

LSL Property Services/Acadata

Scotland

House Price Index

JANUARY 2014

STRICTLY UNDER EMBARGO UNTIL 00.01 WEDNESDAY 19TH MARCH 2014

Scottish house prices show no negative response to Independence debate

- House prices up £1,680 in January – largest monthly increase for 50 months
- Average Scottish prices rise by £6,073 – largest annual increase since September 2010

House Price	Index	Monthly Change %	Annual Change %
£160,270	201.0	1.1	3.9

Richard Sexton, director of e.surv chartered surveyors, part of LSL Property Services, comments: “The enthusiasm of property investors suggests the Independence debate is having no impact on confidence within the Scottish housing market. Scottish prices are up £1,680 in January. Five consecutive months of rising prices indicate the market has bounced back fast as it gathers the fruits of the wider economic recovery. Whether or not the possibility of Scottish Independence throws up all sorts of question marks, such as the economic cost of a separate monetary system for Scotland, currency risks, changes to stamp duty and land tax, the property market seems currently unaffected. And whether some businesses are alarmed by the prospect of the use of a currency other than sterling, a development that might lead to a rise in transitional risks as well as large business costs, with corresponding implications for jobs, as yet there is little obvious impact. Banks such as RBS and Standard Life have threatened to leave Scotland altogether and decamp to England, possibly causing a drop in net lending. But if a yes vote for independence looked like the more probable outcome, we would expect this uncertainty to have manifested itself in property prices. As we can see, there has been no such impact on the housing market.

“2014 recorded the highest volume of sales in a January since 2008. Increased lending and mortgage availability are reaching heights not seen since before the recession as first-time buyers return to the market en masse. Mortgage finance – for those who can access it – is at its cheapest for some time. This is sustaining activity in all sections of the market, specifically buy-to-let investors and homeowners looking to upgrade. The spring market in Scotland will see more lending to first-time buyers thanks to cheaper rates, a boost in high loan-to-value mortgages and the support of Help to Buy. The lack of supply in properties in Scotland is boosting competition between new and previous buyers, propping up prices. The property market doesn’t appear to think things are set to change any time soon.”

For comment by Dr Peter Williams, housing market specialist and Chairman of Acadata, see page 3.

House price index: historical data



Table 1. Average House Prices in Scotland for the period January 2013 – January 2014

[link to source Excel](#)

		House Price	Index	Monthly Change %	Annual Change %
January	2013	£154,197	192.9	0.2	-2.2
February	2013	£155,099	194.4	0.6	-1.3
March	2013	£155,443	195.3	0.2	-1.0
April	2013	£155,828	195.0	0.2	-1.2
May	2013	£155,976	195.0	0.1	-0.7
June	2013	£155,146	194.1	-0.5	-1.3
July	2013	£154,981	194.8	-0.1	-1.0
August	2013	£154,421	194.4	-0.4	-0.4
September	2013	£155,042	195.7	0.4	0.1
October	2013	£155,196	195.4	0.1	0.7
November	2013	£157,758	198.3	1.7	2.3
December	2013	£158,590	198.9	0.5	3.1
January	2014	£160,270	201.0	1.1	3.9

Press Contacts:

Melanie Cowell, LSL Property Services
Richard Sumner, Acadata
Flora Spens, Wriglesworth PR

01904 715 326
020 8392 9082
020 7427 1416

melanie.cowell@lsps.co.uk
richard.sumner@acadata.co.uk
f.spens@wriglesworth.com



Dr Peter Williams, housing market specialist and Chairman of Acadata, comments:

The housing market in Scotland continues its upward trajectory. Average house prices in January increased by £1,680 (1.1%) on a seasonally adjusted basis. This is the fifth month in succession in which prices have risen and the second largest monthly increase since November 2009, some 50 months ago. Over the last year, monthly prices have risen on nine occasions, with only three months in the summer holiday season of 2013 seeing prices fall.

Figure 1 gives a quick sense of how prices have evolved over the last twelve months. The black line shows the trend in average house prices over the period, with the red line indicating the actual movement on a monthly basis. Prices appear to have been fairly static during the first five months of 2013, with a slight dip over the summer: however, a period of sustained acceleration over the last three months can be seen.

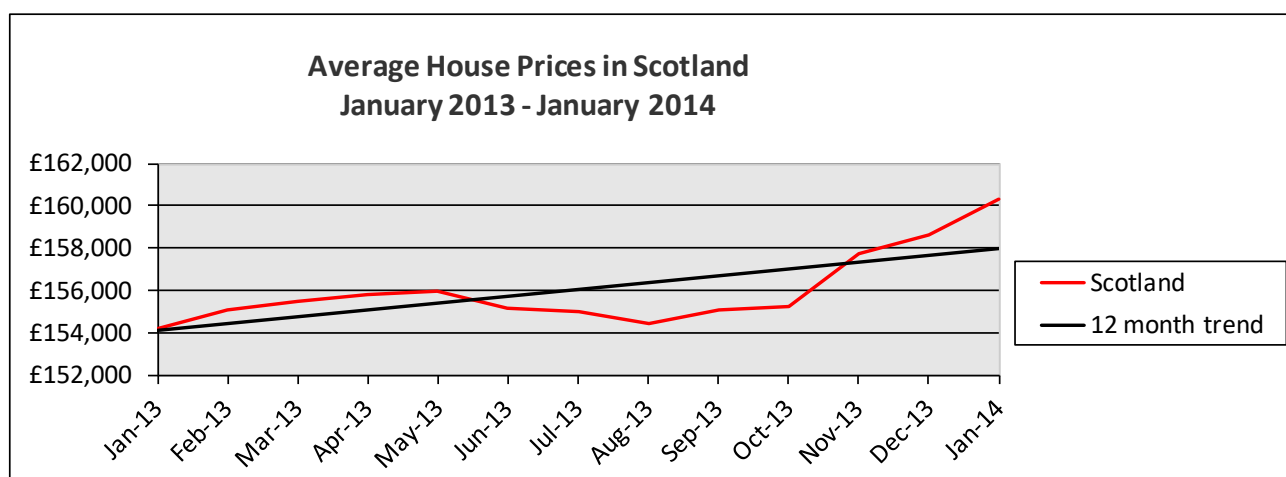


Figure 1. The average house price in Scotland, January 2013 – January 2014.

