



Costa del Sol Investment Report

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The document is a collection of research conclusions, statistics and judgment from independent sources. It demonstrates why Property Options exists and provides compelling evidence for investors to back Real Estate on Spain's Costa del Sol.

Many EU families opt to purchase a second property rather than invest in financial markets.

Within the EU, Spain is where most people own second homes.

The Malaga coastline is the target for this investment.

House prices in Spain continued to accelerate in Spain in 2002, in contrast to many countries.

The reasons for the above include:

- The Irish and UK economy
- The Irish and UK Real Estate market
- People buy in Spain as they have previous knowledge through holidays.
- Spain as a highly desired holiday destination, experiencing constant steady growth
- Accessibility and the proliferation of low-cost airlines
- Health benefits offered by the climate
- Current and planned infrastructure
- Sporting and social amenities
- THE CLIMATE

Ken Spencer, Property Options

Sources quoted are all up to date and include the Royal Institution of Chartered Surveyors, the National Institute of Statistics and the World Health Organization.

SPAIN TOP FOR PROPERTY GROWTH

Spain has again come out on top of the investment chart in terms of property growth. The RICS report to the European Union singles out Spain as the country in which most people own their homes.

“In contrast to many countries, where price increases slowed down significantly in 2001 and 2002, house prices have continued to accelerate,” says the report released this week.

Houses with rising prices represent a sound investment but should be bought sooner rather than later, before the values become inflated.

Source: New Skys and Royal Institute of Chartered Surveyors

BIG PROPERTY PRICE RISES

House prices have increased dramatically over the past year, with the price per square meter having risen by as much as 12% for apartments and 17% for houses in the Marbella area.

Coupled with the current larger floor areas being built, however, typical prices for a new three-bedroom apartment, for example, have increased by as much as 50%, while prices for houses have risen by 25% or more...

2.5 MILLION TOURISTS BUY SECOND HOMES ON THE COSTA

Also, investment in real estate is really gaining ground in comparison to investment in the financial markets.

The report reiterates the fact that real estate on the Costa del Sol really is the most popular way to investment, as many European families are opting to purchase a second property instead of investing money in the financial markets. The Malaga coastline has become the target of these investments.

Source: Tourist Developers Research

RESIDENTIAL OVERTAKES HOTEL TOURISM ON THE COSTA

In two consecutive years residential tourism is higher than the hotel tourism in the province. According to the information from the Tourist Board, the residential tourism takes up 52% of the total quota.

According to the experts, the demand for a second home is to blame for the increase in house prices (close to 80% in the last six years, data from Valuation Society, Tinsa). Due to this, the most demanded are two or three bedroom houses instead of townhouses, said Jose Garcia Ruiz, Financial Manager of GARU Real Estate. The house prices in Marbella have an increase of 52% in only one year.

UK citizens bought 35% of the residences sold as second homes in 2002, an increase of 8% from the previous year.

Source: *SUR Inmobiliario*

UNITED KINGDOM MARKET STUDY 2002

There is no doubt that an increasing number of British citizens are purchasing properties in Spain to enjoy their holidays or with the intention of living permanently abroad. Spain is by far the highest rated country by the British when thinking of purchasing a home abroad. According to a recent study made in the United Kingdom by Homes Magazine, 58% of the persons who are thinking of purchasing a property abroad would buy one in Spain, 13% in France, and just 3% in Italy.

Available figures suggest that some 75.000 British citizens live in Spain and own some 330.000 properties. A study made in 1996 by the National Statistics Institute estimated that some 224.000 persons emigrate each year from the United Kingdom to Europe, the USA and the rest of the world.

The results of the investigation show that the figure has increased during the five past years and will continue to grow over the next decade, due to the retirement of the “baby boom” generation and the adoption of more flexible working methods. It is also possible that the adoption of the euro encourages people to look for work in other parts of Europe.

