

LSL Property Services/Acadametrics
Scotland

House Price Index

NOVEMBER 2012

STRICTLY UNDER EMBARGO UNTIL 00.01 WEDNESDAY 16TH JANUARY 2013



Scottish house prices down £5,600 in 12 months

- Prices have fallen for 5 months in a row and now stand -4% below November 2011
- Only 22% of local authority areas have seen prices rise in the last year

House Price	Index	Monthly Change %	Annual Change %
£141,918	192.4	-0.2	-3.8

Richard Sexton, director of e.surv chartered surveyors, part of LSL, comments: “Property in Scotland has been bleeding value over the last 12 months. House sales in the first eleven months of 2012 were 55% lower than they were in 2007, and house prices are down in three-quarters of areas. Mortgages are scarce. Savings rates are low. And finances are still being pillaged by inflation.

“The first half of last year saw a slight recovery in prices, but it was cut short by a sharp squeeze on the mortgages funds available to banks, which led to a reduction in first-time buyer numbers over the second half of the year. First-time buyers are the cornerstone of a healthy market. Without them, demand in the whole market fizzles out and house prices are dragged down.

“There have been some very tentative signs of improvement – sales are up 4% compared to 2011 – but they are only minor victories in a war that the housing market is a long way from winning. Wealthier buyers continue to dominate activity, which has created a distinct two-tier market. It will remain that way until mortgages become more accessible to less affluent buyers.

“Even Edinburgh, which is normally relatively impervious to price falls thanks to the high number of wealthier buyers who live there, has seen values collapse. Prices in the capital have dropped an eye-watering £10,000 in the last twelve months. Some local authority areas saw less than a hundred sales in November, which illustrates just how depressed the market is at the moment.

“The good news is that 2013 should see some significant improvements. Banks should have more funds available for mortgage lending, and slowly but surely mortgage availability for first-time buyers is improving. And the jobs market is the healthiest it’s been since the financial crisis, which should boost demand and give banks more confidence in the state of the economy and borrowers finances.”

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 November 2011 - November 2012

[link to source Excel](#)

		House Price	Index	Monthly Change %	Annual Change %
November	2011	£147,494	200.0	-0.1	-0.7
December	2011	£147,070	199.4	-0.3	-0.9
January	2012	£145,854	197.8	-0.8	-1.9
February	2012	£145,694	197.5	-0.1	-1.7
March	2012	£145,849	197.8	0.1	-1.3
April	2012	£146,265	198.3	0.3	-0.6
May	2012	£146,024	198.0	-0.2	-0.7
June	2012	£146,041	198.0	0.0	-0.1
July	2012	£145,587	197.4	-0.3	-0.6
August	2012	£143,891	195.1	-1.2	-2.1
September	2012	£143,432	194.5	-0.3	-2.9
October	2012	£142,263	192.9	-0.8	-3.7
November	2012	£141,918	192.4	-0.2	-3.8

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

The average price paid for a house in Scotland fell again in November by £345 to £141,918. This small fall took the annual rate from -3.7% last month to -3.8% this month: welcome news to those aspiring to own a house, less welcome to property owners. On an annual basis, the average price for houses in Scotland has fallen in every month since January 2011, when it stood at £148,616. On a monthly basis, using rounded numbers and including November, prices rose in 6, fell in 16 and remained unchanged in 1 of the last 23 months.

Figure 1 below shows the seasonally adjusted average house price in Scotland for the period November 2011 to November 2012, together with a trend line over the twelve months. The factual average price has now fallen below the £143K level shown by the trend but the sharpened rate of decline from July has eased. In November. An optimist might well soon call a bottoming of the market were prices to prove to have held through the Winter months and if the Spring provides an uplift.

