savills

Savills World Research
UK Residential
savills.co.uk/research

Spotlight | Autumn 2017

Scotland's Residential Property Market

Summary Whilst the UK-wide residential market is feeling the impact of the EU Referendum and this year's General Election, Scotland, despite higher rates of taxation, is enjoying its strongest conditions since 2008. Should the Scottish Government reconsider LBTT rates then the property market has the potential to rival the performance of other markets around the UK

Strongest market since 2008

Scotland's improved market performance is due in part to the resilience of Scottish buyers who have become used to political change, combined with a return of buyers from outside Scotland, who are attracted by the value gap and the reduced momentum with regards to the Scottish Independence debate. However, the political landscape is still dictating the market in some price bands, with higher rates of property tax in Scotland discouraging movement amongst local buyers and doing little to attract inward investment from further afield

Market activity across Scotland is at its highest level since 2008, with a total of 101,421 residential transactions during the year ending June 2017. The bulk of activity takes place up to £400,000 and this is where the majority of the growth in recent years has happened. This market has been assisted by low mortgage and taxation rates, along with Government initiatives such as Help to Buy.

The bracket between £400,000 and £750,000 outperformed the wider market, recording an 8% annual growth in transactions. Meanwhile, the market above £750,000 is struggling to adjust to Land and Buildings Transaction Tax (LBTT) and witnessed a slight annual drop in transactions.

Chronic lack of supply lifting prices

While transactions continue to increase, house prices are also rising, underpinned by a lack of supply. According to recent surveys by the RICS and our own research, there has been a drop in new stock coming onto the market, especially in Edinburgh.

House buyers in Scottish cities are facing a vicious circle of demand exceeding supply. The trend in Scottish cities is now to buy before selling - quite the reverse of the trend in the country house market. This lack of choice is compounding the problem, with buyers unwilling to sell their current house until something suitable can be found. As a result, we are witnessing competitive bids and strong premiums for properties launched onto the market at realistic prices, particularly in city and suburban hotspots. The time taken for properties coming onto the market to reach a sold status across Scotland's cities has dropped to nine weeks, compared to 12 weeks earlier in 2017.

These factors have fuelled Scottish house prices, which increased annually by 2.9% in June 2017. A similar trend was also witnessed in the Savills Prime Scotland index, which increased in value by 3% during the second quarter of 2017 across Edinburgh and Glasgow.

Slow rates of growth in the short term

Our current forecasts, announced at the end of last year, have already taken account of prevailing political and economic uncertainty and assume two years of low house price and transactional growth. This reflects the short-term impact on buyer sentiment due to economic and political uncertainty, as Britain negotiates to leave the EU. Once the dust settles, it will be broader economic trends that will dictate housing market performance.

Market activity is at its highest level since 2008

101,421 residential transactions during year ending June 2017

Sales activity above £400,000 outperformed the wider market

Selling times across Scotland's cities have dropped from 12 to 9 weeks

Scottish house prices increased annually by 2.9% in June 2017

Greater Glasgow reaches new heights

Prime market activity goes from strength to strength, with the West End and new build markets leading the way

Across Greater Glasgow, the number of residential transactions increased by 2% during the year ending June 2017. Within Greater Glasgow, the number in the commuter location of Renfrewshire increased by 13%, supported by new build activity. This was among the highest in Scotland. Annual growth in transactions across Inverclyde, South Lanarkshire and Dunbartonshire also exceeded the Scotland figure.

The number of residential transactions in the city area of Glasgow fell by 3% during the year ending June 2017. This was mainly due to a lack of activity below £200,000. Current selling times in this fast-moving price band are averaging around five weeks, compared to seven weeks across all price bands.

Prime market outperforms Scotland

Greater Glasgow's prime residential market above £400,000 recorded its highest total in five years, with 1,012 transactions taking place during the year ending June 2017. This figure was 29% higher than the level during the year ending June 2016. Prime growth was supported by a 40% annual rise in new build transactions, which now make up 30% of all prime activity in Greater Glasgow. Crucially, the prime second hand market also made a strong comeback, following a dip in activity last year.

