

# Scotland Residential Development Market



## Sales of new homes pick up

Scotland’s new homes market has witnessed a positive start to the year with an uptick in viewings and reservations. This reflects improvements across the UK-wide new homes market, with site visitors and weekly sales rates among the UK’s top housebuilders reaching the highest in two years.

### Local heroes

Across the wider market, locations where agreed sales performance so far this year outperformed Scotland include Edinburgh, the Lothians, Falkirk, Ayrshire, Dundee and Angus. Meanwhile, Glasgow, Lanarkshire and Stirlingshire saw modest growth. Whilst the second hand market in the Aberdeen area remains challenging, the incentivised new build market saw its share of all transactions rise last year.

### Mortgage rates easing

The improvement in market conditions is mainly due to greater stability in the cost of mortgage debt and an easing in the rate of inflation. But lending

rates haven’t fully settled and they continue to be a significant constraint in new home sales. The use of incentives, such as contribution towards mortgage payments, deposits and Land and Buildings Transaction Tax alongside upgraded specification are therefore key drivers of sales.

### Buyer trends

Our most recent [survey](#) of buyers and sellers showed pandemic trends beginning to unwind, with fewer people working from home. Attributes such as square footage and bedroom numbers are becoming more important for buyers, particularly for upsizers operating with more constrained budgets. While the amount of garden and outdoor space as an important buying factor may have lessened, the provision of some private amenity area for flats is a key selling point.

### Running costs

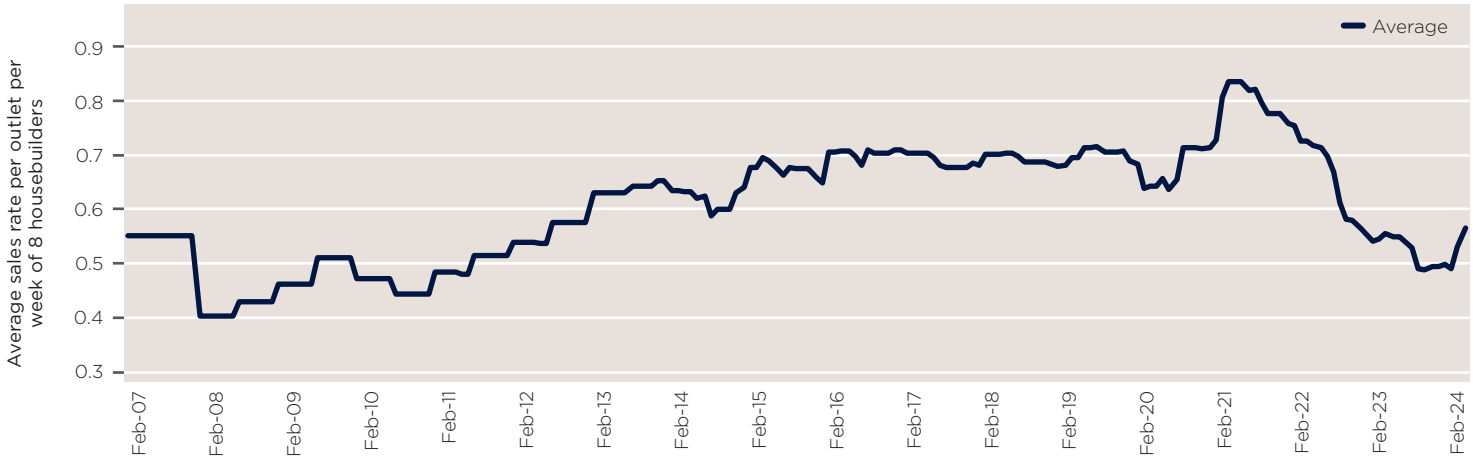
For the majority of buyers, running costs – in particular energy consumption – has become

more important, according to our survey. This benefits the new homes market, with an average 27% saving on annual core energy costs by purchasing new build over second hand in Scotland, [Savills analysis](#) shows. For nearly a half of buyers that own an electric vehicle or intend to purchase one, the presence of a charging point would make a property more attractive, according to our survey. From June 2023, there was a requirement in Scotland for a minimum of one charging point for new homes.

