CANDY GPS REPORT

ISLAND REAL ESTATE IN THE GLOBAL PRIME SECTOR

Research by savills

Candy & Candy London

In partnership with Deutsche Asset & Wealth Management
The Candy GPS Report is produced in partnership with Deutsche Asset & Wealth Management and features exclusive research from Savills. We focus on island real estate around the world, surrounded by water and finite in number, islands encapsulate much of what is desired by ultra-high-net-worth individuals (UHNWIs). They are both exclusive and rare, where the best properties carry a significant price premium over their mainland counterparts. Our research looks in depth at these markets and pinpoints the hot spots around the globe. We also look at the sustainability of these islands and the rise of private planes that are putting them within easy reach.

PRIVATE PARADISE

The ultimate trophy asset for ultra-high-net-worth individuals is a private island

THE WORLD OF ISLAND REAL ESTATE

We have identified four primary and distinct island markets

THE A LIST ARCHIPELAGO

We rank the world’s top islands for UHNWI investment

PLANE TRUTHS

Private jet planes put the remotest corners of the earth within reach for UHNWIs

ISLAND MARKETS IN FOCUS

Whether it is for business, leisure or investment, there is an island to suit your requirements

A GREEN AND PLEASANT ISLAND

We look at the sustainability of these island micro-economies

FUTURE TRENDS

We look at the factors changing the shape of island real estate markets

A world away from city super flats or country-side retreats, the purchase of a private island is an emotional one, driven by a desire to discover a new lifestyle. To the established wealth of the Americas, Western Europe, and Russia, the allure of such real estate is not new. "A private island is the ultimate trophy asset," says Nicholas Candy, CEO, Candy & Candy. "But financial return is not the primary motivation. These buyers are seeking the ultimate hideaway and a chance to shape their own world."

There is a strong correlation between Northern hemisphere-dwelling UHNWIs chasing the sun and buying in the Southern Hemisphere. The Seychelles, in the Indian Ocean, or Florida Keys, off the east coast of the US, for example, both appeal as retreats for family and friends. In some cases the purchase of a private island is an eco-philanthropic gesture to preserve the natural habitat of an island at risk and restrict public use. Such an investment is about lifestyle choice over financial return. For the super rich or a Hollywood star, the qualities ‘remote’ and ‘private’ are priceless. Albert a piece of Aldabran wilderness, for the sole purpose of fishing, or a peaceful paradise in the South Pacific, the buyer has to balance deserted but accessible, and untouched but connected, while the price is determined by necessities such as running water, power, internet access and sanitation.

FOR THE SUPER RICH, THE QUALITIES ‘REMOTE’ AND ‘PRIVATE’ ARE PRICELESS

Pockets of new, emerging wealth are particularly prevalent in Asia. This burgeoning class of UHNWIs is still young, focused on urban investments, and is return-generating for family offices and HNWIs. While British entrepreneur Sir Richard Branson uses his private island as a family retreat, it is also a luxury resort. Dietrich Mateschitz, owner of the Fijian Laucala Island, has developed what is arguably the ultimate, exclusive island retreat for paying guests. According to private fortune experts, Wealth X, there has been a 4% rise in the size of the global UHNW community, with a 5.4% jump in value. And of the $56 trillion pool of wealth held by the world’s super rich families, 25% of their investment portfolio is dedicated to real estate – much or which is return-generating for family offices and UHNWIs. Multi-national hotel groups are now considering buying entire islands for development. Pockets of new, emerging wealth are particularly prevalent in Asia. This burgeoning class of UHNWIs is still young, focused on urban investments, and is return-generating for family offices and HNWIs.
For those retiring from career earnings of plus £100,000 per year, pension pots have been ravaged, there is little return on bank savings accounts and raising property prices in the UK are deflating them from investing savings in domestic real estate. The affluent silver spender is buying up prime island holiday homes, staying there for more than 182 days a year and saving on tax. In the main, tax efficiency, as a motivation to buy on an island, is diminishing. In this era of transparency buying on Jersey, Guernsey or Cyprus, is being replaced by other drivers, such as the pursuit of the island lifestyle.

However, the last 10 years were the decade of prime urban property, the next 10 years will see a growing appetite for island lifestyle. The lower end of the luxury island market is set to explode as young money buys into ultra prime property and resorts on the world’s most sociable islands. This spurt of activity will also drive demand at the top end of the market. The ultra wealthy, in search of the ultimate adventure, will seek out the rarest opportunity, paying a premium for scarcity. Whether the buyer seeks a fishing island in Uganda’s Victoria Lake, or invests in the boutique islands off Fiji, the world’s seaworld is soon to discover the island lifestyle, adding to their portfolio of urban mansion blocks, foreland or gaming reserves, and chasing a sense of being somewhere, not just anywhere.

THE ULTIMATE TROPHY ASSET

The pinnacle of achievement is to own what is exclusive and rare, so for the world’s wealthy an island property goes hand in hand with their luxury apartment in a prime city district. Yolande Barnes, Director, Savills World Research looks at the global drivers and identifies four distinct island real estate markets.