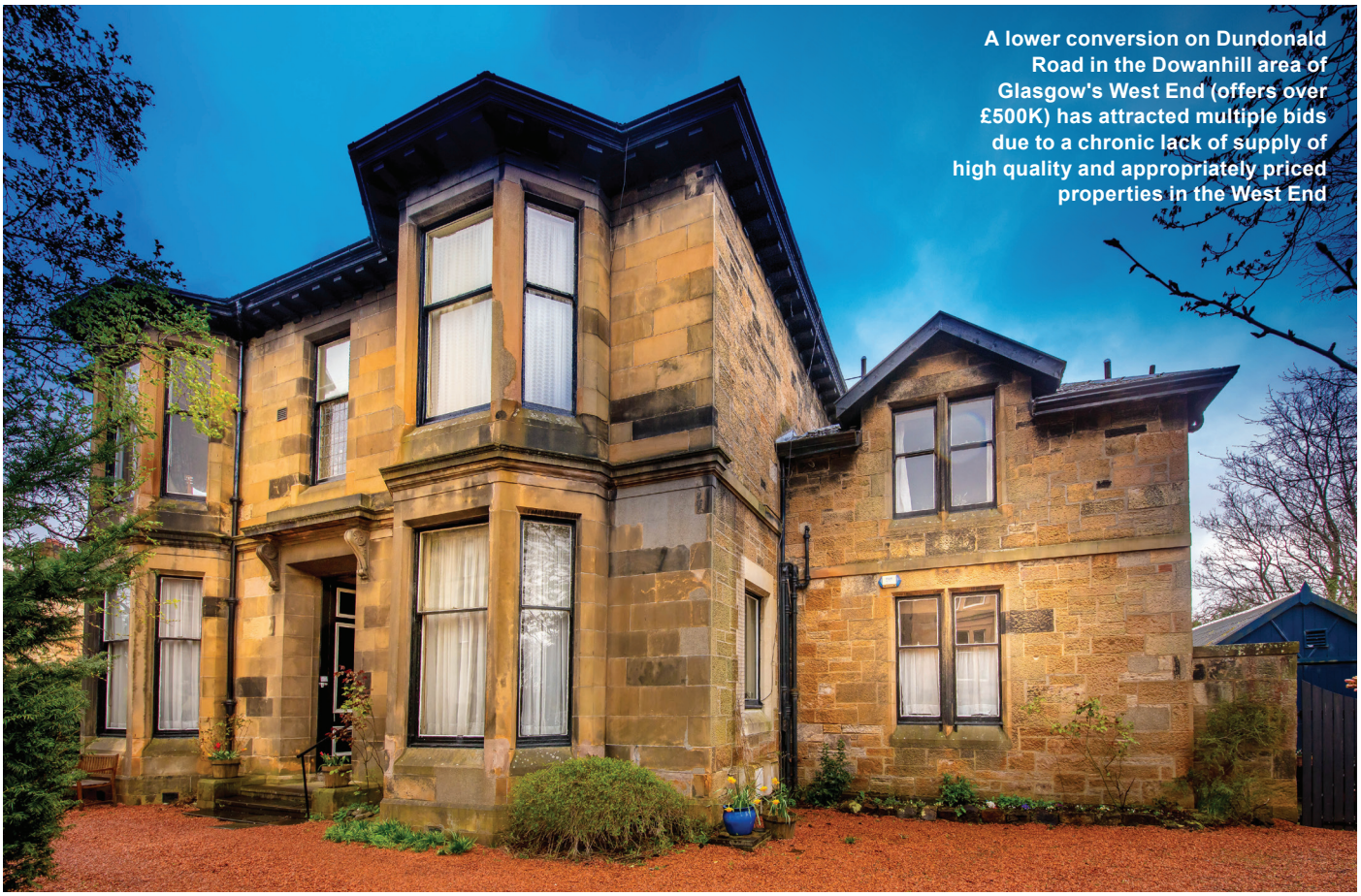
Above £750,000, the market across Greater Glasgow has improved. There were 86 transactions during the year ending June 2017, compared to 61 last year and 69 during the period before LBTT commenced.

City hotspots lead the way

The prime market in the city area of Glasgow made a strong recovery during the year ending June 2017, recording 297 of the 1,012 prime transactions above £400,000 across Greater Glasgow. This was the highest level of transactions in Glasgow in five years. The hotspots of Glasgow's West End and Park made up almost a half of all prime activity in the city.

