

Direct Line UK Second Properties Index 2006

Compiled by Direct Line Home Insurance and Future Foundation



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Introduction

Direct Line has a reputation for market-challenging innovation in insurance and a commitment to understanding and responding to the changing needs of its customers. As part of its research programme Direct Line Home Insurance has teamed up with the Future Foundation to develop the second of its annual *UK Second Properties Index* – a comprehensive ongoing source of insight into the UK's second property market.

Sources

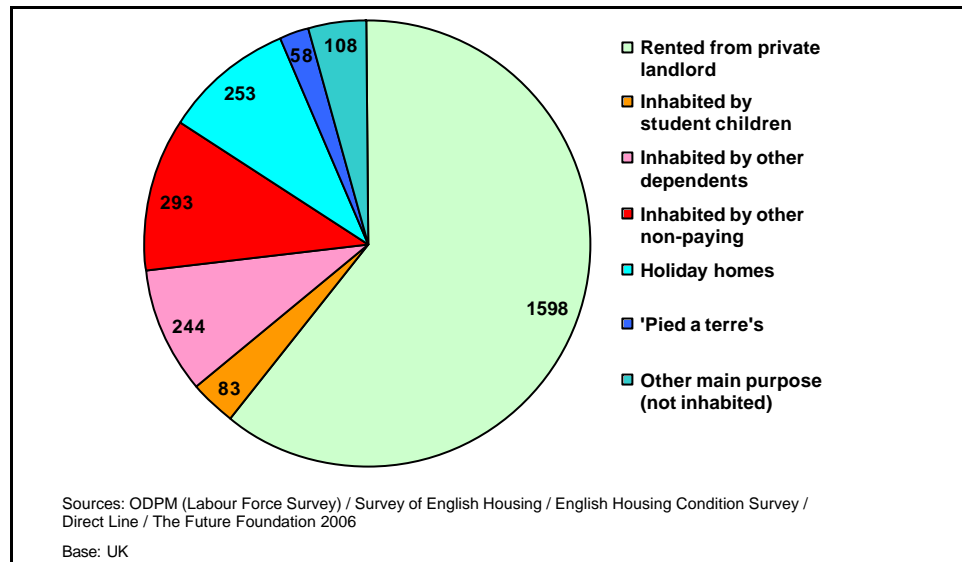
The total number of 'second properties' in the UK (i.e. those residential properties whose owner has their main residence elsewhere) has never before been calculated.

This report brings together data from Direct Line's new research among UK second property owners, and a range of large scale nationally representative survey sources including the British Household Panel Study (BHPS), Survey of English Housing (SHE), the English Housing Condition Survey (EHCS), the Future Foundation's Changing Lives research, and UK Census data.

Number of Second Properties In the UK

- There are currently a total of **2,636,000** second properties in the UK - a rise of **15 per cent** on the 2000 figure of **2,298,000**
- The 'buy-to-let' market represents the largest section of the UK second property market, with **1.6 million** properties currently rented from private landlords
- Other categories include:
 - Properties occupied by dependents of the owner. We estimate that there are currently **327,000** such properties in the UK - **83,000** of which are inhabited by students
 - Properties inhabited by non-paying tenants who are not dependents. These could be house-sitters, friends or extended family members. There are currently **293,000** such properties in the UK
 - Holiday homes of which there are currently **253,000** in the UK
 - 'Pied-a-terres' or properties used as a base for work. We estimate that there are currently **58,000** such properties in the UK
 - Finally around **100,000** second properties that have no prescribed purpose and are unoccupied.

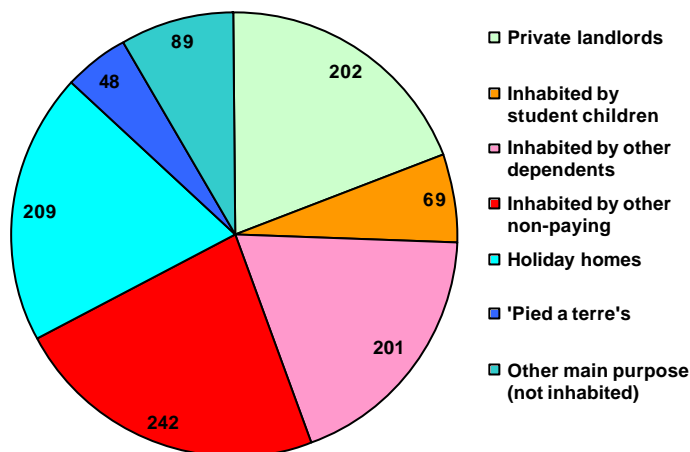
Fig 1: Number of Second Properties in the UK, by type (thousands)



Number of Second Property Owners in the UK

- The proportional breakdown of second property owners is very different from the proportional breakdown of second properties
- This is because some landlords own multiple properties – the average private landlord owns **eight** properties, whereas the average second *home* owner only has **one**
- In total, there are estimated to be **1,060,000** second property owners in the UK - just over 200,000 of these are private landlords (see Fig. 2)

Fig 2: Number of Second Properties Owners in the UK (thousands)



Sources: ODPM (Labour Force Survey) / Survey of English Housing / English Housing Condition Survey / Direct Line / The Future Foundation 2006

Base: UK

Profile of Second Property Owners

- Second property ownership peaks in the 45-54 age group
- Social grade shows a very pronounced difference, with those in social grades AB more than twice as likely to own a second property than those in grades C2DE.

