



## Not the New Normal

As we emerge from lockdown restrictions and start to enjoy sharing a meal indoors with friends, visiting family members and perhaps dreaming of a foreign holiday, or at least a staycation somewhere in Scotland, the housing market remains the primary preoccupation for many households. From the market closure to sales boom, the housing market appears to many to have been in a fever since last summer, however, there is more than just delirium behind the rising prices and strong demand.

For many people, the compromises they have been making on locations and living space, for reasons of convenience and commutability, may now be increasingly unnecessary. Combine this with the fact the closure of the market built up demand, meaning that when transacting was allowed again there was a flood of activity. These factors have created a supply and demand

imbalance, with more demand for desirable house types and locations than there is supply in the market.

As 2021 has progressed, these conditions have created a highly competitive rising market, but despite all the fluctuations over the past 12 months, there has been a broadly similar value of property transacted when compared to the 12 months preceding the lockdown.



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## Key Findings

- 2021 has seen exceptional price growth, resulting in the average house price in Scotland in the past 12 months to Q1 2021 exceeding £200k for the first time on record.
- Supply in the market lags demand, with new applicants to Rettie & Co +40% up on pre-pandemic levels. New supply is only recently catching up with pre-pandemic levels.
- Mortgage lending has pointed to a strong recovery among home movers and first-time buyers from market lows in Q2 2020.
- Looking ahead, we expect 2021 to record strong price growth of around +8% before the market rebalances and cools in 2022.

# A Year Like No Other

In the 28 years since Rettie & Co. was founded, we have experienced multiple recessions, economic bubbles, a global financial crisis, Brexit, an independence referendum, and now we can add a pandemic. Without hyperbole, the past year has been a year like no other. For the market, this created the sharpest contraction then rebound in activity, generating some of the strongest demand in the past 30 years. This has been especially noticeable in many of the prime and popular markets in which Rettie & Co. operate. Whether it has been Edinburgh's New Town, the prime commuter belt of Glasgow, or our newly opened branch in St. Andrews, the level of enquiries and applicants' registrations have only been paralleled by the exceptional conditions before the global financial crisis, which was fuelled by a very different cocktail of excessive lending and speculation. Such factors are not prevalent this time, rather the rise in activity has been generated by equity and lifestyle aspiration.

So far this year, we have continued to see enquiry and demand well above pre-pandemic levels, while supply in many of the core markets lags. This is having the effect of increasing competition and, in turn, prices. Buyers with money saved over lockdown, look to either relocate from urban centres to rural idylls, or look to Scotland from down south to improve lifestyle. Rettie & Co. worked quickly at the start of lockdown to introduce

virtual meetings and virtual viewings, and these tools continue to provide buyers with access to the required information prior to deciding to view a property. Such measures have allowed us to maintain a high quality of service, maximising results for our clients, despite the often unusual conditions.

Looking ahead, we expect current conditions to persist through the Summer months, before potentially cooling as the market rebalances, the economy returns to normal and thoughts return to foreign holidays and family gatherings.

We hope you all stay safe in the meantime and find this market analysis useful and interesting.



Simon Rettie  
Managing Director

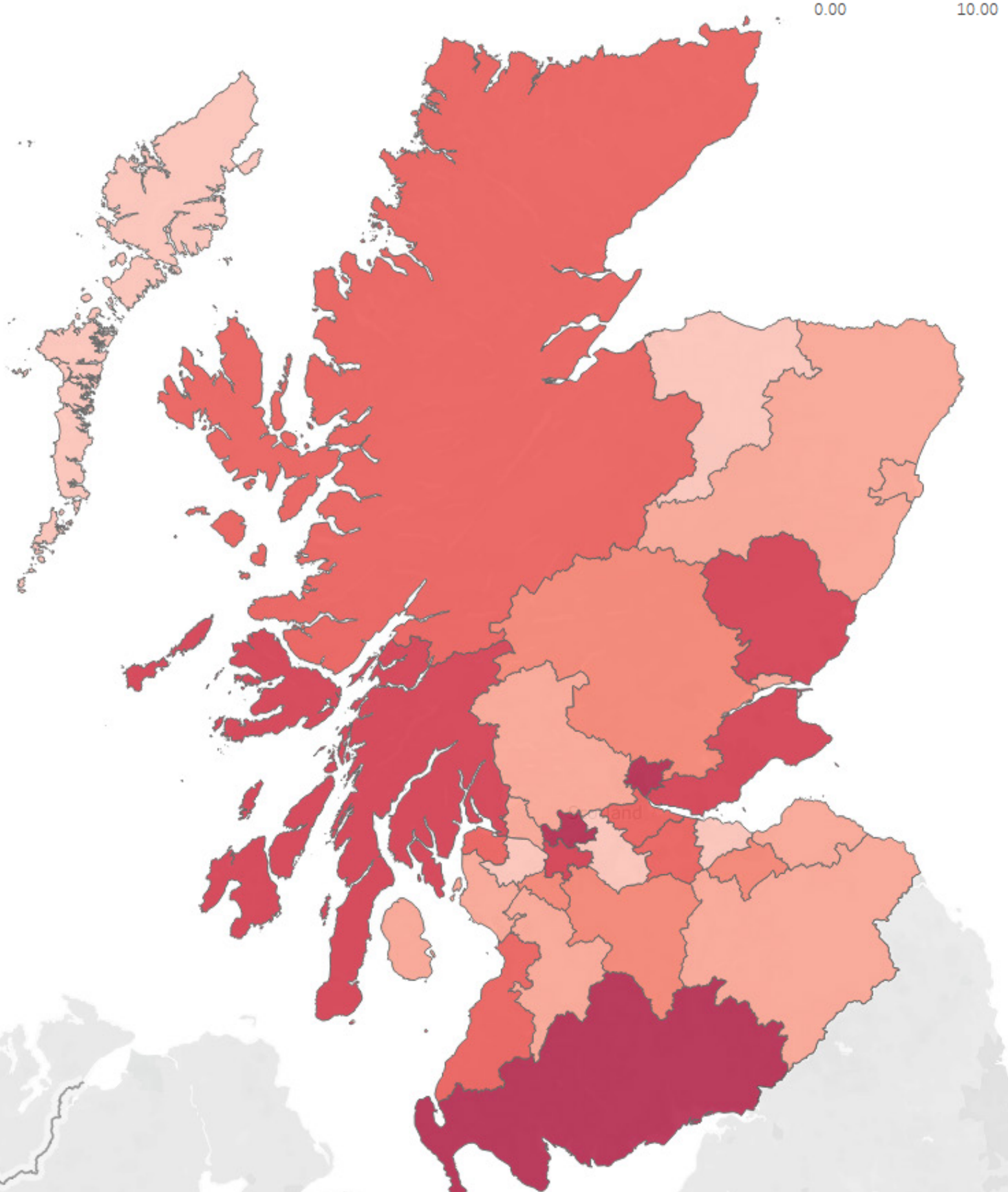
**Fig.1 The Scottish market has returned to pre-pandemic levels based on a 12 month rolling turnover**  
12 Month Rolling Total Value of Property Sold Year-on-Year Percentage Change



