

LSL Property Services/Acadametrics
Scotland

House Price Index

JULY 2012

STRICTLY UNDER EMBARGO UNTIL 00.01 WEDNESDAY 19TH SEPTEMBER 2012



Scottish house sales rise 21% in July as life becomes easier for first time buyers

- First time buyer sales up 9% so far this year – bucking the UK trend
- Prices in Midlothian rise £17,000 in the last 12 months
- Prices in Edinburgh up £14,000 since July 2011

House Price	Index	Monthly Change %	Annual Change %
£145,622	197.4	-0.3	-0.5

Richard Sexton, director of e.surv chartered surveyors, part of LSL, comments: “Life for first time buyers in Scotland has improved markedly this year. There have been 1,100 more loans to new buyers so far this year than in the equivalent period last year. This has helped push up activity throughout the whole market, with July seeing 1,529 more sales than June.

“While it isn’t all sunshine and roses just yet, first-timers in Scotland can at least take solace from the fact life is comparably better for them than their English and Welsh counterparts. It’s been easier for Scottish buyers to access mortgages this year, and, given we’re in the middle of a double-dip recession, it augurs well for the future. New buyers in England and Wales have to stump up £22,000 more on average than Scottish buyers to get a loan, which is a major reason why the Scottish first-timer market is moving more freely.

“Although first-timer numbers are still only at 46% of what they were before the 2008 financial crisis, increased activity from new buyers has helped keep house prices broadly flat. Some may believe that prices have fallen about as low as they can and that the only way they can head now is up. The improvements in sales we’ve seen this year are admittedly only tentative steps on a long road to recovery. But if sales can continue on their upward trajectory over the coming months, prices will rise as demand begins to outstrip supply. The MI New Home initiative is also a welcome boon to the new build sector, allowing some borrowers to access to up to 95% LTV loans.

“Prices are more volatile erratic on a regional basis. Areas like Midlothian, which have wealthier buyers, have seen prices rise considerably over the past 12 months. Buyers in these areas have more equity, so find it easier to access mortgage finance. The opposite is true for less affluent areas with high unemployment. Activity has fallen in these regions, which has pulled down prices.”

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

House price index: historical data



Table 1. Average House Prices in Scotland for the period August 2011 - July 2012

[link to source Excel](#)

		House Price	Index	Monthly Change %	Annual Change %
August	2011	£146,914	199.2	0.4	-1.8
September	2011	£147,731	200.3	0.6	-1.4
October	2011	£147,710	200.3	0.0	-1.3
November	2011	£147,480	200.0	-0.2	-0.7
December	2011	£147,051	199.4	-0.3	-1.0
January	2012	£145,823	197.7	-0.8	-1.9
February	2012	£145,688	197.5	-0.1	-1.7
March	2012	£145,842	197.7	0.1	-1.3
April	2012	£146,274	198.3	0.3	-0.6
May	2012	£146,049	198.0	-0.2	-0.7
June	2012	£146,070	198.0	0.0	-0.1
July	2012	£145,622	197.4	-0.3	-0.5

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

In July 2012, the average price paid for a house in Scotland fell by £448, or 0.3%, to £145,622 on a seasonally adjusted basis. We emphasise that this figure is seasonally adjusted, as the non-seasonal figures show an increase in the average house price of some 2.0%. However, in Scotland, prices in July typically increase by 2.3% above June levels, so the trend this year is slightly below par. Typically, in Scotland, we note that seasonal factors reach a peak in July, with prices reducing over the remainder of the year, reaching a low point in March of the following year.

On an annual basis, average house prices in Scotland have fallen by 0.5%. As Figure 1 below illustrates, prices are trending downwards, but with fluctuations around the trend line.

