

Spotlight Edinburgh City and Glasgow City Residential Development Sales

Spring 2014

Bellevue Road, a development of apartments, duplexes and penthouses in the Broughton area of Edinburgh, where the average price per square foot is £274.

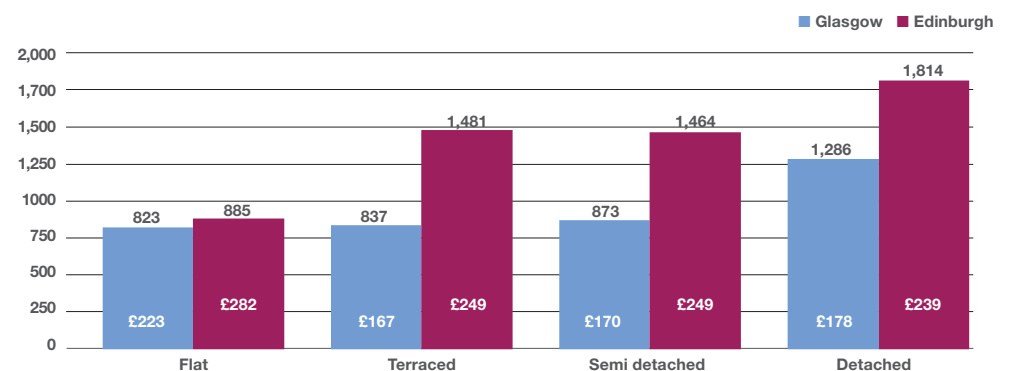


SUMMARY

Strong demand for high quality properties across both cities is exceeding supply

- There is a chronic undersupply of new build housing, which is particularly evident in the prime locations.
- Developments in core locations with excellent transport links are commanding some of the highest prices per square foot and monthly sales rates.
- Regeneration developments across both cities are offering good value for money in undersupplied markets.
- Place-making and targeting specific buyer profiles are linked to development success.

GRAPH 1
Average new build square footage and prices per square foot



Source: Savills Research

→ **Current supply**

Savills Research has analysed current and recently completed new build developments across the Local authority areas of Edinburgh City and Glasgow City. Across the 60 sites in Edinburgh City there is scope for around 4,500 properties of which 3,200 have sold, 250 are available to purchase and a further 980 are yet to be released. Meanwhile, across the 37 sites analysed in Glasgow City, there is scope for almost 4,000 properties of which over 2,300 have sold, 178 are available for sale and a further 1,500 are yet to be released.

Highly affordable, well advertised housing in regeneration areas has augmented the average rate of sale in both cities. This is especially the case in Glasgow where the recently launched Commonwealth games Village has generated 183 reservations in six weeks. Excluding this site, the average rate of sale across Glasgow is two units per month. Similarly in Edinburgh the average rate of sale is marginally over two per month.

The popularity of high quality, well located and correctly priced new build developments continue to command a high level of interest across both cities, suggesting there is ongoing pent up demand. Buchanan Gardens, which was the first high quality new build development in Glasgow City centre for a number of years, achieved a rate of sale of eight per month. Similarly, a development in the Broughton area of Edinburgh is achieving a rate of sale of six per month.

New build prices

Price per square foot (£psf) is a popular tool used to compare and analyse developments and show wider trends within local housing markets. The overall average £psf was £269 in Edinburgh and £196 in Glasgow. However, as shown in maps 1 and 2, this masks considerable local variations.

Developments around Central Edinburgh have achieved in excess of £300 psf. Niche developments have dominated this market and the only

larger scheme, in the Springside area, achieved a higher £psf.

Regeneration developments in Edinburgh have boosted supply and are proving good value for money in an undersupplied mid market.

The prime suburban areas of Blackhall and Fairmilehead, which are popular with families, are achieving above average £psf for detached properties. The high premiums being generated are due to the chronic shortage of suitable family housing within similar locations in the city.

Likewise, prime developments in Glasgow City Centre, Park and the West End, shown in darker red, achieved average prices of £265 psf and the more niche developments have achieved closer to £300 psf.

