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Spotlight
Scotland's Residential Property Market

Spring 2017

Innerwick House in Murrayfield, Edinburgh (Offers Over £3,200,000). Scotland's million pound market is adjusting to the higher rates of property taxation.

SUMMARY

Scotland's residential market is the strongest it has been since 2008

■ The number of transactions increased by 3% in 2016 and was 9% higher than the 10-year annual average. This took place despite a drop in mortgage lending and slowdown in the Aberdeen area.

■ Lack of supply in central hotspots is fuelling price growth, which is now filtering through to Scotland's heartland of Tayside, Stirlingshire and Fife. Both prices and transactions in rural locations are stable.

■ A reduction in selling times across Scotland's cities and exceptional monthly off-plan sales rates in Edinburgh and Glasgow are resulting in supply constraints in the new build market.

■ The market below £400,000 continues to be supported by favourable rates of Land and Buildings Transaction Tax (LBTT). However, LBTT is constraining the market from £600,000 to £1 million. This is particularly pertinent in country locations.

■ Scottish property is attracting more top-end buyers from outside Scotland, helped by favourable exchange rates. In times of uncertainty, high net worth investors are drawn to prime central hotspots, which are considered safe investments and good value for money.

■ We expect strong demand across Edinburgh and Glasgow, especially for high quality, well presented properties, close to good schools and transport links.

STRONGEST MARKET SINCE 2008

The year 2016 ended with a total of 100,081 residential transactions recorded across Scotland, which is the highest annual number since 2008. The overwhelming majority of residential transactions in Scotland take place up to £400,000, and this is where much of the growth in last year's activity happened. The bulk of the market is being assisted by low mortgage and taxation rates, along with government initiatives such as Help to Buy.

The number of transactions compared to 2015 increased by a marginal 3%. This reduced growth was due to the slowdown in the oil-dependent Aberdeen area, where the number of transactions dropped annually by 15% last year. Furthermore, mortgage lending in Scotland, which increased annually by 10% in 2015, fell by 2% in 2016. Two-thirds of residential transactions are facilitated by mortgages. Economic and political uncertainty, coupled with tighter lending criteria, are combining to suppress the growth in overall market activity.

There were 4,019 Scottish residential transactions at £400,000 and above during 2016. This was 12% lower than the level in 2015. This drop was largely due to the surge in activity that took place during the first three months of 2015, ahead of the introduction of higher taxation rates under LBTT from April 2015.

In comparison with the year 2014, the number of prime transactions in 2016 was 3% lower.

The drop in transactions above £400,000 during 2016 suggests that LBTT is suppressing the market. While LBTT has impacted performance above £400,000, it is better assessed, in our opinion, by excluding abnormal activity in the Aberdeen area. Transactions above £400,000 in the Aberdeen area made up 22% of Scotland's total in this price band during 2014 and 2015. This percentage dropped to 13% in 2016. The number of transactions above £400,000 across the rest of Scotland's total in this price band was 5% lower in 2016 compared to 2015 but 12% higher than the level in 2014 (see Figure 2).

Lack of supply lifting prices

While the growth in overall transactions has reduced, we have witnessed a rise in house prices, underpinned by a lack of supply. According to recent surveys by the RICS, the level of properties coming onto the market continues to fall, with existing stock being absorbed. Furthermore, the actual time taken for properties coming onto the market to reach a sold status across Scotland's cities has dropped to 12 weeks, compared to 16 weeks in February 2014. These factors have fuelled Scottish house prices, which increased annually by 3.5% in December last year. A similar trend was also witnessed in the Savills Prime Scotland index, which increased in value by 4.2% at the end of last year across Edinburgh and Glasgow (see Figure 3).