# Scottish Market - Percentage Change in Average House Price

12 Month Rolling Average House Price Year-on-Year % Change  
Year to Q1 2021 vs Year to Q1 2020

12 Month Rolling Average  
House Price  
Year on Year % Change



Northern  
Ireland

# A Market Revival

## Collapse & Recovery

The Scottish market has seen exceptionally strong price growth in the past 12 months, with the average house price now exceeding £200k for the first time on record after recording double digit annual price growth. Within the main cities, there has also been strong annual growth of around 7-8% in the past 12 months compared to the previous 12 months.

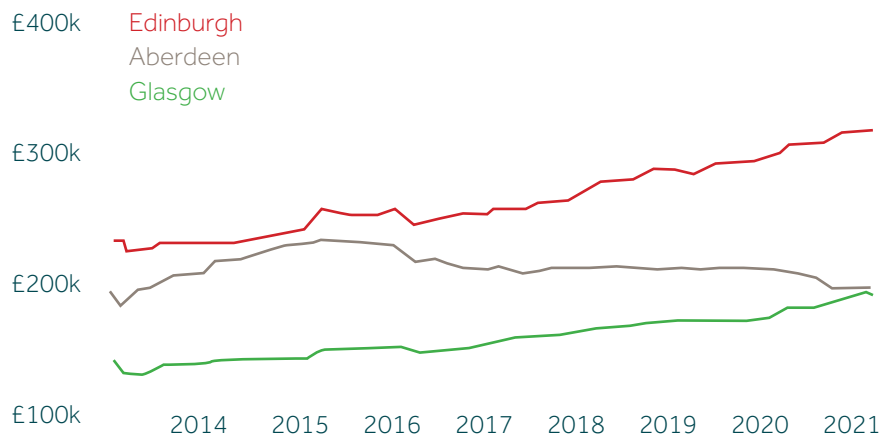
As we will detail later in this review, the strong price growth over this period has been contributed to by an imbalance between demand emerging in the market after lockdown, especially for properties with outdoor space and lifestyle amenity, and a lacklustre return of supply to the market, especially in areas of high demand. This constrained supply is manifested in the reduced number of transactions in the market compared to pre-lockdown levels.

Across Scotland, the past year (to year Q1 2021) from lockdown has seen -6.4% fewer sales than the year preceding lockdown. This compares to the -25% contraction in the year to Q3 2020, which was dominated by the Q2 restrictions. A large part of this narrowing in the transaction shortfall over the past year has been down to the exceptional levels of activity that were seen in Q4 2020 and Q1 2021. The market in Q4 2020 had +28% more activity than the same period in 2019, whilst Q1 2021 was up +55% year-on-year. Yet despite this strong recovery, demand continues to outstrip supply.

In Scotland's major cities, the picture has been more mixed. Aberdeen continues to see difficult market conditions, with average house prices over the past year down compared to pre-pandemic levels. By contrast, both Dundee and Glasgow have seen growth around 8% year-on-year. Transaction activity in both these cities has also rebounded faster than Aberdeen or Edinburgh, resulting in both Glasgow and Dundee recording positive increases in overall market turnover in the past year since lockdown, compared to the year before lockdown. Meanwhile, Edinburgh remains down in terms of transaction count (-11.1%) and market turnover (-5.8%), due in part to a lack of stock coming to the market in the city and the pull of locations within the commuter hinterland.

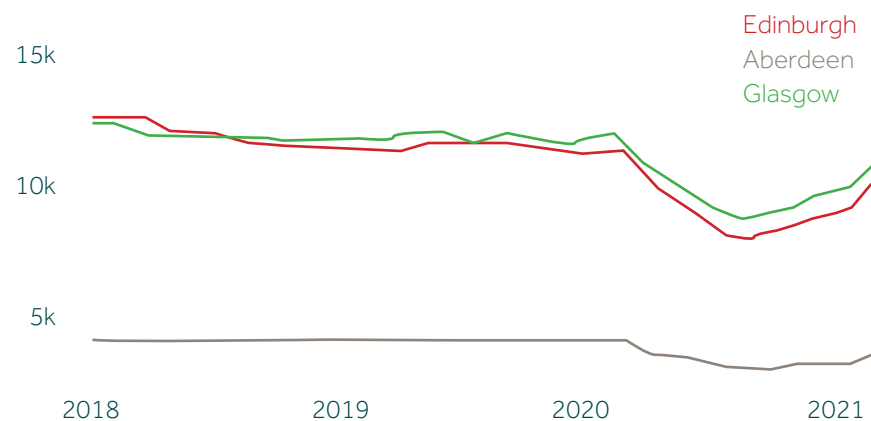
As we progress through the Summer months, we expect strong transaction activity to continue as restrictions ease further and the economy opens up. Without a significant change in supply within the market, the bullish conditions look set to continue in the short-term.

