

Spotlight | Spring 2018

# Scotland's Residential Property Market



**Summary** Scotland has witnessed its strongest market since 2007, with price growth now outperforming London. Values will continue to rise due to a lack of supply and strong city economies

■ Glasgow's city hotspots make a roaring comeback in 2017, with strong premiums being achieved for properties that are well-presented and realistically priced

■ Edinburgh saw the highest price growth of any UK city at the end of last year, with prime transactional growth spreading to suburban locations

■ The Aberdeen market improved in 2017, with values stabilising. There is also increased confidence in the markets of Angus, Dundee and Moray

■ Realistic pricing has boosted transactional activity in regional locations and there is now a shortage of high quality properties in the more sought-after towns and villages

■ The million pound market recovered remarkably in the second half of 2017. However, higher taxation continues to impact the market above £2 million

# Strongest market in a decade

With increases recorded in both transaction numbers and prices, Scotland's residential property market looks set to enter a new period of growth

Scotland has witnessed its strongest residential market in a decade, with 103,648 transactions during 2017. This figure out-performed the previous 10-year record set during 2008 when 102,855 transactions took place. Market activity last year was 4% higher than 2016, outperforming the UK, which saw a slight drop of 1% last year.

## Prime activity surpasses 2007 level

The bulk of residential activity in Scotland takes place below £200,000. However, the strongest growth last year took place in the prime market above £400,000, which recorded a 23% annual increase. Annual transactions in this price band reached 4,936 in 2017, which surpassed the previous record of 4,790 during 2007.

Residential activity above £750,000 took a hit during 2016 due to high levels of Land and Buildings Transaction Tax (LBTT). However, a resurgence in activity, especially during the second half of 2017, pushed annual transactions to 534, compared to 466 in 2016, as buyers and sellers began to adjust to LBTT.

## House price growth outperforms London

The rise in activity in higher price bands is being reflected in price growth across Scotland. According to the Registers of Scotland, the average transaction price increased annually by 4% in 2017. The Savills Repeat Sales index showed a 5.3% annual increase in Scottish house prices in December 2017, led by the hubs of Edinburgh and Glasgow and their surrounding suburban and commuter locations.

Scotland outperformed London, which saw a 1.7% annual increase in house prices at the end of last year. Political and taxation uncertainty, along with tighter lending criteria, continues to have an impact on the London market.

House prices in Edinburgh and Glasgow reached record levels at the end of last year, underpinned by a lack of supply in central hotspots. This led to relatively slower rates of growth in annual transactions last year, particularly in the second hand market. Meanwhile, the new build market continues to fill the supply gap, recording a 30% and 15% annual increase in transactions in Edinburgh and Glasgow during 2017 respectively.

## Scotland enters a new period of growth

We expect house price growth across the UK to slow this year as political uncertainty weighs down the market. There is capacity for growth later on, but this will be tempered by interest rate rises. Price growth will be most sluggish in areas where affordability is most stretched, especially in London and its surrounding commuter belt.

Scottish house price growth has tended to be historically lower in comparison to the rest of the UK. But house prices in Scotland are expected to grow by 17% over the next five years, compared to 14% across the UK. Scotland is entering a new period, with most of our cities experiencing above average price growth, due to a lack of supply and strong local economies. The exception to the rule is Aberdeen where prices are beginning to stabilise. ■

FIGURE 1 Top performers: 2017 v 2016

### Number of residential transactions

| Local Authority area | Annual change |
|----------------------|---------------|
| East Lothian         | 17%           |
| Scottish Borders     | 12%           |
| Dumfries & Galloway  | 10%           |
| Argyll and Bute      | 10%           |
| East Ayrshire        | 10%           |
| East Dunbartonshire  | 8%            |
| Fife                 | 7%            |
| West Dunbartonshire  | 7%            |
| South Lanarkshire    | 7%            |
| West Lothian         | 6%            |
| Scotland             | 4%            |

### Average residential transaction price

| Local Authority area | Annual change |
|----------------------|---------------|
| South Lanarkshire    | 9%            |
| Glasgow City         | 8%            |
| East Dunbartonshire  | 7%            |
| East Lothian         | 7%            |
| Edinburgh City       | 7%            |
| North Ayrshire       | 6%            |
| Perth and Kinross    | 6%            |
| Stirling             | 5%            |
| East Ayrshire        | 5%            |
| West Dunbartonshire  | 5%            |
| Scotland             | 4%            |

Source: Registers of Scotland

# Glasgow's city hotspots make a roaring comeback

The market is on the rise right across Greater Glasgow

The number of residential transactions across Greater Glasgow increased by 4% last year, with the strongest growth witnessed in East Dunbartonshire (8%), West Dunbartonshire (7%) and South Lanarkshire (7%).

