RESIDENTIAL RESEARCH

PRIME SCOTTISH PROPERTY INDEX

SCOTTISH COUNTRY HOUSE PRICES UNCHANGED IN Q3

Demand for Scottish country houses has remained strong so far this year. Oliver Knight analyses the latest figures.

Key facts for Q3 2014

Prime Scottish country house prices were unchanged between July and September

Annual growth in the market slowed to 1.4%

Demand has remained strong so far this year. The number of potential new buyers registering with Knight Frank is 25% higher year-on-year

Web searches for Scottish property were 22% higher in September 2014 compared to the same month last year

Scottish country house values were unchanged between July and September 2014 as concerns over the result of the independence referendum curtailed price growth.

As a result, annual growth slowed to its lowest level so far this year at 1.4%.

According to web search data from Knight Frank's global property website, statistics shows that over the two months prior to the referendum the number of individuals searching for prime property in Scotland (excluding Edinburgh) declined month-on-month (figure 1).

However, web traffic rallied in September – interest in Scottish property was likely boosted by the widespread media coverage at the start of the month, as well as the eventual result of the referendum. The number of people searching for property in Scotland on Knight Frank's website in September was 17.4% higher compared to August and 22% higher than the corresponding month last year.

Ran Morgan, head of Knight Frank's Scottish residential department, said:

"The certainty provided by last month's 'No' vote will allow the property market to return to more normal trading conditions. Already we have noticed interest and activity starting to pick up.

"We expect to see an increase in the number of prime country homes coming to the market in light of the result of the referendum, as well as a rise in the number of sales."

Demand for Scottish country houses has remained strong in 2014. The number of potential buyers registering with Knight Frank was 25% higher over the year to September than the same time last year and viewings have risen over the same time by 25.5%.

However, there are further challenges for the prime Scottish property market ahead. From April 2015, Stamp Duty for Scottish residential and non-residential property sales (SDLT) will be replaced by a new Land and Buildings Transaction Tax (LBTT), which will be administered and collected within Scotland (see overleaf).

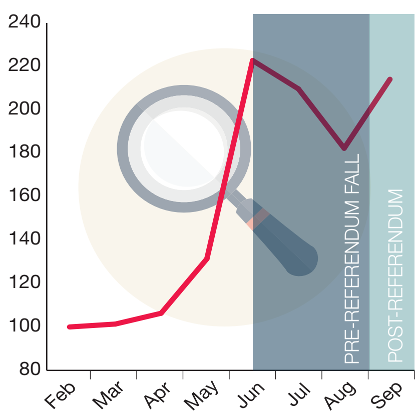
OLIVER KNIGHT
Residential Research

"Many individuals had been taking a cautious approach in the immediate run up to the Referendum and the country house market in Scotland was reflective of this."

Follow Oliver at @oliverknightkf

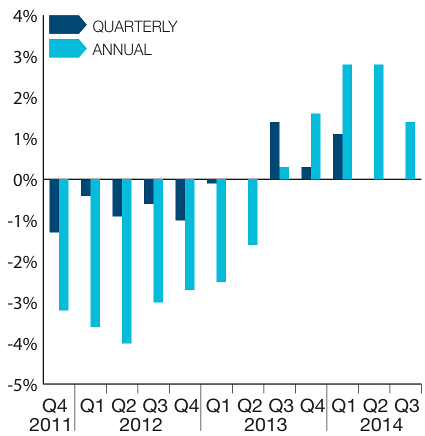
For the latest news, views and analysis on the world of prime property, visit Global Briefing or @kfglobalbrief

FIGURE 2
Scotland web searches
Number of searches for prime Scottish property (indexed to 100 in Feb 2014)



Source: Knight Frank Residential Research

FIGURE 2
Prime Scottish property prices



Source: Knight Frank Residential Research

NEW RATES FOR SCOTTISH LAND AND BUILDING TRANSACTION TAX ANNOUNCED

Knight Frank welcomes the concept of a progressive method of levying stamp duty on residential property, but we are concerned that levying penal rates for higher value homes could reduce transaction volumes, impede the efficient use of property and weaken labour market flexibility.

Based on the rates announced, which will come into force in April 2015, buyers purchasing a home worth up to £320,000 will see their stamp duty payments reduced under the new Land and Building Transaction Tax (LBTT), benefitting many first-time buyers and second-steppers.

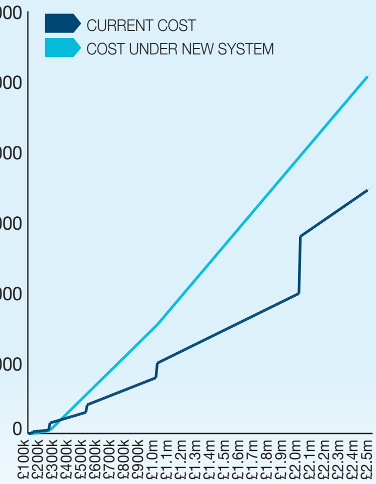
However policymakers should consider how the impact of higher charges for homes worth £320,000 may affect the market. Many buyers in Edinburgh, Aberdeen and other rural locations within commuting distance of key employment hubs, where prices for larger family houses tend to be higher, will see a sharp rise in the up-front cost of moving, which is likely to weigh on activity after the new rates are introduced.

Under the current system, a house costing £500,000 will incur a stamp duty payment of £15,000, whereas the upfront costs under the new LBTT system for the same property will be nearly double at £27,300.

Homes worth £250k+ accounted for 72% of the total £215m stamp duty take in Scotland last year, and policymakers may need to consider allowing some room for manoeuvre on the new LBTT rates if they find that they are impacting on activity at this end of the market. Policymakers are expected to make £295 million from the LBTT on residential properties in 2015-16, despite the fact they say 90% of homebuyers will pay less duty.

Prior to the introduction of the new levy in April, we expect to see an increase in the number of prime sales and homes coming to the market as both buyers and vendors look to move before costs rise.

FIGURE 3
Current and future costs



Source: Knight Frank Residential Research

RESIDENTIAL RESEARCH

Liam Bailey
Global Head of Research
+44 20 7861 5133
liam.bailey@knightfrank.com

Oliver Knight
Residential Research
+44 20 7861 5134
oliver.knight@knightfrank.com

PRESS OFFICE

Lizzie Copestake
+44 20 7861 1033
lizzie.copestake@knightfrank.com

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