

Spotlight on... Scottish residential property market



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After a period of record growth, residential values in Scotland have fallen, with a sharp decrease in transaction levels during 2008. All sectors of the market, including prime, have been affected. We expect a challenging market for the remainder of 2009, more stable conditions in 2010, followed by meaningful growth by 2012.

Summary

- Prime Scottish residential property is no longer immune to the downturn in the UK residential market. Prime values in Scotland and Great Britain fell by 14% and 17% respectively during 2008Q4 compared to 2007Q4. Average values for prime country houses in the North of Scotland fell by 9% in 2008 representing the lowest fall in all prime markets in Scotland.
- Residential sales registered for £1million or above in Scotland fell by 20% to 234 sales in 2008 from a peak of 293 in 2007. With the time delay between missives concluding and sales being registered, we expect the market slowdown in 2008Q4 to result in a significant fall in the number of £1million and above sales registered in 2009. Savills acted as selling agents in around a quarter of all second hand sales registered at £1million and above in 2008.
- It is likely that property prices will fall by a further 6% in Scotland during 2009, with transaction levels and market sentiment remaining low. We expect recovery to start in 2011, as surpluses in household finances grow and confidence improves, with more meaningful growth to follow by 2012.
- With Edinburgh and Glasgow having been particularly affected by the banking crisis, we expect to see a significant increase of non-Scottish buyers in the prime markets. Overseas buyers will become increasingly prevalent as they exploit the weaker pound.
- Spring 2009 is likely to be a very good time to buy: Most sellers are now accepting realistic prices; there is a high volume of good quality stock currently available for buyers to choose from; and mortgages are becoming more affordable due to reduced interest rates.

- Buyers who are able to take advantage of current reduced prices for new build property may well benefit in the long-term as prices recover. Moving forward, we anticipate a change from land value dictating the product towards the more traditional approach of product dictating the land value.



“We expect recovery to start in 2011, as surpluses in household finances grow and confidence improves.”
Faisal Choudhry
Savills Research

2008: a return to reality

The year 2008 could not expect to live up to 2007, when the average residential price in Scotland peaked at an all time high, following almost a decade of successive growth. HBOS reported an annual fall of 8% in average residential prices in Scotland during 2008Q4 compared to 2007Q4. The average price in Scotland currently stands at £134,191 according to HBOS. A more worrying aspect has been the number of property transactions, which has fallen by 54% during 2008Q4 compared to 2007Q4 according to the Registers of Scotland. At the heart of this dramatic fall has been the restricted availability of credit, with the number of mortgage products reducing by two-thirds during 2008. Mortgages became less accessible due to the increasing levels of equity demanded by lenders. In addition, the levels of equity available to homeowners reduced as house prices continued to fall.

High levels of stock

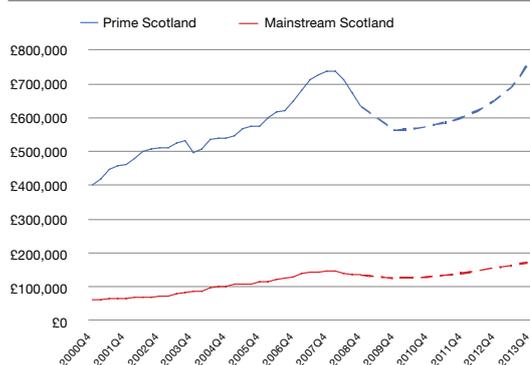
There is an acute imbalance between the high levels of property on the market and that which is selling. Indeed, our research shows the number of prime second hand properties currently available to purchase in Scotland is at an all time high. This is a buyers’ market with opportunities for equity-rich or cash purchasers who may be motivated by reduced prices. The signs are that less properties will be launched on to the market in 2009 and this has already been exacerbated by the introduction of the Home Report, introduced in December, which is adding considerable cost for the seller.

“This is a buyers’ market with opportunities for equity-rich or cash purchasers who may be motivated by reduced prices.”

A good time to buy?

