

Direct Line Report: Second Homes in the UK



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INTRODUCTION

Welcome to the Direct Line Home Insurance report **Second Homes in the UK**.

This report investigates all aspects of the growing second homes market in the UK, revealing its current state and predicting its future course.

The first half of the report examines the scale of the market, the number and value of second homes, and the profile of those who own them. It investigates how these properties are funded, how they are used and where they are located.

The second half considers second homes in the year 2015, tracking the future development of this market in the UK and abroad. It paints a clear picture of the second homes 'landscape' in 2015, revealing where second homes will be located, who will own them, and how they will buy them. It also identifies the triggers for the growing popularity of second homes.

For the purposes of this report, the following definition of a 'second home' has been used:

"Properties in the UK owned or rented out by a household member that are not the main residence of that household."

The Centre for Future Studies, July 2005

The report draws on research undertaken in partnership with The Centre for Future Studies in July 2005. A full research methodology is included in the Appendix.



PART ONE: SECOND HOMES TODAY

Market Overview

Second home ownership in the UK has risen gradually over the past 10 years and represents a significant proportion of the housing market.

Market Size

- 2003/2004 figures show that **328,000** households in the UK own a second home
- This is a **16 per cent** increase on the 2002/3 figure of **295,000**
- Second homes now represent approximately **2 per cent** of the total number of homes in the UK
- **8 per cent** of British adults currently own a second home and a further **3 per cent** or hope to buy one in the future

Market Value

- The latest estimate puts the total value of UK second homes at **£38.7 billion**
- The value of UK second homes increased by **27 per cent** between 2001-2004
- The average price paid for a second home in 2004 was **£415,000** – this was more than the **£380,000** average spent on main residence
- The average price paid for a second home in 2000 was **£327,000**

Owner Profile

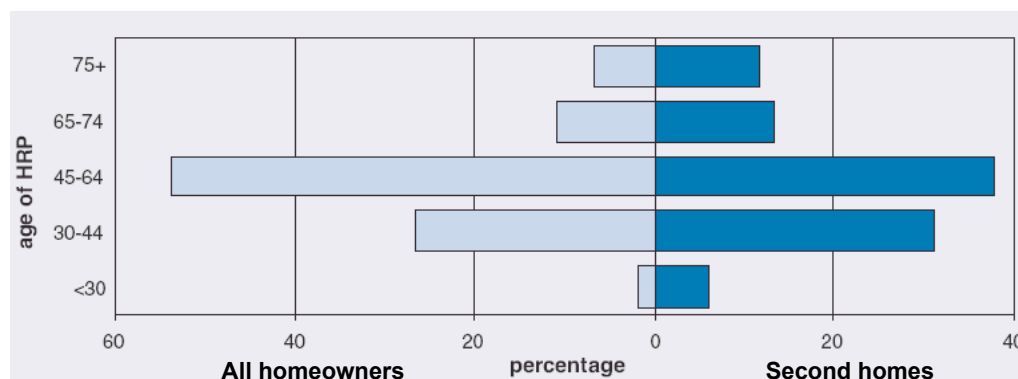
The typical second homeowner:

- Is over 45 years old
- Has an income of at least £75,000
- Has a main home in the UK worth £400 - £500K

Second homeowners tend to be couples with older children, empty nesters or retired couples. Those who work are employed in managerial positions or professional occupations and many are business owners.

As many own their homes outright and are not required to meet mortgage payments, they are able to invest their money in a wide range of financial products.

Fig 1: Age Distribution Of Households With Second Homeowner And Of All Homeowners 2003/04 (Source: ODPM Housing Survey 2005)



Reasons For Purchase

The main reasons for acquiring a second home in the UK are:

- A retreat for holidays, recreation and leisure (**51 per cent**)
- A base for work or commuting to work (**19 per cent**)
- An investment (**14 per cent**)
- A home for family members who are studying away from the family residence (**5 per cent**)
- Inheritance properties (**4 per cent**)
- Properties purchased due to marital breakdown (**4 per cent**)

Why Britain?

The main reasons for choosing a second home in the UK rather than overseas are:

- The property is not principally used as a 'holiday' home (**32 per cent**)
- Access to a second home in the UK is more convenient (**31 per cent**)
- The UK presents better investment opportunities than overseas (**21 per cent**)
- Britons prefer the British culture (**12 per cent**) and climate (**8 per cent**)

The popularity of second homes in the UK and overseas is increasing, although more people are looking closer to home for investment purchases.

