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UK Residential

Scotland has voted 'No'

What does this mean for the Scottish prime property market?

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This document was published in September 2014. The data used in the charts and tables is the latest available at the time of going to press. Sources are included for all the charts.

Glossary of terms

- **Prime:** refers to the most desirable and aspirational property by reference to location, standards of accommodation, aesthetics and value (second hand £400,000 and above). Typically it comprises properties in the top three per cent of the Scottish market by house price.
- **Mainstream:** refers to the bulk of the Scottish housing market.

Scotland has voted 'No'
What does this mean for the Scottish prime property market?

The decision of the Scottish electorate to remain part of the United Kingdom will boost consumer confidence in the property market

Moray Place (Offers Over £630,000) in the heart of Edinburgh's New Town, where prime transactions increased annually by 46%

Referendum result

The Scottish electorate has made its decision on the historic Referendum, held on 18 September 2014, and voted 'No' to the question 'Should Scotland be an independent country? With 55% of the vote, the public has decided that Scotland should remain as part of the United Kingdom.

While there will be ongoing negotiations between Holyrood and Westminster, with regard to further devolution, the result meant we now have a more certain environment for the property market to function. The question over whether Scotland will become independent has been a feature of the Scottish real estate market, and has suppressed consumer confidence. The Scottish market, driven by buyers from Scotland, the south and overseas, is now poised for further meaningful growth.

Many buyers and sellers had been taking a cautious approach in the run up to the Referendum. However, we now anticipate an increase in the number of higher value houses coming to the market, as well as a boost to the entire market. We expect the Scottish prime and mainstream residential values to grow by 23% and 19% respectively by 2018. Prime market values are now set to grow in line with the rest of the UK.

The debate has held back the market, particularly reducing the number of buyers from south of the border moving north. We now anticipate the return of London super-commuters, attracted by the comparative good value on offer in Scotland.

SUMMARY

■ The Scottish Referendum result signals an end to uncertainty, which has been a feature of the Scottish real estate market. The market is now poised for further meaningful growth, with prime and mainstream residential values expected to grow by 23% and 19% respectively by 2018 (see Table 1).

■ Prime Scottish transactions increased annually by 39%, outperforming the mainstream market, where the number of sales increased annually by 23% (see Table 2 and Graph 2). While there was anecdotal evidence of a market slowdown in the immediate run-up to the Referendum, we expect such caution to dissipate as we enter the autumn market.

■ Prime value recovery across Scotland is more evident in urban, compared to country locations. This reflects the wider trend seen across Britain for urban markets improving, where a buyer's purchasing decision is more likely to be driven by a catalyst, such as job relocation or schooling, rather than a simple choice to upsize or downsize.

■ The Scottish housing market faces some challenges in the coming years due to changes in stamp duty and constraints on Help to Buy funding. However, we expect the Scottish housing sector to adjust to the new environment now that we have a robust market with sustained growth expected, following the Referendum result.

TABLE 1

Residential values forecast

Area	2014	2015	2016	2017	2018	5yrs to end 2018
Prime Regional UK	4.5%	1.0%	5.0%	5.5%	5.0%	22.7%
Prime Scotland	2.0%	3.5%	5.0%	5.0%	5.5%	22.8%
Mainstream UK	9.5%	4.0%	3.5%	3.5%	3.0%	25.7%
Mainstream Scotland	6.5%	2.5%	3.0%	3.0%	2.5%	18.7%

Source: Savills Research

Growth in prime sales

We predict the Referendum result to further boost the market in Scotland. The prime residential market (at £400,000 and above) showed a strong performance, with a 39% annual increase in activity, reaching 3,035 transactions during the year ending July 2014 (see Table 2).

The market has been robust from Spring 2013 onwards, making it the busiest period since 2008. Sales in the mainstream market across Scotland increased annually by 23% during the year ending June 2014. While there was anecdotal evidence of a market slowdown in the immediate run-up to the Referendum, we expect such caution to dissipate as we enter the autumn market.

The prime market has been boosted by the hubs of Edinburgh, the Aberdeen area and Greater Glasgow, where activity collectively increased annually by 43%. Edinburgh was heavily supported by strong growth in the hotspots of New Town and the West End, where prime transactions collectively increased annually by 52%, representing 170 sales.

