

Autumn 2017 Market Outlook

Market Briefing

October 2017



RETTIE



A Bright Autumn Outlook

2017 started the year in a sombre mood, still recovering from the dent in confidence caused by last year's cascade of surprises. However, as the year progressed to summer, the market found some cheer, even in the recently dour Aberdeen market.

Across almost all indicators, and council areas, we have seen year-on-year growth in values and sales numbers in 2017. For Scotland as a whole, average house prices were up 4% year-on-year in Q2, with sales numbers up 5.1%.

One of the most notable shifts in the summer market has been the return of the urban family market. Over the past two years, the market over £500,000 has been comparatively subdued due to the introduction of LBTT and political and economic uncertainty. Many households chose renovation, or consolidation, rather than moving.

This year, over the course of June, July and August, LBTT returns have recorded their highest receipts in the £350,000 to £750,000 bands since the tax was introduced. Also over the course of 2017, lending to home movers has seen a notable increase, supporting the return of transactions further up the housing ladder.

For family buyers and sellers alike, this return of higher activity levels, which may be the result of pent-up demand, is potentially an Indian summer of which to take advantage.



Andrew Meehan
Senior Researcher



- House price and transaction levels have seen positive year-on-year growth across almost all of Scotland.
- LBTT returns for the family and prime bands have returned strong year-on-year growth over the summer.
- The lack of New Homes building remains at the heart of the housing crisis.
- Demand remains strong in commuter hinterlands as demand is displaced from within city limits.
- Landlords are reviewing their investments as changes to the sector take effect.
- Average rents continue to rise as new supply is yet to arrive in the market.
- The summer market has seen a positive upturn in sentiment.
- Summer property listings predict strong autumn trading.

The Scottish market moves ahead in 2017

- After subdued market activity over 2016 and early 2017, positive trends have returned to the house sales market.
- Aberdeen, which had been experiencing annual falls of 25% in transaction levels, has now seen year-on-year increases, suggesting the market has found its base.
- Hinterland locations around Edinburgh and Glasgow continue to perform strongly as demand, unmet in the city, moves outwards in search of options and value.

After a subdued performance in 2016, as macroeconomic and political factors, as well as localised tax and legislative considerations, made their mark felt on the market, 2017 has seen a more positive dynamic emerge in the housing market over the course of the summer.

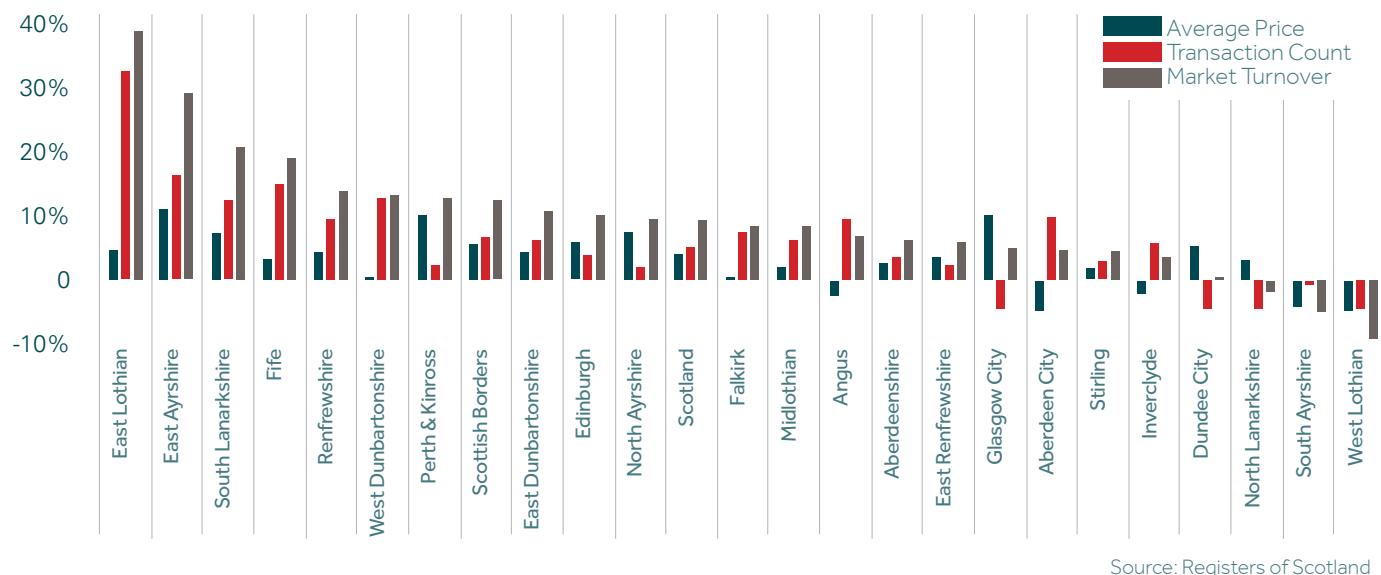
The key driver of this upturn appears to be the return of the family market, with lending for house movers up, and transactions in the £350,000 to £750,000 LBTT bracket jumping forward.

