

PRIME EDINBURGH PRICE GROWTH EASES

Demand for property in Edinburgh has been robust over the last year, despite headwinds. But there are notable variations across the market.

Results for Q1 2016

Prime prices across Edinburgh increased by 0.7% between January and March

The annual change in values now stands at 1%, down from a high of 5.7% in 2014

The introduction of LBTT in April 2015 has led to significant variations in price growth across the prime market

Ahead of the Scottish Parliamentary Election we have worked with the main political parties to produce the first comprehensive multi-party overview of housing policies

Property prices in Edinburgh increased by 0.7% between January and March taking the annual change in values in the city to 1%, down from a high of 5.7% in 2014.

However, this moderation in headline price growth disguises the variations that we are seeing across the prime market.

Buyers, especially those at the top-end, remain price sensitive following the introduction of the Land and Buildings Transaction Tax (LBTT) in April 2015. In some cases this has led to increased negotiations between vendor and buyer and subsequently prices being adjusted.

On the other hand, the relatively lower rates of taxation in the market below £500,000 have helped underpin a 4.1% annual increase in values over the year to March, as shown in figure 1, comfortably outperforming the wider city average.

Indeed, buyer demand within the market seems to have shifted, backed up by the fact that such properties accounted for over 50% of Knight Frank sales over the last 12 months, up from 38% during the previous 12-month period.

Low interest rates, competitive mortgage deals and ongoing economic growth across the UK are likely to continue to underpin activity at this level.

Edward Douglas-Home, Head of Edinburgh City Sales, said: "The demand for property in Edinburgh remains robust, although it tends to be focussed on best-in-class properties located in the best prime locations such as New Town, Stockbridge and Morningside."

Ahead of the Scottish Parliamentary Election in May, we have worked with the main political parties in Scotland to produce the first comprehensive multi-party overview of housing policies (page 2). From here it is possible to see where the parties agree and diverge on how to address the issues in the current delivery and usage of housing in Scotland.

Housing is high on the agenda for all parties with changes to council tax, land reform and the private rental sector just some of the issues being debated in the run up to the election.



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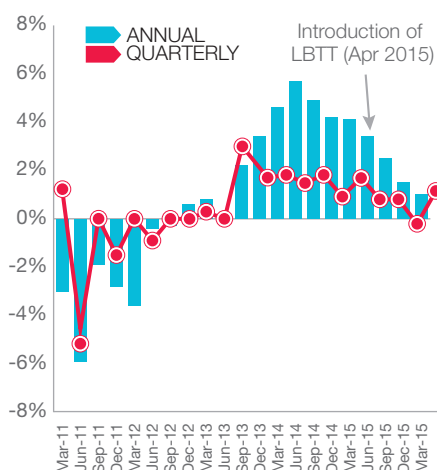
"Buyer demand within the prime market seems to have shifted, with sub-£500,000 sales accounting for more than 50% of transactions over the last 12 months."

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FIGURE 1
Edinburgh: annual and quarterly prime price growth