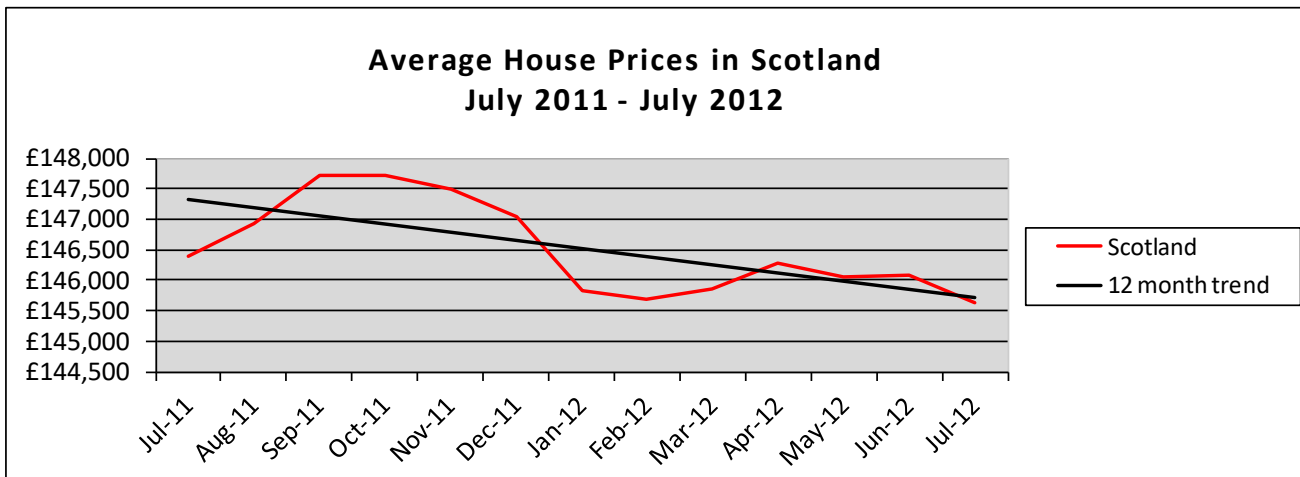


Figure 1. Average house prices in Scotland, July 2011 – July 2012

[link to source Excel](#)

As we discuss on page 5, the number of transactions in June was below expectations, in part due to the additional Bank Holiday and in part to the exceptionally high level of rainfall during the month. The position in July has returned to a more normal pattern, with sales of homes in the first seven months of 2012 being some 9% up over 2011 levels.

The CML report that first time-buyer activity in Scotland is also up by some 9% over 2011, with the number of first time buyers in the second quarter of 2012 increasing by 20% compared to the first quarter of 2012. This increase exactly matches the anticipated seasonal change in housing transactions from the first to second quarter of the year. The average loan to value requirement for first time buyers was 80% during the first two quarters of 2012, indicating that such first time buyers need to provide a 20% deposit on the purchase price of their home.

The annual change in prices by property type shows considerable variation. On an annual basis, the average price of semi-detached properties has increased by 3%, detached and terraced properties are down by 0.5%, while the average price of flats has fallen by 5%. Edinburgh, Glasgow and Aberdeen account for half of all flat sales in Scotland. The changes in the average price of flats in these three cities are +3%, -6% and +1% respectively. The remainder of Scotland must therefore have seen a fall in the average price of flats. Such a fall may have arisen due to the increase in activity of first time buyers, who are more likely to be purchasing properties at the lower end of the house price spectrum.

What prospects do we foresee for the remainder of the year? Although the government has announced a number of house building initiatives to help kick start the economy, these activities will not have much influence on the housing market over the next five months. The main factors which are currently affecting the market are the difficulties in obtaining mortgage finance, with the lenders looking for high deposit levels and sound credit ratings, along with the uncertainties of the current economic climate, which do not help build consumer confidence. These factors account for the current historically low level of housing transactions which, despite the 9% pick-up over the last year, are still some 54% down in the first seven months of 2012, compared with the first seven months of 2007. Given that we do not anticipate significant change in the banks and building societies lending requirements, we can only conclude that the housing market will continue to operate at half speed, with little change in house price behaviour from the first half of the year.



