

Spotlight | 2018

Delivering residential development in Scotland



Summary Strong demand dynamics are driving the development market in both Glasgow and Edinburgh. But the cities face different opportunities and challenges

■ Social landlords are proving an important source of new homes in both cities delivering quality homes in accessible locations.

■ Regeneration developments are providing attainable homes and Help to Buy is supporting developers and purchasers in these locations.

■ High demand and low supply levels in prime markets are pushing demand and development beyond the traditional borders.

■ Glasgow's West End remains ever popular and the city's Southside is finally seeing development return to meet demand.

■ Domestic and international demand is driving development in Edinburgh, which is encouraging prices per square foot to exceed previous thresholds.



Delivering residential development

New home starts in Scotland are increasing, but more are needed to satisfy both need and demand

Across Scotland the number of units started by the private sector has been improving steadily, increasing by 6% year on year and now higher than both the five and 10-year averages. However, there is regional variation.

Within Edinburgh unit starts have fallen year on year from 1,943 to 1,675. Developers have worked their way through their existing sites, and are bringing forward new opportunities.

Despite this fall, the number of starts remains above the five, 10 and 15-year averages, reflecting the strength of demand within the city. This has resulted in the average transaction value exceeding £250,000 for the first time, growing by 7% year on year, whilst transactions have only grown by 3%, suggesting demand is exceeding supply.

Glasgow unit starts increased year on year, reaching 558. This is ahead of the five-year average but 50% below the 15-year average of 1,150 and significantly below peak of 4,534 (year to March 2006). The lack of new supply is impacting the market: values increased 8% annually, reaching £155,383, while the number of transactions remained static.

Demand is exceeding supply in Scotland's largest cities

Steady improvement Private housing unit starts in Edinburgh, Glasgow and Scotland compared to the previous year and 5, 10 and 15 year average



Source: Savills Research

Social landlords deliver development

The current political focus on delivering new social housing, focusing purely on private development, is obscuring the true development picture within Scotland.

Social landlords and developers are increasingly proving an important source of new homes within our communities. Many are developing in areas where homes are required, but are often unviable for the private sector. Offering social rented, mid-market rent and shared equity options, these homes are fulfilling the need for high quality, modern affordable homes.

The social landlord development sector has been particularly active in Glasgow. Social housing unit starts reached 1,223 units, more than double that delivered by the private sector, or 69% of all development. The delivery of these homes is being supported by strong engagement between Glasgow City Council and social landlords.

The lack of S75 affordable housing requirements has not deterred new affordable development, but it is instead encouraging social landlords to actively develop new homes, instead of relying on windfall sites in a city where viability can pose a challenge.

Regenerating residential

Residential development is proving a popular means to reinvigorate areas which previously were dominated by industrial uses or poor quality housing stock. These schemes deliver new homes across a range of tenures and product mix, crucially including family housing as standard.

The popular mix of attainable pricing and central locations results in strong sales rates in regeneration schemes in both cities, often with waiting lists for future phases.

During the year to March 2017, around 310 sales of units below £200,000 were supported by Help to Buy in Glasgow and 180 in Edinburgh. Of the units analysed in this study 49% of new homes

in Glasgow were within this bracket, meanwhile only 22% were in Edinburgh.

Whilst this has been positive for first time buyers in Glasgow, it highlights the viability challenge facing many developers, particularly in relation to the increasing costs of labour and materials, despite an improving market. Within Edinburgh it highlights ongoing affordability challenge for purchasers.

Prime purchases in popular spots

A small yet very active part of the market in both cities is the premium development sector, which is increasingly diverging from the mainstream market as competition heightens for the best locations. This is having two crucial implications: when quality development does come forward it is achieving a considerable premium and this is being matched by increased aspirations regarding design and specification.

It is also creating an active market on the periphery of these areas as purchasers seek value for money. For example, Glasgow’s Partick and Maryhill, and Edinburgh’s Dalry and Bonnington all border well established, high value areas which are currently attracting premium rates.

Retirement

The active downsizer is fuelling demand in prime hotspots. These are often equity rich, lifestyle driven purchasers seeking high quality developments in urban locations, near cafes, bars and restaurants. Their product expectations include spare bedrooms, quality private and public amenity space and the highest specification they can afford.