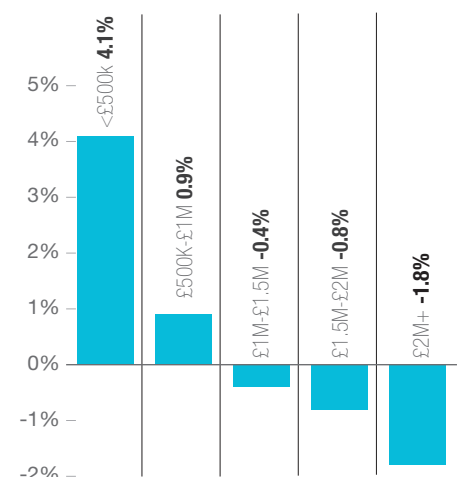
Annual and quarterly price growth



Source: Knight Frank Research

FIGURE 2
Edinburgh: multi-speed prime market

Annual price growth, by price band



Source: Knight Frank Research

Pre-election policy matrix



| Spokeperson | Alex Neil, Cabinet Secretary for Social Justice | Ken Macintosh, Spokesperson for Communities | Jim Hume, Member of Scottish Parliament | Alex Johnstone, Member of Scottish Parliament | Maggie Chapman, Co-Convenor of the Scottish Greens |
|----------------------------------|--|--|--|--|--|
| In their own words | "Making sure that everyone has a safe, warm and affordable home is central to the SNP's drive to make Scotland fairer and more prosperous." | "Every Scot should have a decent, warm and secure place they call home and our policies and our vision will make that happen." | "We want every individual to achieve their potential and believe the best starting point for this is when everyone has an affordable, warm and secure home." | "While the last five years rightly focused on stimulating demand, we now need to shift focus to increasing supply across all tenures." | "Scotland can provide good homes for all." |
| Housebuilding target | At least 50,000 affordable homes over the course of the next parliament backed by an investment of £3bn | Support Homes For Scotland's call for at least 25,000 homes per year across all tenures | Increase the supply of socially-rented and affordable homes and take action to improve the availability of housing across all other tenures | Increase completions by 10% per year to reach pre-recession levels by end of Parliament (c. 25,000 p.a). Over 100,000 homes in total | 25,000 new homes per year |
| Affordable housing target | At least 50,000 over the course of the next parliament, with 70% of these being for social rent | At least 60,000 over the next five years, 45,000 of which will be council or housing association homes | TBC in manifesto, taking into consideration the recommendations of the industry, charities and other experts | 50,000, with a mixture of social and mid-market rent in cooperation with the private sector | 12,000 socially rented homes per year |
| Help to Buy | <ul style="list-style-type: none"> Continue to support Support smaller developers Invest £80m in 2016/17 in Open Market Shared Equity scheme to help FTBs on lower incomes | Up to £3,000 of extra support for those saving through the Help to Buy ISA | Continue to support | Restore funding to 2015/16 levels – additional £50m p.a. | End Help to Buy as it inflates house prices. Our proposals are to increase the supply of affordable homes and reduce the cost of land |
| Planning | <ul style="list-style-type: none"> Currently reviewing the planning system Planning appeals for proposals of 100+ units now being recalled to ensure housing land supply issues are given ministerial scrutiny | Reform current system to make it more robust and less adversarial. Maintain a plan-led system which offers greater democratic accountability and predictability; where LAs can invest in infrastructure but retain public planning consent | Give power to LAs to tackle fuel poverty in their areas through better planning for district heating and renewable energy technology in new social housing | Looser planning on brownfield sites | <ul style="list-style-type: none"> Give LAs the power to buy land for housing at 'existing use value' Second homes to require planning consent to boost the supply of housing in rural areas |
| Other policies | Continue to work to reduce homelessness and ensure temporary accommodation is of a good quality | Comprehensive strategy to tackle homelessness and rough sleeping. Take action to address fuel poverty. Legislate for a Warm Homes Act and make energy efficiency a national infrastructure project | <ul style="list-style-type: none"> Focus on reducing fuel poverty and delivering warmer homes Improve energy efficiency standards Tackle youth homelessness | Reintroduce the Right to Buy (not for Housing Associations) and launch a step-by-step scheme to help social tenants buy their home gradually | <ul style="list-style-type: none"> A not-for-profit repair service to manage major repairs, including in tenements. All homes to achieve an Energy Performance Certificate of Band C by 2025 and support the introduction of minimum energy efficiency standards |
| Private rented sector | Provide security and stability for tenants while protecting landlords through the introduction of the Private Housing (Tenancies) (Scotland) Bill | Review the Private Housing (Tenancies) Act to ensure it improves standards, providing security for landlords and tenants and addresses affordability | Give tenants a robust framework for protection of their private tenancy, and give private landlords the security of return on their investment | LBTT exemptions for affordable buy-to-let | Push for better regulation of letting agencies |
| Rent cap | LAs will be able to apply to ministers to set a cap on rent increases in designated rent pressure zones | Yes – ensure new powers address issues of affordability and 'excessive' rent rises | No. We have not been persuaded that rent controls will help solve the housing crisis | No | Rent controls which reflect the quality of the property and limit future rent rises |
| Short Assured Tenancy | Replace with a new Private Residential Tenancy for all future PRS lets | Support the replacement of SATs with single new tenancy through Private Housing (Tenancies) Act | Supported introduction of private residential tenancies, as they balance tenants' right to security and protection, and landlords' ability to remain competitive | Recognise need for reform, but don't support 'no fault' removal and rent caps | End SATs |
| LBTT | Continue to support. Introduce 3% supplement on additional properties such as for a buy-to-let or a second home | Continue to support | Monitor the impact of the new LBTT | Grace period for 3% LBTT supplement | Advocate that LBTT is rolled into local property taxation |
| Land reform | Committed to delivering radical land reform to increase transparency of land ownership and strengthen tenant farmers' and communities' rights | Use new powers in the Land Reform Bill to empower communities. Increase transparency & give LAs power to buy land through Compulsory Sale Orders | Work to bring trust back in to the tenancing of land. Review the impact of the current Land Reform Bill before considering further action | Support transparency measures, but serious concerns over other aspects, e.g. agricultural holdings | Push for radical land reform, including ensuring all vacant and derelict land pays non-domestic rates to encourage release for new house building |
| Council tax reform | Make fairer by asking those at the top to pay more, protecting the incomes of the majority and reducing the burden on those who can least afford to pay | Replace with a system based on updated property valuations supplemented by new taxes such as the tourist levy and a power to tax economically inactive land | TBC in the manifesto | Retain a reformed Council Tax | Replace the Council Tax with a five-year phased Residential Property Tax based on annual valuations of property. This is the first step towards a Land Value Tax |
| Empty homes | Continue work to bring empty homes back into use through the Empty Homes Partnership | Invest or refurbish to provide homes for those who would otherwise struggle to afford a home or would be forced into the private rental sector | Renew the empty homes strategy to address the fact there are 27,000 long-term empty homes in Scotland | Bring back into use or convert to affordable housing | Our Residential Property Tax would include no reduction for second or empty homes, helping to bring Scotland's 27,000 empty homes back into use |