Edinburgh and Lothians market

The overall number of residential transactions in the hub of Edinburgh

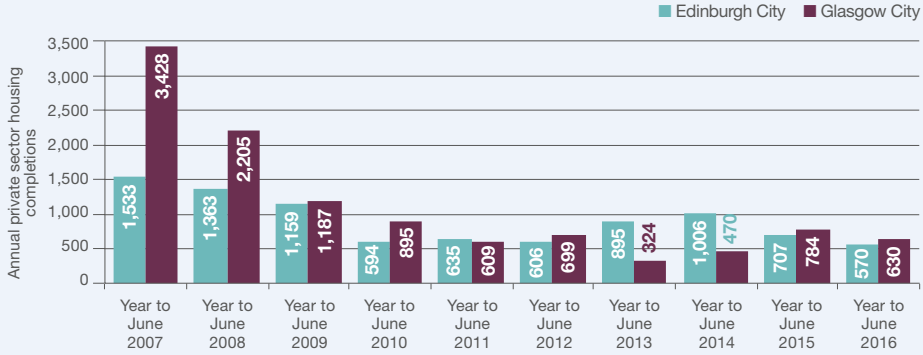
NEW BUILD OUTPERFORMS

Strong monthly sales rates across Edinburgh and Glasgow

Scotland's new build market has benefitted from the Help to Buy schemes, accounting for 8% of all residential transactions between October 2013 and March 2016. As a result, new build activity has outperformed the overall market, with 8% more transactions in 2016 compared to 2015, compared to 3% for the overall market. The new homes market has benefited from lower levels of available stock in the second hand market. However, supply constraints are also becoming a challenge in this sector, with exceptional monthly off-plan sales rates being achieved across Edinburgh and Glasgow. Meanwhile, private house building reduced annually by around 19% in both cities during the year ending June 2016. New build supply in Edinburgh is unlikely to pick up before the end of 2017. On the other hand, private house building has significantly increased in locations with historical supply constraints. This includes East Renfrewshire, Perth & Kinross, East Lothian, South Ayrshire, Dundee City and Stirling. Private completions in the commuter locations of Renfrewshire, Inverclyde, Aberdeenshire, Midlothian, Fife and Moray also exceeded the figure for Scotland as a whole (see Figure 1).

FIGURE 1

Private house building supply remains constrained in Edinburgh and Glasgow



Source: Scottish Government

100,081

The total number of residential transactions in Scotland in 2016

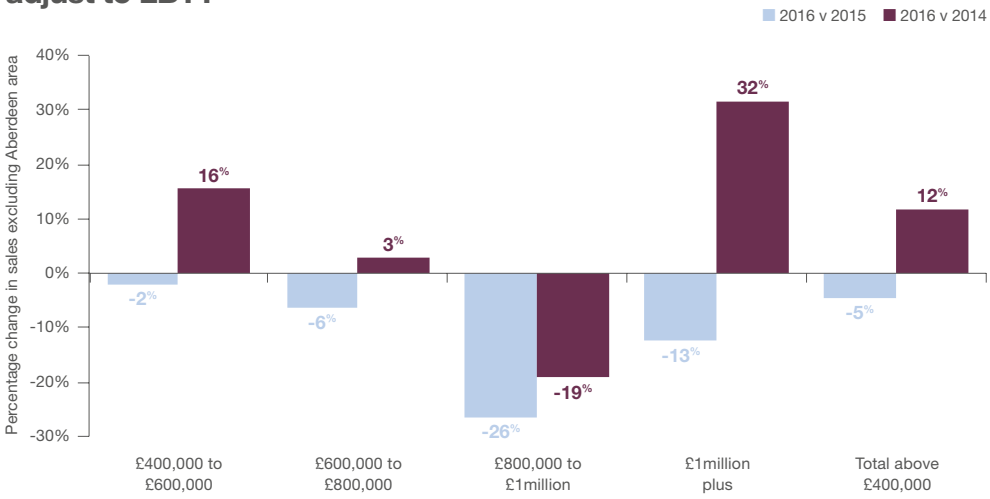
increased by 3% last year, in line with Scotland. Around 12% of residential activity in Edinburgh last year took place above £400,000, representing 1,507 transactions. This figure was 5% lower than the level in 2015 but 15% higher than 2014. This also included 263 new build transactions, which was the highest annual number in five years.

Within Edinburgh, the central hotspots of the Grange, Morningside, Merchiston, Inverleith and Stockbridge are adjusting to increased taxation, with more transactions in 2016 compared to 2014. The attraction of good schools continues to underpin these areas, however the market is still catching up in the West End, Ravelston, Murrayfield and Trinity. Further afield, the market in Barnton and Cramond has also picked up, but only up to £600,000. Whilst transactions in Edinburgh's New Town above £400,000 during 2016 did not reach the level of recent years, it has bucked the Scottish trend, with a recovery in activity above £800,000. This was also the case in Colinton, where the market between £600,000 and £1 million is recovering.