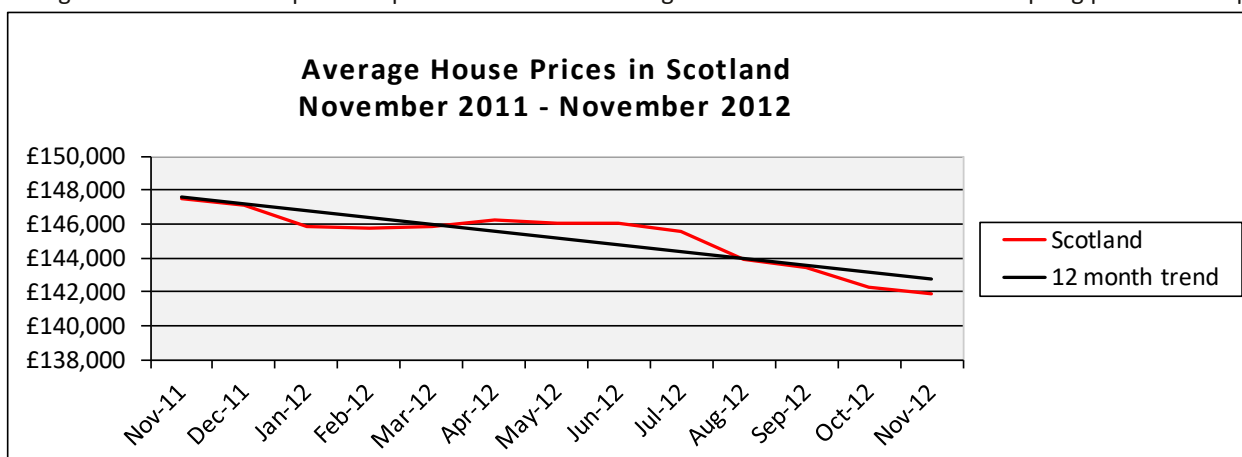


Figure 1. Average house prices in Scotland, November 2011 – November 2012

[link to source Excel](#)

Do house price movements in England & Wales provide any guidance? Only insofar as, in the rest of the country, regional markets are more buoyant. Figure 6 shows that the price fall in Scotland remains greater than in England & Wales, as a whole, greater than in Wales and greater than in the North of England, in all of which average prices have started to turn upwards. In Wales the annual fall has softened from -2.3% last month to -1.6% this month; still a bigger fall than in any other England & Wales region. Indeed, regionally, only in Wales and in the North West (-0.5%) was the annual rate negative.

Table 2 shows average prices and inflation for each of the 32 Scottish local authorities. Prices have inflated in 7 local authorities, deflated in 24 and remained unchanged in 1. Marginal change rates of 0.0% or -0.1% might well move in either direction, once more transactions for December (used in our averaging process) are reported to Registers of Scotland. These price falls may well tempt those first time buyers (FTBs) who are confident that future steps will be upwards to join the house price ladder. But they may concern those property owners who bought a year ago with high loan to value (LTV) mortgages. Suppose an FTB purchased with a 95% LTV loan. In theory, such a buyer will be in negative equity territory if they live in one of the nine local authorities in which prices have fallen by more than -5.0%. In practice, we believe that the underlying value of the housing stock remains relatively stable as we discuss below.

In local authorities, such as Clackmannanshire, where the average house price fell -23.4% from a year ago, only 42 residential property sales took place in November. Small transaction numbers make the average price for properties sold in any one month highly volatile, such that average prices can jump as quickly and as high as they can fall. Transactions ran at under 100 in November in seven local authorities where FTBs may see opportunities in 2013. If so, how average prices move by property type is another factor for FTBs to consider.

Table 2 identifies those local authorities in which, if prices failed to rise, they fell by only a few £thousand. The table also shows that in East Renfrewshire, Inverclyde and Dundee City, average prices rose by more than 5%.

Should buyers in Scotland be optimistic about or beware of 2013? As we pointed out last month, success for the Bank of England's Funding for Lending scheme and an increase in the availability of credit for small businesses and FTBs should boost the housing sector. Additionally, continued confidence on the part of buy to let investors will show in transaction numbers and, of course, in price levels for the types of properties which they may seek for their portfolios.

Careful appraisal should accompany any cautious optimism.

