

Spotlight on... Scotland's Prime Residential Property Market



Recovery continues in Scottish prime market

The second quarter of 2010 saw a marked increase in transaction levels in the prime residential sector in Scotland, exceeding all expectations



"In Edinburgh, the hub of Scotland's prime market, there was a 71% increase in transaction numbers during the second quarter of 2010, compared to the same time last year." Faisal Choudhry Savills Research

Executive summary

There was an increase in transaction levels in the prime residential market in Scotland during the second quarter of 2010, compared to the same period last year, exceeding all expectations.

However, the very high levels of stock on the market and the new Home Report valuation system have restrained price growth.

The Scottish prime market is recovering slowly, but it will still take some time for the surplus stock to work its way through the system and for demand and supply to rebalance.

The £400,000 to £700,000 market has been the most active, whereas sales of homes valued over £1 million continue to move slowly, with only a slight improvement on last year's transaction levels.

demand for properties valued at £400,000 to £700,000 across Scotland, in areas as far apart as the Scottish Borders in the south and Aberdeenshire in the north (see Table 1).

Taking Scotland as a whole, there was a 54% increase in transactions for residential properties between £400,000 and £700,000 during the first half of 2010, compared to the same period last year. We expect this trend to continue to the end of 2010 as traditionally the majority of house sales are recorded in the second half of the year. In addition, this prime sector of the market is less likely to be impacted by the government's austerity measures or the banks' restricted lending practices.

In Edinburgh, the hub of Scotland's prime market, there was a 71% increase in transaction numbers during the second quarter of 2010, compared to the same time last year. Other areas, such as Greater Glasgow, saw a 63% rise in transactions, while Aberdeenshire saw a 45% rise in transaction levels during the last quarter. These increases are from a low base, but they do indicate a marked increase in activity.

Surprisingly, and against the national trend, Fife saw a drop of 11% in prime residential transactions this year, while Stirling saw a drop of 23%. However, the best properties, such as family homes in Dollar and Bridge of Allan, situated close to good schools, sold relatively quickly. Property in the East Neuk of Fife and St Andrews was in particularly high demand in the run up to the Open Golf in July 2010. A good number of the sales that

Transaction levels are key

House price changes tend to dominate commentary and debate within the media's coverage of the Scottish housing market. However, the number of houses that are being bought and sold provides a much more useful indicator of the health of the residential property market. This barometer demonstrates the ability, willingness and confidence of buyers and sellers to trade property.

The Scottish prime market is outperforming the rest of Scotland's residential property sector, according to the latest transaction figures. In particular, there is growing

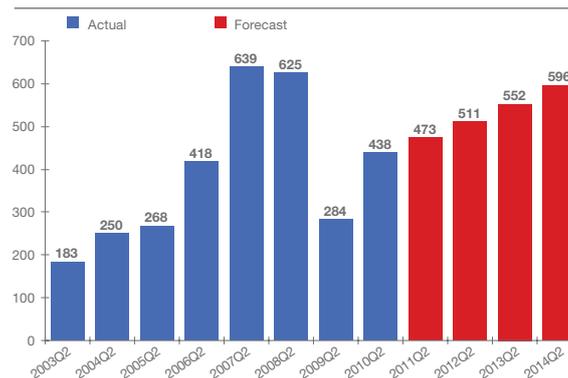
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Table 1. Scottish transactions between £400,000 and £700,000 by area

Area	2009Q2	2010Q2
Scotland	284	438
Edinburgh	83	142
Greater Glasgow	51	83
Aberdeenshire	44	64
East Lothian	4	23
Fife	18	16
Angus	5	14
Scottish Borders	10	12
Ayrshire	8	11
Stirlingshire	13	10

Source: Savills Research/MyHousePrice.com

Graph 1. Scottish transactions between £400,000 and £700,000



Source: Savills Research/MyHousePrice.com



occurred this spring have not yet been recorded, and it is anticipated that transaction numbers in these locations will be positive by the end of 2010.

However, it is not merely the level of increased activity that paints a more buoyant picture than at this time last year. The total value of prime property transactions between £400,000 and £700,000 rose by 56%, from £137 million to £214 million.

Turnover to continue upward

Following the sharp fall in transaction numbers across the entire Scottish residential property market since the credit crunch in 2008, we anticipate that transaction levels will continue to recover over the next 12 months.

Recent figures from the Registers of Scotland reveal that levels across the mainstream Scottish market increased but at a more modest rate than the prime market. Given that the public sector austerity measures and mortgage lending constraints may be less significant issues for prime property buyers, we anticipate that the prime market will continue to see the greatest activity over the next five years.

We expect equity-rich prime markets to lead the recovery in terms of both transaction levels and price rises.

Price projections

Any discussion of the Scottish property market cannot ignore the issue of price projections. The unprecedented increase in the level of stock on the market has led us to revise our short term price projections.