Financing Second Homes

Low mortgage rates and increasing property values has helped to fuel second home ownership in the UK, with many buyers opting to release equity from their main residence in order to buy another.

In addition, the attitudes of lenders towards second homes has changed considerably in recent years, with many banks and building societies now prepared to offer mortgage rates as favourable as those for main residences.

This is borne out by Direct Line's research among current second homeowners, which reveals that second homes are financed in the following ways:

- Mortgage (**34 per cent**)
- Savings (**26 per cent**)
- Inheritance (**17 per cent**)
- Buy-to-let arrangements (**13 per cent**)
- Re-mortgage of main residence (**10 per cent**)

In addition, a substantial number of purchases are funded by windfalls such as city bonuses and many buyers opt to finance second homes by selling one large property and investing in two smaller ones.



Second Homes Overseas

Whilst overseas destinations have long been a popular choice for Britons looking to purchase a second home, more and more people are now looking to buy second homes in the UK.

- In 2003/2004 UK residents owned **178,000** properties in foreign countries
- Spain is the most popular place for UK residents to buy a second home, followed by France, Portugal and Italy
- Overall, nearly two-thirds of second homes abroad are in Europe, with six per cent located in the United States and the rest in countries such as Australia, New Zealand, Canada, India, Pakistan, South Africa, Sri Lanka and the Caribbean islands.



PART TWO: SECOND HOMES IN 2015

Market Overview

The gradual rise in second home ownership seen over the past 10 years is expected to continue into the next decade, with second homes set to make up an even greater proportion of the overall housing stock by 2015.

Market Size

- If second home ownership continues to increase at its current rate, by 2015 there will be **405,000** second homes in the UK
- This increase of **77,000** second homes means an average annual growth of 3.2 per cent per year or 24 per cent over the next 10 years
- This growth rate will outstrip targets for growth in the overall UK housing market

Market Value

- The average house price in the UK looks set to rise to **£225,499** in 2015, an increase of 38 per cent from the current value of **£163,353**
- Factoring in house price inflation, the UK second homes market is predicted to grow from an estimated **£38.7 billion** today to **£53.4 billion** in 2015

Owner Profile

Buying a second home requires a higher than average income but is no longer the preserve of the rich. This will continue to be the case, with rising incomes and a buoyant housing market giving more people the opportunity to purchase a second home:

- The typical profile of a second homebuyer, affluent 45-64 year olds, will not change significantly over the next 10 years. However, an increasing number of people will fall into this second homeowner profile (see p9)

Reasons For Growth

A number of key factors are predicted to influence the growth of the second homes market over the next 10 years, as outlined in Fig. 3. Some will have a positive effect, increasing UK second home ownership. Others will have a negative effect, discouraging purchase.



Fig 3: Positive And Negative Factors Affecting Second Homes Market
 (Source: The Centre for Future Studies)

Positive – encouraging growth	Negative – discouraging growth
Age structure of the population Increasing affluence Climate change Changing lifestyles Changing family structures Security fears Equity release Funding through SIPP	Housing crisis Government regulation

Age Structure of the Population

A future increase in the number of people who fall into the typical second homeowner age group, will drive the market:

- Around two-thirds of the head of households in England with second homes are currently aged over 45
- Demographic forecasts predict that in the next 20 years there will be a significant increase in this age group, with up to 46.2 per cent of all households aged 45 and over in 2021 compared with 37.7 per cent in 1998

Increasing affluence

The UK’s rising affluence is set to be a key driver of the second homes market:

- 6.5 per cent of the UK population (3.1 million people) currently earn upwards of £80,000, or possess in the region of **£150,000** worth of net assets
- UK residents are predicted to be 73 per cent better off over the next 20 years. Many of these will use their disposable income to invest in second properties closer to their place of work

Climate change

Climate change will impact on the UK second home markets in two ways:

Firstly, an overall warming of the climate is likely to make UK-based holiday home ownership a more attractive prospect:

- By 2050, the Environment Agency predicts that the climate in Cornwall will be similar to that currently experienced in the South of France. Other areas, such as the North coast of Scotland will widen their appeal as the climate becomes similar to that currently enjoyed in Durham. Durham experiences less average yearly rainfall and seven and a half more full days of sunshine than Northern Scotland.



