



A Building Market

"Demand always comes on the heels of supply", or so said Robert Collier, the 19th century American author. This is a hopeful thought for many buyers who are keen to buy, but currently being frustrated by a lack of supply. This lack of supply is having a notable impact on prices in desirable areas, where scarcity, combined with the high demand, is creating a highly competitive environment at closing dates.

This trend began in the summer of last year, when sales in the desirable family markets and prime market, which had been subdued since the introduction of LBTT, came back to life to

record their highest level of trading in a decade. This spike in demand has continued into 2018, but available stock coming to the market remains low. Nationally, stock levels at the start of 2018 are down up to a third in the most popular sub-markets. It is this trend that is creating a sellers' market in traditionally desirable locations.



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Associate Director

Key Findings

- Average house prices in Edinburgh rose over 6% in 2017 as a whole, with prices in Glasgow rising almost 8%. Rettie & Co. forecast continued growth of 19% over the next 5 years in the Scottish market.
- High demand and low supply in Scotland's major cities is driving house price growth in the urban centres, creating a competitive market environment for buyers.
- Demand is spilling out from the cities into the commuter hinterland, where new build development is absorbing demand.
- There was a sharp increase in prime market activity in the second half of 2017, leading to a rise of more than £22m in LBTT revenue compared to a year earlier.
- Rental demand remains strong in the city centres, which will likely support continued rental growth.
- Undersupply is supporting a buoyant start to 2018, however, Brexit looms on the horizon, which may cool confidence later in the year.

Metropolis

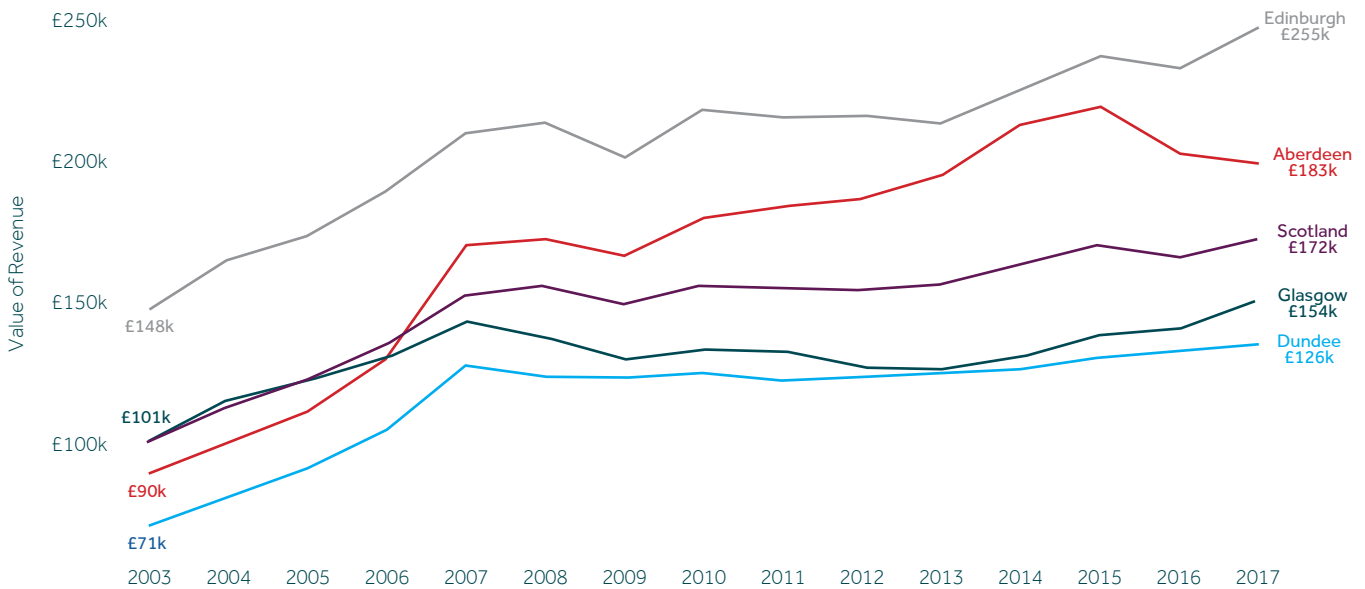
- Scotland's two largest cities are driving house price growth within their economic hinterland.
- Glasgow (7.8%) saw stronger price growth than Edinburgh (6.5%) in 2017 as low supply drove their markets.
- Aberdeen saw the slide in values slow, with 2017 values only down -1.2% and on parity with 2013 levels in the city.

