

Private Investor Briefing

Scottish Market

Autumn 2019



Uncertainty and Opportunity

The current uncertainty and political machinations surrounding Brexit have clearly had an impact on investment into the UK Real Estate sector. This has also been felt by private investors considering their exposure to residential property when deciding how to allocate their assets in a period of political and economic uncertainty.

However, with other asset classes offering limited value and with the housing market experiencing a slowing of annual price growth, for the bold investor the current market also offers opportunities.

With lower levels of sales competition, but with rental demand and price inflation remaining positive, the underlying fundamentals of the Scottish residential sector are proving attractive to both institutional and private investors willing to invest in mid to long term returns in urban assets.



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Associate Director

Key Findings

- The macroeconomic and political uncertainty is resulting in some limited hesitance in the market, however, demand across the market remains robust due to strong underlying fundamentals.
- Scotland's major cities have experienced strong levels of both capital appreciation and rental growth over the past 5 years, maintaining yields.
- Price growth in central locations has provided opportunities by gentrifying areas and outperforming wider market returns.
- While the sales market is experiencing a pause for breath after strong growth in recent years, and due to Brexit uncertainty, rental demand remains high in urban centres supporting a positive investment outlook.

Rental Growth Remains Positive

The Scottish rental market has experienced strong price growth in recent years as demand in the private rental sector (PRS) has outstripped housing supply and the PRS has become the tenure of choice for many urban households.

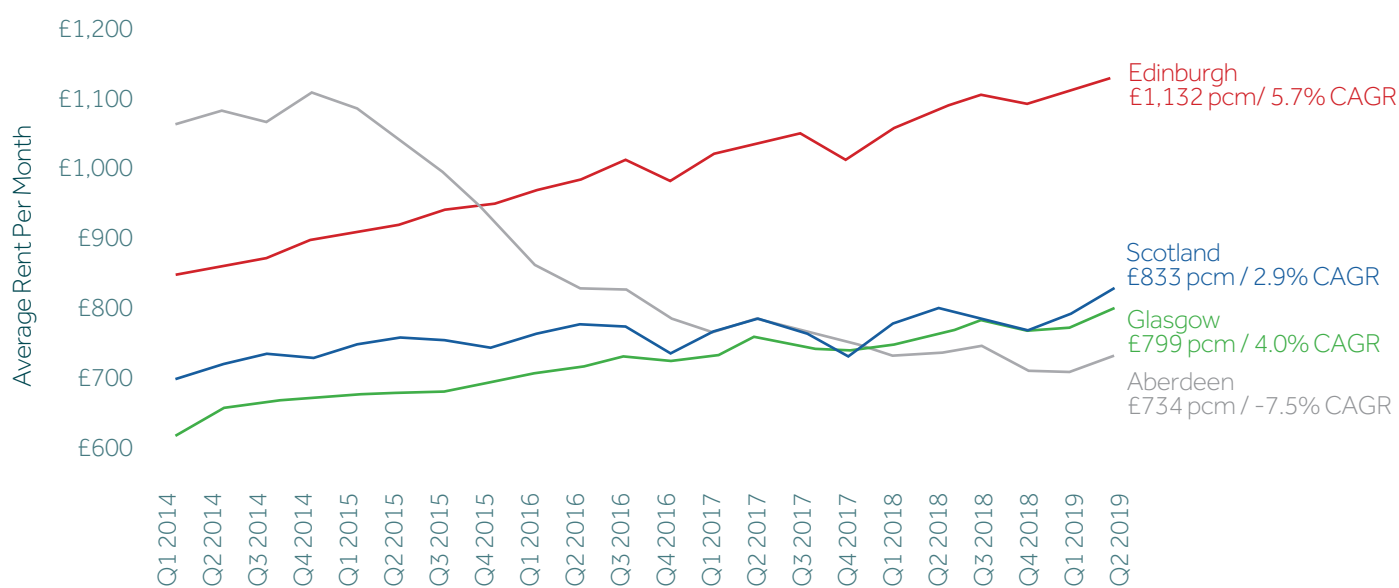
This pressure on demand has seen average rents in Edinburgh rise to over £1,100pcm in 2019, and average rents in Glasgow are now around £800 pcm.

Over the past five years, Edinburgh has led the market with a compound annual growth rate (CAGR) of 5.7%, ahead of Glasgow with a 4.0% CAGR. Conversely, issues in the oil sector have seen rents in Aberdeen fall by a third from £1,110pcm at the market peak in 2014 to under £740 pcm in 2019. However, rents have remained around this level for the past 18 months, suggesting the market has rebased.

Looking forward, prime City Centre demand in Edinburgh and Glasgow looks set to support buoyant rental values, with displaced demand looking to more affordable locations which still benefit from core urban amenity and accessibility.

In both Scotland's major cities, new Build to Rent (BTR) developments look set to be market disruptors in terms of supply and service offering.