**Fig.2 Average house price growth has remained positive in the post-lockdown market**  
Average House Prices 2010-Q1 2021



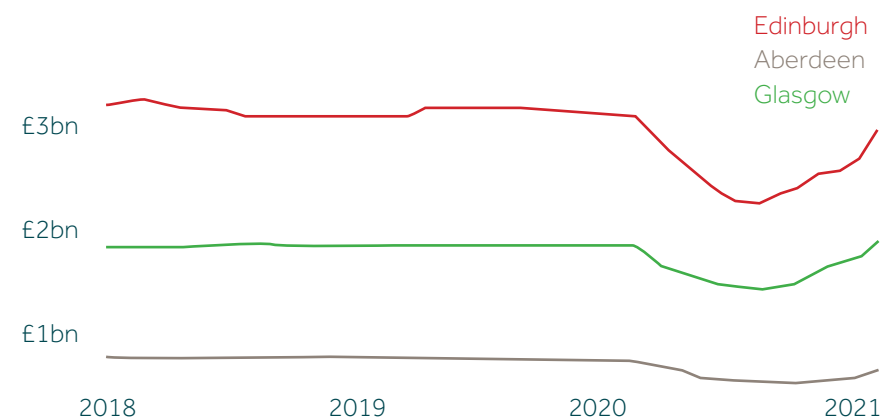
**Fig.3 Transactions remain below trend on an annualised basis**

Count of Transactions in Scotland by Month and Year



**Fig.4 Market activity recovered strongly from September 2020**

Year on Year % Change in Total Value of Property Sold in Scotland



Source: Registers of Scotland

# Supply & Demand

## An Unbalanced Market

The past year saw the taps of housing supply switched off by lockdown restrictions, however, rather than dampen demand, the pandemic fostered a re-evaluation of living priorities and, for fortunate households, a period of enforced saving. The net result has been the building up of pressure and demand during lockdown, which has now sustained one of the most buoyant periods of market activity since before the global financial crisis. Anecdotally, many agents with 20 to 30 years of experience cannot remember a time with so much demand in the market. This anecdotal evidence is supported by statistics.

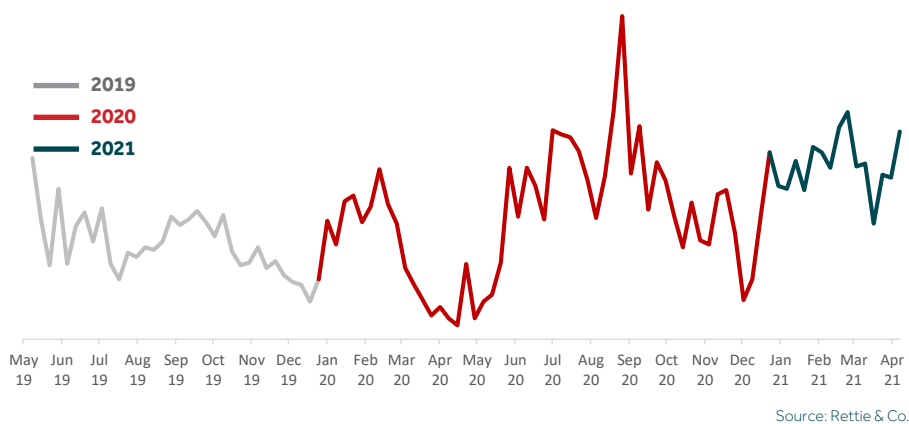
Using the Capital as a case study, with its a diversified market comprising dense flatted areas and suburban family markets, the disparity between supply and demand since lockdown is evident. In Figure 5, the number of new applicants registering for Edinburgh homes with Rettie & Co. is shown. From this, it is possible to see the seasonal patterns preceding the lockdown and the low level of new applicants that resulted from the restrictions. However, what is clearly visible is the rebound and weight of new applicants registering once restrictions were lifted, and how this persisted at higher than pre-lockdown levels through 2020 and in to 2021.

Contrasting with the high demand that entered the market once restrictions were lifted has been subdued supply. Figure 6 shows that the number of new listings coming to the market in Edinburgh before the pandemic were lower than the previous year. Following the lockdown, there was an increase in supply as backlog of supply that would have come to the market during the busy Spring period was finally launched. As this backlog of supply eased new supply has settled back to more seasonal levels.

When these two indicators are combined, we can more clearly see this contrast (see Figure 7). Using a 12-month rolling total of new applicants and new supply indexed to the 12 months preceding the pandemic, then this contrast is starkly shown within the Edinburgh market. While the pandemic initially subdued demand, by July new applicants in the previous 12 months were already higher than they had been pre-pandemic. This has continued to rise, meaning that in the year to April 2021, applicant levels were 47% higher than the 12 months before the first lockdown. By contrast, analysis of all properties listed in the Edinburgh market, shows that it has taken a year for supply within the market to recover to pre-pandemic levels, let alone keep pace with increased demand. This fundamental imbalance has been the cause of rising prices in the market over the past year.