The surrounding Lothians commuter area witnessed a 7% annual growth in overall residential transactions last year. This included a 16% annual growth in Midlothian, supported by the new build market. The new build market has also maintained a healthy level of activity in East Lothian and Midlothian above £400,000, whilst transactions at this level in West Lothian were a third higher than 2014.

FIGURE 2

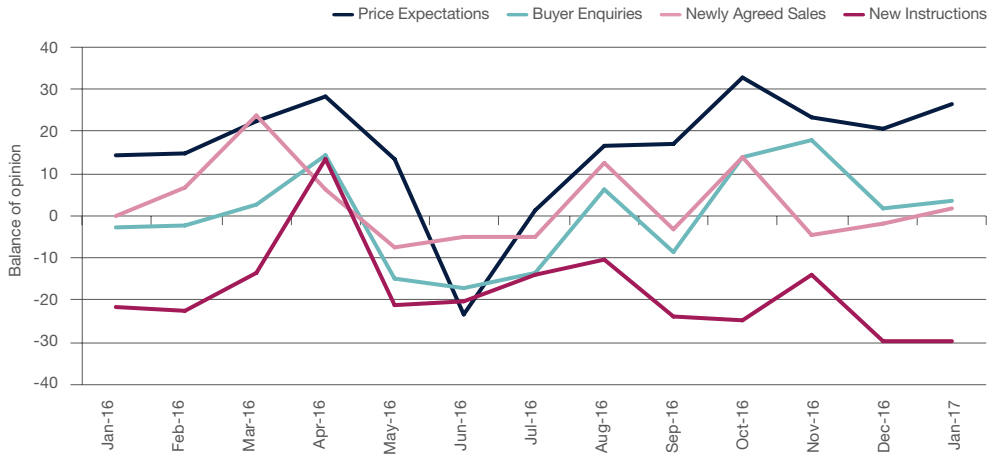
Residential market between £800,000 and £1 million has yet to adjust to LBTT



Source: Savills Research

FIGURE 3

Lack of supply underpinning price growth in Scotland according to monthly survey of agents and surveyors



Source: RICS

Newbattle Terrace in Morningside, Edinburgh (prices from £580,000). Transactions above £400,000 in the Grange, Morningside, Merchiston area reached their highest level in five years.

Greater Glasgow market

Across Greater Glasgow, the overall number of residential transactions increased by 5% last year. This included 19% annual growth in the commuter location of Renfrewshire, which was the highest in Scotland last year, supported by new build activity. Annual growth last year in overall transactions across Lanarkshire and Inverclyde also exceeded the Scotland figure.

Compared to Scotland as a whole, there was a better market across Greater Glasgow above £400,000 last year, with 864 transactions: the same level as 2015 and 15% higher than in 2014. Within Greater Glasgow, activity above £400,000 made up 11% of all transactions last year in the hotspots of East Renfrewshire and East Dunbartonshire. The number of new build transactions above £400,000 increased by a third in 2016, but this was offset by a 10% drop in second hand transactions. Much of Greater Glasgow's transactional growth above £400,000 took place in Renfrewshire and Lanarkshire, especially in the new build market. The market in the East Dunbartonshire hotspots of Bearsden and Milngavie remained stable during 2016. Meanwhile the market in Glasgow's West End and Park also improved since 2014.

Aberdeen area market

The residential property market in the Aberdeen area is being impacted by current uncertainty within the oil and gas sector, resulting in decreased consumer confidence. In just two years, the impact of Aberdeen's oil-shock has resulted in a 27% fall in the annual number of overall transactions. Residential transactions above £400,000 fell by 47% across the same period. Within the Aberdeen area, the bulk of the drop has taken place in Aberdeen City and Aberdeenshire. The Local Authority area of Moray on the other hand witnessed a 5% annual growth in transactions last year.

