

Scotland Residential



Scotland's residential market has remained resilient in the face of political uncertainty. A 3% rise in transactions pushed the annual number to just under 103,000 during the 12 months ending June 2019, which was the highest since 2008. The market above £1 million was the busiest since 2008. Meanwhile, year-on-year growth in prime Scottish values during Q2 2019 was 2.0%, compared with a drop of 0.4% across the rest of the UK.

Looking ahead, a rise in registered buyers this year gives reasons for some optimism. But heightened uncertainty over the outcome of Brexit suggests the UK market will remain price sensitive. In Scotland, the key fundamentals of quality of life, good schools and economic growth in the hubs of Edinburgh and Glasgow will drive local markets. But political uncertainty is beginning to be felt in some quarters. Selling times across Scotland's cities are slightly higher than last year and mainstream house price growth has slowed over the course of 2019. We therefore expect a more considered market for the remainder of 2019. Pricing remains key and sellers will have to be pragmatic in order to align their price expectations with buyers.



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Demand remains strong in Glasgow

Constrained supply has maintained upward pressure on values

Greater Glasgow's diverse economy contributed to 29% of Scotland's economic output in 2017. It accounts for 28% of Scottish companies and 34% of the country's jobs. Glasgow itself is Scotland's largest city and with more foreign direct investment than any other Scottish city, it is considered to be one of the top 10 large global cities of the future, according to fDi Intelligence.

Continued economic growth has supported a strong housing market across Greater Glasgow, with the number of residential transactions increasing annually by 4% during the 12 months ending June 2019, slightly ahead of Scotland.

Demand for prime housing remains strong as evident in the 9% increase in the number of buyers

registering with Savills in Glasgow during 2019. But supply constraints continue, with 5% fewer properties available to buy compared to last year. This continues to put upward pressure on house prices. A 3.9% annual price growth to Q2 2019 across the city of Glasgow meant its prime market was among the top five outside London.

We believe there is capacity for further growth. Despite some examples of exceptional properties that have bucked the trend, average values across the city are still 5% lower than the peak of 2007/08. This compares to values in other leading university cities across the UK, which have exceeded the peak by almost 20%.

Prime price movements (to June 2019) Scotland has room for further growth as the markets south of the border remain slow

	Prime Scotland overall	Prime Scotland urban areas	Prime Scotland country areas	All UK prime regional	All prime London
Annual growth	2.0%	3.8%	0.7%	-0.4%	-1.8%
Since 2007/08 peak	-17.2%	-4.0%	-25.7%	-1.3%	20.2%

Source Savills Research

“Prime developments that have been in the planning pipeline for a number of years have now come on stream and are unlocking pent-up demand”

Prime market overview

Following a 22% rise in activity at £400,000 and above during the 12 months ending June 2018, activity in Greater Glasgow’s prime residential market remained stable over the last year, with 1,219 transactions. This is despite a drop in prime new build supply.

The prime second hand market witnessed a 9% rise in sales, with a record 925 transactions. We expect the prime new build market to recover in the coming year, as a number of developments in city and suburban locations that have been in the planning pipeline for a number of years have now come on stream and are unlocking pent-up demand.

City hotspots

The city of Glasgow accounted for 31% of Greater Glasgow’s prime activity during the last year. Within Glasgow, 64% of prime activity took place in the West End and surrounding Partick, Jordanhill and Park neighbourhoods.

This combined area saw an 8% annual rise in prime second hand activity, led by the G11 and G13 postcodes which cover Partick, Broomhill and Jordanhill. In the southside hotspots of Pollokshields and Newlands there were 75 prime transactions, which was the highest annual number since 2007/08.

Surroundings areas

At 200 transactions, East Renfrewshire witnessed its strongest ever prime second hand market over the last year. Whilst the traditional hotspot of Giffnock witnessed a steady prime second hand market, a niche new build development pushed overall activity to a record high.

The overall East Renfrewshire prime market is expected to grow further as more completions take place at new build developments in the sought-after suburb of Newton Mearns. Towards the north of Glasgow, East Dunbartonshire also saw a record number of prime transactions (265), supported by a

rise in new build activity in Bearsden and Lenzie in particular.