Table 2. Average House Prices in Scotland, by local authority area, comparing July 2011 with July 2012

[link to source Excel](#)

AVERAGE HOUSE PRICES IN SCOTLAND BY LOCAL AUTHORITY AREAS

(Mix adjusted)

RANK BY PRICE	PRIOR YR RANK	LOCAL AUTHORITY AREA	Jul-11	Jul-12	% Change
1	2	Edinburgh, City of	210,708	224,754	6.7%
2	3	East Lothian	208,079	207,563	-0.2%
3	4	East Renfrewshire	207,497	206,031	-0.7%
4	1	Aberdeenshire	211,269	194,994	-7.7%
5	6	Aberdeen City	181,930	178,123	-2.1%
6	5	East Dunbartonshire	192,232	176,940	-8.0%
7	9	Stirling	167,248	172,212	3.0%
8	10	Midlothian	152,736	169,544	11.0%
9	7	Perth & Kinross	167,463	161,840	-3.4%
10	11	Highland	147,819	151,144	2.2%
11	8	Scottish Borders	167,390	150,932	-9.8%
12	12	Argyll & Bute	144,569	142,955	-1.1%
13	23	Clackmannanshire	118,749	141,704	19.3%
14	14	West Lothian	139,322	137,519	-1.3%
15	15	Moray	133,540	135,973	1.8%
16	18	Dumfries & Galloway	129,916	135,181	4.1%
17	13	South Ayrshire	142,975	132,543	-7.3%
18	20	Angus	127,683	131,232	2.8%
19	24	Shetland Islands	115,454	130,877	13.4%
20	17	Fife	130,758	130,455	-0.2%
21	19	Glasgow City	129,519	123,932	-4.3%
22	21	Dundee City	123,703	119,311	-3.5%
23	22	South Lanarkshire	119,634	117,481	-1.8%
24	28	Inverclyde	106,092	117,095	10.4%
25	16	Orkney Islands	132,802	115,104	-13.3%
26	26	Falkirk	110,366	109,928	-0.4%
27	29	East Ayrshire	103,692	104,563	0.8%
28	32	Eilean Siar	94,796	103,429	9.1%
29	27	Renfrewshire	107,709	103,195	-4.2%
30	30	North Ayrshire	101,450	100,697	-0.7%
31	25	West Dunbartonshire	113,849	100,380	-11.8%
32	31	North Lanarkshire	99,555	98,608	-1.0%
		All Scotland	146,396	145,622	-0.5%

Table 2 shows the average house price by local authority area in Scotland in July 2011 and July 2012 and the percentage change in these prices over the year. Although, on average, prices have fallen over the year by 0.5% in Scotland as a whole, in individual areas we can see a range of price movements from +19.3% (Clackmannanshire) to -13.3% (Orkney Islands). Of the 32 local authority areas in Scotland, 12 have seen prices rise and 20 have seen falls over the year. Last month, the equivalent figures were 15 with rises and 17 with falls, suggesting a minor deterioration in the market this month.

Clackmannanshire has seen increases in the prices of all property types over the last year with, for example, the average price of a detached property rising from £187,000 in July 2011 to £262,000 in July 2012. The sizeable change in these average prices has elevated Clacks to being the area with the highest house price growth in Scotland and it moves up ten places in the table of local authority areas ranked by price. However, we should caution that 'The Wee County' lives up to its name in terms of property transactions, with low numbers of properties being sold in a month. In general, areas with low transaction numbers have more volatility in their average prices than areas where many sales take place.