This trend is not only British, since almost exactly the same occurs in most of the countries in Northern Europe, where a combination of factors such as the climate, a prosperous economy, and long working hours make people try to review their way of life and consider the option of a place in the sun.

Key factors in the foreign housing market

The economy in the United Kingdom
The British Real Estate market itself
Spain as a holiday destination
The “Boom” of low-cost airlines
Increased attention by the news media

The terrorist attacks and their subsequent effects on the global economy have had an impact on the purchase of homes abroad, especially in the top market segment. In fact, Spain seems to have benefited from the crumbling demand in Florida. It is worth pointing out that a major Spanish company in this Industry confirmed that the next month enjoyed the largest sales in 2001.

Gradual Change in the purchaser’s profile

There has been a gradual change in the profile of persons who purchase properties abroad during the past three years and it is no longer limited only to the “rich and famous”. Although, there is a predominance of older, wealthier couples, there are also the following categories of persons:

Young couples, both for holidays and for primary homes
Self-employed persons, especially those whose work is based on using a computer and who do not need to be located in a specific office
Persons interested in purchasing to rent
Persons interested in golf

Owners of Second Homes

The Department of the environment, Food and Rural Affairs issues a yearly report on housing in the UK that includes a section on owners of second homes. According to this study, 400.000 persons in the United Kingdom have a second home (excluding those that are rented), which represents around 2% of the total number of homes; the percentage increases to 5.2% when we add those who purchase for subsequent renting.

The results of the study, highlighting the substantial differences that exist between the demand by owners in the United Kingdom and abroad. Only one third of second homes are purchased for holiday use and retirement inside the country, compared to almost two thirds who do so abroad for the same purposes.

The options of purchasing a property for investment purposes includes almost a third of the purchases in the UNITED KINGDOM and just 14% of the purchases made abroad for the same purpose.

Spain continues to be the first option for a home abroad

There is a special link between holidays and homes owners, be they abroad or within the United Kingdom. Most people, when they buy a holiday home, or do so expecting to live in that place, have a previous knowledge of the location because they have been there on holiday.

Among the owners who were sampled, the most prevalent reason for the purchase a home abroad was for use during the holidays. Two thirds of those polled stated that this was the main reason they bought the home abroad, of which 40% reside there up to six weeks a year, whereas 25% use it more often, or as a second home.

Another 10% of those polled bought their home as a retirement home or as a future permanent residence.

A home by the sea

Another very important consideration for homeowners abroad is access to that home. Most homeowners abroad have their properties on the coast, and just over a quarter of them, 28%, inland (although always close to coastal areas). This was especially so in the case of homes in Spain.

The market prefers the southern Mediterranean area and its way of life

The most important reasons for deciding on a real estate purchase have mostly to do with the resulting way of life, such as could be the favourable climate in the South of Spain or the festive and holiday – like atmosphere “very different from the problems associated with living in the United Kingdom”.

Spain obtains the best results in responses regarding the good climate, way of life, and attractive sports without having to take the season into account. It is also an attractive country for those who are looking for a future investment.

Health and climate are the essential messages

Living in Spain has been promoted as enjoying a healthy lifestyle, on different levels and for different reasons: the healthy Mediterranean diet, the peace and the adequate lifestyle, but above all and essentially the advantages of mild winters, which is highly beneficial for a large number of pathologies, for example SAD (Seasonal Affective Disorder), and permits people to take part in outdoor sports events all year long.

The “ex-pat” community

The presence of an “ex-pat” community that is well established along the entire Costa del Sol and the Costa Blanca is important to motivate many British citizens to move to those areas. A great business for real estate companies appears when people start to talk about acquiring a neighbouring house for friends, family members and other compatriots.

Fairs, a key factor for selling Spanish properties

Fairs are the most important individual promotional tools for companies involved in the sale of Spanish properties. For example, in the recent “Homes Overseas” show held in the Barbican Centre in London, 30 of the 44 exhibitors sold Spanish properties.