### Requirement for land

The uptick in new build sales rates has given land buyers more confidence to return to the market. A net balance of 73% of Savills development agents across the UK reported positive market sentiment in Q1 2024, significantly up from 21% the previous quarter. There are also more new development opportunities launching and bids per site, as more parties look to re-enter the land market after a period of inactivity through 2023.

Sales rate for new homes picks up



Source: Savills Research, housebuilder annual reports

## Key stats



**+12%**

**Increase in Scotland net agreed residential sales**  
Jan-May 2024 v Jan-May 2023



**-11%**

**Fall of Scottish new build completions across all sectors**  
2023 v 2022



**+2.6%**

**Scotland greenfield land values**  
Quarterly change to March 2024

Source: Savills Research, TwentyCI, Scottish Government

## Fewer sites gaining consent

In their quest for more land, buyers are facing a diminishing supply of consented sites. In the 12 months to March 2023, there were 97 major housing development planning applications determined in Scotland, the lowest in five years. In comparison, the year 2019/20 saw 175 applications. Average decision times to obtain consent were also higher compared to pre-pandemic levels. Consequently, Scottish new build completions across all sectors fell by -11%, from 23,693 in 2022 to 20,992 in 2023.

### Acute shortage in Edinburgh

Constrained supply is being felt especially in Scotland's capital, which saw only four major housing development applications determined in the 12 months to March 2023. Annual

completions last year in Edinburgh were -21% less than 2022. Glasgow on the other hand had 11 major housing planning applications determined in 2022/23 and a 9% rise housing completions last year.

### Housebuilding rates

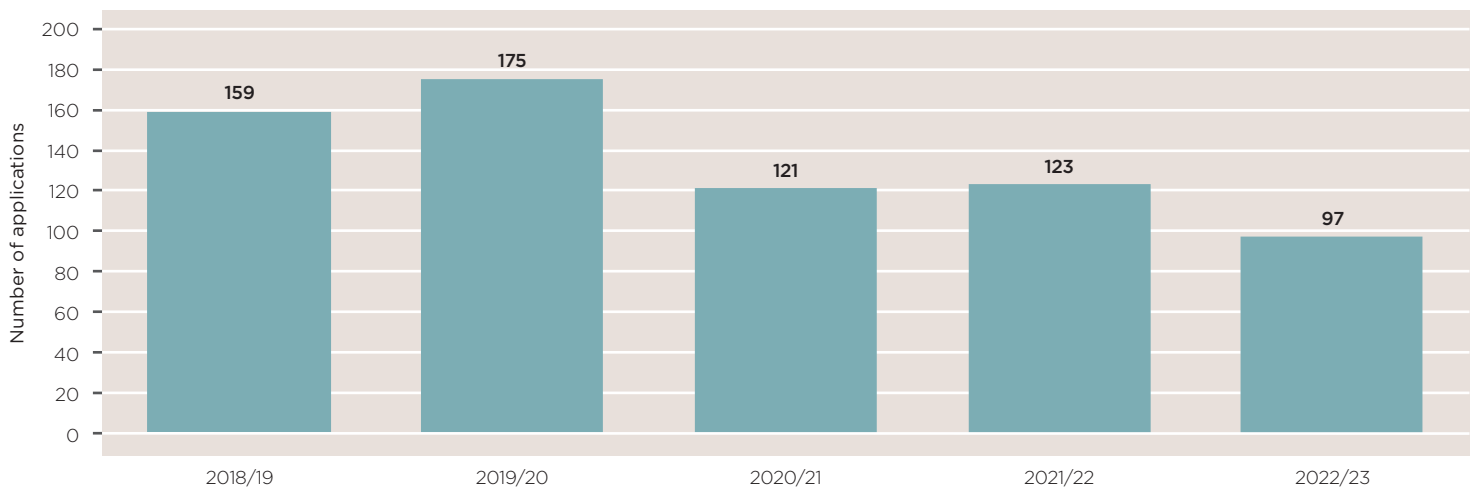
Despite the rise in completions in Glasgow, the rate of new build housing here and in Edinburgh in relation to their population size has lagged surrounding areas. Whilst Edinburgh has seen an average 42.2 annual completions per 10,000 population over the last 10 years, the Lothians averaged 60.5 despite the population being 24% less than the capital. Meanwhile, Glasgow City averaged 25.2 annual completions per 10,000 population. However, Renfrewshire to the west

averaged 41.5, despite having 70% less people than Glasgow.

