



Jet-to-let

SPECIAL REPORT

SPECIAL REPORT JET-TO-LET: A PRICE WORTH PAYING?

INTEREST IN OVERSEAS PROPERTY INVESTMENT IS HIGH – BUT, SADLY, SO ARE THE ENVIRONMENTAL COSTS OF AIR TRAVEL. THEN THERE'S FUEL DUTY. SO, WHAT DOES THE FUTURE HOLD?
WORDS DAN SAVERY PICTURES GETTY

The Wright brothers could not have known the long-term effect they would have on the planet when they invented a flying machine in 1903. Air travel has completely revolutionised the way we experience the world.

More people are flying and buying overseas than ever before. But with newspapers filled with reports of aviation tax, international terrorism, airport delays and global warming, the question is: 'How long can this go on?'

What is jet-to-let?

The term 'jet-to-let' refers to a fairly new trend among buyers. In the mid-1990s, the government introduced buy-to-let mortgages and Britain experienced a buy-to-let boom. As house prices rose, younger investors

looked to buy rentable holiday homes abroad. Analysts dubbed these buyers 'the jet-to-let generation'.

Regular flights are vital to jet-to-let buyers. A recent survey by Savills and Holiday-Rentals.co.uk shows that the average price of a property within ten miles of an airport served by a low-cost carrier is 39 per cent higher than properties not on a budget route. "The potential to charge higher weekly rents is enhanced by low-cost airlines," says Jacqui Daly of Savills Research.

There's no doubt about it, owning a holiday home can be a fantastic way to make money – but the flip side is that frequent flying is potentially damaging to the environment. This presents a real dilemma, since getting a foot on the property ladder could mean making a large carbon footprint.

Going green, seeing red

The government's response to talk of carbon footprints and global warming was to hit passengers in their pockets. Last December, Chancellor Gordon Brown doubled air passenger duty, adding £5-£10 to short-haul flights and up to £80 on long-hauls. The International Air Transport Association says Britons are paying the highest airline tax in the world.

But after Brown tried to be green, the airline bosses saw red. First to attack was the founder of easyJet, Sir Stelios Haji-Ioannou, who told *The London Paper*: "The Chancellor went for a fast buck – he's raised £1 billion and it's not earmarked for the environment in any way."

Niall Duffy, Head of PR and Public Affairs at flybe, said the government's

move was little more than a “tax grab”.

He stated: “It’s a tax dressed up as an environment levy, just another way of filling the Chancellor’s coffers”. Duffy added that flybe is investing £1.2 billion in a new generation of aircraft that will “set new standards in emissions and fuel efficiency”.

Not to be outdone, Michael O’Leary, Ryanair’s CEO, claims his airline is “Europe’s cleanest and greenest” and blithely dismissed the aviation and climate change debate as “hysteria”. He stated: “By investing in a fleet of brand-new aircraft, over the past eight years we have reduced our noise and CO₂ emissions by almost 50 per cent.”

However, environment minister Ian Pearson went so far as to describe Ryanair as “the irresponsible face of capitalism”. The minister is keen to get aviation into a proposed EU

emissions trading scheme.

The EU also wants to regulate charges on all airports with more than one million passengers a year, but the European Low Fares Airline Association (ELFAA) – which represents easyJet, flybe, Wizz Air and Ryanair – opposes the move. “ELFAA has repeatedly said that competition, not regulation, should determine the future of Europe’s airports,” declared the body’s Secretary General, John Hanlon.

Carbon conscience

So, just how big is the effect of air travel on the environment? Well, according to Sir Nicholas Stern’s governmental report, aviation only accounts for 1.6 per cent of global greenhouse gas emissions. This doesn’t seem like much on the surface, but environmentalists say the actual impact is far greater due to the altitude at which the fuel is emitted.

A study by Oxford University’s Environmental Change Institute found that air travel accounts for 5.5 per cent of UK carbon emissions. “Proportionally, we are second only to the US in the amount of flying we do,” says Richard Dyer from Friends of the Earth. “The main problem is the rate of growth.”

