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UK Residential

Spotlight
Scotland's Prime Residential Property Market

Spring 2015

This publication

This document was published in February 2015. 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's Prime Residential Property Market

Politics, rather than supply and demand, will be the main determining factor in the prime market in Scotland this year

While an equilibrium has been reached, with stock levels now more in line with transactions at the higher end of the market, progress is likely to be hampered by the introduction of Land and Buildings Transaction Tax (LBTT) and uncertainty in the lead up to the UK General Election.

Prime Scottish values in city locations increased annually by 5% during the last quarter of 2014, whereas rural areas fell by 1.5% over the same period. This has reflected the wider UK trend, whereby buyers of urban properties continue to be driven by catalysts, such as job relocation or schooling, keeping the market active. Rural buying decisions have been more discretionary.

The prospect of increased property tax at the upper end of the market will mean a more subdued outlook, with Scottish prime values likely to show minimal growth this year (Table 1). As a consequence, there are opportunities for buyers to take advantage of relative affordability, particularly in country locations.

From 2016 onwards, we expect the prime market to absorb the turbulence of recent political and taxation challenges and to continue the value growth that had been underway prior to the Referendum.

Despite the challenges facing the top end, there is a more positive outlook for the Scottish residential property market as a whole, due to the establishment of three important foundations. These are the introduction of favourable LBTT rates for the majority of buyers, a dissipation of interest rate fears in the short term and the continuation of gradual economic growth.

2015 will be a period of growth across the mainstream Scottish residential property market. The market, which has lagged over the past five years due to the fragile economy and mortgage constraints, is likely to show a strong performance over the course of this year, with a higher rate of growth than the UK as a whole.

Looking further ahead, we expect more conventional market conditions to prevail, with mainstream market recovery fuelling buyer activity further up the market from next year onwards.

EXECUTIVE SUMMARY

Prime

LBTT will bring a more subdued outlook for Scotland's prime market in the short term

Country

There will be increased opportunities to take advantage of relative affordability in country locations

Mainstream

Mainstream will outperform rest of UK and also prime Scotland, due to LBTT changes and improved lending in a growing economy

TABLE 1

Prime and mainstream markets Five year values forecast

	2015	2016	2017	2018	2019	5-year
Prime residential GB regional	1.0%	6.0%	5.0%	5.0%	5.0%	23.9%
Prime residential Scotland	0.0%	4.0%	4.5%	4.0%	4.0%	17.5%
Mainstream residential UK	2.0%	5.0%	5.0%	3.0%	3.0%	19.3%
Mainstream residential Scotland	3.5%	4.0%	4.0%	2.5%	2.5%	17.6%

Source: Savills Research

Prime sales up

Prime residential (£400,000 and above) led the Scottish housing market with a 30% annual increase in activity during 2014. There were 3,299 prime Scottish sales recorded in 2014, the highest number since 2007 (see Graph 1).

> "Longer term, we expect the prime market to absorb political and taxation challenges"
>
> Faisal Choudhry, Savills Research

The prime market was boosted by the hubs of Edinburgh, the Aberdeen area and Greater Glasgow, where activity collectively increased by 33%. Together they account for almost 75% of Scotland's prime transactions.

Edinburgh

Edinburgh was heavily supported by strong growth in the hotspots of the New Town and the West End, where prime transactions collectively increased annually by 46%, representing 194 sales. While prime activity across Edinburgh's suburbs has remained subdued in recent years, there was a discernible rise in sales in the Colinton area, with 31 prime sales recorded last year, compared to 24 in 2013.