- The first signs of this predicted climate change are likely to be seen long before 2050. With buyers anticipating this warming climate, coastal areas will become a particularly attractive prospect

Secondly, climate change may create weather extremes at current popular second home locations in Europe as:

- Water shortages, heat waves and flash floods are likely to impact on these overseas locations much earlier than the UK. This will drive a general relocation of overseas second homes towards Northern Europe and the UK by 2015

Changing Lifestyles

Several evolving lifestyle trends are set to increase the number of UK second homeowners:

- Prices for property within daily commuting distance of London have been steadily increasing as a growing number of people buy their main homes further away from the capital and invest in a pied-à-terre from which to base themselves during the working week
- Increases in flexible working and the growing importance placed on work-life balance will mean an increase in the number of people investing in second homes in urban areas that double as work spaces

Security Fears

Concern for security issues is increasing in the current geo-political climate, with terrorism among one of the key fears facing the UK public. This is likely to affect the second homes market over the next 10 years as:

- A reluctance to travel overseas makes prospective purchasers more likely to invest in second homes in the UK
- A desire to move from city and town centres to rural areas leads to an increase in rural second home hotspots

Changing family structures

The number of cohabiting, unmarried couples in England and Wales is set to rise to 2,926,000 in 2021 and will drive the second homes market in the process:

- An increasing proportion of cohabiting couples continue to own two properties, living in one and renting the other. As this trend continues, the overall number of second home owning households will increase

Equity release

The equity release market has quadrupled in the past decade, with latest figures estimating its value at £1.2 billion in 2004.

However, it remains relatively under-developed and has the potential to become much bigger in the future, partly due to the over 65 age group owning more than £1,000 billion in un-mortgaged housing wealth.



In fact, equity release is predicted to reach £2 billion a year within the next five years, with much of this freed up money being invested in second homes.

New tax relief laws

From April 2006, individuals who buy residential property through a Self Invested Personal Pension (SIPP) will enjoy tax relief on their investments. Higher rate taxpayers who make a contribution of £60,000 into their SIPP will receive 40 per cent tax relief, giving them a fund worth £100,000 to spend on property. There will also be no tax to pay on rental income or on any profit from eventual sale of the property.

Interest from would-be second homeowners in property pensions will boost demand in the housing market by five per cent. Yet there are factors, which mean that for many, residential property will not be an appropriate investment:

- Rental income and capital from the sale of the property cannot be taken out of the pension fund until retirement
- All mortgage payments and the costs of buying or selling the property must be made from the pension, which means that capital needs to be tied up in the scheme to meet these expenses

Despite these drawbacks, wealthier investors are likely to take advantage of these new rules by adding second homes to their pension portfolio.

Government Regulation

The problems arising from second homes and holiday homes are well known in rural areas. Since the 1960s, second homebuyers have been attracted to areas of natural beauty and regions popular with tourists.

This has exerted pressure on the housing markets in these areas, with a number of adverse consequences, as outlined in recent research from the Countryside Agency:

- Second home purchasers are now competing for a full range of property types and sizes, including new build and ex-local authority housing
- Second homes and holiday homes contribute to rural social exclusion as local residents are increasingly priced out of the limited housing resource

Local authorities believe more needs to be done to manage and influence the second home market, with some suggesting that second homes should be banned in certain areas.



Central government is now considering whether new planning laws are needed, in addition to other measures introduced by the Government, to curb the spread of second homes.

One measure already in place, The Local Government Act 2003, provides local authorities with powers to increase council tax on second homes by 90 per cent. This has doubled the amount of council tax second home owners are paying in many instances and may deter second home purchase in the UK in the future.

Housing Crisis

Britain is heading for a property shortage of more than a million homes by 2022 unless the current rate of house building is dramatically increased:

- The housing crisis will hit hardest in London and the South, and although these regions contribute 70 per cent of the rising demand for new homes, only 50 per cent of new homes are currently being built there
- By contrast, in the Midlands and the North, there are growing problems of low demand in some areas, and of empty and abandoned properties
- The number of new households that can afford to buy a home is predicted to drop to around 33 per cent (a third) in the next decade and this will further fuel the arguments for restrictions to second home ownership in areas where affordable housing is in short supply

UK Second Homes in 2015

The factors outlined above are certain to impact on the future second homes market nationwide, but some are likely to affect certain areas more than others.

