

Scotland Residential



Edinburgh and the Lothians • Greater Glasgow • Aberdeen and the North East

Resilience in 2019; an encouraging start in 2020

Scotland's residential property market showed resilience despite political uncertainty in 2019, while a rise in new buyer registrations and viewing activity in early 2020 provides cause for optimism as a sense of urgency begins to return to the market.

The official UK House Price Index shows average prices in Scotland increased by 2.2% between December 2018 and December 2019, primarily driven by the hotspots of Edinburgh and Glasgow.

Alongside price growth, there was an increase in the overall number of transactions. Indeed, the million pound market recorded its highest level of activity since the previous peak of 2007. Activity below £500,000 was also strong though the market between £500,000 and £1 million remained more constrained, as high rates of taxation continue to restrict supply.

Looking ahead, we do not anticipate a major rise in house prices in the short term, though we do expect market activity to continue to grow given greater levels of buyer and seller commitment. However, 2020 will not be without its challenges. Alongside Brexit's return to the headlines as trade negotiations begin, the spread of coronavirus may have a substantial impact on global economic growth. At the same time, governments and central banks are committing to support markets through the uncertainty. As such, buyer and seller expectations will need to align in order for demand to translate into activity.



Edinburgh leads

Price growth continues and activity remains buoyant despite supply constraints

Edinburgh's residential market is defying uncertainty with prices continuing to rise. Price growth shows no signs of abating, with mainstream and prime values increasing annually by 2.8% and 4.5% respectively at the end of last year. Prices remain underpinned by a prosperous economy and rising population, which have increased by 21% and 12% respectively over the last decade.

Whilst demand remains strong, supply in Edinburgh continues to be constrained, with currently 20% fewer properties available to buy compared to February 2019. Activity in the market from £200,000 to £500,000 remains buoyant though it has not been quite as strong in other price bands.

This has been especially noticeable in the second hand market between £800,000 to £1 million. With price growth pushing the value of stock over the £1 million mark, a gap has emerged in this section of the market. Here the impact of Land and Buildings Transaction Tax (LBTT) continues to be felt, restricting supply and pushing up prices in the capital.

This said, Edinburgh remains relatively affordable compared to other university cities in the UK, with more capacity for price growth, underpinned by continuing economic and population growth. Despite a recent uplift in properties being made available, there remains a surplus of motivated buyers, often frustrated by a lack of choice.

Residential capital values annual change forecasts						5-year compound growth
	2020	2021	2022	2023	2024	
Mainstream UK	1.0%	4.5%	3.0%	3.0%	3.0%	15.3%
All prime UK (excl. London)	1.0%	4.0%	4.0%	3.5%	2.5%	15.9%
Mainstream Scotland	2.0%	6.0%	3.5%	3.5%	3.5%	19.9%
Prime Scotland	2.0%	5.0%	4.5%	3.5%	2.5%	18.7%

Note These forecasts apply to average prices in the second-hand market. New build values may not move at the same rate. **Source** Savills Research



4.5%
Year-on-year growth in prime Edinburgh City values during Q4 2019



196
Number of Edinburgh million pound transactions in 2019. The highest ever annual number



17%
Annual rise in prime transactions above £400,000 in the Lothians during 2019

Prime numbers

Constrained supply restricted the number of prime transactions at £400,000 and above in Edinburgh to 1,891 during 2019, down marginally on the 1,931 in 2018. However, performance across inner suburbs and locations close to the city centre remained strong.

The majority of prime transactional activity took place in the New Town and inner suburbs of Grange, Morningside and Merchiston, south of the city centre. The prime markets in both locations remained at a 10-year high, resulting in 557 transactions across these areas in 2019.

Similarly, Murrayfield witnessed a record 159 prime transactions, with market strength spreading west into Corstorphine. Stockbridge and Inverleith also saw their highest ever level of activity above £400,000 with 121 such transactions.

New build boost

Increased new build supply across Edinburgh continues to boost activity

in areas where it was previously subdued. The EH1 central postcode was Edinburgh's strongest performing market, with the overall number of transactions jumping from 112 in 2018 to 172 in 2019, supported by new build sales in Broughton and King's Stables Road.

Meanwhile, new build supply in the suburbs of Gilmerton, Liberton, Portobello and Balerno has provided a knock-on boost to second hand markets in these areas.

