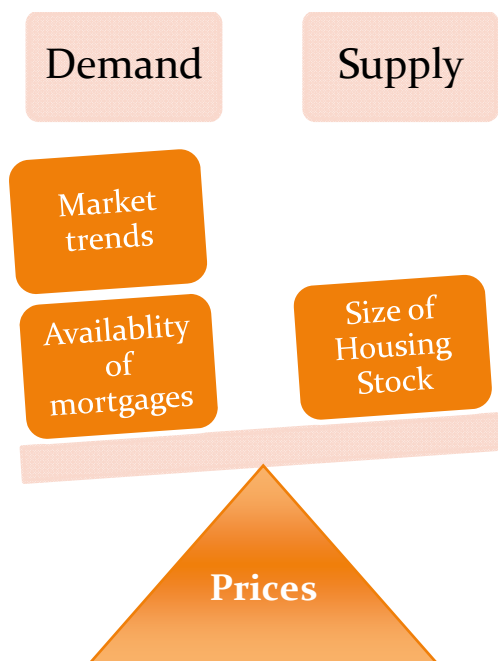
Money hasn't actually disappeared; it has just gone into hiding. Those who have it are poised, waiting for the tipping point when prices start heading upwards again and that's when the buying will begin in earnest. It is not rocket science. "Buy low, sell high" is a maxim that has built more than a few fortunes.



Tenerife has not been unscathed by the property slump, but historically prices on the islands have been below the mainland, giving some room for maneuver. However the key difference between the markets is an even more fundamental one: the basic economic law of demand and supply.

### *The Tipping Point*

Factors that influence property markets will affect either the demand or supply side of the equation. As the scales tip towards one or the other, prices respond accordingly to maintain balance. A detailed study last year showed that more new developments were being sold than built in Tenerife, a phenomenon unique in Spain. With such a finely balanced demand and supply equilibrium, tipping from negative to positive only takes a gentle nudge.



## Trends in Demand

### Tourism



Tourism is the largest single contributor to the island's economy and affects the property market both directly and indirectly. The industry has been hard hit by the recession but is looking forward to a recovery in the immediate future.

Tenerife will gain an extra 600,000 seats this summer, bringing the total from last year's air travel seats of 5,900,000 to 6,500,000. This is a 10% increase over last summer's figures. Gains are expected to continue through the winter and beyond.

Marketing of the island has been aggressive throughout Europe and many of these new seats will be arriving from these destinations. In tandem,

the island has been successfully pursuing a strategy of 'smartening up' in the recent past. Facilities and infrastructure have been undergoing a facelift in order to attract more affluent market sectors. New residential properties have also been designed with this in mind, being more spacious and built to a higher standard, using better quality materials.

With its all year round perfect weather, winter does not cause Tenerife to have a string of ghost towns, like those that litter the Spanish coastlines; rather it is a time when the island is at its busiest and most vibrant. Comparing the sunny south of Tenerife to the Costas in the mainland or other destinations in Europe is like comparing chalk and cheese.

Tenerife property owners have been achieving rental income that their friends on the mainland can only dream about, with more than six million tourists visiting this little island every year. The lure of eternal sunshine has had the low cost flight operators scrabbling to get routes to Tenerife, which is sitting smugly while some other destinations are starting to panic.

### Investment meets lifestyle

Recent research shows that there is no doubt that the second-home market is swinging in favour of lifestyle purchases. The typical overseas property buyer is making a lifestyle choice, with a large majority saying they intend to use the property for vacations or as a family retreat. However, buyers have not given up on making money from their homes and investment potential is still a very relevant factor in making a purchase.

The singularly most important predicted change in the buyer demographic for overseas property is a rise in investment considerations versus pure lifestyle purchasing. Lucas Zachara, head of overseas business development at The Exchange Insurance Company, when talking to the Overseas Property Professional magazine observed: "While 70% of overseas property owners claim their purchase was driven by a desire to improve their lifestyle, investment goals may also be mixed in as buyers look for a combination

of investment and personal use. In view of shrinking traditional pension schemes, buyers at the younger end of the age spectrum will also look to expand their property investment portfolio through overseas purchases.” The situation is still the same now.

Kevin Prior, sales & marketing director at Obelisk, at the same time added: “We have noticed that our clients have benefited from purchasing property where the investment potential is analysed primarily, but consideration of lifestyle options allows the client to use the property, as well as provides viable exit strategies for the resale and rental markets.” What this points to, rather than the credit crunch leading to a withdrawal from buying overseas, is an increased focus on the reasons for buying.

IFA networks like ROPUK also observe that equity rich 50 and 60- something’s faced with the prospect of helping their children onto the property ladder are opting to invest in an overseas home. This is because it’s often cheaper, has a greater prospect for growth, can be used by friends and family for holidays, can be a retirement property and ultimately an inheritance as well

However, despite a rising focus on investment performance, this is not to say the lifestyle buyer will not be active. Far from it. The OPP Knowledge Annual Census identified the predominant reason for purchase being the holiday home, and John Prior, MD of Undiscovered Properties, said: “**Desire for lifestyle will be the key driver as opposed to pure investment.**”

### **Holiday home returns**

Another aspect of the credit crunch is the restriction people have placed on their own luxuries and during 2009 despite the huge discounts that were offered by travel companies, there was a big rise in the number of families choosing to remain in the UK for their holidays. These so-called ‘staycations’ turned out to be nowhere near as cheap or enjoyable as people expected and the trend for holidaying at home is now declining.

A survey carried out by holiday rental agent Home Away shows that only 2% of previous customers plan to holiday in the UK in 2010 compared to 9% in 2009. The economy is still affecting many holidaymakers, but 89% said they plan to use a self-catered holiday rental in 2010 compared to 62% in 2009 and more than a third of travellers (37%) said the economy would not impact their plans. The survey of customers from the HomeAway.co.uk and OwnersDirect.co.uk websites also revealed a strong growth in the number of people using a holiday rental for the first time.



This should provide a boost in rentals for those who own property in Tenerife, with the prospect of repeat visits that could last for years to come. It has already been established that **Tenerife has the highest repeat visitor ratio in the whole of Europe**, with more people returning than to any other destination.

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### **Lifestyle Refugees**



But that is not all that is fuelling the steady demand. Tenerife's resident population is one of the fastest growing in Europe. Local demand remains strong, not just for purchasing while prices are low, but also for long term letting, which is another persuasive reason for being optimistic about rental income. Some owners will opt for making their properties available for long term letting income, which will reduce the availability for touristic letting, creating a bigger demand in that area.

Apart from tourists and locals wanting to rent property, there is also another extremely large potential influx of people who will be relocating and looking for a new home. The more people that come to visit Tenerife, the more new interest there will be in purchasing property. **Demand dictates prices and increasing demand will benefit those who already own property.**

Numerous surveys have shown that huge numbers of people want to leave permanently, or at least have a temporary escape from their home countries to sunnier climes, and the recession has been providing them with the impetus to do so. Rising unemployment, depression and low morale are big factors in prompting people to do something about improving their style of life.