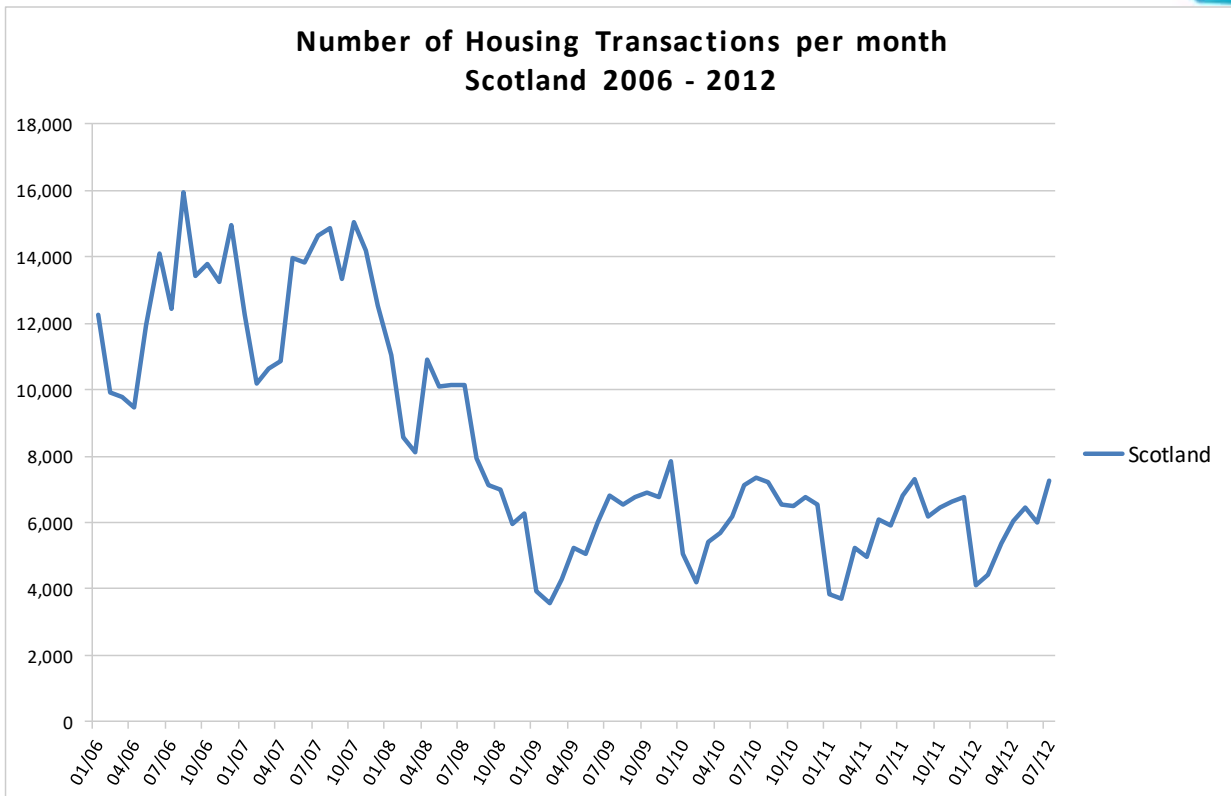


Figure 2. The number of housing transactions by month in Scotland, 2006 - 2012 (not seasonally adjusted)

[link to source Excel](#)

The above graph shows the number of monthly transactions recorded by the Registers of Scotland (RoS) for the period January 2006 to July 2012, without seasonal adjustment. Although perhaps not obvious from the graph, sales of properties in Scotland during the first seven months of 2012 are running 9% ahead of the same period in 2011. The figure of 7,281 properties sold in July is 7% up on July 2011 and 21% up on June 2012. There has therefore been something of a resurgence in property sales in the month, although sales in June 2012 were below expectation due to the additional Bank Holiday and to the abnormally high levels of rainfall.

The increase in sales in July has been seen across all property types. The data show a monthly increase in sales of detached +35%, terraces +29%, semi-detached +24% and flats +20%, over the June figures. The CML reports that first time buyer activity has increased by 20% during the second quarter of 2012, when compared with the first quarter of 2012, although this figure is below the 33% increase in market activity which took place between the two quarters in the more general housing market.

On average, the monthly number of properties sold peaks in August at the height of the summer. It will be interesting to observe whether this year proves to be 'average', or whether the Olympics will have affected the number of properties sold in the month.