When it comes to owning island real estate, buyers fall into two main categories of “Agglomerators” and “Dispensers.” Dispensers, are by definition, difficult to define because they seek independence and seclusion. Some will seek real estate in their home patch, others will simply seek to get away from it all. For those in this group buying islands, the lure is more likely to be an “invisible” island, difficult to reach, away from prying eyes and possibly undeveloped. Agglomerators are those who seek real estate in close proximity to others like themselves. When it comes to islands, this is more likely to mean developed and resort islands with a strong social aspect. Agglomerator islands can be either “visible” or “invisible.” “Visible” islands are often in high demand. They are close to land, serviced and often developed, but the surrounding water acts as a transparent barrier. The owners are there to be seen and admired. “Invisible” agglomerator islands have a similar social cachet but may be less well known to the outside world. Often more remote and difficult to reach, the surrounding water forms a natural “gated community” away from outsiders, other than those you want to share your view with. We have identified four distinct island sub-markets.

PRIVATE ISLANDS

THE ULTIMATE TROPHY ASSET

Particularly appealing to “Dispensers”, private islands represent the ultimate trophy asset. This is a small segment of the real estate market, behaving more like fine art or precious jewellery, which operates quite independently of the wider property world. Buying an island is a “purchase of passion” not driven by need or economics, and the best islands often stay within families for generations.

The private island market is a two tier one. According to ‘Mid-Private Islands, just 1% can be classified as “quality islands”, that is those in close proximity to the mainland, in regions of political stability, with development permits, the potential to add services and infrastructure and with security of tenure. The remainder “private islands” do not meet all these criteria and have limited potential for permanent habitation. This is particularly the case in the Caribbean, where the majority of islands are surprisingly undeveloped.

In the quality island market, prices fell during the global financial crisis when discretionary purchases of all types were curbed. In core markets, such as the Bahamas, prices are still yet to recover from their pre-recessionary highs. Price falls have been most acute among secondary islands, where prices have fallen by as much as 70%. National governments and preservation organisations are taking advantage of this and buying-up swathes of island real estate. At the other extreme, some European markets have performed strongly. Particularly the Mediterranean – underpinned by the extreme scarcity of quality islands with development rights.

There are two approaches to securing, managing and maintaining a private island. The first is transforming it into an income-generating asset by developing a resort and amenities suitable for letting. This ensures all the facilities and staff are operational and regularly utilised, while contributing to running costs. It is the approach taken by Richard Branson at Necker Island in the British Virgin Islands. The second approach is to leave the island undeveloped; the owner instead visiting by yacht, which acts as residence during the stay. No staff are required on site, minimising costs, while the island remains open and unsecured (but without built assets to protect). Johnny Depp takes this approach at his island Little Kahunia Pond Cay in the Bahamas.

There are distinct trends among regional purchasers. Europeans are increasingly turning to the overseas market given the very restricted, limited listings available in the domestic markets. In the Caribbean, purchasers are increasingly turning to the overseas market given the very restricted, limited listings available in the domestic markets. In the Caribbean, purchasers are increasingly turning to the overseas market given the very restricted, limited listings available in the domestic markets.

<table>
<thead>
<tr>
<th>Island Type</th>
<th>North America</th>
<th>South America</th>
<th>Europe</th>
<th>Asia</th>
<th>Caribbean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Freehold</td>
<td>50%</td>
<td>10%</td>
<td>20%</td>
<td>15%</td>
<td>5%</td>
</tr>
<tr>
<td>Leasehold</td>
<td>50%</td>
<td>90%</td>
<td>50%</td>
<td>85%</td>
<td>95%</td>
</tr>
</tbody>
</table>

Source: Savills World Research, Private Islands Inc, listings as at Q3 2014

| TABLE 1 – PRIVATE ISLAND TENURE TYPE BY REGION |
Examples of “visible” leisure islands are the Hawaiian islands and Martha’s Vineyard. These islands with a history of leisure use are “visible” to the world; they are easily accessible by air and attract large numbers of visitors. The private island model has also been replicated in Europe, particularly those islands with a climate suited to winter vacations. American islands are popular with these buyers, and expensive, European private island markets have already returned to their pre-peak levels. Villa prices in the best spots have already returned to their pre-peak levels. In cooler climates, leisure islands are more likely to be “invisible”. The Scottish islands of Islay, along with neighbouring Jura in the Inner Hebrides, attract UHNWII second home purchasers. Country pursuits are at the heart of these islands’ appeal—Isle is famous for its woodland, while Jura is renowned for its stalking. Both islands attract wealthy visitors from around the world, some of whom chose to make a more permanent investment. On Jura, a former fishing village, a 14,000 acre Arrill Estate in 2012, comprising a 10 bedroom mansion, seven unoccupied islands and 10 miles of coast.

RELLOCATION ISLANDS
A PERMANENT LIFESTYLE OR BUSINESS MOVE
Agglomerators may seek “relocation islands” for specific tax, business or social aims, but they also appeal todispersers wishing to be more discreet. This class of island attracts the world’s wealthy who seek a more permanent move, whether to take advantage of the local tax regime, lifestyle, or for business. Bermuda, the Bahamas, the Channel Islands, Antigua, British Virgin Islands, the US Virgin Islands and the Isle of Man all come under this category. Self-governing, “low tax jurisdictions”, they offer low levels of personal taxation and generally no capital gains on inheritance taxes (see Table 3 below). Economic activity in these islands is dominated by professional financial services, which accounts between a third and half of GDP, bringing individual with assets in excess of $30m. For non citizens