**Demand by potential lifestyle refugees is likely to reach a much higher level this year and beyond.** By lucky coincidence, these new purchasers will have timed their move perfectly to the property market. Purchasing now, at the point when the market is just pulling out of a trough will help to feather more than a few buyers' nests in the years to come.

The number of people seeking a new life in Tenerife surged prior to the recession as people from the UK and other countries in Europe purchased property and firmly established themselves as part of the community. Emigrants to Spain are no longer mainly pensioners. Figures show that only one third of foreigners living in Spain are aged over 55. Most are of working age.

### **Tenerife Lifestyle**

So, how does Tenerife stack up in this respect? We have been here for almost 25 years and therefore have a pretty good insight. With all the hullabaloo of recessions, economies, property prices and exchange rates, it's easy to lose sight of the basic reason why we buy property in Tenerife in the first place. It's the reason why Tenerife is, and always will be, a good investment and the reason why our population continues to expand. Quite simply, Tenerife is just a great place to be.

Of course, the most important thing that makes our lives so much more enjoyable is the weather in Tenerife. Warm winters and summers that are cooled by ocean breezes give Tenerife the best possible climate throughout the year. For holiday home owners it means the flexibility to visit their home at anytime and expect glorious, sunny days. For investors it is measured in rentable weeks. While for those of us who are lucky enough to live here, time slows down and we enjoy every minute of the sunny outlook to our lifestyles!



Surrounding us is the incredible variety of Tenerife's landscape and of course the beaches! And there are so many ways to enjoy the natural bounty of the island. From outdoor activities and sports on land, such as hiking, golf and cycling, to water based fun with scuba, snorkelling, fishing and sailing; Tenerife has a huge amount to offer.

Days are never boring in Tenerife, whether you live here or own a holiday home and visit whenever you can. Theme parks, water parks and all sorts of excursions pack every day full of fun for all the family, blue skies guaranteed. Excellent cuisine, culture, shopping; Tenerife has it all! We have the best carnival and local fiestas as well as a nightlife that is renowned the world over.

With so many different ways to enjoy Tenerife, millions of people visit the island every year. Looking forward to the next couple of years, the important things that a buyer needs to consider when looking at where to buy an overseas property are 'how attractive is the country and the property in the eyes of other people from a lifestyle point of view,' and **will there be the demand from other 'end users.'**

This is all part and parcel of the different factors that have to be taken into account when looking at the investment potential in investing in overseas property right now. The problem, which most people understand, is that **life is relatively short and there is limited time to better ones lifestyle.** People are now more and more realising that they deserve it, **but their biggest enemy is procrastination.**

It is relatively easy to evaluate current reduced prices, exchange rates and future capital growth, but **how do you value lifestyle... it is priceless!**

# *The Demand for Tenerife Property*

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## **Pent up demand**

As with any market, the level of demand for Tenerife property depends on the number of people who want to buy a home in the sun and their ability to do so.

Tenerife is a naturally desirable place to holiday, live and retire which means that demand is constantly high. **The sun shines in Tenerife regardless of the economic climate.**

Although the recession may not dampen people's desire to own a property in Tenerife (in fact the effect is quite the opposite), it certainly affects their ability to do so. This leads to a bubble of pent up demand waiting for conditions to change.

The number of property sales in Tenerife declined by some 30% during the recession years: a direct reflection of the economic recession. Many of the people who would have bought property during this time have not done so. Polls show that these people have not cancelled their plans altogether, but delayed them.

Primelocation report that of their visitors interested in buying a property overseas, almost a third of them had delayed their purchase plans because of the economic climate, but are now back looking for a bargain and that Spain and its islands have been growing in popularity, precisely because of the bargains on offer.



These waiting buyers have created demand 'bubbles'. As conditions change and the reason for each bubble disappears, these pent up buyers are released onto the market. The process has already begun.

The largest of these bubbles consist of those waiting for prices to hit bottom before they buy, and this has already started to deflate.

**Tenerife's low property prices have been tempting buyers back in increasing numbers.**

Enquiries precede sales and are a good guide to future sales levels, and Tenerife Property Shop, along with other agents in Tenerife, has charted a very significant rise in enquiries during the past few months. These figures are a

magnifying glass on Tenerife's micro property market in the south of the island.

However, they clearly indicate that **the bottom of the property market in terms of demand reached its lowest ebb many months ago**. Since then, we have seen a significant rise in both enquiries and sales on a like for like basis in comparison to the same month in the preceding year.

## Availability of mortgages

It was the freezing weather that encouraged people to find the sun in Tenerife, but then that was followed by frozen credit. The credit crunch has had a dire effect on housing markets around the world and it transpired that the decade long housing boom was really a credit boom, driven by the greed of the banks with the complicity of the media.

There were no bounds to the avarice of the banks and financiers, selling the idea of second, third and even fourth properties. Everyone could become landlords and property barons, with the bank's lending 100%, 110%, 120% of value over periods as long as 50 years, to virtually anyone who applied.

Short term investment into property became a Monopoly game for many people and more properties were 'flipped' than burgers... right up until the last owner who was left holding the baby.

Mortgages in Tenerife at the time were generally in the region of 60% or 70% for non residents, so buyers had to spend a decent amount of their own cash, unlike elsewhere. Therefore the boom in Tenerife, though less meteoric than elsewhere was built on a more stable foundation of cash deposits and not so much hopeful borrowing when credit appeared to be available in such abundance.

### The Crunch

When the lending institutions got into the abyss of a global recession they went into complete reverse and for a while mortgage lending became non-existent.

People still want to come to a sunny place like Tenerife, with a good infrastructure that is not too hot for life in the summer, nor cold in the winter, but the world of finance during the past couple of years has meant that some of these people have had to put off their dreams, but not their desire to own their piece of paradise.

With governments doing everything they can to stimulate the banking sector and interest rates having plummeted, mortgages are at some of their cheapest levels for years and once again the lending institutions are becoming active, but in a more realistic way.

The 12-month Euribor indicator, which is used to calculate most mortgage repayments in Tenerife, fell to its lowest level for years and also key European inter-bank lending rates have continued to fall to record lows. The rates, which determine mortgage lending interest, were pushed down by the European Central Bank's promise to provide the markets with unlimited funds for the foreseeable future. The three month Euribor rate reached a new low.



## **Growth and recovery**

According to data released by the Spanish National Statistics Institute, Spanish mortgage lending has recently seen its largest percentage increase in almost three years which represents a very significant improvement.