Activity in Dunbartonshire was boosted by strong second hand and new build markets in the hotspots of Bearsden and Lenzie.

The South Lanarkshire market was most active in the suburban locations bordering Glasgow, including Uddingston. Within South Lanarkshire, the sought-after town of Strathaven has seen a significant increase in transactions, boosted by new build developments.

## New build activity gathers pace

Annual transactional growth in the city area of Glasgow witnessed a 3% annual rise in transactions, mainly due to lower growth in the price bands up to £150,000. However, new build transactions increased by 15%, supported by a number of developments in edge of town locations and regeneration sites.

New build activity is gathering pace in the established central locations of the city that have seen very little supply over the last decade. Pent up demand is resulting in some prices per square foot exceeding £500 at trophy sites in the West End and Park, such as The Botanics and Park Quadrant Residences.

## Strong level of demand in prime markets

Prime markets in the traditional city and suburban hotspots made a roaring comeback during 2017. The number of transactions in the

area covering Glasgow's West End, Park, Partick and Jordanhill increased by 55% to 263. Strong premiums are being achieved where a significant level of demand can be channelled to properties that are well-presented and launched to the market at realistic prices.

However, the average prime transaction price in this area fell from £565,596 to £550,993. This was due to an increase in transactions between £400,000 and £500,000 coupled with low supply and higher rates of LBTT above £750,000.

Greater Glasgow's prime residential market above £400,000 recorded its highest total in five years, with 1,234 transactions during 2017. This followed two years of little movement in activity as the market adjusted to LBTT, with the exception of East Renfrewshire where prime transactions continued to grow.

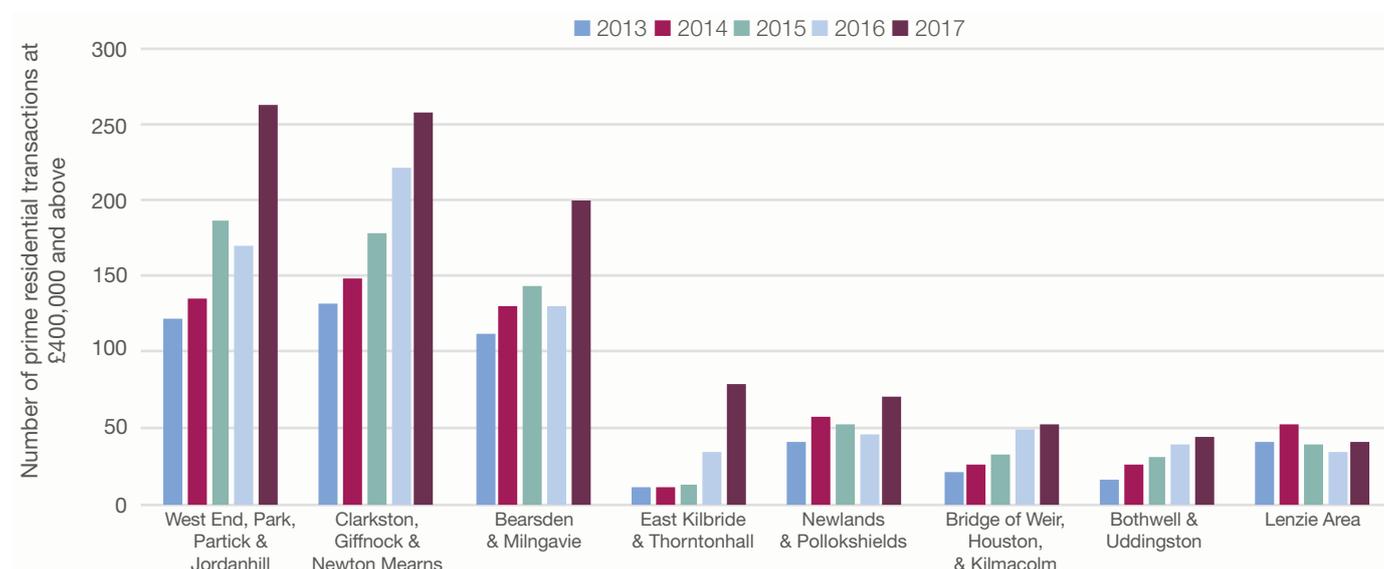
Prime market activity across Greater Glasgow was at its strongest up to £750,000. However, the market above this level has improved, with 95 transactions during 2017 compared to 84 in 2016.