[link to source Excel](#)

On an annual basis, prices have increased by £6,073 or 3.9%. This is the largest annual increase since September 2010 when house prices were on the rebound from the 2009 housing credit crisis. At £160,270 the average house price in Scotland is now only £5,500, or 3.4%, from its peak in April 2008. This month there are two Local Authority Areas, Aberdeen City and Angus, where average house prices have reached a new high.

During 2013 we saw the return of first time buyers, as the financial institutions eased their lending and deposit requirements to this sector, also assisted by the Help to Buy (Scotland) scheme. This also aided home mover activity in the market, as housing chains began to free themselves. The CML in its recent publication “Lending in Scotland”, 26/02/2014, stated that the number of loans to house purchasers in Scotland in 2013 totalled 54,100, up 15% on 2012. Loans to home movers over this period increased by 9%, to 30,100, and loans to first time buyers increased by 24% to 24,000 in total. Iain Malloch, chair of CML Scotland, commented: “The strong upward trend in lending seen in 2013 gives grounds for optimism, suggesting that improved mortgage availability and economic recovery are creating greater activity in the Scottish housing market. First-time buyers have been a crucial driver throughout 2013, and the CML anticipates this growth in the market will continue into 2014.”

Although housing transactions in January 2014 are substantially down on December 2013 totals by 39%, the decline is due to two factors: firstly there are seasonal elements – on average one can anticipate a 20% weather-related decline in sales in January when compared to December, with the lack of daylight hours and the Christmas holiday period contributing to this, and with activity only starting to pick up again in March; and secondly with December 2013 being such an exceptional month for sales, it was always going to be a hard act to follow. Even though January 2014 saw a sharp decline in sales volumes from December 2013, it still recorded the highest level of sales in the month of January since 2008, and was up by 28% over the average for that month for the period 2009 - 2013.

One of the main challenges for the housing market in 2014 is how to satisfy the demand for housing which is now evident. Most estate agents are reporting a lack of new sellers coming to the market, which will have the effect of pushing prices up as buyers compete for the reducing number of properties available. A similar pattern is being seen in Greater London and the South East regions of England, with what appears to be an overheating of the market in the South. Some will argue that this should be countered by an increase in interest rates. It will be interesting to see how Mark Carney, Governor of the Bank of England, will react.

House prices analysis



Table 2. Average House Prices in Scotland, by local authority area, comparing January 2013 and December 2013 with January 2014 [link to source Excel](#)

RANK BY PRICE	PRIOR YR RANK	LOCAL AUTHORITY AREA	Jan-13	Dec-13	Jan-14	% Monthly Change	% Annual Change
1	1	Edinburgh, City of	220,757	224,411	230,977	2.9%	4.6%
2	3	Aberdeenshire	205,877	219,074	217,708	-0.6%	5.7%
3	4	East Dunbartonshire	197,848	205,585	214,948	4.6%	8.6%
4	2	East Renfrewshire	207,126	218,255	213,069	-2.4%	2.9%
5	6	East Lothian	187,653	215,960	211,183	-2.2%	12.5%
6	5	Aberdeen City	192,714	204,795	206,860	1.0%	7.3%
7	7	Perth & Kinross	185,510	186,876	191,286	2.4%	3.1%
8	8	Stirling	179,613	177,834	189,059	6.3%	5.3%
9	10	Midlothian	163,525	169,552	172,483	1.7%	5.5%
10	9	Scottish Borders	168,191	172,203	171,195	-0.6%	1.8%
11	12	Highland	149,411	155,555	157,797	1.4%	5.6%
12	11	Argyll & Bute	153,096	154,128	150,464	-2.4%	-1.7%
13	15	Angus	139,846	144,153	148,834	3.2%	6.4%
14	13	Moray	147,653	142,407	145,773	2.4%	-1.3%
15	14	South Ayrshire	140,052	148,836	143,780	-3.4%	2.7%
16	17	West Lothian	134,828	141,506	139,195	-1.6%	3.2%
17	18	Fife	133,586	134,440	137,564	2.3%	3.0%
18	21	South Lanarkshire	125,632	130,968	132,944	1.5%	5.8%
19	16	Dumfries & Galloway	139,530	132,480	131,891	-0.4%	-5.5%
20	20	Dundee City	125,768	126,092	131,351	4.2%	4.4%
21	19	Glasgow City	125,925	129,702	127,817	-1.5%	1.5%
22	23	Shetland Islands	119,841	128,066	124,883	-2.5%	4.2%
23	27	West Dunbartonshire	113,284	115,477	122,844	6.4%	8.4%
24	22	Falkirk	122,286	123,520	122,591	-0.8%	0.2%
25	29	Inverclyde	112,191	117,681	120,209	2.1%	7.1%
26	26	Renfrewshire	115,682	117,433	119,680	1.9%	3.5%
27	28	East Ayrshire	112,878	106,791	119,258	11.7%	5.7%
28	24	Clackmannanshire	119,402	123,333	118,150	-4.2%	-1.0%
29	25	Orkney Islands	118,828	126,137	112,815	-10.6%	-5.1%
30	30	North Lanarkshire	109,165	108,705	108,723	0.0%	-0.4%
31	31	North Ayrshire	106,797	108,711	107,573	-1.0%	0.7%
32	32	Eilean Siar	106,159	97,721	98,285	0.6%	-7.4%
		All Scotland	154,197	158,590	160,270	1.1%	3.9%

Table 2 above shows the average house price and percentage change (over the last month and year) by Local Authority Area for January 2013, December 2013 and January 2014. Overall in January 2014, prices continued to rise by 1.1% in the month, although this increase was less dramatic than that seen in November 2013 (1.7%). Prices in January rose in 18 of the 32 Local Authority Areas (some 56% of all areas), on a seasonally adjusted basis. This is one less area than last month, but still represents more than half of all Local Authority Areas in Scotland witnessing a price increase.