Meanwhile, there was a 48% annual rise in prime activity in the commuter location of Lanarkshire, supported by new build transactions in Hamilton, Bothwell and Thorntonhall.

Prime activity above £400,000 also improved in the suburban hotspots of Bearsden, Giffnock, Newton Mearns, Lenzie and Milngavie. Transactions above £400,000 made up 12% of all activity in these areas.



A lower conversion on Dundonald Road in the Dowanhill area of Glasgow's West End (offers over £500K) has attracted multiple bids due to a chronic lack of supply of high quality and appropriately priced properties in the West End

LBTT puts Edinburgh under pressure

A lack of mainstream supply has led to a drop in activity. The prime market continues to suffer from the impact of LBTT and fewer properties are being launched this year

The number of residential transactions in the hub of Edinburgh fell by 3% during the year ending June 2017, which is the first annual drop in six years. However, the market between £400,000 and £750,000 bucked the trend, with a 10% increase.

There was an increase in the number of properties being launched onto the market in this price bracket during 2016 compared to 2015, which was reflected in the rise in transactions. On the other hand, the number being launched onto the market above £750,000 fell during 2016 compared to 2015. As a result, there was a drop in transactions above this level during the year ending June 2017.

Meanwhile, demand remains strong, with current selling times averaging six weeks across all price bands, compared to nine weeks earlier this year.

Mixed performance across prime hotspots

Within Edinburgh, the number of prime transactions above £400,000 in the central hotspots of the Grange, Morningside, Merchiston, Inverleith and Stockbridge reached a five-year high. The attraction of good schools continues to underpin these areas. However, the prime market is still catching up in the West End, Ravelston, Murrayfield and Trinity. In the New Town, prime activity up to £1 million is on par with the level last year. Above £1 million, the recovery last year has not continued, with only five transactions taking place in the first half of 2017 compared to 13 in the first half of 2016. Further afield, the number of prime transactions in Barnton and Cramond reached its highest level in five years, fuelled by new build activity. On the other hand, a reduction in new build activity in Colinton led to a slight drop in prime transactions. However, the second hand market in Colinton, particularly above £1 million, has slightly recovered.

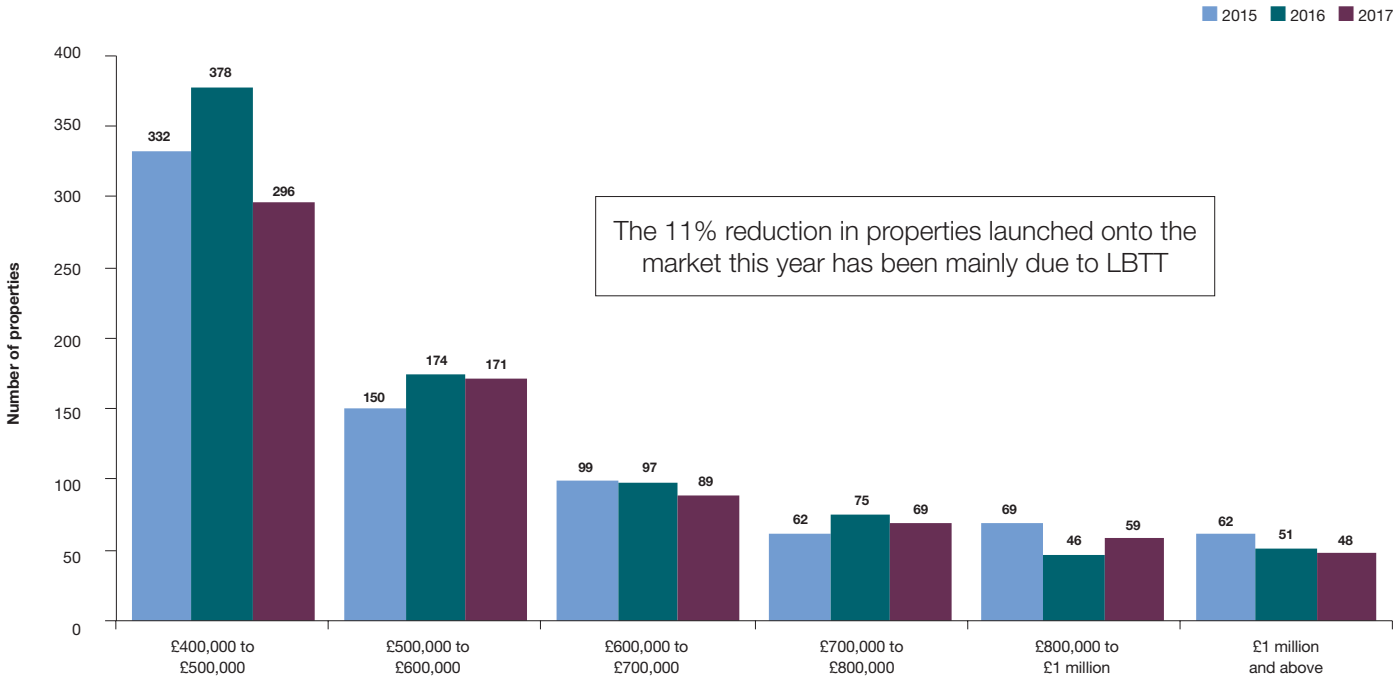
Lack of fresh prime stock as taxation bites