TABLE 2 – TOP 10 “LEISURE ISLANDS” BY VOLUME OF UHNWII ADDITIONAL HOME OWNERSHIP

<table>
<thead>
<tr>
<th>RANK</th>
<th>ISLAND</th>
<th>COUNTRY</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>HAWAIIAN ISLANDS</td>
<td>USA</td>
</tr>
<tr>
<td>2</td>
<td>MARTHA'S VINEYARD</td>
<td>USA</td>
</tr>
<tr>
<td>3</td>
<td>TASMANIA</td>
<td>AUSTRALIA</td>
</tr>
<tr>
<td>4</td>
<td>BALEARIAN</td>
<td>SPAIN</td>
</tr>
<tr>
<td>5</td>
<td>ISLANDS</td>
<td>GREECE</td>
</tr>
<tr>
<td>6</td>
<td>WHITSUNDAY ISLANDS</td>
<td>AUSTRALIA</td>
</tr>
<tr>
<td>8</td>
<td>ISLAY</td>
<td>SCOTLAND</td>
</tr>
<tr>
<td>9</td>
<td>PANGHOR</td>
<td>MALAYSIA</td>
</tr>
<tr>
<td>10</td>
<td>KOH SAMUI</td>
<td>THAILAND</td>
</tr>
</tbody>
</table>

Table 2 – Top 10 “Leisure Islands” by Volume of UHNWII Additional Home Ownership

<table>
<thead>
<tr>
<th>Rank</th>
<th>Island</th>
<th>Country</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Hawaiian Islands</td>
<td>USA</td>
</tr>
<tr>
<td>2</td>
<td>Martha’s Vineyard</td>
<td>USA</td>
</tr>
<tr>
<td>3</td>
<td>Tasmania</td>
<td>Australia</td>
</tr>
<tr>
<td>4</td>
<td>Balearics</td>
<td>Spain</td>
</tr>
<tr>
<td>5</td>
<td>Ionian Islands</td>
<td>Greece</td>
</tr>
<tr>
<td>6</td>
<td>Whitsunday Islands</td>
<td>Australia</td>
</tr>
<tr>
<td>8</td>
<td>Islay</td>
<td>Scotland</td>
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<tr>
<td>9</td>
<td>Pangkor</td>
<td>Malaysia</td>
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<tr>
<td>10</td>
<td>Koh Samui</td>
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Source: Savills World Research, Wealth X

The islands in this category attract the world’s wealthy seeking a more permanent move, whether to take advantage of the local tax regime, lifestyle, or for business. These islands are “visible” to the world; they are easily accessible by air and attract large numbers of visitors. The private island model has also been replicated in Europe, particularly those islands with a climate suited to winter vacations. American islands are popular with these buyers, and expensive, European private island markets have already returned to their pre-peak levels. Villa prices in the best spots have already returned to their pre-peak levels. In cooler climates, leisure islands are more likely to be “invisible”. The Scottish islands of Islay, along with neighbouring Jura in the Inner Hebrides, attract UHNWII second home purchasers. Country pursuits are at the heart of these islands’ appeal—Islay is famous for its woodland, while Jura is renowned for its stalking. Both islands attract wealthy visitors from around the world, some of whom chose to make a more permanent investment. On Jura, a former fishing village, a 14,000 acre Arrill Estate in 2012, comprising a 10 bedroom mansion, seven unoccupied islands and 10 miles of coast.

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<td>SPAIN</td>
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Source: Savills World Research, Wealth X

These islands have strong links to city markets (Channel Islands to London, Bermuda to New York, for example), having both financial capital and potential buyers. They share characteristics of city real estate markets and can be safe havens during global economic unrest. A high exposure to the financial services sector makes these islands exposed to changes in the financial services landscape. The wider international regulatory regime and general clamp down by western governments on tax avoidance also threatens those islands whose only raison d’etre is tax. In light of this, these islands are diversifying their financial services offer and also developing other areas of industry. In Cayman, for example, where finance contributes 55% of the island’s GDP “Health City” is being developed, a medical tourism facility aimed at providing affordable healthcare to the US and Canadian market. It has also established “Cayman Enterprise City”, a special economic zone planned to attract new technology, finance and education investment.

ISLANDS CAN BE SAFE HAVENS DURING GLOBAL ECONOMIC UNREST
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TABLE 3 – HEADLINE TAX RATES IN SELECTED ISLAND JURISDICTIONS

<table>
<thead>
<tr>
<th>Jurisdiction</th>
<th>Person Income Tax</th>
<th>Corporate Tax</th>
<th>Capital Gains Tax</th>
<th>Stamp Duty</th>
<th>VAT or Equivalent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Guernsey</td>
<td>20%</td>
<td>0%-20%</td>
<td>0%</td>
<td>2%</td>
<td>0%</td>
</tr>
<tr>
<td>Jersey</td>
<td>20%</td>
<td>0%-20%</td>
<td>0%</td>
<td>15%</td>
<td>0%</td>
</tr>
<tr>
<td>Cayman</td>
<td>20%</td>
<td>0%-20%</td>
<td>0%</td>
<td>6%</td>
<td>0%</td>
</tr>
<tr>
<td>Bermuda</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>1%</td>
<td>15% or 28%</td>
</tr>
<tr>
<td>Bahamas</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>4%</td>
<td>4%</td>
</tr>
<tr>
<td>Antigua</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>25% or 75%</td>
<td>0%</td>
</tr>
<tr>
<td>UK</td>
<td>20%-45%</td>
<td>0%-20%</td>
<td>0%</td>
<td>20%</td>
<td>0%</td>
</tr>
</tbody>
</table>

* For non-citizens


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and infrastructure just a bridge crossing away. In the US, property in the premier “city-linked” island real estate markets can cost up to four times that on the neighbouring mainland (see Table 4 below).