In Lanarkshire, towards the east of Glasgow, a rise in new build activity stimulated the prime second hand market, which saw a record 132 transactions over the last year.

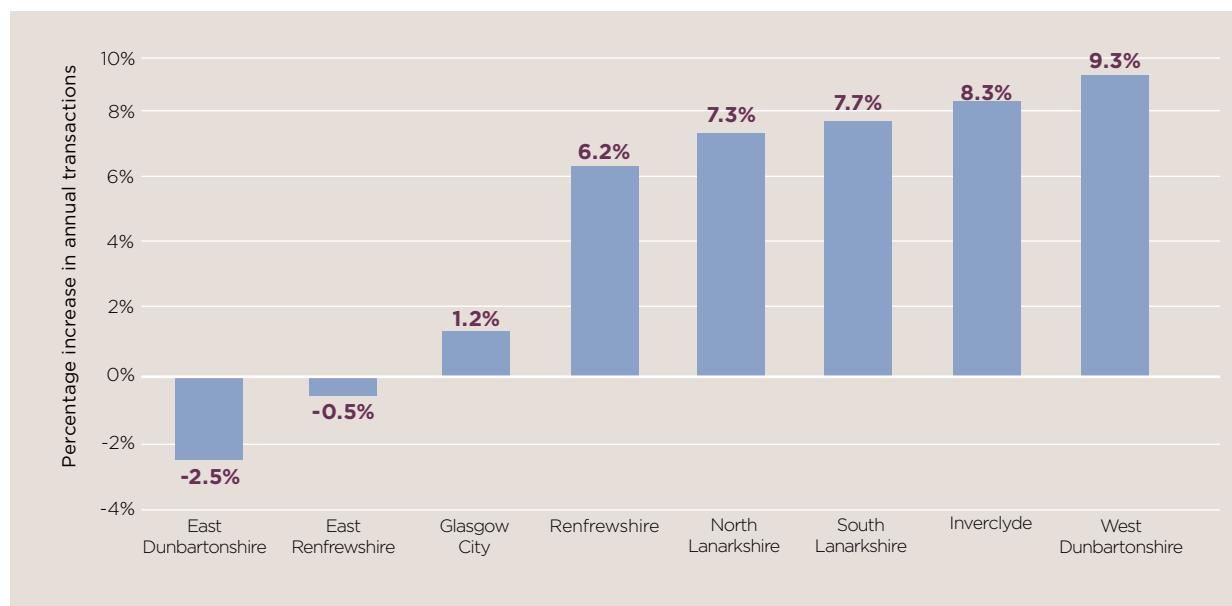
Wider market

Over the last 12 months, growth in transactional activity has spread out from the city of Glasgow and surroundings hotspots into the more attainable commuter locations of Lanarkshire, Inverclyde, Renfrewshire and West Dunbartonshire.

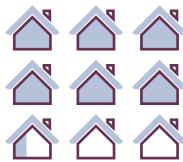
According to our research, annual house price growth in these areas averaged 6% during June 2019. Furthermore, there was a 7% annual rise in transactions in these areas. The locations that have seen a significant rise in transactions are mainly on the periphery of Glasgow, as its sphere of influence spreads.

Annual transactional growth across all price bands (12 months ending June 2019)

vs. 12 months ending June 2018 Greater Glasgow’s transactional growth is spreading to more attainable locations on the periphery of the city



Source Registers of Scotland



Almost 70% of new buyers registering with Savills in Edinburgh are looking for properties below £500,000, where supply is limited

Edinburgh expands

The capital's inner suburbs are leading prime market growth

Prime hotspots

Edinburgh's prime residential market expansion has continued, with the number of transactions at £400,000 and above reaching a record 1,909 over the last year, a 6% annual rise. Furthermore, there were 153 transactions at £1 million and above, exceeding the previous annual peak of 149 seen during the 12 months ending June 2008. Alongside transactional growth, prime values in the city increased by 4.4% and are now 4.8% above the peak of 2007/08.

Edinburgh's inner suburbs have led recent prime market growth. This includes the Grange, Morningside and Merchiston area south of the city centre, where the number of prime transactions at £400,000 and above reached a record 435 over the last year, a robust 24% annual rise.