The increase in mortgage lending illustrates that demand for homes in Spain is improving and Spanish property sales have reportedly risen by almost 20 per cent, suggesting that more people are now taking advantage of low Spanish home prices and the renewed availability of mortgages. Mortgage Direct S.L. has reported that activity has been increasing for them and they have seen the number of completions increase significantly year-on-year for both March and April, which is very encouraging.

## **Beating the current exchange rate**

A growing number of cash buyers from the UK are taking out mortgages in Euros in order to beat the current exchange rate. According to finance specialists, those with money to spend could potentially save thousands of pounds by borrowing Euros and repaying the loan when the pound has strengthened,

The weakening of the pound since its peak has helped keep UK buyers out of the market since the currency plunged in December 2008, but following a fairly substantial recovery, the promise of even better exchange rates is encouraging more people to make the purchase they've been putting off.



“As cheap rates are currently available, they are taking the long term view that the euro will weaken against the pound and their European property will ultimately become cheaper to buy,” reported Elisabeth Dobson, head of private clients at currency broker World First.

World First’s mortgage broker partner, International Private Finance (IPF), has seen applications for euro mortgages rise by 70%, partly as a result of this demand. “We’ve had big interest, particularly from our wealthier clients,” stated IPF’s business development manager Simon Smallwood.

“Those who already have the cash find it easier to get a mortgage because they are more affluent in the first place. They’re perfect clients for a lender because they’re doing it for financial planning reasons rather than for affordability.”

It has been four years since lenders have actively promoted non-resident finance but now they are seeing significant demand for overseas property and want to address that. They would only lend like this if they felt confident in the market and perhaps this is another indicator that we have reached the bottom of the cycle.

## Good News for Sellers

There has been good news for property sellers as the signs of a property market recovery are filtering through to the national statistics office in Spain. The newly released statistics show that new mortgage lending in Spain continues to rise as the property market picks up.

The news, of course, will be greeted with mixed emotions by buyers. On the one hand, it is great to see



a more buoyant property market, but on the other it increases the urgency for anyone looking for a property to buy. More demand will undoubtedly strengthen vendors' negotiating positions and knock on to price rises in the future.

Needless to say, the property market in Spain has a long way to go before catching up with its previous highs, but it is inexorably moving in the right direction. Those looking for a property for sale in Tenerife will take heart that the mortgage market has loosened up and we are not encountering any problems in obtaining 60% to 70%

mortgages for our clients, from the banks that we have long associations with.

For people with Sterling as their base currency, it would appear to be eminently sensible to make use of low rate mortgage facilities to negate the lower than anticipated exchange rate with the euro, allowing for a purchase now whilst there are still some real bargains to take advantage of. Waiting for the pound to get stronger against the euro before investing in a property could prove to be an expensive delay.

## Exchange rates

UK buyers have become more used to the pound-euro exchange rate, according to currency brokers who have reported a pickup in property transactions in recent months.

"People's expectations have been greatly reduced," said Marc Morley-Freer, commercial director at Moneycorp.

"Rates of €1.40 to the pound are years away and people are now more used to the fact that their currency has lost some of its previous inflated value. Even clients who are still waiting for higher rates are asking us when they'll get €1.20 instead of expecting €1.50."

"A rate of €1.10 to the pound was the yardstick," said Mark O'Sullivan, director of dealing at Currencies Direct. "We tended to see an increase in business whenever the pound went above this amount."

The pound has gained significant ground during recent times, yet there is still a fair bit of pent up demand from people waiting for it to go higher.

The strength of the euro has been of benefit to European buyers, said O’Sullivan. “We’ve seen a good stream of Europeans buying outside their home countries.”

The growing acceptance of the lower rate has contributed to a pickup in transaction levels, both companies reported.

The Euro Sterling exchange rate has improved and is now well away from parity. So there is major progress and it is a darn site better than it was! But where is it going from here?

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### **The Future for Sterling**



Sterling seems to be enjoying some time in the sun continuing to gain ground against the Euro. The Bank of England, as expected has been keeping interest rates and their programme of quantitative easing on hold. Economic data seems to support the view that we are emerging from recession but has increased fears that we are now seeing the possibility of increasing inflation.

Sterling has benefitted from good economic data but also house price data has surprised and this was followed by better than expected unemployment data. And then the UK’s public borrowing has been less than expected and the markets now expect the Government to borrow less than was initially targeted. It shows the UK is performing slightly better than the prevailing negative sentiment suggests.

Most analysts feel that the pound has been ‘oversold’ i.e. dropped more than it should have and that many of the risks facing sterling are already reflected in the price. As a result, we could see the pound continue to strengthen against the euro. Only time will tell but there is expected to be lots of ups and downs for sterling over the coming weeks and months.

David Cameron finally entered Downing Street after days of behind the scenes deal making and Mr Clegg has secured the deputy prime minister post. Quite how this full coalition will work out after the honeymoon period is far from clear and the markets now wait to see details on the immediate reduction of the Government deficit. The Sterling rally may not last long if the Government cannot decide on the swift policy responses that the market thinks is required, but initial indications are that they seem to be going in the right direction.

## **A frail Euro**

To help strengthen the pound, the Bank of England's Quarterly Inflation Report, as the market was relieved to see, indicates "inflation is likely to stay above the 2% target throughout 2011 and that the Bank's assumption that the stock of purchased assets financed by issuance of central bank reserves remains at £200 billion which means that a further round of quantitative easing is out of the question. All eyes are on European markets to see whether Ireland's reluctant receipt of a financial bailout package will provide its function and ease the pressure on the Eurozone peripheral debt market, and thus prevent looming implosion of the region's financial system.



Ireland. That, in one word, is why the Euro continues to lose value against Sterling and the Dollar. After snaring its prey after what seems like one of the most drawn out pursuits in history, the market is now on the look out for its next victim. Portugal is currently in the crossfire and will face almost certain death unless drastic fiscal action – which is not guaranteed to work - is implemented.

The EU/IMF rescue package for Greece gave an initial boost to the euro value, but the Euro then traded lower when the details of the deal were digested. The general impression that analysts now have is that although the size of the deal is unprecedented, the further you get into the details, the less impressive it seems. It does not seem to address the root problem insofar as Eurozone countries need to deliver drastic spending cuts. The rescue package may just be pushing the problem further down the line. Another point to consider is that €750 billion may not go that far if a country like Spain were to get into real trouble – which would then almost certainly drag Italy & Portugal down as well, and the coffers would be well and truly bare.

The euro is looking particularly frail at the moment and there are expectations that speculators may force it down even further.

## **International Property Buyers**

Obviously a better pound-euro exchange rate would help bring more British buyers back to the overseas property market. The pound isn't out of the woods yet but it's been able to get away with some bits of bad data without losing too much, so most of the currency exchange analysts think sterling should get to €1.25 during the coming months.