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. Acadametrics 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

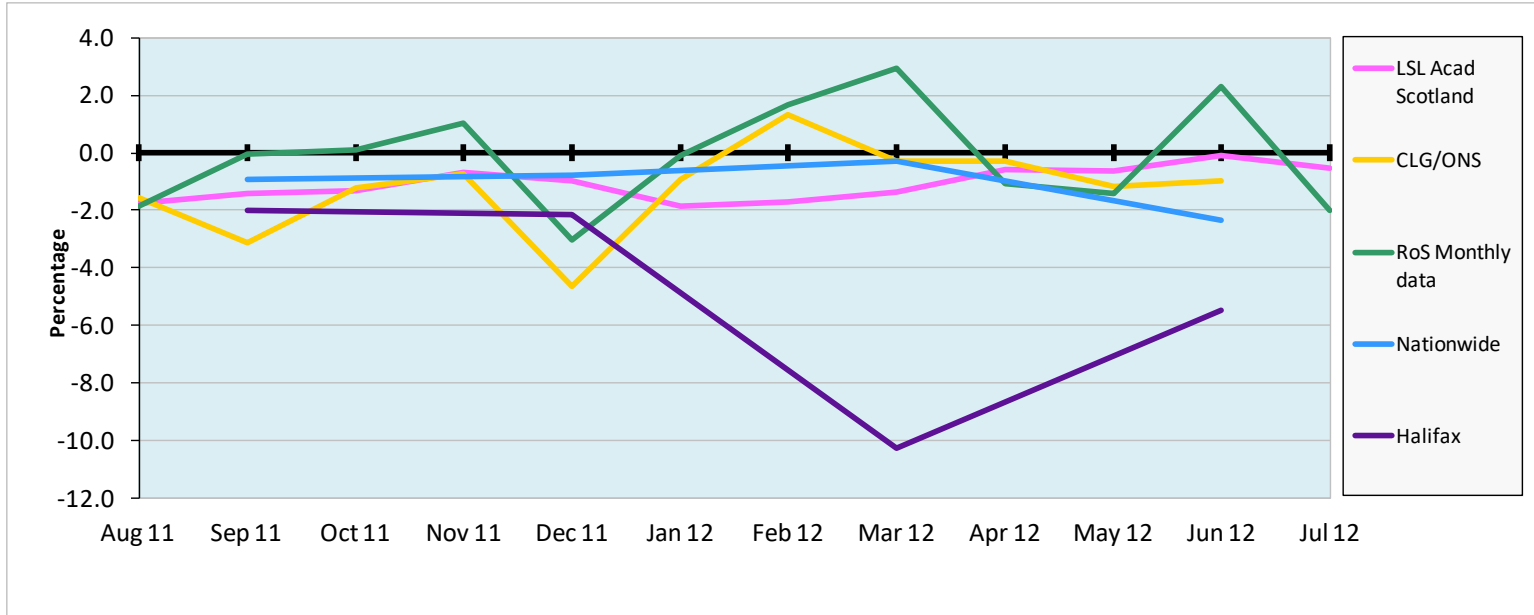


Figure 3. ANNUAL CHANGE IN HOUSE PRICES - COMPARISON OF INDICES AND RoS CHART

[link to source Excel](#)