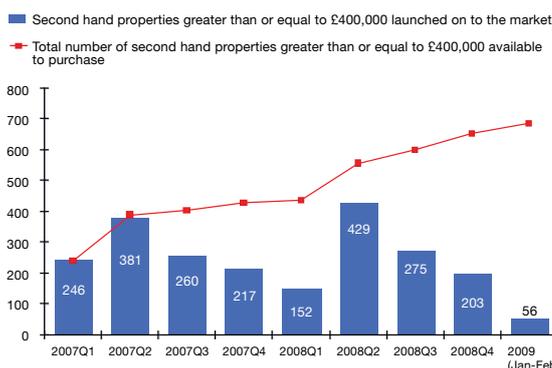
A number of factors are combining to suggest that spring 2009 will be a good time to buy: Most sellers are now

Average prime and mainstream residential values in Scotland



Source: Savills Research/HBOS

Properties advertised at £400,000 or above in Scotland (on a major property website portal)



Source: Savills Research



Average residential sale price 2008Q4



■ £200,000 and above ■ £125,000 – £150,000
■ £175,000 – £200,000 ■ £100,000 – £125,000
■ £150,000 – £175,000 ■ Below £100,000

Source: Registers of Scotland (registers of Scotland records all residential transactions. By nature it is likely to be historic with a time lag)

Transactions in Scotland greater than or equal to £1million in 2008



● £2million and above ● £1million – £2million

Source: Savills Research/MyHousePrice.com

Average residential sale price 2008Q4

Local authority	Average residential sale price 2008Q4	% change in average sale price compared to 2007Q4	% change in transactions compared to 2007Q4
Aberdeen City	£170,698	-6%	-48%
Aberdeenshire	£194,339	-2%	-38%
Angus	£153,123	3%	-47%
Argyll & Bute	£150,388	-8%	-48%
Clackmannanshire	£131,730	-7%	-64%
Dumfries & Galloway	£143,458	1%	-53%
Dundee City	£116,329	-13%	-63%
East Ayrshire	£125,077	-3%	-59%
East Dunbartonshire	£206,354	2%	-50%
East Lothian	£190,139	-10%	-59%
East Renfrewshire	£199,336	-6%	-41%
Edinburgh City	£201,021	-6%	-55%
Falkirk	£129,190	-4%	-54%
Fife	£141,269	-1%	-59%
Glasgow City	£135,115	-8%	-57%
Highland	£153,335	-5%	-46%
Inverclyde	£119,633	-10%	-56%
Midlothian	£173,931	3%	-39%
Moray	£146,528	-1%	-43%
North Ayrshire	£115,537	-6%	-61%
North Lanarkshire	£117,443	0%	-55%
Orkney Islands	£121,722	8%	-20%
Perth & Kinross	£170,523	-9%	-54%
Renfrewshire	£116,785	-9%	-56%
Scottish Borders	£170,115	0%	-47%
Shetland Islands	£107,802	1%	-10%
South Ayrshire	£145,072	-12%	-57%
South Lanarkshire	£146,796	7%	-62%
Stirling	£182,218	0%	-54%
West Dunbartonshire	£105,738	-10%	-67%
West Lothian	£139,598	-5%	-62%
Western Isles	£96,108	-3%	-26%

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



▶ accepting more realistic prices; there is a high volume of good quality stock currently available for buyers to choose from; and mortgages are becoming more affordable due to reduced interest rates. However, this window of opportunity will narrow if the rate of new properties being launched on to the market slows down as predicted.

Sharp downturn in the prime markets

The downturn in the fortunes of the square mile continues to apply downward pressure on the value of prime property. This is particularly the case in those markets most reliant on demand from employees in the financial and business services sector. While the Scottish prime markets held out for longer, they have seen similar falls to those in England.

