

DEMAND PICKS UP BUT TAX CONTINUES TO LIMIT GROWTH

The prime market continues to be constrained by LBTT, but there are encouraging signs that activity is picking up

Key facts for Q1 2017

Prime Scottish house prices were **unchanged** between January and March 2017

On an annual basis **prices fell by 1.2%**

The top end of the market continues to adjust to **higher purchase taxes**

Over **19,000 transactions** have been liable for the 3% ADS since its implementation in April 2016

Prime country house prices in Scotland were unchanged over the first three months of 2017, according to the latest research from Knight Frank. On an annual basis, however, prices fell slightly, dropping by 1.2%.

As we've noted in previous updates, the top end of the market in Scotland continues to adjust to higher rates of property taxation with Land and Buildings Transaction Tax (LBTT) subduing activity.

But while higher taxes have acted as a constraint on the prime market, there are signs that confidence is strengthening.

Knight Frank figures show an 11% increase in the volume of new buyer enquiries over the year to March 2017 compared with the same period a year previously. Viewings were 32% higher over the same timeframe.

This has not, however, been matched on the supply side, with 10% fewer properties for sale with a value above £750,000 at the end of March compared with the same time in 2016 and 7% fewer than in 2015.

But as Ran Morgan, Head of Scotland Residential Sales, notes: "There is a feeling of cautious optimism among buyers so far this year.

"Properties within commuting distance of city hubs continue to generate a good level of interest from both local buyers and those looking to upsize or downsize from south of the border, particularly if they have been priced competitively."

The introduction of the 3% Additional Dwelling Supplement (ADS) in April 2016 has served to make buyers even more price conscious. Statistics from Revenue Scotland reveal that over 19,000 transactions have been liable for ADS since its implementation, contributing over £80 million towards total LBTT receipts.

Buyer sentiment is expected to remain sensitive as the year progresses - partly driven by the fresh uncertainty regarding a second independence referendum - something which has been reflected in our [House Price Sentiment Index](#) for Scotland (figure 2).



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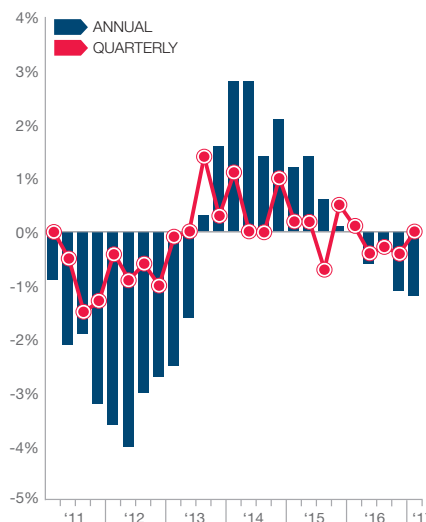
"Tax remains a key driver of the prime market and continues to keep a check on price growth, but there are signs that buyer confidence is picking up with a notable rise in both enquiries and viewings."

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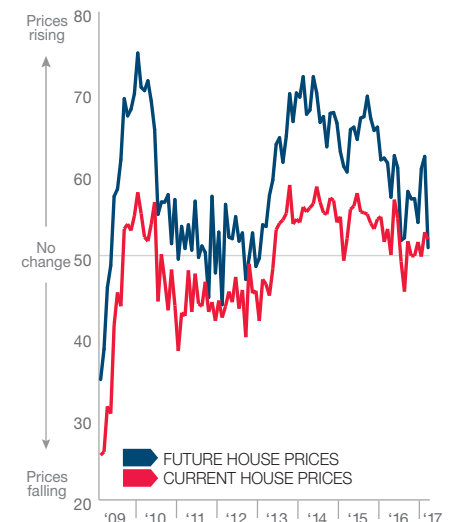
FIGURE 1
Prime Scotland price change

Annual and quarterly price growth



Source: Knight Frank Research

FIGURE 2
Scotland: House price sentiment



Source: Knight Frank Research



£1 million-plus market

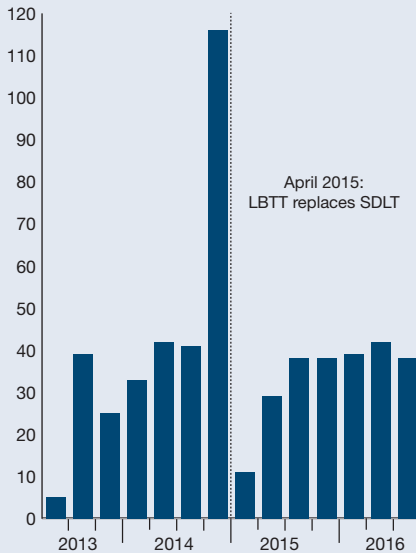
The volume of £1 million-plus sales in Scotland fell by 19% in 2016 compared with the previous year, according to the latest statistics from the Registers of Scotland.

However, while the headline figures suggest weaker market conditions, in this instance comparing 2016 with 2015 is not particularly instructive. LBTT changes in early 2015 resulted in a spike in £1m+ home sales in the first quarter which distorted the market (figure 3).

Comparing 2016 to 2014 reveals that the market grew by 11%.

Edinburgh accounted for 57% of all £1 million-plus sales in 2016. Perhaps unsurprisingly, given weaker oil prices, Aberdeen City and Shire saw the biggest drop in sales compared with 2015 and 2014 levels.

FIGURE 3
Scotland £1m+ sales



Source: Knight Frank Research

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Knight Frank Prime Scottish Property Index Q1 2017

	Cottage	Farmhouse	Small country house	Large country house	Average
3 month	0.0%	0.1%	0.0%	-0.1%	0.0%
6 month	0.0%	0.0%	-0.5%	-0.7%	-0.4%
1 year	0.0%	-0.8%	-1.3%	-1.6%	-1.2%

Source: Knight Frank Research



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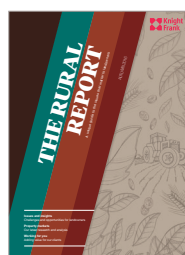
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