For instance, increasing affluence is likely to have a strong effect in areas undergoing regeneration or set to enjoy robust economic growth.

Likewise, coastal areas and popular tourist destinations will benefit disproportionately from climate change and enjoy a greater concentration of second homes as a result.

Analysis of these factors, the reasons why second homes are bought and the development of specific regions has allowed us to identify a number of predicted second home hotspots by 2015.

Fig 4: Second homes hotspots in 2015 (Source: The Centre for Future Studies)

Purpose of Second Homes	Hotspot	Explanation
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Holiday Home	Exmoor Northumberland Coast West Coast Scotland	Warmer summers will make these areas more attractive to holidaymakers and second home buyers
Holiday Home	Yorkshire (Rother Valley Country Park) (North Yorkshire Moors) East Midlands (Wicksteed Park, Northants) North West (Blakemere craft centre, Northwich) South East (Beckhurst Glass, East Sussex) Wales (Snowdonia)	Tourist attractions in these five regions are set to become much more popular, with more second homes likely to be bought up in surrounding areas
Work Base	Newcastle Liverpool Glasgow Central London	Better than average economic growth, creating greater affluence, more jobs and more work-related second homes
Investment Purchase	Scottish Borders	Commuter-friendly
Investment Purchase	East London	Set for regeneration
Investment Purchase	Bradford City Centre	Set for regeneration
Investment Purchase	Southend	Commuter town enjoying 12 per cent house price inflation
Student Property	Birmingham	Affordable housing and a growing student population

Second Homes Overseas in 2015

The trend for UK residents to own properties abroad will continue to grow at a healthy pace:

- It is predicted that by 2015, **249,000** overseas second homes will be owned by UK residents

Second Home Finance in 2015



- As outlined earlier in this report, the attitude of lenders towards second homes has changed considerably in recent years and they are prepared to offer much more favourable rates on second mortgages than was once the case
- This trend will continue, with innovation and greater competition in the mortgage market making it even easier and cheaper to buy a second home in the future than it is today
- Continued growth in buy-to-let mortgages is also likely, with many investors buying second properties to provide income, capital growth and to supplement their pension provision

CONCLUSION

The second homes market is a small yet significant and growing sector of the UK housing market, with the number of UK second homes set to reach an unprecedented 405,000 by 2015.

The UK's popularity over foreign locations for second home ownership has reached a new high with nearly 150,000 more second homes owned in the UK than abroad. This trend is likely to continue well into the future, driven in part by the preferential investment opportunities presented by the UK. By 2015, UK residents will own 156,000 more second homes in the UK than abroad.

UK residents currently own second homes for the following reasons; as a holiday retreat; as a base for work; as a result of a marital breakdown or through inheritance. These key reasons will remain more or less constant over the next 10 years.

Current second home hotspots include London, Snowdonia and Great Yarmouth. However, a series of economic, social and environmental factors is set to change the face of the second homes market, not only driving the booming market but also dictating the locations for future second homes hotspots.

Among these drivers will be the ageing population, increasing affluence and climate change, which will ensure that the second homes landscape changes considerably over the coming decade.



APPENDIX

Research Methodology

The Centre for Future Studies was commissioned by Direct Line Home Insurance to investigate the growing second homes market in Britain and identify future trends and developments. This report details the findings of the research and analysis, undertaken in July 2005.

Data on second homes was drawn from the following sources:

- 2001 Census
- Assetz plc
- Barker Review of Housing Supply, 2003
- BBC Online
- CEBR Housing Report Forecast, July 2004
- Council of Mortgage Lenders Housing Report, 2004
- Countryside Agency Rural Futures Report, 2003
- Environment Agency
- FPD Savills
- Institute of Actuaries UK Assets Report, 2004
- Joseph Rowntree Foundation
- Met Office trend data 1971-2000.
- Mintel
- Office of National Statistics (ONS) Reports:-
 - ONS StarUK tourism resource.
 - Population Trends 1999 + 2000
 - Social Trends 2003
- Office of the Deputy Prime Minister (ODPM) Survey of English Housing (SEH), 2002/3, 2003/4, 2004/5
- ODPM Thames Gateway Housing Review 2005

In addition, data was gathered and analysed from an omnibus survey conducted among second homeowners by YouGov on behalf of Direct Line Home Insurance between 26th-27th July 2005.

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