

A Brave New (Build) World

In a year where global politics diverged from convention, the 2016 Scottish £1m+ home market returned to trend after the upheaval of 2015... but with a few notable differences.

Image: Woodcroft by
Queensberry Properties
Sold for £1.3m

The £1m+ price tag is not a search criteria many buyers enter into Rightmove, with sales in this bracket accounting for less than 0.2% of transactions. However, the prime market can be a useful bellwether for market confidence, economic conditions, and market outlook. Aberdeen has been an example in recent years where prime sales traced oil price increases, then declines.

Overall, 2016 saw the number of £1m+ sales in Scotland fall from 176 in 2015, to 166 last year, down 6%. Having just stated that the £1m+ market is a useful canary in the mine, this decline is not necessarily predictive of a wider market downturn, as 2015 was a year energised by LBTT, which caused a spike in £1m+ home sales in the first quarter.

Comparing 2016 to 2014, the market has grown 8%, with an average of fourteen £1m+ transactions per month, compared to twelve per month in 2014; this is only marginally behind the fifteen per month average in 2015.

The return to overall trend is not without changes in the locations, and type of housing.



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Executive Summary

- **Rettie & Co. sold 1/4 of £1m+ homes, and 2/3rds of £2m+ homes in Scotland in 2016.**
- The £1m+ market is up 8% on 2014, pre-LBTT levels.
- Aberdeen £1m+ sales almost halved from 2015 levels as the market remains melancholic.
- **New Build now accounts for 17% of the £1m+ market, up from 6% in 2015.**
- Edinburgh's New Town accounts for one in five £1m+ sales.
- Scottish buyers remain dominant, at just under 80% of all £1m+ home buyers.

£1m+ market returns to trend in 2016

- Edinburgh is the only £1m+ market to increase YoY.
- Nationally the £1m+ market is still down over 40% on 2007 levels.
- Almost 80% of £1m+ home sales are in the main cities.

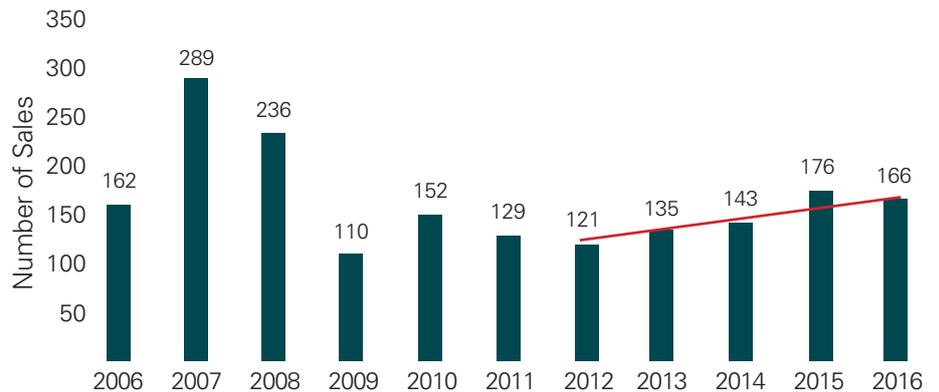
While the £1m+ market in Scotland is clearly very select, even more rarefied is the super prime residential market over £2m+, of which Rettie & Co. sold 8 of the 12 sales in 2016. Of these 12 sales, 8 were in Edinburgh and East Lothian, reflecting an emerging trend of capital flowing towards The Capital.

Indeed, this trend of premium values concentrating in Edinburgh can be illustrated by the fact that, counter to all other areas in Scotland, Edinburgh saw an increase in £1m+ transactions in 2016. All other areas, with the exception of Glasgow which remained flat, saw transaction numbers drop year on year. This change sees the number of transactions in both Edinburgh and Glasgow at their highest point since 2007, albeit the Scottish £1m+ market remains 43% down on 2007 peak levels, compared to the whole market which is 1/3rd down.

The performance of Edinburgh and Glasgow is illustrative of the pressure in the urban centres where demand remains strong and supply weak. This is across all market levels, not just for £1m+ homes.

The total number of £1m+ house transactions fell back for the first time in 4 years, with the only increase occurring in Edinburgh.

Fig. 1 Annual Count of £1m+ Home Sales by Year



Edinburgh was the only market area that saw a year on year increase in £1m+ home sales in 2016.