While such buyers are often able to release equity, they are not representative of the entire retirement demographic and there is a need to deliver across the tenure range and price points. We welcome the introduction of the Help To Buy for Over 65s but more needs to be done to support and encourage this segment of the market. ■

Glasgow

Like any city, Glasgow’s residential and development market is not uniform. It is instead comprised of many smaller segments, each with their own demand and supply drivers

The West End continues to be in high demand for developers and purchasers alike. However, sites above 50 units are becoming a rare occurrence with few unidentified opportunities left to come forward.

Park Quadrant by Ambassador Homes (currently under construction) and The Botanics by David Wilson Homes (now completed). Achieving between £400 and £450 per square foot represent two of the biggest sites delivering scale in this popular market.

The strength of demand is pushing the market out beyond its traditional boundaries. Prices per square foot are now generally in the £300 to £350 range depending on location and unit size.

Meanwhile, the south side of the city is growing in popularity with the opening of well-reviewed independent restaurants giving this area a distinct vibrancy.

The development of the Victoria Infirmary site by Sanctuary Homes and Riverford Road by CCG will build upon the success of the CALA development on Mansionhouse Road and Westpoint’s Park Grove. Prices per square foot

are most comfortable around £250 per square foot but the best locations are higher, even exceeding £300 in some spots.

Regeneration development will continue to focus primarily on the areas immediately beyond the city centre. Urban Union will launch the second phase at Laurieston Living imminently, Keepmoat are bringing forward Sighthill and Igloo is proposing development at Dundas Hill.

These schemes will offer homes at the attainable end of the price spectrum, including family homes, delivering a range of tenures. Prices per square foot are in the range of £175 and £195, highlighting the need for policies such as Help to Buy to support development.

The city centre continues to see limited residential development but with Glasgow City Council implementing a residential strategy alongside a number of other potentially transformative policies, there are a number of opportunities in this area.

Meanwhile the family, suburban market continues to perform when products are well designed, are well connected and have good access to schooling. ■



