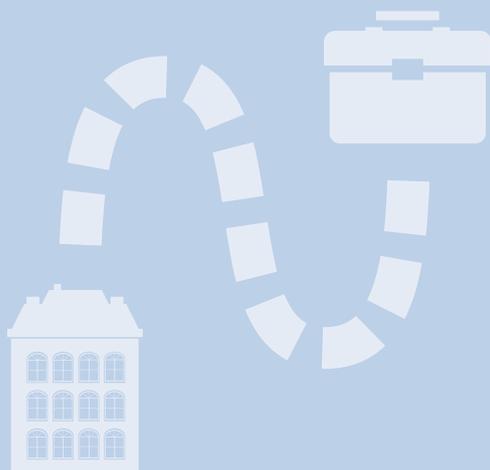


Spotlight Scotland's Prime Residential Property Market

Spring 2016

RISE OF SUBURBIA

Scotland has seen an increased demand for prime property in commuter locations

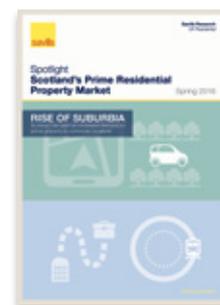


This publication

This document was published in March 2016. 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 sales:** refer to second hand 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.
- **Overall market:** refers to the bulk of Scottish house sales.



Scotland's Prime Residential Property Market

The demand for prime property in Scotland's commuter locations is on the increase

Against a backdrop of a generally improving Scottish housing market, a number of key themes are emerging.

Scotland's prime market is expected to grow by 18.8% over the next five years in terms of values, outperforming the overall residential market and in comparison to 22.2% across Great Britain; the prime market between £400,000 and £1m continues to be constrained outside Edinburgh by LBTT (Land and Buildings Transaction Tax); after seven years of phenomenal growth, the Aberdeen market is experiencing price falls, linked to falling oil prices; while Scotland continues to attract overseas buyers, we are now seeing the return of wealthy home-grown buyers, and there were some important 'trophy' country house and estate sales during 2015. However, one of the most important factors in the Scottish market is the fact that the recovery, which began in prime city locations, is finally established in the suburbs and is beginning to reach more outlying locations.

Our latest data reveals today's house buyers are falling back in love with the Scottish suburbs. This may partially be explained by a dwindling supply of the best homes available to buy in the most sought-after city centre locations.

While the prime areas like the New Town, Stockbridge and Morningside in Edinburgh and the West End in Glasgow, have been enjoying a strong market over the last five years, outlying areas had been slower to recover. Over the past year, however, we have seen a jump in sales across adjacent locations, with the return of the 'closing date', and premium prices being paid. We expect this trend to continue and to ripple further outwards to more attainable suburbs, like Liberton in Edinburgh and Netherlee in Glasgow. Property prices are predicted to rise across the UK as a whole this year, but commuter locations are expected to see the greatest growth, with lower fuel costs playing a part. As a result, further outlying areas including Midlothian and locations such as Helensburgh and Kilmacolm are on the upturn.

Market risks ahead of the EU Referendum may result from a drop in buyer confidence. A vote to leave the EU has the potential to offset housing market demand, as an exit is negotiated. However, the impact on values might be mitigated due to low interest rates. Whatever the outcome, there will continue to be a market due to the essential requirements to move house, together with the needs of upsizers and downsizers.

EXECUTIVE SUMMARY



Prime

Prime sales outperformed the overall market, with the highest level of activity since 2007



Million pound

Million pound sales in Scotland rose steeply, but most took place prior to the new property tax



Suburbs

Suburban and outlying locations are expected to see greater growth this year



Buyers

Home-grown wealth is returning, while international buyers continue to invest in Scotland

FIGURE 1 Prime and mainstream markets Five year values forecast

	2016	2017	2018	2019	2020	5-year
Prime residential GB regional	2.5%	3.5%	6.0%	4.5%	4.0%	22.2%
Prime residential Scotland	2.0%	3.5%	4.0%	4.0%	4.0%	18.8%
Mainstream residential UK	5.0%	3.0%	3.0%	2.5%	2.5%	17.0%
Mainstream residential Scotland	3.0%	3.0%	2.5%	2.5%	2.5%	14.2%

Source: Savills Research

➔ **Prime sales**

Prime sales (second hand transactions at £400,000 and above) outperformed the overall residential market, with an 8% annual increase, reaching 3,533, the highest number since the peak of the market in 2007. Much of the prime activity in 2015 took place prior to the introduction of LBTT, which brought higher rates of taxation to the market.