Market Growth – Second properties versus first time buyer homes

- As outlined previously, the second properties market has grown by 15 per cent since 2000
- If this rate of growth in second property numbers continues then by 2010 there will be **2,974,000** second properties in the UK
- By 2015 this figure would have reached around **3,300,300 – a rise of 664,000, or 25 per cent**
- Given the phenomenal projected growth in the number of second properties, it is interesting to note the corresponding decrease in the number of first-time buyers over the past decade (see Fig. 3)
- If numbers of first time buyers continue to decline at the rate they have done in the past decade then we would see fewer than **300,000** loans approved for first-time buyers by 2015 (see Fig. 4) – this represents a **17 per cent decrease** from today's figure.

Fig 3: Number Of Loans Approved For First-Time-Buyers, 1995-2005

2000	2001	2002	2003	2004	2005
498,800	568,300	532,000	366,900	358,100	364,300

Source: Council of Mortgage Lenders, 2006

Fig 4: Growth in Second Properties Market v. FTB market

	2000	2005	2015 (forecast)	% change

First Time Buyer Loans (per annum)	498,800	364,300	300,000	-17%
Second Properties – Total number	229,8000	2,636,000	3,300,000	+25%

Source: Council of Mortgage Lenders, 2006/Future Foundation Forecast

Second Properties Market Drivers

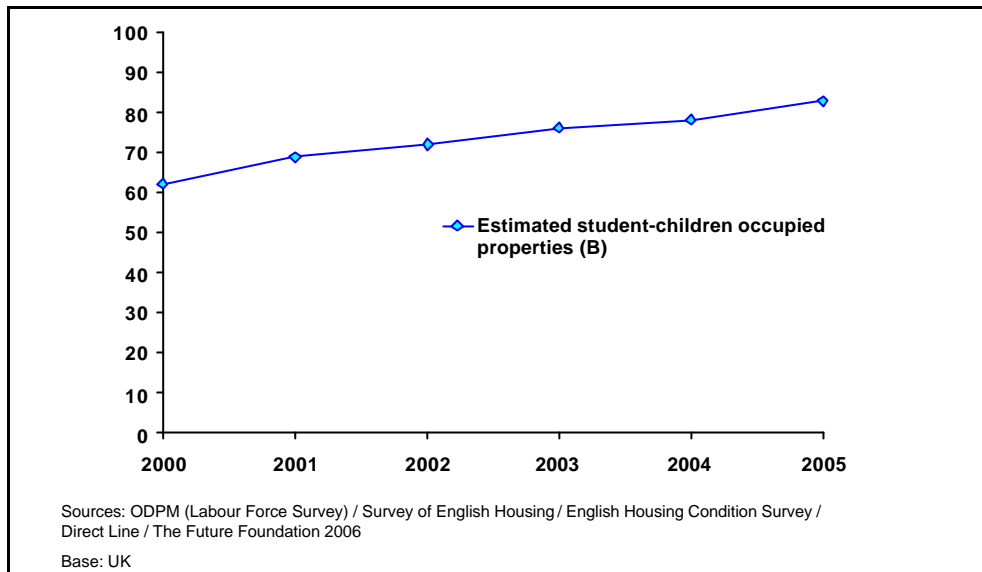
The following are the chief factors driving the growth in the second properties market:

- Rapid rise in house prices since mid-1990s, stimulating growth in the buy-to-let market
- Increasingly unequal distribution of asset wealth in the UK caused by increases in private rental market
- 'Right-to-buy' scheme leading to a reduction of supply of social-rented housing
- Growth in parents buying properties for dependents, especially for students at university (see Fig. 5)
- Rise of tele-working, globalisation of the professional employment market and thus potential increase in 'pied-a-terre' ownership due to more people commuting long-distance.

Student Dependents and Second Properties

- It is striking that a large number of second properties in the UK are occupied by a dependent of the owner, or some other kind of non-paying tenant
- The number of properties occupied by *dependents* of the property owner is estimated at **327,000** – a quarter of whom are student children
- The number of student occupied second properties has increased significantly over the last five years (see Fig 6), from 63,000 properties in 2000, to around 83,000 in 2005
- If these rates of growth continue over the next five years, we will see numbers of second properties reaching the **100,000** mark by 2010
- We can conclude from this that the second properties market is experiencing a 'university effect', with parents buying homes to house their student children through their studies
- This builds up a picture of the UK in which property ownership appears to be increasingly 'dynastic' in nature – perhaps not a surprising outcome of soaring house prices and increasing exclusion of twenty-somethings from the housing market.