House prices analysis



Table 2. Average House Prices in Scotland, by local authority area, comparing November 2011 with November 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	Nov-11	Nov-12	% Change
1	1	Edinburgh, City of	217,634	207,672	-4.6%
2	2	East Lothian	198,535	199,757	0.6%
3	4	East Renfrewshire	187,958	197,563	5.1%
4	3	Aberdeenshire	197,309	195,821	-0.8%
5	6	East Dunbartonshire	181,279	181,057	-0.1%
6	7	Stirling	176,868	176,825	0.0%
7	5	Aberdeen City	184,060	175,526	-4.6%
8	8	Perth & Kinross	173,455	168,884	-2.6%
9	9	Scottish Borders	157,966	152,642	-3.4%
10	11	Highland	152,714	148,387	-2.8%
11	12	Midlothian	147,427	143,906	-2.4%
12	14	Argyll & Bute	138,732	142,770	2.9%
13	13	South Ayrshire	145,870	135,842	-6.9%
14	20	Angus	129,315	133,429	3.2%
15	17	Moray	131,855	129,875	-1.5%
16	15	West Lothian	135,222	129,149	-4.5%
17	16	Dumfries & Galloway	132,141	128,158	-3.0%
18	23	Orkney Islands	119,474	125,056	4.7%
19	18	Glasgow City	130,865	124,697	-4.7%
20	29	Inverclyde	110,974	122,948	10.8%
21	24	Dundee City	115,242	121,543	5.5%
22	22	Shetland Islands	122,998	121,452	-1.3%
23	19	Fife	130,202	121,154	-6.9%
24	10	Clackmannanshire	155,873	119,327	-23.4%
25	21	South Lanarkshire	123,501	116,002	-6.1%
26	28	Falkirk	112,000	110,010	-1.8%
27	30	East Ayrshire	110,148	100,844	-8.4%
28	27	West Dunbartonshire	112,233	100,642	-10.3%
29	26	Renfrewshire	112,325	100,535	-10.5%
30	32	North Lanarkshire	101,883	99,039	-2.8%
31	31	North Ayrshire	108,232	98,121	-9.3%
32	25	Eilean Siar	113,114	94,849	-16.1%
		All Scotland	147,494	141,918	-3.8%

We have mentioned the fact that, in some local authorities, fewer than 100 transactions took place in November. What about local authorities with more than 250 sales every month? Our data showing sales numbers and prices for each local authority indicate that, in November, only:

- Edinburgh (662) and Glasgow City (653) showed more than 500 transactions
- Fife (396), Highland (282), North Lanarkshire (316) and South Lanarkshire (335) showed between 250 and 499 transactions

How different are all-property sales numbers by local authority in Scotland to those for counties in England & Wales? Excluding Greater London as a county, the market in Greater Manchester was the most active, with 624 sales in November. The City of London, where residential properties are few and far between, saw only 4 transactions. Price falls and price volatility, extant in small local authorities in Scotland, exist in small counties in England & Wales. Such falls create opportunities as well as dangers.