On an annual basis, prices have risen in 25 of the 32 local authority areas, which is eleven more than three months ago. This demonstrates the current upward pressure on house prices as demand for properties continues to increase. Many agents are reporting a lack of new instructions to sell, which is beginning to push up the prices of those properties which are put on the market.

There are two Local Authority Areas in Scotland where prices are currently at a peak; Aberdeen City and Angus. House prices in Aberdeen City are being pushed up by the increasing activity related to the North Sea oilfields. Aberdeen City is joined this month by Angus, where there has been increasing demand for all property types, but most notably terraces and flats, which have seen a 63% increase in sales when comparing Q4 2013 with the same period in 2012. It is interesting that a number of newbuild housing developments for 'affordable homes' are currently proposed for the area. Clearly the house-builders have picked up on the increase in demand for homes in the area, which are currently selling at record prices.

The area with the highest annual increase in prices this month is East Lothian, up by 12.5% on the year. There have been a few high end property sales here which have increased average prices. More widely, the sale of detached homes has increased by 75% in number in Q4 2013 compared to a year earlier, underpinning demand and prompting the upward movement in prices.

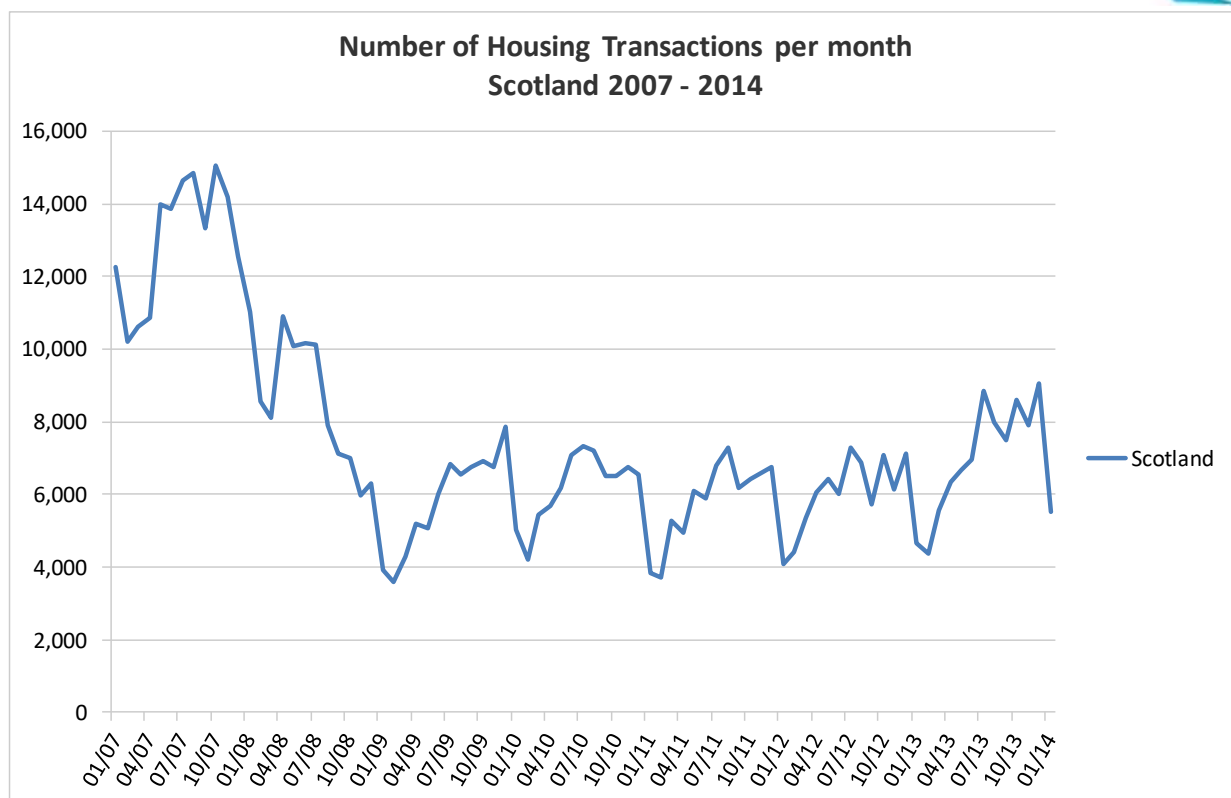


Figure 2. The number of housing transactions by month in Scotland, 2007 - 2014 (not seasonally adjusted)

[link to source Excel](#)

The graph above shows the number of monthly transactions recorded by the Registers of Scotland (RoS) for the period January 2007 to January 2014, without seasonal adjustment. The graph demonstrates that there has been an upturn in housing transactions in the second half of 2013, with the number of properties sold in each month since June 2013 exceeding that of the equivalent period in the preceding four years. Although there has been a fall in transactions in January 2014 from December 2013 levels, this is a seasonal feature of the housing market. It can be seen from the graph that January 2014 sales were significantly higher than the January/February low points of the preceding five years, up by an average 28%, despite the increase in the average rainfall experienced in many parts of the country this year.

