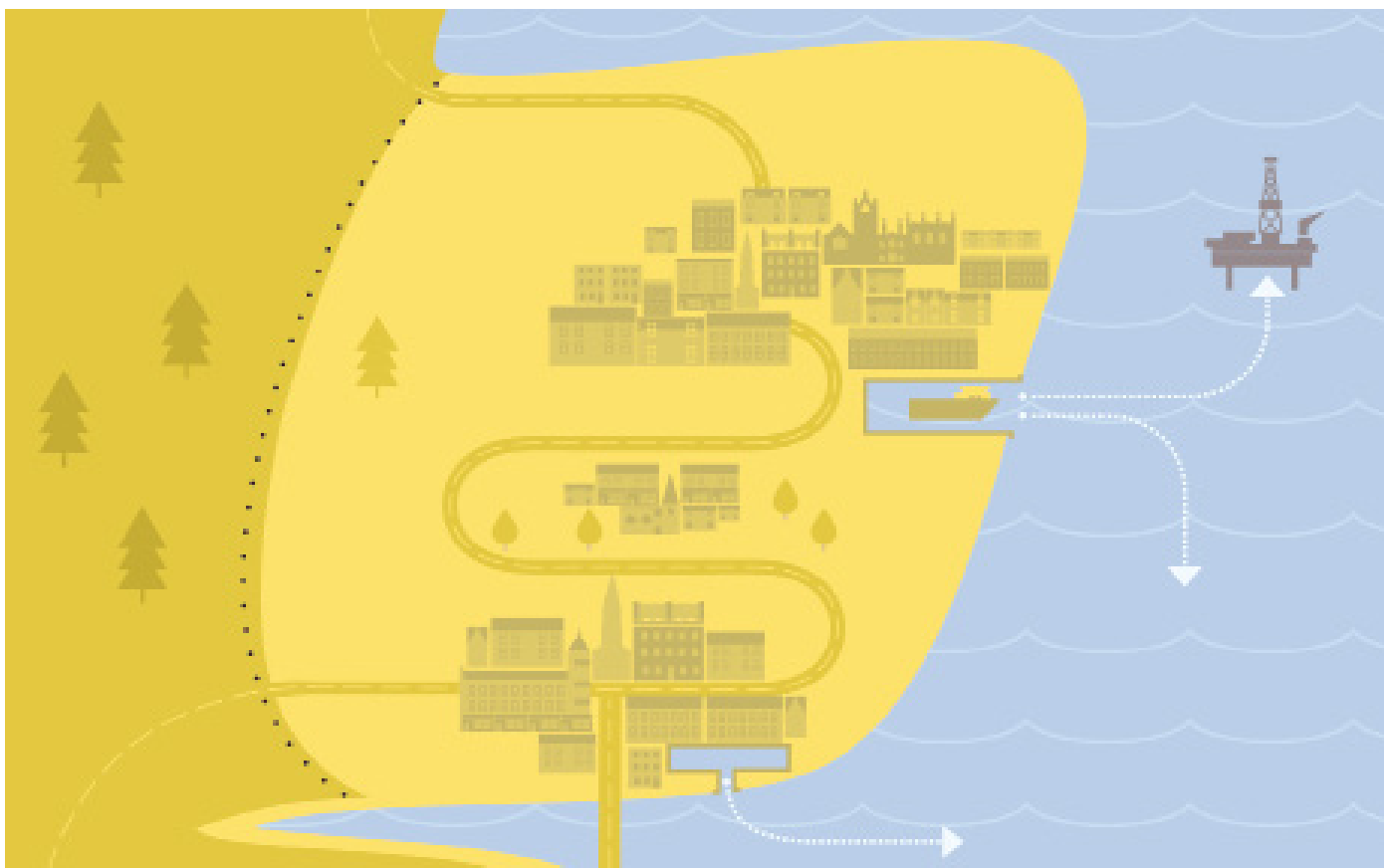


Spotlight | Winter 2017

North East Scotland's Residential Property Market



Summary The Aberdeen area residential market has improved this year, with values stabilising and transactions recovering. Meanwhile, there is increased confidence in the markets of Angus, Dundee and Moray, where house prices have reached record levels

