

Scottish Residential Sales Market Briefing

Summer / Autumn 2022



The Causeway, Edinburgh

An Unexpectedly Strong Two Years

There has been a lot to process in the Scottish housing market over the past two years. Just as no-one expected the Spanish Inquisition, so nobody expected a global pandemic that would fundamentally change the way so many people worked, shopped and aspired to live their lives.

As we have discovered, the events of the past two years have not only had the short-term impact of igniting the most active period in the Scottish housing market since the years preceding the Global Financial Crisis (GFC) but have also led to fundamental and lasting changes in the market.



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Key Findings

The average house price in Scotland in 2022 is now over £200,000, having risen 13% since 2019. The strongest growth in activity, from pre-pandemic in 2019 to the post-lockdown market in 2021/22, has been outside the major urban centres in rural areas, such as Aberdeenshire (38%), the Scottish Borders (24%) and Perth & Kinross (22%).

The growth in the average price of a detached house from 2019 to 2022 has been highest in rural and hinterland locations such as Argyll & Bute (30%), Dumfries & Galloway (27%), East Lothian (24%), East Renfrewshire (30%), West Dunbartonshire (27%), the Scottish Borders (39%) and Inverclyde (44%).

The Rettie & Co. Demand/Supply Index continues to show a gap between demand being registered by buyers and the available supply coming to the market. Demand is currently up 60% on pre-pandemic levels compared to supply at 25%. This imbalance has underpinned house price growth.

WFH Boosts Rural Areas

The rise in Working from Home (WFH) and increased demand for lifestyle and out-of-town living has led to pronounced changes in the structure of the housing market since 2019. Compared to other parts of the UK, home working in Scotland has been more keenly embraced, where it increased by over 200% during the pandemic. There can be no doubt that lifestyle living in Scotland has particular allure, whether it be the beaches of East Lothian, or the hills and lochs of Perthshire – and demand in these locations has been reflected in the uplift in prices.

In 2021, the Scottish market saw 13% more sales than in 2019. However, the greatest growth in activity was not Edinburgh (15%) or Glasgow (14%), but rather in the likes of Aberdeenshire (38%), the Scottish Borders (24%) and Perth & Kinross (22%).

Recent population estimates for mid-2021 have also demonstrated this shift, while the overall population of

Scotland increased in the past year, the population in the main cities has dropped back following the pandemic. Conversely, the highest population increases were in the Lothians, Perth & Kinross and the Highlands.

The average house price in Scotland in 2022 is over £200,000, having risen 13% from 2019. Outperforming the average growth over this period have been areas such as the Scottish Borders, West Lothian, Dumfries & Galloway, as well as parts of Ayrshire, which have all seen growth of over 20%.

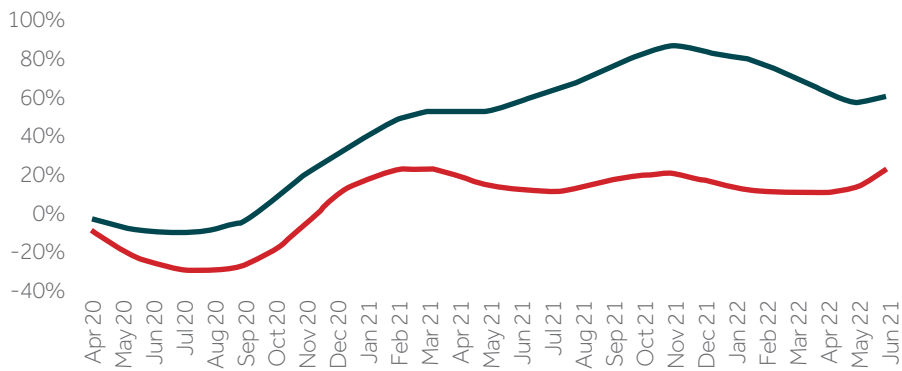
Detached homes have particularly accelerated in price, especially in more rural lifestyle locations such as Argyll & Bute (30%), Dumfries & Galloway (27%), East Lothian (24%), East Renfrewshire (30%) and West Dunbartonshire (27%). There has been particularly pronounced growth in the price of these homes in Inverclyde (44%) and the Scottish Borders (39%).