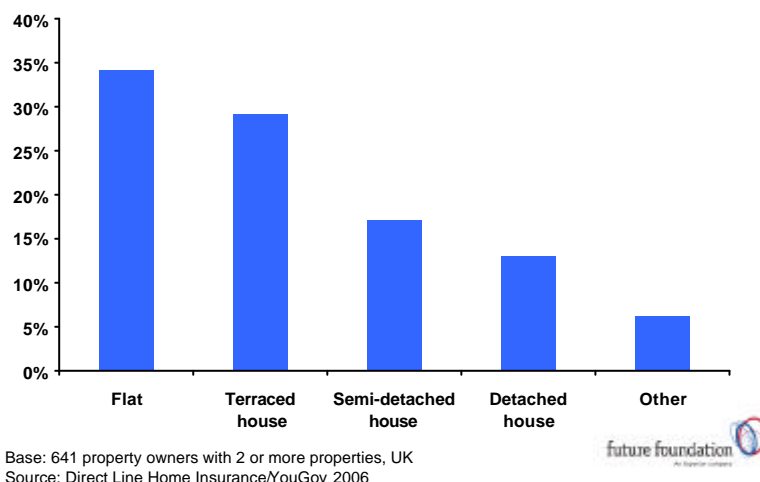
Fig 5: Estimated Number of Student Occupied Second Properties, 2000-2005 (thousands)



Housing types and situations of second properties

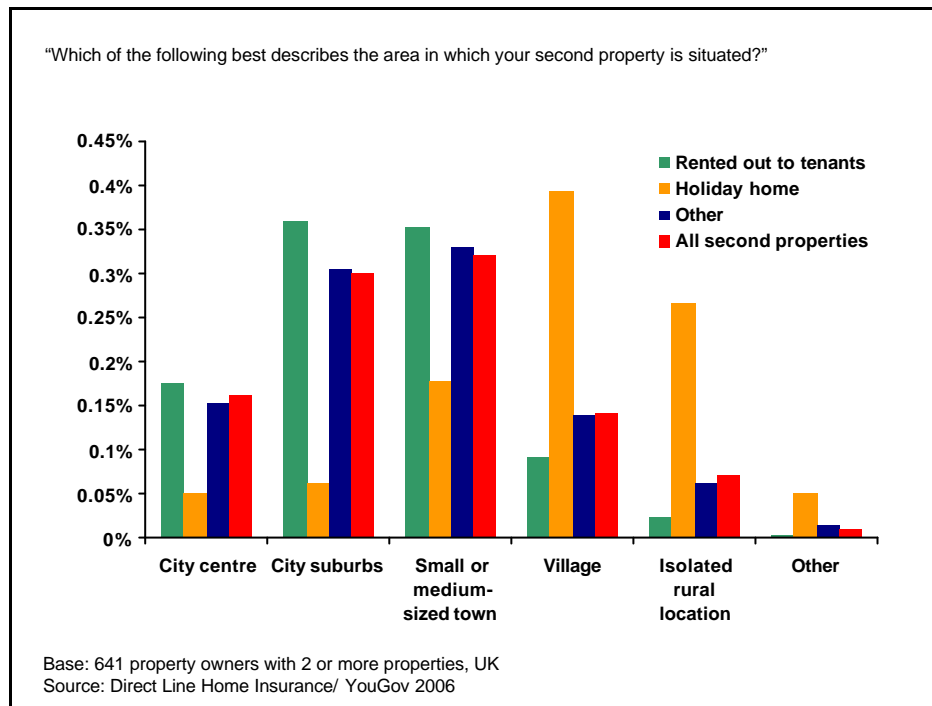
Fig 6: Proportion of type of properties owned

"What type of property is your second property?"



- Most second properties can be regarded as small to medium sized with two to three bedroom properties being the most popular. Just over a **third** of second properties bought are flats, with a similar proportion being terraced houses
- Nevertheless, a fair proportion of second properties can be considered more substantial with **13 per cent** being detached properties and **5 per cent** comprising five bedrooms or more.

Fig 7: Location of second properties – rural vs. urban location



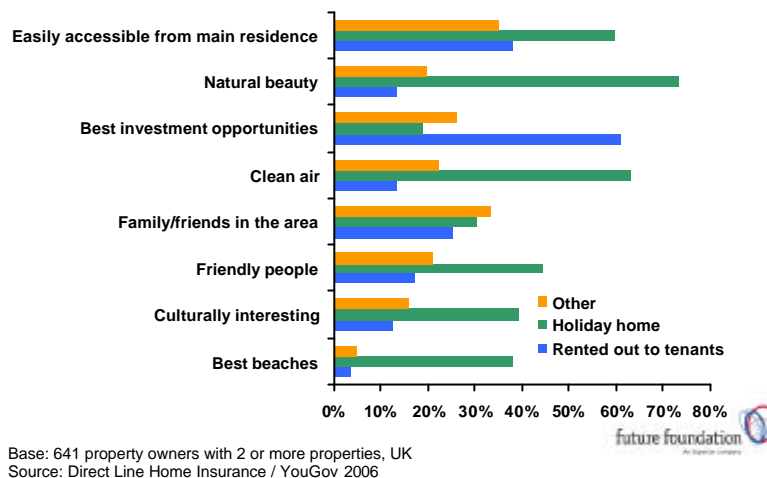
- On the whole, second properties tend to be an urban phenomenon with almost **half** purchased in city centres or suburbs
- As we can see from the chart above, holiday homes show a much more rural distribution, although around **one in ten** holiday homes are found in cities.