Prime Scottish values have been rising gently since September 2009. However, we anticipate that prices will soften to December 2009 levels by the end of this year, due to the high levels of stock on the market. While we expect the long term picture to remain unchanged, with a 6% increase in prime prices by 2014, we anticipate that price growth will be more subdued in the shorter term, with flat values until 2012 (see Tables 2 and 3).

Leaving aside the current high levels of prime property on the market, the prospects for longer term house price growth across the residential property market look assured. In line with the basic law of supply and demand, the underlying shortage of good quality homes in places where people want to live, will have a positive impact on values in the medium to long term. Scotland's general housing undersupply has been exacerbated by the fall in new housing construction which has taken place since the downturn. We continue to expect equity-rich prime markets to lead the recovery in terms of both transaction levels and price rises.

Mortgage availability is easing

The latest figures from the Council of Mortgage Lenders (CML) reveal the number of loans for house purchasing



Newton House in Aberdeenshire launched to the market in June 2010, achieving the region's first sale at over £2 million just 18 days later.

in Scotland in 2010Q2 increased on a year-on-year basis. Although lending levels are still at a subdued rate compared to the pre-credit crunch period, the increased availability of finance is significant and has enabled more people to enter the housing market or move house.

The CML figures show 12,700 new loans were granted to Scottish home buyers in 2010Q2, 31% more than in 2010Q1 and up 10% on the same quarter last year.

The lack of mortgage availability for first time buyers has been a key obstacle to the recovery of the market as a whole, restricting activity further up the ladder. First time buyers across the UK took out 28% more mortgages in the first half of the year than they did during the first six months of 2009.

A slow million pound plus market

While high value homes in Scotland are proving to be difficult to sell, there was a slight rise in the number of residential property transactions valued at £1 million and above during the first six months of 2010. A total of 46 homes in this price range was sold during the first half of 2010, compared to 42 last year.

However, many of the sales that took place in the spring have not yet been registered. For example, Aberdeenshire has recently seen its first £2 million sale, which is further evidence of the location's relatively buoyant, oil-based micro climate. While the residential market in Glasgow and the West has been largely flat, a mansion house in Ayrshire sold in less than four weeks having achieved over the asking price of £1.2 million after being launched to the market this summer.

Further, a modest terraced house in St Andrews sold for offers over £3.75 million in June this year, which was the highest price per square foot ever achieved for a house in Scotland, at £1,450. It was among a number of high value sales generated by the return of the Open Golf to Scotland in July. The global event had the positive effect of highlighting Scotland as a location, fuelling the number of buyers from overseas and south of the border looking to buy property in key locations all over Scotland, many encouraged by the favourable exchange rate.

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Anecdotal evidence suggests international buyers account for a growing level of sales of the higher value properties, including castles and sporting estates. A total of 5% of Savills buyers in Scotland came from overseas during the first six months of the year which, although not insignificant, is substantially less than in London. Around 50% of all buyers who bought a prime London home in the first half of the year were international and 85% of them were mortgage-free.

Crucially, in terms of sales above £1 million, we are still dealing in relatively low numbers. Compared to the pre-credit crunch figure of 293 transactions at the peak of the market in 2007, there were only 106 sales across Scotland last year. We are anticipating a slight increase this year, but do not expect it to exceed 150 sales.

There are currently 140 properties available to buy in Scotland valued at £1 million and above, and 21 of these are on the market for in excess of £2 million.

The death of 'Offers Over'?

Agents operating within the Scottish prime markets are continuing to use the 'Offers Over' system as a tool to achieve the best possible price. However, it seems sellers now recognise that guaranteed bidding wars and premiums far above the asking price are a thing of the past. This change has been brought about, in part, by the introduction of the Home Report system which gives both buyers and sellers a set mortgage valuation. Prices are also being constrained, simply because of the amount of stock on the market.

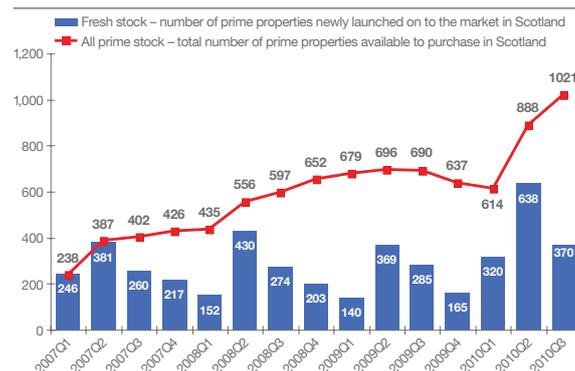
At the peak of the market, during the first six months of 2007, 86% of homes for sale in Edinburgh were launched at an 'Offers Over' price. This figure has reduced by around 10% this year. In prime locations in Edinburgh North, such as Stockbridge, Inverleith and Trinity, the

Graph 2. House purchase lending and residential transactions in Scotland



Source: Council of Mortgage Lenders/Registers of Scotland (Registers of Scotland records all residential transactions. By nature it is likely to be historic with a time lag.

Graph 3. Savills StockWatch Scotland (Properties advertised at £400,000 or above)



Source: Savills Research



- ▶ number of properties achieving a premium over the asking price during the first six months of 2007 was 27%. This figure reduced to 12% this year.

