

TAX POLICY PUTS THE BRAKES ON THE RECOVERY IN PRIME SCOTTISH HOUSE PRICES

The introduction of LBTT continues to have a significant impact on the prime market.

Key facts for Q3 2015

Scottish country house prices fell by 0.7% in Q3 2015

Annual growth slowed to 0.6%

Some 64% of Knight Frank buyers in 2015 have come from outside of Scotland

Scottish country house prices fell by 0.7% between July and September, the first time that prime prices have fallen on a quarterly basis in over two years.

The primary reason for this decline has been the introduction of Land and Buildings Transaction Tax (LBTT) in April this year. The levy, which replaced Stamp Duty Land Tax, has resulted in a significant increase in purchase costs for buyers in the prime market.

Negotiations between buyer and vendor have become more protracted and in some instances this has led to prices being adjusted downwards to account for the higher charge.

The quarterly fall means that annual price growth slowed to 0.6% over the year to September 2015, down from a recent high of 2.8%.

However, despite the slowdown in price growth, activity increased. The number of Scottish country house sales completed by Knight Frank in the third quarter of 2015

rose markedly compared to the same period last year.

The reasons for this are twofold. Firstly, the third quarter of 2014 saw a degree of uncertainty surrounding the outcome of the independence referendum which dampened sales activity in this section of Scotland's prime residential market.

Secondly, while purchase costs have risen, Scottish country house prices remain 23% below their previous peak in 2007, and their relative 'discount' to other markets is appealing to buyers.

Ran Morgan, Head of Scotland Residential Sales, said: "Some 64% of our buyers so far in 2015 have come from outside Scotland. While the majority of these have relocated from the rest of the UK, it includes purchasers from Hong Kong, the US and the UAE, which only serves to underline Scotland's global appeal.

"The opening of the new Borders Railway should act as a boost to prime markets in

continued overleaf...



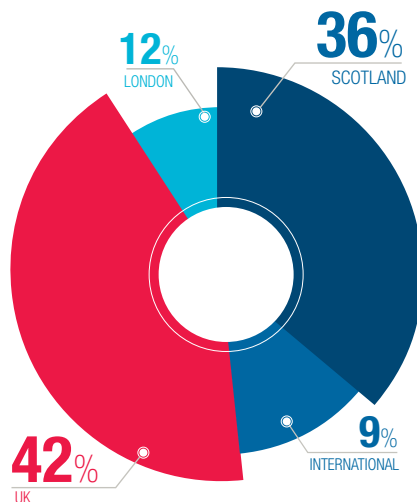
OLIVER KNIGHT
Residential Research

"Scottish country house price growth has been curtailed by the introduction of Land and Buildings Transaction Tax in April this year"

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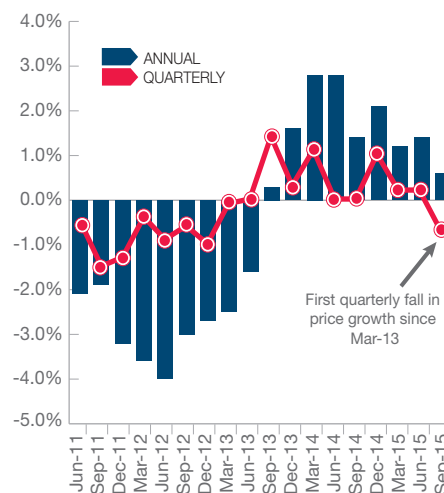
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FIGURE 1
Where do buyers come from?
January – September 2015



Source: Knight Frank Research

FIGURE 2
Prime Scotland: annual and quarterly price growth



Source: Knight Frank Research



the south, with stations on its route now within an hour's commute of Edinburgh."

The new rail line, which runs from Tweedbank to Edinburgh, brings a large area of the countryside in Midlothian and in the borders within easy reach of the capital by train for the first time. Transport Scotland has estimated that the railway could contribute £33m to the Scottish economy.

In the medium term, activity across the prime market in Scotland is likely to moderate slightly as the market continues to adjust to the higher rates of LBTT.

The Holyrood elections scheduled for next May and a consultation on council tax reform also have the potential to cause some uncertainty in the market.

Residential property purchase costs in Scotland

From April 1 2015

House price	Land and Buildings Transaction Tax
£550,000	£28,350
£650,000	£38,350
£750,000	£48,350
£850,000	£60,350
£1,000,000	£78,350
£1,100,000	£90,350
£1,200,000	£102,350
£1,300,000	£114,350
£1,400,000	£126,350
£1,500,000	£138,350
£1,600,000	£150,350
£1,700,000	£162,350
£1,800,000	£174,350
£1,900,000	£186,350
£2,000,000	£198,350

Source: Knight Frank Research

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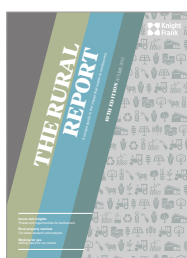
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