Reasons for choice of location of second properties

Fig 8: Choice of location by purpose of second property

Important factors in deciding second property locations (by purpose of second property)

"What were the most important reasons for the choice of location/region for your second home?"



- **Investment opportunities** and **accessibility** are the main factors influencing the choice of locations for buy-to-lets, whilst natural beauty, clean air, best beaches and places of cultural interest are of far more importance to those with holiday homes
- For all other categories of second properties, **accessibility** from a main residence and **proximity to family and friends** are the most important factors, indicating that these properties are likely to house the owner's dependents.

Why Britain versus overseas?

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

- Access to a second home in the UK is more convenient (**21 per cent**)
- The UK presents better investment opportunities than overseas (**20 per cent**)
- The property is not principally used as a 'holiday' home (**19 per cent**)
- Language difficulties abroad (**8 per cent**)
- Britons prefer the British culture (**4 per cent**) and climate (**3 per cent**).

Second Property Values

- The mean average value of all second properties is **£166,000**. This compares to an average value for all UK properties of **£179,000** (Source: Halifax, May 2006)
- The value of second properties varies across the regions and is similar to the average overall house price per region (see Fig. 9), with London experiencing the highest prices in the UK and Scotland the lowest
- Values also vary according to their physical location, with rural second properties of a higher average value than urban ones (see fig. 10)
- All UK house prices increased by **129 per cent** between 1999 and 2005

- All second property values increased by **111 per cent** between 1999 and 2005.

Fig 9: Second Property Values by region

Scotland: £110,000	West Midlands: £159,000
The North: £135,000	East Midlands: £148,000
Northern Ireland: £147,000	East Anglia: £161,000
Yorkshire and Humberside: £129,000	South West: £178,000
North West: £136,000	South East: £213,000
Wales: £145,000	London: £249,000

Source: Direct Line/YouGov Second Properties Survey

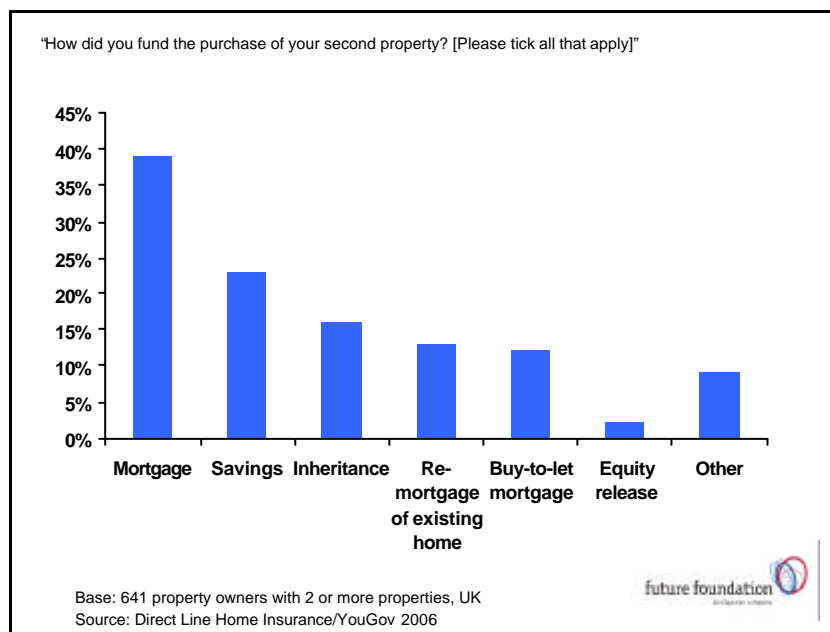
Fig 10: Second Property Values by physical location

Villages	£167,000
Small or medium towns	£148,000
Isolated rural locations	£148,000
City suburb	£170,000

