

EDINBURGH CITY MARKET STILL ABSORBING TAX CHANGE

The introduction of Land and Building Transaction Tax in April has been the primary driver of the Edinburgh city market in the second quarter. Oliver Knight examines the latest figures.

Results for Q2 2015

Prime property prices rose by 0.4% in Q2

Annual growth slowed to 3.4% from 5.7% in June 2014

The introduction of LBTT has moderated activity in the prime market

Receipts from the new levy totalled £18.4 million between April and June

Prime property prices in Edinburgh rose by just 0.4% between April and June, the lowest quarterly price growth in two years. Prices are up by 3.4% on an annual basis, down from the recent 5.7% high in June last year.

This slowdown in price growth can be attributed to the introduction of the new Land and Building Transaction Tax (LBTT) in April.

The levy, which replaced stamp duty on all residential property transactions, means that those purchasing property with a value above £333,000 now pay more in purchase taxes.

As a result, there was a spike in prime transactions in Edinburgh ahead of the introduction of LBTT.

Since then however, there has been a fall in prime transaction levels in the city, with Knight Frank figures showing a drop in sales in the second quarter compared to the same period of 2014.

The Scottish government originally forecast the tax would raise £235m in 2015-16. However, figures released by Revenue Scotland, the government body which administers and collects

LBTT, showed that receipts from the new levy between April and June have so far totalled just £18.4 million.

It will be telling to see what impact the introduction of LBTT has on overall revenues at the end of this tax year.

For now, the prime market in Edinburgh is still absorbing the change. Anecdotal evidence suggests that homebuyers facing more tax under the new LBTT regime are negotiating with vendors over the additional burden, with the two parties often splitting the price difference between them.

The market is expected to return to more normal trading conditions by the end of the summer however, and prices in Edinburgh are still being underpinned by low interest rates and continued economic growth.

Edward Douglas-Home, head of Edinburgh City sales, said: "We saw an enormous push pre-LBTT, with remarkably high sales in March followed by a very subdued April and May.

"Our experience is that buyers, particularly those looking for family homes valued at between £500,000 and £1m, are having to eat further into their deposits when purchasing a property."



OLIVER KNIGHT
Residential Research

"The recently-introduced Land and Building Transaction Tax is the biggest policy lever affecting Edinburgh's prime market."

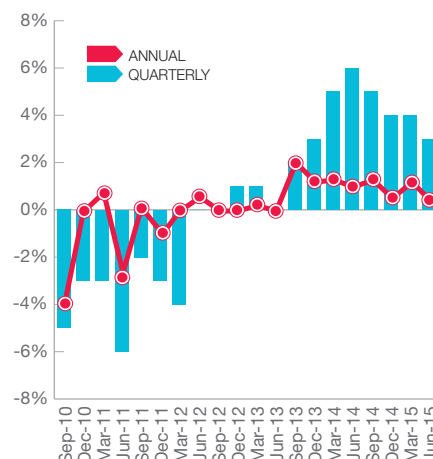
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FIGURE 1

Price growth

Edinburgh quarterly and annual price change



Source: Knight Frank Residential Research

FIGURE 2

How purchase costs have risen

Amount of tax payable (SDLT v LBTT)



Source: Knight Frank Residential Research

Knight Frank Edinburgh City Index, Q2 2015

	Edinburgh	New Town/ West End	North	South	West
3 month	0.4%	0.5%	1.1%	0.2%	0.1%
6 month	1.6%	1.7%	2.2%	1.6%	0.6%
1 year	3.4%	3.2%	3.8%	3.9%	2.2%
3 years	9.5%	12.6%	6.8%	10.5%	5.1%

Source: Knight Frank Residential Research

Residential property purchase costs in Scotland

From April 1 2015

House price	Land and Building Transaction Tax
£140,000	£-
£250,000	£2,100
£350,000	£8,350
£450,000	£18,350
£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 Residential Research

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