These companies not only take part in the most important international real estate fairs around the world, but they also frequently organise their own “showrooms” in hotels, exhibition halls and other meeting points.

Publicity in the national press

Owning real estate abroad is a recurrent theme in the majority of quality and mid-level publications, especially in their weekend editions.

Internet

Internet is by now a tool that is used by an enormous number of agents in the market to sell real estate products in Spain, providing a new access route to purchasers throughout the UK, and often reaching their own house.

This is a tool that is especially useful for the “rich in money and poor in time” segment, allowing the potential buyer to look over properties when and how he himself desires. There are many websites promoting Spain and its housing market, some of them offering numerous properties, which allows the potential buyer to look for and find the alternative that best satisfies his personal criteria.

Increased growth prospects

The climate, the way of life and its popularity have made Spain a target destination for holidays, which means that it has also become a popular destination for those who wish to purchase a second home.

The international terrorist menace has had a strong impact on current demand, but interest in purchasing properties abroad has increased again until it has reached the same level of business that companies enjoyed before the events of September 11.

Another major worry for the real estate sector that focuses on properties abroad is the fact that the growth rate in the United Kingdom, as well as in other northern European economies, is slowing down. However, globally speaking, the second home market in Spain is better prepared than it was a decade ago, and the current economic slowdown is not expected to be long – lasting, compared to the recessions of the nineteen eighties and nineties.

During the coming year, given the current slowdown, the market could stabilise, although current trends could mean reaching 70.000 properties per year in a period of 3 to 5 years. These figures are based on the following information:

Favourable economic conditions

Current demographic trends and increased spending by senior citizens
Favourable and continuous media coverage of homes in Spain and the Spanish way of life

“Target audience” for properties abroad

The real estate market for homes abroad can be divided into four categories that are not mutually exclusive:

Second home / holiday property
Main home
Property for retirement
Property for investment

Although the population segment aged between 20 and 30 years is increasingly interested in purchasing a property in Spain, the most important market is still those over the age of 45, who are the ones with the greatest incomes and the greatest amount of time to use/enjoy a property abroad.

Developing new coastal areas

It is very likely that the market on the Costa del Sol and the Costa Blanca will be saturated in 10 or 15 year. In this regard, real estate developers hope that new investments will become available to develop other parts of the coast, especially Costa Cálida, Costa de Almeria, other parts of the Costa Brava and the Costa de la Luz on the Atlantic coast.

“This is really the healthiest place in the world to live, according to the World Health Organisation... the climate is very beneficial for those persons with respiratory problems, arthritis, rheumatism, etc.”

Source: *Living in Spain*

OVER 800.000 TO BUY SECOND HOME ON THE COAST

According to a report by Advanced Management Services Group, undertaken for the organizers of "Marbella Meeting Point" the Costa del Sol received more than 20% of total investment by foreigners of secondary homes in the Spanish Territories. The report shows that in the next 5 years more than 800.000 European families (mostly German or British) will buy a home in Spain. Andalucia represents 32% of all Real Estate investment in Spain and the Costa del Sol alone assumes 90% of Andalucia's share.

Source: (SUR)

COSTA POPULATION WILL DOUBLE BY 2007

The Federation of Municipalities of the Costa del Sol predict that the Coast will become the most extensive metropolitan area in Spain, stretching along 147kms of coast from Nerja to Sotogrande. More than 2 million people, almost double the present population will line the shores by the end of 2007. "There are no indications of slow down. Every sign indicates that our economic growth will continue. Malaga relies on tourism and real estate, which some people think can vanish overnight, this is simply not going to happen".

INFRASTRUCTURE AND THE FUTURE

Facilities and capacity are to be expanded at Malaga, where a new runway is due to be operational from 2005. 4.1 million tourists flew into Malaga in 2002 - a number expected to increase steadily in forthcoming years. (See table on next page). This is continued evidence of a booming area.

