



Market Headwind

Jim Morrison of American Rock band The Doors once wrote, "I believe in a long, prolonged, derangement of the senses in order to obtain the unknown." One cannot help but feel this would be a fair description of the past three years of Brexit.

So far in 2019, there can be no doubt that market participants have been acutely aware that we will potentially be reaching "The End" at some point this year. However, this uncertainty has had a surprisingly limited impact on the housing market, with demand and transactions remaining robust, with only marginal slowdowns in some markets. While transaction levels and prices have been reporting their first falls for some time, these are small and come after a sustained period of growth. It is also notable that they are smaller than those experienced elsewhere in the UK.

At the top end of the market Rettie & Co. have secured

some of the highest value transactions of recent years, pointing towards a degree of confidence in the Scottish market from those making such purchases. However, Q1 2019 has seen challenging market conditions for prime properties with softening sales.

So, while we are still "Riders in the Storm" of Brexit waiting to "Break on through to the other side" of negotiations, most buyers and sellers in Scotland seem confident in the underlying economic fundamentals and are willing to enter into the market despite the fact we are living in "Strange Days".



Andrew Meehan
Associate Director

Key Findings

- House prices in Scotland rose 3.7% in 2018, with Edinburgh (6.6%) and Glasgow (5.0%) outperforming national averages.
- Transactions and values have started 2019 at levels consistent with previous years, despite the potential proximity of Brexit.
- House price growth is being supported by supply and demand imbalances in prime, urban and family markets.
- In Q1 2019, LBTT returns are up by 1,100 transactions on the same period last year, however, revenues have fallen by -5.8%.
- While there is some evidence of a headwind in the market relating to the unknowns of Brexit, Scotland is outperforming wider UK trends and its major centres have many positive drivers underpinning demand.

The market remains flat year-on-year

The average house price in Scotland in Q1 2019 was £174,227, which is around the same level as the start of 2018. This flat year-on-year growth reflects the slowdown and consolidation that is being felt across the market as a whole, as macro-political factors influence market sentiment.

In Edinburgh, the number of transactions at the start of the year remain unchanged year-on-year with a slight weakening in average price of -1%, down from just over £260k in Q1 2018 to just under £260k in Q1 2019. This pattern of flat performance has also been true in Glasgow, where values have fallen less than -2% year-on-year but transactions are marginally up. This flat performance should be read in the context of strong growth in both

cities over the past 5 years. Aberdeen, which has struggled in recent years due to the oil market, does seem to be showing signs of stabilisation, with average prices at the start of 2019 commensurate with 2018 levels. This maintenance of values has been met by an upturn in activity, with sales in Q1 2019 almost 14% higher than the same time in 2018. This may be the positive signs of market plateau that the Aberdeen market has been waiting for.

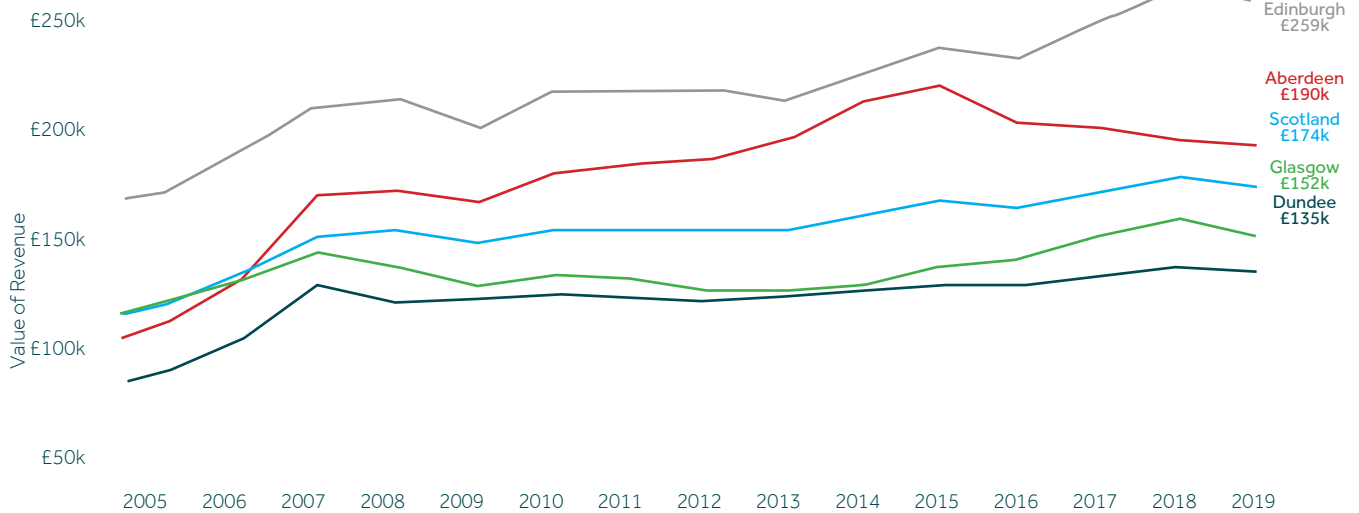
Dundee, which is fast emerging as a popular investment location on the back of major development and regeneration, has seen the average house price in the city start 2019 up 10% on a year earlier, making it one of the strongest performing markets in the UK in 2019.