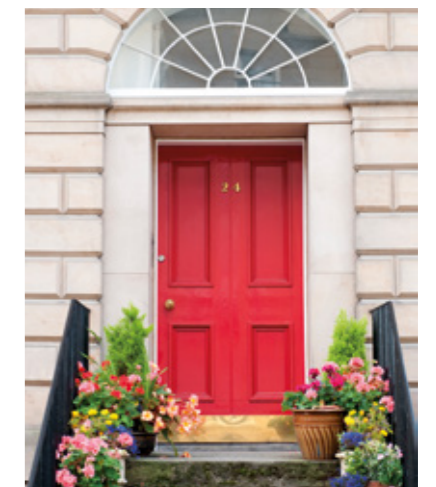
The Lothians

Over the last decade, a net 20,000 people have migrated from Edinburgh to the relatively attainable Lothians, where both the overall number of transactions and average price increased by 6% year-on-year.

Much of this growth was fuelled by an increase in new build transactions across a range of sites, from the coastal hotspot of Gullane in East Lothian to the commuter locations of Haddington, Prestonpans, Wallyford

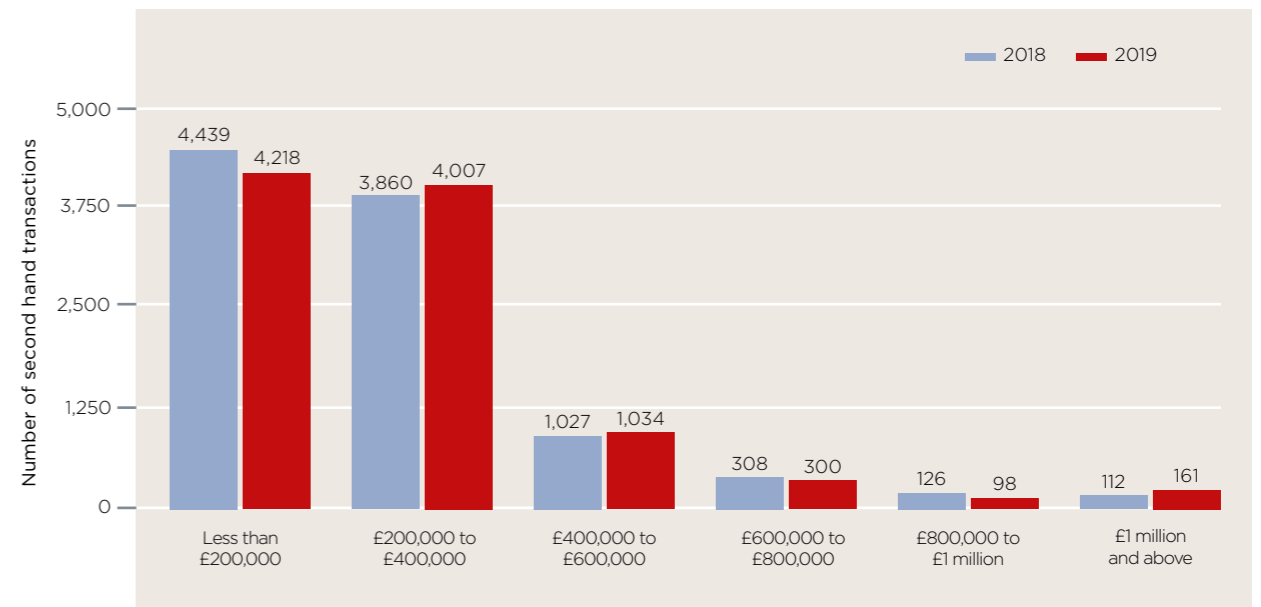
and East Calder. Meanwhile, previous developments continue to lift the second hand market in Midlothian.

Higher value new build activity in North Berwick and Gullane supported a 28% rise in prime transactions in East Lothian. An improved second hand market in the sought-after town of Linlithgow contributed to the record 84 prime transactions in West Lothian.



Second hand residential transactions in Edinburgh

Higher rates of taxation are suppressing supply in the prime market



Source Savills Research

Glasgow hot on the heels

Transactional activity fuelled by a growing economy

Greater Glasgow's economy has picked up in recent years, led in particular by the finance and IT sectors. The city's population grew by 8% over the last decade, supported by increased migration from outside Scotland. These factors have supported the 4.1% annual rise in the city's average house price at the end of last year.