The European Union has identified the Costa del Sol as the fastest growing area in Europe, in terms of population, with the number of people living there expected to grow from 2.5 million to 6.5 million by 2011 (figures supplied by Hamptons International).

It is estimated that around Nerja on the Costa del Sol, prices rose by around 30% during the 1999 construction of a motorway link to Malaga. A new motorway link to Sotogrande, in the west, has recently opened and I predict that this will continue to fuel prices increases in this part of the region.

A new rail link from Fuengirola to Sotogrande has been approved, which will increase accessibility - and therefore demand - on the west of the Costa del Sol.

A high-speed rail link is being constructed between the Costa del Sol and Madrid and should be completed by 2007. This will reduce journey times to 2½ hours.

A large proportion of Spanish residents have, or aspire to, a second home on the coast. Increased accessibility will increase demand from the 'home' market, and this will impact on all property prices on the Costa del Sol.

It will also make the area more accessible to Spanish holiday makers who rent property, which will in turn increase demand for properties from investors.

Irish buyers re-entered the market strongly in 2002, mainly as a reaction to tight fiscal measures at home introduced by the Irish Government. This trend is likely to continue throughout 2003 as the Irish Government is set to introduce additional legislation to make investing in property at home far less attractive. Many predict an increase in Irish buying on the Costa del Sol, where Irish buyers already account for some 16% of all property transactions.