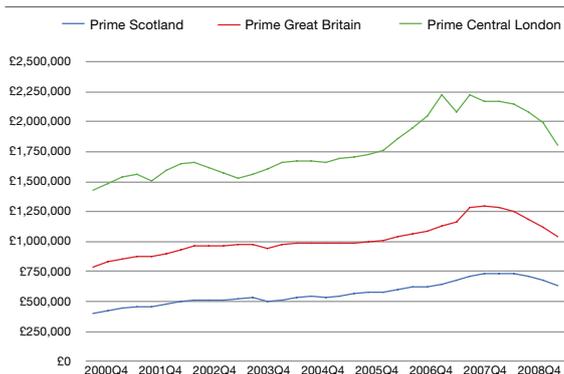
Prime values in Scotland fell by 14% during 2008Q4 compared to 2007Q4. Prime values in Great Britain and Central London fell by 17% and 18% respectively over the same period. In the past, those properties which were best in class were less affected than average or blighted properties. At present, even the best properties in each price bracket are now taking longer to sell.

Average values for prime country houses in the North of Scotland including Aberdeenshire, Angus and Perthshire, fell by 9% in 2008 representing the lowest fall in all prime markets in Scotland. Angus has been an underrated county as far as property prices are concerned, offering some of the best pound-for-pound value in Scotland in terms of location and quality of life.

“Angus has been an underrated county as far as property prices are concerned, offering some of the best pound-for-pound value in Scotland.”

Average values for prime country houses in the Central & Southern counties of Scotland fell by 14% in 2008. This was against a backdrop of average prime country houses in the North and Central & Southern increasing in value by 108% and 73% respectively, since the year 2000. Prime property in Edinburgh and Glasgow also hit a price ceiling in 2007 with compression throughout 2008, when average values fell by 14% and 18% respectively.

Average prime residential values



Source: Savills Research

Transactions greater than or equal to £1million down by 20%

Residential sales registered for £1million or above in Scotland fell by 20% to 234 sales in 2008, after reaching 293 in 2007. The total sum of transactions fell by 25% over the same period. 42% of transactions occurred in Edinburgh, with the highest price achieved by a property in the Grange at £3,100,000. Perthshire recorded 17 transactions in 2008, with the highest price achieved by a property on Caledonian Crescent, Gleneagles at £3,500,000. This was the highest registered price of any residential property in Scotland during 2008. In the West of Scotland, Glasgow, Lanarkshire and Renfrewshire recorded 12 transactions each. In Lanarkshire, the majority of transactions occurred in the Bothwell and Thorntonhall areas. Savills acted as selling agents in around a quarter of all second hand sales registered at £1million and above in 2008 in Scotland, of those publicly advertised.

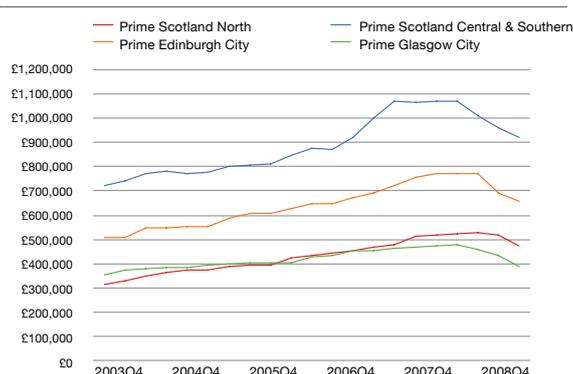
With the time delay between missives concluding and sales being registered, we expect the market slowdown in 2008Q4 to result in a significant fall in the number of £1million and above sales registered in 2009.

Savills obtains and processes this data from the Registers of Scotland, via a professional subscription to MyHousePrice.com. Whilst the Registers of Scotland records all residential transactions, by nature it is likely to be historic with a time lag.

Looking ahead

The slashing of bank base rates to historic lows has, so far, failed to stimulate demand. The continued constraints on the availability of mortgage finance and shaky confidence in the economy has meant that buyers are reluctant to commit to purchases. It is likely that property prices will fall by a further 6% in Scotland during 2009, with transaction levels and market sentiment remaining low. There is hope that mortgage finance will become more freely available in the spring and, with more realism from sellers and recent reports of an upturn in enquiry and viewing levels, more sales are expected go through. Until such time as the economy and the employment situation settle down, prices will be slow to recover. The number of mortgage-backed buyers who are able to enter the market will gradually increase as banks return

Average prime residential values



Source: Savills Research



► to more normal lending criteria. We expect recovery to start in 2011, as surpluses in household finances grow and confidence improves, with more meaningful growth to follow by 2012.