Much of this growth has been driven by increased demand competing for the limited supply of desirable homes that have come to the market.

The imbalance between supply and demand can be examined in the Rettie & Co. Demand/Supply Index. This index tracks new applicants registering to buy with us (proxy of Demand) against new stock being listed across the whole market (proxy of Supply). Taking Edinburgh as an example, in the six months to November 2021, our demand levels peaked at almost 90% higher than in the six months leading up to the pandemic, while supply in the market was only up c.20%. In the past six months, this measure has retreated with demand running at 60% above pre-pandemic levels, while supply is around 25% higher. While the gap between supply and demand remains, it has been narrowing over the course of 2022. This has been a factor in price growth levelling off from the end of 2021.

Demand Outstrips Supply

New Rettie & Co. Applicants vs All New Listing in Edinburgh Market (100=March 2020)



+61%
Edinburgh Demand

+24%
Edinburgh Supply

Source: Rettie & Co. / Rightmove

Detached homes command a clear premium

Average House Price by Type H1 2022



	Detached	Semi-Detached	Terraced	Apartment
Scotland	£315K	£202K	£171K	£151K
Edinburgh	£515K	£361K	£344K	£266K
Glasgow	£324K	£223K	£211K	£167K

Source: Registers of Scotland

Outlook Remains Positive (For Now)

Given some of the challenges facing the market, as well as some alarmist press coverage, you could be forgiven for thinking the market outlook was fairly negative. However, this is not necessarily the case and, as always, the specifics of a local market can be different to national averages and forecasts of market collapse.

While market indicators might be reporting contraction due to economic headwinds and rising mortgage rates, this movement is largely back towards base levels from a high point created by exceptional global circumstances. Comparison is more usefully made within the longer market cycle, rather than the past two exceptional years. This said, some commentators are drawing parallels between the strong double digit price growth in the run-up to the 2008 housing market downturn and current market trends.

A first key difference between then and now is that while interest rates and the cost of borrowing are rising, it remains at historically low levels. In the mid-1990s rates were over 8% and, in the run up to the financial crisis, they were over 5%. Tighter regulation of the mortgage

market, although now being relaxed, has removed many of the egregious lending practices that led up to the 2008 crisis. There are also currently low levels of unemployment, with a labour shortage in the UK being a growing problem. The most recent unemployment figures for Scotland are c.3.5%, below the 4-6% range typical of the early 2000s. Unemployment is a key bellwether (as is lending) because rising levels of unemployment would lead to distressed sales and falling house prices. However, a sharp rise in unemployment is not expected.

An additional factor that is supporting the housing market is the imbalance between demand and supply. As demand has surged, supply has struggled to keep up. The number of transactions in Scotland in 2021 was 117,000. However, this was exceptional compared with the period in the run-up to the pandemic, when it typically averaged just over 100,000 a year. In the years before the GFC, such transactions were over 150,000 a year. In the past decade, house building in Scotland has been below historical levels, with the average completion rate running at just over 17,000 units per annum.

In the decade up to the GFC, completions were nearly 24,000 per annum. A recent study by Homes for Scotland has suggested completions in Scotland need to rise to 25,000 per annum to meet demand. Until available supply of new build and second-hand homes across all tenures increases, there is likely to be a shortfall in the market and this will support values, especially if lending remains relatively affordable and unemployment is contained.

Based on market evidence and the underlying fundamentals of the market, Rettie & Co. have produced a slightly revised forecast for Scottish average house prices over the next five years. On our central forecast - which assumes a reversion of market activity to a pre-pandemic trend and a continuation of current supply rates - the average house price growth is forecast to slow in 2022 but still record a positive increase by the end of the year. Growth in 2023 is also forecast to be slower than recent years as the market moderates. Growth of 2.5% to 3.5% over the following years to 2026/27 is expected as the economy recovers and the demand/supply imbalance in the market reasserts itself.