Financing second properties

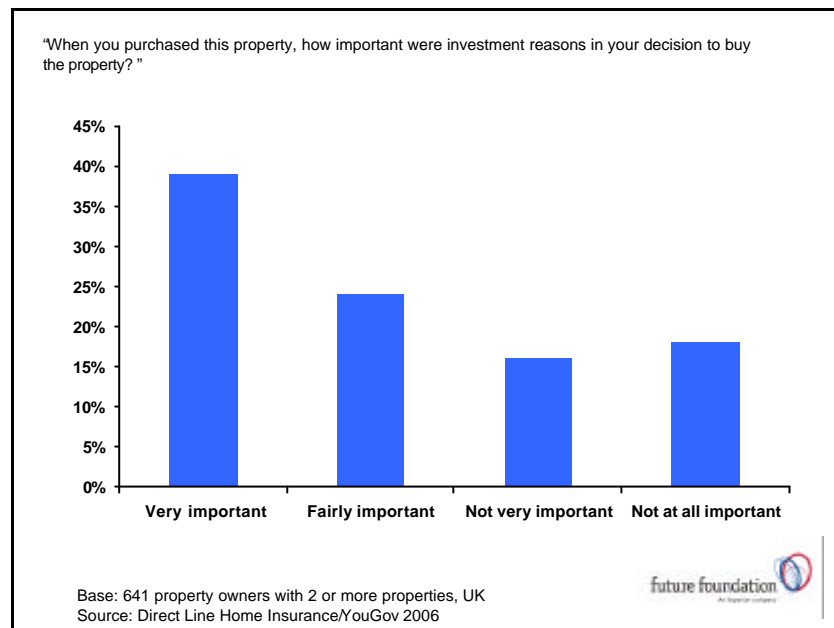
- Most people will finance the purchase of their second property either by borrowing or drawing upon savings
- Two fifths take out new mortgages and a quarter either re-mortgage their existing homes or take out buy-to-let mortgages
- A fair proportion of people (**16 per cent**) inherited their second properties, and **9 per cent** were funded through other means
- The majority of second properties are purchased, however, we found a small proportion of owners (**13 per cent**) who did not buy their properties. The majority of these were obtained through inheritance (92 per cent), with the rest acquired either through marriage or by other means.

Fig 11: How Second Properties are financed



Second properties as investments

Fig 12: Investment as a motivation for buying second properties



- Around **two thirds** of second property owners cite investment opportunities as an important reason for buying their second properties, with **40 per cent** stating this was very important
- Investment potential is a much more important reason for landlords to buy second properties, with **70 per cent** of landlords rating the prospect of growing property values as very or fairly important in their decision to buy. This highlights the potential for instability in the housing market, as many landlords would appear to be heavily motivated by returns from house prices increases rather than rental income, and may thus pull out of the sector if house prices begin to decline
- Almost **half** of all holiday home owners, however, buy their holiday homes with little or no regard for their potential as investments.

Occupancy Rates

- Of those with second properties, almost **two thirds** never occupy these properties. Around **60 per cent** rent the properties out, whilst a small minority (**4 per cent**) leave the properties empty
- Occupation rates of those who do inhabit their second homes are between a week and two months, with the next most likely length of time spent being between two and six months.

Fig 13: Occupancy Rates of Second Properties

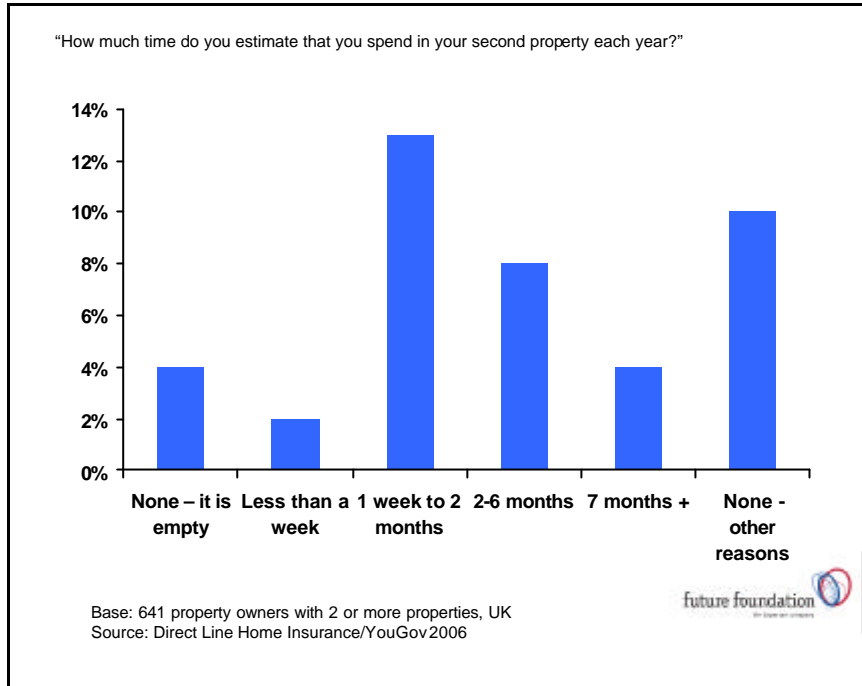
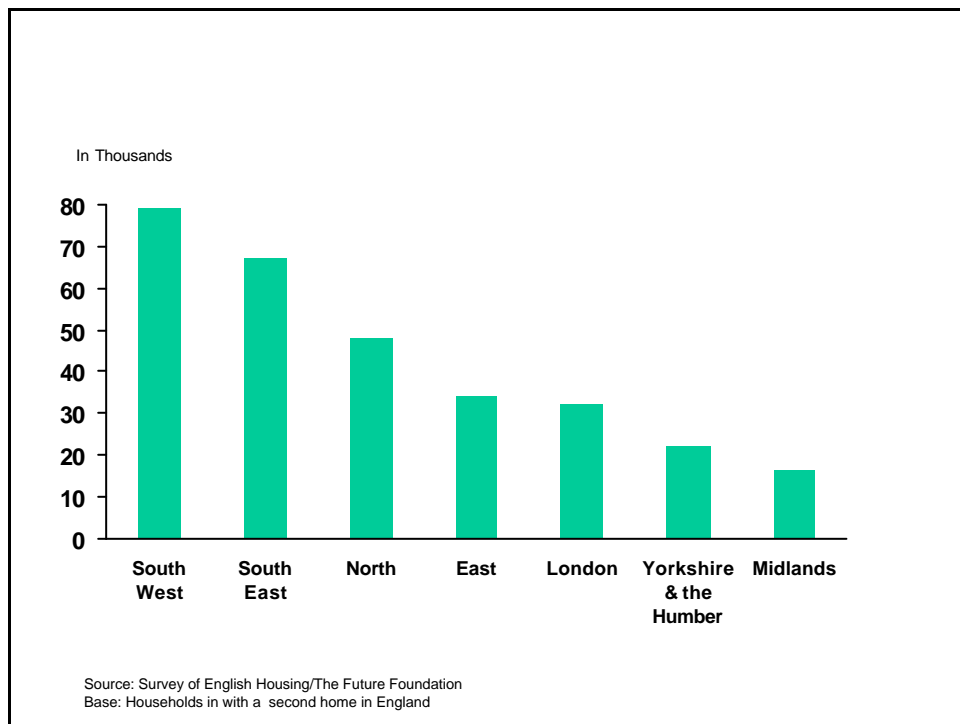