The Ravelston area was another star performer. Elsewhere, prime transactions grew slightly in Stockbridge and Inverleith but remained stable in the New Town, West End and Trinity areas.

Emerging locations

In addition to these key hotspots, prime activity is becoming more established in some of Edinburgh's eastern neighbourhoods, such as Broughton, Hillside, Joppa, Portobello and Duddingston. These locations saw a 31% annual increase in prime transactions, pushing them over the 150 mark in the past 12 months.

An increase in new build supply supported a 36% rise in prime transactions in the southern suburbs of Blackford, Gilmerton, Newington and Liberton, and an even greater 51% increase in the Western suburbs of Balerno and Ratho, as new development continues to bring more affluent buyers to emerging prime markets.

Market outlook

The main challenge in Edinburgh is constrained supply of properties below £500,000. Demand is strongest in this section of the market as evident in the increasing number of buyers

registering for properties below £500,000. In other parts of the prime market, appropriately priced stock will continue to attract the strongest demand, particularly for properties that are considered best in class.

The Lothians

Buyers priced out of Edinburgh continue to be attracted to the relatively attainable Lothians, where the overall number of transactions increased annually by 3% over the last year.

Much of this growth took place in East Lothian, where the number increased by 13% fuelled by a 37% increase in new build transactions, across numerous sites, from the coastal hotspot of Gullane to the commuter locations of Haddington, Tranent and Wallyford. Higher value new build activity in Gullane and an improved second hand market in the sought-after town of North Berwick contributed to a healthy 34% rise in prime transactions across this area.

Local country heroes emerging

Transactional growth has remained steady on the back of realistic pricing, however some areas are bucking the trend

In recent years, a modest rise in prices in some of Scotland's country locations has supported strong transactional growth. Overall activity improved by 3% during the last 12 months, however Argyll & Bute bucked the trend with the number of transactions increasing annually by 10% over the last year. Prime transactions above £400,000 reached a record 77 with

a growing market in the Oban area.

Whereas the wider transactional market in the heartland of Fife, Perthshire and Stirlingshire remained steady, the number of sales above £600,000 increased by 16%. Fife witnessed a 4% annual increase in overall transactions. Prime activity in St Andrews continues to grow and

new build activity is supporting mainstream growth in some of Fife's commuter locations.

Whilst Stirlingshire saw a surprise drop in transactions, the prime market in the city area of Stirling, Bridge of Allan and Kilmarnock remained steady.

Perth & Kinross also experienced a steady transactional market over the last



The average transaction price across Angus, Dundee and Moray increased by 3% over the last year, supported by an increase in higher value activity

Aberdeen remains stable

The prime market and areas within easy reach of the city have grown, however high stock levels continue to suppress mainstream prices

Despite moderate price falls, transactions in the Aberdeen area have been relatively stable. The combined annual number of sales across both Aberdeen and wider Aberdeenshire has remained at just over 8,000 over the past two years. This has been supported by increased new build activity in the city and suburbs such as Peterculter, Balmedie and Bridge of Don and more sales in locations that are within easy reach of Aberdeen, including the likes of Stonehaven, Inverurie and Westhill. This has occurred even though the average house price in the city fell annually by 4% during June 2019 compared to June 2018 and by 1% in the surrounding county over the same period.

Prices in the mainstream market have struggled to find a level since the housing market downturn, mainly due to a chronically high number of available properties, largely in the market below £200,000. Despite more realistically-priced properties being launched, this trend looks set to continue as there

are currently 5,780 properties available to buy across the market as a whole compared to 2,500 before the market downturn.

Supply is less saturated above £400,000, in a market which has benefited from improved transactional activity. Indeed the number of prime transactions above £400,000 increased by 6% to 486 over the last year; the first rise in four years. Robust activity in the prime strongholds of Aberdeen such as West End, Cults, Bieldside and Milltimber has been supplemented by strong growth in locations further afield such as Banchory and Ellon.

A 33% annual rise this year in the number of buyers registering with Savills in the North East indicates that demand for the Aberdeen area's prime housing stock is continuing to recover. Along with a 13% increase in viewings, signs show that activity in the prime market will remain robust provided sellers maintain realistic price expectations.