Similar to Edinburgh, across the city area of Glasgow there are 17% fewer properties currently available to buy compared to February 2019. This has capped transaction levels, particularly above £650,000. Meanwhile, demand for exceptional properties on the most sought-after streets remains strong,

which explains the 2.4% annual rise in prime values in Glasgow at the end of last year.

Local markets

Glasgow City's prime market at £400,000 and above bounced back in 2019, with a 12% rise in transactions, though - as in other parts of Scotland - this was less evident above £800,000, with sales over £1 million constrained by the availability of stock. Whilst Downhill, Kelvinside and Hillhead in the West End remain the prime hubs, much of the growth last year took place in the Jordanhill and Newlands neighbourhoods, and also Park,

supported by new build sales at Park Quadrant Residences.

Outside the city, East Dunbartonshire was Greater Glasgow's strongest performing prime location, with a 22% rise in transactions during 2019, led by both the second hand and new build markets in Bearsden.

Looking ahead, the year 2020 has begun with increased viewing activity from those looking to purchase a property. In these circumstances we expect economic and population growth to feed into house price growth and give potential vendors the confidence to bring more stock to the market in areas of high demand.

Greater Glasgow second hand transactions at £400,000 and above - Top 10 streets

Thoroughfare	Location	Number of second hand transactions at £400,000 and above (2010 to 2019)
Ayr Road	Giffnock/Newton Mearns	40
Southbrae Drive	Jordanhill	32
Nithsdale Road	Pollokshields	31
Thorn Road	Bearsden	30
Westbourne Gardens	Dowanhill	27
Kingsborough Gardens	Dowanhill	27
Woodend Drive	Jordanhill	26
Cleveden Drive	Kelvinside	25
Drymen Road	Bearsden	25
Craignethan Road	Giffnock	25

Source Savills Research

Country market

Supply constraints will support price growth, but realistic pricing remains critical

Though to a lesser degree than in Edinburgh and Glasgow, market sentiment across Scotland's country locations has been positive. Realistic pricing has allowed stock previously brought to the market to be absorbed. However, the supply of new properties remains constrained, underpinning annual price growth of 1.8% for prime properties in regional locations around Edinburgh. Looking ahead, we remain

cautiously optimistic, especially given the sharp rise in registered buyers so far this year. However, maintaining the balance between buyer and seller expectations will remain critical to keep the market moving.

The market in Scotland's heartland of Fife, Perthshire and Stirlingshire has remained buoyant, with prime transactions above £400,000 reaching 625, an annual increase of 9%. Prime

activity continues to rise in the hotspots of St Andrews and Perth and their surrounding locations, most notably in Cupar, the East Neuk and Blairgowrie in Perthshire. Whilst a lack of supply suppressed prime activity in Stirlingshire, western locations near Glasgow, such as Killearn bucked the trend.

Elsewhere, markets in Ayrshire and Dumfries & Galloway have continued



A reduction in stock levels should enable a recovery from 2021, underpinning our forecast for 3.5% price growth in the Aberdeen area over the five-year period between 2020 and 2024

Aberdeen and North East finding its level

After a period of price adjustments the market appears to be stabilising

Despite property prices falling slightly further, activity in the housing market of the Aberdeen area points to signs of a recovery in some locations. A more stable local economy has helped buyer confidence. The combined annual number of transactions across both Aberdeen and wider Aberdeenshire has now held firm at around the 8,000 level over the last four years.

Local markets

Aberdeen's recovery has extended to its prime market above £400,000, which recorded a 5% annual increase in the number of transactions in 2019. The AB15 postcode district, which includes the West End and suburbs of Cults and Bieldside, outperformed with a 12% annual rise in prime activity last year. Further afield, areas within easy reach of Aberdeen City, including Ellon and Inverurie, lifted Aberdeenshire transactions annually by 2%.

Demand remains strong

A 41% annual rise in the number of buyers registering with Savills in the North East during 2019 reflects the increased demand for the Aberdeen area's prime housing stock. A 29% increase in viewings also suggests that activity in the prime market will continue to improve, provided sellers maintain realistic price expectations.

Outlook for prices

Price falls of 2.5% across the city and the surrounding county in 2019 reflect the high number of available properties, primarily below £200,000. Despite more realistically priced properties being launched, there are currently over 5,000 properties available to buy across the market as a whole compared to 2,500 before the downturn.

We expect price drops to ease in 2020, as stock levels begin to reduce. This should enable a recovery from 2021, underpinning our forecast for 3.5% price growth over the five-year period between 2020 and 2024.

