

Spotlight on...

Scotland's Prime Residential Property Market



SUMMARY

An overview of the market

■ While the extreme Scottish weather took its toll at the start of the year, resulting in a delayed spring market, sales of residential property in Scotland have recovered over the summer.

■ Accessibility to mortgage finance remains the biggest barrier facing recovery in Scotland's overall housing market, despite an ever present and pent-up demand.

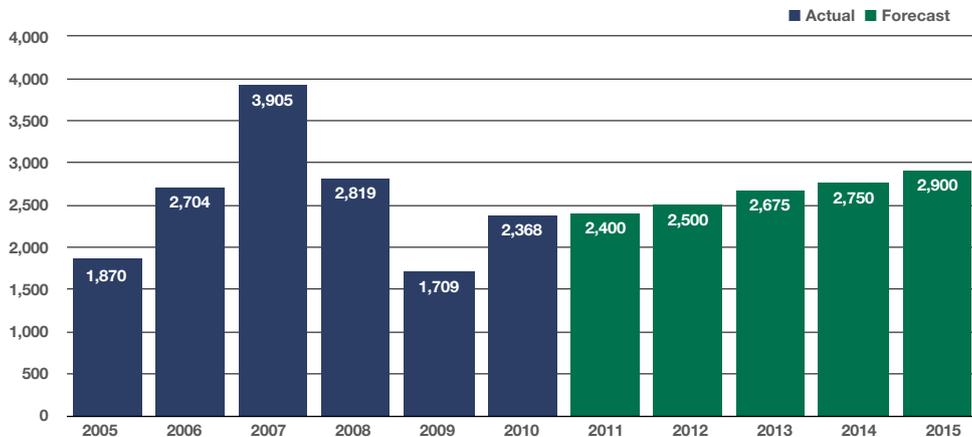
■ The first six months of 2011 have witnessed a return to very high levels of prime properties being launched to the market. This is having the effect of suppressing values, in accordance with the rules of supply and demand.

■ Transactions at £1 million and above during the first six months of 2011 have exceeded the number during the same period in 2010 by 30%.

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 "Sales of residential property in Scotland have recovered over the summer."

Faisal Choudhry, Savills Research

GRAPH 1
Second hand transactions in Scotland at £400,000 and above



Source: Savills Research

Prime transaction levels

While the extreme Scottish weather took its toll at the start of the year, resulting in a delayed spring market, sales of residential property in Scotland have recovered over the summer.

Despite the fragile global economic climate, and continued constraints on mortgage funding, we expect prime transactions, (above £400,000) in 2011

to be similar to last year's levels, with around 2,400 sales taking place in Scotland by the end of the year. This represents a significant improvement of around 40% since the slump of 2009 when only 1,700 houses sold in the prime market, approach 2006 levels but somewhat off the peak of 2007. This is in stark contrast with the mainstream market in Scotland where transaction levels in 2011 are expected to be 4% less than the number during 2009.

“We expect prime transactions in 2011 to be similar to last year’s levels, with around 2,400 sales by the end of the year.”

Faisal Choudhry, Savills Research

There is unlikely to be a significant shift within the mortgage market in the short to medium term. Current conditions are expected to continue for the rest of the year, limiting the number of people able to secure mortgage funding. Cash buyers and the equity-rich will play a

GRAPH 2
House purchase lending and residential transactions in Scotland



Source: Council of Mortgage Lenders / Registers of Scotland (Registers of Scotland records all residential transactions. By nature it is likely to be historic with a time lag)

disproportionate role in the market, particularly with regard to higher value homes. We expect prime transaction levels to remain consistent throughout next year and to increase from 2013 as the economy grows, buyer confidence improves and mortgage funding eases, fuelling sales further up the market.

Accessibility to mortgage finance remains the biggest barrier facing recovery in Scotland’s housing market, despite pent up demand. The number of loans for house purchase lending across Scotland fell by 12% from 12,900 during 2010Q2 to 11,300 during 2011Q2.

