

# Spotlight on... Scottish residential property market



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## Scottish prime market begins gentle ascent

Six months after London's resurgence, Edinburgh saw the earliest Scottish recovery with the country house market and Glasgow's West End following

Following free-fall in 2008 there was a stabilisation of the prime market (properties valued at £400,000 and above) in 2009, with a modest rise in values of around 3% towards the end of the year. We expect this gradual trend will continue throughout 2010 and that annual price changes, for prime Scottish property, will increase to around nine per cent by 2012.

### What has led to the improvement?

The improvement in the health of the Scottish prime market has been fuelled by a number of factors.

The key has been a reduction in the level of surplus stock available to purchase. The number of properties being launched to the market tailed off significantly for an extended period from early 2008 as potential sellers lost confidence in the market. However, by the end of the year buyers were ready to do business. Many were cash-rich, having already sold their previous homes and were living in rented accommodation waiting for the economy to improve, and for signs that the Scottish prime market had hit the bottom. International buyers also became significant players in the recovery of the Scottish prime market, with buyers coming from as far afield as Europe, America, Canada, Russia and the Far East, ready and able to take advantage of the weaker pound.

In addition, restrictive mortgage lending practices, the legacy of the credit crunch, began to ease slightly (see Graph 2).

### The rippling out effect

Across the UK regional prime markets, the highest growth has been in the South East of England which has most strongly benefited from the ripple effect out of London. Prime property prices rose by 4.6% in the region over the year and by 6% in the £1m to £2m price

bracket where stock has been most constrained. Prime markets across the UK were similarly affected by the credit crunch and the political and financial events of the second half of the last decade.

While Scottish post credit crunch market recovery has failed to keep pace with that of the prime markets of the South East, the steady but less dramatic price growth that Scotland has experienced following the downturn should protect the market from the risks of a potential double dip in the short term. We anticipate a steady, less volatile recovery going forward, and that prime prices will increase by an average of 27% across the UK by 2015.

History tells us that the London property market is the first to recover following a recession and that the effects are felt in the Scottish market around six months to one year later. True to form, Edinburgh, as the hub of the prime market in Scotland, has seen the earliest recovery and more recently Glasgow's West End and Scotland's country house markets have followed. We expect the normal pattern to continue, with prime markets around Glasgow improving in the spring.

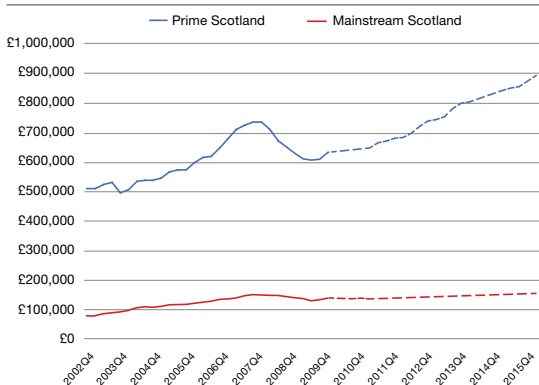
As we said in our research launched in autumn 2009, the recovery will be saw-edged and dependent on a number of external factors, including the economic climate. So far the signs are positive. While a General Election can signal a short-term change in the UK property market, with a lack of willingness to commit to deals in the face of uncertainty, in our experience the Scottish market is somewhat insulated from decisions made in Westminster. We therefore do not anticipate any significant stagnating effect.

Overall, the Scottish prime market, which stabilised towards the end of 2009, is now poised for growth at the start of this new decade.



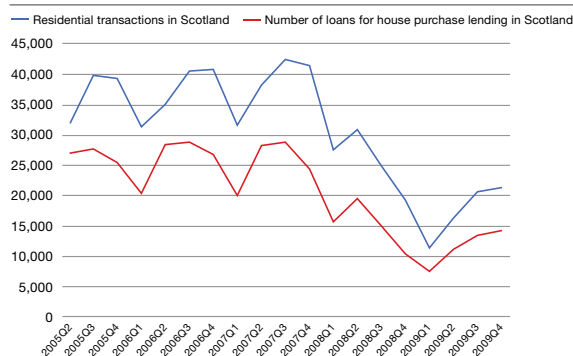
"The steady, but less dramatic price growth that Scotland has experienced following the downturn should protect the market from the risks of a double dip."  
Faisal Choudhry  
Savills Research

Graph 1. Average prime and mainstream residential values in Scotland



Source: Savills Research/Nationwide

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)





Due to lack of supply, prime properties such as Elderfield in Pollokshields, Glasgow are not staying on the market for long.

