

Spotlight Aberdeen Area Residential Market

Winter 2016



Durris House, Banchory (offers over £700,000) sold earlier this year at an adjusted price in line with current market conditions

SUMMARY

Residential property values need to be adjusted while the local economy rebalances

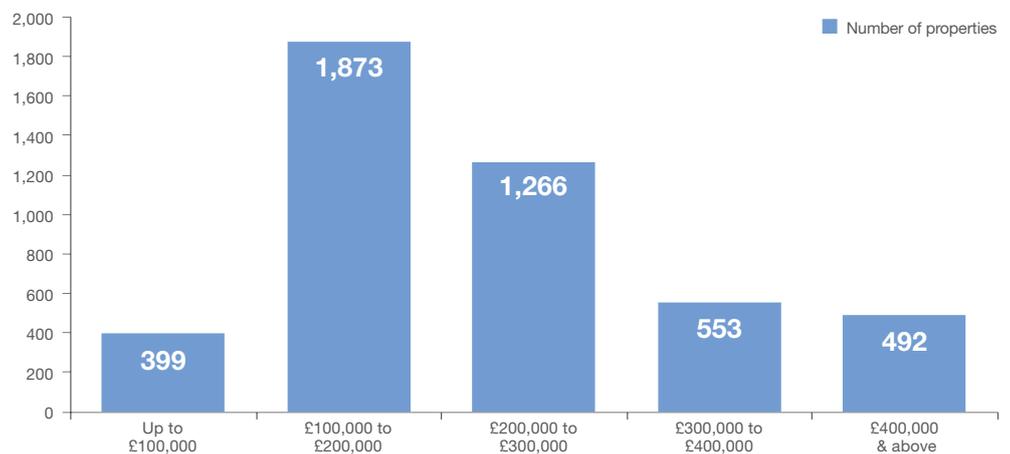
■ The impact of Aberdeen's oil-shock has resulted in a 24% fall in sales, yet there is little evidence of a corresponding reduction in property values.

■ An adjustment in prices will help to generate demand, reduce the high level of available stock and begin a housing market recovery.

■ Providing Aberdeen area house prices adjust in the short term, the prospects for longer term recovery are good.

■ The market will be underpinned by quality housing, top educational facilities, improving infrastructure and a diversifying economy.

FIGURE 1
Aberdeen area second hand residential properties currently available



Source: Savills Research

FOREWORD

Prospects for longer term recovery are good, providing prices adjust



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The residential property market in the Aberdeen area is being impacted by current uncertainty within the oil and gas sector and resulting decrease in consumer confidence. In just two years, the impact of Aberdeen’s oil-shock has resulted in a 24% fall in the annual number of house sales, yet there is little evidence of a corresponding reduction in property values.

Those who need to sell relatively quickly may wish to consider setting significantly reduced asking prices. This is especially for sellers who, like many property owners in Aberdeen, have large levels of equity in their current homes. Others may wish to take a medium to long-term view with regard to buying and selling while Aberdeen’s local economy rebalances.

It is more important than ever for home owners to take a proactive approach and to make informed decisions. For properties to sell in the current market, it is essential that they are priced appropriately, well presented and promoted to the widest possible audience, beyond the local market.

The oil crisis and resulting falling consumer confidence, has led to a rise in homes being launched to the market, with less people in a position to buy. Housing stock levels have increased by 94% since March 2015, leading to a gridlock in market activity. Prevailing macro economic and political issues, are further impacting confidence including the EU Referendum vote and the additional burden of Land and Buildings Transaction Tax (LBTT) payable on higher value properties.

Yet, house prices have only fallen by 7% since 2014, with little adjustment being made for properties that are struggling to sell.



While exceptional properties continue to attract buyers, in general there is now an imbalance between supply and demand. We have forecasted an annual drop of 6.5% in Aberdeen mainstream values in 2017. This will help to generate demand and begin a housing market recovery in Aberdeen (see Figure 2).

Providing house prices adjust in the short term, the prospects for the medium to long-term recovery are good. The Aberdeen market will continue to be underpinned by high quality housing, top-performing schools, universities, good local amenities, improving infrastructure and an increasingly diversified local economy, which is not solely dependent on oil.