Angus and Dundee area

Supported by an economic boost, fuelled by the V&A Museum and new railway station, Dundee's residential market saw a 2% and 4% annual rise in the number of transactions and average price respectively. This was led by increased second hand and new build activity in locations around the universities and also towards the western parts of the city near Ninewells Hospital. Transactional growth also continued in the traditional hotspot of Broughty Ferry, which dominates Dundee's prime market.

Increased prosperity emanating out of Dundee has fed growth in Angus, led by its coastal locations. The residential market in southern Kincardineshire, across both the mainstream and prime sectors, also witnessed a recovery over the last year.

to recover. In comparison, the Highland and Islands and the Borders held steady.

The development market led Argyll's 8% annual rise in transactions last year, however a lack of new properties means that we are unlikely to see the same level of growth this year. However, we are beginning to see the market picking up in waterfront locations and on the Islands, most notably in Bute and Mull.



Comparison of 2007 and 2019 million pound markets

Whereas last year's million pound market may have performed similarly to the peak of 2007 in terms of numbers, there were differences in the composition of those sales.

New build has become a much bigger contributor. While 2019 saw 48 top end new build transactions, there were only 19 in 2007.

Taxation has also played a much greater part in 2019. Sales between £1 million and £1.5 million have risen but those above this level have fallen in response to the punitive charges under LBTT.

In geographical terms Edinburgh's share grew from a half of all transactions in 2007 to 68% in 2019. Now, as then, Edinburgh's inner suburbs dominated the market but the influence of outer suburbs such as Barnton, Cramond and Colinton has waned.

By contrast suburban Glasgow saw its number fall from 45 in 2007 to 26 last year, with a significant contraction in the city area of Glasgow and Renfrewshire.

In Aberdeen and its surrounds the peak of activity took place in 2014 during the height of the oil and gas market rather than in 2007, though the nine sales that took place in 2019 is down on both years. Performance in Fife, led by St Andrews, and the Lothians was the same as 2007.

But in country locations demand has become more discretionary. Perthshire, the Highland and Islands, Scottish Borders and Ayrshire witnessed only 13 transactions in total in 2019 compared to 39 in 2007.



Following an absence of any transactions above £3 million in 2018, last year saw eight above this level, six of them in Edinburgh

Million pound sales soar

Supported by high profile developments in Edinburgh, sales of £1m property are within touching distance of 2007

An improving Scottish million pound market last year saw the number of transactions soar from 211 in 2018 to 287 in 2019, just three short of the all-time high of 290 that took place in 2007.

There was a record 196 in Edinburgh, including 35 new build. Inner suburbs led the market, with 50 recorded in the Grange, Morningside and Merchiston area. The New Town, Stockbridge and Inverleith areas made a roaring comeback, with transactions almost doubling from a combined 28 in 2018 to 55 last year. Five took place on the charming Ann Street in Stockbridge, a record for this thoroughfare. Whilst Murrayfield recorded 30 in 2019, almost a half of them were new build.

Market confidence has spread into neighbouring

East Lothian, which recorded 18 transactions in 2019, just two short of its 2007 total. Whilst the majority took place in and around North Berwick, there were four in the commuter village of Inveresk just outside Edinburgh.

With the exception of Edinburgh, East Lothian and St Andrews in Fife, the market elsewhere in Scotland remained unchanged. Despite strong demand, million pound transactions across Greater Glasgow fell from 31 in 2018 to 26 last year, primarily reflecting a shortage of stock available to meet demand and a lack of downsizing options for older sellers. Here, off-market deals, unusually, made up more than half of second hand transactions last year.



Ann Street in Stockbridge, one of Edinburgh's most desirable addresses, witnessed a record five transactions last year at £1 million and above

“The number of households living in Scotland's private rented sector has increased by 200% in 20 years”

Rental market continues to ascend

Demand remains strong despite taxation and legislative changes

The UK-wide rental market has had its fair share of challenges in recent years, such as the additional dwelling surcharge on stamp taxes, reduction on mortgage interest tax relief, tougher lending criteria and government regulation.

Despite these pressures, demand for rental properties across Scotland remains ever strong, with the number of households living in this sector increasing by over 200% in 20 years, from 110,000 households in 1999 to 350,000 in 2018, making up 14% of all households. An increase of 27% in the average asking price per calendar month (pcm) across Scotland over the last decade therefore comes as no surprise.