LAs = Local Authorities, SATs = Short Assured Tenancies, FTBs = First Time Buyers, LBTT = Land and Buildings Transaction Tax

PRE-ELECTION OUTLOOK

Housing is high up the agenda for all political parties in the run-up to May's Scottish Parliamentary Election. Housing spokespeople from the SNP, Scottish Labour, Liberal Democrats, Green Party and the Scottish Conservatives set out their plans for housing and construction on the opposite page.

In this, the first comprehensive multi-party overview of housing policies in Scotland, it is possible to see where the parties agree and diverge on how to address the issues in the current delivery and usage of housing.

All political parties have committed to increasing the supply of homes, while policies including reintroducing Right-to-Buy, extra support for Help to Buy ISAs and a new Open Market Shared Equity scheme have been mooted to try and help more people climb onto the housing ladder.

Housebuilding targets across tenures, reform in the private rented sector, including the introduction of rent caps, and housing taxes are other issues likely to be discussed in the run up to the election on 5th May.

All the parties have committed to some form of council tax reform, based on the recommendations of The Commission on Local Tax Reform, while the Private Housing (Tenancies) (Scotland) Bill will lead to significant changes in the private rented sector.

Given Scotland led the way in terms of stamp duty reform – having first

announced LBTT rates back in October 2014 – it will be interesting to see the impact any proposed changes to council tax have in England & Wales, if at all.

The Private Housing (Tenancies) (Scotland) Bill meanwhile will introduce one type of tenancy agreement for all housing rents and will allow tenants to challenge excessive rent rises. In addition, it will abolish the 'no-faults' ground for repossession, which allows landlords to take back their property once an initial fixed period has expired. Instead, there will be 18 separate grounds on which a landlord can seek to take back their property.

Land reform has been another topic debated in the Scottish Parliament with MSPs recently approving the Land Reform Bill which, among other things, will increase transparency of land ownership in Scotland – something broadly supported across parties.

The most recent polls suggest that the SNP will retain their majority with a comfortable lead over Labour and the Conservatives.

Keep up to date on all the latest political developments at www.knightfrankblog.com/global-briefing.

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