FIGURE 2
Five year residential annual change forecasts

	2017	2018	2019	2020	2021	5-year
UK mainstream values	☁ 0.0%	☁ 2.0%	☀ 5.5%	☁ 3.0%	☁ 2.0%	13.1%
Scotland mainstream values	☁ -2.5%	☁ 1.5%	☀ 5.0%	☁ 2.0%	☁ 3.0%	9.2%
Aberdeen mainstream values	☁ -6.5%	☁ -2.0%	☁ 1.5%	☁ 0.0%	☁ 1.5%	-5.6%

Source: Savills Research

MARKET CONTEXT

Economic commentators have been referencing Aberdeen's micro-climate since the rapid oil price rise, which started in 2010. While the rest of the UK was in the grip of the economic downturn, Aberdeen was protected in its oil bubble. By the end of 2012, the real impact of rising oil prices was beginning to be felt within Aberdeen's property market.

By the middle of 2014, average values increased to just over £200k. This was 48% above the Scottish average, with the number of transactions increasing to 11,253 by the end of September 2014, an annual rise of 12%.

The Aberdeen area is now feeling the chill of the downturn. The annual number of house sales dropped by 24%, from 11,253 during the year ending September 2014 to 8,577 during the year ending September 2016. Prime second hand sales at £400,000 and above, fell by 51%, from 663 during the year ending September 2014 to 322 during the year ending September 2016.

At the top end of the market, above £1 million, the number of transactions fell from 29 during the year ending September 2014 to eight during the year ending September 2016.

High levels of equity

The buoyant oil-based economy in Aberdeen has resulted in a supply of contemporary homes built to a high specification and beautifully refurbished period properties. Many owners have witnessed their homes double in value since 2005. There is now a large level of equity, which will provide owners with some protection from price falls.

Stock levels rise

The real challenge at the heart of the local property market slump is the lack of transactional activity and the high number of unsold properties. The economic law of supply and demand dictate that prices are simply too high and out of step with what the market will pay.

The lack of adjustment in pricing, coupled with a continually decreasing number of transactions, is leading to

an ever-growing glut of properties that are currently available to buy in the Aberdeen area.

The number of available second hand residential properties has jumped from 2,360 at the beginning of 2015 to 4,583 as of November 2016, which represents an increase of 94%. The lion's share is in price bands up to £400,000 and includes many buy-to-let properties which have been impacted by an annual drop of 17% in monthly average asking rental prices (see Figure 1).

This has led to a reduction in those able to upsize to homes above £400k. The higher end of the market is being further impacted by the lack of buyers relocating to the Aberdeen area to work in the energy sector.

Price adjustments

Whilst the overall number of transactions has fallen by 24% between 2014 and 2016, the local market has yet to witness an equivalent drop in prices. According to the UK Government's House Price Index, the average house price in Aberdeen City and Aberdeenshire was sitting at around £185,500 in September 2016, only 7% lower than the level in September 2014.

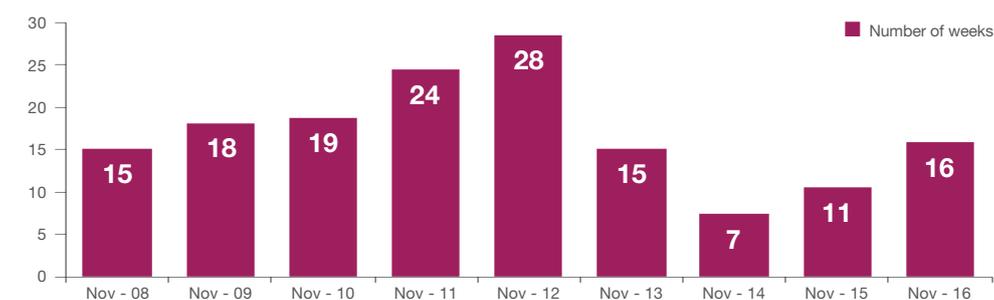
The prime second hand market in the Aberdeen area has not seen a significant adjustment in prices, despite the 51% drop in activity between 2014 and 2016. Average price reductions for prime properties that have struggled to sell have only been subject to, on average, a 5% price reduction this year, compared to -6% for the overall prime Scotland market.