Property types Glasgow's residential development statistics

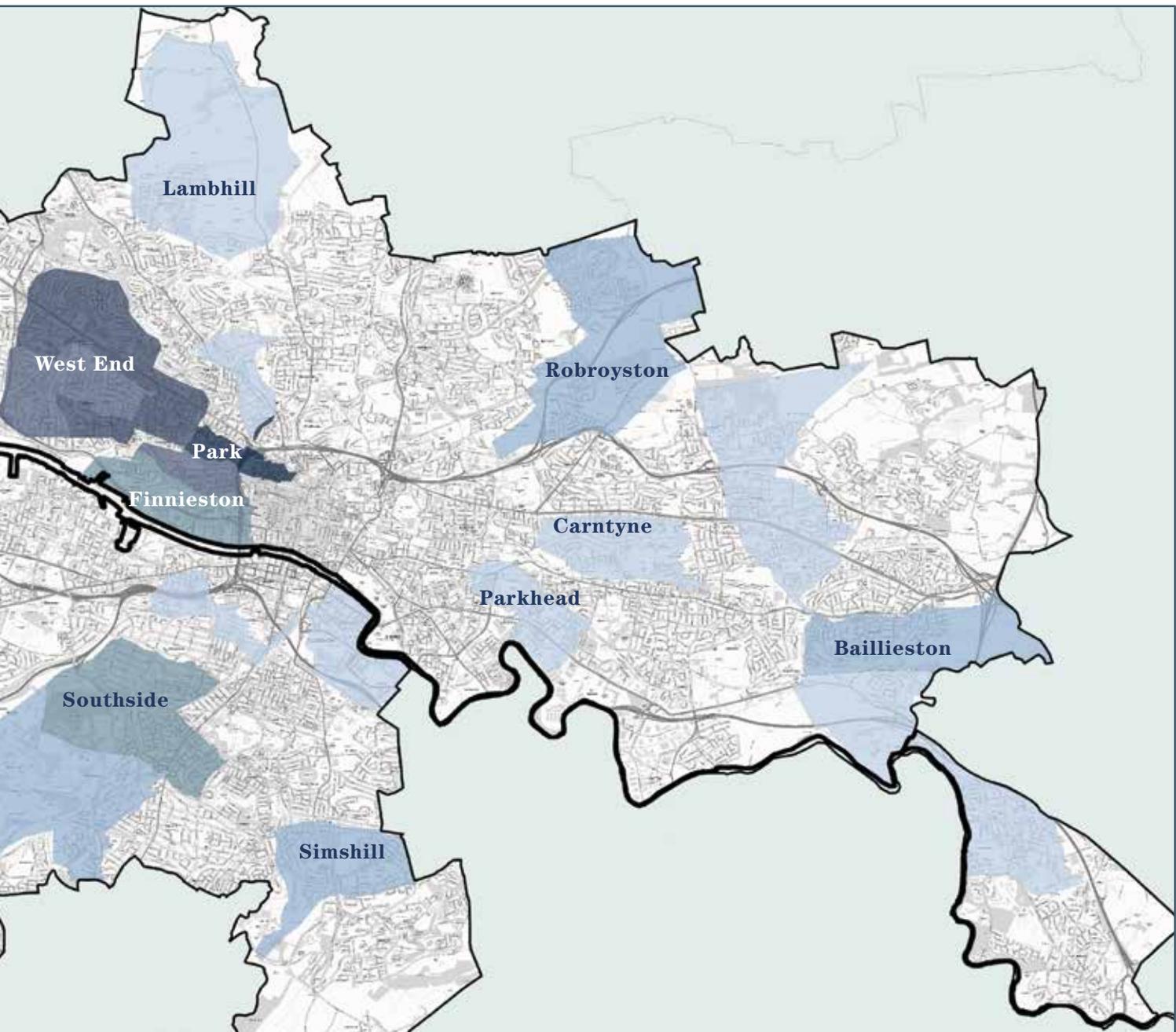
	Average Sq ft	Low Price	High Price	Average Price	Average £ Sq ft	Number of properties in sample
Detached	1,350	£149,000	£416,995	£260,689	£194	402
Flat	904	£72,995	£1,150,000	£260,450	£270	625
Semi detached	884	£116,000	£219,995	£169,975	£193	158
Terraced/ townhouses	1,059	£99,995	£925,000	£234,737	£203	211
Average	1,054	£72,995	£1,150,000	£246,433	£229	1,396

Source: Savills Research

Premium markets and value for money Average price per square foot by postcode sector in Glasgow



Average price per square foot



Source: Savills Research

Edinburgh

The continued popularity of Edinburgh’s core continues to set the tone for the rest of its development market

The historic core of the capital commands a significant premium and prices per square foot achieved at a number of high profile developments in the best locations continue to break new thresholds.

These include the performance of City and Country and CALA developments at Donaldson’s and the soon to be completed Quartermile development with prices per square foot on average at £616 and £555 respectively on average, with some units exceeding this. Miller Homes’ townhouse development on Suffolk Row, Newington is demonstrating that new homes can fulfil demand from London and further afield for family homes in the city.

These superior specification developments are setting the tone for the rest of the established popular neighbourhoods of Stockbridge, Comely Bank, Newington and Morningside, which have witnessed average prices per square foot exceed £425, and on occasion head toward £500.

Some areas, are benefitting from available land and the eastern route to Leith and Portobello is proving very popular for development, being slightly more affordable yet well connected. Such sites are achieving an

increasing premium, with average prices per square on the cusp of £300.

Granton has seen little activity recently, but is poised for considerable development, which will be priced below the in-demand markets of Leith and Portobello, whilst offering waterfront living.

