



The Algarve property market continues its decline - June 2011

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A year on from my last visit to the Algarve in Portugal and not much has visibly changed. There are still plenty of properties for sale but there seems to be an air of defeat in the market and one gets the impression that it is very much a buyers market but with very few buyers. Whilst the UK and French markets have seen the number of properties on sale diminish, thereby taking the supply/demand balance towards something approaching equilibrium, the massive oversupply in the Portuguese market has widened the gap significantly between the number of buyers and sellers. Much like Spain, Portugal clearly has built far too much property and someone must be covering up a huge financial black hole somewhere but who has financed all these empty apartments?

Whereas a lot of apartment buildings and housing developments were still under construction last year, it now looks like many have been completed but whole buildings appear to be virtually empty and devoid of the signs of life such as patio furniture, plants, open shutters etc, even though the tourist season is underway in June. The conclusion I've drawn from this is that there have been few sales during the past 12 months and developers must therefore be trying hard to entice the first few buyers into their new buildings in order to present an image of normality. Who knows how these developments are financially supported with so little visible evidence of income from sales or holiday lettings, even the Portuguese government is paying 14% on its 3 year borrowing so one would assume that developers must be paying higher rates than this.

On a tour of the local area we walked up the hill to part of the Marina Village development we visited last year in Lagos. These apartments had been completed several years ago and whereas Savills was running a sales office during our last visit this has now been replaced by an unmanned office belonging to a Portuguese real estate agent who is offering financing "without recourse to credit." I'm not sure how that works! The path up to the building now has weeds growing through the cracks and is obviously not maintained. The building of perhaps 50 stylish apartments is quiet, with the odd individual 'for sale' sign hanging on the balcony and the external car park contains only 2 cars amongst 40 spaces. The few unlucky owners must be wondering if they will ever be able to sell their properties when have to compete with so many brand new apartments.

In the marina development where we stayed, which is one of the best established and better designed buildings, there are townhouses now on sale at 385,000€ which were originally marketed for 500,000€ and they still look overpriced. There are plenty of apartments on sale at prices which are closer to where they were 5 or 6 years ago than they are to their peak prices and advertised price reductions of up to a third can be found. Here the fact that this was one of the earlier developments means that all properties have owners and the gardens and pool are still well looked after but in other buildings it must be very difficult to run a fully functioning condominium if there aren't enough owners to share the cost of maintenance and services.

Close to the marina we visited a residential housing estate, marvelling at the lack of people and a feeling of desolation, much like a 1960s council estate looks today. This year the weeds in the streets have grown a bit higher and there are signs of peeling paint on one or two buildings. A communal pool and bar complex has closed down and grass is growing out of the gaps between the tiles. The seagulls have taken over the pool and the odd stray dog roams the streets. One street ends in a row of partially finished houses where construction has obviously ground to a halt. We looked up the web address on a 'for sale' sign on a townhouse and found that the sellers are still optimistic - they are hoping to get 500,000€ for their 3-bedroom house overlooking what used to be a lagoon but is now an algae-covered swamp. The neighbouring empty shop premises, the deserted streets and early signs of graffiti suggest that they would be lucky to find a buyer at any price and one can only imagine that they believe in the enduring value of property.

In other parts of Lagos there are signs that the market has resigned itself to a very different future and has begun to adapt. The town is still popular with holidaymakers who enjoy the beautiful beaches, the local golf courses and

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the good inexpensive restaurants. We noticed two apartment buildings which had previously been trying to sell units but which have now changed completely to offer holiday rentals and this suggests a reversal of the former trend where businesses were closed down to make way for apartment buildings. Now the focus has turned back to generating income from services rather making a quick buck from rising asset prices.

The fall in property prices should mean that more people buy as an income-producing investment, as yields increase. However, if the hundreds of apartments currently on sale in Lagos do ever sell then one can assume that a large number of these will be rented out in summer months and the market for holiday rentals will become extremely competitive at a time when the Brits are suffering from the weak Pound and the Portuguese are coping with an economy in recession. The market is already well served with accommodation and as supply moves from 'empty' to 'on the rental market' there could be a gradual decline in rental revenue per unit for several years in the absence of a corresponding rise in tourists.

The market for sales is split between those still hoping for top prices, who are obviously not yet under too much financial strain and still waiting for that elusive recovery, and those who need to sell at any price, of which more and more are appearing. Signs offering discounts of 15% on apartment sales prices are in evidence but there are few really obvious signs of distressed sales yet, in spite of the fact that many buildings look almost totally deserted. The massive supply that still exists suggest that prices will continue to fall and, whilst the Portuguese banking system has survived so far, there is clearly a huge edifice of insolvent investments on the brink of a collapse that could see a fire sale of assets at some point. In Las Vegas some property prices have fallen 80% from peak to trough so there is plenty of potential for further falls in Portugal.

Equally, the financials for the rental investment market look shaky because of the sheer size of supply that is likely to join the market in coming years. If you can buy an entire building of apartments at a knock down price and work hard to ensure they are full of holidaymakers each year then you could do well but most investors won't have the time, resources or experience to achieve this and are likely to find the competition intense. Which leaves me with a final conclusion: if you want a holiday home in the Algarve for yourself then this is the time to start looking and to start putting in those low offers. You might not make a capital gain for another decade or two but you should be able to acquire a lot of holiday home for your money. However, for a good investment it might be better to wait a little longer.

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