The prime Scottish market has experienced its own, well-documented downturn from 2007 until 2013. It was only when prices were appropriately adjusted to their pre-peak levels, that the equilibrium between supply and demand began to be restored and the market was able to start its recovery. There are certainly lessons to be learned from this period.

New build market

Interestingly, the new build market in Aberdeen is already adjusting to current conditions, with price reductions and incentives being offered at a number of developments. This has resulted in developments maintaining rates of sale, albeit at relatively lower levels. Encouragingly, there is strong house builder appetite in strategic

FIGURE 3
Aberdeen time on market (weeks)



Source: Home.co.uk (Time on Market is the number of weeks a property has been listed for sale. A property may be withdrawn from the market for reasons other than a successful sale.)

FIGURE 4
Currently available prices for new build properties in Aberdeen City and surrounding areas

Area	Average price per square foot	Average price per square metre
Central Aberdeen	£304	£3,273
Western suburbs	£301	£3,244
Cove	£273	£2,934
Northern suburbs	£268	£2,879
Banchory	£264	£2,844
Chapelton	£262	£2,825
Inverurie	£247	£2,656

Source: Savills Research

→ land, and there is medium to long-term confidence in the Aberdeen area.

Elsewhere in Scotland

Overall house price growth has been lifted by strong performance across commuter and suburban locations around Edinburgh and Glasgow. However, prices have been suppressed by higher rates of Land and Buildings Transaction Tax (LBTT) impacting sales above £400,000 and the slowdown in the Aberdeen area market. However, the number of overall residential sales in neighbouring Angus and Moray increased annually by 6% and 3% respectively by the end of September 2016. In terms of average prices, Angus witnessed a slight annual increase of 1% during September 2016, whereas in Moray the average increased by 5%.

Conclusion

Oil has been the vital aspect of Aberdeen's economy for a relatively short period of time. The restructure that is currently taking place within the sector is likely to result in a far more efficient, and sustainable industry.

House price inflation in Aberdeen requires a similar readjustment to ensure a sustainable market that is supported not only by oil but by a more broadly based economy. ■

THE WIDER LOCAL ECONOMY

Oil: Having dropped from \$110 a barrel in May 2014 to its lowest point of \$30 in January 2016, the global oil price now sits at \$46. Consumer confidence is likely to improve if oil reaches \$60 a barrel, and experts suggest that it is likely to settle at around \$70 per barrel, the 15-year average.

Employment: Although most energy operators are implementing redundancies and pay freezes to achieve a more sustainable future, overall salaries in Aberdeen City continue to remain among the highest in Scotland. The planned decommissioning of some North Sea operations will provide a boost to the economy in terms of job creation. Fishing, shipbuilding, tourism, the city's two universities and nine specialist hospitals are key employers. Initiatives to transfer skills and technologies into electronics and research are being accelerated.

Development: The north east of Scotland has been allocated £504 million of the UK Government's City Deal funding over the next 10 years to improve infrastructure and attract jobs. The planned

exhibition and conference centre is expected to contribute an additional £113 million of visitor spend. The new Aberdeen Western Peripheral Route, improvements to train connections and the £20 million redevelopment of Aberdeen Airport will further improve connectivity.

The planned expansion of Aberdeen Harbour, aimed at supporting marine and offshore sectors, has been identified as Scottish Government 'national priority'. The Aberdeen City Centre Masterplan includes around 50 projects, with plans to attract 3,000 new residents which could bring an additional £17 million per annum into the local economy.

Quality of Life: Aberdeen has been rated 10th in the 2016 Good Growth for Cities Index, which measures the performance of 42 UK cities. A sustained period of prosperity has meant that there has been considerable private and public investment in local amenities and the city boasts high quality housing, schools, universities and leisure facilities, including retail, hotels, bars and restaurants.

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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 housing market.

Aberdeen area: refers to the Local Authority areas of Aberdeen City and Aberdeenshire.

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