## Suburban hotspots

In Bearsden and Milngavie, the number of prime transactions increased by 53% to 200 last year. The prime market in the southside suburban hotspots of Newlands and Pollokshields had seen little upward movement in activity between 2013 and 2016. However, last year saw 71 prime transactions in this area, which is the highest annual number since 2007.

Compared to the West End hotspots, suburban areas offer lower prices per square foot and this was reflected in the slight increase in the average prime transaction price in such areas, as buyers seek better value for money. ■

FIGURE 2 Prime Greater Glasgow hotspots: Residential transactions at £400,000 and above



Source: Savills Research

# Edinburgh sees highest price growth of any UK city

And the total value growth of the city's housing stock beats all UK cities too

**E**dinburgh's residential market profile continues to excel, with the average house price increasing by 10.2% in December 2017 compared to December 2016, reaching a record high of nearly £285,000. Our research also shows that the value of housing in Edinburgh City grew £7.5 billion between 2016 and 2017, from £61.4 billion to £68.9 billion. This was more than any other UK Local Authority district on a total value growth basis.

Whilst values continue to rise, the total number of residential transactions increased last year by 2%, which was lower than the rest of Scotland. The slower rate was mainly due to decreased turnover in the price bands up to £200,000. Nonetheless, second hand market activity last year in Portobello in the east and Murrayfield and Corstorphine in the west outperformed the rest of Edinburgh.

## High levels of new build activity

The number of new build transactions in Edinburgh increased by 30% last year. Some of the highest volumes of new build transactions took place in the suburban locations of Liberton and South Queensferry. However, the strongest growth in transactions last year was witnessed closer to the city centre.

Whilst new build activity at flagship sites such as Quatermile continued, there was a strong increase in south west Edinburgh as well as Leith in the north. The redevelopment of Edinburgh St James at the eastern edge of Princes Street is encouraging a gravitation towards the east of the city centre.

The highest number of new build transactions last year took place in eastern locations of the city around McDonald Road and

Leith Walk. Looking ahead, value growth across Edinburgh will continue, with some new build properties, at developments such as Donaldson's, beginning to exceed £700 per square foot.

## Prime transactions

Prime transactions above £400,000 in Edinburgh reached a record 1,733 during 2017, which was 15% higher than 2016. Transactions above £750,000 increased from 247 in 2016 to 274 in 2017. The southern hotspots of Grange, Morningside and Merchiston accounted for the largest proportion of prime activity, with a total of 377 transactions last year.

However, Edinburgh's New Town, which typically accounts for 11% of prime transactions, has seen little movement in volume over the last three years. This is because of a drop in the number of prime second hand properties launched onto the market, which fell by 33% in the New Town's EH3 6 postcode in 2017 compared to 2016. LBTT is still affecting supply issues in the New Town and the lack of choice has resulted in a vicious circle, as potential sellers delay launching to the market until a suitable property is available. The lack of supply and strong demand is one of the main reasons behind prime values in Edinburgh City increasing by 5.3% during 2017Q4 compared to 2016Q4.

But some areas of Edinburgh witnessed an increase in prime second hand supply and transactions. These include the western suburbs of Murrayfield and Corstorphine, where the number of prime transactions increased from 99 in 2016 to 148 in 2017. Elsewhere in Edinburgh, prime activity in the West End, Ravelston, Stockbridge, Inverleith, Trinity, Barnton, Cramond and Colinton remained relatively buoyant throughout 2017. ▶



### Markets boosted in the Lothians

The surrounding Lothians commuter area saw an annual increase of 7% in transactions, with East Lothian witnessing a 17% rise, the highest in Scotland. The market was boosted by a 39% increase in new build transactions, in Musselburgh, Haddington and North Berwick.