With Edinburgh and Glasgow having been particularly affected by the banking crisis, we expect to see a significant increase of non-Scottish buyers in the prime markets. Overseas buyers will become increasingly prevalent as they exploit the weaker pound.

New homes

The residential development industry in Scotland has been one of the hardest hit by the credit crunch. The number of new build registered transactions during 2008 has not matched the number of units constructed in Scotland. As a result, there is a vast amount of newly-built unsold stock currently on the market. The lack of transactions has led to a number of developers falling into administration in recent months. We are currently witnessing a price gap between the aspirations of the vendor and the entry point required by investors. The owner-occupier market is either more discerning, or in many cases cannot obtain funding. We expect that most new build sales in 2009 will be as a result of incentives, which include part exchange, shared equity and, in some cases, discounts of at least 30% to 40%. Family housing is the only type of new build for which there is a meaningful demand. It is currently a gloomy situation but we expect a turning point in the market and a slow recovery to begin by 2012. The Government's intervention looks set to ease liquidity, slowly improving mortgage availability. Buyers who are able to take advantage of current reduced prices may well benefit in the long term as prices recover.

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Development land

The Savills Development Land Index suggests that Greenfield and Urban land values in Scotland have fallen by 51% and 59% respectively from their peak in 2007. However, the truth is that transactional evidence is few and far between as the development land market in Scotland has come to a complete and juddering stop,



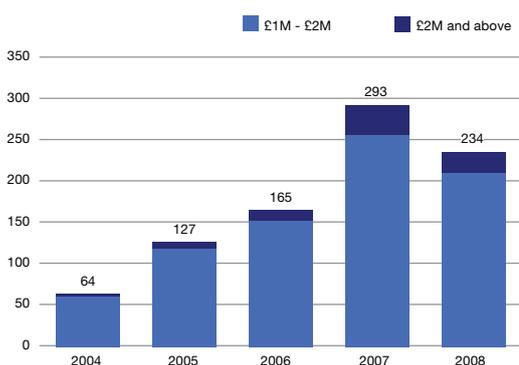
Average values for prime country houses in the North fell by 9% in 2008, the lowest fall in prime markets in Scotland.

with precious few land deals occurring at all. Many owners of land do not have the financial strength to write down land to prevailing values and will therefore seek to delay development until the market recovers. We expect to see a continued depression of values in 2010, with an over-supply of consented land relative to sites under construction. We are aware of a number of high net worth/consortium led investors who have identified the current state of the development land market as representing an excellent longer term investment opportunity. As at present, these investors have been unable to enter the market as the price point remains too high to allow target rates of return to be met.

A new approach

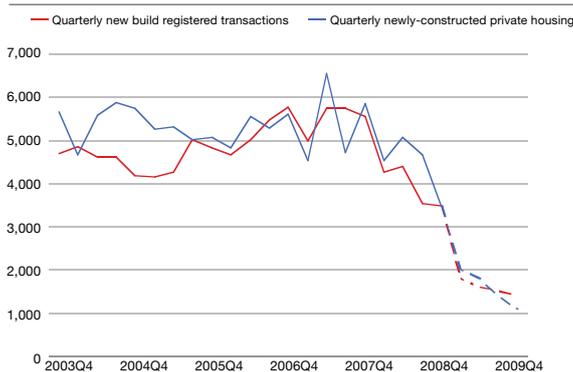
Many residential development sites are simply unviable in their current guise, requiring planning to be reworked. We have noticed an increase in the number of amended schemes in 2009, where the developer wants to change the mix altogether. As consented land in some cases may crystallise contracted payments, we expect a trend towards fewer fresh applications, with an increase in the number of applications withdrawn. Moving forward, we anticipate a change from land value dictating the product towards the more traditional approach of product dictating the land value. ■

Transactions in Scotland greater than or equal to £1million



Source: Savills Research/MyHousePrice.com

Quarterly newly-constructed private housing and registered transactions in Scotland



Source: Savills Research/University of the West of Scotland/Scottish Government



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

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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.