

ANNUAL GROWTH EASES

Prime property prices in Edinburgh fell on a quarterly basis for the first time in four years between October and December.

Results for Q4 2015

Annual price growth in the prime Edinburgh city market eased to 1.5% in 2015

Average values fell by 0.5% in the final three months of the year, the first quarterly fall since December 2011

Higher purchase costs continue to put pressure on property values at the top end of the market

There was a 6% increase in the number of property viewings in the final quarter of 2015

LBTT replaced Stamp Duty on all residential purchases in Scotland in April 2015. As a result, 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. For more details see our blog.

Annual price growth for prime properties in Edinburgh eased to 1.5% in 2015 down from 4.2% in 2014, as higher purchase costs continued to put pressure on property values at the top end of the market.

A drop of 0.5% in the final three months of the year contributed to the slowdown. This is the first time that the index has recorded a quarterly fall in prime prices since December 2011.

Prices have risen by around 10% cumulatively over the last four years - although this is less than half the 24% growth seen in the prime London market over the same period.

The introduction of the Land and Buildings Transaction Tax (LBTT) in April (see shaded box) continues to act as the primary brake on the top end of the city market, with the level of LBTT to be paid for sales between £500,000 and £1m on average 76% higher than the equivalent level of Stamp Duty across the rest of the UK.

Our agents note that negotiations between buyer and vendor have become more protracted. In some instances

this has led to prices being adjusted to match the level that buyers are willing to transact at, taking into account the additional burden of the levy.

Edward Douglas-Home, Head of Edinburgh City Sales, said: "There is little doubt that the introduction of LBTT has slowed the longer term recovery of the prime market in Edinburgh. However, demand for well-located flats and properties valued up to £500,000 remains relatively unaffected by the change."

Indeed, a closer look at different price bands within the prime market shows varying levels of performance. Unsurprisingly, given the higher rates of tax on more expensive property, homes valued at over £1.5m saw the biggest falls in prices during the final three months of the year, as shown in figure 2.

Below £500,000, prices have been underpinned by demand from local buyers and investors for new-build developments. In fact, Knight Frank sales data shows that the number of flats sold below this value in the city centre this year was 33% higher than in 2014.



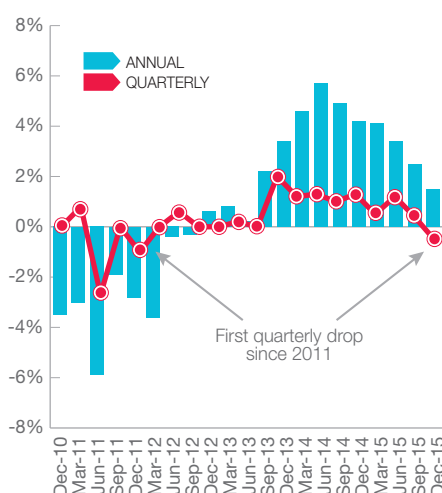
OLIVER KNIGHT
Senior Analyst

"Average prices rose by 1.5% in 2015. A drop of 0.5% in the final three months of the year – the first quarterly fall since December 2011 – contributed to the slowdown."

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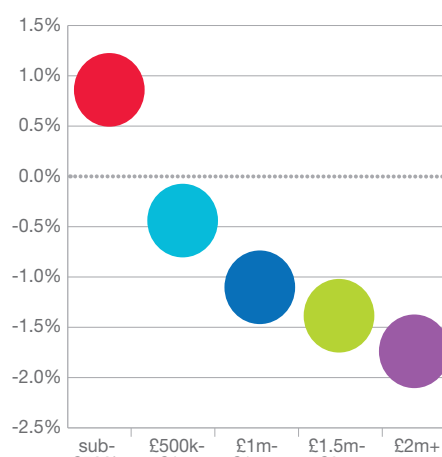
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FIGURE 1
Edinburgh price growth moderates
Annual and quarterly price growth



Source: Knight Frank Research

FIGURE 2
Different tiers of the market
Quarterly price growth in Edinburgh, by price band



Source: Knight Frank Research

EDINBURGH CITY INDEX Q4 2015

The number of potential buyers registering their interest in buying a property in the city with Knight Frank was relatively unchanged in the final quarter compared with the previous three months. There was also a 6% increase in the number of property viewings over the same period, suggesting that

underlying demand remains robust despite increased costs.

A proposed hike to LBTT next April for individuals buying an additional home may result in a spike in transactions between now and the end of March (see box) as such buyers bring forward transactions in order to minimise their tax burden.

“Demand for well-located flats and properties valued up to £500,000 remains relatively unaffected by the tax change.”

Edinburgh City Index Q4 2015

	Edinburgh	New Town/ West End	North	South	West
3 month	-0.5%	-0.4%	-0.2%	-0.6%	-0.5%
6 month	-0.1%	0.0%	0.5%	-0.4%	-0.3%
1 year	1.5%	1.8%	2.7%	1.2%	0.3%
3 years	9.3%	12.6%	7.3%	10.0%	4.8%

Source: Knight Frank Residential Research

PROPOSED ADDITIONAL LBTT

The Scottish Government has proposed an increase in LBTT for some transactions. Under the proposals, an additional 3% rate will apply to the purchase of additional properties, such as buy-to-let and second homes.

The new rate is set to come into effect from 1 April 2016.

The proposed rates will be levied on the total price of the property for all relevant transactions above £40,000 and will be in addition to the current LBTT rates.

This would replicate the UK Government policy for SDLT announced at the Autumn Statement 2015. A consultation on the proposals is expected in the coming weeks.

The Scottish Government has forecast that it will raise overall LBTT receipts in

2016-17 by between £17 million and £29 million, rising to a possible £66 million by 2020-21.

FIGURE 3

Purchase taxes UK and Scotland proposed and actual purchase taxes, £000's



Source: Knight Frank Research

RESIDENTIAL RESEARCH

Liam Bailey

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

Oliver Knight

Senior Analyst
+44 20 7861 5134
oliver.knight@knightfrank.com

EDINBURGH SALES

Edward Douglas-Home

+44 13 1222 9606
edward.douglas-home@knightfrank.com

PRESS OFFICE

Jamie Obertelli

+44 20 7861 1104
jamie.obertelli@knightfrank.com



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