During the middle of the last decade, the number of loans averaged around 26,000 across Scotland; the figure this year is likely to be half that amount.

The London effect

With a 6.3% growth in prices during the first six months of 2011, the prime Central London market provides encouragement for prime regional markets. A strong prime London market is important as it creates a ripple effect through the wealth corridors into other housing markets.

We expect Edinburgh, traditionally the hub of Scotland’s prime market, to benefit most from this outflow of wealth from London and to provide a much needed boost to the prime markets across the rest of Scotland in due course.

However, forecasting the short term for prime central London in today’s context, is risky. Volatility in the prime Central London market cannot be discounted. On the upside, global turmoil should continue to drive inward investment to its relatively secure property market, while contagion from the financial crisis in Europe and USA could pose a real downside risk, in the prime Central London market.

Prices suppressed

The first six months of 2011 have witnessed a return to very high levels of prime properties being launched to the market. This is having the effect of suppressing values. During the first six months of 2011, there was a minimal fall in prime values of 1.8% across Scotland. We expect a similar fall

between now and the end of the year, equating to an annual fall of 3.5%.

One of the consequences of current market conditions is that buyers of prime property are increasingly discerning. Yet, homes which are appropriately priced, in the best locations and well presented to the market should continue to sell.

This is reflected in the differences in prices being achieved for property which is best in class, compared to that which is broadly average for its type. Realistic pricing, pegged to today's conditions and without reference to peak, will be required to get many markets moving.

It may take two or three years for the current over supply to work its way through the system. As such, we expect prime values in Scotland to remain static over the course of 2012, before gently recovering from 2013. We expect prices to increase further once the balance of supply against demand has been restored, against an improving economic outlook.

Time on the market

The huge selection of homes for buyers' to choose from, their inability to raise mortgage finance and sellers' reluctance to accept new, lower market values, have all conspired to ensure homes take much longer to sell. At the peak of the market it took an average of 81 days to sell a house across Scotland's cities. In August 2011 this rose to 182 days.

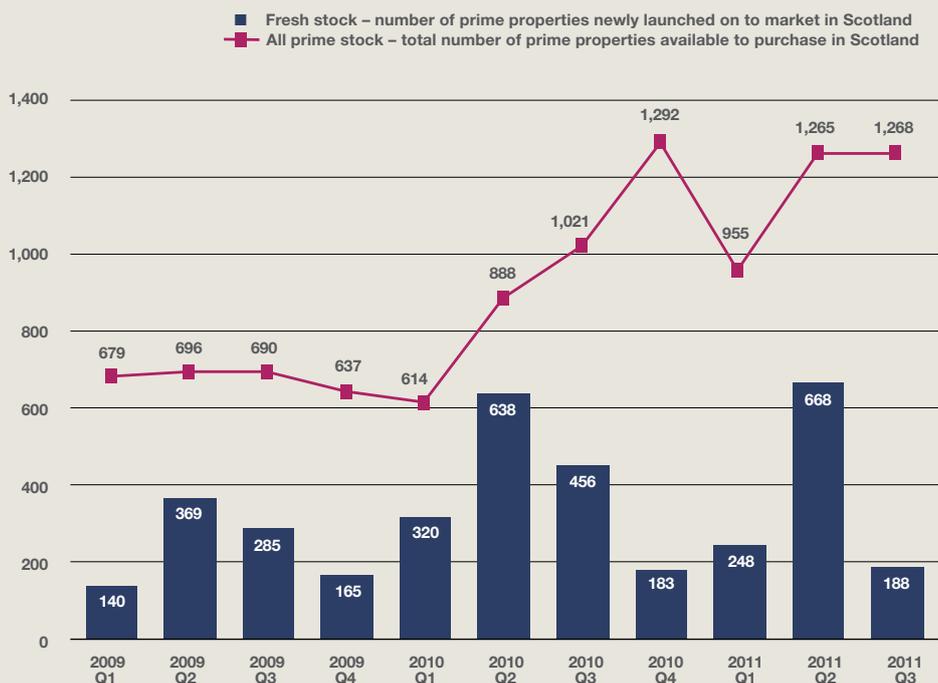
There were a number of exceptions but properties which bucked the trend tended to be in Edinburgh's prime markets of the New Town, Grange and the West End, where buyers from outside Scotland and overseas often competed for property in the £400,000 to £1.5 million price range.