Stock shortages are now impacting the prime second hand market, which will suppress transaction levels going forward. There were 11% fewer properties launched onto the market so far this year above £400,000 compared to the same period in 2016. This is mainly due to LBTT, with people staying for longer in their homes, rather than moving. This trend is likely to continue, unless there is a change in taxation rates (see Figure 1).

New build supports the Lothians

The surrounding Lothians commuter area saw an annual rise of 5% in transactions. This included 11% growth in East Lothian, supported by the new build market. The residential market in East Lothian has been particularly active in price bands up to £500,000. The coastal hotspots of Gullane and North Berwick and the towns of Dunbar and Haddington remain sought after locations for commuters from Edinburgh.

FIGURE 1 **Second hand residential properties launched onto the market in Edinburgh at £400,000 and above (January to August)**



Source: Savills Research

Aberdeen area shows signs of recovery

The Aberdeen area residential market is looking less gloomy, with values stabilising and transactions recovering slightly in recent months. However, the level of available second hand mainstream stock remains high. Meanwhile, southern Kincardineshire and neighbouring areas continue to grow

A modest recovery in oil prices and consumer confidence is being reflected in mainstream property values. From peak to trough, Aberdeen City's average house price had fallen by 19%, from £199,285 in September 2014 to £162,113 in February 2017. The gap has narrowed slightly to 18%, as the average price has remained somewhat steady in recent months, reaching £163,847 in June.

Aberdeenshire's average house price fell by 8% from peak to trough, from £202,570 in April 2015 to £186,114 in February 2017. There has been a rapid recovery in recent months, with the average price increasing since February by 8% to £201,145 in June this year, thus reducing the gap from peak to just -1%. However, this recovery has mainly been centred around locations that are within easy reach of Aberdeen City rather than rural locations, where the market is still subdued.

Activity has increased for the first time in three years

The number of residential transactions in Aberdeen City and Aberdeenshire reached 2,254 during the second quarter of 2017, which was 7% higher than the same period in 2016. This is the first increase since the second quarter of 2014.

The increase in activity was the highest across price bands up to £500,000, where the number of transactions increased by 14%. Above £500,000, the number of transactions fell by 20%. This reflects the lack of realistically priced fresh properties being launched onto the market at this level. There is strong demand for appropriately priced properties between £500,000 and £1,000,000, with current selling times averaging six weeks, compared to 14 weeks across all price bands in Aberdeen.

Stock levels are stubbornly high

Whilst transactions have started to recover, the number of available second hand residential properties has increased by 109% since the beginning of 2015. The majority is between £100,000 and £200,000 and includes many buy-to-let properties, which have been impacted by significant falls in rental prices. A significant number also include one and two bedroom apartments, which typically attract first time buyers and young professionals. However, such buyers, along with younger families, are now targeting semi detached and terraced properties, where prices have adjusted to more attainable levels (see Figure 2).