The Council of Mortgage Lenders (CML) has recently produced its own statistics for sales in Scotland during Q4 2013 which are in line with the above analysis. CML reports that the number of loans for house purchases increased by 24% during Q4 2013, compared to Q4 2012. The largest increase in sales was to first time buyers, up by 26% over Q4 2012, followed by home movers, up by 19% over the same period. In terms of the number of transactions, CML reported loans to first time buyers totalled 6,700, and to home movers 8,600. CML do not record cash-only transactions which are particularly prevalent among property downsizers, so the number of home movers will almost certainly be greater than these figures suggest.

Continuing the theme of comparing sales in Q4 2013 with Q4 2012, we find that the sale of detached properties increased in number by 32%, flats by 31%, terraced properties by 26% and finally semi-detached properties by 21%. These increases are consistent with the strength seen in the first time buyer market, where flats are the typical property of choice and affordability. Additionally, the increase in the sales of detached homes suggests that the more mature home movers in the property market are also becoming more active.

The highest percentage increase in the sale of properties on the mainland in the last three months of 2013 compared to the same three months in 2012 was in Clackmannanshire, up by an overall 66%. Here the sale of detached properties increased by an additional 35 units (up 140%), with higher sales of all other property types also being experienced. Clackmannanshire was closely followed by West Dunbartonshire, up by an overall 53%, where there was an increase of more than double the number of detached properties sold compared to the same three months in the previous year.

Edinburgh saw the highest number of flat sales in Q4 2013 at 1,945 units, which represents an additional 600 units (44%) over the same three month period in the previous year. Clearly the capital city is a popular choice for first time buyers.

Change in mix adjustment



CHANGE IN MIX ADJUSTMENT

This month we have changed the basis of the mix adjustment that we use to calculate the average house price for Scotland. It is the House Price Index equivalent of changing the basket of goods that comprise the calculations for the Retail Price Index.

The main reason for the change is that we have similarly updated the mix adjustment that we use for England & Wales, and want to maintain uniformity in our approach to the Index for Scotland. This enables a direct comparison of prices between Scotland and the remainder of the UK.

Since inception, the LSL Acad Scotland HPI has been based on a weighting of property type and location given by the number of housing transactions that took place in Scotland between April 2003 and March 2007, some 570k in number. This mix of property type and location has been kept constant since that time to enable a comparison of prices to take place irrespective of the volume of sales that occurred in any one period or location.

This month we have recalculated these weights to reflect the number of transactions that took place in Scotland between January 2010 and December 2013, the same period as used for our England & Wales Indices, being some 217k in number. We have subsequently recalculated all values of our house prices in the various series on the basis of the new weightings, which has had the effect of increasing the average house price in Scotland in December 2013 by some £12,000.

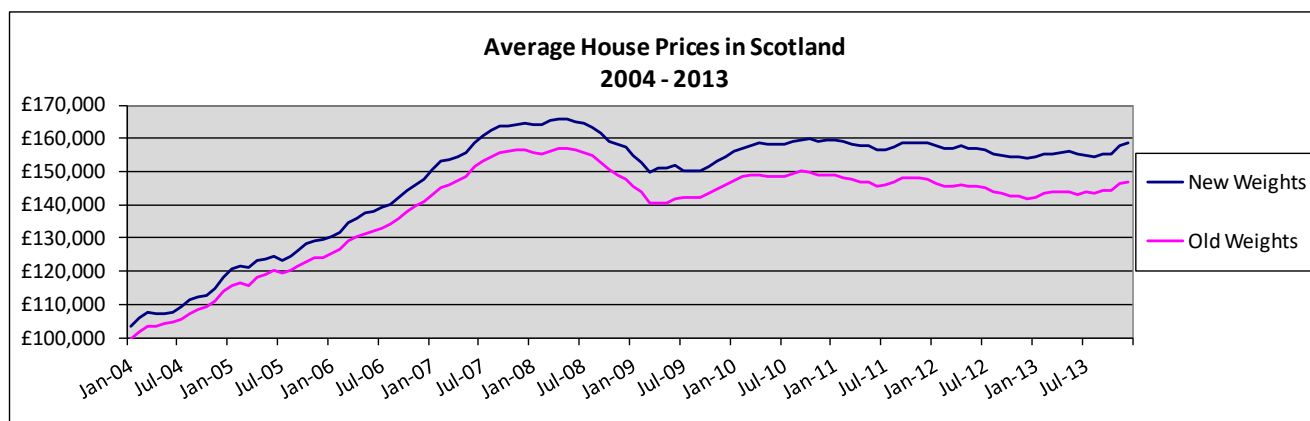


Figure 3. Average House Prices in Scotland, 2004-2013, comparing values using new & old weights

[link to source Excel](#)

As can be seen from Figure 3, the movement in the average value of house prices using both the new and old weights match closely, with a general upward shift in prices over the entire period associated with the new weightings. Overall, the new weights show an increase in average prices of between £3k and £12k compared to the old weights, with the more recent observations showing the larger differences.

The main changes in the new weights compared to the old relate to the changes in the location of sales that took place during the years 2010 – 2013, compared to 2003 – 2007. Both Aberdeenshire and Aberdeen City have seen their share of the Scottish market increase over the period, with a decline in market share of properties in Glasgow City and North Lanarkshire. Given that Aberdeenshire and Aberdeen City are at the top end of the property scale in terms of price, while Glasgow City and North Lanarkshire are closer to the bottom, this results in an increase in average prices for Scotland as a whole.

The City of Edinburgh and the City of Glasgow both currently carry equal weight in our calculations, with each city representing 10.8% of the total Scottish property market.

Comparing our average price for Scotland in December 2013 of £158,590 with that produced by the Registers of Scotland (RoS) at £160,322, there is a remarkable similarity in values. However, it should be remembered that the RoS statistics are not seasonally adjusted (our seasonality price factors for December are near unity), so we can anticipate a divergence in our respective prices during the forthcoming months, with March having the highest seasonality factor of the year.