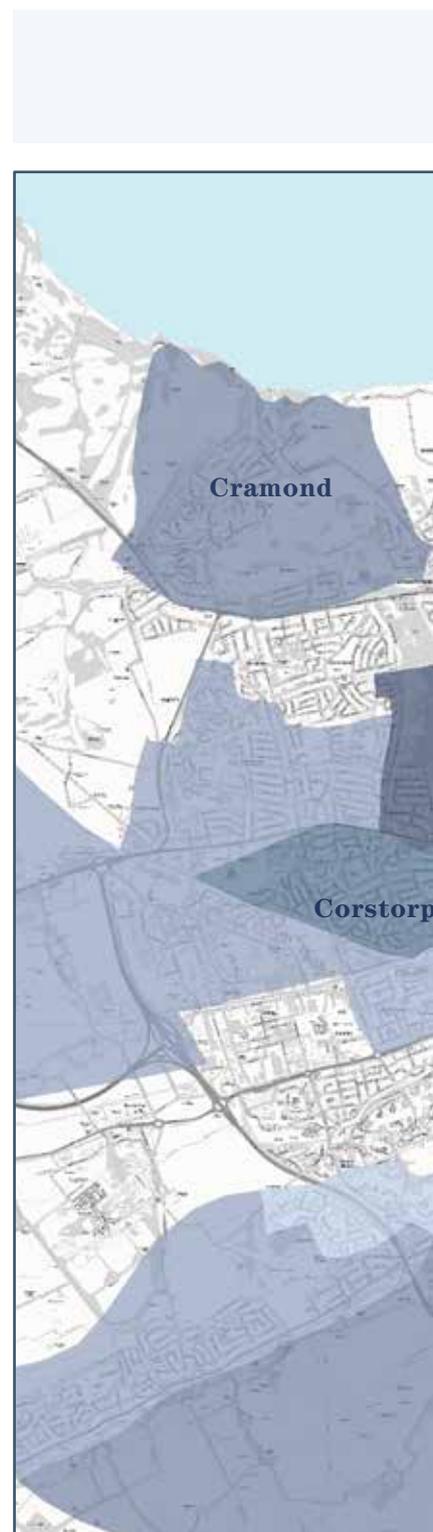
The area along the bypass has a number of sites in the pipeline, primarily targeting the family market. These will generally fall into two categories: attainably priced and premium family.

Sites within Burdiehouse and the Wisp have proven a strong demand for attainable, family homes. The availability of Help to Buy on some of the starter units has been very well received and helped these sites achieve rates of sale in excess of four per month and average price per square foot of £240 to £280.

Planned and active regeneration developments, including Urban Union’s Pennywell, Keepmoat’s Sighthill and Places for People’s numerous sites across the city are ensuring a pipeline of attainably priced homes.

Meanwhile the availability of Golden Share, shared equity properties at a number of other developments, give an entry point in a city where affordability could become increasingly stretched. ■