The wider North East

Overall transactional activity across Angus, Dundee, Moray and southern Kincardineshire witnessed a recovery, with the number increasing annually by 4% during the year ending June 2019. The average transaction price increased by 3% over the same period, supported by an increase in higher value activity. Prime transactions above £400,000 reached a record 96 over the last year, with more interest from Aberdeen buyers.

More significantly, Dundee saw a 9% annual rise in the overall number of transactions and a 4% rise in its average transaction price, supported by more activity above £300,000. Increased prosperity emanating out of Dundee also fed growth in the prime market of Angus, particularly in the new build sector.

The market above £300,000 also improved in Kincardineshire with an increase in transactions over the last year.



year, with the exception of the second hand market in Aberfeldy and the new build market which outperformed. Meanwhile, prime transactions increased annually by 9%, led by village locations around the city of Perth and also Crieff.

In the north, the hub of Inverness led the Highlands market with a rise in both prime and new build transactions.

Ayrshire saw little change in prime transactions over the last year. However, mainstream transactions increased by 5%, led by the second hand market in Ayr, Prestwick and Troon and new build market in North Ayrshire.

The prime Borders market witnessed a drop in transactions mainly due to reduced activity in Berwickshire,

however the market in Peebles remained steady. Meanwhile, mainstream activity improved in Galashiels, Melrose, Hawick and Lauder.

The residential market in Dumfries & Galloway continues to recover, led by increased prime activity in Castle Douglas and areas surrounding Dumfries town.



The beauty of Argyll & Bute

Argyll & Bute, on the west coast, was Scotland's top-performing residential market during the first half of 2019, recording a 15% rise in the number of transactions compared to the same period in 2018. The average house price during June 2019 reached £178,714 according to Savills Research, 4% higher than the figure during June 2018. On top of all of that, prime transactions above £400,000 in the area reached a record 77 over the last year.

The waters off the west coast of Scotland are famed for challenging sailing and stunning scenery. The surrounding countryside provides an abundance of outdoor and sporting activities. As a result, Argyll & Bute attracts a range of buyers, many of which originate from outside the local area and Scotland. Over the last five years, almost half of our buyers in Argyll & Bute have come from outside Scotland.

The seaside hotspot of Helensburgh remains the hub of its residential market, accounting for a quarter of its transactions. Supported by increased new build activity these rose by 15%. Meanwhile Oban saw the size of its prime market double from nine to 18 transactions.

Looking ahead, Argyll & Bute faces the ongoing challenges of supply shortages. There are 12% fewer properties currently available to buy compared to last year. Against the context of strong demand, this is likely to keep upward pressure on values.



9% rise in the number of buyers during 2019 that have registered with Savills in Scotland to buy a property at £1m and above

Top end outperforms

The number of million pound transactions is at its highest since 2008, with Edinburgh's dominance increasing

There were 231 million pound transactions during the 12 months ending June 2019, including 19 above £2m in Scotland. These are the highest annual numbers since the 12 months ending June 2008. Whereas 2018 saw no transactions above £3m, there were two in the first six months of 2019.

If these figures are not impressive enough, further growth in Scotland's million pound market seems assured as there are a number of deals yet to be recorded. Strong demand at the top end of the market is further evidenced by a 9% rise in the number of buyers during 2019 that have registered with Savills in Scotland to buy a property at £1m and above.

Edinburgh

Edinburgh accounts for two thirds of Scotland's million pound market and almost 80% of transactions over £2m. The inner suburbs of Grange, Morningside and Merchiston are the hubs of Edinburgh's million pound market. They have accounted for 48 transactions in the last year, eight more than the previous year.

Murrayfield and the area around Belgrave Crescent and Buckingham Terrace has also seen million pound transactions jump (from 14 to 27). Supported by new build activity at Donaldson's, this means these areas saw more million pound transactions than the New Town and West End, where sales have recovered since the introduction of LBTT*. Despite having limited opportunities at the top end, million pound activity in Edinburgh's New Town and West End reached the level last seen during the peak of the market in 2008.