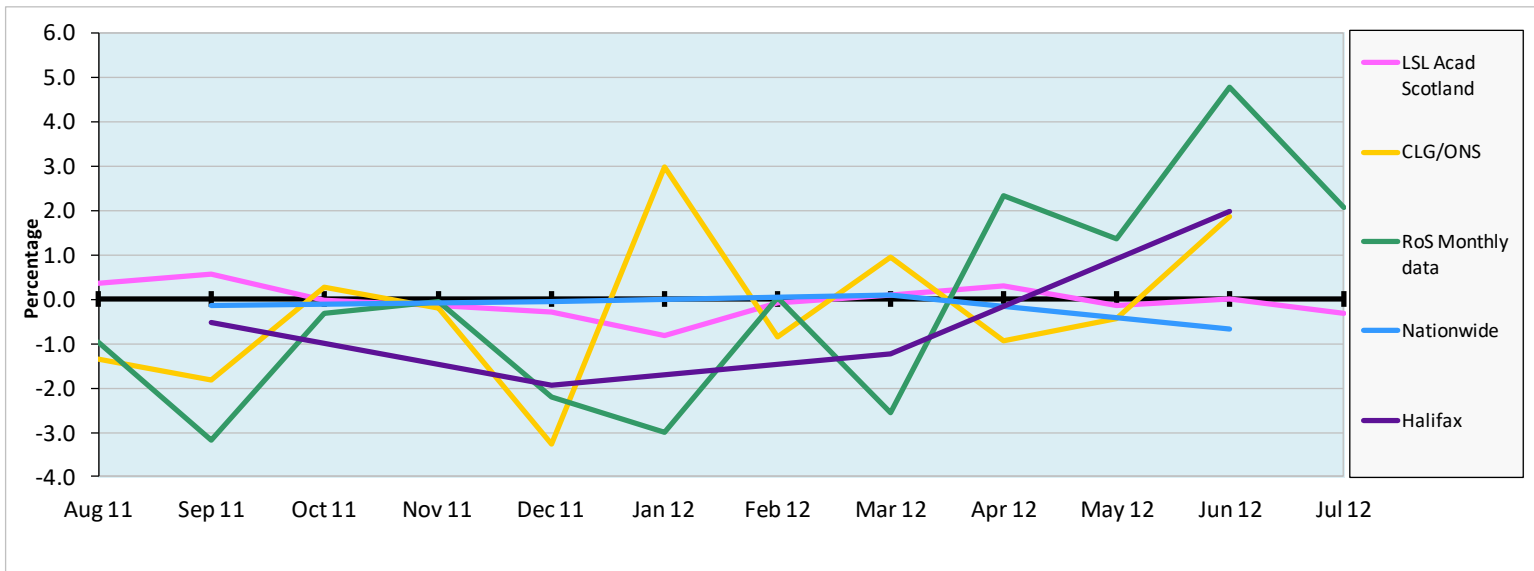


Figure 4. MONTHLY CHANGE IN HOUSE PRICES - COMPARISON OF INDICES AND RoS CHART

[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.



Average House Price

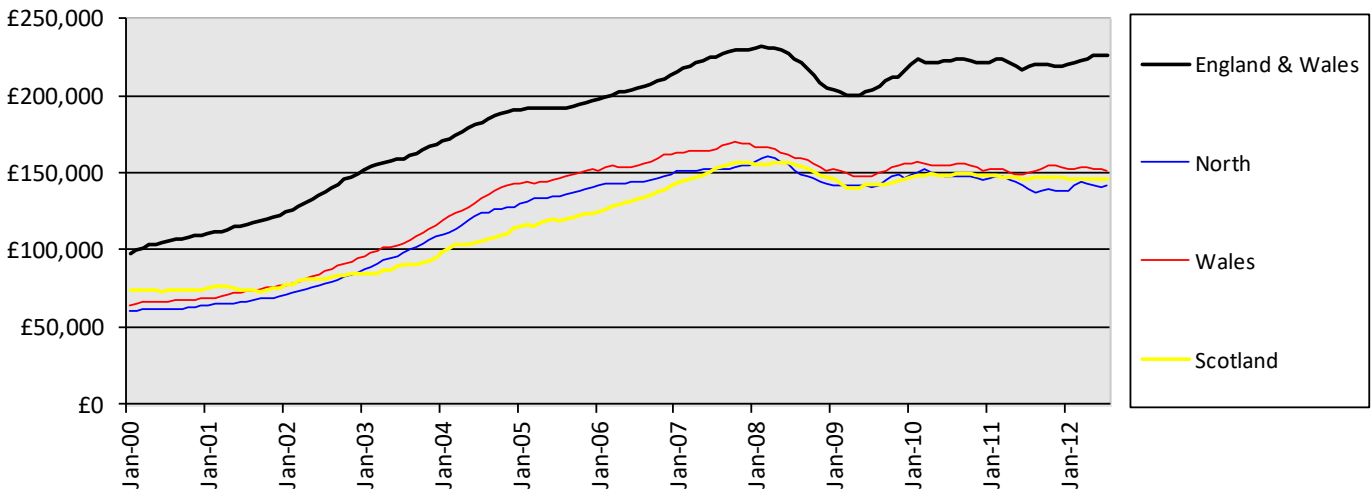


Figure 5. Scotland house prices, compared with England & Wales, Wales and the North for the period Jan 2000 - July 2012 [link to source Excel](#)