Figure 14: Regional Distribution Of 'Uninhabited' Second Homes (thousands)



Holiday Home Hotspots

The following tables set out our estimates of the UK 'holiday homes' hotspots by local area district.

Scotland

Local area District	% of properties that are holiday homes
Argyll and Bute	11.1%
Eilean Siar (Western Isles)	7.2%
Highland	6.2%
Orkney Islands	5.3%
Shetland Islands	3.6%
Perth and Kinross	3.1%
North Ayrshire	2.4%
Dumfries and Galloway	2.3%
Scottish Borders	2.3%
Moray	2.2%

Wales

Local area District	% of properties that are holiday homes
Pembrokeshire	6.1%
Ceredigion	3.0%
Powys	2.2%
Monmouthshire	0.8%
Swansea	0.7%
Carmarthenshire	0.6%

Northern Ireland

Local area District	% of properties that are holiday homes
Moyle	8.3%
Coleraine	6.3%
Fermanagh	2.1%
Down	2.0%
Ards	1.4%
Larne	1.3%
Newry and Mourne	0.8%

North West

Local area District	% of properties that are holiday homes
South Lakeland	7.7%
Eden	6.1%
Allerdale	3.1%
Copeland	1.5%

Fylde	0.9%
West Lancashire	0.8%
Ribble Valley	0.8%

North East

Local area District	% of properties that are holiday homes
Berwick-upon-Tweed	8.4%
Alnwick	4.6%
Teesdale	2.4%
Tynedale	1.5%
Wear Valley	0.7%
Castle Morpeth	0.6%

West Midlands

Local area District	% of properties that are holiday homes
Stratford-on-Avon	1.0%
Malvern Hills	0.9%
Staffordshire Moorlands	0.7%
Wychavon	0.6%

East Midlands

Local area District	% of properties that are holiday homes
Derbyshire Dales	2.5%
East Lindsey	2.2%
Rutland	1.0%
Daventry	0.7%
South Northamptonshire	0.6%

East Anglia

Local area District	% of properties that are holiday homes
North Norfolk	7.2%
King's Lynn and West Norfolk	3.8%
Suffolk Coastal	3.7%
Tendring	2.5%
Waveney	2.4%
Great Yarmouth	1.8%
Maldon	1.2%
Mid Suffolk	1.0%
Babergh	0.9%
South Norfolk	0.7%
Breckland	0.7%

South West

Local area District	% of properties that are holiday homes
Isles of Scilly	24.9%
South Hams	11.1%
North Cornwall	8.2%
Penwith	7.1%
Purbeck	5.5%
West Dorset	4.6%
North Devon	4.4%
West Somerset	4.2%
Caradon	3.8%
East Devon	3.7%
Carrick	3.5%
Torrige	3.3%
Cotswold	3.2%
Christchurch	3.0%
Kerrier	2.7%
Restormel	2.7%
Bournemouth	2.1%
Torbay	2.0%
Weymouth and Portland	1.9%
West Devon	1.8%
Teignbridge	1.6%
Kennet	1.3%
North Dorset	1.3%
Mid Devon	1.2%