An appropriate pricing strategy is essential

Although we have witnessed an air of optimism in the Aberdeen area residential market, properties are still price sensitive. There is not enough strength in the market to simply list an Offers Over asking price in line with the Home Report valuation. Savills sales evidence to date confirms that the best price is achieved by setting the asking price between 5% and 10% below the valuation.

Southern Kincardineshire bucks the trend

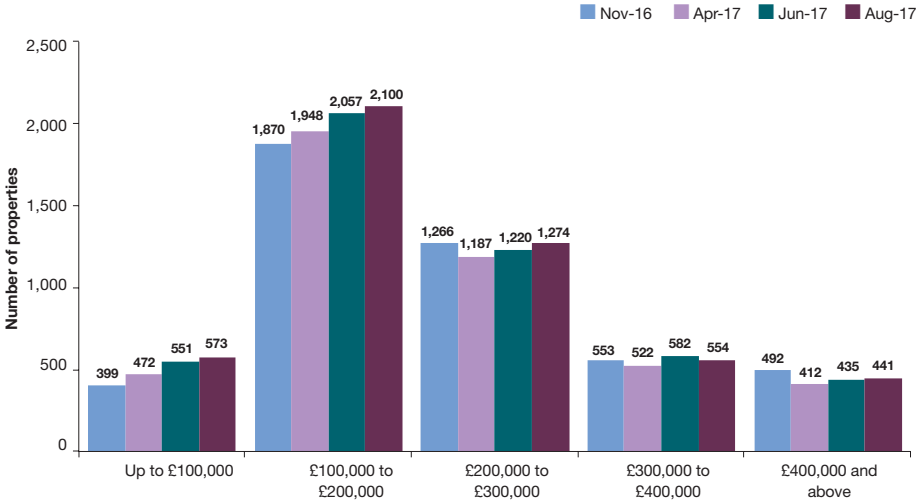
Whilst the annual number of transactions in Aberdeenshire has fallen, southern Kincardineshire, which includes Laurencekirk and Fettercairn, has bucked the trend. The number of transactions increased annually by 10%. The level of prime transactions above £400,000 also recovered, with 17 taking place during the year ending June 2017, including four above £500,000. Transactional activity also recovered in the coastal town of Stonehaven, mainly up to £400,000.

The markets outside Aberdeen continue to grow

The neighbouring counties of Angus, Dundee City and Moray have remained unaffected by the recent boom and bust experienced in the Aberdeen area. Moreover, ongoing investment in Dundee City is assisting the Angus market.

Mainstream average house prices have reached record highs in 2017, however prime values are still 17% lower than the peak of 2008. Transactional growth has been modest and mostly took place up to £500,000. Above this level, the implications of LBTT are having an effect. Dundee City has bucked the trend, with 31 prime transactions above £400,000 during the year ending 2017, which is the highest number in five years.

FIGURE 2 **Aberdeen area second hand residential properties currently available**



Source: Savills Research

Value for money boosts regional locations

A further reduction in values has enabled a recovery in regional locations, with more buyers now coming from outside Scotland. Properties in established towns, with quick access to amenities and major cities, are in strong demand. However, higher taxation continues to impact the top end of the market

Country houses in Scotland's regional locations now offer extraordinary value for money compared to properties both elsewhere in the UK and in Edinburgh. Wealthy home-grown buyers and those from outside Scotland are beginning to take advantage of this affordability, particularly in areas within easy reach of the cities. This is evident in the number of number of Savills buyers originating from outside Scotland, which has increased by 82% during 2017, compared to last year.

As the political challenges in Scotland have eased, London buyers are also making a comeback. This against a backdrop of slowing house price growth in London, due to increased levels of Stamp Duty taxation, mortgage regulation and the Brexit vote, which have left the local market more exposed to uncertainty.

Value for money and quality of life are key drivers for such property buyers, including super-commuters who retain a London base close to where they work, but who commute north to the family home in Scotland at weekends. Such buyers benefit from combining a London salary with the significantly lower property values north of the border.

Scotland's heartland

Across Scotland's heartland of Stirling, Fife and Perthshire, the number of residential transactions increased annually by 5% during the year ending June 2017. The prime market above £400,000 outperformed, with an 11% annual rise.