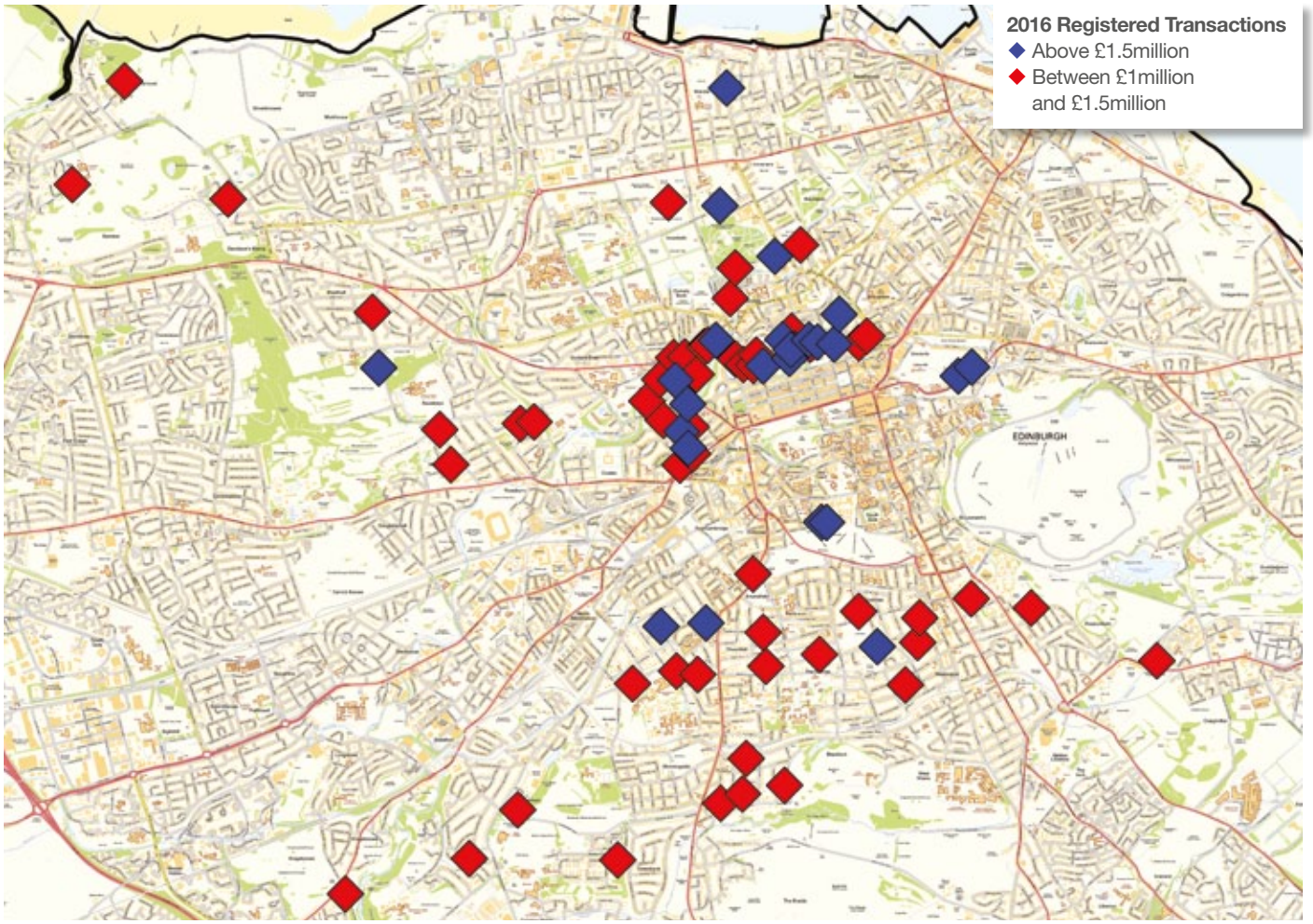
While exceptional properties continue to attract buyers, in general there is now an imbalance between supply and demand, especially below £400,000. We have therefore forecasted an annual drop of 6.5% in Aberdeen area mainstream values in 2017. This will help to generate demand and begin a housing market recovery in Aberdeen.

Other local heroes

An adjustment in values is enabling a recovery in transaction numbers

FIGURE 4

Edinburgh's top-end transactions in 2016 were mainly concentrated in central locations



Source: Savills Research

in some of Scotland's country locations. Across Scotland's heartland of Stirling, Fife and Tayside, the number of residential transactions last year increased by 5%. Furthermore, the number of transactions above £400,000 in 2016 was 8% higher than 2014.