While wider economic and political considerations are impacting the housing market across the UK, the Scottish market has been more robust than elsewhere and this seems to be persisting into 2019, with transactions, values, stock levels and enquiry activity broadly comparable to the past couple of years.

While fears over Brexit and global recession will be influential moving forward, there are number of positive drivers shaping the Scottish markets including high profile business relocations in Glasgow, inward investment in Dundee and business growth in Edinburgh, which are driving demand in these economic centres and their surrounding hinterlands.

Price growth slows across most of Scotland

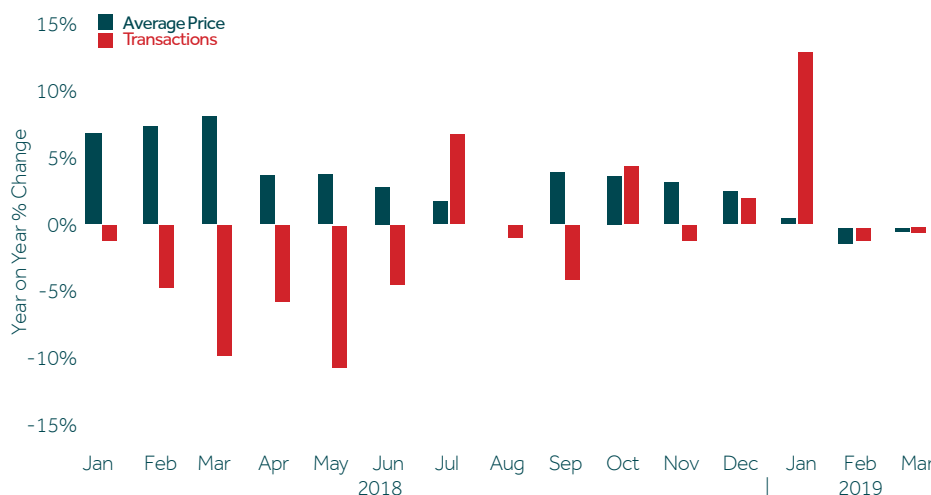
Average House Price by City 2003 - 2019



Average house prices continue to rise as supply flattens

Average house prices have seen consistent upward pressure over the past year

Percentage Year-on-Year Change in Average Price by Month



Average house prices in Scotland have seen consistent upward movement over the past year, while transaction levels have reported a more mixed picture. At the start of 2019, average prices have remained relatively flat over the first three months, with transaction levels in Scotland up around 4% compared to Q1 2018.

Preliminary figures from LBTT returns suggest there may be a slowdown in activity at the higher end, which may reflect Brexit coming into sharper focus as 2019 progresses. While this is a trend worth monitoring, our direct market experience shows a continuing demand for property in core locations across Scotland's Central Belt, based on positive underlying economic factors and confidence radiating from Scotland's two largest cities.