House prices in Scotland's two largest cities continued to rise last year as demand returned in the second half of the year to an under-supplied market. Edinburgh saw average house prices rise 6.5% on the previous year, whilst Glasgow experienced a 7.8% increase. Both these cities outperformed the 4% increase in the national average house price. Dundee continued to see positive growth of 2.4% year-on-year as the city continues to reinvent itself as a dynamic, entrepreneurial and creative centre for Scotland. Ongoing Riverside development and the emergence of the V&A is creating a buzz within the

city for occupants and investors alike. The Aberdeen market has shown signs of stabilisation, with a -1.2% fall in average price, which was considerably less than the -7.7% fall the previous year. The positive story in this market place is the slight 1.0% increase in activity. This stabilisation in house prices sees the average price in Aberdeen now above 2013 prices. While the market fall from 2015 was acute, it's worth acknowledging that, over the past decade, the Aberdeen average house price has still risen by 16.6%, only 1% behind Edinburgh.

2017 witnessed a strong upturn in sales over £325k leading to rising overall prices

Percentage Year-on-Year Change in Average Price & Sales Number



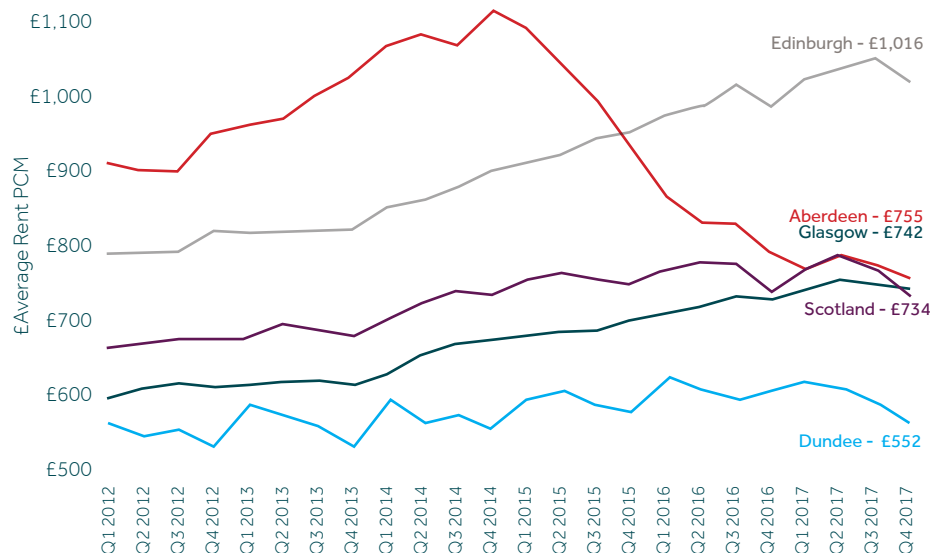
The Rental Market

Despite seasonal declines in average rents in Q4 2017, the rental market remains buoyant as demand for rental tenure remains strong. With a less pronounced seasonal slowdown, the average rent in Glasgow in Q4 2017 overtook the national average for the first time. The combination of falling rents in Edinburgh and Aberdeen are likely to have been the driver for this change, but there can be no doubt that increasing demand within Glasgow City Centre and the West End is driving Glasgow's average rental growth.

Low supply coming to the market in early 2018 is likely to support continued excess rental demand and price increases over 2018.