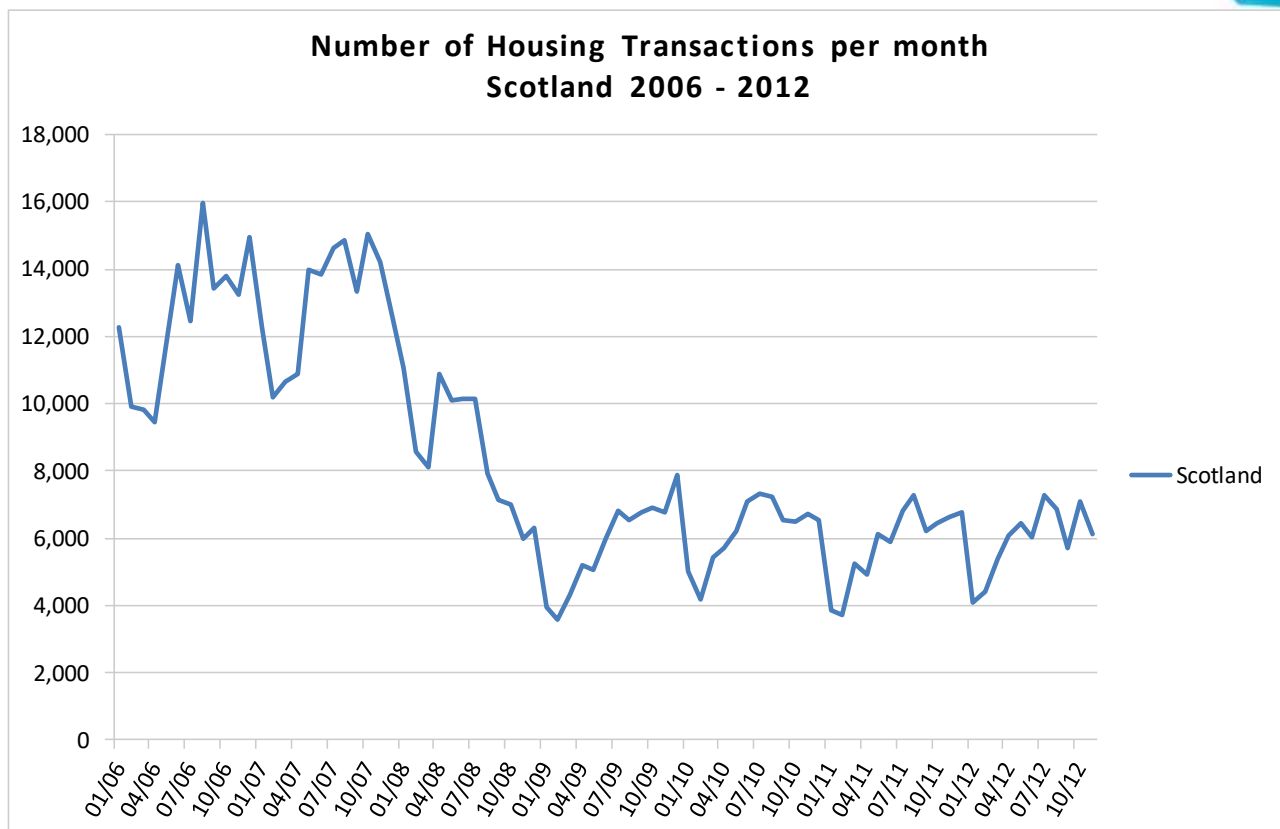


Figure 2. The number of housing transactions by month in Scotland, 2006 - 2012 (not seasonally adjusted)

[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 November 2012, without seasonal adjustment. How monthly sales recovered to c.8,000 p.m., after hitting bottom at c. 4,000 p.m. early in 2009, can be seen. Since then, sales have again bottomed on three occasions, the last being in early 2012. Monthly volatility masks a struggle to sustain monthly sales in excess of 6,000. Volatility in monthly sales at all property type levels masks even more volatility within property types. As noted, much depends on the Bank of England's and governmental efforts to ease lending. Only if they succeed will we see significant increase in monthly transaction numbers.

At the all-Scotland level, transactions fell in November to, we estimate, 6,130 following an October boost which did little more than take up the September fall, ascribed to the Olympics. Monthly all-property type sales in Scotland averaged 6,025 monthly in the last year, putting the November figure marginally above this level.

How do November transactions of 6,130 per month in Scotland compare with transactions in England & Wales? Roughly speaking, sales in Scotland are some 10% of those in Scotland and England & Wales (54,966) combined (61,102). Rounding errors account for the small arithmetic error that lies herein. Scotland transaction numbers are comparable to those in England & Wales regions. Wales had the fewest sales at an estimated 2,825 but only the South East (13,927), Greater London (7,292) and South West (6,270) showed more housing activity than Scotland. Once again, these transaction numbers will all increase somewhat when more transactions are reported.

Note that, whilst numbers estimated above for transactions in England & Wales are liable to some change as more transactions are reported to the Land Registry, those quoted above for Scotland, from the Registers of Scotland, normally represent some 97.5% of the numbers once all sales are reported.