■ The Aberdeen area market is looking brighter, with activity improving above £400,000. However, high levels of available mainstream stock will suppress value growth in the short term. **Page 2**

■ There is an air of optimism about the future of Dundee, sparked by new projects like the V&A. House prices have reached record levels, fuelled by a lack of supply. **Page 3**

■ Ongoing investment in Dundee is assisting the Angus market, where transactional activity in coastal locations has improved this year. **Page 3**

■ Increased new build activity is supporting the Moray residential market, where transactional activity above £300,000 has reached a 10-year high. **Page 3**

■ There is increased confidence in Aberdeen's development land market, with a number of recent deals in peripheral locations. However, prevailing caution will suppress any growth in values. **Page 4**

Aberdeen area recovery continues

The market is looking brighter, with values stabilising and transactions recovering

Residential market recovery across the Aberdeen area has continued throughout 2017. However, the level of available second hand mainstream stock remains high.

According to the UK House Price Index, from peak to trough, Aberdeen City’s average house price had fallen by 19%, from £199,285 in September 2014 to £161,803 in February 2017. The gap has narrowed slightly to 16%, with the average price picking up in recent months, reaching £167,903 in August.

Aberdeenshire’s average house price fell by 8% from peak to trough, from £202,570 in April 2015 to £186,376 in March 2017. The months of May and June saw a mini recovery in average prices, with the peak to trough gap narrowing to 3%. However, the average price fell back to £188,876 in August, thus highlighting the fragile nature of the current market.

An increase in transactional activity

Alongside a recovery in average prices, the Aberdeen area has also witnessed modest growth in transactions throughout this year. The number of residential transactions in Aberdeen City and Aberdeenshire reached 5,994 during the first nine months of 2017, which was 2% higher than the same period in 2016. This is the first annual increase since 2014, when the number reached 8,108 during the height of the energy market.

The recovery in transactions was led by the second hand market, whereas new build activity fell by 13% this year. This reflects the 23% annual drop in new house building in Aberdeen City and Aberdeenshire during the financial year 2016/2017.

While the market up to £400,000 is still adjusting, activity above this level has stabilised, especially in the second hand market. There were 218 second hand transactions between £400,000 and £1 million during the first nine months of 2017, compared to 204 over the same period in 2016.

The overall market above £400,000 is also attracting more buyers from outside Scotland, with the number originating from the rest of the UK almost doubling this year.

Suburban hotspots leading the recovery

Within Aberdeen City, the AB13, AB15 and AB25 postcodes led the recovery this year, with a 20% annual rise in transactional activity, supported by new build sales. These areas include the hotspots of Aberdeen’s West End and the sought-after suburbs of Bielside, Cults and Milltimber. This shows that in times of uncertainty, buyers are drawn to prime hotspots, which are considered safe investments.

In Aberdeenshire, the strongest growth in transactions this year took place in locations that are within easy reach of Aberdeen, including Portlethen and Westhill and also the hotspot of Banchory, where the local secondary is one of Scotland’s top-performing state schools in terms of Higher exam results. Meanwhile, there was a 25% annual increase in the number of transactions in southern Kincardineshire, which includes Laurencekirk and Fettercairn. Transactional activity also recovered in the coastal town of Stonehaven, mainly between £200,000 and £400,000.

Stock levels reducing above £400,000

Whilst transactions have started to recover, the number of available second hand residential properties has doubled since the beginning of 2015. The majority is between £100,000 and £200,000 and includes many buy-to-let properties, which have been impacted by significant falls in rental prices. Compared to last November, the amount of available stock in this price band has increased by 25%. However, above this level, the amount has reduced by 6%, including a 15% drop above £400,000, reflecting the improved transactional activity.