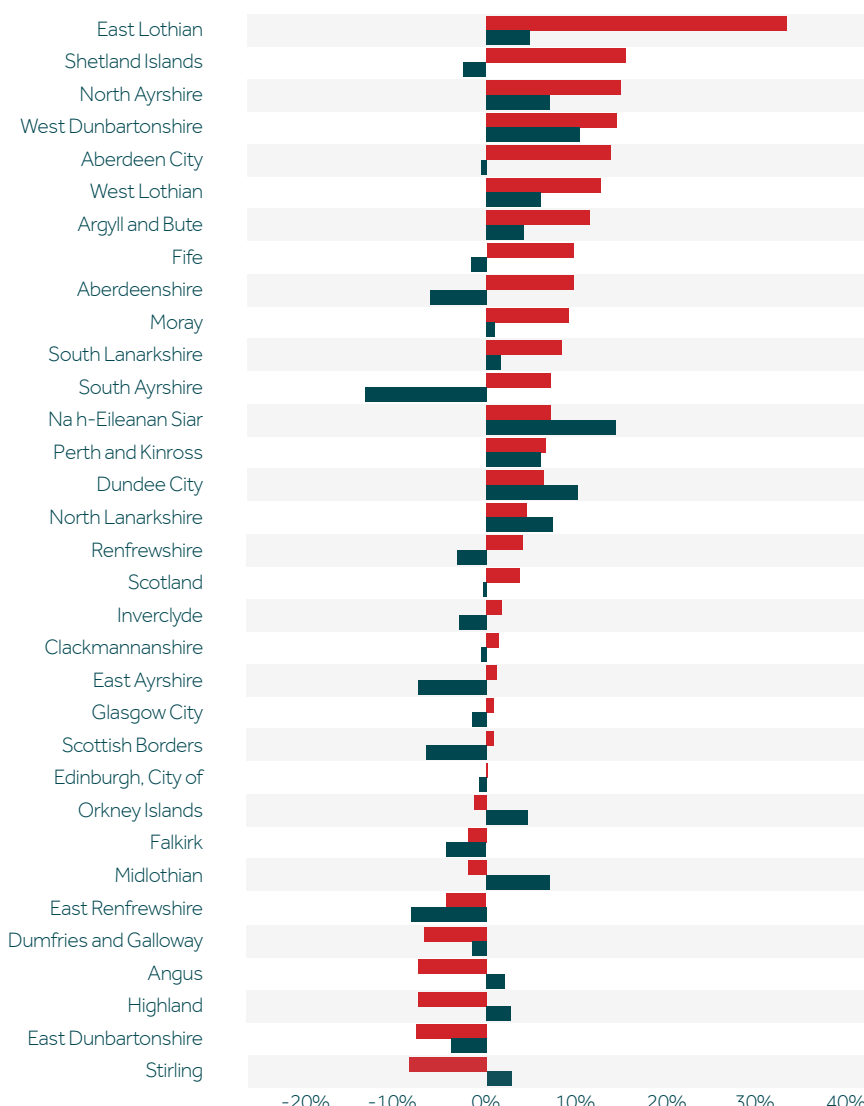
Constrained supply is supporting sales values

The Scottish market in 2018 saw a slight weakening in transaction activity, with the overall number of sales in 2018 down -2.3% compared to 2017. This decrease in activity contrasted with rising average house prices, which were up 3.7% in 2018. Outperforming the national average were Edinburgh (6.6%) and its commuter hinterland of Midlothian (8.7%), East Lothian (5.2%) and West Lothian (7.6%), which experienced strong house price growth, as did Glasgow (5.0%) and its key commuter suburbs of East Dunbartonshire (5.1%), West Dunbartonshire (7.3%) and North Lanarkshire (8.0%).

In Q1 2019, the trends have been for consolidation in the cities after the recent period of strong price and transaction growth from 2013 onwards. However, demand for affordable family housing, which is in limited supply within the major cities, has driven activity in the commuter hinterlands surrounding Edinburgh and Glasgow. In Q1 2019, East Lothian has seen the number of sales almost a third higher than in Q1 2018, with values up 4.7%. Other key commuter areas, such as West Dunbartonshire and West Lothian, have seen transaction levels in Q1 2019 up c.14% compared to Q1 2018; accompanied by positive price growth.