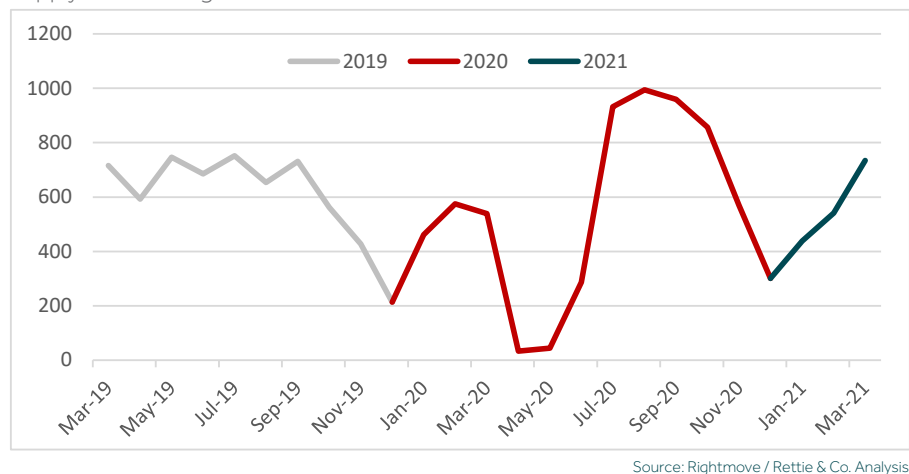
**Fig.5 Enquires have been above pre-pandemic levels**

Demand: New Rettie & Co. Applicant Registrations in Edinburgh



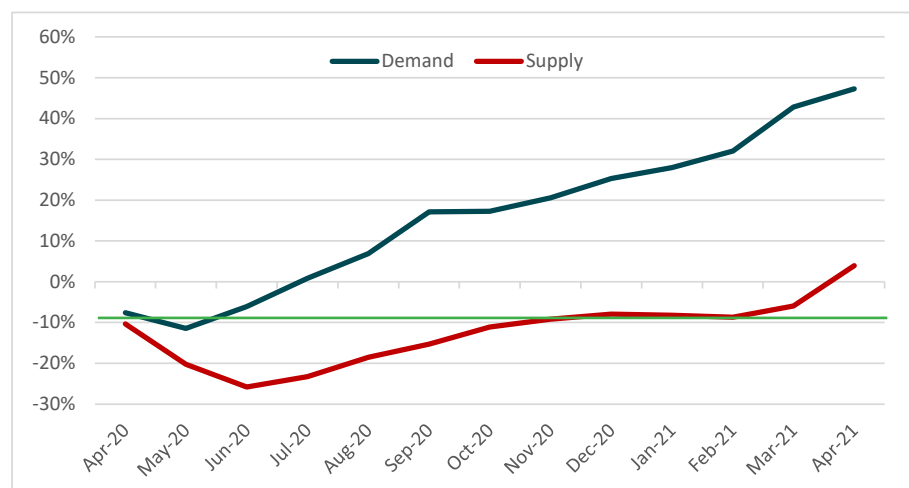
**Fig.6 Supply in the market has been subdued since the pandemic**

Supply: New Listings on the Scottish Market



**Fig.7 Demand has easily outstripped supply within the market leading to price pressures**

12 Month Rolling Count of Rettie & Co. New Applicants vs All New Listings (All Agents) Indexed to the 12 Months preceding lockdown (Edinburgh)



# Market Composition

## Sharpest contraction in lowest value properties

A key issue over the past year has been the availability of the stock to meet the wave of demand that re-entered the market after lockdown restrictions were lifted. Based on the number of properties listed on the major portals in 2020, there was a -13% decrease in stock brought to the market compared to 2019. This drop in supply has been a key factor in driving up prices.

Looking at the composition of homes coming to the market reveals much about the impact of the pandemic on different locations and buyer segments across Scotland. In 2020, the number of apartments that came to the market was down -11% on 2019 levels. The in-demand family market, popular with buyers looking to gain more space, saw the number of homes -14% lower than in 2019. Of the different property types, detached homes saw the greatest year-on-year decline in supply, down -16%.

Areas which have a higher concentration of family housing, have seen the greatest fall in supply. This includes the likes of Midlothian, East Lothian and West Dunbartonshire. In contrast, the major dense urban settlements of Edinburgh and Glasgow had a lower drop in supply than more suburban and rural council areas at -9% and -10% respectively.

Perhaps most notable in terms of supply, has been the difference across price brackets. The largest contraction in supply was in the volume market under £250k, which contracted -16%. Moving up the price range, the £250k to £500k band contracted by just -2% year-on-year. At the higher end of the prime and family market, between £500k and £750k, there was a 6% increase year-on-year, while the £750k to £1m market saw 60+ more sales in 2020 vs 2019, equating to a +19% increase. This reflects the fact that more discretionary, higher equity and more financially secure households were empowered to move over the past year.