Prospects for longer term recovery are good, providing prices adjust

Our Aberdeen area residential values five-year forecast reflects recent stability in average prices and improving transactional activity. While exceptional properties and established locations will continue to attract buyers, the increasingly high level of available stock will suppress value growth in the short term. This adjustment will help to generate demand and begin a housing market recovery in Aberdeen, with values expected to grow by 4.5% by 2022. ■

FIGURE 1 Five year residential annual change forecasts

	2018	2019	2020	2021	2022	5-year compound growth
UK mainstream values	1.0%	2.5%	5.0%	2.5%	2.5%	14.2%
Scotland mainstream values	1.5%	3.5%	5.0%	3.0%	3.0%	17.0%
Aberdeen area mainstream values	-1.5%	-1.0%	3.0%	1.5%	2.5%	4.5%

Source: Savills Research

Wider North East market reaches new heights

Market confidence has increased in Angus, Dundee and Moray

The residential markets in Angus, Dundee City and Moray have remained relatively unaffected from the recent boom and bust experienced in the Aberdeen area.

Record price growth in Dundee City

There is an air of optimism about the future of Dundee City, where the new V&A museum is due to open in 2018. This will be the centrepiece of the £1 billion, 30-year transformation of Dundee City Waterfront. The increased confidence has supported growth in the local residential market. Dundee City's average house price reached £125,847 in August this year, which is the highest monthly figure in 13 years.

Dundee's price growth has been fuelled by a lack of supply. The number of private new homes built in Dundee City over the last 10 years is 45% below the amount in the previous decade. Furthermore, the Dundee City market, which is around two-thirds the size of Aberdeen City's in terms of annual residential transactions, has 75% fewer properties currently available to buy.

As a consequence, the number of residential transactions during the first nine months of 2017 was 2% lower than the level last year over the same period. Despite this drop, prime transactional activity in Dundee City above \$400,000 in 2017 reached its highest level in five years. This included the sale of Brackenbrae House in Broughty Ferry, which became Dundee's first ever million pound residential sale earlier this year.

Ongoing investment in Dundee City is assisting the Angus market

Increased prosperity in Dundee has led to further growth in the Angus residential market. The average house price reached £144,788 in July this year, which is the highest monthly figure since 2008.

The number of residential transactions during the first nine months of 2017 was 4% higher than the level last year over the same period. The market has improved between £200,000 and £400,000 and has grown in the coastal areas of Monifieth, Carnoustie and Arbroath, supported by new build activity.

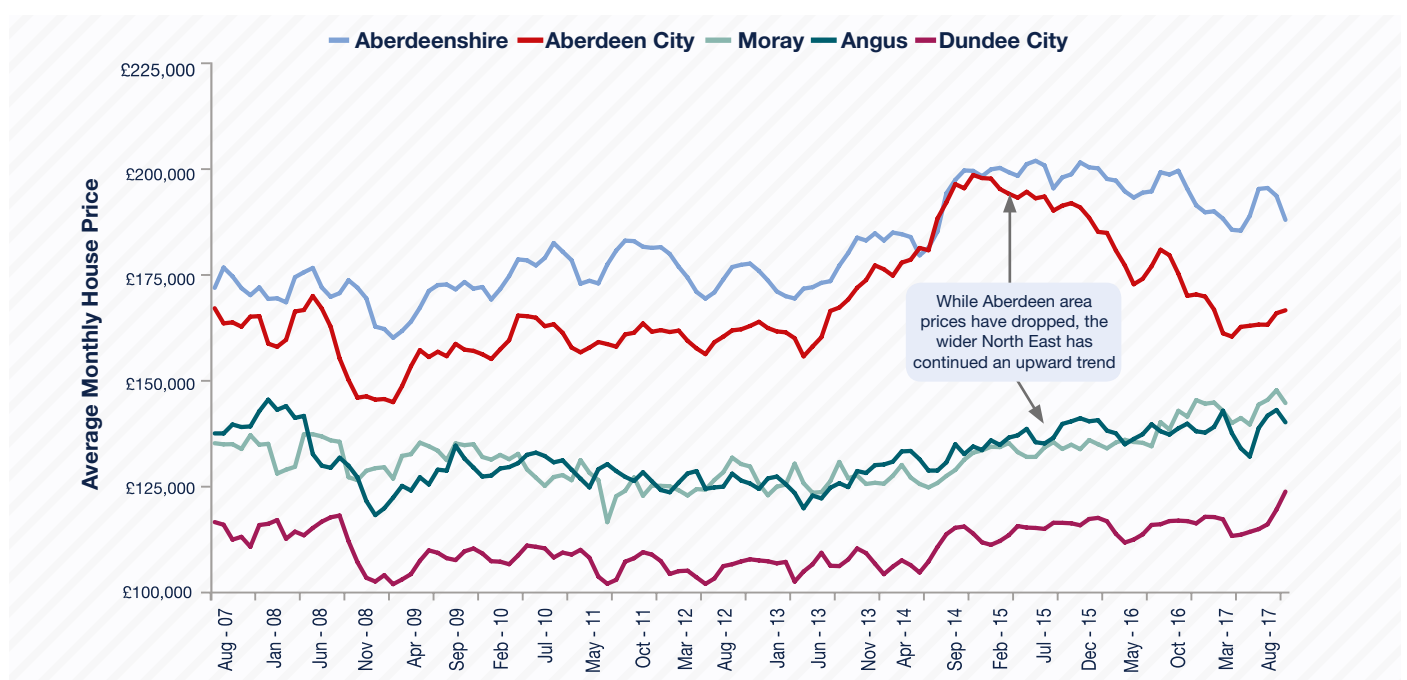
Increased new build activity is supporting the Moray market