Strong demand has accelerated rental growth in most of Scotland

Average Rents in Scotland's Major Cities 2012-2017



Demand spilling out into the regional markets

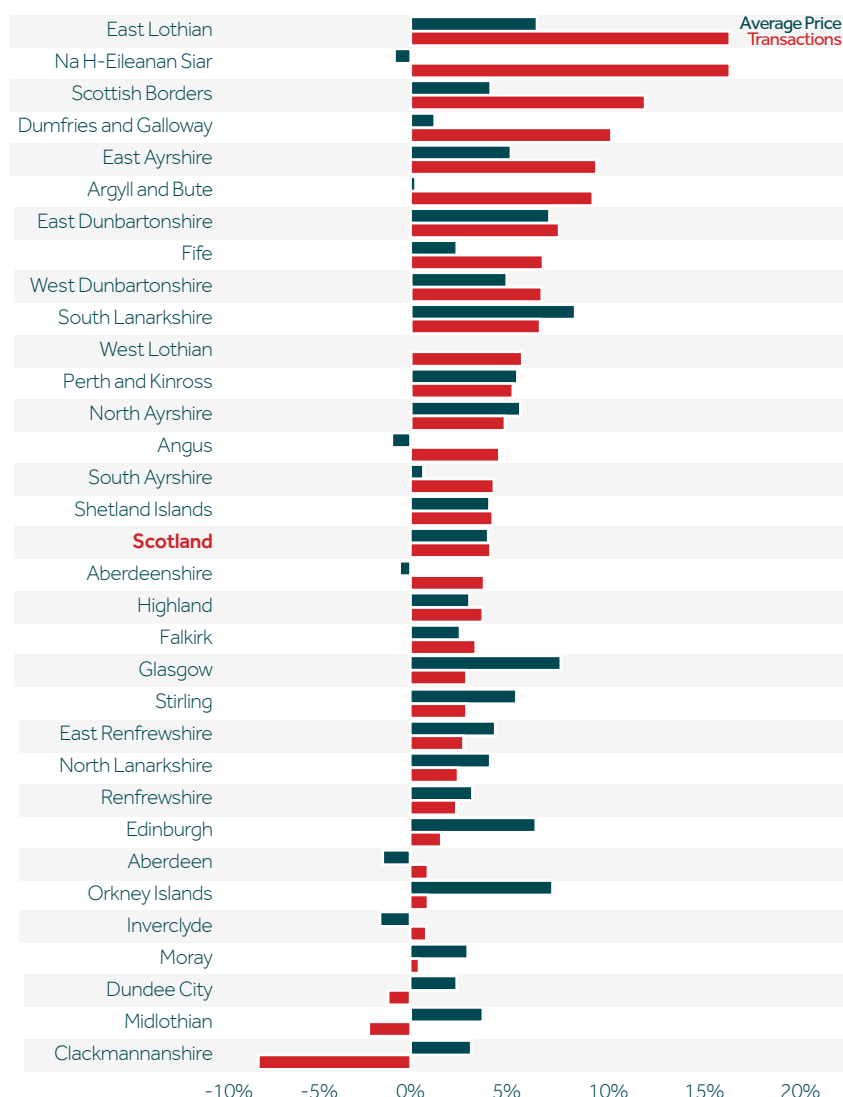
A core element of the current market is the imbalance in supply and demand, especially emanating from the cities. The main Scottish cities are seeing lower levels of transaction growth, while experiencing higher levels of house price growth.

Another emerging trend in the market is the role of the commuter hinterland around Edinburgh and Glasgow in filling this gap. Extensive new build development in East Lothian, which accounts for over 50% of sales in some key markets, has increased transactions by over 16% year-on-year. East Lothian has seen the delivery of new homes increase from 5.6 new homes per 1,000 households in 2012/13, to over 14.4 in 2016/17, double the national average of 7.0.

In the west, this has also been the case in the likes of East Dunbartonshire, where transaction volumes are up over 7%, and also largely the result of extensive development within a region that has traditionally be a desirable commuter destination. East Dunbartonshire recorded the 3rd highest level of housing delivery in mainland Scotland at 10.5 new homes per 1,000 households.

Low supply in the cities has pushed values upwards

Percentage Year-on-Year Change in Average Price & Transactions



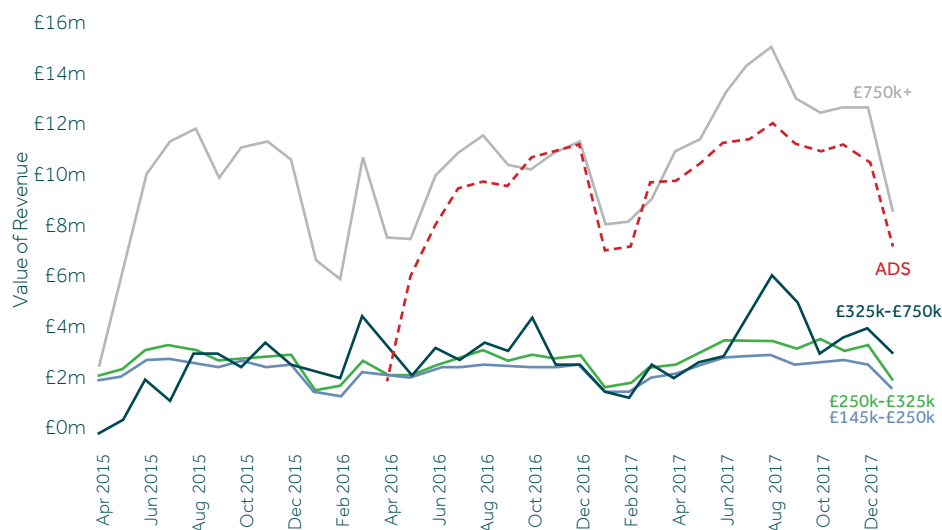
A windfall from an increase in prime market activity

The second half of 2017 saw a noticeable increase in activity in the urban family and prime markets over £325k, as illustrated by the total value of tax revenue from LBTT. The sharp increase in higher value transactions had a significant impact on the Scottish Government's revenue from a comparatively small proportion of sales.