Fig.8 Lower value properties saw the largest contraction in supply

Count of Listings in Scotland by Year and Price Bracket

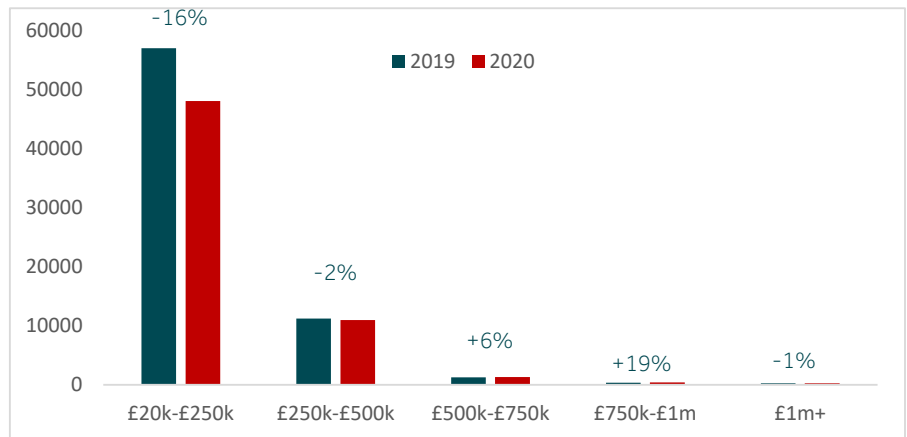


Fig.9 Detached family homes have seen the largest market contraction

Count of Listings in Scotland and YoY % Change

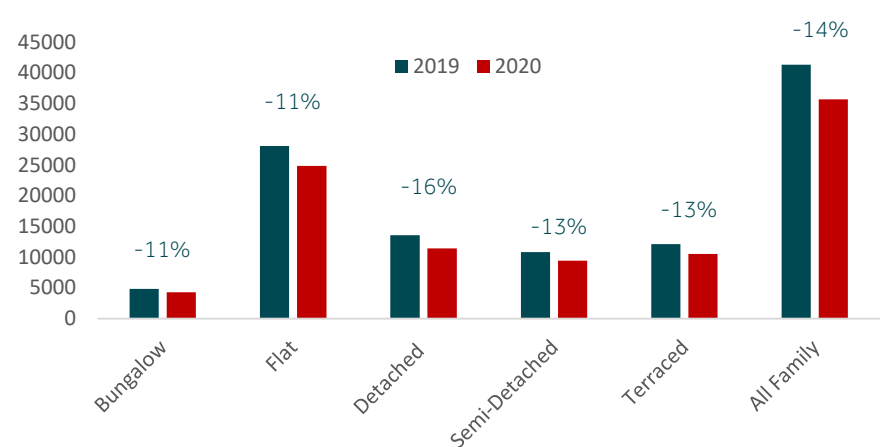
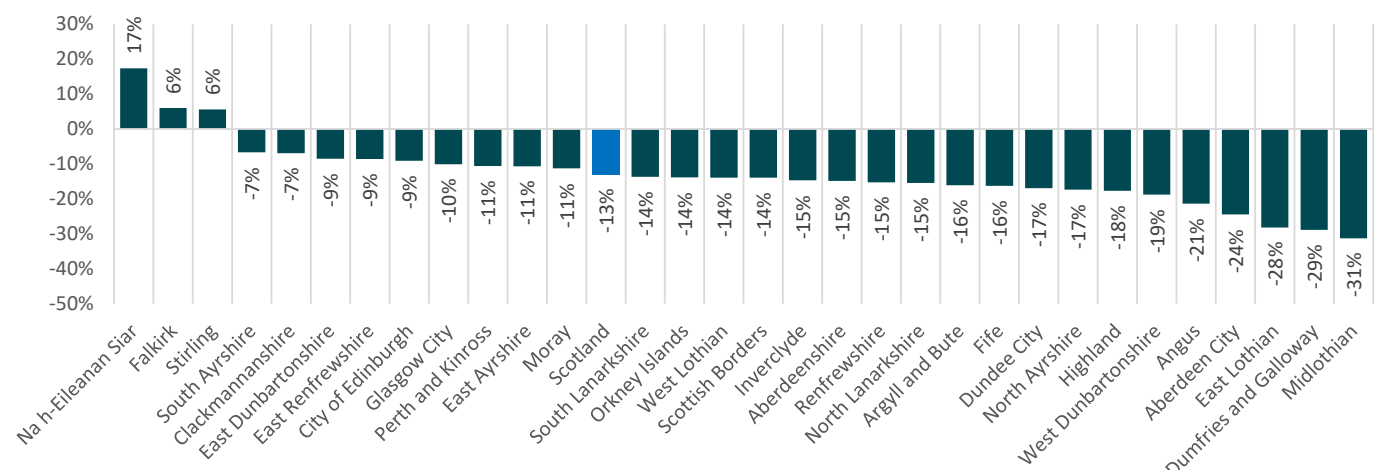


Fig.10 Supply has been most constrained in popular family markets such as Midlothian, East Lothian & West Dunbartonshire

Year on Year % Change in Listing by Council Area 2020 vs 2019



# LBTT Revenue

## Revenue skewed to higher values

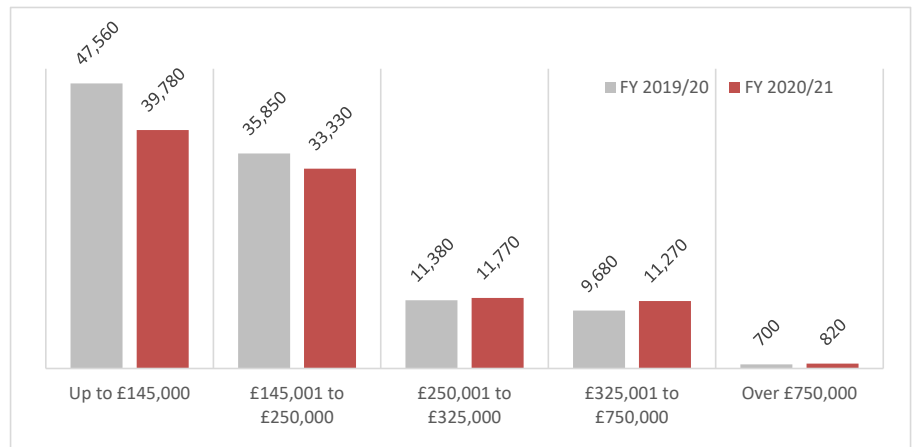
The patterns seen in the sales market in the financial year 2020/21, combined with the Land & Buildings Transaction Tax (LBTT) holiday, has implications for revenue generated. The number of LBTT returns received in FY2020/21 were down -8% overall for the year compared to FY2019/20. However, the distribution of returns paints a variable picture of market operation at different price brackets. LBTT returns for transactions under £145k in FY2020/21 were down -16%, twice the fall of the wider market. Also down were sales in the £145k to £250k bracket which contracted -7% year-on-year. This saw the contraction of all LBTT returns under £250k by -12%, despite the LBTT holiday, which allowed a nil return up to £250k. By contrast, the market over £250k saw a +10% increase in LBTT returns, with sales between £325k and £750k, and over £750k, up +16% and +17% respectively. This contrasting pattern at different price bands points to the different impacts of the pandemic across society by life stage and income.