In Moray, the average house price reached £149,360 during July 2017, which was highest monthly figure in 13 years.

Overall transactional activity has remained unchanged this year compared to 2016, however, there was improved activity above £300,000. The Moray market has been supported by private new build activity, with the level of house building going up by 24% during the financial year 2016/2017 compared to 2015/2016.

New build sales have supported the 54% annual rise in transactions in Forres during 2017, making up 23% of all activity in the town during the first nine months of this year. Meanwhile, the number of transactions in Fochabers reached 77 during the first nine months of 2017, which is the highest in 13 years. ■

FIGURE 2 Average monthly house price in North East Scotland



Source: UK House Price Index

Confidence slowly returns to the development market

The market is showing signs of improvement, with renewed interest from outside Aberdeen

The Aberdeen area population is expected to grow by 14% over the next 20 years, compared to 5% for Scotland as a whole, according to the Government's population projections. Substantial areas of land will therefore be required to accommodate new development to meet this growth.

Encouragingly, a number of deals have taken place in Aberdeen's peripheral locations, although prevailing caution will suppress value growth. Meanwhile, there is a lack of supply of apartment sites in the West End, where demand remains strong.



▲ Savills has recently sold Banchory and Leggart Estate, strategically located to the south west of Aberdeen City

Recent edge of town deals signal an improving market

Significant deals at the edge of Aberdeen have recently completed or are under offer. This demonstrates a level of confidence in the improving market by both regional and national house builders.

There is an increased appetite from house builders and developers looking to expand their land holdings and number of outlets. However, house builders are continuing to appraise sites with an element of caution that will limit any growth in land values in the short term.

There is also renewed interest from companies outside Aberdeen, attracted by improving infrastructure, such as the Aberdeen Western Peripheral Route, and the opportunity to create value in the longer term.

Underlying fundamentals will support demand in established locations

Notwithstanding the challenges to the wider housing market, there is currently a significant lack of new build West End apartments. While values have undoubtedly been affected by the subdued energy market, there remains active demand for such sites. In general terms, even in a weak market, new build apartments in established locations of Aberdeen perform relatively well, largely due to a lack of supply and continued demand from Aberdeen's affluent downsizer market, supported by high levels of equity over a sustained period.

Average new build asking prices per square foot in Aberdeen this year have ranged from £250 in peripheral locations to around £300 in central and western hotspots.

There is a lack of supply of quality centrally located development sites, which is limiting activity. Encouragingly, there is a desire for the City Council to attract more development, in particular through the Aberdeen City Centre Masterplan project on which Savills is advising. Hence, there is potential for early mover advantage in this area. ■

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