Spotlight on
Scotland's prime residential property market

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This publication
This document was published in March 2011. 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 (£400,000 and above). Typically it comprises properties in the top five per cent of the market by house price.
■ **Mainstream:** refers to the bulk of the UK housing market with, for example, price movements monitored by reference to national and regional average values.

On the cover: Airlie Lodge, newly launched to the market, is a detatched home in the exclusive prime residential area of the Grange, Edinburgh

Spotlight on
SCOTLAND'S PRIME RESIDENTIAL PROPERTY MARKET

With an overall increase of 40%, the total value of transactions in Scottish prime residential markets continued to steadily improve in 2010

There was little in the way of significant news concerning property values in Scotland last year. The fluctuations of around 1% in either direction throughout the course of year had a minimal effect on prices in real terms. The real story was in the marked increase in transaction levels in the prime residential sector, properties over £400,000, for which sellers began to accept more realistic prices. While the mainstream market also saw more activity, the rise was more subdued.

The value of transactions across the prime market in Scotland increased by 40% last year, from just under £1 billion in 2009 to approximately £1.4 billion last year, illustrating growing consumer confidence in the prime market. By contrast, the value of transactions across the entire market in Scotland increased by just 11% in the same period.

According to the latest transaction figures from Savills Research and MyHousePrice.com, the number of second hand homes that were bought and sold last year, at £400,000 and above, increased by 39% during 2010 compared to 2009 (see Table 1 and Graph 1). By contrast, residential transactions across all price bands in Scotland increased by only 7% over the same period leaving them 52% below their pre credit crunch level.

We anticipate that transaction levels will continue to recover over the next 12 months with a 6% annual increase (see Graph 2).

SUMMARY

An overview of this document

- There is a growing divide in the Scottish housing market between the prime and mainstream markets.
- The value of Scotland's prime transactions rose by 40% last year, in contrast to an 11% rise within its mainstream market.
- Property equity is an increasingly important store of private wealth and is more relevant than income in determining the ability to buy.
- The value of the UK's housing stock doubled to £4 trillion in the past decade. Across Scotland the value increased from £127 billion to £290 billion over the same period.
- The million pound market is showing a modest recovery and an increasing internationalisation.
- Excessive supply continues to suppress prices across the entire market.

TABLE 1

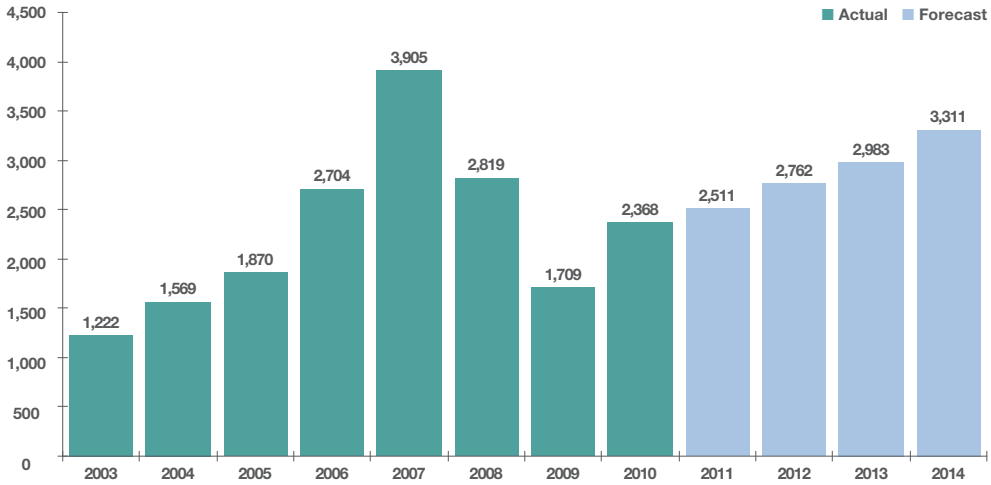
Scottish second hand transactions at £400,000 and above

Area	2009	2010
Scotland	1,709	2,368
Edinburgh	524	770
Greater Glasgow	355	452
Aberdeenshire	290	415
Perthshire & Kinross-shire	100	117
Fife	73	96
Stirlingshire	53	51
Borders	41	49
Angus	21	46
Inverness-shire	26	35
Argyll	15	28

Data source: Savills Research / MyHousePrice.com

GRAPH 1

Scottish second hand transactions at £400,000 and above



Graph source: Savills Research / MyHousePrice.com

The equity divide

This decade could well be seen as the start of a deep and permanent disparity in the Scottish housing sector, between those with a high proportion of equity in their homes and those who are dependent on mortgage finance.