Aberdeen

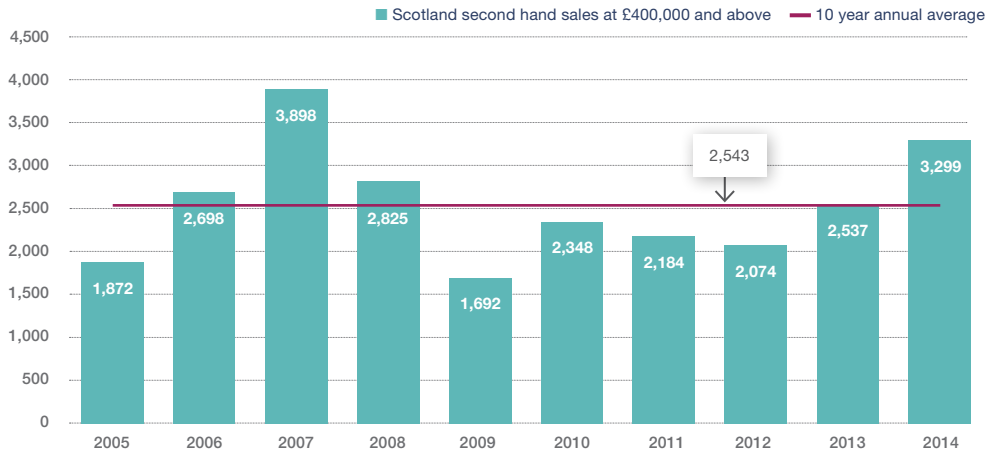
Prime activity in the West End, Bieldside, Cults, Milltimber and Peterculter made up nearly 65% of transactions across the Aberdeen city area last year, representing 217 sales. Demand has far outstripped supply in such hotspots, restricting the increase in prime sales across the city. The Aberdeen economy and its housing markets are inextricably linked to the vagaries of the UK oil and gas sector. Falling oil prices may lead to a slower rate of growth in prime residential values and an increase in the level of stock being launched to the market. This is likely to reduce the growth in prices seen across Aberdeen City, which have increased year-on-year by an average of 7% since the beginning of 2013, compared to 3% across Scotland as a whole. With prices at 30% more than the Scottish average, Aberdeen will be able to absorb a cooling off in values in the medium term.

Glasgow

The prime market in the Glasgow city area was boosted by increased activity in the Pollokshields area, where prime sales more than doubled, from 21 in 2013 to 45 in 2014. Around 58% of prime sales in Glasgow last year took place across the West End of the city, as is demonstrated in the case study on this location on page 5.

GRAPH 1

Prime transactions at £400,000 and above



Source: MyHousePrice.com and Savills Research

TABLE 2

Million pound sales

Area	05	06	07	08	09	10	11	12	13	14	10 year annual av.
SCOTLAND	124	163	289	235	106	145	139	125	137	146	161
Edinburgh	62	80	147	100	48	72	62	54	68	69	76
Aberdeen area	6	11	13	14	11	15	21	24	20	30	17
Greater Glasgow	21	30	45	43	21	22	23	15	17	18	26
Fife	3	1	11	13	5	8	4	6	4	8	6
Tayside	9	7	20	18	5	11	14	6	11	7	11
Lothians ex. Edinburgh	11	4	21	15	6	4	3	6	7	6	8
Scottish Borders	3	9	11	7	1	2	2	2	1	5	4
Ayrshire	3	8	6	10	2	1	6	3	1	2	4
Argyll and Bute	1	0	1	1	1	2	0	3	1	1	1
Stirlingshire	2	9	4	6	3	2	3	2	6	0	4
Highlands & Islands	1	2	7	4	3	3	1	3	1	0	3
Dumfries & Galloway	2	2	3	4	0	3	0	1	0	0	2

Source: MyHousePrice.com and Savills Research

FOCUS ON GLASGOW'S WEST END

The residential market across Scotland has been supported by 'local heroes' over the past two years, property hotspots which are primarily located in the core central locations of the Scottish hubs of Aberdeen, Edinburgh and Glasgow. One such local hero is Glasgow's West End where the residential market has outperformed the region in terms of average prices.

Our research shows that the average sale price across the West End (defined as Park, Hillhead, Dowanhill, Hyndland, Kelvinside, Claythorn, Jordanhill, Broomhill and Partick) reached £221,409 during 2014. This was 69% higher than the average sale price across the Glasgow City Local Authority area as a whole over the same period. There was also an 11% increase in the number of transactions, reaching 1,261 sales last year.