From May to December last year, the number of prime sales was 15% lower than over the same period during 2014. With a shortfall of 34%, the gap was at its widest above £750,000. However, the last quarter of 2015 witnessed a recovery, with more prime sales recorded compared to the last three months of 2014 (Figure 2).

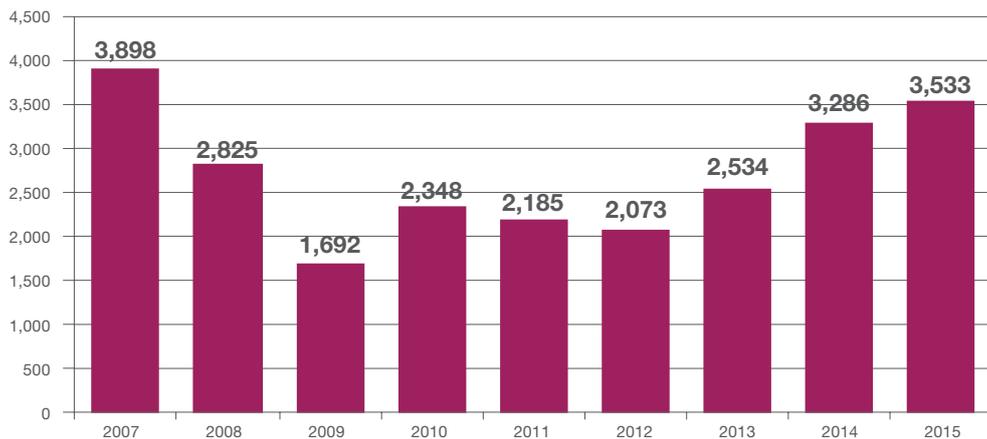
Most regions of Scotland witnessed their strongest prime markets since the peak in 2007. Prime activity in Edinburgh, the hub of the market, increased by 21% last year, reaching 1,329 sales. Prime sales across the surrounding Lothians increased by 25% last year, with almost a doubling in activity in Midlothian

alone. Across Scotland as a whole, Stirlingshire saw the biggest growth, with a 36% increase in prime sales. Elsewhere, prime activity in Glasgow, East Renfrewshire and Ayrshire outperformed Scotland overall.

Prime markets across the Aberdeen area, which is being affected by uncertainty within the oil-dependent local economy, continue to be challenging and are very price sensitive. The market is now adjusting, following seven years of phenomenal growth. Prime sales in the surrounding areas of Highlands and Tayside also dropped last year, impacted by the slowdown in activity in the Aberdeen area.

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 "Most regions of Scotland witnessed their strongest prime markets since the peak in 2007" Savills Research

FIGURE 2 **Scotland second hand residential transactions at £400,000 and above**



Source: Savills Research

FIGURE 3 **Prime Scotland values by location**



Source: Savills Research

Suburban strength

Scotland's housing market recovery since the downturn was led by core central locations, including the New Town and Morningside in Edinburgh and Glasgow's West End. Prime market performance in these locations, as well as in hotspots such as St Andrews, remains robust. Furthermore, demand for family homes in areas with top performing state schools such as North Berwick, Linlithgow, Dunblane, East Dunbartonshire and East Renfrewshire remains buoyant.

We are now noticing market strength spreading from the hubs into traditional suburbs and commuter areas where prime activity has been relatively stable compared to central locations. The year 2015 has witnessed a jump in prime activity in the suburbs of Barnton, Cramond, Colinton, Stockbridge, Murrayfield, Ravelston, Inverleith and Trinity in Edinburgh. Commuter locations such as Eskbank in Midlothian and Aberlady in East Lothian have also seen an improved market. In the Glasgow area, prime sales in Helensburgh, Kilmacolm and Bothwell are recovering following a subdued period since 2011.

Last year also saw price rises in some suburbs, lifting them into the prime market. These include South Queensferry, Cammo, Corstorphine, Craigleith, Broughton, Duddingston, Willowbrae and Liberton in Edinburgh. Similarly, Netherlee in the south side of Glasgow is benefiting from the strength of neighbouring sought-after locations of Clarkston, Giffnock and Newton Mearns.

Prime values

According to the Savills Prime Residential Index, overall values in Scotland remained unchanged, with a slight 0.4% year-on-year increase at the end of 2015. This matches our original forecast of little change in values, due to the impact of higher levels of taxation under LBTT.

Further examination of the Savills Index shows a widening gap between overall property values in city and town locations compared to village and rural areas. For example, values in Edinburgh and Glasgow increased annually by 4.6% and 2.3% respectively during 2015. Values in town locations of Scotland increased by 1.8%. However, across Scotland, there was a fall in values in village and rural locations (Figure 3).