The prime southern Glasgow suburbs of Pollokshields, Newlands, Giffnock and Newton Mearns experienced a strong market, with a combined 42% annual increase in activity, representing 152 sales. These areas continue to be supported by top quality education facilities and excellent transport links. Prime activity in the Aberdeen Postcode District of AB15, which includes the suburbs of Bieldside, Cults and the West End, increased annually by 49% and made up around a third of prime transactions across the Aberdeen area during the year ending July 2014.

The market strength in the core locations of Edinburgh, Aberdeen and Glasgow has spilled out to some of Scotland's provincial locations, such as Tayside, where prime transactions increased last year by 26% and also the Midlothian area, south of Edinburgh, where prime transactions doubled to 22 during the year ending July 2014, compared to just 10 during the previous 12-month period.

With a 39% annual increase in activity, Fife is one of only six areas in Scotland where prime sales exceeded the 100 level, reaching 118 during the year ending July 2014. Unsurprisingly, St Andrews remains the dominant hotspot, accounting for 38% of prime sales in Fife. However, activity throughout the rest of the county is evenly spread with prime sales taking place in the East Neuk, Cupar, Dunfermline and Burntisland areas.

The prime markets in the country locations of Ayrshire, Highlands and the Borders also improved during the year ending July 2014 following restrained performance in previous years. However, within these areas, prime market activity is mainly concentrated in more densely populated locations, and has yet to spill out to more remote locations in Scotland.

For example, in Ayrshire, where prime transactions increased annually by 36%, over half of prime sales took place in the towns of Ayr and Troon. Similarly, in the Borders, where prime transactions almost doubled on an annual basis, around a third of activity took place in Melrose and Peebles. Another example is the Highlands, where prime transactions increased annually from 33 to 58. However, a third of prime activity in this area took place in and around the city of Inverness.

Prime values

While prime values across Scotland have grown slightly by a modest 1% this year, the recovery is more evident in urban, compared to country locations. Prime values in the city areas of Edinburgh and Glasgow have increased by 4% and 2% respectively this year, following a rise in transactions and an increasing lack of stock. While transaction numbers in the country have also picked up, until this point, we have not seen any significant growth in values. This reflects the wider trend seen across Britain for urban markets improving, where a buyer's purchasing decision is more likely to be driven by a catalyst, such as job relocation or schooling, rather than a simple choice to upsize or downsize.

While Scottish prime market conditions have improved this year, values in Edinburgh and Glasgow are

TABLE 2

Strong growth in prime transactions

Area	Year to July 2010	Year to July 2011	Year to July 2012	Year to July 2013	Year to July 2014
SCOTLAND	**2,102**	**2,294**	**2,194**	**2,176**	**3,035**
Edinburgh	696	684	780	740	1,021
Aberdeen area	348	463	435	442	647
Greater Glasgow	426	443	378	378	557
Tayside	145	149	140	155	196
East Lothian	94	97	88	105	123
Fife	86	115	87	85	118
Borders	48	56	45	41	77
Stirlingshire	56	65	58	59	72
Ayrshire	58	67	55	50	68
Highlands & Islands	58	47	43	33	58
West Lothian	25	30	23	25	28
Argyll & Bute	23	27	22	22	27
Midlothian (excluding Edinburgh)	14	13	12	10	22
Dumfries & Galloway	25	38	28	31	21

Source: MyHousePrice.com and Savills Research

currently 18% below their 2007 peak while values in the country locations are currently 27% below their 2007 peak, mainly due to the uncertainty surrounding the Referendum. In comparison, prime markets in some comparable hotspots south of the border have shown strong recovery since the beginning of 2013. Prime values in areas such as Bath, Oxford and York are exceeding their 2007 peak.

Following Scotland's decision to remain part of the Union, we expect strong recovery in prime Scottish values. We predict Scottish prime values to rise by 2% by the end of this year, and further annual growth of 3.5% by the end of 2015, exceeding the Prime UK market (see Table 1). We expect prime values in Edinburgh and Glasgow to reach their 2007 peak by 2016, with country house values reaching that level by 2018.

Million pound market

There was a jump in transactions above £1 million in Scotland, with 144 sales recorded during the year ending July 2014, compared to 121 during the previous 12-month period. The current level of 144 transactions is 8% below the 10-year annual average of 157 transactions (see Graph 1). Buyers originating from outside Scotland made up 30% of the million pound market, compared to 26% in the previous 12-month period.