Midlothian suffered its first drop in annual transactions since 2011, with a 2% fall, mainly due to a shortage of new build activity, which has supported the local market in recent years.

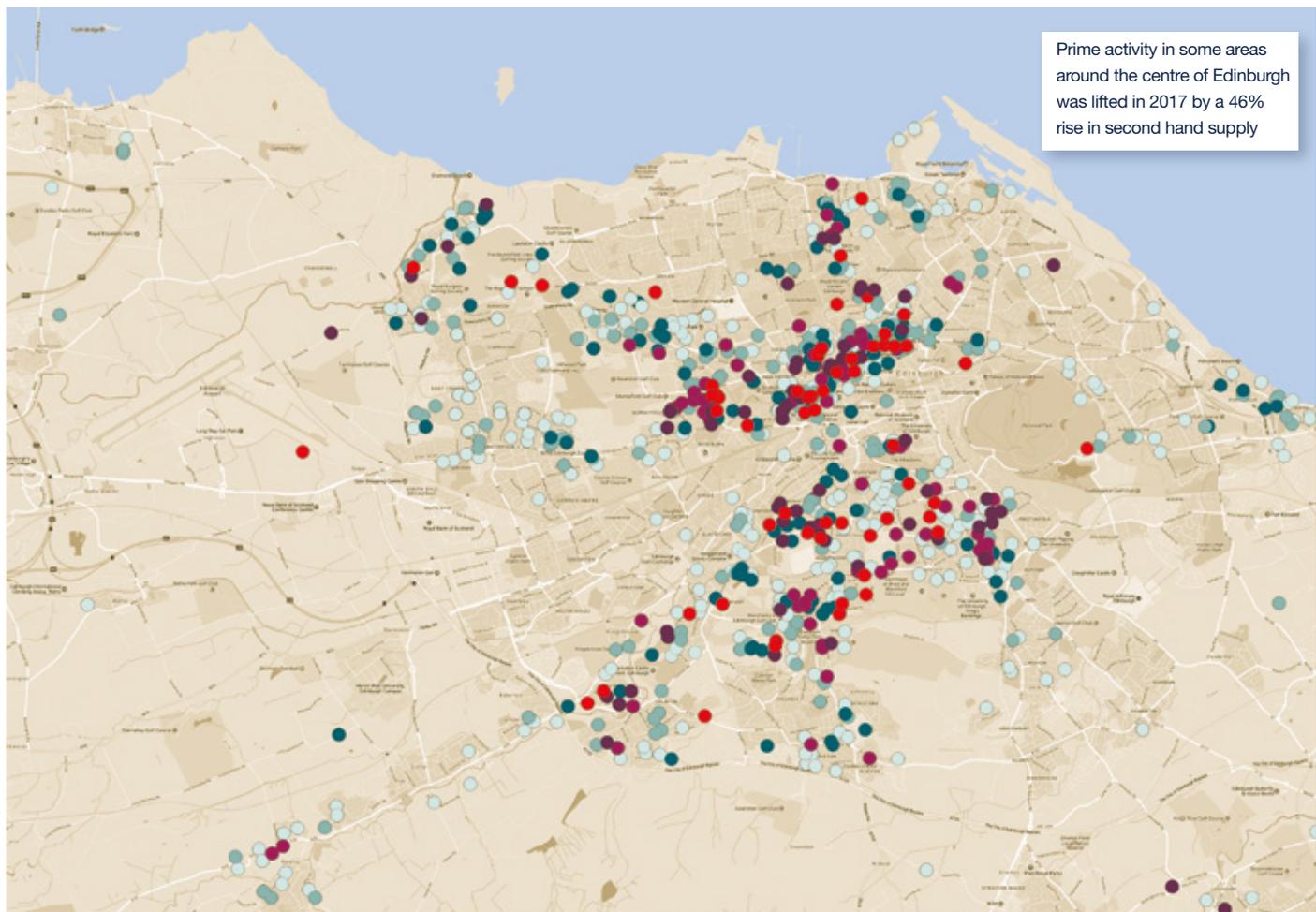
New build transactions also fell in West Lothian, however a strong second hand market in commuter locations around Bathgate and Livingston resulted in an overall 6% increase in annual transactions last year.