In the new property world, equity is a far more significant factor in determining ownership than household income. The mortgage market pre-Lehman Brothers collapse, which was based on multiples of household income, no longer exists. In today's transactions, at least 25% of the property typically must be funded by the buyer, not by a building society or bank.

The latest figures from the Council of Mortgage Lenders (CML) reveal the number of loans for house purchasing in Scotland during 2010Q4 decreased by 27% on a year-on-year basis (see Graph 3).

This means that the number of transactions continues to be extremely low, with few first time buyers able to raise cash deposits and enter the market.

Those who have a history of ownership, and have accumulated a significant equity stake, are benefiting from an ability to accelerate mortgage repayments at today's low interest rates, and those without are being left behind.

The level of equity tied up in housing has rocketed and housing has cemented its position as an unparalleled store of private wealth. Across the UK, an astounding 70% of housing is held as equity. Despite recent volatility, the past decade has seen the value of the UK's housing stock rise to more than £4 trillion from just under £2 trillion in 2000.

Outstanding mortgage debt stands at around £1.25 trillion, while equity (net wealth, invested in residential property) has risen from £1.4 trillion to £2.9 trillion over the past ten years. Across Scotland the value of housing increased from £127 billion to £290 billion over the same period as values grew strongly in the latter part of the last housing cycle.

Million pound market

While the market for high value homes in Scotland remains challenging, there was a rise in the number of residential property transactions valued at £1 million and above during 2010 compared to the previous year. As predicted in the previous Spotlight, the total number of homes in this price range was just short of 150 (at 148), compared to 106 during 2009 (see Graph 4). Savills anticipates that this figure will not exceed 180 in 2011.

73 of last year's £1 million plus transactions occurred in Edinburgh, where the highest price achieved by a residential property was £3.1 million. Greater Glasgow accounted for 22 transactions at £1 million and above during 2010. Within Greater Glasgow, almost half such transactions occurred in the West End of Glasgow and in Thorntonhall in Lanarkshire.

Aberdeenshire and Perthshire accounted for 10 transactions each at £1 million and above during 2010. The first ever transaction over £2 million in Aberdeenshire occurred during 2010. Fife and East Lothian accounted for eight and five transactions respectively at £1 million and above during 2010.

The highest registered price of any residential property in Scotland during 2010 was at £4 million in St Andrews, which was also the highest price per square foot ever achieved for a house in Scotland at £1,450. Savills acted as selling agents in 62% of transactions registered at £1 million and above in Fife during 2010.

Overseas buyers

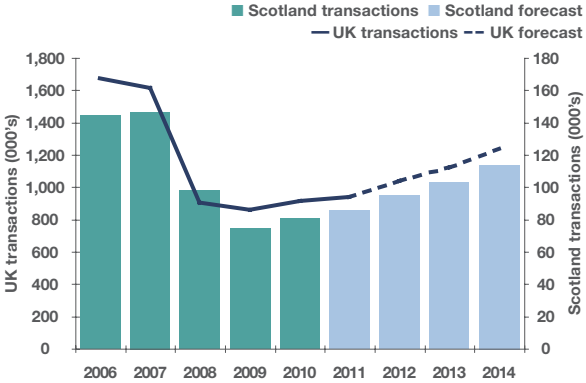
New research on the origin of £1 million plus transaction buyers in Scotland shows that 24% originated from outside Scotland in 2010, compared to just 10% during 2009.

17% of buyers of Scottish residential property during 2010, worth £1 million

> "There was a rise in the number of residential property transactions valued at £1 million and above during 2010 compared to the previous year." Faisal Choudhry, Savills Research

GRAPH 2

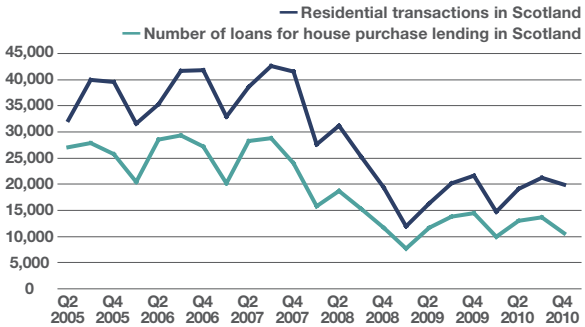
Mainstream residential transactions



Graph source: Savills Research / HMRC

GRAPH 3

House purchase lending and residential transactions in Scotland



Graph 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.)