The popularity of city-linked islands is not just a US phenomenon. Some islands in Hong Kong’s harbour and within a ferry or power-boat ride of the city are starting to enjoy more popularity and have the potential to become desirable bolt holes or commuter islands.

The model has been replicated in Dubai with the man-made Palm Jumeirah, one of the world’s largest artificial islands. Extending to 5km², it has more than doubled Dubai’s coastline. The market on the man-made island has rebounded strongly from Dubai’s market downturn as the development establishes itself and retail elements come on stream. Prices have increased by up to 50% in the last year, making it one of Dubai’s top performing sub markets.

TABLE 4 — TOP “CITY-LINKED ISLANDS” IN THE US BY VOLUME OF UHNWI REAL ESTATE INVESTMENT

<table>
<thead>
<tr>
<th>UHNWI RANK</th>
<th>ISLAND</th>
<th>CITY LINK</th>
<th>STATE</th>
<th>PRICE PREMIUM OVER NEIGHBOURING CITY</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>KEY LARGO</td>
<td>MIAMI</td>
<td>FLORIDA</td>
<td>90%</td>
</tr>
<tr>
<td>2</td>
<td>LONGBOAT KEY</td>
<td>SARASOTA</td>
<td>FLORIDA</td>
<td>89%</td>
</tr>
<tr>
<td>3</td>
<td>KEY BISCAYNE</td>
<td>MIAMI</td>
<td>FLORIDA</td>
<td>28%</td>
</tr>
<tr>
<td>4</td>
<td>SANIBEL ISLAND</td>
<td>CAPE CORAL</td>
<td>FLORIDA</td>
<td>295%</td>
</tr>
<tr>
<td>5</td>
<td>JOHNS ISLAND</td>
<td>CHARLESTON</td>
<td>SOUTH CAROLINA</td>
<td>52%</td>
</tr>
<tr>
<td>6</td>
<td>MARCO ISLAND</td>
<td>NAPLES</td>
<td>FLORIDA</td>
<td>62%</td>
</tr>
<tr>
<td>7</td>
<td>KEY WEST</td>
<td>MIAMI</td>
<td>FLORIDA</td>
<td>134%</td>
</tr>
<tr>
<td>8</td>
<td>BOCO GRANDE</td>
<td>CAPE CORAL</td>
<td>FLORIDA</td>
<td>494%</td>
</tr>
<tr>
<td>9</td>
<td>HILTON HEAD ISLAND</td>
<td>SAVANNAH</td>
<td>SOUTH CAROLINA/GEORGIA</td>
<td>76%</td>
</tr>
<tr>
<td>10</td>
<td>ISLAMORADA</td>
<td>MIAMI</td>
<td>FLORIDA</td>
<td>144%</td>
</tr>
</tbody>
</table>

Source: Savills World Research, Wealth X, Tulia

Local Tax Regimes and Strong Links to World City Markets in Guernsey, Jersey, Cayman, Bermuda, Bahamas and Antigua appeal to residents relocating for business.

Real estate Golden Visa or Visa Investor Programmes are often key to reviving residential markets. The longest running started in St Kitts and Nevis in 1984.

The Private Island Model has been replicated in man-made form, most famously with Dubai’s “The World” www.candygpsreport.com 08

% OF PRIVATE ISLANDS CAN BE CLASSED AS “QUALITY ISLANDS” CLOSE TO THE MAINLAND, POLITICALLY STABLE WITH SECURITY OF TENURE, DEVELOPMENT PERMITS AND POTENTIAL TO ADD INFRASTRUCTURE

The second home market is buoyant in Hawaii, Martha’s Vineyard and The Balearics.

Premier “city-linked” island real estate can cost up to four times that on the mainland.
<table>
<thead>
<tr>
<th>RANK</th>
<th>ISLAND TYPE</th>
<th>ISLAND TYPE</th>
<th>POPULATION</th>
<th>CONNECTIVITY</th>
<th>PRIMARY SOURCES OF OCCUPIERS</th>
<th>PRIMARY SOURCES OF OCCUPIERS</th>
<th>PRIME 4 BED HOUSE (TYPICAL PRICE)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>BERMUDA</td>
<td>NORTH ATLANTIC</td>
<td>64,000</td>
<td>INTERNATIONAL AIRPORT</td>
<td>GLOBAL</td>
<td></td>
<td>$4,000,000</td>
</tr>
<tr>
<td>2</td>
<td>BAHAMAS</td>
<td>CARIBBEAN</td>
<td>319,000</td>
<td>INTERNATIONAL AIRPORT</td>
<td>GLOBAL</td>
<td></td>
<td>$1,700,000</td>
</tr>
<tr>
<td>3</td>
<td>CHANNEL ISLANDS</td>
<td>EUROPE</td>
<td>165,000</td>
<td>REGIONAL AIRPORT</td>
<td>REGIONAL</td>
<td></td>
<td>$2,500,000</td>
</tr>
<tr>
<td>4</td>
<td>BRITISH VIRGIN ISLANDS</td>
<td>CARIBBEAN</td>
<td>27,000</td>
<td>REGIONAL AIRPORT</td>
<td>GLOBAL</td>
<td></td>
<td>$3,500,000</td>
</tr>
<tr>
<td>5</td>
<td>ANTIGUA</td>
<td>CARIBBEAN</td>
<td>80,000</td>
<td>INTERNATIONAL AIRPORT</td>
<td>GLOBAL</td>
<td></td>
<td>$1,500,000</td>
</tr>
<tr>
<td>6</td>
<td>ISLANDS ADJOINING WEST COAST OF FLORIDA</td>
<td>NORTH AMERICA</td>
<td>570,000</td>
<td>ROAD TO MAINLAND</td>
<td>NATIONAL</td>
<td></td>
<td>$1,710,000</td>
</tr>
<tr>
<td>7</td>
<td>US VIRGIN ISLANDS</td>
<td>CARIBBEAN</td>
<td>106,000</td>
<td>REGIONAL AIRPORT</td>
<td>GLOBAL</td>
<td></td>
<td>$1,910,000</td>
</tr>
<tr>
<td>8</td>
<td>HAWAIIAN ISLANDS</td>
<td>NORTH AMERICA</td>
<td>1,353,000</td>
<td>INTERNATIONAL AIRPORT</td>
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<td>NATIONAL</td>
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</table>