For those financial institutions that use the LSL Acad Scotland Index as a measure of house price change, we should advise that we have chain-linked our Index (Jan 2000 = 100.0) to that recorded in December 2013 at 198.9, using the previously adopted weights. Thus the index from Jan 2000 – Dec 2013 is frozen at the levels recorded over the last ten years using the original weights, with changes in the index post December 2013 reflecting the changes in price that take place using the new weights from January 2014 onwards.



NOTES

1. LSL Acad Scotland HPI is a price series as opposed to a value series and is the only house price index for Scotland to use:
 - the actual prices at which every residential property in Scotland was transacted, including prices for properties bought with cash, using the data provided by Registers of Scotland as opposed to valuation estimates or asking prices
 - the price of every single relevant transaction, as opposed to prices based upon samples
2. the current month LSL Acad Scotland HPI is not forecast, unlike the LSL Acad E&W HPI, and the first release of the Scotland results lag the first release of those for England & Wales by one month
3. whilst the LSL Acad Scotland HPI, like the LSL Acad E&W HPI, comprises a smoothed average of three months' prices, the LSL Acad Scotland HPI average reflects the average price at the month of the index and the prior two months' prices and is ascribed to the month of the index i.e. it is "end month smoothed" (ems) and not "centre month smoothed" (cms) as applied to the LSL Acad E&W HPI. Since we provide only a national England & Wales average price in our current month LSL Acad E&W HPI and prices at region and lower levels are lagged one month, this procedure means that the LSL Acad Scotland HPI prices are contemporaneous with the prices published for the equivalent month for England & Wales, Wales and the regions.
4. all LSL Acad Scotland HPI results are subject to change following receipt of updated data from Registers of Scotland
5. Acadata is an independent privately owned consultancy working with Dr Stephen Satchell, Economics Fellow Trinity College Cambridge, and specialises in the assessment of risk in property and mortgage portfolios.

Comparison of indices and RoS average prices

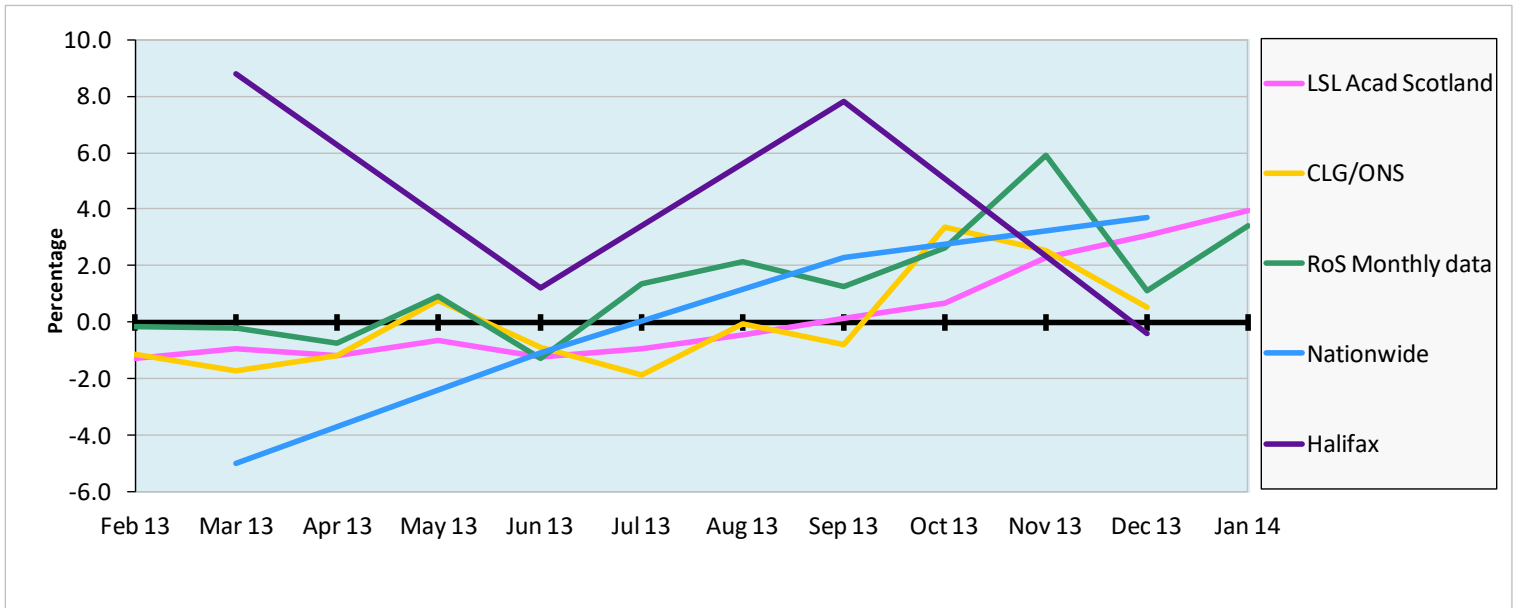


Figure 4. ANNUAL CHANGE IN HOUSE PRICES - COMPARISON OF INDICES AND RoS CHART

[link to source Excel](#)