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

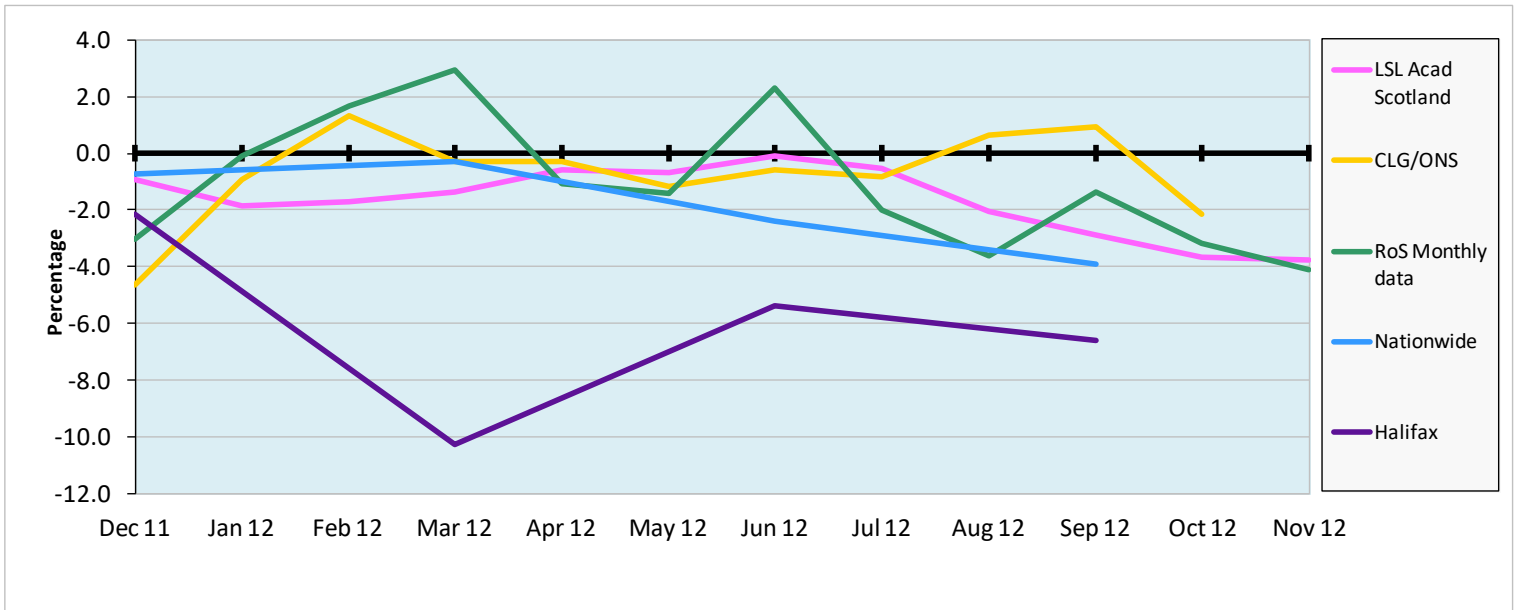


Figure 3. ANNUAL CHANGE IN HOUSE PRICES - COMPARISON OF INDICES AND RoS CHART

[link to source Excel](#)