The Savills Index also shows the differential in value change according to price band, particularly since the introduction of LBTT. The additional cost of LBTT led to a drop in property values, mostly between £600,000 and £1 million. On the other hand, the relatively lower rates of taxation below £400,000 resulted in a 4.4% increase in values in this price band, compared to the overall 0.4% Scotland figure (Figure 4).

The Savills Index showed almost no distinction across city, town, village and rural locations in terms of values, with growth seen below £400,000 and a flattening between £600,000 and £1 million.

However, at the top end of the market above £1 million, the Savills Index showed a gap opening, with values in city, country and commuter hotspots experiencing a recovery. On the other hand, values in more remote locations continue to remain suppressed.

Over the course of 2016, we expect the overall prime market to continue to absorb the turbulence of taxation challenges, with values expected to rise by 2% by the end of this year (Figure 1).

Million pound sales

At 194, the number of transactions at £1 million and above in Scotland reached its highest level since 2008. However, 122 sales completed prior to the start of LBTT. In a trend similar to →



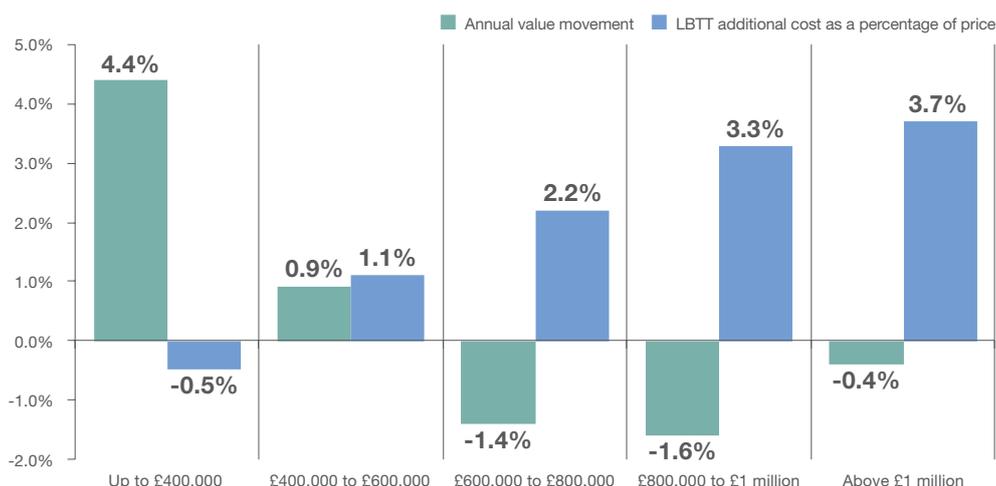
Milngavie, Glasgow



Craiglockhart, Edinburgh

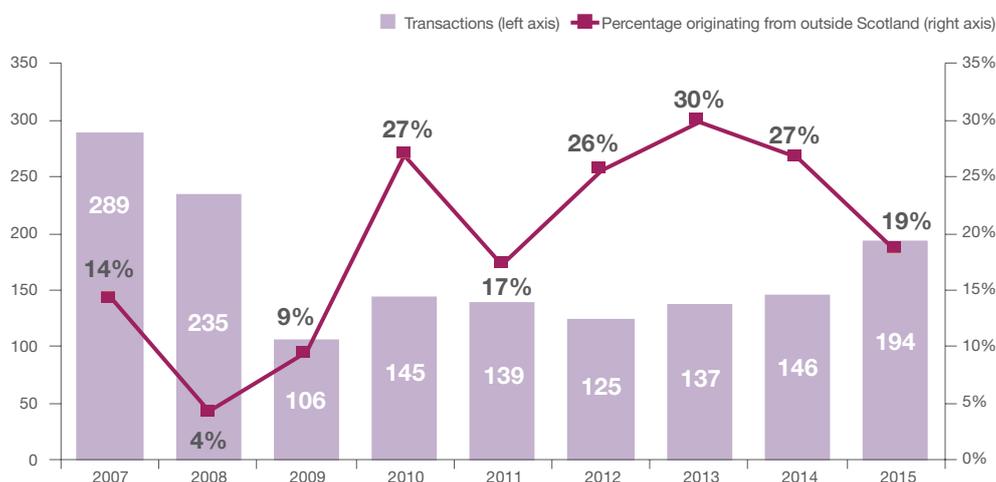
▼ Outlying suburbs are gathering momentum

FIGURE 4 Prime Scotland values by price band and LBTT impact



Source: Savills Research

FIGURE 5 Scotland residential transactions at £1 million and above



Source: Savills Research

→ the overall prime market, the number of million pound sales during the last three months of 2015 was almost the same as 2014 over the same period, which demonstrates an adjusting market (Figure 5).