Encouragingly, prime transactions above £400,000 across the Lothians increased by 37% to 396 last year, with a recovery in price bands above £500,000 that had previously been affected by higher rates of LBTT. ■

FIGURE 3 Second hand residential properties launched onto the market in Edinburgh at £400,000 and above during 2017

Prime activity in Edinburgh's central locations dropped last year due to a lack of second hand supply

The western suburbs of Murrayfield and Corstorphine have seen an increase in prime supply and transactions



Source: Savills Research

# North East's gentle recovery

The Granite City is beginning to show its silver lining, while prices are on the rise elsewhere

**M**arket recovery across the Aberdeen area has continued throughout 2017. Aberdeen City and Aberdeenshire's average house prices settled around the £190,000 and £220,000 level respectively during the second half of 2017. Both figures are 15% and 8% below the peak during 2015.

## An increase in transactions

While house prices are beginning to settle, the number of transactions increased by 3%, from 8,017 in 2016 to 8,218 in 2017. This is the first annual increase since 2014, when the number reached 11,072 during the height of the energy market. Market recovery has taken place up to £800,000. Above this level, transactions have dropped but this was mainly due to lower levels of new build activity.

## Suburban hotspots leading the recovery

Within Aberdeen City, the West End and the sought-after suburbs of Bieldside, Cults and Milltimber led the recovery during 2017, with a 21% annual rise in transactional activity.

In Aberdeenshire, the strongest growth in transactions last year took place in locations that are within easy reach of Aberdeen, including Portlethen and also the hotspot of Banchory.

## Stock levels remain high

While transactions have started to recover, the number of available second hand residential properties stands at 4,830. This is lower than the number available at the end of last year, but more than double compared to March 2015. The majority of available stock is between £100,000 and £200,000 and includes many buy-to-let properties.

## Prospects for long term recovery are good

Over a five-year period to 2022, we expect Aberdeen area values to increase by 4.5% reflecting the recent stability in average prices and improving transactional activity.

## Dundee City prices reach record level

Dundee City, where the new V&A museum is due to open this year, saw a 6% increase in its average house price in December 2017, reaching £143,331. However, a lack of supply resulted in a slight drop of 1% in the number of residential transactions. Despite this, prime transactional activity above £400,000 reached its highest level in five years.

## Ongoing investment boosts Angus

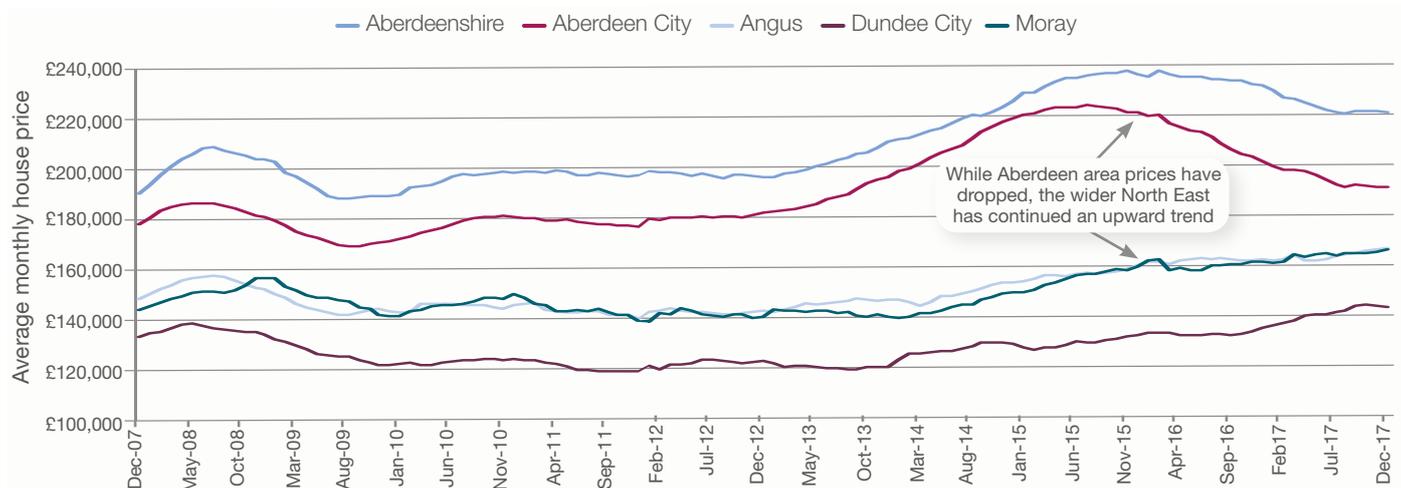
Increased prosperity in Dundee has led to further growth in the Angus residential market. The average house price increased annually by 3% last December reaching £166,607, which is the highest level in 16 years. The number of residential transactions increased by 5% during 2017, with improved activity between £200,000 and £400,000.