Likewise, in prime locations in Glasgow South, such as Pollokshields and Newlands, the number of properties achieving a premium was 21% in 2007, compared to 3% in the first six months of this year. Fixed prices are now more common in many Scottish mainstream markets.

Sharp increase in stock levels

Home owners who had been holding back throughout 2009, to see what would happen to the economy before selling, have been encouraged by the more positive economic outlook and are now putting their homes on the market at an increasing rate.

Around 40% of the stock currently available to buy in Scotland is 'fresh', in that it has been on the market for fewer than eight weeks. As a result, Scotland possesses significantly more high quality prime residential property on the market than at any other time in the seven years that Savills Research has been collecting data.

Significantly, since the market has stabilised and mortgage lending has improved, both fresh stock and some of the more tired stock that had been languishing on the market since the downturn is now selling.

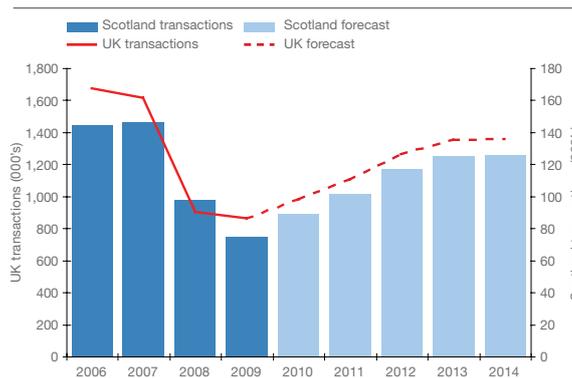
The flip side of this is that the high level of stock is having a softening effect on prices, keeping them more or less static in the short to medium term despite recent signs of improvement in the economy. Agents report that the market continues to be 'patchy', in terms of both prices achieved and transaction levels. Properties priced appropriately for the current market and in key locations, close to amenities and with good communication links, are moving quickly. ■



The Open Golf showcased Scottish property to an international audience.

Some of the more tired stock that had been languishing on the market since the downturn is now selling.

Graph 4. Mainstream residential transactions



Source: Savills Research/HMRC

Table 2. 2010Q2 performance

Performance	Compared to peak	First six months (from 2009Q4 to 2010Q2)	Year-on-year (from 2009Q2 to 2010Q2)
Prime Central London	-9.6%	3.6%	12.7%
Prime Scotland	-15%	0.7%	4%
Mainstream Scotland	-5.5%	2.7%	7.2%

Source: Nationwide/Savills Research

Table 3. Forecast values year-on-year at the end of the fourth quarter

Forecasts	2009 (Actual)	2010	2011	2012	2013	2014
Prime Central London	8.75%	-1%	0.5%	7.5%	9.75%	4.75%
Prime Scotland	-1.25%	0%	0%	4.25%	6.5%	5.75%
Mainstream Scotland	1%	0%	-0.5%	0.75%	3%	6.5%

Source: Nationwide/Savills Research



Residential research services

Savills Research team is based in London and provides advice and analysis to clients on the rural, residential, commercial and leisure property sectors in the UK and Europe. Savills also provides similar property research services throughout South East Asia and Australia. In the UK, Savills has had a dedicated residential research team for the past 18 years. Over this time, the department has built up a strong reputation for producing accurate, well informed and, above all else, independent analysis and commentary on the UK's housing market. As a result, the team is a leading national commentator on market trends.

The success of the department has been built on its market insight, provided by the Savills network, in conjunction with a significant external consultancy business. This market-led approach to our research is vital to our clients. Through the provision of analysis, commentary and forecasting we can add value to both assets and businesses. The department has been involved in a wide range of consultancy projects for a variety of public and private sector organisations across the UK.

This has involved research into housing of all tenures and across all price ranges and rental levels.

Typical consultancy projects include:

- local area supply and demand analysis
- development feasibility studies
- investment strategy and advice
- place making site studies
- forecasting rents and capital values
- research to inform policy making and best practice statements
- research for property finance and business planning purposes
- research to inform housing-led regeneration initiatives

We hope you have found our research thought provoking and informative. If you would like further information please contact a member of the team below.

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Savills plc

Savills is a leading global real estate service provider listed on the London Stock Exchange. The company established in 1855, has a rich heritage with unrivalled growth. It is a company that leads rather than follows, and now has over 200 offices and associates throughout the Americas, Europe, Asia Pacific, Africa and the Middle East.

A unique combination of sector knowledge and entrepreneurial flair give clients access to real estate expertise of the highest calibre. We are regarded as an innovative-thinking organisation backed up with excellent negotiating skills. Savills chooses to focus on a defined set of clients, therefore offering a premium service to organisations with whom we share a common goal. Savills which is synonymous with a high quality service offering and a premium brand, takes a long term view on real estate and investing in strategic relationships.

Cover image: Tour House in Ayrshire came to market in mid June 2010, achieving over the £1.2 million asking price only ten days later.