According to the currency exchange companies that we deal with, the number of Brits buying Euros for property purchases has substantially increased after sterling reached a rate of €1.15 for the first time since August 2008. Apart from there being a huge increase in clients buying Euros, new enquiries have also shot up. This is a very good indicator for the future of property sales in Tenerife as a large number of people in the market for Euros are taking advantage of the improved exchange rate and buying their Euros for property purchases and overseas mortgage payments now. They were delighted to get a rate that was more than 15% better than the lows we have seen during the past year. There are a number of clients who have been holding off on property purchases and overseas investments due to Sterling's previous weakness against the Euro, but further strengthening of the Pound is certainly spurring people on.

## Savvy Investors

Following continued uncertainty in the UK, we could see improvements that could push people to make lifestyle purchases in Tenerife, particularly as added to any price reductions that sellers under pressure have already implemented to try to sell quickly, there are bargains for Euro buyers right now, that won't still be around in the coming months. People with Sterling as their base currency who are waiting in anticipation that the exchange rate will be better, are likely to lose that advantage by there being much less bargains available.

However, the more savvy investors are not waiting for a better exchange rate whilst watching the best of the current bargains disappear. They are taking advantage of cheap financing to buy at low prices right now, without having to exchange Sterling to Euros for the full amount of their purchase price at the current exchange rate. Smart thinking!

## *The Supply of Tenerife Property*

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Just as important as the demand for Tenerife Property is the supply side of the equation. The problems of oversupply can be most clearly seen on Spain's Costas.

Despite a recent rebound in property sales, José Manuel Galindo, President of the Association of Developers and Constructors of Spain (APCE) still thinks that the holiday home glut on the Costas will take several years to clear.



Unlike mainland Spain, Tenerife did not experience the huge over building that has decimated the Costas. The housing stock of new unsold constructions on the island is paltry by comparison and the lowest in Spain.

High levels of immigration to the island have seen municipalities such as Adeje doubling in population over a ten year period, while buyers from Eastern Europe have absorbed any surplus in the holiday home market.

Even so, building has come to a standstill in Tenerife and new projects have been pushed into the future. The supply of new Tenerife property has been effectively cut off at source.

This current balance of demand and supply increases the urgency for those hoping to buy a Tenerife property. Already demand is showing a rise and there is little slack to be taken in before this reflects on prices.

As with any area, there are places that will be more in demand and where prices rise, while there will be others that lag behind by months or even years. The key for today's buyer is to identify the properties most likely to benefit most.

## Bank repossessions & bargain resales

During the recession, increasing numbers of home owners were, and in many cases still are, under pressure to pay their mortgages. In some cases they are fighting a losing battle. Many foreign buyers are waiting in the wings to snap up these bargains after the banks have repossessed them, but in the Spanish system this is not the strategy that will land you the biggest bargains. Like in so many areas, things work differently in Spain, and foreign property bargain hunters who simply assume it's just like back home are already finding that the bargains they had hoped to find, simply aren't there.

### The Cost of Repossession

The repossession process in Spain is extremely slow, generally taking well over a year to complete and in many cases much longer. So repossessions that may be available today are those that started defaulting on their mortgage repayments some 18 months ago. The process itself is horribly complex and the various costs need to be added to the price of the property. Repossession adds 6% or more to the price of an average home, and of course it is the buyer that pays for this.

### Frustrated Bargain Hunters



For bargain hunters who may be looking for a property going cheap, it can become frustrating to try and find one amongst repossessed homes. To make matters worse, many properties were artificially overvalued by banks and their surveyors, in order to lend 100% or more of the property value. These types of mortgages were the Spanish version of sub-prime lending and now form the bulk of repossessed properties. Unfortunately when they are offered for sale to clear a bank debt, they tend to be priced in excess of the market value, and when repossession costs are added, they can often look downright expensive.

Many bargain hunters are aware of our links with banks and ask us about bank repossessions and foreclosures in Tenerife. Although we have access to bank portfolios to sell these properties, it is rare that anyone buys one! Clients come to us, expecting to be shown a hidden box of incredible bank bargains and tend to be (understandably) disappointed in what the banks can offer.

### Value for Money

There has been much debate in both Spanish and English media about whether bank repossessions are good value for money or not. On the one side is the seemingly common sense statement, "Well they're bank repossessions, so they must be!" and on the other are a raft of reasons explaining why bargain hunters are turning their back on bank repossessions.

The main criticism in the Spanish Press is that the banks are not offering any desirable properties at good prices. Where there are good bargains, they will tend to have been snaffled by insiders before they

see the light of day. An article in El Mundo, Spain's equivalent to The Times, looked at what the biggest lenders were actually offering to investors. Not only did they note that foreclosed properties are undesirable, but they go on to tell readers why. They explained that Spain's largest bank, Santander had 1,300 discount properties, the best 400 of which have already been sold to the bank's employees or other select groups. Good bargains in Spanish repossessions never even get to the public eye.

Those that remain are often stripped of anything of value inside by their exiting owners, and some have even been vandalised. For example, Santander's portfolio of repossessed properties includes only 2 properties in the South of Tenerife. Both are located in a scruffy residential block above some shops in the town of Granadilla: certainly nobody's picture of a holiday or investment. Other banks echo with similarly undesirable results.

### **Types of Repossessions**

But the reason for this is not surprising, at least in Tenerife. Here, Spain's sub-prime lending was to people living and working on the island and that's where the 100 and 110% mortgages went. They did not buy apartments with pools near the sea. They bought small flats in the commuter towns and villages or the main urban areas in the North of the Island. They were low paid workers, employed mainly in the building and hostelry trades: both of which have borne the brunt of the recession. Many were immigrants from South America and Europe who returned home, handing their keys back to the banks.



Even if you were looking for a property of this type, you would still be hard pushed to find anything that might be considered a real bargain. Banks in Spain need to preserve the value of their assets as much as they can. The cost of repossession is high in Spain, and it already makes a serious dent in their balance sheets. Devaluing properties dents them further and affects how much the banks can borrow, and the rate they pay on the money markets. Banks simply can't afford to price their property too cheaply.

### **The Best Resale Bargains**

Because of the way the system works, the best bargains are to be found in **pre-repossession** properties. It has now become increasingly common for banks to hold off from repossessing until a property has undergone several price cuts on the open market. Although it might seem a challenge for the bargain hunting buyer to locate these diamonds in the rough, their task is made easier if they choose the right agent. Tenerife Property Shop works closely with banks and distressed vendors to provide a clearing house for properties before the repossession process starts.

## New developments

The new development market can be split into two: property being sold from plans and those that are already completed with all licenses in place. Within these two groups are contained the best and the worst buys on the market today!

### Buying off plan

At this time, buyers should be wary about building projects that have not been completed. Despite the best intentions a developer may have to complete a project, the fact is that the decision is likely to rest ultimately with their bank. And as we all know, banks are unlikely to extend the credit a developer may need to complete a project.