High quality properties in towns with excellent schools, transport links and services are continuing to attract strong interest. The most popular towns include Bridge of Allan, Dunblane, Dollar, St Andrews and Auchterarder. There does however appear to be a shortage of stock in these areas. Perthshire's activity levels picked up significantly in the final third of 2016 particularly in the Loch Tay area and the countryside surrounding Perth.

Transactions above £400,000 in Angus and Dundee City during 2016 also exceeded the level in 2015 and 2014. Despite last year's introduction of the extra 3% LBTT for additional properties, the market remains resilient in holiday home hotspots such as Elie and St Andrews.

We are also witnessing market growth spreading into rural locations such as Highland, Ayrshire, Argyll & Bute, Borders and Dumfries & Galloway. Overall transactional growth in these areas outperformed Scotland last year and local house prices are also beginning to recover in most locations. The relatively smaller market above £400,000 in these areas has remained stable over the last few years, albeit mostly limited to £600,000. The majority of transactions above £400,000 in Argyll take place in Helensburgh, which recorded its highest total in this price band since 2010.

19%

Annual growth in Renfrewshire's transactions last year, which was the highest in Scotland

LBTT IMPACT

The market below £800,000 and above £1m is adjusting

Taking into account the slowdown in the Aberdeen area, our research shows that the price band £800,000 to £1 million is struggling to adjust to LBTT. There were 19% fewer transactions in this price band in 2016 compared to 2014, with more than half of the activity taking place in Edinburgh. A drop in properties being launched onto the market in this price band in the capital has contributed to the transactional slowdown. In contrast, the price band between £600,000 and £800,000 is beginning to adjust with 3% more transactions over the same period. Moreover, transactions between £400,000 and £600,000 and above £1 million in 2016 were 16% and 32% respectively more than the level in 2014 (see Figure 2).

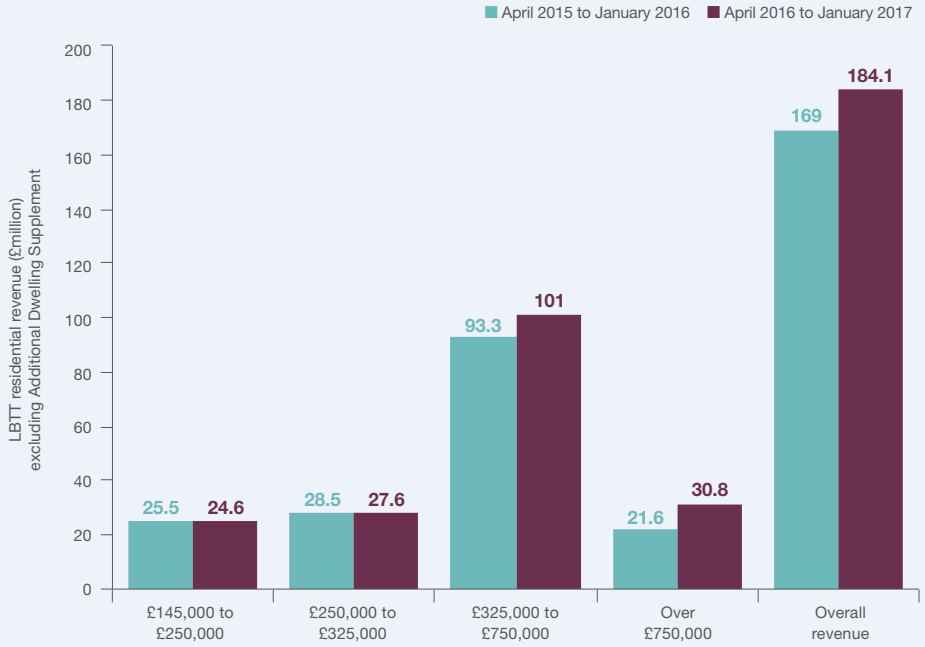
Even with the impact of LBTT and the Aberdeen area slowdown, the overall 4,019 transactions above £400,000 in 2016 was 8% higher than the five-year annual average of 3,720 between 2012 and 2016.

Residential revenue generated by LBTT increased by £15 million between April 2016 and January 2017, compared to the previous tax year, excluding the Additional Dwelling Supplement (ADS). Without ADS, introduced in April 2016, the Scottish Government would have been unable to exceed the level of tax generated by SDLT in 2014/2015 (see Figure 5).