Unsurprisingly, the majority took place in Edinburgh, which accounted for 98 sales. Over in the west, the million pound market in Glasgow continued its recovery following a low level of activity, with nine such sales taking place last year. Renewed activity in some of Glasgow's sought-after suburban locations also boosted the number of sales in East Dunbartonshire (eight sales), East Renfrewshire (seven sales) and South Lanarkshire (six sales).

Country hotspots

Whilst the hubs of Scotland and prime suburban locations accounted for most million pound sales, 2015 also saw renewed prevalence of local wealth in areas in East Lothian and Fife. In fact, the most improved market last year was in East Lothian, where 17 such sales took place, second only to Edinburgh.

A similar trend took place in St Andrews, which accounted for the vast majority of sales in Fife. There were 10 such sales in the county, the most since 2008. This included 'trophy' purchases at the iconic Hamilton Grand development, which overlooks the famous Old Course.

Buyer origin

Our study of the origin of million pound buyers shows a strong comeback from local purchasers, accounting for 81% of sales, driven primarily by prosperity in Edinburgh, Aberdeen and Glasgow. However, this did not mean a significant drop in the number of buyers from outside Scotland.

On a purely numerical basis, buyers from outside Scotland accounted for 36 of the million pound sales last year, compared to 39 in 2014, with little change in the level coming from London and other parts of the UK. International purchasers of million pound properties in Scotland during 2015 included those from New Zealand, USA, Brazil, Hong Kong, Singapore and Monaco. ■

OVERALL RESIDENTIAL MARKET

The number of residential transactions across Scotland increased by 4% last year (from 93,528 in 2014 to 97,701 in 2015). This compares to 11% growth the year before. Tougher mortgage lending conditions during the first half of 2015 impacted the recovery of Scotland's housing market. Yet the market adjusted during the second half of 2015 due to a recovery in mortgage lending for house purchases across Scotland, which increased by 9% from 59,500 in 2014 to 64,800 in 2015.

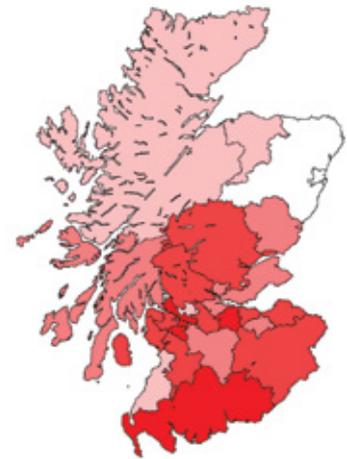
The market has been further supported by Government incentives, such as the Help to Buy Mortgage Guarantee and new build schemes, which made up 8% of all residential activity in Scotland between October 2013 and September 2015. The recently announced extension of Help to Buy (Scotland) scheme to 2019 is expected to further support Scotland's new home sales.

On a Local Authority level, East Renfrewshire witnessed the strongest annual growth in the number of transactions during 2015 at 13%, boosted by the good schools effect. Other star performers include Glasgow, West Dunbartonshire and West Lothian, where annual transactional growth in 2015 was higher than Scotland overall (Figure 6).

FIGURE 6
Residential transactions across Local Authority areas during 2015

Annual Change By Local Authority

- 10% and above
- 5% to 10%
- 0% to 5%
- -5% to 0%
- Below -5%



Source: Savills Research

▼ There were a number of 'trophy' sales across Scotland last year, including Hamilton Grand in St Andrews



Savills Research team

Please contact us for further information



Faisal Choudhry
Scotland Residential
0141 222 5880
fchoudhry@savills.com



Emily Dorrian
Scotland Residential
0141 222 4132
edorrian@savills.com



Tracy Griffiths
Scotland Residential
0141 222 4141
trgriffiths@savills.com



Lucian Cook
UK Residential
020 7016 3837
lcook@savills.com

Savills plc

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Savills Aberdeen
5 Queens Terrace
Aberdeen
AB10 1XL
+44 (0)1224 971 110

Savills Brechin
12 Clerk Street
Brechin
DD9 6AE
+44 (0)1356 628 628

Savills Dumfries
28 Castle Street
Dumfries
DG1 1DG
+44 (0)1387 263 066

Savills Edinburgh
8 Wemyss Place
Edinburgh
EH3 6DH
+44 (0)131 247 3700

Savills Fochabers
7 The Square
Fochabers
IV32 7DG
+44 (0)1343 823 000

Savills Glasgow
163 West George Street
Glasgow
G2 2JJ
+44 (0)141 222 5875

Savills Haddington
28 Sidegate
Haddington
EH41 4BU
+44 (0)1620 828 960

Savills Perth
55 York Place
Perth
PH2 8EH
+44 (0)1738 445 588