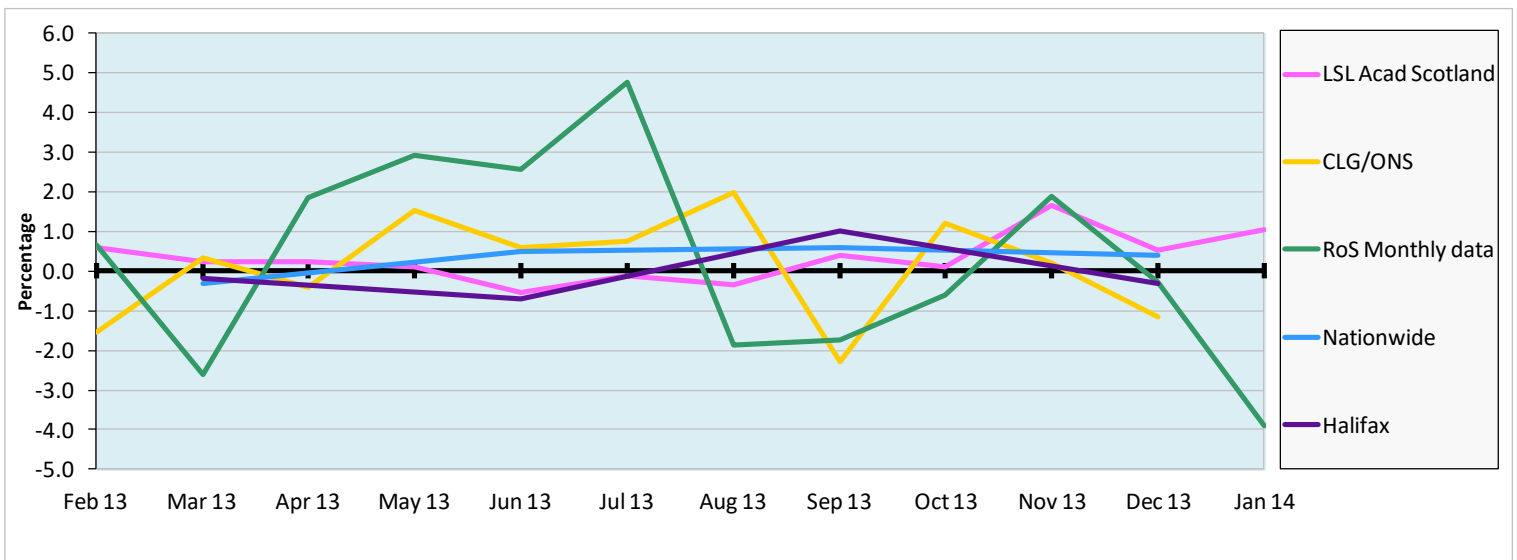


Figure 5. MONTHLY CHANGE IN HOUSE PRICES - COMPARISON OF INDICES AND RoS CHART

[link to source Excel](#)

The charts above compare the main indices provided for Scotland and the RoS arithmetic average prices. It should be noted that Halifax and Nationwide provide prices for the Scottish market only on a quarterly basis and we have charted these by interpolating on a straight line basis.

Comparisons with Scotland



Average House Price

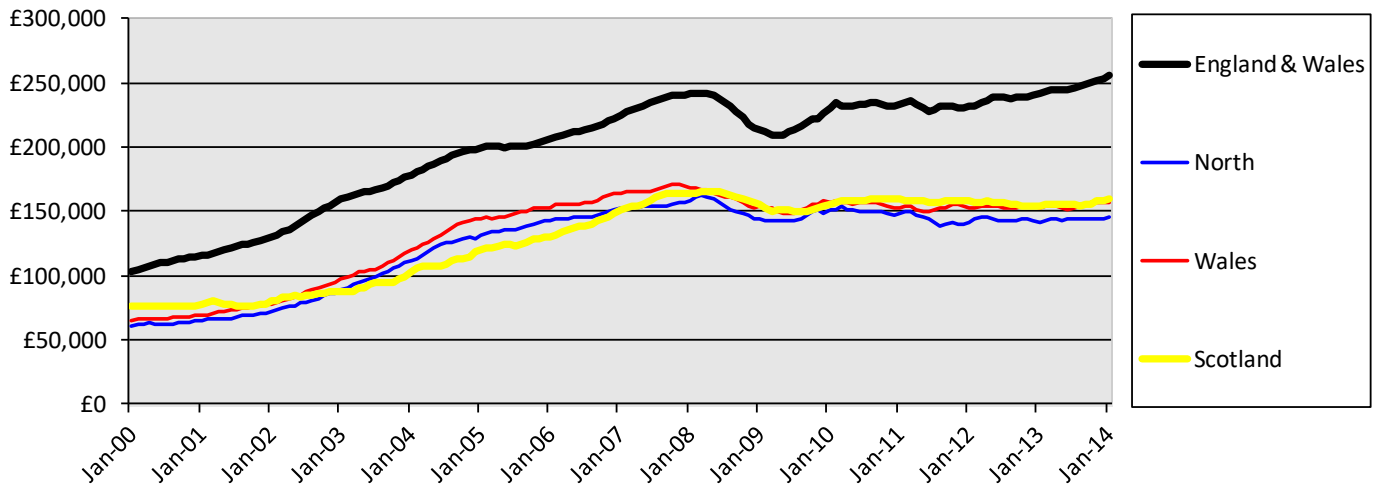


Figure 6. Scotland house prices, compared with England & Wales, Wales and the North for the period January 2000 - January 2014 [link to source Excel](#)