### Buying new and constructed

If you are in 'the right place at the right time' then purchasing a development that has been constructed may net you some of the best deals on the market today.

Of the new developments that have been completed, not all will provide an investor the same return. Buyers need to be sure that the property is desirable, well constructed and discounted by at least 20% of its original sale price.

- Look for the most desirable property possible. Overlooking a golf course or the ocean are prime locations.
- Look carefully at the mortgage interest rates. Developers may be able to negotiate very favourable low rates, that would never be available under any other circumstances!
- Look for other mortgage terms such as payment holidays, deferrals and interest only periods.



One of the consequences of the recession is that most developers laid off large numbers of staff and mothballed new projects, with the best of them concentrating instead on finishing the developments that had already been partially built. This places a great strain on their finances and now their efforts have to be concentrated on selling the remaining units on the developments that may have already been on the market for some time.

Some of the good developers who finished their developments to honour their commitments to existing buyers during construction, may now be scrabbling to make up on sales that they have missed out on during the past couple of years. Almost all predictions for the property market were more optimistic than how things turned out in reality, so sales targets expected by the financing banks are likely to have been quite high.

The fact that some developers financed the completion of their development whilst there were no sales being made, means that there is likely to be some great deals available on newly completed developments, as those developers find it more difficult to finance the debt with their bank and drastically reduce their prices to unload some of their portfolio. It is an anomaly that it is the best and most respectable developers who find themselves in this situation and the banks are keen to assist them by offering remarkable mortgage deals for buyers of their property.

However, this will not be a permanent situation and prices may return to a level closer to what they were previously as income from sales eases the developers' financing costs and the demand for property begins to pick up again.

## *The future*

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### **Returning Buyers**

The Times newspaper has reported that villas and apartments in Spain are hot property again as Britain's second-home buyers rediscover the attractions of life in Spain. A freezing, dismal winter wakes up the desire for a better quality of life and people drawn by falling prices has created a new generation of would-be buyers.

Rightmove Overseas, has reported that the number of searches on their website had risen by 60 per cent compared to twelve months ago and search activity has been at a record high.

Primelocation.com the UK property portal, has published the results of a survey and reported a rise in searches for international property of 72 per cent, with Spain remaining the most popular country, accounting for 32 per cent of all searches and it looks like Tenerife is set to benefit.

## ***Holiday Getaways***



Primelocation.com further report that about half of those who are looking for a home abroad wish to use it as a holiday getaway. Islands such as Tenerife are of particular interest as they naturally have a lot of coastline, and most people want a home near the sea. Quiet village settings, such as can be found in the hills and mountains of Tenerife are the next most popular. Short distances between the two are likely to make Tenerife of particular interest as homeowners can have the luxury of the best of both worlds.

Prices are currently at levels not seen for years and it appears the bottoming out of the market has arrived and we can start looking towards a gradual recovery of prices. The market recovery isn't being driven by one particular buyer group as these days property buyers come from a far more diverse range of countries. The growing variety of nationalities in the market has given much more impetus and of course they are not concerned about exchange rates as the majority of them already have the euro as their base currency.

### **Global Investors Return**

It is important not to be blinkered and to also look at the view of global property investors. According to a new report from Barclays Wealth, confidence in property investment is returning among high net worth individuals. The number of investors who intend to increase their property allocations over the next two years (35%) is double that of those who plan to decrease them (17%), the Barclays Wealth Insight survey found. The report surveyed high net worth individuals across different global markets, and investors in nine out of the ten largest markets surveyed planned to increase their property allocation.

"These findings suggest that investors believe we are approaching the beginning of the end of the downturn," said Rory Gilbert, managing director and head of UK high net worth at Barclays Wealth. "It appears that those surveyed are prepared to not only exploit undervalued opportunities, but also to commit further to property in the belief that they will benefit from favourable returns."

The world's high net worth individuals have more money invested in property than in any other asset class, according to new research. The Wealth Report 2010, produced by Knight Frank and Citi Private Bank, shows that real estate makes up an average of one third of high net worth individuals' investment portfolios, with half of their property investments in the residential sector.

"The impact of the financial crash has not been as hard on the typical ultra-high-net worth buyer of prime property,"



said David Poole, head of Citi Private Bank UK. “This means that many wealthy owners of property are again looking for investments. Our clients look for opportunities when everyone else is circling the wagons. Buying becomes opportunistic in a downturn, particularly as people turn to hard assets such as property when other assets experience dislocation.”

While many argue that the idea of capital growth from property has disappeared from the investment market, long-term appreciation is still the most important objective of wealthy property investors, followed closely by asset stability and yields.

### **Buyer Demographics**

It is interesting to note a change appearing in the age of buyers of overseas property and this may be due to the difficulty of first time buyers obtaining property in their home countries where prices are prohibitive. Almost half of current buyers (47%) are under 45, reflecting a younger market who may continue buying holiday homes in the future.

Historically, people become interested in buying a second home in their mid 40’s but the large number of people who are now in their 30s and early 40s may dominate the second-home market in the coming decade with a strong underlying demand, although sales in a given year will vary depending on the economy.

A new generation of British buyers entered the overseas market – lured by cheap homes outside Europe but now the buyers who were putting off finding holiday homes during the recession are returning to traditional destinations.

Emerging destinations have had better exposure as more people looked for holidays outside the expensive Eurozone. Surprisingly, Turkey has risen to the third most popular country for overseas mortgage approvals, according to UK-based broker Conti – which saw its busiest month in a year in March.

### **Spain leads the market**

But holiday-home buyers in Spain and France still dominate the market – and many have decided now is the time to buy. The two countries made up two-thirds of Conti’s business. “Enquiries for Spain make up 92% of the current demand, compared with 50% just two years ago,” said Paul Payne, sales and marketing director of Masa International.

“Two-thirds of our clients have been registered with us for over a year. Most people have thought about buying before – Spain isn’t a new destination for them. But there’s been some recognition that maybe prices won’t go down further.”

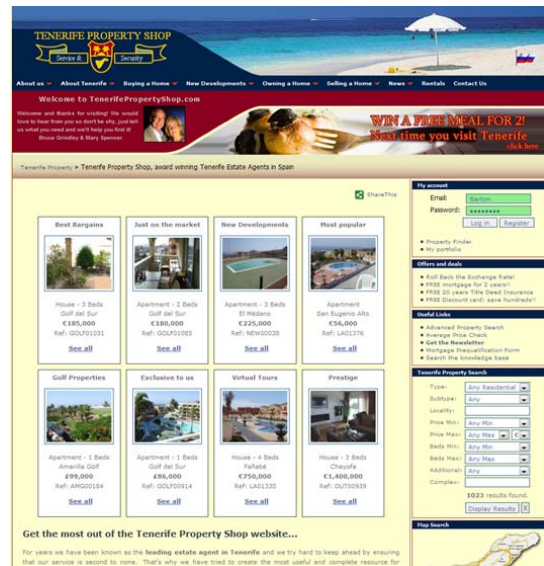
With pundits from all over Spain reporting that property prices have bottomed out, enquiries for property in Spain and Tenerife have taken a jump. Internet portals report a massive rise in Spanish searches, although the average value of property sought after has dropped. However not all countries have seen a rise. The USA, France and Greece have all seen a decline in interest.