South East

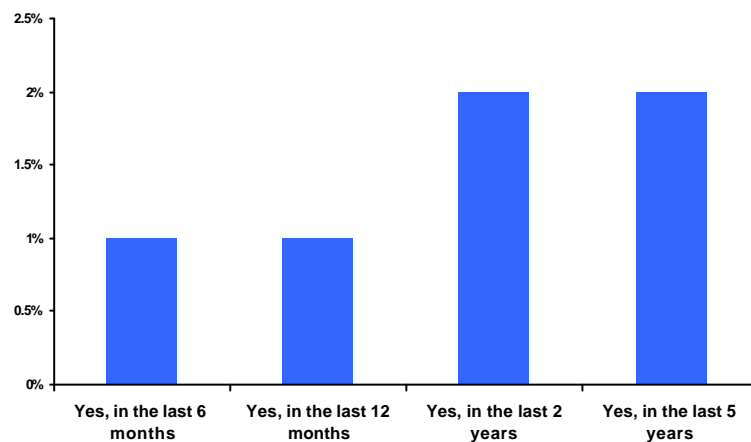
Local area District	% of properties that are holiday homes
Isle of Wight	3.8%
Chichester	2.8%
Rother	2.6%
Tendring	2.5%
Shepway	1.6%
Arun	1.6%
New Forest	1.6%
Thanet	1.6%
Eastbourne	1.4%
Dover	1.2%
Maldon	1.2%
Havant	1.1%
Hastings	1.1%
Wealden	1.0%
Canterbury	0.9%
Brighton and Hove	0.8%
Swale	0.7%
Lewes	0.7%

Worthing	0.7%
Gosport	0.6%
Uttlesford	0.6%

Burglary risks

Fig 15: Time of most recent burglary

“Has your second property suffered a burglary or break-in in the last 5 years? (If this has happened more than once, please think of the most recent occasion)”

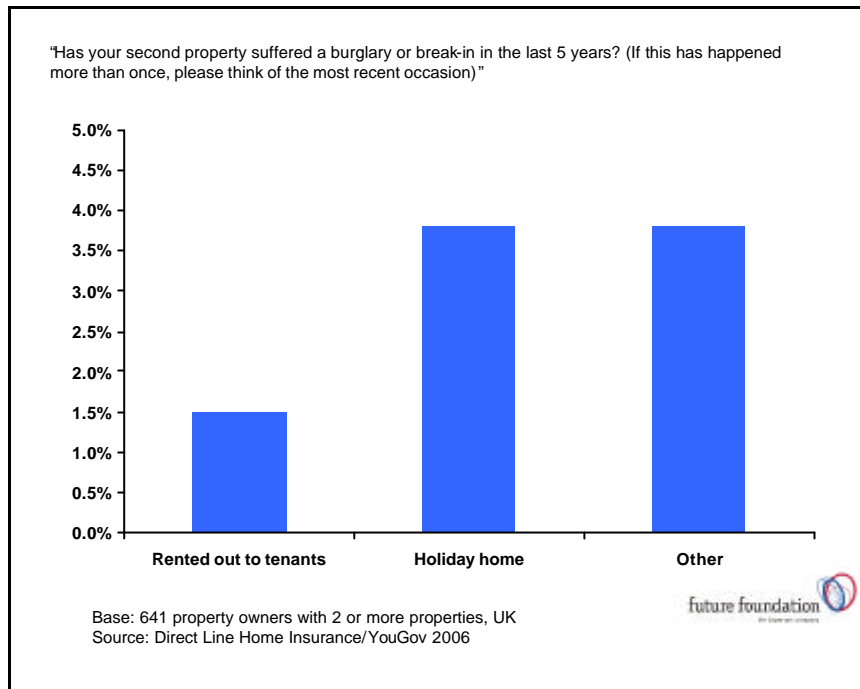


Base: 641 property owners with 2 or more properties, UK
Source: Direct Line Home Insurance/YouGov 2006



- Overall, around **2 per cent** of second property owners have experienced burglary over the past year, very much in line with the overall average for owner-occupied homes, according to the British Crime Survey.

Fig 16: Proportion of second property owners who have been victims of burglary in the past 12 months, by purpose of property