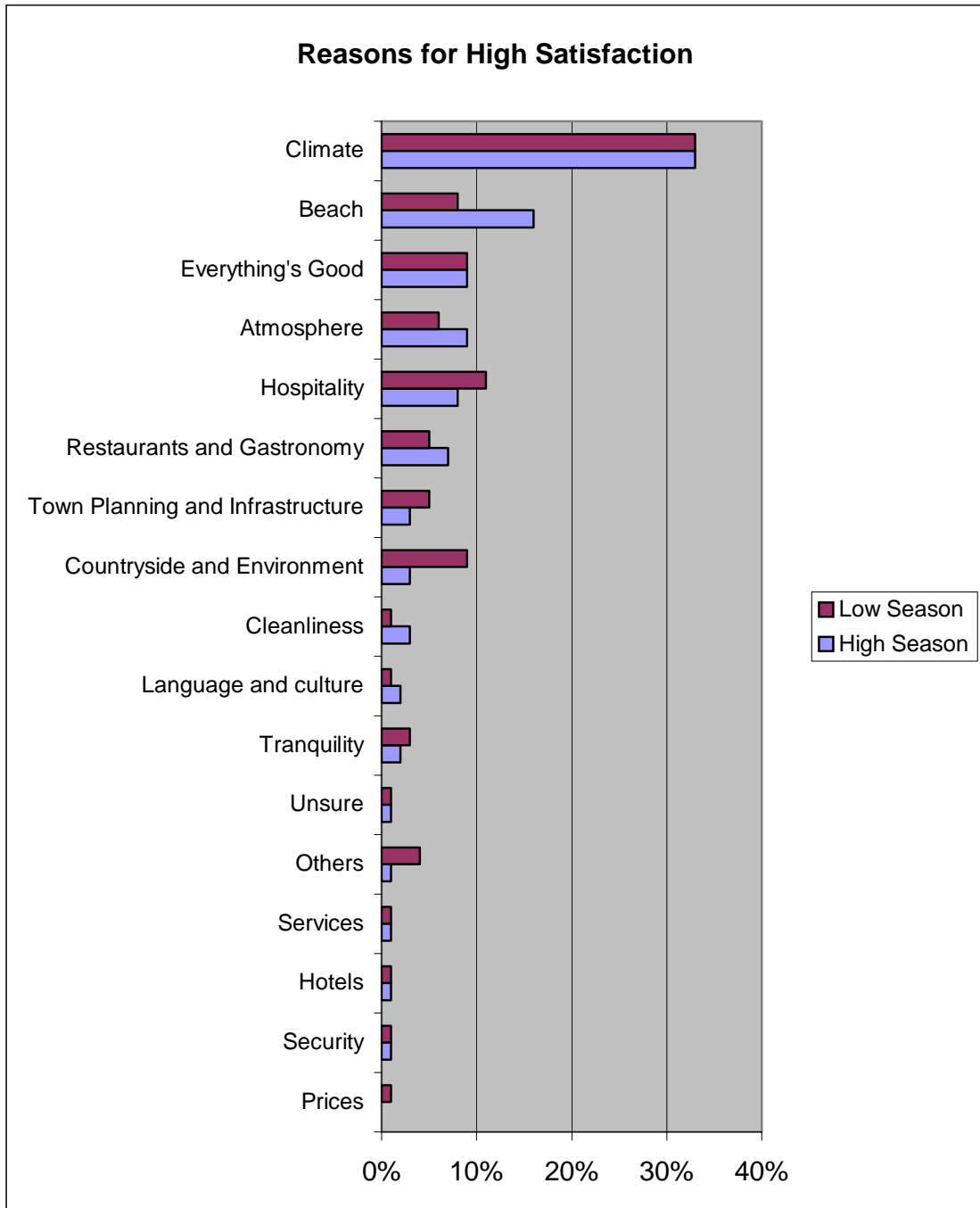
Sources: various

Increase And Number Of Passengers By Market

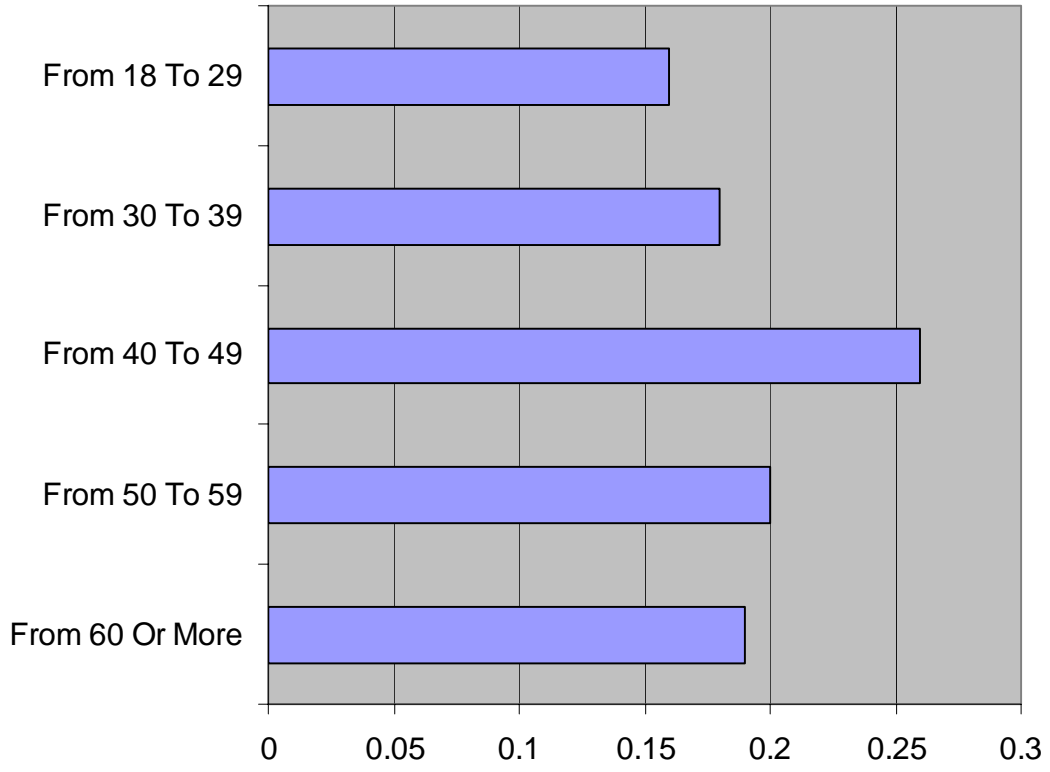
	1997	1998	1999	2000	2001	2002
Ireland	73,148	61,462	112,775	130,207	157,923	196,151
% of international & domestic	1.72%	1.90%	2.64%	2.75%	3.16%	3.73%
U.K.	1,218,138	1,337,715	1,423,334	1,682,942	1,852,806	2,096,349
% of international & domestic	34.12%	34.73%	33.27%	35.58%	37.02%	39.90%
Total International	2,603,584	2,856,144	3,230,788	3,622,871	3,831,345	4,116,436