More detailed analysis shows a strong performance above £500,000 in urban centres. After two years since the introduction of LBTT, it appears that many sellers, who may have been postponing action, have now taken the plunge, meeting a pent-up demand that has been present over the past 12 months.

Current stock levels suggest that this strong performance will continue into the autumn market to close out the year.

Positive growth has returned to most of Scotland, including the beleaguered Aberdeen market

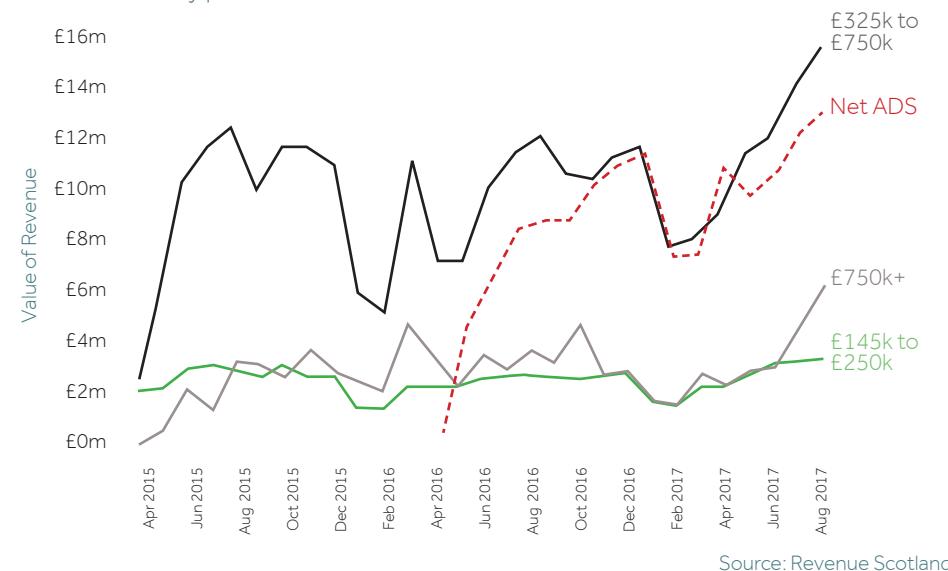
Year-on-Year Change in Turnover, Average Price & Transactions in Q2 2017 vs Q2 2016.



LBTT: Family & Prime Markets show signs of improvement

LBTT revenue has hit all time highs in the upper bands

LBTT revenue by price bracket, 2015 to 2017



- LBTT in the urban family and prime levels of the market have seen their strongest performance since the tax was introduced.
- Revenues in the £350k to £750k band hit £15.4m, setting a new high since the tax was introduced.
- This positive movement suggests households waiting to transact have decided to re-enter the market.
- The £350k to £750k tax band contributes over 50% of all LBTT revenue, excluding the Additional Dwelling Supplement (ADS).

The housing crisis is a generational challenge requiring action

- Historically low levels of house supply are driving increases in both house prices and rents in Scotland's cities, where demand is most pressured.
- Commuter hinterlands around Edinburgh & Glasgow have seen rising demand as they fill the gap in urban housing delivery.