Buyers from Australia, Bermuda, Canada, Dubai, Egypt, South Africa and Lebanon were among Savills buyers of Edinburgh prime property during the first six months of 2011.

Prime properties elsewhere also sold relatively quickly where good location, prime condition and realistic prices were factors. For example, the sale



GRAPH 3
Savills StockWatch Scotland
Properties advertised at £400,000 and above



Source: Savills Research

→ of a number of flats in the West End of Glasgow completed within one month during the first half of this year.

£1 million-plus market

While the market for high value homes in Scotland remains challenging, there was a rise in the number of residential property transactions at £1 million and above during 2010, compared to the previous year.

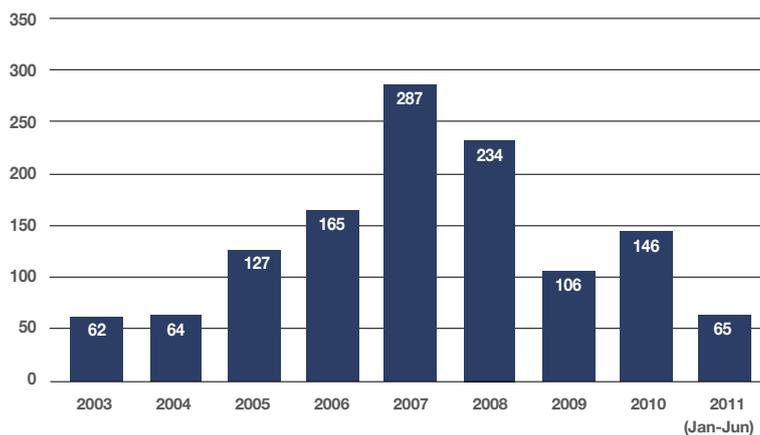
As previously predicted, the total number of homes sold in this price range was just short of 150, compared to 106 during 2009. Transactions at £1 million and above during the first

six months of 2011 have exceeded the number during the same period in 2010 by 30%.

Many owners of million pound homes now recognise a realistic price when they are offered it, and they are prepared to do a deal and move on with their lives.

Very few of these properties are achieving the prices being asked at the peak of the market in 2007, but most buyers have been in their current homes prior to recent price falls, and are realising significant levels of equity. ■

GRAPH 4
Residential transactions in Scotland greater than or equal to £1 million



Source: Savills Research / MyHousePrice.com

OUTLOOK

Key findings in this document

■ Cash buyers and the equity-rich will play a disproportionate role in the market, particularly with regard to higher value homes. We expect prime transaction levels to remain consistent throughout next year and to increase from 2013 as the economy grows, buyer confidence improves and mortgage funding eases, fuelling sales further up the market.

■ We expect Edinburgh, traditionally the hub of Scotland's prime market, to benefit most from this outflow of wealth from London and to provide a much needed boost to the prime markets across the rest of Scotland in due course.

■ One of the consequences of current market conditions is that buyers of prime property are increasingly discerning. Yet, homes which are appropriately priced, in the best locations and well presented to the market should continue to sell.

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Savills Research team

Please contact us for further information



Faisal Choudhry
Associate Director
+44 (0)141 222 5880
fchoudhry@savills.com



Yolande Barnes
Head of Research
+44 (0)20 7409 8899
ybarnes@savills.com



Lucian Cook
Director
+44 (0)20 7016 3837
lcook@savills.com

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