Source: Savills World Research

* Longboat Key, Sanibel & Marco Islands
** Key Biscayne, Merritt Island
*** Johns Island, Bald Head Island, Hilton Head Island
**** Palm Islands
Paul Tostevin of Savills World Research ranks the world’s top islands for UHNWI real estate investment, based on the following metrics: the volume of UHNWI property holdings; transport links to mainland markets; sources of capital and occupiers; tax regime and real estate prices.

Primary island type:
- Leisure Islands
- Relocation Islands
- City-Linked Islands
- Private Island Hotspots

Source: Savills World Research, Wealth X
Private jets put the remotest corners of the earth within reach. With the aircraft finance industry on the flight path to recovery, buying one is getting a little easier – though not, alas, any cheaper. Deutsche Asset & Wealth Management looks at the options available.

MECHANICS OF FINANCING

The essentials of jet financing are fairly straightforward. Like getting a mortgage on a home, purchasers borrow against the value of the jet (though sometimes other assets are used as additional loan security). The aircraft is typically owned by a bankruptcy-remote special purpose company, a structure designed to protect the lender if something financially untoward should happen to the client. As with most loans, terms and conditions depend on the creditworthiness of the borrower, but a rule of thumb is that mainstream lenders will advance up to 75% of the purchase price of a new or nearly new private jet, and up to 50% to 60% of a used aircraft.

However, only a relatively select group of lenders are currently active in the pre-owned plane space, which saw prices drop by over half in some aircraft categories. “You need a depth of experience and knowledge, both of the aircraft industry and of credit risk, to accurately price loans on used jets,” explains Chris. For a suitable client, Deutsche AWM will finance or re-finance jets even up to 20 years old.

FINANCE, YOUR STYLE

Beyond the basics, financing rapidly becomes as bespoke as private jet interiors. “The circumstances of every wealthy individual are unique, so a customised solution is essential,” says Dubai-based Callum Watts-Reihm, Head of the Gulf for Deutsche AWM Business, whose clients include jet-owning UKV常XV. “From where the jet is registered to the repayment structure, everything needs to be tailored.

For example, while some lenders only provide full payout facilities – meaning the total amount borrowed is paid back evenly over the loan term – others will structure loans with lower interim repayments and a lump sum due at the end, which helps buyers manage their cash flows. Loan periods also vary, with some financiers lending for a maximum of five years and others prepared to advance funds for eight or more.

PRIVATE JETS: GET ONBOARD

FULL OWNERSHIP

Buying a private jet outright can cost anywhere from a handful of million dollars for a pre-owned model to around $600 million for adaptations of the new Boeing Dreamliner and latest Airbus, A350, Jenets.

FRACTIONAL OWNERSHIP

Fractional jet ownership shares start at one-sixteenth, which equates to about 50 flying hours a year. Fractional programmes are usually administered by a company that owns several jets and takes care of the piloting, maintenance and so on.

OPERATING LEASE

Owning an aircraft involves a number of time-consuming commitments. Operating leases provide a way to effectively hire a jet for a specified period. Leases can be wet or dry, i.e. with or without a crew.

OTHER

Jet card programmes are a bit like an old-fashioned phone card: you buy a pre-paid card with a set number of flying hours. Other options for on-demand private jet travel include branded charter services and air taxis.

N
ting shrinks the planet like a private jet. A top-end model will get you where you want to be quicker than anything in the skies that isn’t armed to the teeth and being flown by a military pilot.

The Gulfstream G650, for instance, can cover the 6,800 miles between the islands of Honolulu and Singapore in 14 hours. With a maximum operating speed of over 700 mph, it comfortably outpaces the world’s fastest commercial airliners to alleviate jet lag.

The morning-after-the-flight-before is better too: the cabin pressure on a G650 is set lower than on commercial airliners, which means less jet lag. For island dwellers and other time-pressed travellers on route to the remote, access to private air travel is even more of a blessing. The nearest stop-off served by a commercial airline may be a many-legged journey from your island paradise or prospective oil field. In any case, no matter how billiard-table flat the first-class bed may claim to be, it’s not your bed, is it?

CLEAN AIR

With a vast array of customisation options available to buyers, life onboard a private aircraft can be as luxurious as it gets at 41,000 feet. Down on the factory floor, however, conditions have been turbulent in the wake of the financial crisis. The good news is that the business aviation industry is recovering steadily, if patchily. New orders are rising slowly and used jet prices are improving.