Regeneration in the south and east of the city has brought about considerable residential development and these are currently offering substantial value for money.

Suburban areas, such as Steps and Broomhouse, with established communities and good transport links, continue to perform well. In our opinion, these developments provide family housing which represents good value for money.

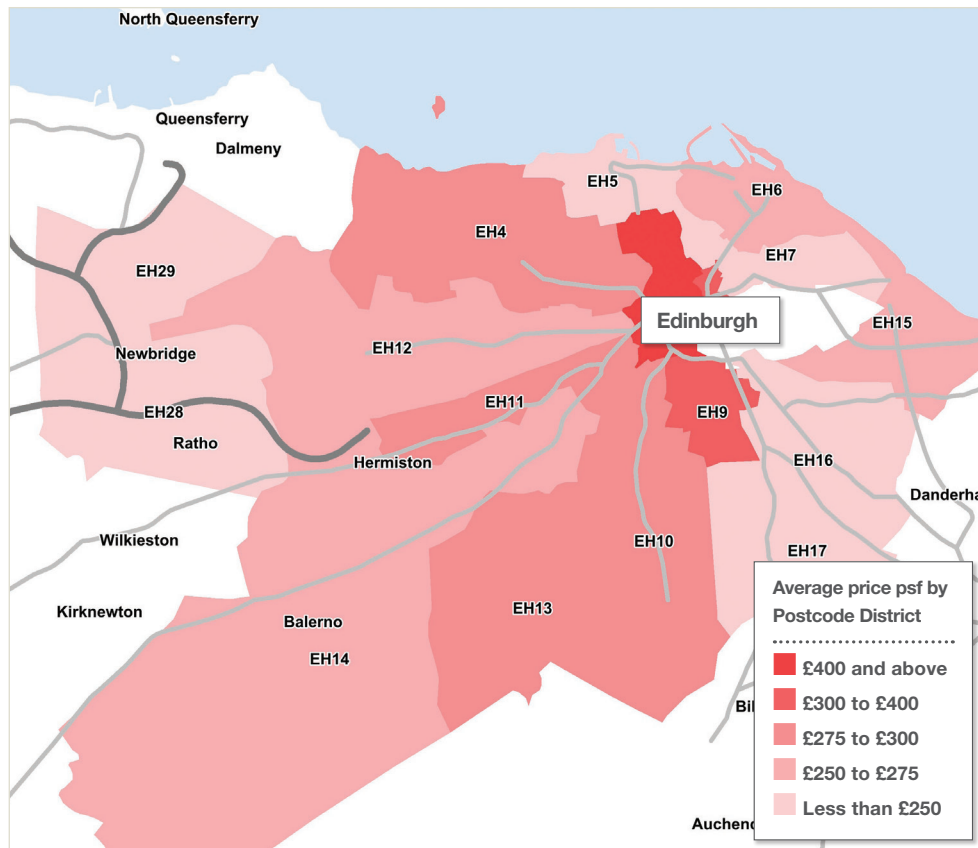
Whilst Graph 1 conceals local variations, it shows there is considerable regional difference between Glasgow and Edinburgh. Flats are comparable in terms of size in both cities but terraced, semi detached and detached houses in Edinburgh are all, on average, markedly larger and command higher £psf.

New build differential

Newly built properties often command a premium over second hand properties. However, this can be area specific. This premium is usually perceived to be due to several factors including higher energy rating standards, new home guarantee provisions, kitchen and bathroom design and specification, new walk-in condition of the property and the provision of the 'snagging' service by the housebuilder for any corrective remedial works.

Indeed, the average transaction price for new build properties across

MAP 1 **Average new build £psf across Edinburgh City**



Source: Savills Research

Edinburgh City and Glasgow City last year was 25% and 38% higher respectively, compared to second hand transactions in both cities. The price differential during the middle of the last decade quickly reduced in certain areas, where high levels of supply did not meet market requirements.

However, the lack of new build supply, following the housing market downturn, has led to some second hand sales in hotspots of Edinburgh and Glasgow achieving a premium over the original new build price.

