Spotlight
Scotland’s Prime Residential Property Market
Spring 2014
On the cover: Cardon, located in the Grange area of Edinburgh, is due to be launched this spring. Prime transactions across the southern suburbs of Edinburgh increased annually by 29% last year.

This publication
This document was published in March 2014. 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**: refers to the most desirable and aspirational property by reference to location, standards of accommodation, aesthetics and value (second hand £400,000 and above). Typically it comprises properties in the top three per cent of the Scottish market by house price.
- **Mainstream**: refers to the bulk of the Scottish housing market.

On the cover: Cardon, located in the Grange area of Edinburgh, is due to be launched this spring. Prime transactions across the southern suburbs of Edinburgh increased annually by 29% last year.
There is a much improved outlook for prime residential markets across Scotland. However, uncertainty surrounding the forthcoming Referendum may temper progress.

Strong growth in prime sales
The prime second hand residential market, at £400,000 and above across Scotland, showed strong performance last year, with a 22% annual increase in activity, reaching 2,536 transactions during 2013 (see Table 2). The market has been robust from spring 2013 onwards with deals being done throughout the winter period. A further 188 prime transactions registered in January 2014 across Scotland, making it the busiest start to the year since 2008.

The prime market is being boosted by the hubs of Edinburgh, the Aberdeen area and Greater Glasgow, where prime activity increased annually by around 25% in each location. The prime market in Edinburgh was heavily supported by the hotspots of Grange, Morningside and Merchiston. Prime transactions in this combined area increased by 29% last year, representing 219 sales (see Table 3). The West End of Edinburgh and the northern suburb of Trinity also enjoyed a better market in 2013, following slightly lower activity in the previous two years.

Similarly, the prime southern Glasgow suburbs of Pollokshields, Newlands, Giffnock and Newton Mearns experienced a strong market last year with a 31% increase in activity. These areas continue to be supported by top quality education facilities and excellent transport links.

We have noticed a change in the buyer age group over the course of the last year with demand in the core hotspots of Edinburgh and Glasgow is increasingly being driven by younger professionals. Non-Scottish buyers made up 34% of the million pound market last year compared to 26% in 2012.

There is a shortage of supply in some of the central locations of Edinburgh and Glasgow, resulting in a gentle rise in prime values. We expect a further rise in prime values across Scotland by the end of this year, with an increase of 18% over the course of the next five years, as we enter the next phase of recovery.

Mainstream transactions across Scotland increased by 16% last year, boosted by a higher number of mortgages. Market strength is spreading to commuter locations such as Angus, Midlothian and Renfrewshire. We are forecasting that average values will rise by 4.5% this year in Scotland, with transactions expected to increase by 10% during 2014.

We do not expect possible Scottish Independence to affect the viability of Edinburgh and Aberdeen as attractive locations, nor do we think that it will prevent buyers with strong Scottish connections from entering the market. However, uncertainty surrounding the key issues of currency, taxation and mortgage rates could stall the market and have an adverse affect on buyers from other parts of the UK, who are becoming a key component of the residential market across Scotland.

<table>
<thead>
<tr>
<th>Year</th>
<th>Prime value change</th>
<th>Mainstream value change</th>
<th>Residential transactions</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>1.0%</td>
<td>4.5%</td>
<td>92,600</td>
</tr>
<tr>
<td>2015</td>
<td>2.0%</td>
<td>4.5%</td>
<td>99,100</td>
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<tr>
<td>2016</td>
<td>4.5%</td>
<td>3.5%</td>
<td>105,000</td>
</tr>
<tr>
<td>2017</td>
<td>4.5%</td>
<td>3.5%</td>
<td>107,200</td>
</tr>
<tr>
<td>2018</td>
<td>5.0%</td>
<td>2.0%</td>
<td>107,500</td>
</tr>
</tbody>
</table>

Table source: Savills Research

SUMMARY
- Prime transactions across Scotland increased by 22% last year, led by the market hubs of Edinburgh, Greater Glasgow and the Aberdeen area. Demand in the core hotspots of Edinburgh and Glasgow is increasingly being driven by younger professionals. Non-Scottish buyers made up 34% of the million pound market last year compared to 26% in 2012.
- There is a shortage of supply in some of the central locations of Edinburgh and Glasgow, resulting in a gentle rise in prime values. We expect a further rise in prime values across Scotland by the end of this year, with an increase of 18% over the course of the next five years, as we enter the next phase of recovery.
- Mainstream transactions across Scotland increased by 16% last year, boosted by a higher number of mortgages. Market strength is spreading to commuter locations such as Angus, Midlothian and Renfrewshire. We are forecasting that average values will rise by 4.5% this year in Scotland, with transactions expected to increase by 10% during 2014.
- We do not expect possible Scottish Independence to affect the viability of Edinburgh and Aberdeen as attractive locations, nor do we think that it will prevent buyers with strong Scottish connections from entering the market. However, uncertainty surrounding the key issues of currency, taxation and mortgage rates could stall the market and have an adverse affect on buyers from other parts of the UK, who are becoming a key component of the residential market across Scotland.
The prime Scottish market at the beginning of this year has been the busiest since 2008

Faisal Choudhry, Savills Research

The age category aspiring to upsize. This age group is now more active and is enabling the whole of the market to move again following low levels of sales during 2011 and 2012.