Another sign business aviation is healing is that world-wide there are approximately 1,500 business aircraft twice as many as 15 years ago. Roughly two-thirds of them are in North America, with Europe accounting for another 15%. Not surprisingly, this growth of private jet use is fast in dynamic economies. Indonesia’s business aircraft fleet, for instance, has doubled in size in the last five years, which must make things very much easier for executives needing to get about a country with 422 inhabited islands (and, pertinently, 200 airports).

Private jet travel makes a global work/lifestyle not only possible but just about tolerable. It’s not only the airborne hours that are more comfortable. The morning-after-the-flight-before is better too: the cabin pressure on a G650 is set lower than on commercial airliners, which means less jet lag.

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Whether it is for business, leisure or investment, there is an island to suit your requirements. Paul Tostevin of Savills World Research looks in depth at three very different island real estate markets.

### Europe's Safe Haven: The Channel Islands

Located off the coast of northern France, the Channel Islands enjoy a mild climate, beautiful natural environment and safety as a result of their close connection to the UK and Europe through the local airports and harbours. The Channel Islands comprise of two jurisdictions, the Bailiwick of Guernsey (encompassing Guernsey, Alderney, Herm, Sark, Jethou and Lihou) and the Bailiwick of Jersey (encompassing Guernsey, Alderney, Sark, Jethou and Lihou). Both islands have systems in place for non-locals deemed ‘essentially employed’. Having seen substantial price growth throughout the 1990s and 2000s, the markets continued to record price rises at a time when many major economies were seeing price falls, reflecting the islands’ safe haven qualities. Between September 2007 and March 2009 prices rose by around 20% in both the Jersey market and Guernsey’s open market, over the same period, prices in Prime London fell by 20% (see figure 1 below). Having proved resilient during the global financial crisis, price growth has been flat over the last year, offset by high levels of stock in the markets aimed at UK and international buyers – a group that remains price sensitive. Recent active buyer groups include those relocating within the financial services sector, and returning expats. UK nationals formerly based in Jersey or North America, seeking a low tax base closer to family.

### Island Markets in Focus

**Guernsey and Jersey**

The Guernsey market is heavily influenced by these historic ties, and buyers of prime residential property from ‘country home’ markets dominate market activity. For example, Barbados, formerly a British colony and today still part of the Commonwealth, continues to enjoy the patronage of high-profile British buyers. When it comes to concentration of wealth in the region, Bermuda tops the list, with the highest GDP per capita of $84,000 – fourth highest in the world by some measures. Bermuda also has the highest concentration of UHNWII property holdings of any island outside the US. Billionaires including Michael Bloomberg and Ross Perot have homes on the island. Located just two to three hours from the US east coast, there is no income tax. Most homes are understood to be in the ‘Bermuda vernacular’ of painted stone with wooden shutters. Tucker’s Town is the area of the island where the ultra-wealthy congregate, enjoying some of the island’s best views and adjacent to the island’s best golf courses. Real estate ‘golden visas’ or visa investor programmes are increasingly a key strategy of retaining depressed residential markets around the world and building on wider economic recovery. Some of the first of these schemes were introduced in the Caribbean, the longest running of which was introduced in St Kitts and Nevis in 1994. The St Kitts scheme offers citizenship (and in turn visa-free travel to in excess of 100 countries worldwide) for those buying property over $400,000. Crucially, no visit is required. Supported by the scheme, the island’s real estate market remained buoyant throughout the global financial crisis, with citizenship-investors accounting for around 60% of all residential transactions. In spite of foreign investor demand, property prices remain low by Caribbean standards, tempered by high stamp duties and sustained levels of new development. It takes a special combination of tax policies, real estate laws and business-friendly initiatives to continue to attract this kind of wealth. These are initiatives that can be replicated anywhere, but the Caribbean, Bermuda and the Bahamas have two major USPs: proximity to the huge wealth concentrations in North America and Asia or North America, seeking a low tax jurisdiction, and returning expats: UK nationals formerly-based in Asia or North America, seeking a low tax jurisdiction, and returning expats: UK nationals formerly based in Asia or North America, seeking a low tax jurisdiction, and returning expats: UK nationals formerly based in Asia or North America, seeking a low tax jurisdiction, and returning expats: UK nationals formerly based in Asia or North America, seeking a low tax jurisdiction, and returning expats: UK nationals formerly based in Asia or North America, seeking a low tax jurisdiction, and returning expats: UK nationals formerly based in Asia or North America, seeking a low tax jurisdiction, and returning expats: UK nationals formerly based in Asia or North America, seeking a low tax jurisdiction, and 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islands have long held a special allure for ultra-high net worth individuals, as locations for holiday homes, as development and investment opportunities, even as secluded permanent residences. But some of the biggest long-term risks to your investment in an island won’t show up in traditional financial analysis,” says Michael Schneider, Head of Environmental, Social & Governance at Deutsche Asset & Wealth Management. For example, transportation costs, local fossil fuel subsidies and a lack of proper waste and fresh water management may require you to adjust conventional assumptions.