Annual % change in Average House Prices

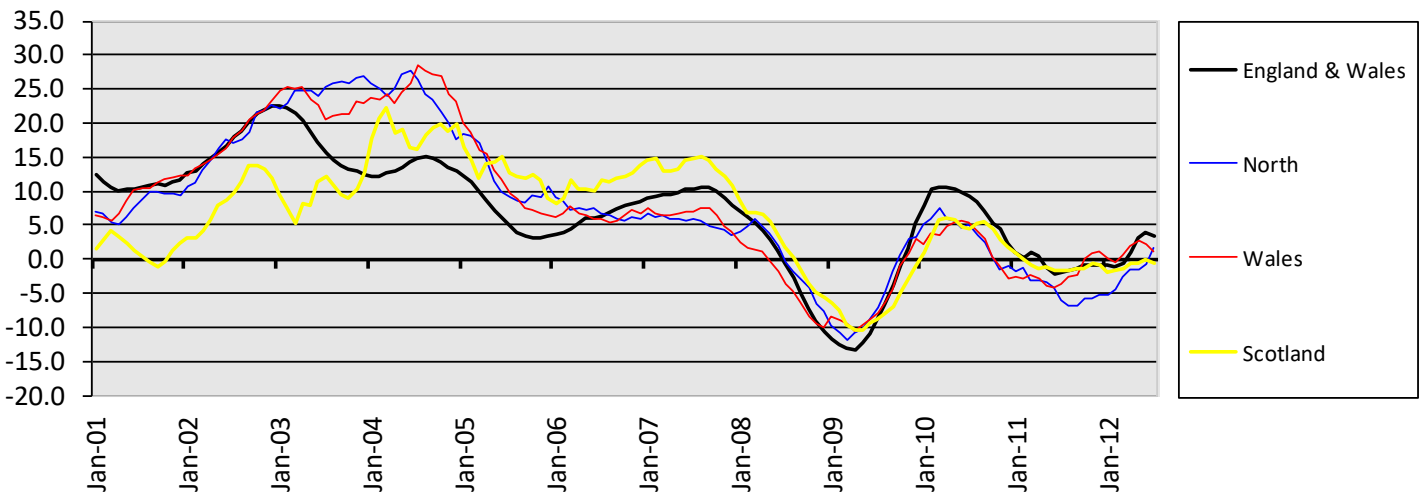


Figure 6. A comparison of the annual change in house prices in Scotland, England & Wales, Wales and the North for the period Jan 2001 - July 2012 [link to source Excel](#)