During 2013, the majority of such buyers came from London. Since the start of 2014, only three buyers have originated from London, with overseas purchasers coming from other parts of Europe, the US, the Middle East, Hong Kong, Singapore and New Zealand, compensating for the lack of buyers from south of the border. We anticipate an increase in sales at the top end of the Scottish market from buyers, both from home and abroad, who had put their purchasing decisions on hold until after the vote.

Edinburgh, the traditional hub of the million pound market with a 44% share, saw a slight rise at the top end, representing 63 transactions during the year ending July 2014 compared to 57 during the previous 12 month period. This was followed by the Aberdeen area which saw 30 sales above £1 million during the year ending July 2014. This included 13 new build sales, with six taking place at a single development in the West End of the city.

While sales at £1 million and above in the Greater Glasgow area increased to 17 during the year ending July 2014, compared to 11 during the previous 12-month period, there has only been one transaction this year in Lanarkshire and one in the city area of Glasgow.

There were 11 residential sales at £1 million and above across Tayside during the year ending July 2014 compared to eight during the previous 12-month period. Scotland has traditionally had a small market at £2 million and above, with just 12 transactions at this level during the year ending July 2014, with half of the sales taking place in Aberdeen and Edinburgh.

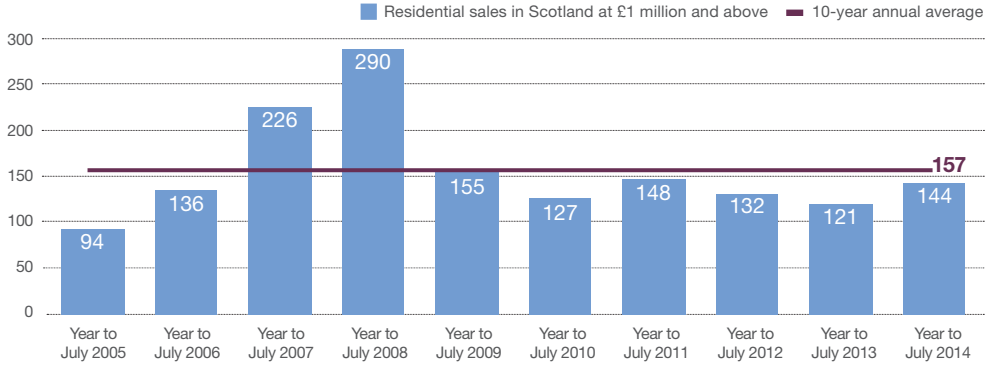
To put this in context, there were 28 sales in the Northern regions of England and 2,456 residential sales in London at £2 million and above during the year ending June 2014. Activity in Scotland at this level has dropped off in recent months as uncertainty over the Referendum has deterred buyers from outside Scotland making such big investments in the country. We now expect this sector of the market to recover over the next six months.

Mainstream market

The mainstream market in Scotland primarily consists of local buyers and as such has been less affected by the uncertainty surrounding the Independence Referendum. House purchase activity across Scotland remains robust, particularly in urban locations. There was a 23% increase in transactions, from 74,494 during the year ending June 2013 to 91,870 during the year ending June 2014. This was led by a 21% increase in

GRAPH 1

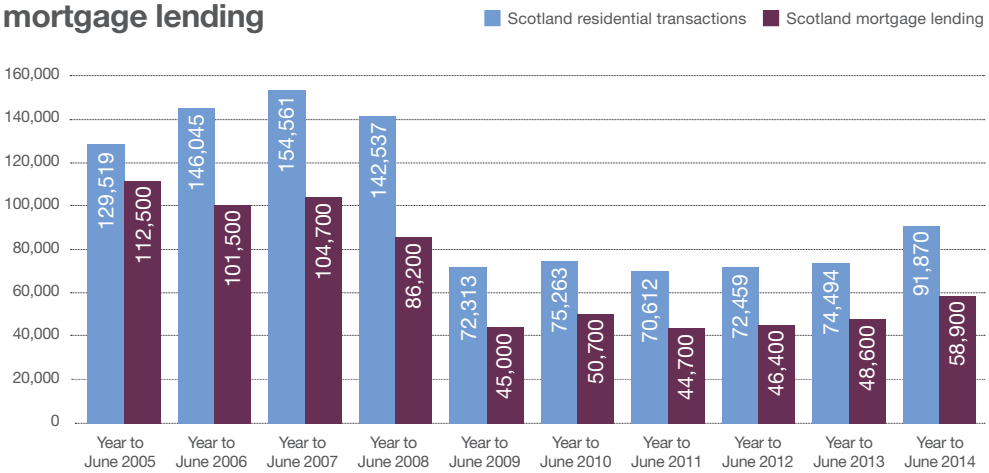
Scottish million pound sales are approaching long term average



Source: MyHousePrice.com and Savills Research

GRAPH 2

Overall Scottish residential transactions boosted by improved mortgage lending



Source: Registers of Scotland and Council of Mortgage Lenders

mortgage lending over the same period (see Graph 2). The rise in mortgages has mainly been driven by the Funding for Lending scheme which has made a positive contribution to mortgage availability across the UK.