### Housing requirements

Scotland's National Planning Framework 4 (NPF4) has set out a Minimum All-Tenure Housing Land Requirement (MATHLR). This is the minimum amount of housing units that planning authorities need to provide for a 10 year period. Housing completions over the last decade in Edinburgh and Glasgow were -40% and -23% respectively less than their MATHLR. Another 10 local authorities, mainly in the central belt, also fell short. Most areas however have had more completions over the last 10 years in relation to their MATHLR targets. But against a myriad of supply constraints, past performance is no guarantee of future results.

### Major housing development applications determined\*



Source: Scottish Government

\*Major housing developments are those with 50 or more dwellings or with a site area of two hectares or more where the main use is for housing

## A myriad of constraints impacting supply

Some of the main constraints facing the future supply of land and production of new homes across Scotland include planning delays, build costs and regulations.

### Implications of NPF4

Under NPF4, development proposals will realistically only be supported if they are allocated in a Local Development Plan (LDP). Speculative planning applications on unallocated sites, especially for housing, will struggle to achieve permission. This is evident in the May 2024 judgement by the Court of Session to uphold the planning decision to refuse Miller Homes permission for 250 houses on an unallocated greenfield site in West Lothian. The decision removes the requirement for an effective five-year housing land supply to be maintained by local authorities.

### Emphasis on brownfield

NPF4's emphasis on developing housing on brownfield sites represents a massive shift in policy because most homes built in Scotland in recent years have been on greenfield sites. A reliance on brownfield land to deliver the bulk of Scotland's housing need is likely to be fraught with difficulty and it is unclear if there are enough brownfield sites to deliver the housing required.

### Build cost and regulations

The high price of materials and labour are a major barrier in the production of new homes. The latest cost of construction material index for new housing is only -2.2% less than the July 2022 peak, but 35% more than five years ago. Meanwhile, from 1st April 2024, the New Build Heat Standard came into force, which means that new buildings applying for a building warrant and some

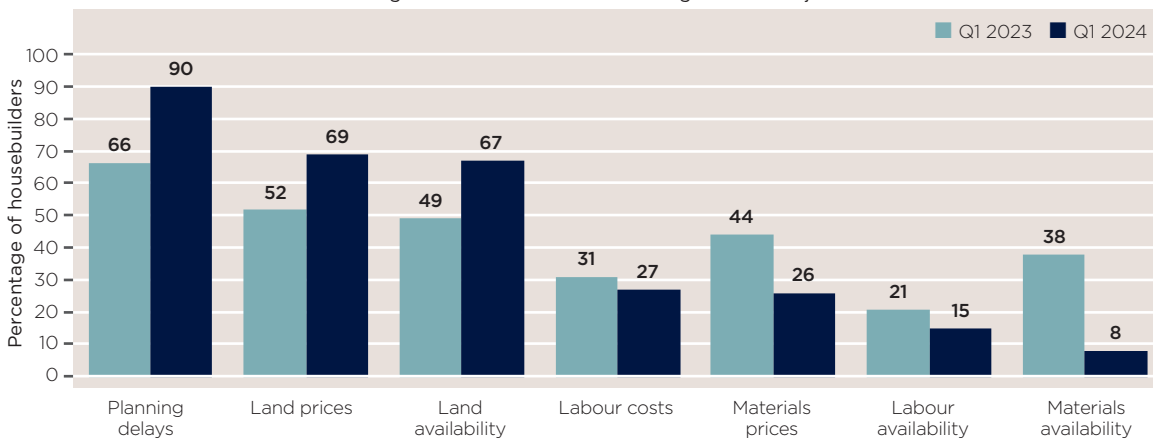
conversions will not be allowed to use direct emission heating systems like oil and gas boilers. Instead, they will need to use climate-friendly alternatives like heat pumps and heat networks.