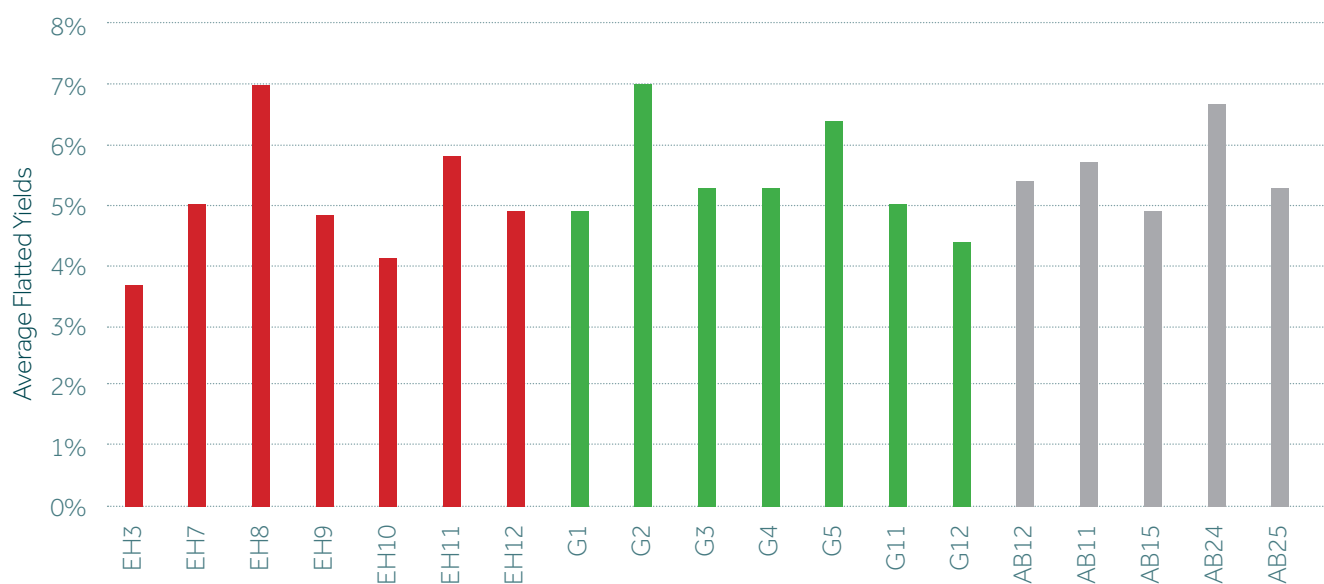
Rental growth has been strong across most cities with the exception of Aberdeen
Average Rent Per Month by City / 5 Year Compound Annual Growth (CAGR)



Source: Citylets

Gentrification and rising rents have driven yields in core urban locations

Average Flatted Yields by Popular Postcodes in Edinburgh, Glasgow and Aberdeen



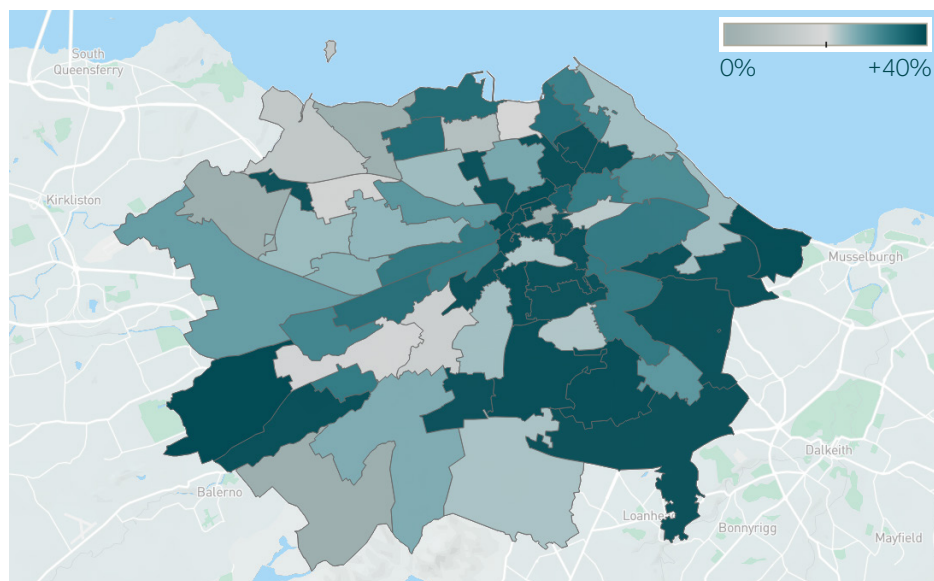
Source: Citylets

A Decade of Capital Growth

While rental growth has been strong, the housing market has also seen significant growth, with Edinburgh recording compound annual growth of over 4% in the past decade despite this period including a major recession. However, this growth has not been equally spread and identifying emerging locations can materially impact investment returns.

Analysis of house price growth in the Capital over the past decade has shown a pattern of prime market performance; gentrification in secondary locations due to displaced affordability and demand pressures; and large scale new build development creating desirable residential districts leading to price uplift ahead of the wider market.