Traditional hotspots

Prime values in hotspots such as Bridge of Allan, Dunblane, Dollar, St Andrews and Auchterarder increased during the second quarter of this year, compared to the same period last year. High quality properties in these locations continue to attract strong interest, due to their excellent schools, transport links and services. Prime values in village locations have picked up recently, however they remain stable in rural locations.

Rural locations

Market growth continues to spread into Highland, Ayrshire, Argyll & Bute, Borders and Dumfries & Galloway. Transactional growth in these areas outperformed Scotland last year. The relatively smaller market above £400,000 in these areas has improved, albeit limited to £700,000. The strongest growth was in Argyll & Bute, where prime transactions reached 49 during the year ending June 2017. The majority took place in Helensburgh, which recorded its highest total in this price band in six years.

Property tax puts Scotland at a disadvantage

In Scotland the tax on a £750K residential property is £48,350 for a main home or £70,850 for a second home

In the rest of the UK, the tax on a £750K residential property is £27,500 for a main home or £50,000 for a second home

As a result, the average prime transaction price in Scotland has fallen from £572K to £554K in five years

Million pound market suffers due to LBTT

The punitive rates of LBTT are now impacting the million pound market. However, this market is no longer heavily concentrated in Edinburgh and Aberdeen, with more activity in the west and other regional locations

Last year, Scotland's million pound market seemed to be absorbing the punitive rates of LBTT better than the immediate price bands below it. However, the higher taxation malaise is now spreading into this market. The annual number of transactions remained almost unchanged at 144 during the 12 months ending June 2017 compared to 145 during the 12 months ending June 2016. However, this masks the slower market during this calendar year, with 56 transactions during the first half of 2017 compared to 79 during the first half of 2016.

While there has been a marginal dip in the number of transactions compared to the five year average, the spread of these has altered. Edinburgh remains the hub of the million pound market, although the Capital has seen a modest drop in transactions at this level, with 33 recorded in the first six months of 2017 compared to 45 last year. In addition, at the height of Aberdeen's oil dependent residential market, the area produced the second highest level of transactions after Edinburgh. However, latest figures reveal there were only five million pound transactions during the year ending June 2017, including just one in 2017, in a period characterised by uncertainty in the energy sector.

Activity spreading out from main hubs

Meanwhile, there has been a spreading out of transactions to other locations. Greater Glasgow's million pound market has had a stronger 12 months, with 28 annual transactions taking place. The West End, Park, Pollokshields and Bearsden were the stand out locations. Other headliners include the buoyant East Lothian market, which saw eight annual transactions and also Perthshire where the Tower of Lethendy, on the market for £4.6 million, achieved the highest residential transactions price in Scotland since 2007. In addition, Brackenbrae House in Broughty Ferry became Dundee's first ever million pound transaction earlier this year.

In January this year, Brackenbrae House in Broughty Ferry became Dundee's first ever million pound residential sale

LBTT impact

The market above £750,000 is struggling to adjust to LBTT, which is heavily reliant on the top end of the market and sales in Edinburgh. Future Government targets will not be achieved unless there is a significant change in rates

The biggest impact of LBTT has been felt above £750,000, where the number of residential transactions is 7% lower than the level during the year ending June 2014, when the previous structure was in force. The market above £1 million, which had briefly adjusted to the higher rates, is also seeing relatively lower levels of activity this year.

Revenue generated

LBTT did not perform in its first tax year 2015/2016, generating residential revenues of £202 million, against a target of £235 million. However, the start of the Additional Dwelling Supplement (ADS) in April 2016 has boosted revenues, generating £85 million of the total £299 million in the tax year 2016/2017. This was £19 million short of the £318 million target. Without ADS, the basic LBTT revenue in 2016/2017 was actually lower than the previous structure in 2013/2014. So far in the current tax year 2017/2018, LBTT has generated almost £94 million in revenue in three months, with an annual target of £283 million.

The future of LBTT

The sustainability of LBTT revenue under its current structure depends on the market above £325,000 and Edinburgh City. The tax yielded from transactions above £325,000 totalled 72% of LBTT revenue (excluding ADS) over the past 12 months. Edinburgh City alone generated 37% of this revenue; so clearly, LBTT needs a growing Edinburgh residential market to underpin revenues. Our research shows a slowdown in transactions and fewer properties being launched onto the market in Edinburgh, upon which LBTT is reliant.