## Tenerife Property

Focusing on Tenerife, the [www.TenerifePropertyShop.com](http://www.TenerifePropertyShop.com) website, one of the most visited real estate websites in the Canaries, shows that visitor numbers have risen by almost 30% since January as more browsers decide to take their search a step further. There has been a strong revival of interest from buyers in the UK and Ireland, as well as Continental and Eastern Europe.

Additional enquiries lead to a growth in sales. However, although sales volumes are increasing, it is clear that buyers will be cherry picking the best bargains, the best locations and the best quality units.

Apart from confidence, lending is one of the keys to the property market moving again and in Tenerife at the current time we are not finding any problems in arranging mortgages at reasonable levels.



Despite repeated cuts, and a base rate now at the lowest level ever in the 300-year history of the Bank of England, mortgage lenders are still not lending at anything close to the levels they were in 2007. This is the marker which the government laid down as a condition of injecting huge sums into the banking sector. However, in Tenerife we are able to obtain mortgages from Spanish banks whilst taking advantage of the historically low interest rates.

The Tenerife touristic property market is beginning to see the effects of the Pound gaining strength against the Euro, with overseas buyers coming over to buy property that has become much cheaper. As the two currencies neared parity around the turn of the year, overseas buyers were finding that properties were still relatively expensive, even though there had been substantial reductions in the euro prices. Now with the weakening euro and people taking mortgages to offset the exchange rate even further, plus price reductions that sellers under pressure have already implemented to try to sell quickly, there are real bargains to be found for all types of investors.

## Rental Prospects

There is some good news for those who did take the plunge in recent years to build a portfolio of buy-to-let properties at home or overseas, because added to the reductions in the base rate of interest, the prospects for the rental market for touristic and long term lets remain strong.

There is predicted to be a rise in the number of families choosing to visit Tenerife for their holidays as the so-called 'staycations' prevalent last year subside, providing a boost in rentals for those who own property in Tenerife, with the prospect of repeat visits that could last for years to come.

The logic of what is really happening on Tenerife is inescapable. The more tourists we have, the more properties get bought. The property market in Tenerife's southern coasts actually works in closer synchronisation with the British and Irish property markets than mainland Spain.



Basically, the more money that these two nations have made from selling their own homes, the more they have spent on property in Tenerife. It's a direct correlation and if we are to believe the survey stats that magazines and governmental quangos tell us, then there are millions aiming to retire or escape to live here.

Experts in the UK property industry are in agreement that the level of buyer interest has risen in recent months. The Royal Institution of Chartered Surveyors (RICS) has stated that 'buyer interest is now at levels not seen since 2006'. The UK has seen property prices rise and the signs of recovery are starting to make the headlines. Value for money distress sales are reducing.

But what of the here and now in Tenerife? Owners have been scared that they will not sell fast enough and they have perhaps dropped prices more than they should have. However, as vendor awareness catches up, this anomaly will not continue, but in the meantime buyers are able to benefit from the aftermath of this drop in confidence. Good advice to buyers at this time is to snap up the bargains while they are still around, because very soon they will be as scarce as ever.

## Alternative Markets

A great deal of publicity has and still is being given to the investment possibilities in the emerging property markets, such as Bulgaria, Romania, Croatia, Turkey, Egypt, Dubai and Brazil etc., so it is worth doing some in depth research into the reality of these potential markets from an investment point of view in comparison to Tenerife.

Our research included web gathering information, visits to various areas, consultation with many agents specialising in these areas, other professional contacts in the worldwide property industry, consultation with various lawyers and attendance at an International Forum in London organised by the National Association of Estate Agents.



## **Legal Issues**

It goes without saying that anybody considering property purchase in the emerging markets must not just look at the investment potential but also the legal, financial and security implications associated therewith.

With the established favourite countries of Europe, such as Spain, France, Italy and Portugal, it is taken for granted that they have a culture and legal system that is perfectly acceptable and purchasers know enough about the countries not to have to do any major research or investigation. However, this is not so with other countries and there are many things to look into and consider.

## **Lifestyle**

Here are a few examples of what you could ask from a lifestyle point of view:- Organised crime? – Violence? - Indigenous population? – Islamic country? – Religious tensions? – Censorship? – Terrorism? – Subjugated minorities? – Difficult language? – Anti-West sentiment? – Intolerance? – Unsustainable demand for water? – Nasty insects: spiders, snakes, scorpions etc? – Devastation by Global Warming?

## **Investment**

Other questions from an investment point of view:- Existing primary buyers/speculators? – Summer and winter destination? – Awful bureaucracy? – Poor unsafe roads and infrastructure? - Shorter season for rental? – Over supply of housing stock? – Glut of vacant properties for sale or rent? – Guaranteed rentals offered with purchases that expire, leaving rental very difficult?

We will not go into comparisons of each individual country, but if all the above questions are asked, it is very likely that many of them will have negative answers.

## **Reasons to buy**

First we must make clear that what will ultimately determine your place of purchase will be the reason for your purchase. If, for example, investment potential is not a consideration and you wish to purchase a property solely for your own use and you prefer to be in one particular country, fully understanding that country and its negatives, then clearly there is no sense in you purchasing a property in Tenerife or anywhere else.

If, on the other hand, your purchase has an element of investment orientation as well as getting enjoyment from usage, then there are many other considerations to take into account. Although a property may be cheap in one country in comparison to another, it does not mean that it represents better investment value. The same rule also applies to property in your chosen destination.

## Future Tourism



Following a very disruptive period in the history of many of the emerging property market countries, many are somewhat more stable at the moment than they have been for a long time. Tourism is once again returning to many of the countries because of the very low package tour prices that are available and this is seasonal with visitors going there in the limited acceptable months. Future growth in tourism may be severely restricted in some countries because of the extremely poor state of the infrastructure, with roads,

telecommunications, land registry records and general governmental control probably taking a couple of decades to catch up with what would be required for sustainable growth.

On the other hand, Tenerife has established itself as Europe's favourite tourist destination, having the highest repeat visitor ratio in the whole of Europe. It has a stable government, a well established, yet still improving infrastructure, and very importantly a true and effective twelve month season for tourism and rental income from holidaymakers who visit the island again and again.