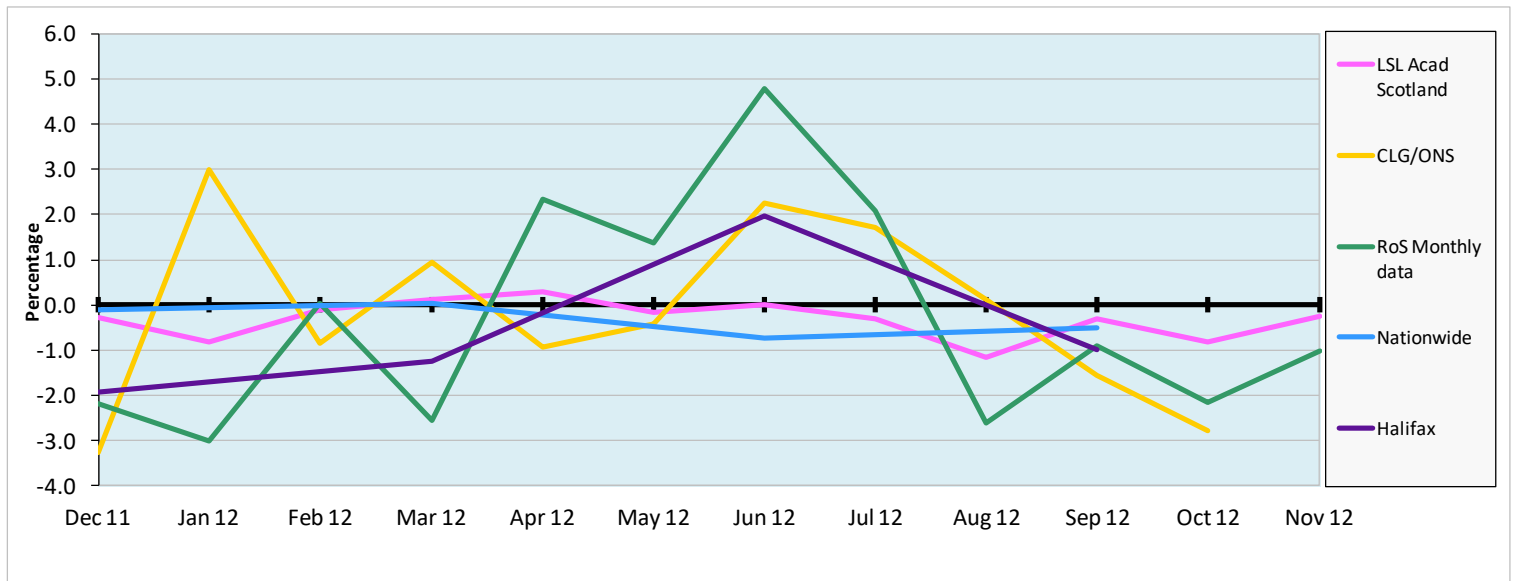


Figure 4. MONTHLY CHANGE IN HOUSE PRICES - COMPARISON OF INDICES AND RoS CHART

[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.

Comparisons with Scotland



Average House Price

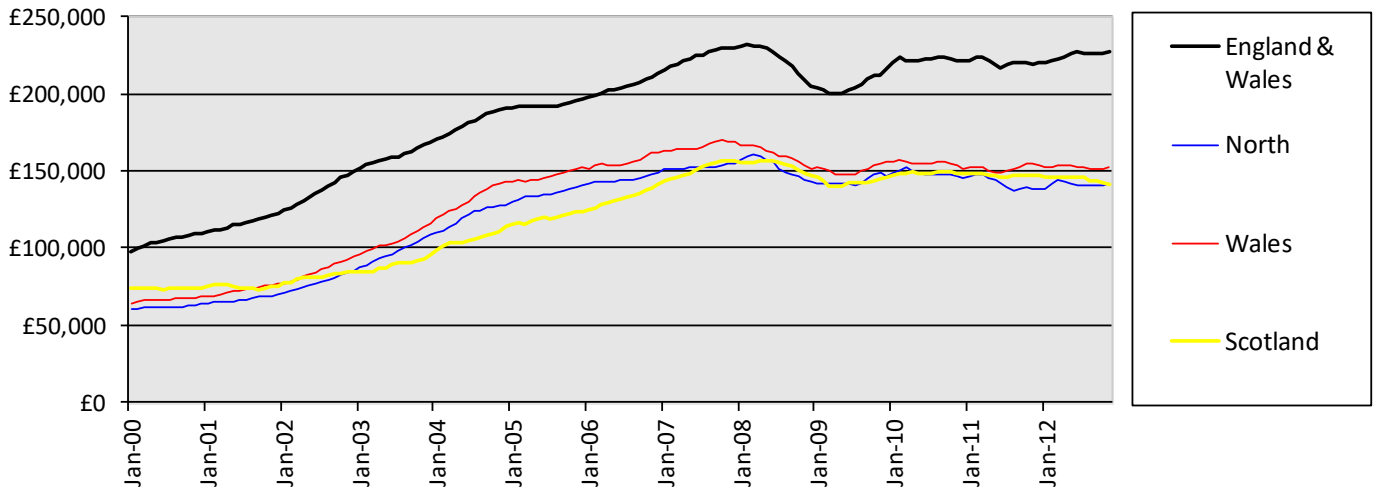


Figure 5. Scotland house prices, compared with England & Wales, Wales and the North for the period January 2000 - November 2012 [link to source Excel](#)