Fig. 2 Number of £1m+ homes by market region and year

| | Edinburgh | Rest of East | Aberdeen & The Shire | Rest of North | Greater Glasgow | Rest of West | Scotland |
|-------------|-----------|--------------|----------------------|---------------|-----------------|--------------|----------|
| 2009 | 43 | 14 | 13 | 10 | 22 | 8 | 110 |
| 2010 | 73 | 9 | 14 | 23 | 20 | 13 | 152 |
| 2011 | 62 | 4 | 18 | 17 | 19 | 9 | 129 |
| 2012 | 53 | 8 | 21 | 18 | 15 | 6 | 121 |
| 2013 | 70 | 7 | 21 | 15 | 14 | 8 | 135 |
| 2014 | 71 | 10 | 25 | 19 | 17 | 1 | 143 |
| 2015 | 87 | 25 | 16 | 12 | 28 | 8 | 176 |
| 2016 | 94 | 17 | 9 | 11 | 28 | 7 | 166 |
| (New Build) | (11) | (3) | (4) | (1) | (9) | (1) | (29) |

Time and Tax - LBTT and ADS

- The average £1m+ buyer pays £122,750 in tax on their £1.37m home.
- In current market conditions it will take 3 years to recoup the LBTT bill on an average £1m+ home purchase based on asset value growth.

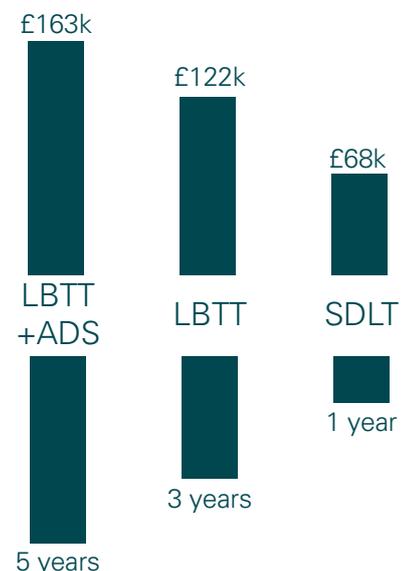
LBTT has had a fundamental influence in shaping the prime market over the past 2 years. At £1m, LBTT almost doubled the tax cost from £40,000 to over £77,000. This means that for most £1m sales, which occur up to £1.5m, there is an additional £30,000 to £60,000, in cash for buyers to find. At £1.5m the tax bill is £137,300. If the purchase is a second home, then it will be subject to a further 3% Additional Dwelling Supplement (ADS), taking the total tax bill to over £180,000.

In the current market, this has dramatically impacted the time it takes to recoup transaction costs from asset growth. Under previous market conditions and SDLT, it would typically take a £1m+ home anywhere between 6 and 18 months of market growth to recoup monies spent on tax and other legal and moving costs. In current conditions, the average £1m+ purchaser is likely to have to wait for 3 years just to recover the tax paid on the transaction. If the property is a second home, this will extend out to 5 years with ADS.

While most pronounced in the £1m+ market, this issue is also relevant to prime family neighbourhoods, where residents may be equity, rather than cash rich. This will inevitably impact moving decisions for many buyers, preventing the release of larger family stock at the top end of the market which will, in turn, ripple down the purchase chain in a market already short of supply.

Comparative tax bill for the average £1m+ Home Purchase in 2016 (£1.37m) under different tax regimes.

Fig. 3 Tax & Time to Recoup LBTT



Time taken to recoup tax liabilities under different tax regimes

Urbanisation

- Edinburgh's New Town remains the most active £1m+ market.
- CALA at Thorntonhall have revisited this popular £1m+ location.

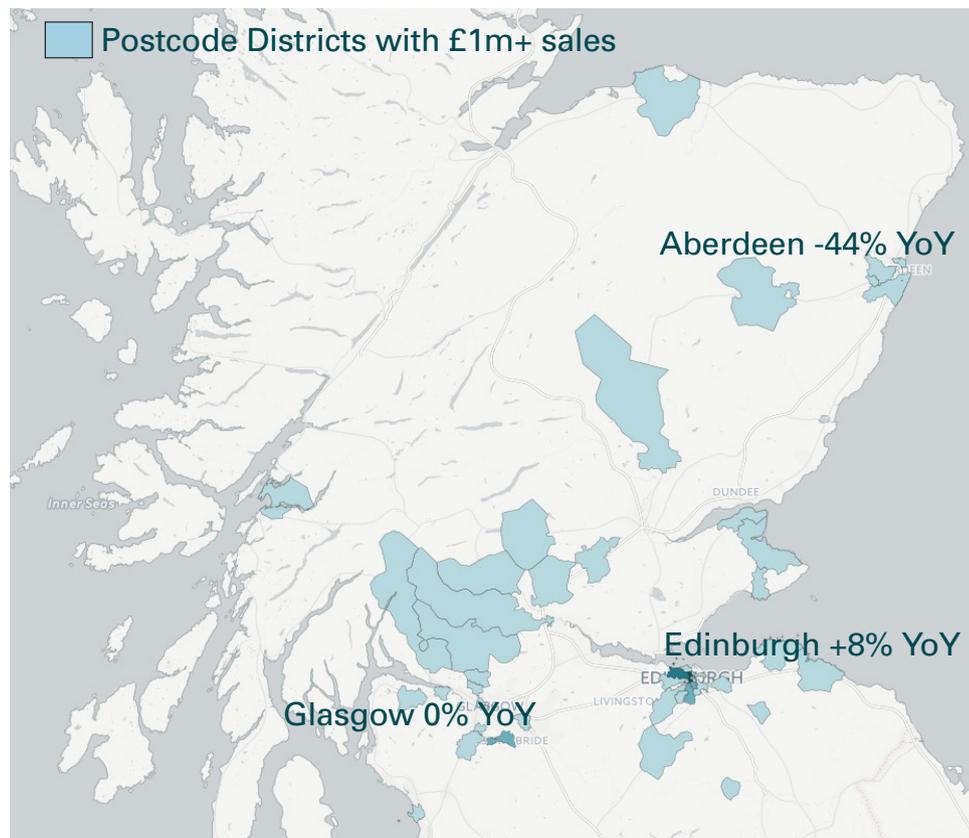
Edinburgh has the top 3 postcode areas for £1m+ homes. These postcodes account for 40% of all £1m+ transactions in Scotland in 2016 with Edinburgh's New Town having more sales than the next two districts, Murrayfield and The Grange, combined. Almost half of Scotland's £1m+ house sales take place within Edinburgh's city limits.