The market strength in the core locations of Edinburgh, Aberdeen and Glasgow has spilled out to some of Scotland’s provincial locations, such as Tayside, where prime transactions increased last year by 19%. The prime markets in Ayrshire and the Borders also improved last year following restrained performance during 2012.

Prime values
Prime values across Scotland have fallen over the last few years due to the high levels of stock available on the market (see Graph 1). However, the significant increase in prime sales has created a net reduction in stock levels. Supply in some hotspots in Edinburgh and Glasgow has been decreasing, resulting in a slight rise in values, particularly towards the end of last year. The rebalancing of supply and demand has started in the country locations of Scotland with values beginning to stabilise during the last quarter of 2013. We expect a gentle rise in Scottish prime values during 2014 when supply and demand eventually rebalance (see Table 1).

Modest recovery in the £1m market
There was a modest increase in transactions at the top end of the market above £1 million, with 136 sales recorded in 2013 compared to 125 during 2012 (see Graph 2). The current level of 136 transactions is 11% below the 10-year annual average of 152 transactions.

The million pound market in Scotland has been affected by a falling number of home-grown buyers. On the other hand, the number of purchasers from outside Scotland approached its highest level since the peak of the market in 2007, with 41 sales recorded to buyers from outside Scotland last year, the same level as 2007.

Non-Scottish buyers made up 34% of this market last year, compared to 26% in 2012. The majority of non-Scottish million pound buyers last year came from London, with overseas purchasers mainly coming from other parts of Europe, the USA and the Middle East.
Edinburgh, the traditional hub of the prime market with a 51% share of this market, saw a rise at the top end, representing 69 transactions during 2013 compared to 54 in 2012. The Aberdeen area, Greater Glasgow and Tayside together made up 35% of the million pound market, representing 47 transactions. The top-end of the market in some of Scotland’s country locations remained slow, with only 20 sales last year at £1 million and above.

Last year, the West End of Glasgow saw five residential transactions above £1 million, which were the first such sales in this location since 2011. Across Scotland, there were only seven transactions at £2 million and above last year compared to 11 in 2012. However, there was an increase in activity in this price band at the end of last year, which should improve the numbers for 2014.

Estate market
The total value of Scottish estates traded last year was in excess of £54 million, an increase of 17% compared to 2012. There have been varying price tags for the estates traded, with one selling for almost £20 million and the majority for £6 million or less. Out of the 13 estates that sold last year, five transactions were private deals. Our analysis of openly marketed Scottish estates shows that the buyers were split equally between the UK and mainland Europe.

The majority of viewers have been international businessmen, attracted by the range of sport on offer. The impending referendum on Independence in September this year does not appear to have made a significant difference to the market. A handful of buyers are putting their search on hold until the outcome of the vote and the consultation on Land Reform is known. The majority still view Scotland as a relatively safe haven for their money.

More mainstream sales
House purchase activity across Scotland was strong last year, with a 16% increase in transactions from 72,440 during 2012 to 84,228 during 2013. This was led by a 15% increase in mortgage lending over the same period (see Graph 4). This has mainly been driven by the Funding for Lending scheme (FLS) which has made a positive contribution to mortgage availability across the UK. More encouragingly, the actual time taken from a property coming onto market to reaching sold status across Scotland’s cities has improved, with an average selling time of 16 weeks over the last three months, according to the website Home.co.uk.

We are forecasting that average values will rise by 4.5% this year in Scotland with transactions expected to increase by 10% during 2014 (see Table 1). We expect a slight slowdown in the growth rate of residential values and transactions across the mainstream markets in Scotland as the Help to Buy government stimuli come to an end in 2016. However, we expect the economy to be in a much better shape during that period, which will help underpin the housing markets towards the end of this decade.

Independence impact
There is gathering anecdotal evidence that uncertainty around the Independence debate is becoming a concern for some buyers and sellers. As the Scottish property market recovers from the economic downturn, this uncertainty has the potential to stall the market once again.

Around 65% of residential transactions in Scotland every year are dependent on a mortgage, and lending rates applied in Scotland would therefore have the biggest impact on the market post Independence.