Above: Knockdow Estate, 1640 acres, Argyll. Sold in 2010 by Savills and John Clegg & Co

ESTATES OVERVIEW

The sporting estates market witnessed some strong deals for sellers during 2010

The total value of Scottish sporting estate sales doubled in 2010, up from just over £20 million in 2009 to more than £55 million. However, this was still short of the £70 million to £80 million worth of transactions completed in 2007 and 2008.

A total of 16 estates sold last year, compared to nine in 2009 and 18 in 2008, and only 25% of these sold privately. The 2009 figure was much the same at just over 20%. Almost half sold privately in 2008.

Those sellers who went to the open market in 2010 were well rewarded. There were some spectacularly strong deals done at competitive closing dates, many with buyers who were not in the market in 2009. Nationalities and localities varied, with buyers ranging from neighbours and local businessmen to some from the Home Counties and south west England, and returning ex-pats.

Analysis of component parts such as houses, land, woodland, forestry and sport reveals there has been little change from the peak prices paid in 2007.

For every estate sold last year, there were another two that were 'buyable' privately, and these remain available. We do not predict a significant increase in estates coming on to the market in 2011, and values are therefore unlikely to soften significantly.

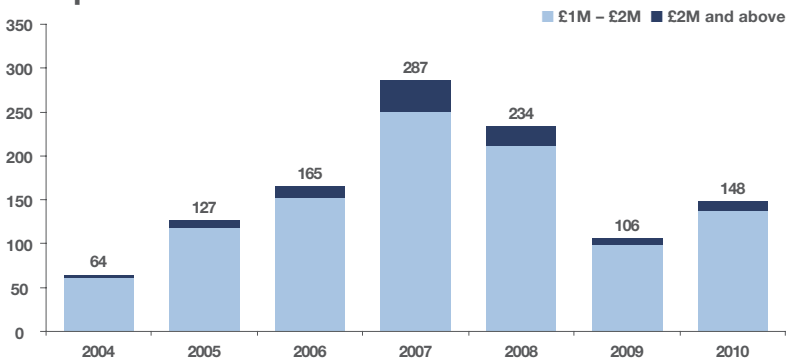
and above, came from the other parts of the UK, including 8% from London. The remaining 7% were overseas purchasers originating from as far afield as Australia and Hong Kong (see Graph 5). Savills is currently working with over 130 overseas buyers who are looking to buy in Scotland, many of them ex-pats.

At the height of the market Scottish buyers, who had made their money from the property boom and the financial sector, were quick to snap up new £1 million plus properties as soon as they were launched to the market. International buyers no longer have to compete with anything like this level of domestic demand in this post credit-crunch climate, and as such international buyers are becoming more prevalent.

The relatively stable economy, beneficial exchange rates, and the global reputation of Scotland's schools are all cited by international buyers as reasons to purchase property in Scotland.

GRAPH 4

Residential transactions in Scotland greater than or equal to £1 million

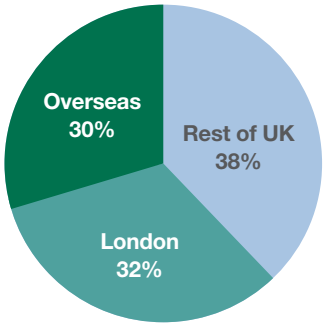


Graph source: Savills Research / MyHousePrice.com

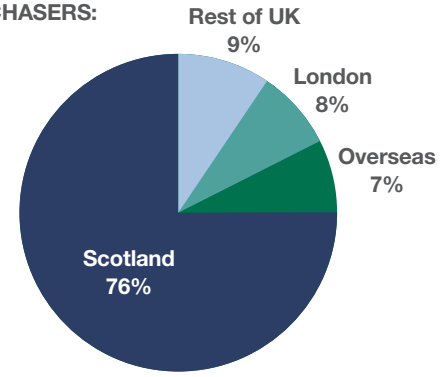
GRAPH 5

Scottish £1 million and above residential transaction during 2010: origin of purchasers

FROM OUTSIDE SCOTLAND:



ALL PURCHASERS:



Graph source: Savills Research / MyHousePrice.com

PRIME LENDING IS SET TO IMPROVE

The mortgage market recovery remains patchy

The mortgage market has progressed since the financial crisis of three years ago but the recovery remains patchy and weak. The supply of funds remains limited and buyers are understandably cautious about taking on extra borrowing. Overall lending forecasts for 2011 are likely to follow a similar level to 2010, with the Council of Mortgage Lenders (CML) suggesting that gross mortgage lending in 2011 will total around £135 billion.