In Tenerife, a moratorium on touristic planning consent being given was introduced in January 2001 which has meant that there is not the glut of unsold housing stock that is so evident in mainland Spain and the other established countries in Europe and North America. Demand from tourists and property purchasers in the future is fuelling the thought of developers and property investors that the inevitable shortfall of supply of newly built properties could lead to future capital growth in the value of property that is beyond that which would normally be expected.

The main thing that will encourage the growth of touristic property is the volume of holidaymakers who want to rent apartments as opposed to stay in hotels and therefore provide good potential income for the property owner. It is very important to understand that the higher the volume of tourists, the higher the volume of future buyers of property will be. This is what will push up the prices in the future for the benefit of the existing property owners.

### **Things to consider with the emerging markets**

1) Because of the very cheap tour operator holidays to hotels that can be obtained, what will be the quality of the future tourists in those areas and will they be of a level that could, or would, consider purchasing a property there?

2) Although people will enjoy the odd holiday in these countries, will there be a substantial enough volume who wish to purchase their holiday or retirement home there to push up the prices for the initial investor?

3) How long will it be before construction eases off and allows a resale market to be established that will allow capital growth and prices that are not dictated by property developers, who will sell their next developments at prices similar to their first because the profit levels for them are more than adequate?

4) What is the real potential income and over what rental period?

## Middle East

Apart from the emerging markets in Eastern Europe, there is also a lot of attention being given to Dubai, in the Middle East, with some people believing that this area represents an investment opportunity. The reality is that there are hundreds of thousands of properties in construction and in the pipeline to be constructed and the supply outstrips the demand by the end purchasers.

The news of government-owned investment firm Dubai World requesting a debt repayment holiday sent shockwaves through European and US stock markets and has shaken international confidence



"The situation is serious and it creates uncertainty in emerging markets but each market still needs to be treated on its own," said Charles Weston Baker, head of international sales at Savills.

However, Stuart Law, chief executive of investment agent Assetz, said it would have a wider impact. "Investors will be significantly put off emerging markets," he said. "The crisis sets out clearly the risks involved in investing in countries with 'interesting' legal systems and with large debt behind the property companies."

However, for those in more established markets there was an upside, he said. "Buyers are beginning to understand there's a lot more risk outside traditional markets. So this could help the more secure markets, especially if we're looking at lifestyle investment."

## End users

Singularly the most important thing to take into account when considering investment value is the existence and volume of 'end users.' Remember that it is the bulk of the final purchasers that wish to keep a property that will produce capital growth and determine whether or not it will be a viable proposition for the purchaser right now. If the bulk of normal people would not like to retire to, or have long stays, or consistently visit a certain destination, then it will not have long term investment value. We cannot emphasise enough the importance of the potential demand from 'end users,' when considering the future capital growth value of any property investment, and Tenerife stacks up as good as, or better than, any other destination.

## A Return to the Tried and Tested

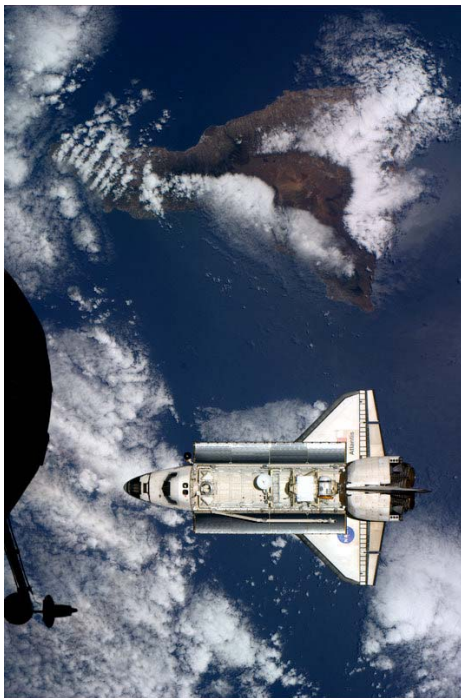
With the world appearing to be slowly coming out of a recession and financial crisis, it seems that the focus is certainly away from the emerging markets and back to the old faithfuls, and with these countries you still have to ask yourself the same sort of questions. Summer and winter destination? – Awful bureaucracy? – Shorter season for rental? – Over supply of housing stock? – Glut of vacant properties for sale or rent?

With people requiring good investment potential in a stable environment, with excellent prospects of capital growth and rental income combined with enjoyment of usage, then Tenerife as a destination complies in every respect.



## The Long Term Future

Global warming is one of the hottest topics in the news today, with the dire predictions of climate change becoming ever more imminent and evident. There is differing opinion as to why but not the fact that it is happening. Tenerife's long term future is likely to be defined by these changes.



A report commissioned by Halifax Holiday Insurance Services identified that almost all popular destinations of today will experience dramatic change by 2030. Property buyers today need to take a close look at this phenomenon to make sure that their investment is not going to sink into a climate caused quagmire. We are already seeing droughts, hurricanes, tsunamis and extremes of freak temperature in various parts of the world.

Most agree that as the ice caps melt, rising sea levels will have the awful effect of flooding many low lying areas. There will be increased extreme weather events with the seasons becoming unpredictable. Meteorologists the world over concur that the world is changing, but what does this mean in specific terms?

Well, we are talking about property in Tenerife, so let's take a look from that angle. Melting ice caps will affect the Gulf Stream which warms up Northern Europe. As a result of that,

the UK will become bitterly cold for a lot of the time and very wet at other times, as will much of continental Europe. Portugal and large parts of mainland Spain will become desert, Australia will be a sun blasted oven, much of America and Asia will roast as well, except the parts buffeted by massive storms and torrential rain. Africa, which always seems to get a raw deal, will be as inhospitable as the various deserts link up to form a giant dust bowl.

So, in the new world of extremes the options are largely to soak, freeze or fry. The good news for us is that climatologists agree that Tenerife will be relatively unscathed, only experiencing a few more tropical storms and some coastal erosion. One factor is that islands, whose weather is tempered by large bodies of water surrounding them, are likely to suffer less, as long as they are not low lying. Another factor is their whereabouts. As stated earlier the Gulf Stream, which controls our weather with a 'conveyor belt' of warmth, is at risk. A location too far from the Equator is likely to see freezing gales.

Tenerife is very fortunate. An island, well above sea level, situated by the Tropic of Cancer, close to the Equator and economically part of Europe at its southernmost point, is as close to the ideal as you will find.

So what does this mean in relation to the future of property in Tenerife? It is conservatively predicted that climate change will lead to the migration of an incredible 150 million people. These people are going to have to go somewhere and they will be looking for a safe place that has clement weather.

The main concern for Tenerife will be the sheer numbers of people who will want to live here. Spanish from the mainland and indeed Europeans from all over the Community are likely to be clamouring to own a piece of Tenerife. Imagine what that will do to property prices!