### Lack of Build to Rent investment

Against the backdrop of the Scottish Government and a number of local authorities declaring housing emergencies, Scotland's nascent Build to Rent (BtR) sector, whether single or multi family, has the potential to deliver much needed housing. However, with the draft Housing (Scotland) Bill including significant changes for the rental sector, BtR investment has dropped significantly amid ongoing regulatory uncertainty. Investor demand and investment volumes could recover given the strong underlying rental market conditions, subject to more clarity and certainty when it comes to government regulation.

### Planning delays remains a major constraint

Percentage of housebuilders considering factor a major constraint



Source: HBF survey, NHBC Construction Statistics Portal <https://www.nhbc.co.uk/rcs>

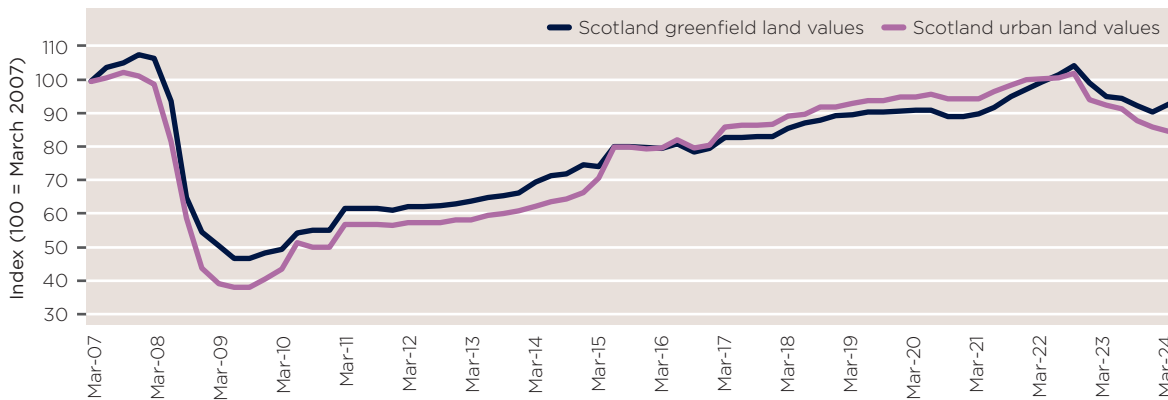
## Supply demand imbalance lifting values

Whilst the impact of build costs and regulations are weighing down on land values, they are being offset by the ongoing demand/supply imbalance. This has led to an uptick in values, particularly for Scottish greenfield land which has outperformed the rest of the UK. According to the Savills Development Land Index, values per acre in the peripheries of Edinburgh and Glasgow

increased by 3.6% and 2.0% respectively in the three months to March 2024, with Aberdeen remaining flat.

Meanwhile, market strength is spreading to regional locations, with values in the peripheries of Perth and Stirling rising by 3.5% and 3.7% over the same period. Urban land values in the main cities were level in the three months to March 2024, in line with the rest of the UK.

### Residential development land values



Source: Savills Research

## Outlook: with uncertainty comes opportunity

### Positive outlook for sales and prices

With strong levels of underlying demand, Scotland's housing market will continue to improve throughout 2024 as mortgage rates ease. Scottish house prices are expected to end the year 4.0% higher compared to the end of 2023. However, with increased levels of unsold stock, accurate pricing will be key as buyers continue to exercise caution with their budgets and price offers.

### More competition for land

If sales rates remain stable then we expect to see more activity from the major housebuilders which will support competition for land. Lack of supply however is a major concern and a further drop in consents for major housing developments between March and September 2023 means that completions are likely to drop.

Given the lack of greenfield allocations in Edinburgh's new

City Plan and low completion rates in Glasgow, we are likely to see developer interests shifting towards surrounding locations and also areas that have seen intermittent levels of development activity, such as Perthshire and Stirlingshire. Being geared up for promotions to LDPs will be vital going forward. So now is the time for landowners and developers to engage, put their best case forward and focus on getting sites allocated in this new NPF4 world.

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