Growth over the past decade has been strongest in the City Centre & new build locations
Average House Price Change Indexed to 2009



Source: Registers of Scotland

Average House Price Forecasts

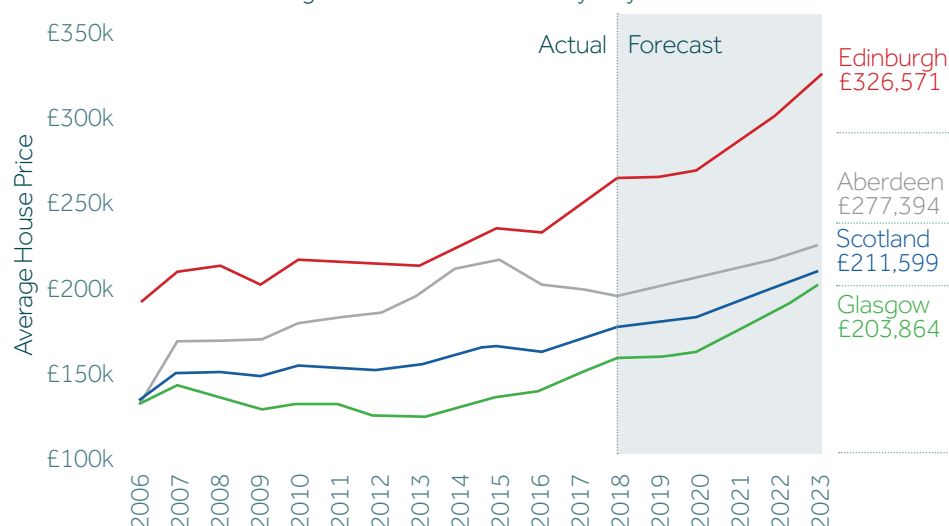
The Scottish housing market has remained comparatively robust over the past five years as other UK areas are experiencing softening markets, notably in the South East of England. This confidence and performance has been based on strong underlying fundamentals of population growth, rising earnings and the undersupply of new housing. Inward investment and new emerging tech and creative sectors, in both Edinburgh and Glasgow,

have further supported demand for both the sales and rental properties, leading to continuing price inflation.

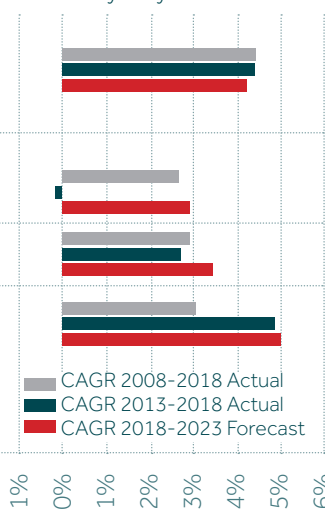
While it is clear that ongoing political uncertainty surrounding Brexit is having an impact for some buyers, for many housing is a necessary, rather than discretionary, decision. This is supporting ongoing demand within the housing market, especially in economically active urban centres.

Based on these fundamentals, it is anticipated that, in the event of an orderly Brexit, the pause in price growth being experienced in 2019 will give way to returning growth from 2021 onwards as uncertainty lifts but demand and undersupply persist. Growth rates over the next 5 years are expected to average a similar rate to historical long-term rates during this market cycle, with mortgage lending restrictions acting as a market brake.

Price Growth is expected to pause until Brexit is resolved
Actual and Forecast Average House Price Growth by City



Recent & Forecast Annual Growth CAGR by City and Time Period



Source: Rettie & Co. Research



South Learmonth Gardens
Edinburgh, EH4

Fixed Price £665,000
3 Beds, 1 Reception



Donaldson's, West Coates
Edinburgh, EH12

Fixed Price £580,000
2 Beds, 2 Reception



Buckingham Terrace
Edinburgh, EH4

Offers Over £360,000
2 Beds, 1 Reception



Simpson Loan, Quartermile
Edinburgh, EH3

Offers Over £295,000
1 Bed, 1 Reception



Park Circus Place, The Park
Glasgow, G3

Offers Over £585,000
2 Beds, 1 Reception



Mitchell Street, City Centre
Glasgow, G1

Offers Over £240,000
2 Beds, 1 Reception



Lancefield Quay, Finnieston
Glasgow, G3

Offers Over £309,000
2 Beds, 1 Reception



Ingram Street, Merchant City
Glasgow, G1

Offers Over £175,000
1 Bed, 1 Reception



Simpson Loan, Quartermile
Edinburgh, EH3

£2,000 pcm
2 Beds, 2 Reception



Northumberland Street
Edinburgh, EH3

£1,600 pcm
2 Beds, 1 Reception



Gardiners Crescent, Tollcross
Edinburgh, EH3

£1,300 pcm
2 Beds, 1 Reception



Telford Grove
Edinburgh, EH4

£1,195 pcm
3 Beds, 1 Reception



Lilybank Terrace
Glasgow, G12

£1,750 pcm
2 Beds, 1 Reception



Hughenden Gardens
Glasgow, G12

£1,200 pcm
3 Beds, 1 Reception



Randolph Road, Broomhill
Glasgow, G11

£800 pcm
1 Bed, 1 Reception



Cartvale Road, Battlefield
Glasgow G42

£775 pcm
2 Beds, 1 Reception

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