In terms of revenue, the LBTT holiday reduced income from transactions under £250k in FY 2020/21 by -86%, from £28m the year before to £3.8m. There was also a fall in revenue in the £250k to £325k, despite the strong recovery in transactions in late Q3 and Q4 2020/21. A comforting fact for the Scottish Government was the increase in higher value transactions, which has gone some way to filling the deficit created by market contraction and the LBTT holiday. LBTT revenue from transactions over £325k increased by +6% in FY 2020/21, meaning the overall LBTT revenue was down -10% from £287m to £257m. The combination of these patterns meant that sales over £750k contributed over a quarter of all LBTT revenue, up from c.21% the year before, and the contribution of sales over £325k rose from 76% in FY2019/20 to 90% in FY2020/21.

For the Scottish Government, the strong performance of higher LBTT bands will have been welcome, however, with 90% of revenue coming from the £325k+ bracket, which accounts for 12% of sales, this concentration further exposes revenue to any fluctuations in this part of the market.

**Fig.11 LBTT receipts fell -8% overall in FY 2020/21 vs FY 2019/20**

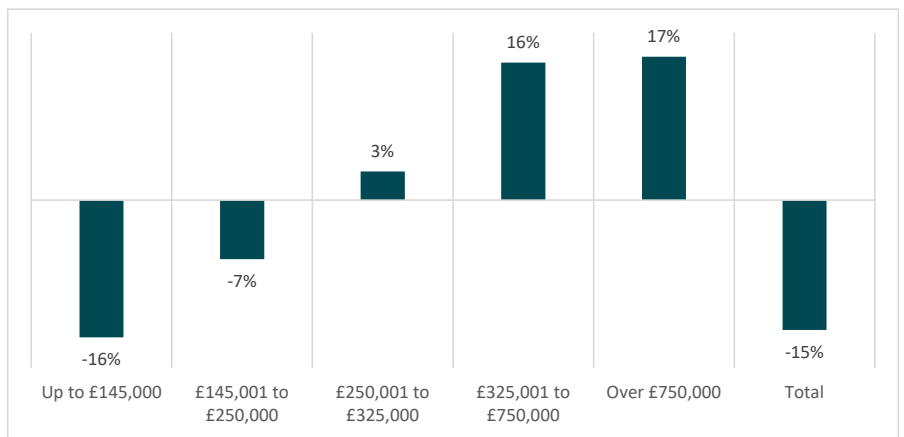
Count of Residential LBTT Returns by Price Bracket to September by Year



Source: Revenue Scotland

**Fig.12 Higher value market segments saw an upturn in activity**

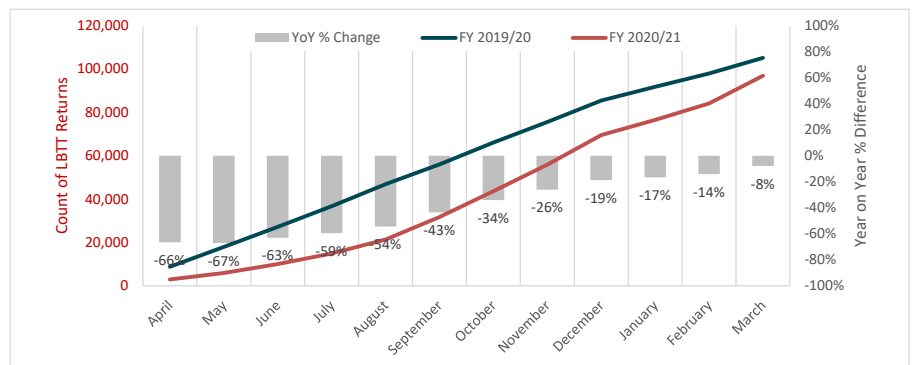
LBTT Returns Year on Year % Change by Financial Year 2020/21 vs 2019/20



Source: Revenue Scotland

**Fig.13 The gap in LBTT revenue narrowed towards the end of the FY.**

Cumulative Residential LBTT Revenue exc. ADS by Month and Year



# Lending Landscape

## Rising mortgage approvals fuel activity

A core driver of the housing market is lending, as this determines buyers' financial reach and affordability, as well as the cost of homeownership relative to other tenures. From the double-digit interest rates of the 1970s to 1980s, through to our current historically low interest rate environment, mortgage lending has been critical and this has remained the case in the past 12 months.

Over 2020, the number of 95% loan to value mortgage products, popular with first time buyers (FTB), plummeted to single figures. At the same time, the cost of borrowing at higher LTVs also increased dramatically. Combined, this higher cost and lower availability with

the job and economic insecurity felt by many younger households during the pandemic and the contraction in urban and first or second mover homes can be understood. Conversely, more established households with built up equity and saving money during lockdown have taken the opportunity to move.

The total value of mortgage lending shows that, in Q2 2020, both FTB and home purchase lending fell to their lowest levels since 2013. Post lockdown, there has been a resurgence with the value of lending to FTBs and home movers reaching their highest level since 2007, while re-mortgage lending is at its lowest level in 5 years.