Moving forward in 2019, while political conditions may be cooling growth, for many housing need is driving their decisions and the market is remaining surprisingly positive despite the unknowns of Brexit.

Lower sales in the cities has pushed values upwards in the hinterland
 % Year-on-Year Change in Average Price & Transactions (Q1 2019 vs 2018)



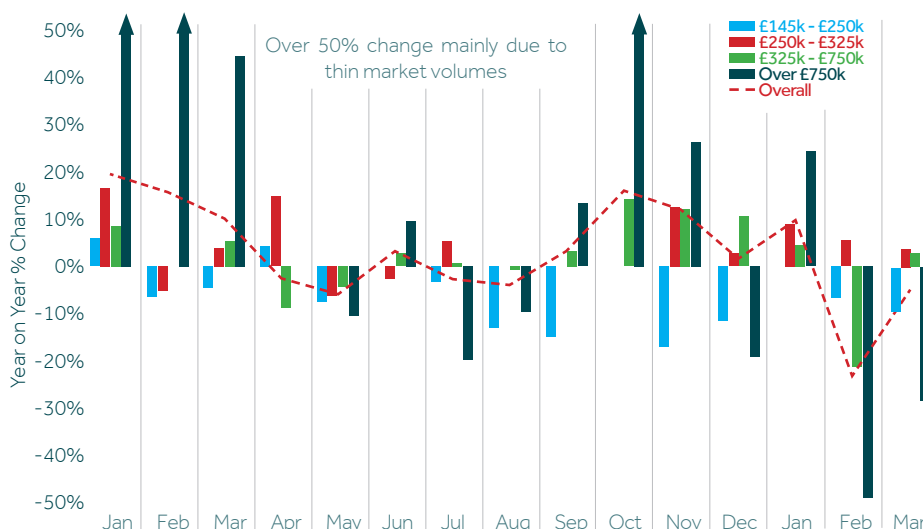
LBTT revenue up in January and down in February & March

LBTT returns from Revenue Scotland in Q1 2019 have shown that overall tax liabilities, excluding ADS, are down -5.8% compared to Q1 2018. This fall in liabilities is despite the number of LBTT returns received increasing by 5.8%. The fall in revenue is largely down to weakening returns in the price brackets above £325k. The Q1 2019 tax liabilities in the bracket between £325k and £750k were down 4% year-on-year, while liabilities in the bracket over £750k were -19% down.

Overall, this has meant that whilst there were 1,100 more transactions in Q1 2019 compared to the year previous, revenue is down by around £3m on the same period. With a weighting of revenue distributed towards higher value markets how this impacts Scottish Government figures will be a trend to watch in 2019.

Q1 has reported a year-on-year fall in LBTT revenues

LBTT revenue by price bracket, 2018/19



Source: Revenue Scotland



Stenton House
Perthshire
Guide Price £3,000,000
7 Beds, 4 Reception



127c Grange Loan
Edinburgh
Offers Over £950,000
4 Beds, 1 Reception



Braehead House
Scottish Borders
Offers Over £895,000
6 Beds, 5 Reception



Camstradden Drive East
Bearsden
Offers Over £895,000
5 Beds, 4 Reception



Western House
Berwick Upon Tweed
Offers Over £835,000
5 Beds, 3 Reception



The Old Windmill
Midlothian
Offers Over £685,000
4 Beds, 2 Reception



28 Westbourne Gardens
Hyndlands, Glasgow
Offers Over £550,000
4 Beds, 1 Reception



Inversnaid
Aberfoyle
Guide Price £375,000
7 Beds, 3 Reception



Craighouse
Edinburgh
Prices from £500,000
2 Beds to 5 Beds



The Playfair at Donaldson's
Edinburgh
Prices from £247,500
Studios & apartments



206 Nithdale Road
Pollokshields, Glasgow
Asking Price £395,000
4 Beds, 3 Reception



The Gallops
Kenmore near Aberfeldy
Offers Over £260,000
2 Beds, 1 Reception

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