**LOOKED ON DIESEL**

It was not the end. Alex Voigt, a serial entrepreneur in the renewable energy space who has worked on projects in a number of islands, says: “A hundred years ago, most islands were self-sufficient. People travelled under sail, and for fuel they primarily burned materials that had grown on the island. Now everything is driven by diesel from the water treatment plants, to the electricity generators, to agriculture.” With diesel prices rising over past decades (see chart below), many island economies - and the mainland governments that typically have to subsidise them - are feeling the strain. It’s a double whammy: not only is the fuel itself pricey; islanders also have to pay more for it to be imported. “Expensive fuel is making it difficult for many islands to survive,” says Voigt, who founded Yucanos, a Berlin-based energy management startup. The Maldives, for instance, spends more than 20% of the country’s GDP on diesel to fuel their primarily kerosene-fuelled lamps, he says: “A hundred years ago, most islands were self-sufficient. People travelled under sail, and for fuel they primarily burned materials that had grown on the island. Now everything is driven by diesel from the water treatment plants, to the electricity generators, to agriculture.” With diesel prices rising over past decades (see chart below), many island economies - and the mainland governments that typically have to subsidise them - are feeling the strain. It’s a double whammy: not only is the fuel itself pricey; islanders also have to pay more for it to be imported. “Expensive fuel is making it difficult for many islands to survive,” says Voigt, who founded Yucanos, a Berlin-based energy management startup. The Maldives, for instance, spends more than 20% of the country’s GDP on diesel to fuel their primarily kerosene-fuelled lamps, he says: “A hundred years ago, most islands were self-sufficient. People travelled under sail, and for fuel they primarily burned materials that had grown on the island. Now everything is driven by diesel from the water treatment plants, to the electricity generators, to agriculture.”

**HURDLES**

Though there are good reasons to be hopeful, Schneider says it is crucial for wealthy investors to take a holistic approach in analysing whether an island makes a good home for their capital. “The biggest obstacles to switching to a more sustainable energy future are often not about the technology or even price. They can be the result of legislative and regulatory barriers in many instances make it very difficult to effect change. For instance, some island economies are locked into long-term contracts with fossil fuel providers, or they have monopolistic laws that actually preclude renewable energy providers from installing generation capacity.”

Nevertheless, Schneider remains optimistic about the future of islands and their potential as investment destinations for ultra-high net worth individuals. The sustainability-related initiatives taking place on islands around the world are incredibly exciting. If they succeed, islands will not only become even more attractive investment locations. They’ll potentially also establish a template for improved living conditions in the rest of the world. Whether that is a will and a way to switch to an energy network based on renewables such as solar and wind power. Natural resources that are abundant on many islands. At current price levels, renewables combined with energy storage solutions can compete with diesel-generated electricity without any subsidy,” he says. When it comes to investing in renewables, islands are in many instances streets ahead of their mainland neighbours. Some of the most ambitious renewable energy programmes on the planet - not just in terms of scale - are taking place on islands. The Marshall Islands in the North Pacific, for example, are in the process of constructing the world’s first ocean thermal energy conversion plant. Once operational, it is expected to produce electricity below $0.20 per kilowatt hour - two-thirds cheaper than the cost of diesel-generated power. Solutions do not necessarily need to be hi-tech: a social venture in Vanuatu has brought clean electric light to more than half the island’s off-grid households by distributing affordable solar-powered lanterns. Whereas rural families previously had no option but to use kerosene-fuelled lamps, the eco-friendly alternatives have the added benefit of freeing up fuel to use for cooking and heating in the winter.

“From water management to electricity generation, the technologies already exist to make island life sustainable,” says Voigt. “What’s important is to integrate appropriate solutions as part of a comprehensive, long-term strategy.”

**SUSTAINBILLIONAIRES**

The earth’s island jewels face an uncertain future. But at least they are plenty of people eager to fight their corner - including some high profile UHNWIs. In 2012, Oracle CEO Larry Ellison bought a stack of islands in the Hawaiian island of Lanai for an undisclosed sum. Once the world’s biggest pineapple plantation, then a resort, the 10,000-acre island, which has few paved roads and not a single traffic light, has suffered economically in recent years as tourism waned in the last global downturn. According to Pulama Lanai, Ellison’s local development corporation, the billionaire’s vision is to turn Lanai into a self-sufficient “thriving model of sustainability”, establishing a community “powered by solar energy, where electric cars would replace gas-guzzling ones, and seawater would be transformed into fresh water and used to sustain a new organic farming industry.”

Richard Branson is backing a similar initiative focused on the Caribbean. The island Challenge – established by a sustainability-focused non-governmental organisation called the Carbon War Room, which Branson co-founded - aims to wean islands off carbon-based fuels. Branson’s own island, Necker, will be the first to make the transition. Within three years the Virgin boss wants solar and wind to supply 80% of Necker’s energy needs. The long-term goal is 100%.

**MICRO (U)NECONOMICS ISLAND TALES**

**NAURU, MICRONESIA**

Nauru’s wealth was a blessing from above: the Micronesian nation’s phosphate deposits were derived from the droppings of sea birds. Its fortunes turned in the 1980s when phosphate started to run out. Today, 90% of the islanders are believed to be unemployed.

**MAMAIA, ROMANIA**

Five miles long and just 300 yards wide, Mamaia is one of Romania’s most popular tourist destinations. Though still popular, the resort faces a battle for survival against coastal erosion, primarily due to reduced rainfall. The earth’s island jewels face an uncertain future. But at least they are plenty of people eager to fight their corner - including some high profile UHNWIs. In 2012, Oracle CEO Larry Ellison bought a stack of islands in the Hawaiian island of Lanai for an undisclosed sum. Once the world’s biggest pineapple plantation, then a resort, the 10,000-acre island, which has few paved roads and not a single traffic light, has suffered economically in recent years as tourism waned in the last global downturn. According to Pulama Lanai, Ellison’s local development corporation, the billionaire’s vision is to turn Lanai into a self-sufficient “thriving model of sustainability”, establishing a community “powered by solar energy, where electric cars would replace gas-guzzling ones, and seawater would be transformed into fresh water and used to sustain a new organic farming industry.”