Annual % change in Average House Prices

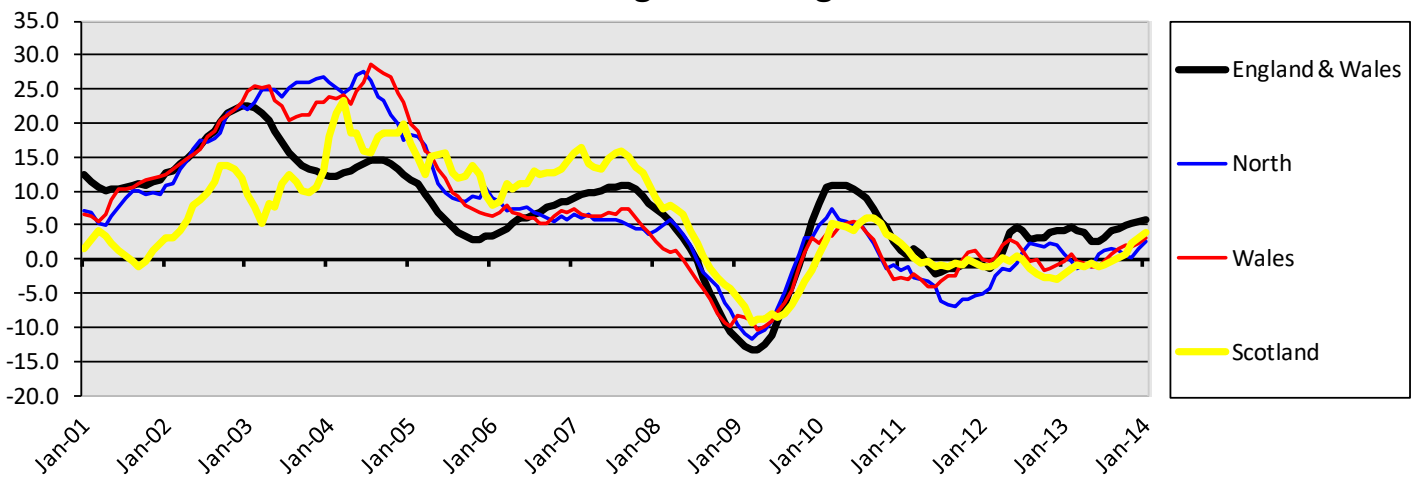


Figure 7. A comparison of the annual change in house prices in Scotland, England & Wales, Wales and the North for the period January 2001 – January 2014 [link to source Excel](#)

Scotland's seven cities

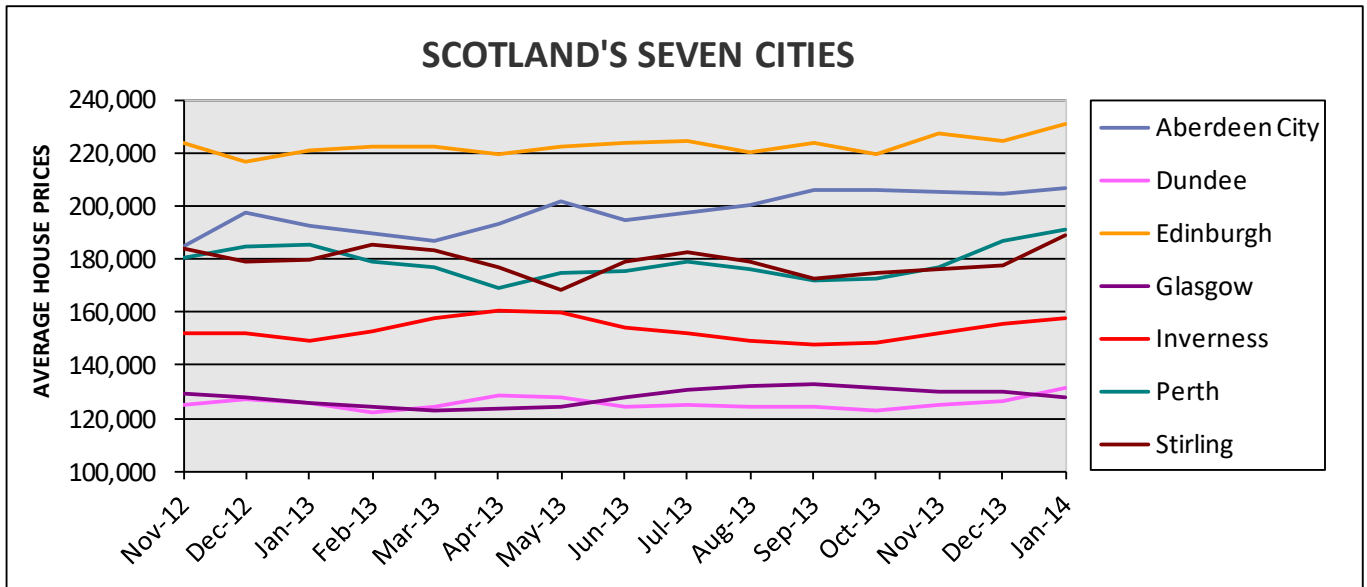


Figure 8. Average house prices for Scotland's seven cities from November 2012 – January 2014 [link to source Excel](#)