Examples of these include a major development in central Edinburgh, where a number of second hand property sale prices have exceeded their new build price. This includes a two bedroom apartment which recently sold for £360,000, which was 9% more than its original new build price.

Similarly, a second hand two bedroom apartment, at a development in the Hyndland area of Glasgow's West End, recently sold for £325,000, which was 12% more than its original new build price. Similar premiums have been achieved at a recently-built development in the Merchant City area of Glasgow's city centre.

It is not just core central areas where such premiums have been achieved. A number of second hand sale prices at developments in the Kirkliston area of Edinburgh have sold for more than their original new build prices. It is sufficient to say that certain new build properties can retain their value particularly in areas of high demand in central and strategic locations with excellent transport links, coupled with low levels of supply.

Government initiatives

The Help to Buy (Scotland) scheme has been an important force in the new build market since it launched in October 2013. It allows purchasers to buy a majority share of a new build home, up to the value of £400,000. Purchasers will need a minimum 5% deposit and a 75% mortgage. The Scottish Government can provide an equity loan for remaining sum up to 20%.

Table 1 shows the geographical breakdown of where Help to Buy has

been used. Sales staff at various new build sites have reported that Help to Buy is allowing purchasers to acquire a better property than their budget might previously have allowed. It has been particularly beneficial in regeneration area developments.

Who's buying?

Central Edinburgh and Glasgow both attract a wide range of buyers including students, young and mature professionals, downsizers, second home owners and investors.

The number of privately rented households doubled in both cities over the last decade. The proportion of such households is 27% in Edinburgh City and 16% in Glasgow City, according to the Scottish household 2012 Survey, with more professionals, families and downsizers choosing to rent. This growing market has in turn strengthened the residential investment sector in both cities and we can expect to see this trend continue.

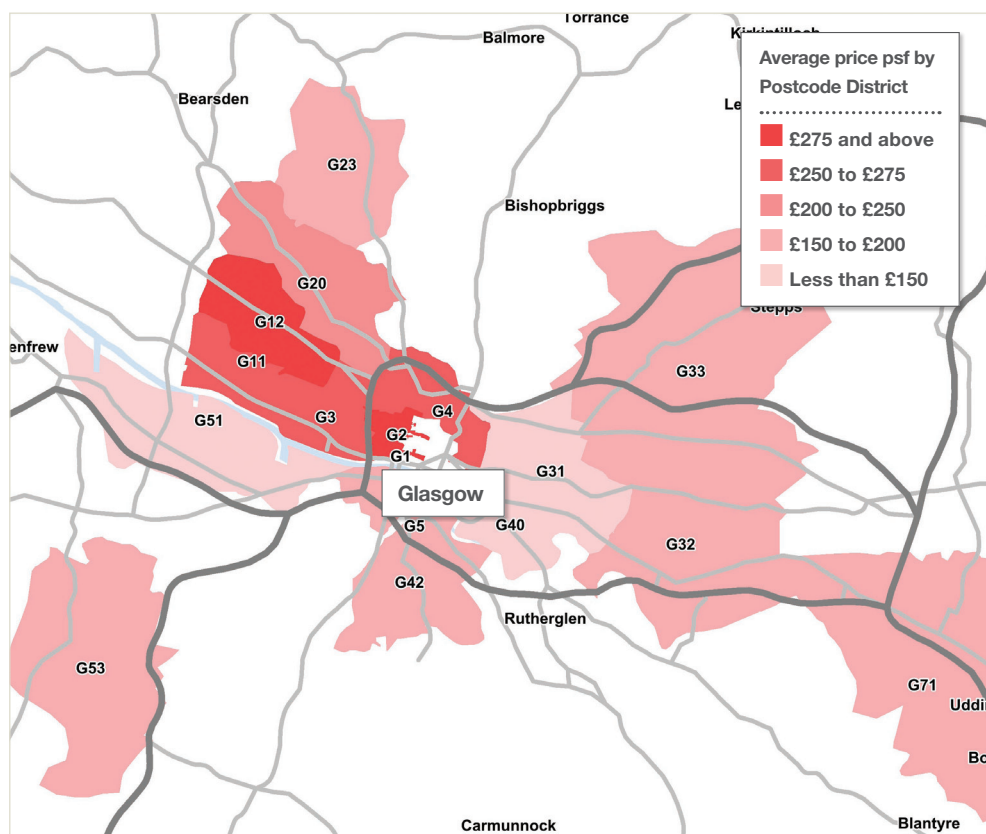
TABLE 1 **Help to Buy (Scotland) scheme**