This year, the Government's backing of 95% LTV lending has seen an increase in high LTV products in the market. So far in 2021, there are now over 100 high LTV products available, however, only around 40 or so are actually using the Government Scheme suggesting there is broader confidence in lending.

The combination of these additional products and strong market conditions look set to support greater market engagement across price bands, rather than the concentrating activity in higher value or more mature life stages.

Fig.14 In September 2020 mortgage approvals hit their highest quarterly level since 2007

UK Mortgage Approvals for House Purchase and Remortgage 2006 to 2020

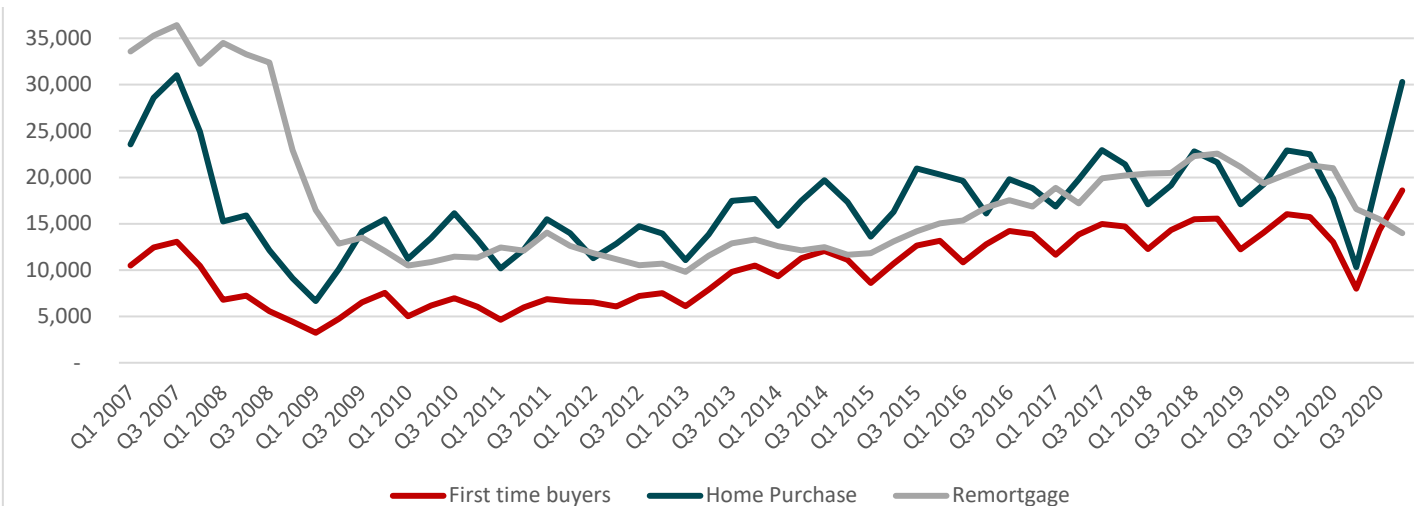
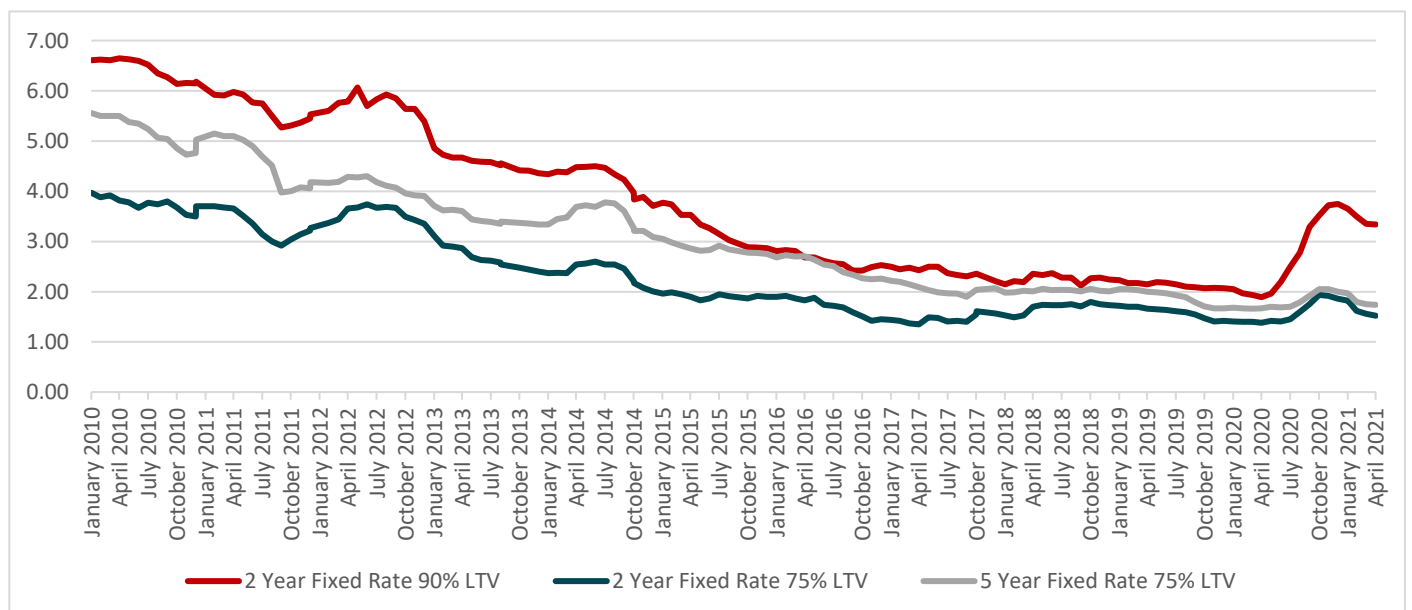


Fig.15 Mortgage rates have dropped back having risen during the pandemic

Mortgage Rates by Type from Jan 2010 to April 2021



Source: Bank of England



# New Homes Market

## Filling the gap

The new homes market in Scotland has seen strong price growth over the past year, with the average price in 2020 reaching £260,000, up 2% on 2019.