► A property market barometer

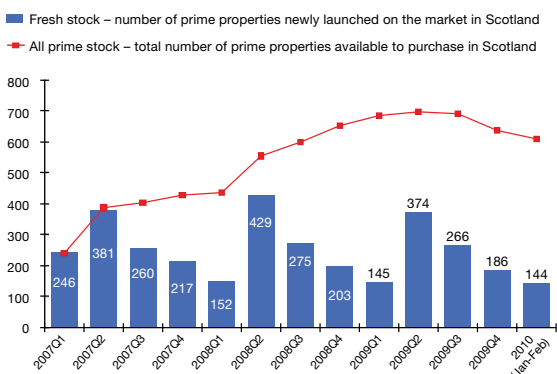
For there to be long-term recovery in the Scottish prime markets there needs to be a re-balancing of supply and demand. Savills StockWatch (see Graph 3) looks at all prime properties on the market in Scotland and is a useful tool to measure the health of the sector.

Our analysis shows the total number of prime properties available to buy in Scotland fell fairly steeply by 10% last year. As a result, the balance of supply and demand is being restored and properties coming on to the market are now selling more quickly. Buyers are coming forward to buy 'fresh' properties which are in good condition and realistically priced to reflect today's market. These are in short supply and are not remaining available for long. For example, a substantial detached property in St Margaret's Road, on the south side of Edinburgh, was launched at £1.75 million in November. A deal was completed within three weeks and a healthy premium was achieved. Meanwhile in Glasgow, Elderfield, in the garden suburb of West Pollokshields, went on the market in August and sold within two weeks for a premium price of £810,000.

A total of 144 prime properties were newly launched to the market during the first two months of 2010. This was almost double the number launched during the first two months of 2009.

**Graph 3. StockWatch chart**

Properties advertised at £400,000 or above in Scotland



Source: Savills Research

**Table 1. Percentage change in quarterly prime values**

| Quarter | Prime Scotland | Prime Great Britain | Prime Central London |
|---------|----------------|---------------------|----------------------|
| 2008Q4  | -6%            | -7%                 | -9%                  |
| 2009Q1  | -3%            | -3%                 | -4%                  |
| 2009Q2  | -1%            | 0%                  | 4%                   |
| 2009Q3  | 0%             | 2%                  | 4%                   |
| 2009Q4  | 3%             | 2%                  | 5%                   |

Source: Savills Research

**Table 2. Percentage change in annual prime values**

| Quarter           | Prime Scotland | Prime Central London |
|-------------------|----------------|----------------------|
| 2005Q4 (Actual)   | 6%             | 4%                   |
| 2006Q4 (Actual)   | 13%            | 24%                  |
| 2007Q4 (Actual)   | 12%            | 16%                  |
| 2008Q4 (Actual)   | -14%           | -18%                 |
| 2009Q4 (Actual)   | -1%            | 9%                   |
| 2010Q4 (Forecast) | 2%             | -1%                  |
| 2011Q4 (Forecast) | 5%             | 7%                   |
| 2012Q4 (Forecast) | 9%             | 11%                  |
| 2013Q4 (Forecast) | 7%             | 8%                   |
| 2014Q4 (Forecast) | 6%             | 6%                   |
| 2015Q4 (Forecast) | 6%             | 6%                   |

Source: Savills Research



► Average mainstream values

The health of the Scottish housing market improved considerably during the course of 2009. The number of property transactions increased by 12% during 2009Q4 compared to 2008Q4 according to the Registers of Scotland. In all the Scottish cities, mainstream residential annual price changes turned positive, with Dundee leading the way with a 9% increase in average sale price by the end of 2009 compared with the previous year. The average price in Scotland currently stands at £140,352 according to Nationwide.

“The recovery has been fuelled by increased confidence in the economy together with an improved mortgage finance environment.”

The recovery has been fuelled by increased confidence in the economy together with an improved mortgage finance environment. The number of loans for house purchase lending in Scotland increased by 22% from 11,600 loans in the last quarter of 2008 to 14,200 loans in the same period last year (see Graph 2).

New life in new build

While new build was the first property sector to feel the effects of the credit crunch, it has at last begun an unsteady resurgence in Scotland. Where developments are the subject of a corporate recovery, administrators and banks have been looking to dramatically improve rates of sale. Prices have been reduced and a more realistic market value has been set across the sector. Buyers consider that prices represent good value for money and see a new home as a reasonable investment in the medium to long term.

Corporate recovery stock is diminishing and house builders have been relatively inactive in the past two years. However, the emerging short-fall of new build housing will result in pressure on the second hand market, which in turn will help to fuel the current recovery.

Across Scotland, the number of reservations made by prospective buyers increased by 22% between October 08 and October 09. Site visitor numbers increased by 35% in the same period.