## Moray prices rising but activity steady

In Moray, the average house price increased annually by 3% last December reaching £166,248, which is the highest level in 16 years. Overall transactional activity remained unchanged last year compared to 2016, however, there was improved activity above £300,000. ■

As Aberdeen's energy dependent local economy continues its gentle recovery, the residential market has seen the gradual return of buyer confidence, with more transactions last year compared to 2016

FIGURE 4 Average monthly house price in North East Scotland



Source: Savills Repeat Sales Index

# Realistic pricing boosts regions

There is now a shortage of high quality properties in the more sought-after towns and villages

**R**ealistic pricing has been one of the main drivers behind the improved market conditions across Scotland's regional locations. We saw modest prime value growth last year and prices are likely to remain stable throughout 2018.

However, areas attracting buyers from outside Scotland are achieving higher prices. The number of Savills buyers originating from outside Scotland increased by 60% in 2017, compared to 2016.

The market in the £300,000 to £500,000 price band has been less affected by LBTT and has been consistently strong. The £500,000 to £750,000 range has also performed well. The market above £750,000 was slow in the first half of 2017 but experienced a remarkable uplift in the winter months.

There has been a positive start to the market in 2018 with a significant increase in viewings and offers. As a result, the oversupply of houses on the market is beginning to reduce.

## Traditional hotspots

Across Scotland's heartland of Stirling, Fife and Perthshire, the number of residential transactions increased annually by 5% during 2017. Activity was boosted by an increase in new build transactions, especially in Fife.

The biggest growth in overall transactions was concentrated in the major populations areas of Perth City and Dunfermline. Activity across all price bands increased but mainly up to \$1 million.

## Traditional hotspots

Residential market performance in terms of transactions in hotspots, such as Bridge of Allan and Auchterarder, increased during 2017. However, the market in Dunblane, Dollar and St Andrews remained stable compared to 2016.

High quality properties in these locations continue to attract strong interest due to their excellent schools, transport links and services. Prime values in village locations have picked up recently, especially in Perthshire, however they remain stable in rural locations.

## Rural locations

Annual transactional growth in the Scottish Borders (12%), Argyll & Bute (10%) and Dumfries & Galloway (10%) outperformed Scotland last year, supported by growing second hand markets.

Prime transactions in the Borders increased from 81 in 2016 to 128 in 2017. There were 27 prime transactions in Helensburgh, which was the highest annual figure since 2007 and represented a half of all such activity in Argyll & Bute during 2017.

Annual transactional growth in Ayrshire was 6% during 2017, led by East Ayrshire mainly due to an increase in new build activity. Prime transactions in Ayrshire increased from 82 in 2016 to 103 in 2017, but were mainly concentrated in the coastal hotspots of Ayr and Troon. ■

Dounie, near Tayvallich in Argyll & Bute (Offers Over £375,000) attracted wide interest from across the UK and achieved a substantial premium recently at a closing date. The number of residential transactions across Argyll & Bute increased by 10% last year.



# Top end recovers

Scotland's million pound market made a remarkable comeback in the second half of 2017

There was a phenomenal recovery in Scotland's million pound market during the second half of 2017, following a slow start to the year, mainly due to the impact of LBTT. The total for 2017 was 172 compared to 167 in 2016. Whilst million activity has risen, only six transactions took place above £2 million last year, which is the lowest annual number since 2004. There were more local buyers last year, reflecting increased prosperity within Scotland.

## High concentration in Edinburgh

The million pound market is becoming increasingly concentrated in Edinburgh, reaching 62% of transactions in 2017 compared to a 10-year average of 49%. There were 108 transactions in Edinburgh during 2017, which is the highest annual figure since 2007.

Some of the highest concentration of million pound activity takes place in the EH3 6 postcode of the New Town. However, a drop in supply resulted in just 10 transactions last year compared to 19 in 2016. An increase in supply on the other hand resulted in more activity in suburban locations.