Richard Branson is backing a similar initiative focused on the Caribbean. The island Challenge – established by a sustainability-focused non-governmental organisation called the Carbon War Room, which Branson co-founded - aims to wean islands off carbon-based fuels. Branson’s own island, Necker, will be the first to make the transition. Within three years the Virgin boss wants solar and wind to supply 80% of Necker’s energy needs. The long-term goal is 100%.

**SUSTAINBILLIONAIRES**

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**MICRO (U)NECONOMICS ISLAND TALES**

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Yolande Barnes of Savills World Research looks at the factors that are changing the shape of island real estate markets.

**Future Trends**

**Three Game Changers**

**Drive for Global Tax Transparency:** The role of offshore financial centres is evolving in the global drive for tax transparency. In the latest Global Financial Centres Index, offshore centres have seen their ratings fall, but lose ground relative to “onshore” financial centres. Islands are carving out niches through specialising, leveraging skilled workforces and building on links to city financial centres, while establishing relationships with new markets. Economic diversification is becoming a priority for many. The real estate landscape will be shaped by the success of these initiatives.

**New Transport Infrastructure:** Air travel revolutionised the real estate market on many islands. It also provides important links to major cities, critical to the development of offshore financial centres. A new airport can drive for tax transparency. In the latest Global Financial Centres Index, offshore centres have seen their ratings fall, but lose ground relative to “onshore” financial centres. Islands are carving out niches through specialising, leveraging skilled workforces and building on links to city financial centres, while establishing relationships with new markets. Economic diversification is becoming a priority for many. The real estate landscape will be shaped by the success of these initiatives.

**Islands to Revive a Country’s Economic Prospects:** For indebted economies still reeling from the global financial crisis, islands are a saleable asset that can help to balance the books. Greece boasts 6,000 islands, and has embarked on selling them to a wider audience, but may actually threaten the hideaways of the “dispersers”.

**Three New Trends**

**The Desire for the Authentic:** The wealthy seek what is rare, and “authentic” islands offering culture, history and heritage may find themselves with an edge, particularly as the buying habits of the emerging wealthy mature. European islands with a rich built environment, distinct heritage and culture will appeal as an antidote to ever more globalised world cities. Another trend may be the wealthy seeking to preserve or even restore natural landscapes, with a view to create a long lasting legacy as well as experience it and become part of it.

**Increasing Global Wealth:** The global UNWTO population reached an all-time high of nearly 200,000 in 2013, and is forecast grow by 22% by 2018. The growth in wealth will fuel demand for alternative real estate, with a particular boost from Asia, the region where it is set to grow fastest. For these newly wealthy “agglomerators”, leisure islands are most likely to appeal. Asian wealth will demand a very different product to that desired by the west. The Chinese, for example, are yet to seek remote hideaways. Rather, integrated resorts with entertainment, shopping and importantly, gambling, will drive demand. The success of Sanya, Hainan and Sanya is testament to this.

**Philanthropy and Conservation:** Second or third generation wealthy individuals, accustomed to money and becoming more interested in its lasting impact, will pay an important role in island markets. We anticipate that a proportion of these philanthropic UHNWs will seek their own “eco-domains”, islands where they can restore or maintain whole ecosystems and do their bit for the planet. These buyers are behaving in a similar way to some government and non-government organisations who seek to preserve ecosystems by purchasing islands for prosperity, and who currently constitute one of the largest buyer groups in the private island market.

**Contributors**

**Candy & Candy**

**Nicholas Candy**

Nick is CEO of global luxury real estate brand Candy & Candy. Previously Nick worked at KPMG, advertising agency J. Walter Thompson and Denton Group for Europe, where he became the youngest director. Since its conception in 1999, Candy & Candy has become one of London’s leading interior design and development management firms, its most notable projects to date include St. James’s Place, Belgravia, and the globally celebrated One Hyde Park (oneydepark.com) in Knightsbridge.

**Paul Tostevin**

An Associate Director in Savills World Research, Paul delivers research leading research on major global real estate markets and the forces that shape them. Writing research publications, he also undertakes consultancy for clients with cross-border requirements, and has been a commentator in the international press. Paul joined Savills in 2006, initially focusing on UK residential and development research. Prior to Savills, Paul worked in finance in both London and New York.

**Omni Capital**

**Dan Smith**

Dan embarked on his career in real estate at Land Securities Tristram and then went on to join Gurgyoth in 2003. As Managing Director he was primarily focussed on structured finance and development finance, responsible for originating, structuring and managing many central London residential developments, including financing the development of One Hyde Park. Dan is now at Omni Capital, where he specialises in structured financed and residential development financing.

**Savills**

**Yolande Barnes**

Yolande set up Savills residential research department in 1989 and today has expanded her remit as head of Savills World Research to all types of cross-border real estate in both established and emerging markets. She advises a wide variety of high level clients on strategic, development, investment and policy issues, producing regular reports and articles on UK and global cross-sector market trends. Yolande regularly appears in the international press, on television and radio.

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As global wealth increases and infrastructure is revolutionised, investors seek island opportunities that are both rare and authentic.

Nicholas Candy, CEO, Candy & Candy