Premium values in

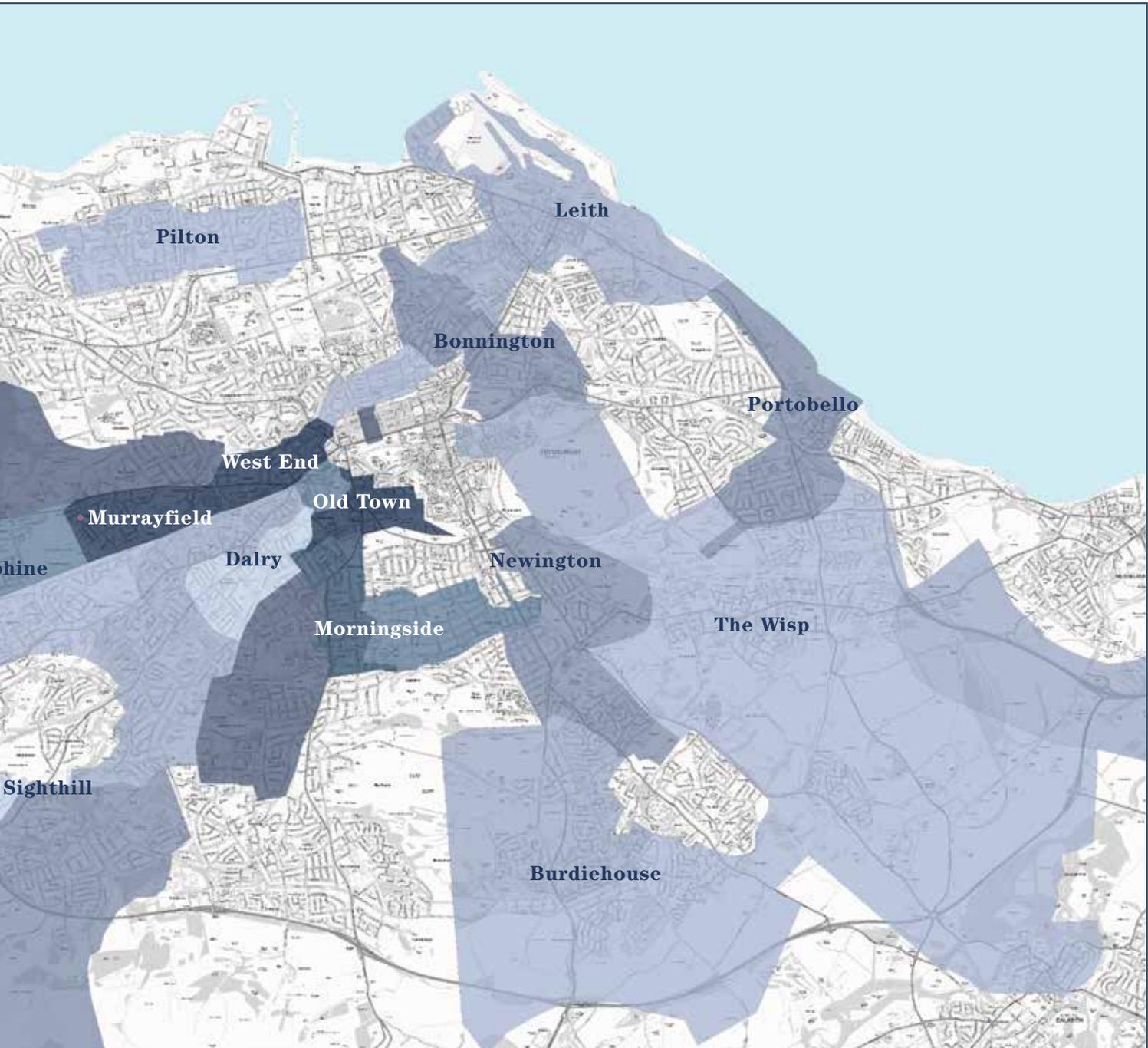


Property types Edinburgh's residential development statistics

	Average Sq ft	Low Price	High Price	Average Price	Average £ Sq ft	Number of properties in sample
Detached	1,379	£204,950	£795,000	£379,254	£271	321
Flat	880	£109,200	£1,925,000	£324,909	£353	974
Semi detached	1,188	£179,950	£1,200,000	£305,506	£251	138
Terraced/ townhouses	1,053	£135,200	£1,100,000	£267,998	£249	286
Average	1,027	£109,200	£1,925,000	£323,966	£312	1,719

Source: Savills Research

the core and value for money along the bypass Average price per square foot by postcode sector in Edinburgh



Source: Savills Research



Viability and affordability will continue to be key issues for the residential development sector in Scotland's largest cities

- Development starts are improving yet remain below current and future housing requirements. Given annual household growth of around 3,000 in Edinburgh and 1,750 in Glasgow, a constant supply of more homes are required across both cities.
- Development sites in locations where people want to live, with good connectivity and a range of amenities, will remain popular with developers and purchasers. Achieving the right density, and tailoring the product to meet the aspirations of targeted buyers, will maximise returns.
- New homes in emerging regeneration areas are providing the attainably priced homes the market needs. However, investment aimed at improving the quality of local amenities will provide these locations with longevity.

Please contact us for further information

Residential Research

Emily Dorrian

Associate Director
Residential Research
0141 222 4132
edorrian@savills.com

Faisal Choudhry

Director
Residential Research
0141 222 5880
fchoudhry@savills.com

Tracy Griffiths

Analyst
Residential Research
0141 222 4141
trgriffiths@savills.com

Glasgow New Homes

Carole Mackie

Director
Head of Residential Development
Sales Scotland Region
0141 222 5886
cmackie@savills.com

Jennifer Goldie

Associate Director
Residential Development Sales
0141 222 5869
jgoldie@savills.com

Gemma Mosson

Team Administrator
Residential Development Sales
0141 222 4150
gmosson@savills.com

Edinburgh New Homes

Natalie Simpson

Director
Residential Development Sales
0131 247 3757
Natalie.simpson@savills.com

Louise Bastiani

Sales Manager
Residential Development Sales
0131 247 3713
Louise.bastiani@savills.com

Stephanie Coutts

Property Administrator
Residential Development Sales
0131 247 3747
Stephanie.coutts@savills.com

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