Outside Edinburgh, there were 10 transactions in East Lothian, mainly taking place in Inveresk, North Berwick and Archerfield. Midlothian and West Lothian saw their first million pound transactions since 2014 and 2015 respectively.

## Slight decrease in Greater Glasgow

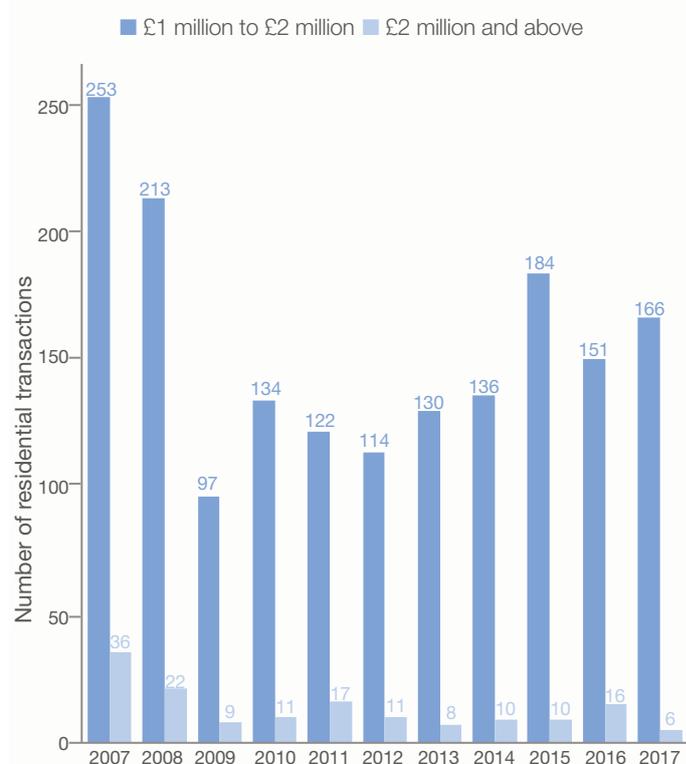
Over in the west, million pound transactions across Greater Glasgow dropped slightly from 27 in 2016 to 24 in 2017. But the 2016 figure was boosted by new build activity in South Lanarkshire. The market recovered in Glasgow City and East Dunbartonshire, with nine and seven transactions respectively compared to six and five in 2016.

## Activity returns to the Highlands

Outside the Central Belt hubs, million pound activity remained relatively unchanged in Fife and the Scottish Borders. Meanwhile, Highland saw its first million pound activity in three years. However, Perth & Kinross and Aberdeen City saw a sharp reduction. There were only four in Aberdeen, the lowest since 2006 and only two in Perth & Kinross, compared to eight in 2016.

Looking ahead, Savills has experienced an extraordinary uplift in transactions going under offer in past three months. In particular we are receiving offers in Perthshire where the market is beginning to move again. ■

FIGURE 5 Million pound residential transactions in Scotland



Source: Savills Research

**Glossary** Overall market refers to residential transactions across all price bands, obtained from the Registers of Scotland. Prime market refers to transactions at £400,000 and above. Average house prices were obtained from the Savills Repeat Sales index (six-month smoothed).

## Savills Scotland Residential

### Faisal Choudhry

Head of Research  
0141 222 5880  
fchoudhry@savills.com

### Cameron Ewer

Head of Glasgow  
0141 222 5864  
cameron.ewer@savills.com

### Andrew Perratt

Head of Scotland  
0141 222 5875  
aperratt@savills.com

### Ruaraidh Ogilvie

Head of Angus and North East  
01356 628 628  
rogilvie@savills.com

### Jamie Macnab

Head of Country Houses  
0131 247 3711  
jmacnab@savills.com

### Fiona Gormley

Head of Aberdeen  
01224 971 122  
fgormley@savills.com

### Ben Fox

Head of Edinburgh  
0131 247 3736  
bfox@savills.com

Savills plc is a global real estate services provider listed on the London Stock Exchange. We have an international network of more than 700 offices and associates throughout the Americas, the UK, continental Europe, Asia Pacific, Africa and the Middle East, offering a broad range of specialist advisory, management and transactional services to clients all over the world. This report is for general informative purposes only. It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent.