ISLAND LIVING

Whether it is a villa on Mallorca, a hideaway in the Caribbean or a remote Scottish retreat, owning an island home can provide the ultimate in secluded luxury living not to mention unrivalled sea views.

While some islands and archipelagos are back on the radar of second home buyers, others are still struggling to see sustained price growth following the financial crisis.

In this report we will explore two types of island living. Firstly, key second home island destinations around the world, such as those in the Mediterranean, Asia and the Caribbean; more easily accessible, with solid infrastructure and established resorts.

Secondly, we explore the ultimate in trophy real estate; private islands. The latest data challenges the long-held view that the ultra-wealthy are the primary buyers of these secluded idylls and we highlight how, despite the limited number of ‘quality’ islands, price growth has remained moderate.

As the world shrinks due to improved transport links new markets are opening up. Exclusive data from NetJets confirms there has been a 69% increase in private jet flights to island destinations in the last ten years. However, established resort islands as opposed to private islands are driving the majority of this growth.

In 2014 online viewings of island-based properties via Knight Frank’s website increased by 21% year-on-year. Homes on Ibiza, Barbados and Bali were amongst those generating the strongest viewing rates.

Buyers appear increasingly attracted to tight planning restrictions, and even some outright building moratoriums, which is making an island property in many locations an increasingly rare commodity.

In the Balearics, Mallorca and Ibiza are seeing something of a revival. Tourist numbers increased by 8% and 12% respectively in 2014 and online property viewings via Knight Frank’s website surged 31% and 11% respectively in the first three months of 2015 compared with the previous quarter.

The Balearics’ two largest islands boast good international schools, strong IT connectivity and year-round flights to the UK and the rest of Northern Europe. Although the beach resorts of Port d’Andratx, Puerto Pollensa and Santa Eulalia are firm favourites, the islands’ capitals, Palma and Ibiza Town, are proving increasingly popular.

Elsewhere in the Mediterranean, Sardinia attracts a more affluent cohort of buyers appealing in particular to British, Scandinavian and Russian purchasers. Qatari Holding’s US$1.35bn acquisition of Smeralda Holding (owner of four hotels, Porto Cervo marina and Pevero Golf Club on the Costa Smeralda) underlines the continuing importance of Sardinia to luxury buyers.

In the Caribbean, the global financial crisis meant numerous development projects were halted in 2008-09, those islands with a bias towards mid-range apartments such as the Turks and Caicos islands, Anguilla and St Lucia were hit hard. However, the upturn in tourist numbers evident post-2011 has been mirrored in sales volumes and the strengthening US dollar since mid-2014 is filtering through to investor sentiment.
For islands such as St Barts where the euro is the local currency this means US buyers can take advantage of notable savings compared to a year ago.

In Asia, the concept of a second home or ‘lifestyle’ purchase is slowly becoming more established and we expect this trend will increase significantly in the next five years with major repercussions for global markets. Together Bali, Phuket and Fiji represent the most mature island markets but they remain tourist destinations rather than established hotspots in the western model.

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SPECIAL FOCUS: PRIVATE ISLANDS

The private island market has changed irrevocably in the last 20 years due to three key events; the advent of the internet, the global financial crisis, which saw UHNWIs retreat to their core markets, and the growth of the eco agenda.

There are approximately 196 countries worldwide and estimates suggest 30-40 of these can lay claim to one or more private islands. Yet, according to Farhad Vladi of Vladi Private Islands only 5% of these islands are considered to be of good quality. This designation is defined as islands which are easily accessible, have utilities such as electricity and sanitation already in situ, belong to a country with a stable political regime and crucially, are within easy access of medical facilities.

Yet, despite the limited inventory of ‘quality’ private islands, prices haven’t accelerated significantly and in fact, in some parts of the world remain relatively affordable.

Private islands off the West Coast of Scotland and Ireland continue to change hands for as little as £300,000 (c.US$470,000) and some, in parts of Canada, Fiji and Belize, go for significantly less.

The assumption that private island ownership remains the exclusive goal of Ultra High Net Worth Individuals (UHNWIs) and celebrities is a misconception. Surprisingly, those that hold most of the title deeds are Governments, NGOs and conservationists, a trend that has increased significantly (283%) in the last decade (figure 5).

Most of these acquisitions are ring-fenced by governments and landbanked for political or conservation reasons. In those instances where the island exceeds the government’s budget some choose to encourage resort development for the health of the local economy.

The government of the British Virgin Islands (BVI) will closely review any island sales to overseas investors and has frequently acquired islands in the BVI rather than see islands transfer to foreign ownership.

Where UHNWIs do buy private islands, they are increasingly seeking a different product compared to 10-20 years ago. There is a growing appetite amongst the ultra-wealthy to buy portions of islands or peninsulas as opposed to entire islands. Mark Zuckerberg’s purchase of the North Shore of Kauai is one such example.
RISKS AND OPPORTUNITIES

A risky asset or a safe bet? Owning an island holiday home can put you at the mercy of a number of external factors including climate change, oil prices and a fragile local economy but it can also provide unrivalled privacy and good prospects for long-term price growth.

A second home, whether it is island-based or not, is by definition a discretionary purchase and as such the price can be influenced by supply flows either due to strong levels of new construction or economic downturns which prompt a large volume of simultaneous disposals.

That said, if supply is constrained - either due to strict planning controls or because there is a sustained period of economic growth – the long-term prospects for capital appreciation can be positive. According to our recent Prime International Residential Index which tracks prices across 100 luxury residential markets worldwide, mainland second home markets recorded a 2.6% fall in prices in 2014, whilst the 13 island destinations included within the index recorded flat growth by comparison (0%).

Buyers’ motives will continue to vary from island to island. Young professionals in Northern Europe will be drawn by Ibiza’s vibrant lifestyle, bargain hunters will head to Greece, sailing enthusiasts to the BVI. The need for escapism and privacy are the key common denominators and this motivation will only increase. By 2050, 64% of the world’s population is forecast to be living in urban areas according to the United Nations.

Asian interest in second home ‘lifestyle’ purchases will strengthen in the next five years but there will still be a desire to generate an income from their acquisition via a commercial enterprise such as a holiday let or small vineyard etc.

Interest is likely to be focussed within Asia Pacific initially.

Accessibility and new transport routes will be critical in determining where future demand is strongest. Commutable islands, those within 2-3 hours of a city hub and with year-round flight availability will outperform; London to The Balearics, New York to Florida, Singapore to Bali.

Private islands

Conservationism and the desire to protect rare ecosystems will increasingly motivate private island purchases.

As the long-term ramifications of Greece’s financial bailout play out more fire-sales of Greek islands are expected. In 2014 Greece introduced its first permanent property tax which for some owners has made private island ownership more burdensome.

For some UHNWIs developing a private island can be a challenging task. Alternative trophy assets, such as acquiring and designing a superyacht presents an exciting challenge. A private island by comparison requires engineers, new infrastructure and utilities as well as ongoing management. As a result, we expect developed private islands to generate stronger demand than those requiring large-scale utility installations.

For younger UHNWIs renting is the way forward. Many wealthy millennials are opting to island hop, spending a month in Mustique, followed by Fiji or the Whitsundays.

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