Annual % change in Average House Prices

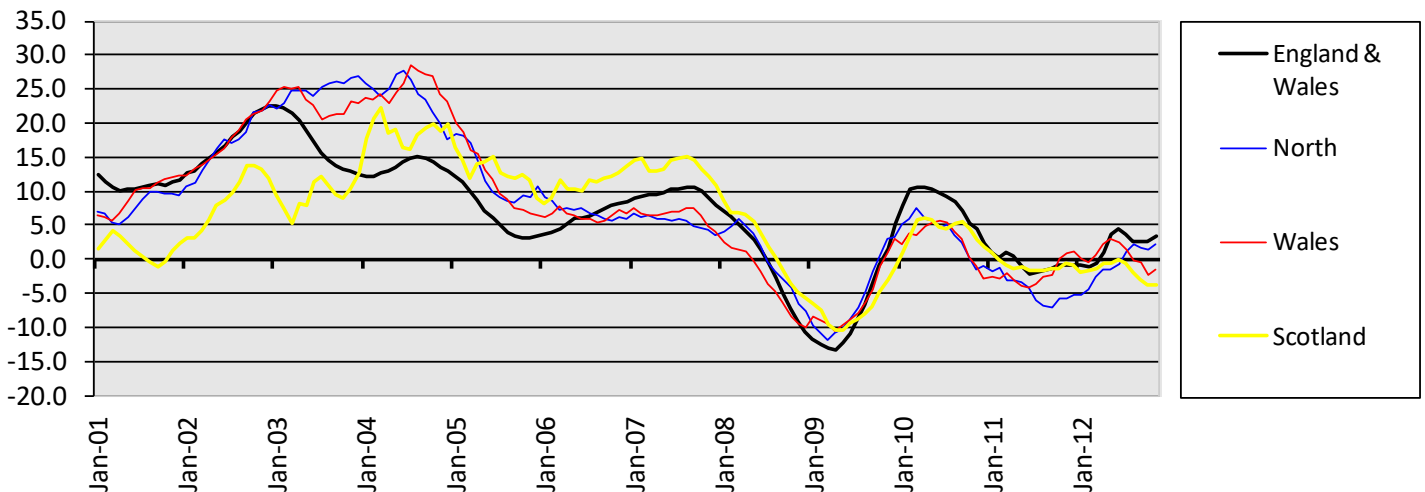


Figure 6. A comparison of the annual change in house prices in Scotland, England & Wales, Wales and the North for the period January 2001 - November 2012 [link to source Excel](#)