Million pound residential transactions (12 months ending June)

Edinburgh's dominance of Scotland's market continues to grow

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
Edinburgh & Lothians	62	74	62	62	79	123	90	87	130	165	934
Greater Glasgow	16	28	22	12	19	34	20	27	29	27	234
Heartland	16	24	11	15	14	18	19	14	26	22	179
Aberdeen & North East	9	22	17	27	26	32	14	7	7	11	172
Scottish Borders	1	3	1	2	2	7	2	3	6	1	28
Ayrshire	2	2	6	2	3	3	0	3	1	1	23
Highland & Islands	6	3	1	2	1	3	1	0	4	1	22
Argyll & Bute	2	1	2	3	1	0	0	2	0	1	12
Dumfries & Galloway	1	2	0	1	0	1	0	0	1	2	8
Grand Total	115	159	122	126	145	221	146	143	204	231	1,612

*Land and Buildings Transaction Tax

Source Savills Research



Transactions above £325,000 make up only 10% of the Scottish market, yet contribute to 75% of the tax revenue

LBTT: the story so far

Tax revenue remains dependent on the purchase of additional dwellings and the Edinburgh prime market

Five years ago LBTT was introduced as a progressive form of tax that would reduce or altogether remove the tax burden for the majority of home buyers in Scotland. But this was at the expense of higher charges for more valuable property that risked putting Scotland's prime property market at a disadvantage compared to other parts of the UK. Until recently the tax has struggled to meet the government's revenue targets.

Targets and revenue

In its first tax year 2015/16, the government's revenue target was £235m but only £202m was generated. The following tax year 2016/17 saw the introduction of the Additional Dwelling Supplement (ADS). This alone generated a quarter of the total revenue, but total receipts of £290m fell £28m short of the government forecasts.

The tax year 2017/18 saw a closer alignment, with £351m revenue generated against a target of £353m. The LBTT target of £360m was finally exceeded for the first time in the most recent tax year 2018/19, when £364m in revenue was generated. However, the target for the current tax year seems ambitious at £405m.

Impact on the market?

The extent to which these receipts are dependent on a small section of the market is reflected in the fact that transactions over £325,000 make up only 10% of the residential sales in Scotland yet contribute 75% of the tax revenue. Five Scottish areas generate 55% of all basic LBTT revenue. Edinburgh alone generates one third of basic LBTT receipts.

The first two years following the introduction of LBTT saw a dip in activity at the top end of the market. But, as this report details, this has now improved (even if price growth remains suppressed). The market appears to have adjusted to the relatively higher rates of LBTT, with buyers of the most expensive properties viewing the charge in the context of the wider value offered by prime homes north of the border.

Anecdotally some buyers are being put off because of the ADS surcharge, which is currently 4% in Scotland compared to 3% in the rest of the UK. But it has proved to be a revenue bonanza for the government, contributing over a quarter of the total revenue in the last two tax years.

The future

With stable levels of tax revenue, topped up by generous levels of ADS, it is unlikely the government will consider a change in rates. But LBTT forecasts assume a continuation of current market conditions. Whilst demand for prime Scottish properties remains strong, the government should be mindful of the impact of more political uncertainty on prices and supply, especially in Edinburgh, which contributes heavily to the tax revenue.

“Until recently the tax has struggled to meet the government's revenue targets”

LBTT tax amount compared to SDLT (not a first time buyer)

Scottish properties incur a higher rate, but buyers are adjusting

Purchase price	LBTT amount		SDLT amount	
	Principal property	Additional property (LBTT + 4% ADS)	Principal property	Additional property (SDLT + 3% additional surcharge)
£200,000	£1,100	£9,100	£1,500	£7,500
£400,000	£13,350	£29,350	£10,000	£22,000
£600,000	£33,350	£57,350	£20,000	£38,000
£800,000	£54,350	£86,350	£30,000	£54,000
£1 million	£78,350	£118,350	£43,750	£73,750
£2 million	£198,350	£278,350	£153,750	£213,750



Savills Research

We're a dedicated team with an unrivalled reputation for producing well-informed and accurate analysis, research and commentary across all sectors of the UK property market.

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