Tourism Statistics in Graphical Form

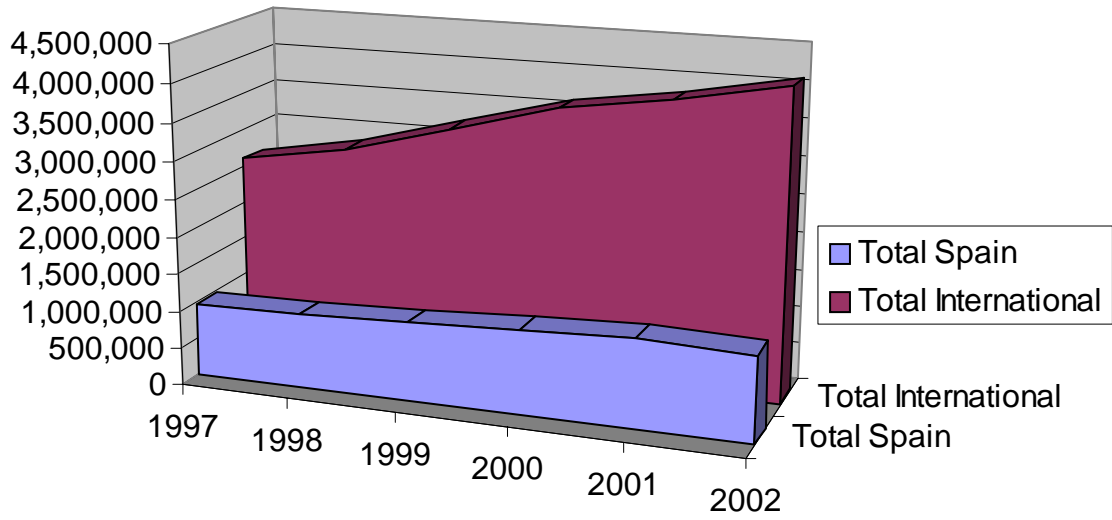
Source: Andalucian Government



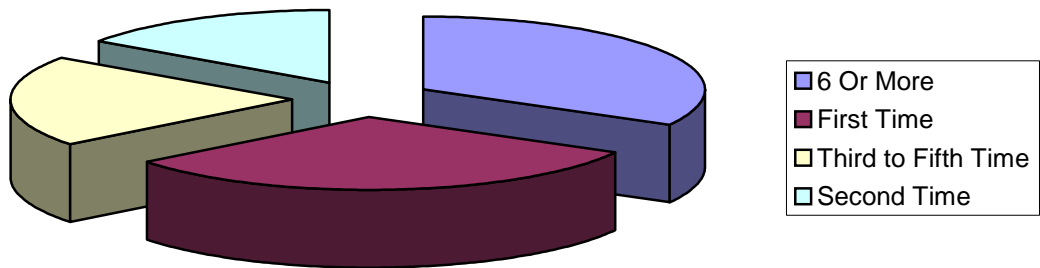
Age Of Tourists



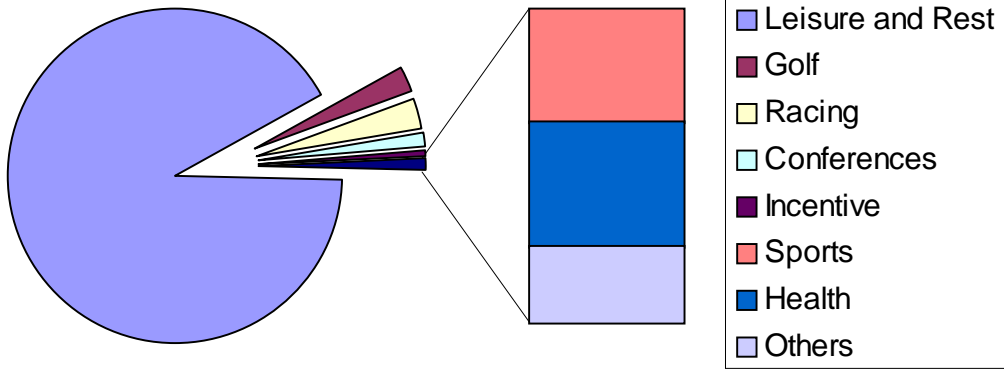
Overview of Malga Passenger Volume



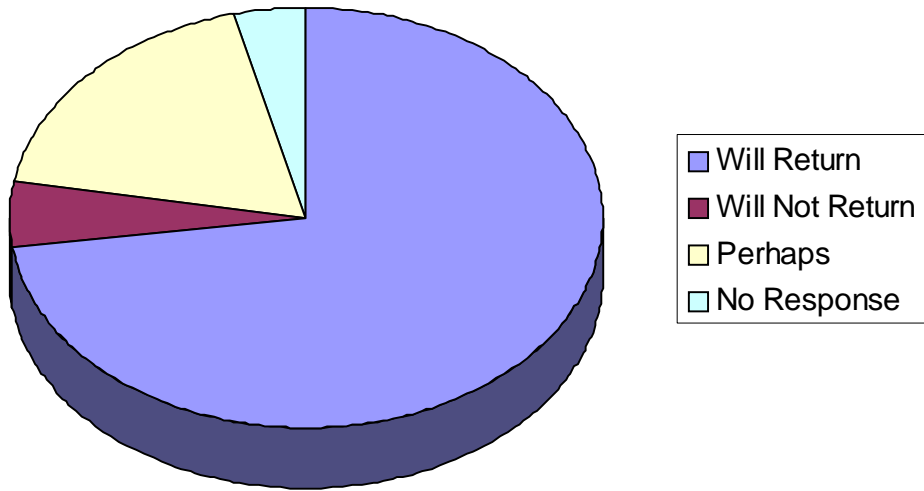
Number of Visits



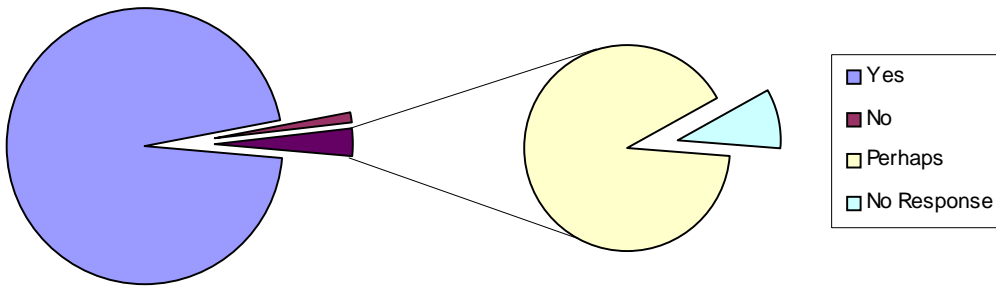
Reasons for Visiting



Rate of Return Visits



Willingness to Recommend the Coast



Length of Stay