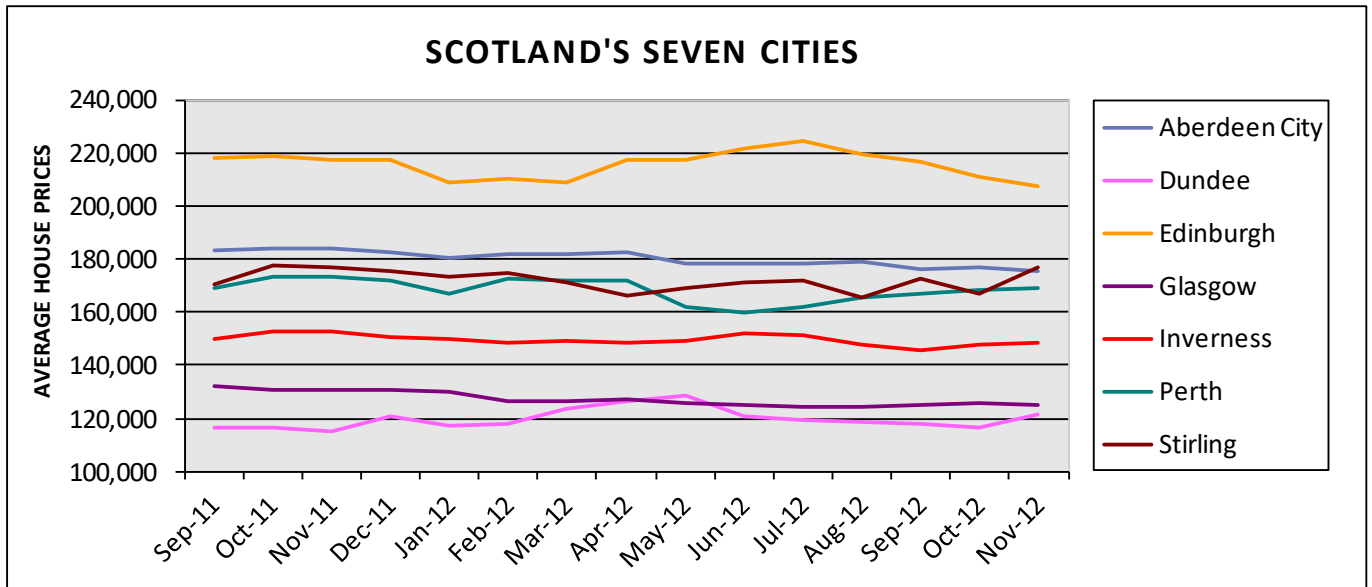


Figure 7. Average house prices for Scotland's seven cities from September 2011 - November 2012 [link to source Excel](#)

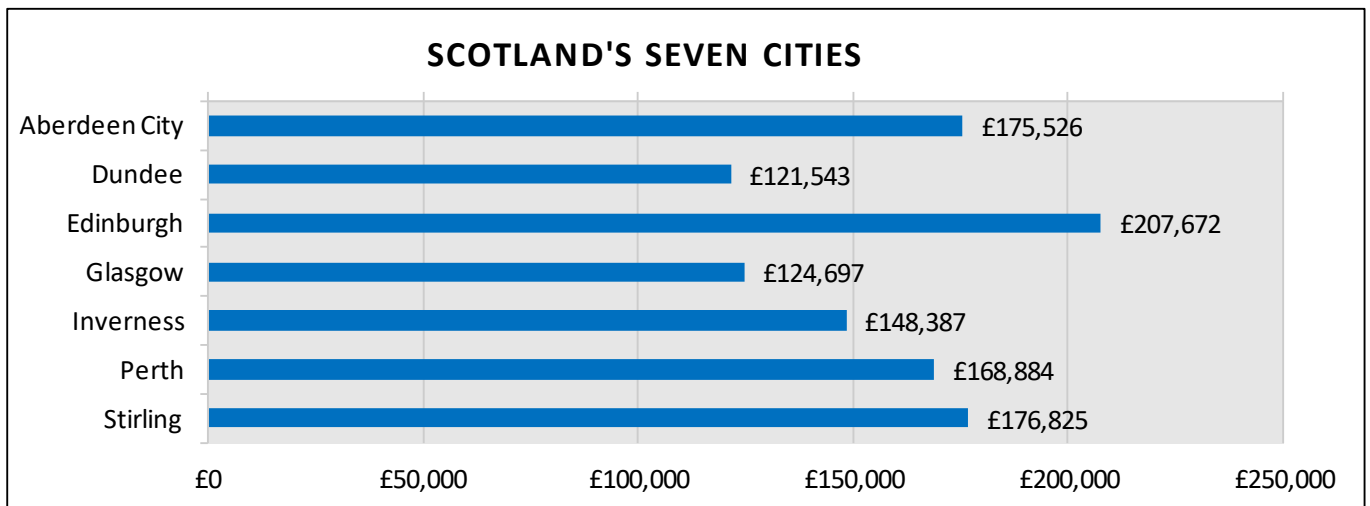


Figure 8. Average house prices for Scotland's seven cities November 2012 [link to source Excel](#)



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.