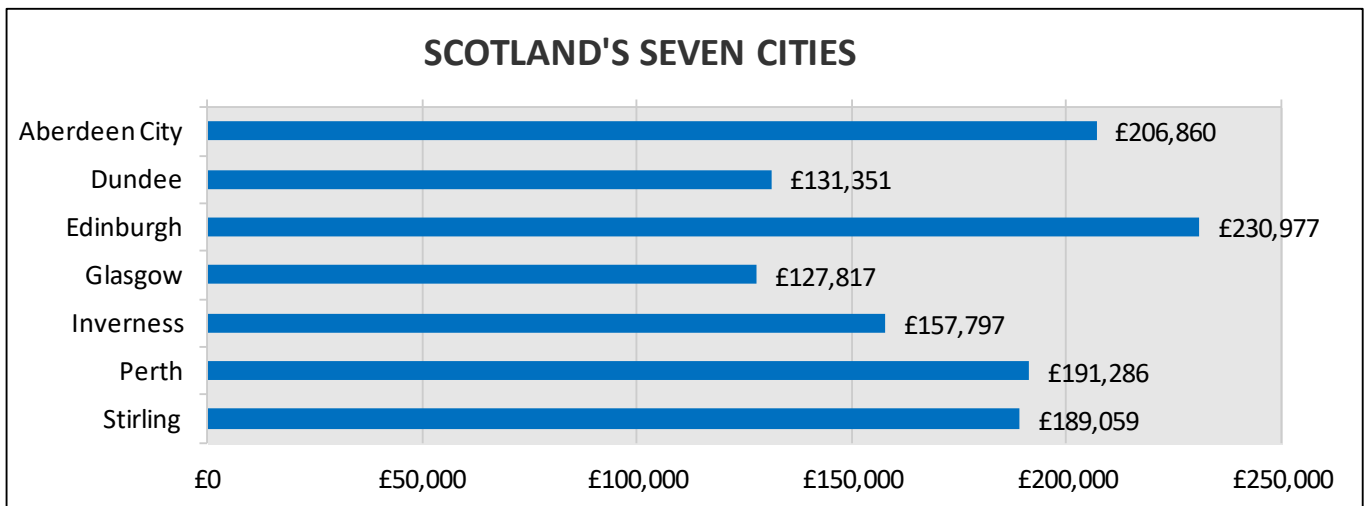


Figure 9. Average house prices for Scotland's seven cities January 2014 [link to source Excel](#)



1. LSL Acad Scotland HPI is derived from Registers of Scotland (RoS) house price data, seasonally and mix adjusted by property type. © Crown copyright material reproduced with the permission of Registers of Scotland. The prices are smoothed to show underlying trends. LSL Acad Scotland HPI includes cash purchase prices and is the only index based upon the complete, factual house price data for Scotland, as opposed to a sample.

2. Most indices employ data available to the provider as a result of its business; index methodologies are designed to exploit the advantages and overcome the disadvantages of each particular dataset; a valuation series (whether the values are professionally estimated at e.g. time of mortgage offer or by an estate agent) is not the same as a price series; a price series, such as LSL Acad Scotland HPI or ONS HPI, can be prepared only when the prices at which properties have been transacted have been recorded at RoS (LSL Acad Scotland HPI) or when firm prices at mortgage completion have been made available by lenders (ONS HPI); valuation series can be prepared whenever the data e.g. asking or mortgage offer prices are available to the provider; publicity accrues to those indices which are released first; indices published at or before month end are likely to employ data for the current and prior months. LSL Acad E&W HPI overcomes delay in the availability of all transactions for any given month from LR with an “index of indices” forecasting model, purpose developed by Dr Stephen Satchell Economics Fellow Trinity College Cambridge and Dr George Christodoulakis, then at the Sir John Cass Business School. Forecasting is assisted by the provision by LR of “emergent data”, being those current month transactions for which LR have received prompt notification.

3. The “emergent” data for Scotland necessary to repeat the E&W forecasting methodology are as yet unavailable from RoS, such that LSL Acad Scotland HPI incorporates no forecasting procedure. Whilst the LSL Acad Scotland HPI, like the LSL Acad E&W HPI, comprises a smoothed average of three months’ prices, the LSL Acad Scotland HPI average reflects prices at the month of the index and those for the prior two months and is ascribed to the month of the index i.e. the prices are “end month smoothed” (ems) and not “centre month smoothed” (cms) as applicable to the LSL Acad E&W HPI. Please note that:

- we provide only a current month average price for England & Wales as a whole in our LSL Acad E&W HPI, and that prices at region and lower levels are lagged one month
- RoS monthly data comprises some 98% of the transaction for the current month and c.99% for the prior month

Hence, a smoothed average price using three months data ascribed to the index month (ems) for LSL Acad Scotland HPI provides the equivalent price, to all intents and purposes, to the centre month smoothed (cms) price at region/county level, lagged by one month, as provided by the LSL Acad E&W HPI. Our intention is to align the procedure for LSL Scotland HPI with that used for LSL Acad E&W HPI, as soon as the necessary data may be available. Meanwhile, an ems procedure allows the Scotland prices to be placed alongside the contemporaneous prices for E&W as a whole and for Wales as a whole, and those for the E & W regions for comparison purposes.

4. LSL Acad E&W HPI provides prices from January 2000. RoS national data were available only from January 2001 and the constituents of RoS data changed between then and April 2003, showing a significant step change in prices between March and April. ONS HPI quarterly data were used to construct LSL Acad Scotland HPI from January 2000 to April 2001 with straight line interpolations used to construct prices by month. Data for 11 local authorities were unavailable for the period January 2001 to April 2003 and were constructed by back-casting. The underlying data by property type, for months when no sales of a particular property type in a particular area were reported, were in-filled using the same procedure used in LSL Acad E&W and, by Eurostat, in preparing seasonal data.

5. Note that LSL Acad Scotland HPI is unable to identify different prices according to e.g. numbers of bedrooms; the lender hedonic indices and the ONS mix adjusted HPI do so. RoS data, and hence LSL Acad Scotland HPI, exclude commercial and thus auction sales, and do not reflect repossession prices on the grounds that such prices do not reflect those between a willing buyer and a willing seller.

6. LSL Acad Scotland HPI is prepared from RoS data using a methodology designed to provide a “true measure of house price inflation”; Acadata does not guarantee the accuracy of the LSL Acad Scotland HPI results and neither LSL nor Acadata shall be liable for any loss or damage, whatsoever, consequential upon any error, incorrect description of or inadequacy in the data; persons using the data do so entirely at their own risk; LSL Acad Scotland HPI is freely provided for publication with due attribution to Acadata. Permission is required for any commercial use of the data.

7. The monthly, smoothed, average RoS prices at local authority level provided at property type, which underlie LSL Acad Scotland HPI, together with historic data, can be purchased from Acadata.

8. LSL Acad E&W HPI was published under the name FTHPI from September 2003 until December 2009. Until the October 2013 LSL Acad E&W HPI was published, it was prepared by Acadametrics as was the LSL Acad Scotland HPI. Acadametrics then changed its name to Acadata to reflect its new focus entirely upon house price indices and data following its agreement to sell its 50% holding in MIAC Acadametrics to MIAC Analytics over a 4 year period.