In August 2017, revenue from sales above £325k spiked, meaning that, excluding revenue from the Additional Dwelling Supplement (ADS), less than 20% of sales generated over 75% of LBTT revenue. This also meant that £22.6m more was raised in the second half of 2017 by properties over £325k than in the same period the year before.

2017 witnessed a strong upturn in sales over £325k

LBTT revenue by price bracket, 2015 to 2018



Source: Revenue Scotland

Scottish Market Outlook & Forecast

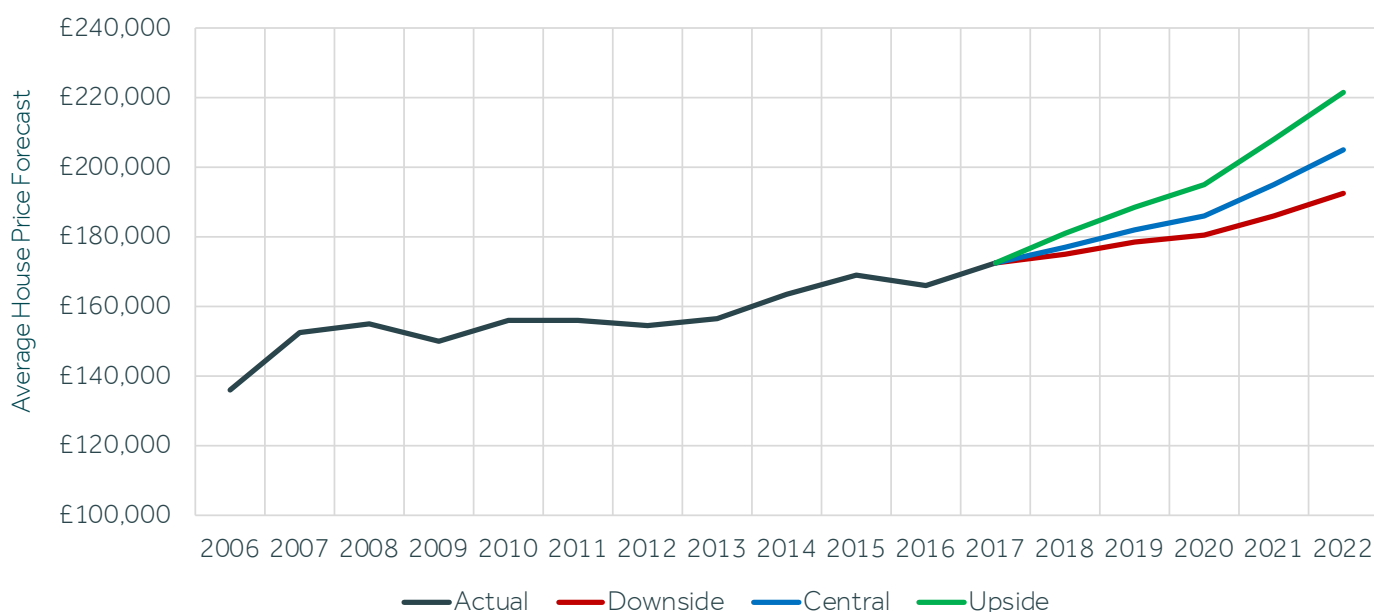
Housing market confidence had been subdued over the past couple of years, as changes to the tax regime and economic and political uncertainty, took its toll on market confidence; this was particularly noticeable for discretionary transactions, often higher up the market ladder. However, the upturn in trading in the second half of 2017 saw a shrugging

off of the market apathy, with renewed enthusiasm in the marketplace. In early 2018, this has continued, manifesting itself in strong buyer demand, which is driving values at competitive closing dates. While this is not uniform across the market, but most intense in traditionally desirable areas, this is likely to support a rising market over the

first half of the year. Looking further ahead, there remains the question of Brexit and how that may act to dampen economic confidence later in the year, as its reality becomes more certain. This may slow growth moving into 2019/20, but with many comparatively strong fundamentals, we expect growth to remain positive during this period.

Returning market confidence and demand is forecast to support an annual growth rate of c.3.5% to 2022

Actual Average House Price and House Price Forecast 2006-2022



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