Product expansion, higher loan-to-value lending and improved availability of finance for the self-employed are all needed to return to a fully functioning mainstream market. These improvements are expected to be slow and gradual, especially against the context of potential mortgage regulation.

However, over the past few months there has been a trend of increased support from private banks for loans in excess of £1 million, enabling high net worth clients to obtain competitive funding.

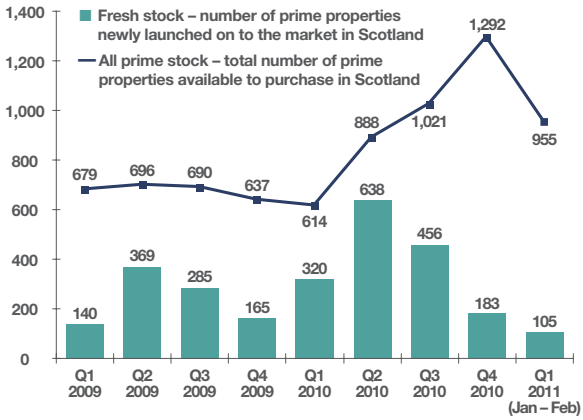
Source: Savills Private Finance

"We anticipate a 19% increase in Prime Scotland by 2015, higher than the 6.5% expected in the mainstream market."

GRAPH 6

Savills StockWatch Scotland

Properties advertised at £400,000 or above on a major property website



Graph source: Savills Research

Stamp duty adds barrier

The £1 million price tag has been deemed an appropriate point at which to apply the new 5% stamp duty rate with effect from April 2011. Data from HM Revenue & Customs suggests that a little over 1% of all residential transactions were valued at over £1 million in the period 2007, 2008 and 2009. This means that there is currently little prospect of an extra 1% stamp duty making a significant contribution to HM Treasury, nor is it expected to distort the wider residential housing market.

The new 5% rate is not expected to impact the £1 million plus market in the longer term. However, it could affect buyer psychology and cap at £1 million the value of properties that might previously have achieved £10,000 or £20,000 more. £1 million sales may be brought forward to beat the deadline and the number of transactions may fall for a period thereafter.

Excess stock

While transaction levels improved dramatically in the prime Scottish markets the amount of unsold stock remained high, which prevented this increased activity from feeding into price growth.

There is an extraordinarily high number of prime properties for sale in Scotland – many more than usual for the time of year (see Graph 6). Almost 1,000 prime properties are currently available to buy across the whole Scottish market, albeit a significant reduction since autumn 2010, when the figure reached an unprecedented 1,300. To put this into context, at the beginning of 2009 and 2010 there were 679 and 614 prime properties respectively available to purchase in Scotland.

The rate of properties being launched to the market slowed in the last quarter of 2010 as the uncertain economic news continued and the Coalition's austerity measures took effect.

From September 2010 until the end of the year, there was a very slight fall in prime values of 0.7% and, in accordance with the rules of supply and demand, the continuing high levels of stock is having the effect of suppressing values. As such it is likely that only those homes being launched to the market at an appropriate price and in good locations will sell well.

As we enter spring, traditionally the busiest time in the house selling calendar, we anticipate that stock levels will rise again and as a result, a minimal annual fall of 1.5% in Scottish prime values is expected by the end of 2011.

Longer term prospects

Prospects for longer term house price growth, across the entire market look assured. Despite the current fluctuations in stock levels, there is an underlying shortage of good quality homes in places where people want to live in Scotland. The country's general housing undersupply has been exacerbated by the fall in new housing construction since the economic downturn.

In addition, international wealth has been flowing in to key locations in prime central London at an increasing rate in recent years. The prevailing exchange rate and the UK capital's role as a safe deposit for international cash in uncertain times, has meant that overseas investors have accounted for 53% of all purchases in the past two years, with the super rich buying high value homes in the city and leading to reducing levels of available prime housing.

We predict that buyers with equity will migrate to more peripheral areas of the capital and eventually out of London to the best prime locations across the UK. These will quickly include Edinburgh, the hub of Scotland's prime market, followed by Glasgow's West End and key prime country locations, as per the normal geography of house price recovery.

Taking account of a realistic economic outlook, values in prime residential properties are expected to rise more strongly than in the mainstream where mortgage constraints are likely to suppress growth over the next five years. We anticipate a 19% increase in prime Scottish values by 2015, higher than the 6.5% expected in the mainstream market. ■

Residential research services

Adding value to your property interests

Savills Research team 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

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.

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

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