"Without the LBTT Additional Dwelling Supplement, the Scottish Government would have been unable to exceed the level of tax generated by SDLT in 2014/2015" Faisal Choudhry, Savills Research

FIGURE 5

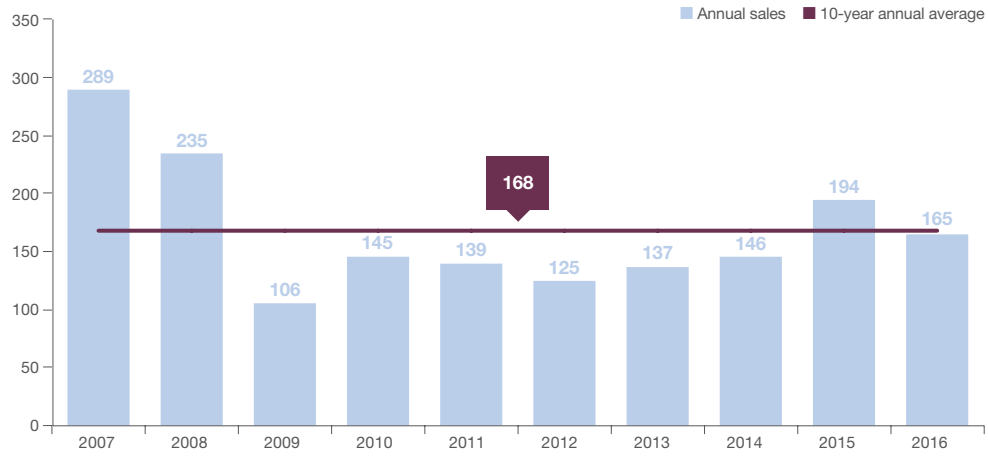
Scottish Government increases its tax revenue from residential sales



Source: Revenue Scotland

FIGURE 6

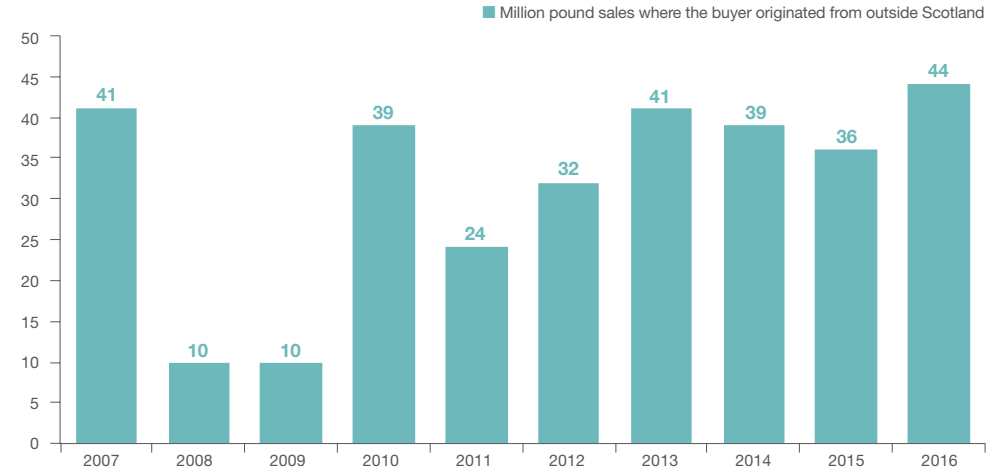
Scotland residential market above £1 million outperforms levels prior to LBTT



Source: Savills Research

FIGURE 7

Million pound buyers from outside Scotland hits 10-year high



Source: Savills Research

FIGURE 8

Scotland's 2016 million pound market in numbers

Source: Savills Research

A resilient million pound market

This market has been better able to absorb higher rates of LBTT. There were 165 Scottish transactions at £1 million and above in 2016. This was 29 lower than the level in 2015, however the high number of transactions that took place before the end of March that year, ahead of the introduction of LBTT, must be taken into account (see Figure 6).

Leaving aside 2015, the year 2016 witnessed the highest number of transactions at this level since 2008. There were 27 new build transactions above £1 million in 2016, which is the highest ever in Scotland in a calendar year.