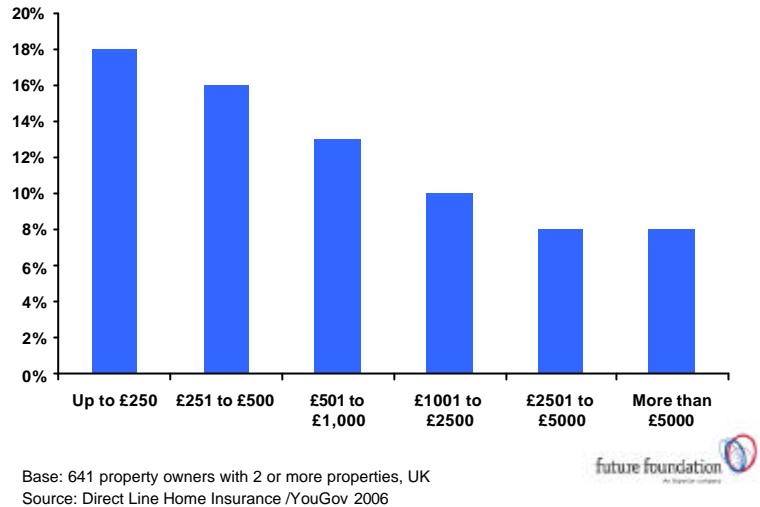


- **3.8 per cent** of holiday homes have been burgled over the past year compared with just **1.5 per cent** of buy-to-lets. This suggests that UK holiday homes suffer around **80 per cent** more break-ins than owner occupied homes

Maintenance costs

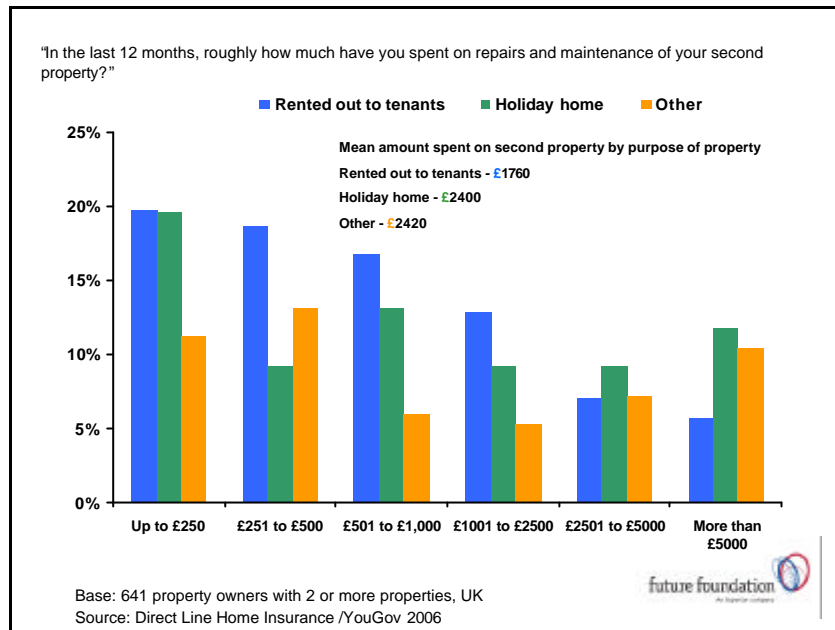
Fig 17: The cost of maintaining second properties

"In the last 12 months, roughly how much have you spent on repairs and maintenance of your second property?"



- Second home ownership, as with all home ownership, also entails maintenance costs and the majority of people (**73 per cent**), will fund some form of repairs or maintenance on these properties
- Most owners spend **less than £1000** annually on maintenance costs, with around a quarter spending in excess of this. These costs reflect the likelihood that these homes are looked after and kept in good condition, rather than having any major work or structural changes
- Owners of holiday homes spend almost **40 per cent** more annually on maintenance costs and repairs than those buying these properties for letting purposes (Fig 17)
- Interestingly, those using these second properties for other reasons, such as residences for dependants or a base for work, spend the most on maintenance, on average, **£2420** a year.

Fig 18: Maintenance costs of second property by purpose



- In terms of length of ownership, those who have recently purchased a property (less than a year to 2 years) and those with much older properties (over 20 years) spend the most on repairs and maintenance.

Summary of Key Findings

- There are currently a total of 2,636,000 second properties in the UK - a rise of 15 per cent on the 2000 figure of 2,298,000
- Buy-to-let properties constitute the largest section of the UK second property market with 1.6 million properties currently rented from private landlords
- Other categories include properties inhabited by non-paying tenants (293,000), holiday homes (253,000), pied-a-terres (bases for work) (58,000) and properties that have no prescribed purpose and are unoccupied (100,000)
- The 'university effect' is a key driver of the UK second properties market - 83,000 of Britain's second properties were purchased to house children throughout their studies – a 26 per cent increase since 2000
- Student occupied second homes are expect to hit the 100,000 mark by 2010
- The *growth* in second properties will outstrip that of first homes over the next decade. By 2015 the number of second properties will reach 3.3 million, a rise of 664,000 or 25 per cent
- By contrast, fewer than 300,000 first time buyer sales will take place annually by 2015– this represents a 17 per cent decrease from today's figures (364,300)
- The major reasons cited as influencing the choice of holiday home locations include the natural beauty of the location (73 per cent), clean air (63 per cent), easy accessibility (59 per cent) and friendly locals (44 per cent)
- Two-thirds of second property owners never occupy them - 60 per cent rent them out and a small minority (4 per cent) leave them empty throughout the year
- UK holiday homes suffer around 80 per cent more break-ins than owner occupied homes.