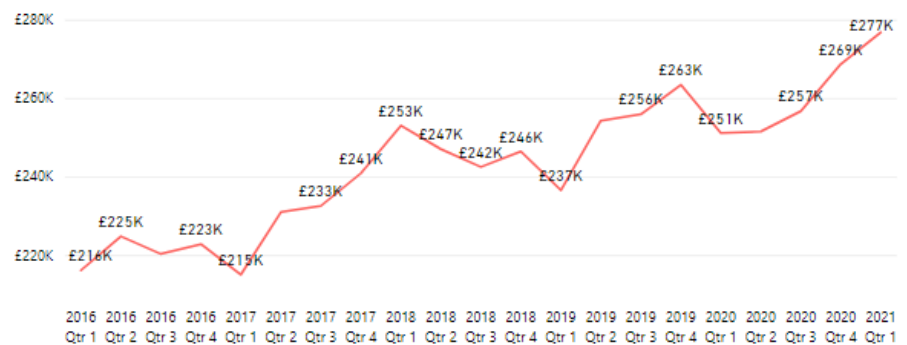
In Q1 2021, the average new build price was at a new high of £277,000, up 10% on Q1 2020.

The number of new homes sold in 2020 was down -23% year-on-year, as lockdown restrictions closed sales cabins and prevented site visits.

So far in 2021, the new homes market has seen a strong up turn, with the number of sales up by a third compared to Q1 2020.

Part of the driving factor behind this upturn in the sector has been demand for family housing and relatively constrained supply available in the second-hand market.

**Fig.16 The average new home price in Scotland was £260k**  
Average New Build House Price by Quarter



**£260,000**

Average New Build House Price 2020

**£241/sqft**

Average New Build House Price Per Square Foot

**1,259sqft**

Average New Build Property Size

Source: Rettie & Co. Property Tracking System / Registers of Scotland

## Scottish Average House Price Forecast

### Prices expected to resume an upward trend

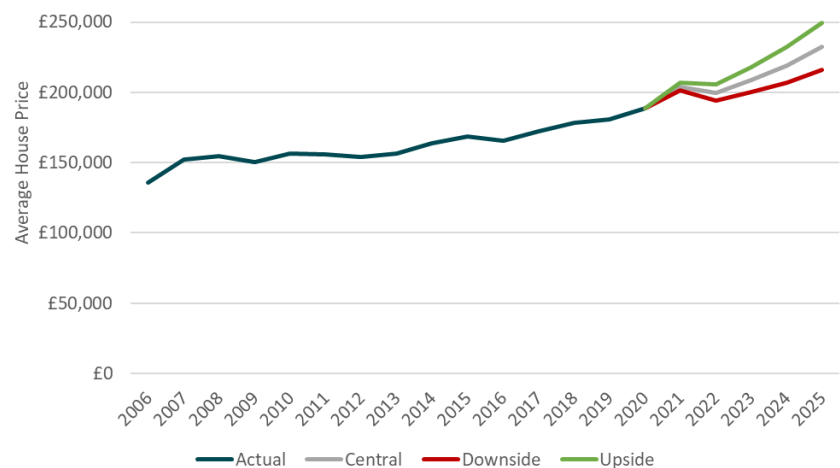
In March 2021, double digit annual price growth saw the average house price in Scotland exceed £200,000 for the first time. Against this backdrop, we expect strong positive growth for the rest of the year as we emerge from the pandemic before a cooling in 2022. Our central forecast for 2021 is +8% price growth in Scotland. This level of price growth will be the highest on record since 2007.

Over the next 5 years, we forecast a 23% increase in the average house price as the initial pandemic price growth cools and returns to longer term trends. This pattern of five-year growth is higher than the previous five years, which have been around 11%.

Looking ahead, there remain many challenges in the market, including the shape of post Covid-19 recovery, the adjustment to Brexit and political and constitutional issues. This makes forecasting a difficult art and we will need to maintain a close eye on the key market drivers going forward.

**Fig.17 Prices are forecast to rise by 23% over the next 5 years**

Rettie & Co. Scottish House Price Forecast



Source: Rettie & Co.

**“Over the next 5 years, we expect house prices to rise by around 23% as the market rebounds from Covid-19.”**



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## Consultancy & Research

Our Consultancy & Research team provides a broad range of services to both private and public sector clients. Covering all parts of the Scottish residential market, the team provides clients with in-depth, reliable and up-to-date information that enables evidence-based decision making.



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## Structured Finance & Development Services

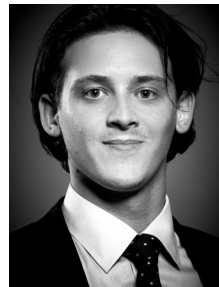
Our Structured Finance team provides innovative funding solutions for both private and public sector developments. We are expert in all project stages including: initial financial modelling; JV/contract structuring; sourcing and securing short- or long-term funding; legal negotiations; public sector procurement; and asset management and rental.



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## New Homes

Our New Homes Sales and Marketing Team are market leaders, responsible for selling approximately £96m of new build property over the last 12 months. The team are currently sole agent on 21 developments, totalling 644 properties, providing exceptional levels of service across Scotland in all aspects of sales and marketing, from campaign set-ups through to property handovers.



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## Land & Development

Our Land & Development team advises on land and property development projects, on residential investments and Build to Rent. We cover residential, non-residential and mixed-use development sites and advise on every stage of the project cycle, from early appraisals and funding through to site disposals.



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