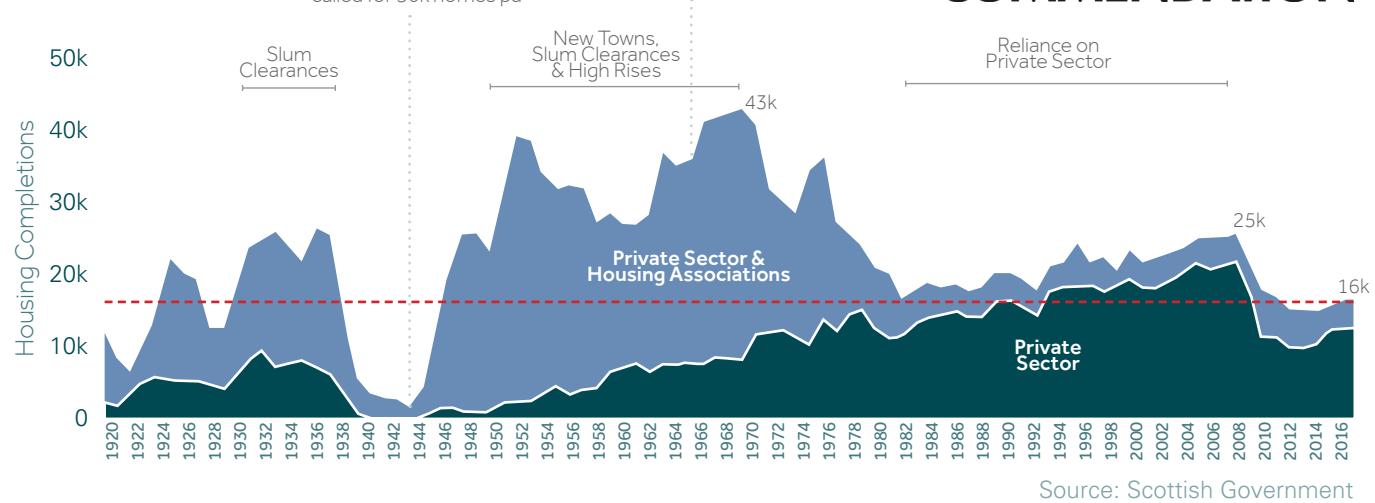
It may come as a surprise to some, but the delivery of new housing is a topic of great focus at Rettie & Co. The company has recently had our efforts recognised with a commendation at The Herald Property Awards for our delivery of

Affordable Homes, in partnership with Forth Ports and Hart Builders, at Harbour Point in Leith. Rettie & Co. is also working with a number of developers and landowners to unlock major masterplans and speed up housing delivery through innovative structured finance solutions as well working with clients to deliver the first generation of Build to Rent (BTR) homes in Edinburgh and Glasgow.

need for adequate, safe and secure housing across all levels of society. In this, we support calls for action on the issue by groups such as Shelter, literally, by headline sponsoring, and joining them on their Borders Cycle Challenge to raise funds and awareness of the issue. Just as a housing market requires all levels to work so chains become unlocked, so society needs to address this generational challenge.



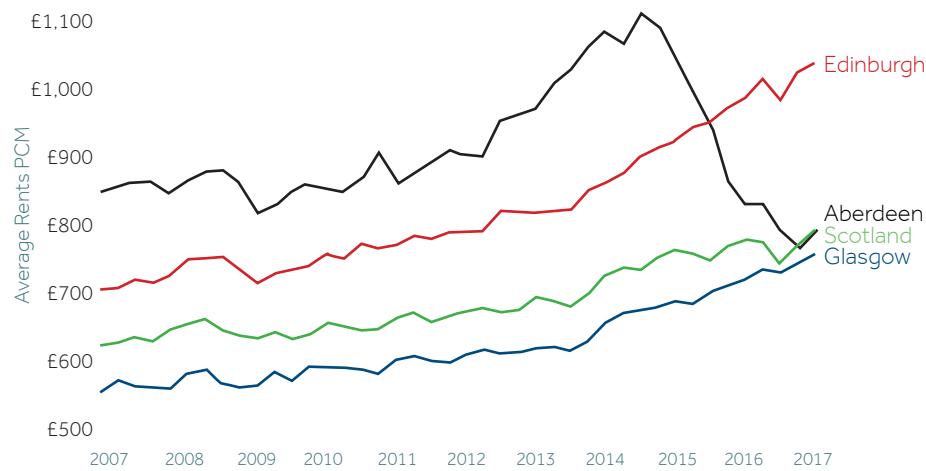
COMMENDATION



Average rents continue to see growth

Rents in all cities have risen in Q2 2017

Average Rent by City and Quarter



- Demand remains strong in the rental sector, supporting continued rises in average rents.
- Aberdeen has seen the first increase in average rents in the city since 2014.
- A number of new measures are coming into effect in the rental sector which may impact investor returns. A professional review of investment portfolios is recommended.
- Rising rents have led Edinburgh and Glasgow to investigate the potential for Rent Pressure Zones.