The increased activity has been largely dependent on incentives, which have included part exchange, shared equity and in some cases discounts of at least 30%. Overall, price per square foot across Central Scotland fell to £194 in 2009 from £211 in 2007.

While loans for house purchases have increased throughout 2009, they are still well below pre-credit crunch levels and this is continuing to have an effect on the market. From 2005-2007 there were, on average, 26,000 successful mortgage applications per quarter. By the first quarter of 2009 this had reduced by almost 75%. However, the figure is beginning to lift again and reached 14,200 by the fourth quarter of 2009.

This is against a backdrop of latent demand for new housing and an ambitious Scottish Government target to deliver 35,000 new homes by 2015. If prices stay at a realistic market level, 2010 should see further growth.

However, for there to be a full and sustained recovery, the industry needs to ensure it matches consumer demand by building a diverse range of housing, in the right locations, at the right prices.

Map 1. Average residential sale price 2009Q4



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

Table 3. Average residential sale price 2009Q4

|   | Aberdeen City | Dundee City | Edinburgh City | Glasgow City |
|---|---------------|-------------|----------------|--------------|
| Average residential sale price 2009Q4             | £175,755      | £133,699    | £209,456       | £135,784     |
| % change in average sale price compared to 2008Q4 | 2%            | 9%          | 4%             | 1%           |
| % change in transactions compared to 2008Q4       | 8%            | 15%         | 8%             | 9%           |

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



► Million pound market re-emerges

The top end of the prime market in Scotland was worst affected by the recent economic downturn. Residential sales registered at £1 million or above fell by 64% from the peak of the market in 2007, when there were 293 sales, to only 106 sales last year. However, 61% of last year's transactions were recorded in the second half of 2009, providing further evidence of the continued recovery in the Scottish prime market.

40% of last year's £1 million plus transactions occurred in Edinburgh in 2009, with the highest price being achieved by a property at £3.75 million. This was the highest registered price of any residential property in Scotland during 2009.

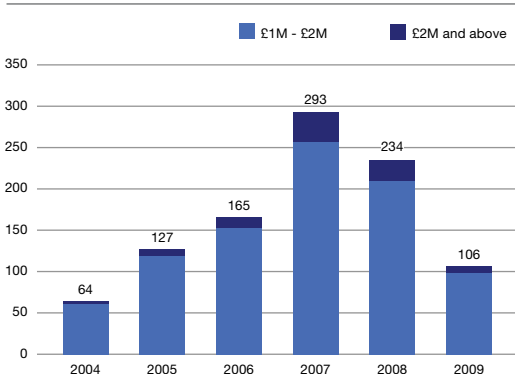
“61% of last year's transactions were recorded in the second half of 2009, providing further evidence of recovery in the Scottish prime market.”

Midlothian recorded nine transactions at £1 million and above in 2009, including two above £2 million. Renfrewshire also recorded nine transactions at £1 million and above in 2009, including six in the prime neighbourhood of Whitecraigs in East Renfrewshire.

Edinburgh fared considerably better than other areas at the very top of the market. During 2008 there were 35 sales of properties valued at £1.5 million and above outside the capital. By the end of 2009 this figure had reduced to only 12. However, despite the economic downturn, Edinburgh continued to see reasonable activity in this bracket with the 2008 figure of 22 property sales above £1.5 million only reducing to 17. ■

*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.*

Graph 4. Transactions in Scotland greater than or equal to £1million



Source: Savills Research/MyHousePrice.com

Secret estate agency

With regard to the estates market, only eight properties of 1,000 acres or more changed hands in Scotland during 2009. Half of these did so privately. The total value of sales was around £34 million, down from £66 million across 15 sales the year before.

The private route to a sale, with agents sourcing potential buyers from their books, has become much more popular and the trend is expected to continue throughout 2010.

Committed buyers tend to be registered with an agent, thus enabling contact to be made without the need to advertise. An estate can be on the market for months without unsettling estate staff or tenants, while protecting the privacy of owners.

Despite the recessionary pressures, the right property is still attracting plenty of interest. Scotland is perceived to offer unrivalled privacy and accessibility, compared with many other European countries, and to represent value for money (a large Scottish estate can be bought for the price of a suburban family house in London).

UK property offers a relatively safe haven for money and in 2009 exchange rates were very favourable and played a significant part in buyers' property decisions.

Wealthy individuals from England, the United States, Russia and Denmark were among those who bought a Scottish estate last year.

Map 2. Transactions in Scotland greater than or equal to £1million in 2009



Source: Savills Research/MyHousePrice.com



# 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: Liberton House, late 16th century fortified laird's house, sold in 2009