Britain’s CO₂ emissions from aircraft doubled between 1990 and 2000, and the government predicts that they will double again by 2030. The increasing number of flights from regional airports, the decision to go ahead with a third runway at Heathrow and plans for a second runway at



Stansted will continue this expansion.

“The growth predictions of air travel are linked to the increase in second homes and leisure travel,” says Dyer. “If we are going to tackle climate change, then we will have to make the alternatives better.”

One solution that is popular with Tony Blair is carbon offsetting, which is where individuals contribute to various eco-friendly projects. At www.climatecare.org, you can calculate your carbon emissions by typing in the details of your journey. According to them, to offset the 1.56 tons of CO₂ emitted from a return flight to New York, you’d need to plant two trees.

But Friends of the Earth insists that offsetting addresses the symptoms, not the cause of the problem. “It’s better than doing nothing,” says Dyer, “but offsetting is a dangerous thing to promote – it gives the impression that it’s all you need to do. We should look hard at cutting emissions at source.”

Future fuel

One way of cutting emissions is to change the fuel used. Enter Richard Branson, owner of Virgin Atlantic, who pledged to invest \$3 billion (£1.53 billion) in renewable energy over the next decade. “We must rapidly wean ourselves off our dependence on coal and fossil fuels,” he declared at last year’s Clinton Global Initiative.

The billionaire generously pledged to put all profits from his air and rail companies over the next ten years into a new company called Virgin Fuels. Much of the investment will focus on biofuels, an alternative to oil-based options. But recent studies have shown that fuels such as biodiesel, which come from plants like rape seed, are not as carbon-friendly as we think. The amount of land needed to grow the crop could increase deforestation and the use of fertilisers and pesticides.

However, there’s already talk of a second generation of biofuels made from sources such as straw, timber and manure. Denmark is at the forefront of this development and construction has already begun on what will be Europe’s largest biorefinery. This kind of fuel could potentially make Europe less reliant on oil from the Middle East.

Long-haul living

One thing’s for sure – more and more people are buying abroad. In fact, nearly 200,000 Brits moved overseas in 2005. According to Public Policy Research (IPPR), 5.5 million Brits now live abroad on a permanent basis, which could mean a reduction in regular short-haul flights.

I BELIEVE I CAN FLY...

Bargaintastic Bulgaria, sunny Cyprus, tropical Cape Verde, mysterious Morocco – all accessible destinations where you could snap up a property and rent it out. Then there’s the Malaysian long shot...



BULGARIA

Regular British Airways flights to Sofia (at around £130 return) and low property prices have turned resorts such as Bansko and Pamporovo into some of the most popular ski-to-let destinations in Europe.

At the present time, no budget operators have secured routes to the Black Sea Coast, but there are seasonal cheap flights to Varna and there’s certainly no shortage of developments for investors to choose from. The country’s accession to the European Union in January will help improve its infrastructure and benefit its property market.



CYPRUS

Starting from March this year, Monarch Airlines has introduced four times a week budget flights between London Luton and Larnaca airport from just £69. This makes it the first major low-cost airline to introduce flights between the Mediterranean island and the UK.

According to MRI Overseas Property, 11 per cent of people thinking of buying abroad would consider Cyprus. House prices rose by an average of CYP£5,000 (£5,725) last year and the country is set to join the euro in 2008.



CAPE VERDE

Following the introduction of direct flights from Gatwick to the island of Sal last year, the number of visitors to these Atlantic islands is growing at 22 per cent per year, making Cape Verde a fly-to-let hotspot.

Neil Chapman, MD of Teleticket, which runs the flights, says: “We have received so much interest from people wishing to invest in a second home and therefore needing to fly out that we created a second weekly direct flight from Gatwick.” The Cape Verde authorities approved investment projects worth over \$300m (£153m) in 2006.