As a new country with a small economy on the periphery of Europe, it is likely that Scotland would incur a higher credit risk, and therefore have a lower credit rating than the rest of the UK.

This was suggested in a HM Treasury report published last summer which highlighted the perception of the Scottish banking sector as being more vulnerable, resulting in possible higher risks and higher funding costs that could be passed on to consumers. Potential increased risk would probably mean an independent Scotland

"Non-Scottish buyers made up more than a third of the million pound market last year”
Emily Dorrian, Savills Research

Graph source: MyHousePrice.com / Savills Research

Table 3
Local heroes supporting the prime market

<table>
<thead>
<tr>
<th>Area</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grange, Morningside and Merchiston</td>
<td>119</td>
<td>209</td>
<td>183</td>
<td>170</td>
<td>219</td>
</tr>
<tr>
<td>Glasgow Southside</td>
<td>81</td>
<td>120</td>
<td>108</td>
<td>96</td>
<td>126</td>
</tr>
<tr>
<td>Edinburgh West End</td>
<td>21</td>
<td>49</td>
<td>30</td>
<td>27</td>
<td>47</td>
</tr>
<tr>
<td>Trinity, Edinburgh</td>
<td>23</td>
<td>33</td>
<td>33</td>
<td>26</td>
<td>42</td>
</tr>
</tbody>
</table>

Table Source: MyHousePrice.com / Savills Research
incuring higher mortgage rates, putting upward pressure on household finances and potentially driving down the value of housing, as buyers seek affordability. This might lead to the residential market stalling once again, with sellers unwilling to accept lower prices, just as they did during the recent economic downturn.

Whether an independent Scotland would have a negative impact on Edinburgh’s position as a financial services hotspot and Aberdeen’s energy sector is debatable. Edinburgh’s strength in asset management, banking and insurance sectors will continue to sustain its economy post Independence, as long as the leading institutions do not pull their head offices out of Scotland.

Energy companies are unlikely to desert Aberdeen post Independence. There remains up to 20 years of oil reserves in the North Sea, and more interestingly Aberdeen has become a global hub for expertise in oil and gas extraction in other parts of the world, so it is not wholly dependent on North Sea oil. It is, therefore, unlikely that there will be a rush of energy companies deserting Aberdeen in the event of a Yes vote.

Scotland’s natural scenic beauty and quality of life are likely to remain a pull factor, whatever the outcome of this September’s referendum. In our experience, the purchase of a Scottish property by the ultra-wealthy is a luxury and buying decisions are made on an emotional whim, and are unlikely to be influenced by political-economic factors.

Similarly, the outcome of the Referendum will not impact on purchasing decisions for those selling in Scotland and intending to remain in Scotland.

Those who have strong Scottish connections and who have perhaps held a long-term commitment to return north, perhaps for schooling, family or lifestyle reasons, may not be easily discouraged from doing so in the event of Scottish Independence.

However, Scotland’s housing market recovery is becoming increasingly reliant on buyers from the South moving to Scotland in search of a better quality of life and value for money. The number of applicants who registered with Savills to buy north of the Border doubled in 2013. We believe this positive facet of our market could be hampered in an independent Scotland.

There is a lack of information from pro-Independence campaigners about the fundamental issues of currency, mortgages and property taxation. These are the factors that buyers and sellers of Scottish residential property will need to consider before casting their votes in September.

“The number of applicants who registered with Savills to buy north of the border doubled in 2013”
Faisal Choudhry, Savills Research

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Savills plc
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Adding value to your property interests

Savills Research team provides advice and analysis to clients on the rural, residential, commercial and leisure property sectors in the UK and Europe. Savills also provides similar property research services throughout South East Asia and Australia. In the UK, Savills has had a dedicated residential research team for the past 18 years. Over this time, the department has built up a strong reputation for producing accurate, well informed and, above all else, independent analysis and commentary on the UK’s housing market. As a result, the team is a leading national commentator on market trends.

The success of the department has been built on its market insight, provided by the Savills network, in conjunction with a significant external consultancy business.

This market-led approach to our research is vital to our clients.

Through the provision of analysis, commentary and forecasting we can add value to both assets and businesses. The department has been involved in a wide range of consultancy projects for a variety of public and private sector organisations across the UK.

This has involved research into housing of all tenures and across all price ranges and rental levels.

Typical consultancy projects include:

- Local area supply and demand analysis
- Development feasibility studies
- Investment strategy and advice
- Place making site studies
- Forecasting rents and capital values
- Research to inform policy making and best practice statements
- Research for property finance and business planning purposes
- Research to inform housing-led regeneration initiatives