2017 Outlook & Forecast

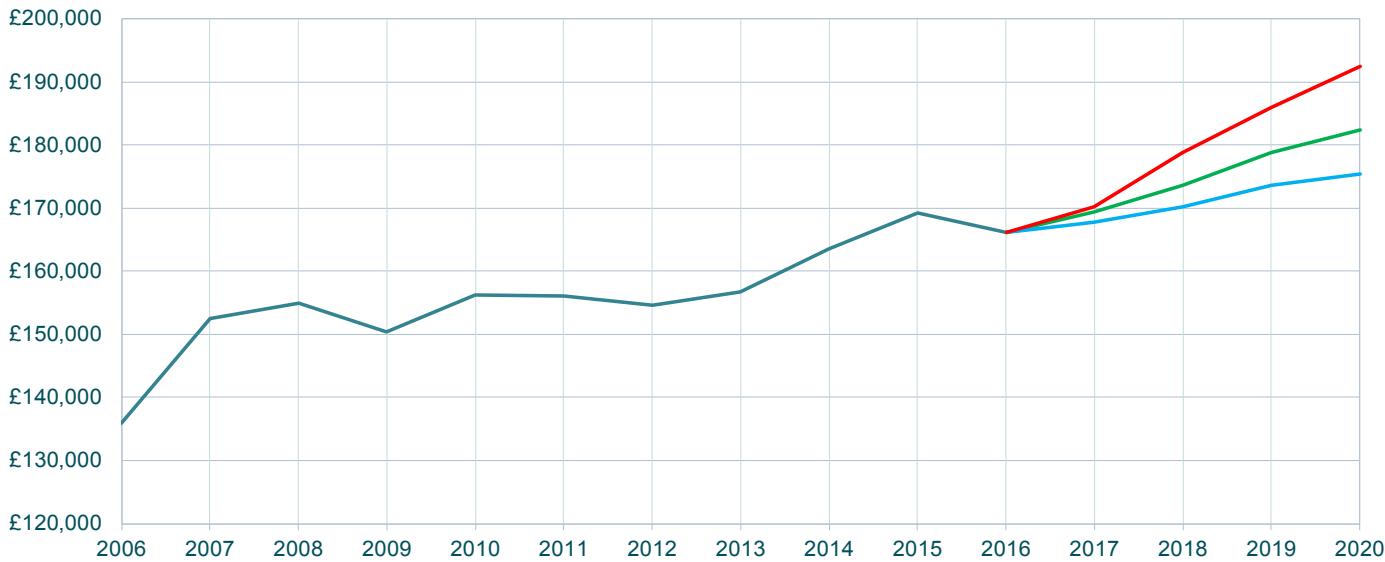
After four years of positive house price growth, 2016 saw economic and political factors combine to slow the market and return a 1.4% fall in average house price, largely driven by Aberdeen. After 8 years of recovery since the market nadir, this pause for breath at a time of political upheaval is a familiar element of the property market cycle.

In 2017, growth has returned to the market earlier than many commentators expected. A strong summer market, is leading into a promising autumn season, with property listings showing a healthy cross-section of stock on the market, allowing for trading up the property ladder in a way that had not been possible over the proceeding 18 months.

While there are still significant unknowns ahead, such as the reality of Brexit, many of the shocks that rattled confidence in 2016 are now factors to be planned around, giving households a greater sense of security for decision making. For these reasons we expect confidence, and growth to continue in 2018 and beyond.

Returning Market Confidence will support market growth moving forward

Actual Average House Price and House Price Forecast 2006-2020



Source: Rettie & Co. Research

Development Services

Structured Finance

- Over 300 Build-to-Rent units delivered over the last 4 years through new rental backed funding initiatives
- Around £50m value of rental assets built on the back of funding streams
- Over £30m value of construction contracts underpinned through agreed re-financing packages

Land & Development

- Advise on land, development sites, residential investment and PRS.
- Advise on every stage of the project, from early appraisal through to site disposals.
- Best results for clients through a proactive approach, creativity and best market intelligence.

New Homes Sales

- Around 200 new homes sold in the last 12 months.
- Over £90m worth of property sold in the last 12 months.
- Dedicated in-house marketing team.
- Initial advice on mix and specification through to bespoke campaigns designed to meet clients individual needs.

Research & Consultancy

- The largest team in the Scottish private sector.
- Analysis backed by Scottish based and Scottish sourced information.
- Research rooted in real time market information.
- Full range of services provided to many clients including developers, builders, investors, landowners and the public sector.

Asset Management

- A growing portfolio of 1,500+ managed units.
- In excess of £650m in residential assets under management.
- Regulated by both RICS and ARLA.
- Management experience of both PRS & Mid-Rent assets.
- Skilled in analysis of the tenant demographics that drive asset demand.



Simon Rettie
Managing Director
0131 220 4160
simon.rettie@rettie.co.uk



Matthew Benson
Development Services
0131 624 9031
matthew.benson@rettie.co.uk



Dr John Boyle
Research & Consultancy
0131 624 4073
john.boyle@rettie.co.uk



Hazel Sharp Webb
Build to Rent
0141 223 7883
hazel.sharpwebb@rettie.co.uk



Nick Watson
New Homes
0131 624 9042
nick.watson@rettie.co.uk



Patrycja Wroblewska
Land & Development
0131 624 4084
patrycja.wroblewska@rettie.co.uk