MOROCCO

This exotic destination is just a three-hour flight from the UK. Both Ryanair and easyJet fly into Marrakech daily and British Airways fly into Tangiers, where two or three-bedroom villas can be bought for around £100,000.

Visitor figures are set to reach 10 million before the country’s acceptance in the Euro-Med free-trade zone in 2010. An ‘Afrotunnel’ will link the country to Spain and there are a variety of investment opportunities, from golf developments to coastal resorts and traditional riads.



KUALA LUMPUR, MALAYSIA

If Richard Branson’s plans to introduce a low-cost long-haul airline manage to take off, then Kuala Lumpur – or KL as it likes to be known – could become Europe’s gateway to Asia. This vibrant modern metropolis is at the forefront of Malaysia’s march of progress.

In 2005, prices there rose about ten per cent and it already has a booming buy-to-let market. It’s still possible to get a one-bedroom serviced apartment there from as little as £80,000. Expats in the city account for one in 11 of all adults, and many look to rent, at least to begin with.



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Long-haul carriers have also been cutting their prices to compete with budget airlines. Last year, new carrier Oasis Air offered London Gatwick to Hong Kong flights from £75.

More recently, Richard Branson has been in talks with a no-frills Malaysian carrier to set-up a low-cost airline to Asia. Prices to Kuala Lumpur could cost as little as £43, depending on when passengers book. This would give Virgin a gateway to hundreds more routes, connecting Britain with the booming economies of Malaysia, India and China.

"The overseas property trend for 2007 is likely to be in what we call the 'long-haul-to-let' market," says Clinton O'Neill of financial services provider Baydonhill. "Branson's announcements of low-cost flights to Asia could be a driver of property investment abroad, especially in countries outside Europe. The recent strength of pound sterling

against the US dollar has also had people looking west."

Short breaks to long-haul locations like Dubai and New York went up 35 per cent last year, according to Lastminute.com. Perhaps this gives an indication of the changing trends of tourists and overseas investors, with buyers looking further afield.

However, if the kind of chaos that engulfed Heathrow last summer recurs in future, passengers could be tempted back closer to home. Already transport companies such as P&O Ferries and Eurostar have upped their game, offering cheaper tickets and better facilities to lure back customers.

Whatever happens in the aviation industry, it's certainly an exciting time to be a jet-to-let investor. Whether or not the boom proves to be sustainable remains to be seen. But one thing's for sure – what happens in the skies will effect where we buy on the ground. ☀



"In the next ten years or so, what happens in the skies is likely to determine where we buy on the ground"

WILL THE JET-TO-LET PHENOMENON LAST?

We asked four Brits about the future of air travel...



YES!

Dominic Farrell, Editor of *Jet-to-Let* magazine: "People fly for business, pleasure and for second homes – these reasons won't change. Economically, there's an inelastic demand when prices rise due to tax hikes. Some people will be prevented from travelling, but I think it will be a small proportion because demand for air travel is not price-sensitive. Governments may look more towards reducing emissions from cars, power stations and factories."



James Davies, International Director of Hamptons International: "This generation has travelled much more than our parents or grandparents ever dreamed of. It's almost like a golden age. Increased competition has made it cheaper to travel than it was ten years ago. You can fly to Marrakech, for £60 these days. To be honest, £10 on top of that – or £40 on a long-haul flight that costs over £500 – won't make much difference."



NO!

Dr Dan Barlow, Head of Policy for WWF Scotland: "People now recognise the significance of climate change, but we need to take action to tackle it – and that includes reducing emissions from aviation. We advise second-home owners to consider how often they need to go abroad, whether it's several times a year or for one longer period. Also, many places in Europe are easily accessible by train and ferry, which have less impact on climate change."



Scott Smerald, civil servant for HM Revenue & Customs: "The sheer numbers of people who travel, especially with the rise of low-cost airlines, has to reach a peak at some stage – and the environmental cost has to be taken seriously. However, I can't see climate change stopping people leaving the country. Emigration is about permanently improving your standard of living, whereas I think investing is more about making a quick buck."