Last year also saw the highest ever number of buyers originating from outside Scotland in 10 years, accounting for 44 of the 165 transactions. This included 21 from outside the UK, 12 from London and 11 from the rest of the UK (see Figure 7).

Edinburgh City witnessed 91 of Scotland's transactions above £1 million, including five that achieved the highest ever price in their streets. These took place in Lynedoch Place and Great King Street in the New Town, Stirling Road in Trinity, Chester Street in the west end and Merchiston Place in the south side.

Whereas transactions above £1 million were spread across the city, sales above £1.5 million were mainly concentrated in central locations. The capital is benefitting from the fact that in times of uncertainty, high net worth investors are drawn to prime central hotspots, which are considered safe investments (see Figure 4).

At 11 transactions, South Lanarkshire had the second highest number of million pound sales in Scotland in 2016. This included 10 new build transactions, with nine taking place in Thorntonhall. There were a further 18 transactions across Greater Glasgow, including the first ever £2 million sale in East Renfrewshire

MARKET PREDICTIONS: FIVE-YEAR CAPITAL VALUE FORECASTS

PRIME	2017	2018	2019	2020	2021	5-year
Central London	0.0%	0.0%	8.0%	5.0%	6.5%	21%
Other Prime London	-1.0%	0.0%	6.0%	4.0%	5.0%	15%
Suburban	-1.0%	1.0%	5.5%	4.0%	6.0%	16%
Inner Commute	1.0%	1.5%	6.5%	4.0%	6.0%	20%
Outer Commute	1.0%	1.5%	6.5%	4.0%	5.0%	19%
Wider South England	1.0%	1.0%	5.5%	3.5%	5.0%	17%
Midlands/North	0.0%	1.0%	5.0%	3.0%	4.0%	14%
Scotland	0.0%	0.0%	4.5%	3.0%	4.0%	12%

MAINSTREAM	2017	2018	2019	2020	2021	5-year
UK	0.0%	2.0%	5.5%	3.0%	2.0%	13%
London	0.0%	3.0%	4.5%	2.0%	1.0%	11%
South East	2.0%	2.0%	6.5%	4.0%	1.5%	17%
East of England	2.5%	2.5%	6.5%	4.0%	2.0%	19%
South West	1.0%	2.0%	6.0%	3.0%	1.5%	14%
East Midlands	0.0%	2.0%	5.5%	3.5%	2.0%	14%
West Midlands	-0.5%	2.0%	5.0%	3.5%	2.0%	13%
North East	-2.5%	1.5%	5.0%	2.0%	3.0%	9%
Yorkshire & Humberside	-2.0%	1.5%	5.0%	2.5%	2.5%	10%
North West	-2.0%	2.0%	5.5%	3.0%	3.0%	12%
Wales	-2.0%	1.5%	5.0%	2.5%	2.5%	10%
Scotland	-2.5%	1.5%	5.0%	2.0%	3.0%	9%

Source: Savills Research

NB: These forecasts apply to average prices in the second hand market. New build values may not move at the same rate

Abercromby Place (Offers Over £1,650,000) in Edinburgh's New Town, where activity above £800,000 is recovering.

THIS PUBLICATION:

- This document was published in February 2017. 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 residential transactions at £400,000 and above.
- Prime values: are calculated from the Savills Index which comprises a fixed list of prime second hand properties located across Britain, which undergo a quarterly desktop valuation by Savills residential agents.

OUTLOOK

Realistic pricing is key to success in uncertain times

Buyer sentiment across the market is expected to remain sensitive over the next few years as the process to leave the EU unfolds. As a result, we are forecasting a 10% dip in transactions across the UK in 2017. Prime values in Scotland will remain stable in 2017, with the exception of Edinburgh and Glasgow, where price growth will continue to take place.

Transactions and prices in Scotland's country locations will continue to recover, however, the top-end of the market in these areas will remain constrained by the impact of LBTT.

The slowing down of growth suggests that sellers need to be responsive to current market conditions and the fluctuations in demand that are expected over the next two years. We expect demand for high quality stock in areas with good schools and transport links to the market hubs of Edinburgh and Glasgow to remain strong. More generally, properties that present opportunities for buyers willing to take a medium-term view on pricing will remain popular.

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