RESIDENTIAL RESEARCH

EDINBURGH CITY INDEX

TWO-SPEED MARKET EMERGING IN EDINBURGH

Price growth is increasingly dependant on property value in Edinburgh as prime buyers adjust to higher purchase costs

Results for Q3 2015

Prime property prices in Edinburgh rose by 0.4% between July and September

On an annual basis prices are 2.5% higher

LBTT continues to weigh on prime market activity

Properties valued above £500,000 rose by 0.2% in Q3 and by 2% annually

Prime property prices in Edinburgh rose by just 0.4% between July and September, while the rate of annual price growth in the city slowed to 2.5%, its lowest level since September 2013.

The summer months are typically among the quietest of the year in terms of activity, however this trend has been amplified further this year following the introduction in April of the Land and Buildings Transaction Tax (LBTT).

The new levy – a replacement for Stamp Duty Land Tax – means that those purchasing property with a value above £333,000 now pay more in purchase taxes. This is especially the case in the prime market where costs are as much as 90% higher than under the previous stamp duty system.

A £900,000 property now attracts a LBTT bill of £66,350. Previously, buyers would have paid £35,000 in stamp duty.

Against this backdrop, a two-speed market has emerged in the city.

Price growth has been driven primarily by the sub-£500,000 market, which has proven to be more resilient to the recent tax change. As a result, price growth at this level has been stronger than the average for prime Edinburgh properties, as figure 2 shows.

The average value of homes below £500,000 has risen by 1.1% over the quarter and by 4.5% on an annual basis over the year to September. In comparison, properties valued above £500,000 rose by just 0.2% in Q3 and by 2% annually.

Edward Douglas-Home, Head of Edinburgh City Sales, said: "LBTT has undoubtedly had a cooling effect on the prime market in Edinburgh. This has been most acutely felt in the market for properties valued at £750,000 and above, where in some cases purchase costs have nearly doubled.

"The sub-£500,000 market continues to function with a healthy level of interest, buoyed by continued low interest rates and ongoing economic growth across the UK."

Prime sales in Edinburgh are likely to pick up over the traditionally busier autumn months and as the market and buyers slowly start to absorb the higher rates of LBTT. However, policymakers will be watching carefully for evidence of a longer term reduction in activity which would weigh on tax receipts.

There is further analysis of the latest LBTT receipts on page 2.

OLIVER KNIGHT
Residential Research

"As a result of the introduction of LBTT in April we are seeing a two-speed market emerge in the city."

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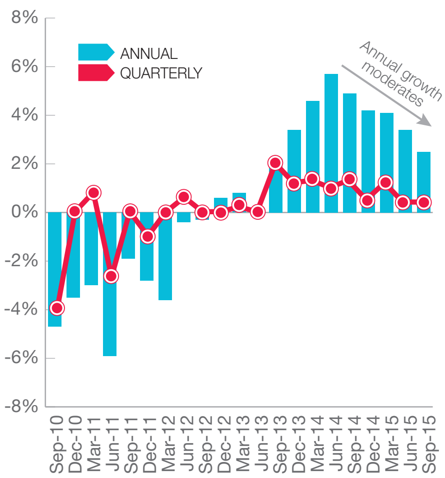
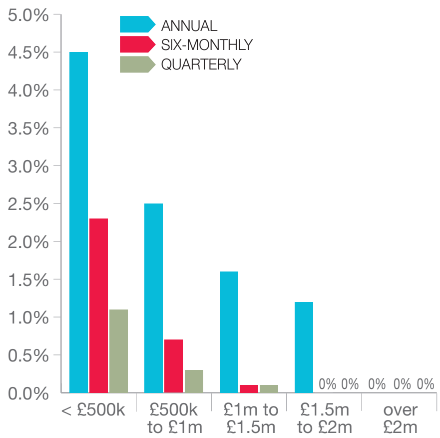
FIGURE 1
Edinburgh price growth moderates
Annual and quarterly price growth



Source: Knight Frank Research

FIGURE 2
But price growth is dependant on property value Annual, six-monthly and quarterly price growth in Edinburgh, by price band



Source: Knight Frank Research

Knight Frank Edinburgh City Price Growth, Q3 2015

	Edinburgh	New Town/ West End	North	South	West
3 month	0.4%	0.5%	0.7%	0.2%	0.3%
6 month	0.8%	1.0%	1.8%	0.4%	0.4%
1 year	2.5%	2.4%	3.6%	2.6%	1.2%
3 years	9.9%	13.1%	7.5%	10.7%	5.3%

Source: Knight Frank Residential Research

"The market below £500,000 continues to function with a healthy level of interest, buoyed by continued low interest rates and ongoing economic growth."

LBTT – the story so far...

It has been just over five months since LBTT replaced stamp duty in Scotland.

Official statistics from Revenue Scotland, the administrative body set up to collect returns from the tax, shows that between April and August LBTT receipts have so far totalled nearly £78m. In August, Revenue Scotland collected £21.4m, up from £7m in April. Tax returns have risen every month since its introduction, as shown in figure 3.

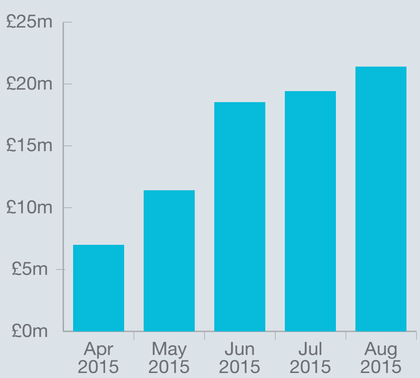
While it is still too early to draw any firm conclusions, the initial indications are that revenues are unlikely to raise the £235m originally forecast over the 2015/16 tax year.

One reason for this is because a number of buyers – especially in the prime market – brought forward transactions ahead of the introduction of the levy in order to benefit from lower stamp duty rates.

Our research shows that in the first three months of 2015 there were 48% more properties valued at above £500,000 for sale than over the same period the previous year. The number of £1m+ sales completed in Scotland between January and March was also considerably higher.

The long-term concern for policymakers is that recent changes could weigh on activity towards the top of the market. Any slowdown in such sales has the potential to have an impact on future tax revenues.

FIGURE 3
Monthly residential LBTT tax revenues



Source: Revenue Scotland

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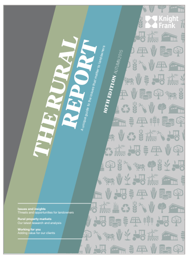

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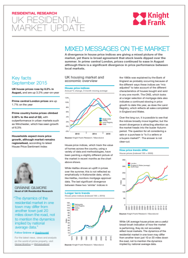

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