Operating Area	Help to Buy applications issued up to the end of January 2014	Legal completions up to the end of January 2014
Highlands & Islands	80	7
Grampian	352	27
Central Scotland	145	31
Edinburgh & Lothians	305	62
West of Scotland	451	89
Total	1,333	216

Source: Homes for Scotland

The downsizer market is likely to experience significant growth. There are rising numbers of older people in both cities and they often hold significant amounts of equity in their current properties. One of the developments analysed, in Glasgow's West End, has attracted a number of downsizers, looking for a lifestyle change in a sought-after location and able to buy at the top price range. →

MAP 2 **Average new build £psf across Glasgow City**



Source: Savills Research

→ Second home buyers in Edinburgh and Glasgow, seeking a pied-à-terre, whether for business or pleasure, tend to be equity-rich. New build properties are attractive to this market as they provide low maintenance internally and communal areas are usually managed by professional property managers.

A large proportion of new build buyers continue to be owner occupiers. Whilst Help to Buy has facilitated a number of sales, banks continue to impose stringent mortgage conditions.

Furthermore, for owner occupiers, location is paramount and sites in prime locations will continue to command a premium.

Recent developments have identified the importance of place making. This has been achieved by offering a varied housing mix, by adding value through design and specification detail, attractive outdoor amenity spaces, provision of storage areas and ancillary features such as gyms, locker rooms, cycle storage areas and off site car parking provisions.

There is an increasing need for new build accommodation across both cities, particularly for family homes. This imbalance between demand and supply is likely to be exacerbated over the next 20 years. The lack of new build is particularly noticeable in prime locations.

Buyer origin

At 75%, the majority of buyers of new build properties in Edinburgh

and Glasgow stayed within their respective cities. The majority of remaining buyers came from other parts of Scotland and the United Kingdom. Edinburgh appears to be a particular draw for those in London. Glasgow purchasers came from as far afield as the United States and Portugal.

Meanwhile, Edinburgh saw a noticeable trend of Arab, Chinese and Singaporean buyers, many of whom have bought prime properties in central Edinburgh.

These trends are being experienced in the second hand market in both cities too. Therefore, the marketing of properties on a local and international basis is important to attract a variety of purchasers.

Future supply

Savills Research analysis of planning applications for residential developments across Edinburgh City and Glasgow City shows that around 4,900 and 4,300 private properties respectively are currently in the various stages of planning.

However, the official housing Land audit publications for both cities suggest a total future supply of around 19,000 in Edinburgh City and 14,000 in Glasgow City. These significant numbers include strategic sites, many of which are in large regeneration areas.

In reality, there are likely to be fewer larger-scale developments out with

OUTLOOK

The next five years

■ Demand for well located, high quality and appropriately priced new build properties will continue to outstrip supply, especially in prime locations.

■ Whilst there are a large number of properties in the planning pipeline across both cities, we do not anticipate the majority will launch on to the market in the next few years.

■ Help to Buy will continue to facilitate sales and will particularly benefit mid-market new build purchasers. The equity loan element of Help to Buy in Scotland is due to finish in 2016. However, the high level of demand has led to concerns over the amount of funding set aside for this scheme by the Scottish Government.

the core hotspots coming to the market. This could be due to various factors such as delays in arranging finance, high infrastructure costs, re-design issues and challenges of achieving the layout that maximises the financial value of the scheme.

For many large sites, with lapsed detail or outline planning consents, the possibility of development to commence according to their original plans, if at all, is highly unlikely. Such schemes could be replaced with a different housing mix, affordable housing and private rented accommodation rather than owner-occupied properties. ■

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