The Scottish Government has set itself ambitious LBTT residential targets, ranging from £310 million in 2018/2019 to £362 million in 2021/2022. Such levels are unlikely to be achieved unless there is a change in rates that can stimulate the lucrative market above £750,000 and also maximise revenue from the wider market.

New build outperforms

Scotland's new build sector has outperformed the wider market, with support from Government incentives. Meanwhile, mixed-use schemes in central Glasgow will deliver future homes and workspace, changing how we live, work and socialise

Scotland's new build market saw a 5% annual rise in the number of transactions during the year ending June 2017. The market continues to be supported by the Help to Buy equity loan scheme, which had contributed to 25% of all new build completions by the end of last year.

The new build hubs in Scotland are Edinburgh, Glasgow and Lanarkshire. Together, these areas made up 36% of all new build transactions. The biggest increase in activity took place in East Lothian and Fife.

The new build market was most active in the price bands between £200,000 and £400,000. Above £400,000 the market is adjusting to LBTT, but only up to £700,000. Above £700,000, the new build market has seen a drop in annual activity. We expect much anticipated trophy developments in the West End of Edinburgh and the Park District of Glasgow to boost the top end of Scotland's new build market over the course of the next couple of years.

Mixed-use development opportunities in central Glasgow

Mixed-use schemes will be the key drivers that bring forward new residential, office and leisure developments within central Glasgow. In doing so, these will change how we live, work and socialise.

For schemes with a residential component, proximity to established markets is important. The Merchant City and West End markets will be the main drivers. The Merchant City commands a premium due to its residential reputation, central location and proximity to the University of Strathclyde.

The West End is larger, both in respect of transactions and geography. Due to a comparatively high transaction value, the West End creates opportunities on its periphery. These have included Finnieston and Park areas, which are now firmly established and are creating opportunities on their own peripheries, as they consolidate and improve.

Park Quadrant Residences, a development of 98 apartments in Glasgow's West End will complete the final quadrant of Park Circus

Glossary Wider market refers to residential transactions across all price bands, obtained from the Registers of Scotland. Prime market refers to transactions at £400,000 and above. House prices were obtained from the UK Government House Price Index. Selling times and the number of properties being launched onto the market were obtained from our monitoring of various property portals. We have used postcodes to identify neighbourhoods in Edinburgh, including EH1 3, EH2 and EH3 6 (New Town), EH3 7 (Edinburgh West End), EH4 3 (Ravelston), EH12 5 and EH12 6 (Murrayfield), EH5 3 and EH6 4 (Trinity), EH3 5 (Inverleith), EH4 1 (Stockbridge), EH4 6 (Barnton & Cramond) and EH13 0 (Colinton). Greater Glasgow refers to the Local Authority areas of Glasgow City, East and West Dunbartonshire, North and South Lanarkshire, East Renfrewshire, Renfrewshire and Inverclyde.

Savills Research

Faisal Choudhry
Head of Scotland Residential Research
0141 222 5880
fchoudhry@savills.com

Emily Dorrian
Associate, Scotland Residential
0141 222 4132
edorrian@savills.com

Tracy Griffiths
Analyst, Scotland Residential
0141 222 4141
trgriffiths@savills.com

Lucian Cook
Head of UK Residential Research
020 7016 3837
lcook@savills.com

Savills Scotland Residential Development Sales

Natalie Simpson
Head of East Scotland
0131 247 3757
natalie.simpson@savills.com

Carole Mackie
Head of West Scotland
0141 222 5886
cmackie@savills.com

Savills Scotland Residential

Andrew Perratt
Head of Scotland
0141 222 5875
aperratt@savills.com

Jamie Macnab
Head of Country Houses
0131 247 3711
jmacnab@savills.com

Ben Fox
Head of Edinburgh
0131 247 3736
bfox@savills.com

Cameron Ewer
Head of Glasgow
0141 222 5864
cameron.ewer@savills.com

Ruaraidh Ogilvie
Head of Angus and North East
01356 628 628
rogilvie@savills.com

Fiona Gormley
Head of Aberdeen
01224 971 122
fgormley@savills.com