In the West, CALA Homes have returned to Thorntonhall, with a release of £1m+ homes, which have attracted the customary mix of company directors, footballers and lottery winners.

Further north, Gleneagles has remained attractive for buyers looking to enjoy a blend of luxury and traditional Scottish Perthshire living. Perhaps unsurprisingly one of the biggest changes in the £1m+ market, has once again been in Aberdeen. The region saw a -44% decline in £1m sales, reducing the number of £1m+ house transactions to single figures.

Edinburgh remains the focus with almost half of all £1m+ home transactions occurring within the city limits and the only market to see YoY growth.

Fig. 4 Location and YoY Change in Transactions of £1m+ Home Sales



A Sterling Discount

- Scottish buyers remain over 3/4 of the £1m+ market.
- Foreign buyers took advantage of the Sterling Brexit drop to gain up to a 20% discount.

The Scottish market remains highly indigenous, with three quarters of buyers originating in Scotland, and many more having ties to the country either as ex-pats, through family, or education.

2016 did see an increase in the number of foreign buyers underpinned by currency fluctuations as a result of Brexit. With the pound rapidly dropping relative to other currencies, buyers making purchases in euros or dollars have enjoyed up to a 20% discount. This has meant that rather than paying up to \$1.58m dollars, or €1.43m, to purchase a £1m house before Brexit, the same house could now be purchased at a saving of over \$330k, or €240k. This is clearly a notable saving and caused buyers from the USA and Singapore to purchase after the Brexit vote.

Much has been made of the London super commuter, or Willies - Works in London [but] lives in Edinburgh – in recent years but despite their numbers rising from 3% to 7% in 2016 they still only account for fewer than 12 sales per year.

The average price of a £1m+ home increased by 3% in 2016 to £1.37m,

however, the average price of a home sold to foreign buyers fell 6% to under £1.5m from an average of £1.57m in 2015. These purchases were overwhelmingly focused on prime Edinburgh, with 17 of the 21 foreign purchases in the capital, and 12 of these being stone built Georgian and Victorian properties in the city centre.

Scottish buyers, and buyers with Scottish ties, remain over 80% of £1m+ home purchasers in the Scottish market.

Fig. 5 YoY Change in Turnover, Avg Price & Transactions



2017 Outlook & Forecast

Over 2016, Rettie & Co. were responsible for 1 in 4 transactions over £1m+ and two-thirds of those above £2m, providing us with an unparalleled exposure to the Scottish prime market.

Looking forward, we expect to see the supply of £1m+ homes in the second-hand market continue to remain constrained as LBTT impacts decision-making and financial planning. Into this gap, New Build homes in prime locations will continue to prove attractive.

We also expect demand to remain strongest in the urban centres, where economic fundamentals and low supply are driving demand at the upper end of the market.

Rettie & Co. sold 1/4 of all £1m+ properties in Scotland in 2016 Fig. 6 Market Share by Value of properties sold by area



Source: Rettie & Co. Research

Rettie & Co. £1million plus properties



Blairhoyle House, Stirlingshire



Quartermile, Edinburgh



Queen's Crescent, Gleneagles



Camstradden, Bearsden



Mansfield, East Lothian



La Casa, Park Circus Glasgow



Gifford Bank, East Lothian



Dalliefour, Kilmacollm



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