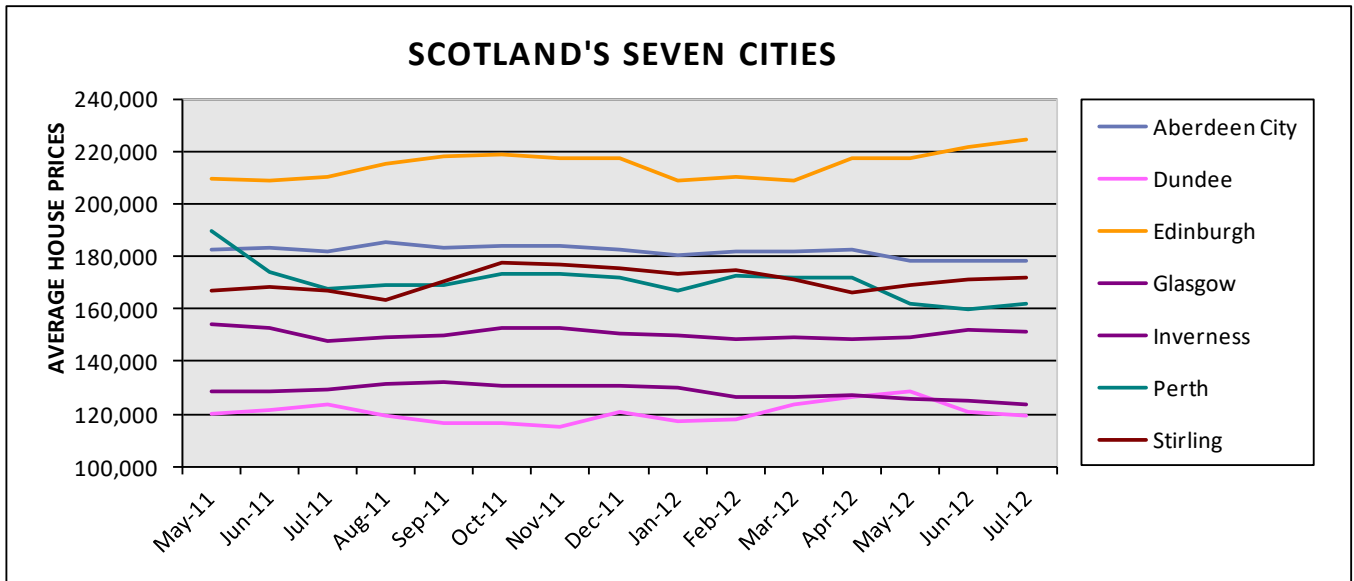


Figure 7. Average house prices for Scotland's seven cities from May 2011 – July 2012

[link to source Excel](#)

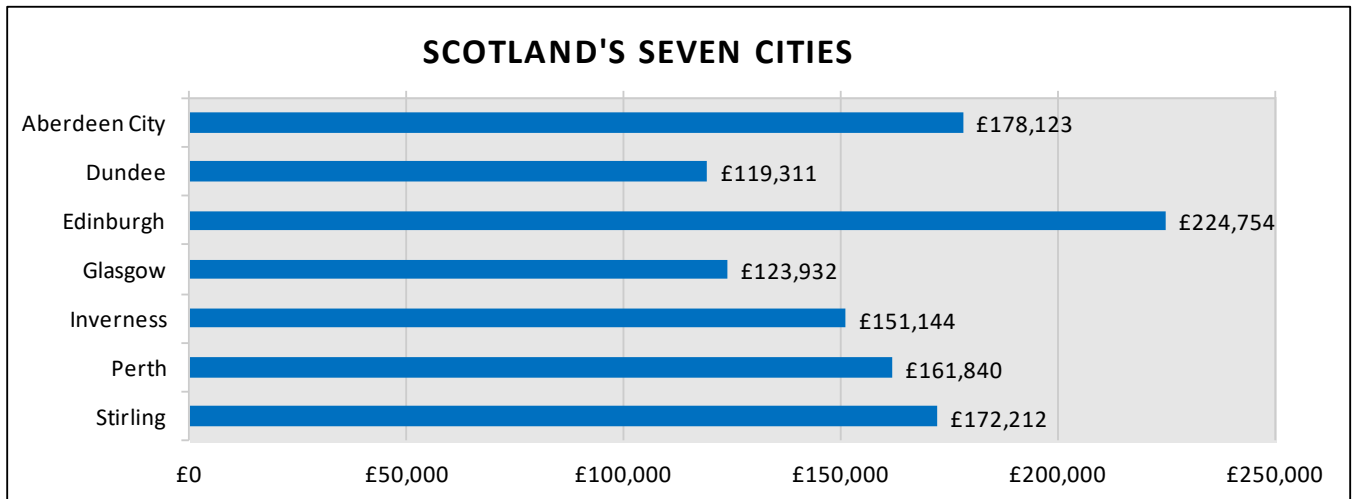


Figure 8. Average house prices for Scotland's seven cities July 2012

[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 CLG/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 (CLG/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 95% of the transaction for the current month and c.99% for the prior two months

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 price at region/county level, lagged by one month, provided by a centre month smoothing (cms) process, as used for LSL Acad E&W HPI. Our intention is to align the procedure for LSL Acad 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. CLG/ONS 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 distinguish between 3, 4 or 5 bedroom houses or between those with 2, 1 or even no bathroom; the lender hedonic indices and the CLG/ONS mix adjusted index 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”; Acadametrics does not guarantee the accuracy of the LSL Acad Scotland HPI results and neither LSL nor Acadametrics 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 Acadametrics. 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 Acadametrics.