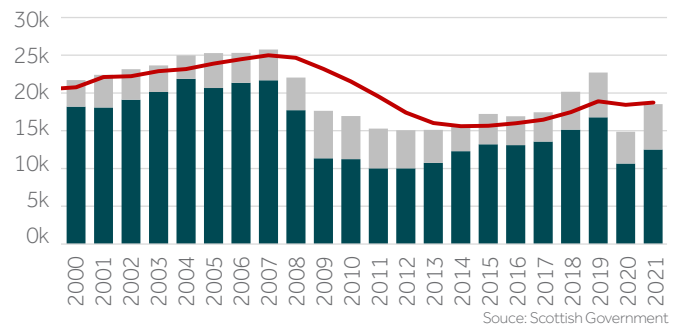
Lending rates are starting to rise

Average 2-Year Fixed Rate at 75% LTV to June 2022

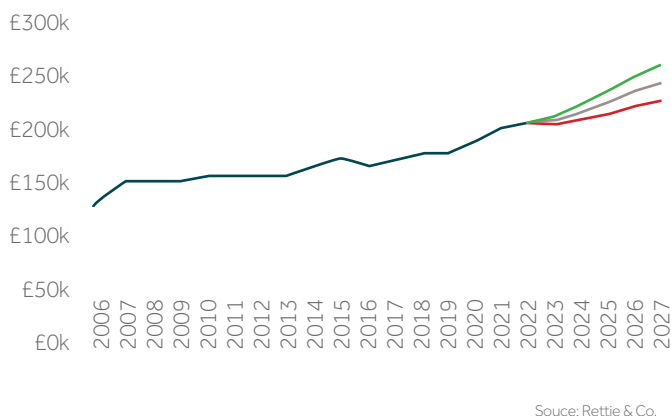


New home completions are low

Scottish Housing Completions and 5-Year Average



Rettie & Co. Scottish House Price Forecast



"After a period of unprecedented market activity and demand, we expect the market to moderate but maintain positive price growth due to underlying fundamentals constrained supply and a still historically low lending environment."

-Dr. John Boyle
Director of Research & Strategy

Year	Downside	Central	Upside
2022	1.0%	2.5%	4.0%
2023	-1.0%	1.0%	3.0%
2024	2.0%	3.5%	5.0%
2025	2.5%	4.0%	5.5%
2026	2.5%	4.0%	5.5%
2027	2.0%	3.5%	5.0%

Properties for Sale



Woodhall Road,
Edinburgh, EH13
Offers over £2,950,000
6 Bedrooms



Hillview House
Montrose, DD10
Offers over £1,250,000
6 Bedrooms



Cowgate,
Edinburgh, EH1
Offers Over £3,000,000
Prime Mixed-use Redevelopment



Monreith Road,
Newlands, Glasgow
Offers Over £675,000
4 Bedrooms



Osborne Crescent,
Thorntonhall, G74
Offers over £1,175,000
5 Bedrooms



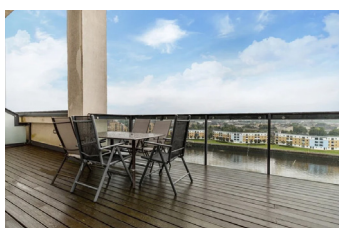
Park Quadrant
Glasgow, G3
Offers over £530,000
3 Bedrooms



Holyrood Cottage,
Bowden, Melrose, TD6
Offers Over £300,000
5 Bedrooms



Coronation Way,
Bearsden, G61
Offers Over £485,000
4 Bedrooms



Lancefield Quay
Finnieston, G3
Offers Over £350,000
3 Bed Penthouse



The Old Parsonage,
Dalkeith, EH22
Offers over £1,235,000
7 Bedrooms



Playfair Terrace,
St. Andrews, KT16
Offers over £650,000
4 Bedrooms



Water of Leith
Edinburgh, EH14
25 Properties
Eco-friendly living

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