2030 may seem a long way off, but it is within the timescale of many mortgages taken out today. Even over the next decade the weather will bring more and more property buyers to Tenerife, in search of a decent place to live and the crazy thing is that this underlying trend is largely unrecognised or ignored by most 'property experts' but the logic is undeniable.

It is only a matter of time for property pundits to jump on the global warming band wagon and start to analyse the effects on the international property industry, and when they do, existing owners of property in Tenerife will benefit enormously.



# Summary

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While making concrete predictions as to the direction and behaviour of the overseas property market is something of a dangerous occupation, it cannot have escaped your notice that the fresh breeze of positive thinking is starting to blow away the stale, musty smell of doom and gloom. Here, there, everywhere, people are talking recovery, growth and confidence. You can hear it, feel it, smell it. You may have adapted to the recession and survived it, but now its time to think again. We do not imagine hearing everybody immediately agreeing with this statement, but when we look at what is happening in the property market at the moment, there are definitely signs of recovery, and even of growth.

When economies crumbled, the experts told us that it was all to do with 'consumer confidence' and 'investor confidence'. Recovery is just the same. We thought our way into bust, and we will think our way into boom. The early positive thinkers are the ones who will benefit most.

## Rising confidence



In Spain, confidence has been rising month after month and expectations are higher than ever that the economy is going to keep improving. It is the same in the UK. Across the board, from property to manufacturing, there is a more positive buzz. In fact there are so many articles, surveys and commentaries every day, each pointing at some aspect of renewed confidence, that it hardly warrants repeating all the individual statistics. There's just too much of it. The way people are thinking is changing.

The new thinking is now filtering down to the man in the street. Social media sites such as Twitter are awash with small business reporting better than expected results, increased sales and brighter predictions.

The time for rethinking applies to almost everything related to business, property and the economy. For example, before the credit crunch settled in, there were thousands (probably tens of

thousands) of people who wanted to buy a property in Tenerife. Some were investors, some were planning retirement or relocation and others simply wanted a holiday home with guaranteed sun and rental income. But then came the credit crunch and recession. The shrinking economy made them rethink their plans then, but the time for people licking their wounds is now over and they need to wake up and think again!

If you are one of those who put their life on hold for the recession, start dusting off those dreams!

- If you dreamed of buying a property in Tenerife before the recession, but shelved your plans. Think again.
- If you are planning to retire one day in the idyllic climate of Tenerife, but you didn't think it was time to get onto the property ladder yet. Think again.
- If you were going to buy a Tenerife 'Fly to Let' property for the 12 month rental season, but the recession gave you cold feet. Think again.
- If you were worried that Tenerife Property prices were going to fall further. Think again.
- If you thought a holiday home in Tenerife would be just an indulgent luxury. Think again.

In two years time you can either join the ranks of the 'would have, could have, should have'. Or you can take the opportunity now, to think again.

As the end of the recession draws to a close, most of us are still in shock. It hasn't dawned on most people that now is the time to buy, and in many cases it won't until the bandwagon gets big enough. That's the time when the alert investors of today will be cashing in!

### **Investors return**

The investors prowling the market right now are not as spoiled for choice as they were previously. Today's investors are like lions sitting in the midst of a herd of caged zebra deciding which is the plumpest. Investors, like any predators, are drawn to the lame prey. There are Tenerife property owners out there who have been harder hit by the recession and who are flagging before the final hurdle. These distressed sales, although reducing in their numbers, are easy meat for investor buyers.

Some property owners have had their home on the market for a year or longer. Many are demoralised and lack confidence in the face of so much competition from other properties for sale and still relatively few buyers. Investors, on the other hand are full of confidence; they know the market is on its way up. It's not hard to see which will get the best end of the stick when negotiations begin.



With many developers having mothballed new sites and laid off large percentages of their staff, there will be a period between the market picking up and the supply catching up to new demand. An influx of foreign buyers can kick start the property market, and prices will likely rise sharply here, but the industry must be careful not to cause a spike and a subsequent yo-yo of prices as the supply and demand of property struggle to find a balance.

It has been a struggle for estate agents and developers to survive the past three years, and many haven't. Obviously in the short term, there has been little activity for buyers or sellers, house builders have laid off staff in their thousands and job losses in other linked sectors mounted as the residual work

that came from the building trade dried up. In the long term however, things look positive, and there is a distinct possibility that in emerging from the other side of the dark tunnel, the property market will be even stronger and more robust than it has been in recent years. A new dawn is coming.



One of the main keys to recovery in the property market is with the banks. Now that they are more confident about lending again on a larger and more general scale, there will be more freedom for buyers to pursue the properties they want. One thing is for sure though, it will be years before people are able to get credit as easily as we have during the past ten years – if ever again – and the economy will likely be all the healthier for it.

### **Island Investment**

Efforts are being made to improve the worldwide promotion and physical infrastructure of Tenerife and the Spanish government has earmarked 358 million Euros for the regeneration of tourism in Spain and her territories. New tourist attractions serve to add to the allure of Tenerife. The island's almost year round perfect weather and breathtaking scenery together with the beaches beckon those seeking sun, sand and fun and all indications are that tourism will continue to increase, enhancing the demand for rental and purchase of property.

The positive stimulus for property purchase in Tenerife that comes from better mortgage availability, better exchange rates, high rental income, the affects of global warming and the desire of people to improve their lifestyle, are all certain and reliable indicators of the future.

Certainty and reliability, the Mother and Father of confidence has to the greatest extent been restored and perhaps we can now say with more than a little justification that just like the weather in Tenerife, the climate for investors has few clouds.

### **Time to buy**

While the recession makes many people sit back and try to ride out the storm, others are just as keen to be innovative and take advantage of the situation by continuing to invest in property overseas. This could be for reasons of work, family, relocation, investment; or could just be a burning desire for a better lifestyle.



Emotions and indecision are your enemy, now is the time when investors should be buying. Kyero.com the leading

Spanish property portal report on the 'Vulture Funds' already snapping up cheap and distressed property at the end of 2008. These types of investment funds are always at the vanguard, closely followed by the shrewdest private investors. By the time the press, and therefore the rest of us 'normal' investors jump on the bandwagon, many of these early birds will have moved on to new pastures.

Investing in Tenerife property is starting to look like a no brainer. A neutral observer would have to say that the corner-turning moment is actually in the process of happening. So, just like the weather, the immediate future for property in Tenerife looks sunny.

A few of us may take a tip from one of the most successful investors of modern times, Warren Buffett who holds the rather unique title of 'Richest Man in the World'. This financial legend sums up his approach in a few short words of advice, "Be fearful when others are greedy, and be greedy when others are fearful". It's a winning strategy, and the time to apply it to property investment in Tenerife is now!

# Contact

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For further information about the Tenerife property market, advice on the best investments and mortgage information, please contact:

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