The number of sales across the Glasgow City Local Authority area as a whole is currently 13% below the 10 year average. However, the residential activity across Glasgow's West End is 1% higher than the 10 year average.

The majority of sales across the West End take place below £200,000, making up 58% of residential transactions in 2014. At the top end of the market, there were fewer sales in the West End than one might expect, with 9% of activity taking place last year above £400,000.

The market is increasingly being driven by younger professionals aged from 30 to 39, comprising around 41% of Savills sales last year. This target market had been somewhat subdued following the housing market downturn, mainly due to lending constraints. However, there was pent-up demand among this age category aspiring to upsize. This latent demand, coupled with improved lending, has led to an increase in activity among this age group, following low levels of sales during 2011 and 2012.

Looking ahead, we expect transactions across Glasgow's West End to grow in line with Scotland as a whole, supported by low mortgage rates and a gently improving economy.

We expect residential values across the core areas of Glasgow's West End to continue their positive upward trend, with growth of around 20% expected over the next five years, supported by favourable rates of LBTT.

TABLE 3

Neighbourhood Watch: a closer look at Glasgow's West End core areas*

Area	Residential transactions 2014	Annual change	10 year annual average	Average sale price 2014	10 year average
Botanics & Kelvinside	94	-7%	101	£333,692	£309,280
Broomhill & Partick	565	7%	552	£166,053	£160,967
Claythorn	20	-33%	22	£324,130	£294,517
Dowanhill & Hyndland	304	11%	302	£256,289	£258,866
Hillhead	130	29%	139	£223,716	£212,723
Jordanhill	107	70%	88	£260,799	£281,648
Park Area	41	0%	44	£307,956	£310,993
Overall Glasgow West End	1,261	11%	1,248	£221,409	£218,577

Source: MyHousePrice.com and Savills Research

*Second hand market

Regional

Market strength has rippled out into desirable and commutable provincial towns. Some of Scotland's top performing locations last year included Banchory, Inverurie, St Andrews, Melrose and Bothwell. Interestingly, the number of prime sales in the Highlands & Islands doubled last year, with increased demand from local buyers in more populated locations, such as Inverness and Nairn.

Million pound market

There was a slight rise in transactions above £1 million in Scotland, with 146 sales recorded last year compared to 137 during the previous 12 months. The current level of 146 transactions is 9% below the 10 year annual average of 161 transactions (see Table 2).

Edinburgh, the traditional hub of the million pound market with a 48% share, saw little change at the top end, representing 69 transactions last year compared to 68 during 2013.

The Aberdeen area had 30 sales above £1 million in 2014, which was the highest number ever in this price band in this location. This included the highest sale price of the year in Scotland, a mansion in the prestigious Rubislaw Den South, which sold at the end of last year for £3,070,000.

Sales at £1 million and above in the Greater Glasgow area reached 18 in 2014, which was only one more than the number during 2013. Eight such sales took place in the prime suburbs of Bearsden and Milngavie, which was the highest level in this area since 2008.

There were only seven residential sales at £1 million and above across Tayside last year compared to 11 during 2013.

Among other provincial locations, Fife was most notable, with eight sales recorded in this price band, all of which took place in the St Andrews area, where the 2015 Open Golf tournament is taking place.

Scotland has traditionally had a small market at £2 million and above, with 10 such sales last year, compared with 2,477 in London. Activity dropped off last year as uncertainty over the Referendum deterred buyers from outside. We expect any recovery in this sector of the market to be curtailed by the impact of LBTT and a possible Mansion Tax.

Mainstream market

Gentle economic recovery, falling unemployment and improving mortgage market conditions are helping to underpin the mainstream residential property sector in Scotland. The market cooled in the last quarter of 2014, following the introduction of the nationwide Mortgage Market Review. There was also a slowdown in deals in the immediate run-up to the Independence Referendum in September. However, the latest figures show a 12% annual rise in residential transactions, up from 84,065 in 2013 to 93,875 in 2014 – the busiest market since 2008.