Edinburgh continues to grow

Edinburgh remains the most popular and valuable rental market in Scotland, with 25% of households living in this sector. The average asking price pcm reached £1,134 at the end of last year, according to Citylets. In a similar trend to the sales market, the capital faces the challenges of constrained supply and strong demand from professionals, particularly for one and two bedroom properties below £1,000 pcm. But there is also high demand from families for appropriately priced larger properties in good condition close to the city centre.

Impact of new tenancy system

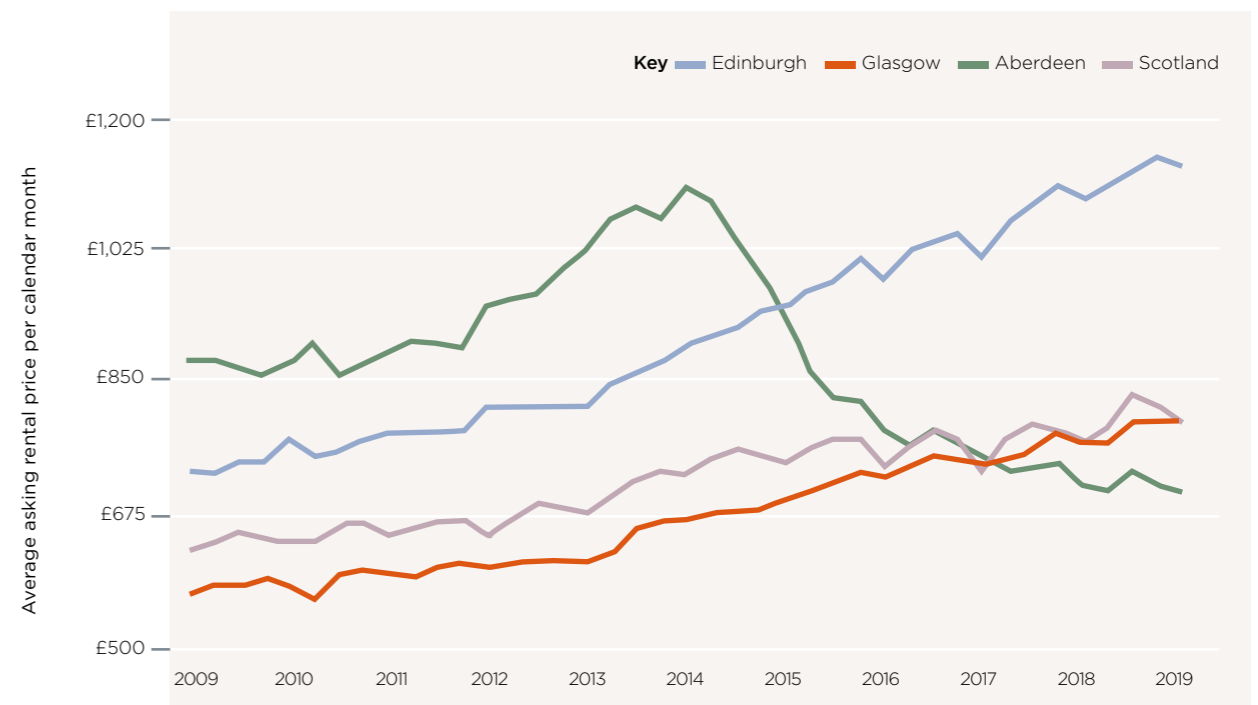
One of the main questions we are asked in regard to the rental market is the impact of Scotland's Private Residential Tenancy, which has been in place for over two years. In our opinion, appropriate pricing, high quality management and more awareness of associated costs have been the positives. Despite properties taking a relatively short period to rent, it is important for landlords to be aware of tenant intentions to ensure longer letting periods, minimal voids and less costs for both landlords and tenants.

Outlook

Looking ahead, pressure on private landlords will limit the supply of rental properties, thus fuelling value growth. But the proportion of household income that tenants can afford to pay as rent will be the overriding constraint on rental growth. The fundamentals supporting this, such as income and employment, will remain strong in regional city hubs such as Edinburgh. Across the UK as a whole, we expect rental prices to grow by 15.4% over the next five years, with Edinburgh likely to outperform.

Average monthly asking rental price per calendar month

Strong demand has lifted prices to record levels in Edinburgh and Glasgow





Savills Research

We're a dedicated team with an unrivalled reputation for producing well-informed and accurate analysis, research and commentary across all sectors of the UK property market.

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