At a Local Authority level, we are seeing continued strong performance in the core markets of Aberdeen and Edinburgh, the commuter locations of East Lothian, East Renfrewshire and East Dunbartonshire and also secondary markets including Angus and Midlothian. Overall values in Scotland showed strong growth during 2014. According to data from the Nationwide Building Society, the average Scottish house price increased annually by 5.4% during the second quarter of 2014. We are forecasting Scottish mainstream values to rise by 6.5% at the end of this year (see Table 1).

Such growth is likely to be driven by activity in urban areas. However, our forecasts over the next four years take into account the potential impact of interest rate rises on housing costs in Scotland. Affordability constraints are likely to increase over the five-year period of our forecasts thus limiting the capacity for strong price growth. The pattern of price growth will be dictated by the extent of growth while rates remain low and, in turn, how quickly those rates rise.

Stamp Duty changes

From April 2015, Stamp Duty for Scottish residential and non-residential property sales (SDLT) will be replaced by a new tax, which will be collected within Scotland. It will be known as the Land and Building Transaction Tax (LBTT). LBTT, as part of the Scottish Government's devolved tax raising powers, was going to be introduced regardless of the Referendum result. While LBTT received Royal Assent in the summer of 2013, the final rates will not be announced until late autumn. We expect the Scottish housing sector to adjust to the new regime now that we have a robust market with sustained growth expected, following the Referendum result.

LBTT could favour residential sales at £180,000 or less under the Scottish Government's proposed structure. Sales above £200,000 would incur a higher rate of tax than at present.

Scotscraig (Offers Over £850,000) in Paisley, Renfrewshire. Prime transactions across Renfrewshire increased annually by 32%

Should this progressive form of Stamp Duty be applied, it will introduce positive results for around 80% of buyers in the Scottish residential market, provided the market remains the same. However, 20% of house buyers will be hit with higher taxes.

There are no plans to reform Stamp Duty in the rest of the UK. Whilst we welcome a progressive new system, the proposed structure is likely to increase the costs to families and professionals looking to move up the housing ladder. The majority of housing suitable for these markets in the main cities of Scotland is priced at more than £300,000. On average, LBTT payments will be around 24% more than SDLT, therefore adding to the cost of moving for those living in Scotland's key cities.

Help to Buy update

Equity loan scheme

The Help to Buy (Scotland) equity loan scheme is available on new build homes from participating home builders up to a maximum value of £400,000. The Scottish Government's overall funding for this three-year scheme is £275 million. Help to Buy has provided much needed stimulus to the Scottish new build market, with nearly 5,000 approved applications up to the end of July 2014, according to Homes for Scotland.

The success of the scheme has been such that the £35 million allocated for the financial year 2013/14 as well as the £140 million allocated for the financial year 2014/15 has been expended. Future new build sales under this scheme, with a completion date of April 2015 and beyond, will require funding from the 2015/16 budget for which £100 million has been allocated. We expect a further circa 3,000 new build sales in Scotland under this scheme based on current trends.

Mortgage guarantee scheme

The Help to Buy mortgage guarantee scheme is available across the United Kingdom. Since the launch of this three-year scheme, there have been 18,564 mortgage completions, from October 2013 to June 2014, across the UK.

At 2,298 completions, 12% took place in Scotland, which is the third highest percentage in the country, slightly behind the North West and South East of England. The main beneficiaries of this scheme across the UK are first time buyers, which accounted for 79% of completions.

The overall impact is rather limited, as completions under this scheme made up only 5% of all mortgage lending in Scotland between October 2013 and June 2014. We expect further promotion of this scheme from Scottish housebuilders due to the lack of funds available for the equity loan scheme. Based on performance to date and market conditions, we expect a further 4,000 completions in Scotland under this scheme.

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