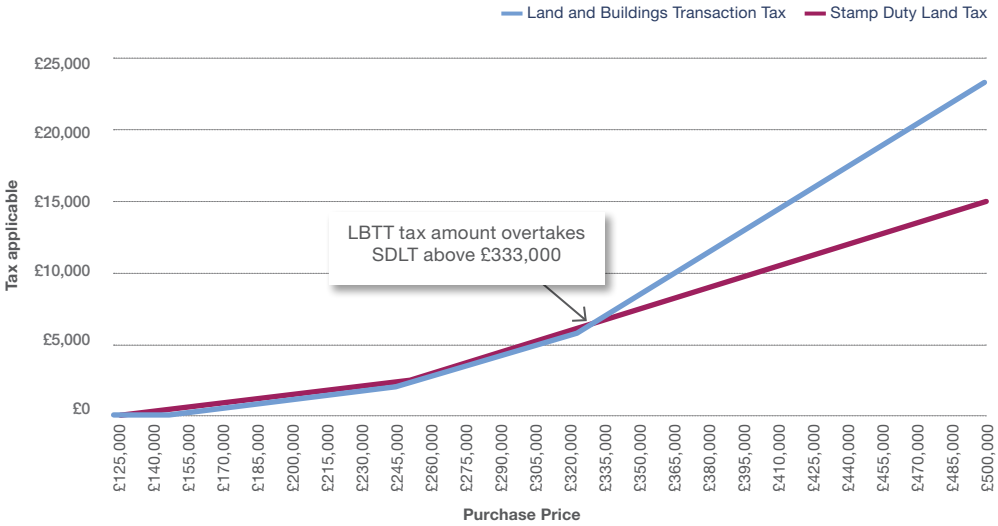
Around two-thirds of transactions in Scotland are mortgage dependent and the 18% annual increase in Scottish lending has boosted the mainstream market. The government's Help to Buy schemes assisted in 6,629 sales across Scotland between October 2013 and September 2014, providing much needed support to the new build and first-time buyer market.

LBTT means 50% of buyers will not have to pay any property tax

Scotland is most searched location on Savills website (outside London)

GRAPH 2

Current SDLT vs proposed LBTT



Source: HMRC and Revenue Scotland

The core locations of Aberdeen, Edinburgh, East Renfrewshire and East Dunbartonshire have led the Scottish residential property market for the last 10 years and continue to do so. However, 2014 will be best remembered as the year when market strength spilled out from the hubs into secondary and commuter locations. Moray saw an annual increase in transactions of 24% last year; West Lothian 22% and South Lanarkshire 20%, all helped by attainable house prices and new build developments.

There are signs conditions in the mainstream market are recovering, with an increase in new buyer enquiries and instructions across Scotland during the month of January this year, according to the latest RICS Residential Market Survey. A slight monthly rise in mortgage approvals across the UK during December, the recent stamp duty reforms, and the initial effects of lower oil prices on UK inflation, should help improve activity levels.

LBTT

From 1 April 2015, Land and Buildings Transaction Tax (LBTT) will replace Stamp Duty Land Tax (SDLT) on Scottish property transactions. The revised rates announced by the Scottish Government on 21 January are only 2% lower than the original rates from October last year and are still 27% higher than the SDLT paid by the rest of the UK.

LBTT is good news for home ownership generally as it means 50% of buyers will not have to pay property tax at all. However, it does mean the already heavily taxed middle classes will be picking up the tab and that could have an impact on the higher end of the market. In fact, the new system relies on 8% of buyers for around 75% of the tax revenue.

> "More conventional market conditions will ultimately prevail with mainstream market recovery fuelling the prime market"
>
> Emily Dorrian, Savills Research

The early part of 2015 has seen buyer activity increase in the prime property sector with buyers motivated to move prior to 1 April, and this is expected to tail off in the second quarter of the year.

Despite higher levels of property tax, Scotland (currently the most searched for location on Savills website outside London) will continue to offer comparatively good value, compared with London and the south.

For example, around £775,000 will buy a two-bedroom upstairs flat in Fulham, including SDLT. The same outlay will buy a four-bedroom Victorian villa with gardens in a comparable Edinburgh suburb, including LBTT. A bargain in anyone's book.

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