

LSL Property Services/Acadametrics  
Scotland

# House Price Index

OCTOBER 2012

STRICTLY UNDER EMBARGO UNTIL 00.01 WEDNESDAY 19TH DECEMBER 2012

## Scottish house prices fall £5,458 in a year

- Prices fall by 3.7% annually in October; largest decline since November 2009
- But strongest October for sales since 2007; sales 24% higher than in September
- Increase in sales driven by purchases by residential landlords

House Price	Index	Monthly Change %	Annual Change %
£142,246	192.9	-0.8	-3.7

**Richard Sexton, director of e.surv chartered surveyors, part of LSL, comments:** “At first glance, sales increasing by almost a quarter between September and October looks very encouraging, suggesting more lower income buyers are finally getting a foot on the property ladder. But in actual fact a spurt of activity from residential landlords drove the increase. Terraced property and flats are particularly cheap by historic standards, largely because the first-time buyers who would typically buy them can’t get a mortgage, so landlords are taking advantage and snapping them up at bargain prices.

“Over the longer-term, prices have been dragged down by over £5,000 over the past year because the property market is riddled with chronic structural defects that have persisted and, in some cases, worsened since the financial crisis. Mortgage finance is painfully restricted. Disposable income is low. And consumer confidence has been cut to ribbons. High LTV lending has dried up compared to its historic levels, which has slashed first-time buyer numbers to less than half the level before the financial crisis because new buyers simply can’t get the finance they need to buy their first home. First-time buyer numbers so far this year are 10% higher than they were this time last year, but exactly the same as they were in the equivalent period during 2010, which was hardly a strong year. It’s certainly far too early to start proclaiming a sustained improvement in first-time buyer activity.

“But it’s not all the fault of banks by any means. Lenders are hamstrung by stringent requirements on the amount of capital they have to hold in reserve. Ostensibly, this is supposed to prevent the 2008 financial crisis becoming Groundhog Day but, in practice, it is preventing banks from increasing their lending - particularly to first-time buyers who require high loan-to-value mortgages.

“On a regional basis, usually there is plenty of volatility in prices, but since last October virtually every region across Scotland has seen prices fall. Even Edinburgh - which should be more immune to house price falls thanks to the higher number of wealthier buyers who live there - has seen prices fall by 3.6%.”

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 - October 2012

[link to source Excel](#)

		House Price	Index	Monthly Change %	Annual Change %
<b>November</b>	<b>2011</b>	£147,494	200.0	-0.1	-0.7
<b>December</b>	<b>2011</b>	£147,070	199.4	-0.3	-0.9
<b>January</b>	<b>2012</b>	£145,854	197.8	-0.8	-1.9
<b>February</b>	<b>2012</b>	£145,694	197.5	-0.1	-1.7
<b>March</b>	<b>2012</b>	£145,849	197.8	0.1	-1.3
<b>April</b>	<b>2012</b>	£146,269	198.3	0.3	-0.6
<b>May</b>	<b>2012</b>	£146,039	198.0	-0.2	-0.7
<b>June</b>	<b>2012</b>	£146,052	198.0	0.0	-0.1
<b>July</b>	<b>2012</b>	£145,593	197.4	-0.3	-0.5
<b>August</b>	<b>2012</b>	£143,870	195.1	-1.2	-2.1
<b>September</b>	<b>2012</b>	£143,415	194.4	-0.3	-2.9
<b>October</b>	<b>2012</b>	£142,246	192.9	-0.8	-3.7

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

The average price paid for a house in Scotland in October 2012 fell £1,169, or down 0.8% compared with September. This is the largest fall in a single month since March 2009. Over the last twelve months, prices for the month have climbed on two occasions, have remained the same once and have fallen nine times, although the size of the monthly falls have been relatively modest until now.

Figure 1 below shows the seasonally adjusted average house price in Scotland for the period October 2011 to October 2012, together with a trend line over the twelve months. As can be seen, the trend shows a fall in prices from £148K at the start of the period down to just below £144K at the end. Currently, house prices are below the trend: in addition there appears to have been an acceleration downwards since July 2012.

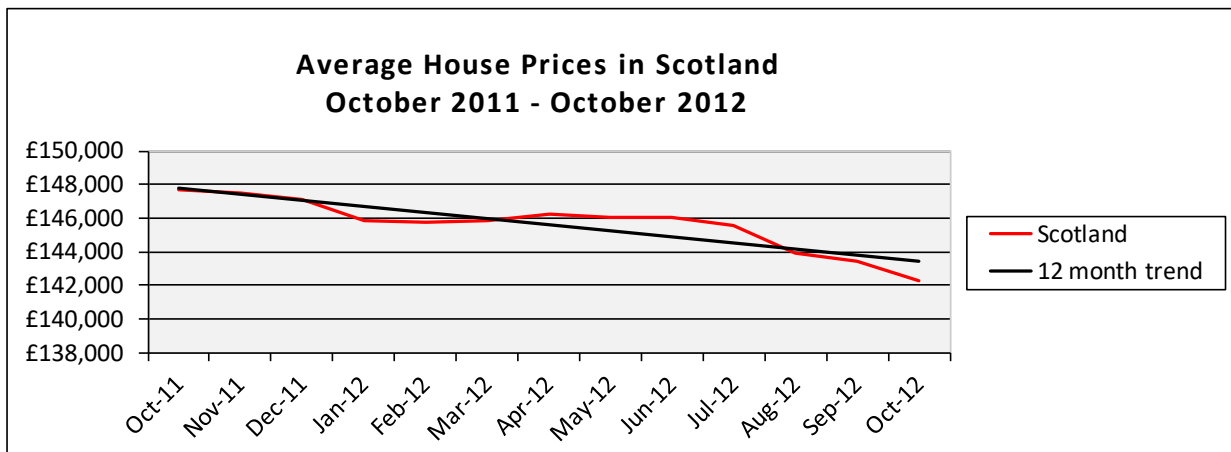


Figure 1. Average house prices in Scotland, October 2011 – October 2012

[link to source Excel](#)

The largest monthly fall in October by Local Authority Area was in Clackmannanshire, down 11%. This area has a low volume of monthly sales, however, so the price movements are consequently more volatile than most. The second largest monthly fall was in East Lothian, down 4% over the month. This was due to the average price of flats and terraced properties falling by 30% each, despite (or because of) a near doubling in the number of properties sold in October compared to September. This in turn is the result of a resurgence of interest in the buy-to-let sector, with prospective Landlords tending to favour terraces and flats priced at the lower end of the spectrum as suitable investment opportunities.

Over the last year, average house prices in Scotland have fallen by 3.7%, which is the largest fall on an annual basis since November 2009. The decline in annual house prices is currently larger than in any of the regions in England & Wales. The largest annual fall in regional house prices in England & Wales is currently in Wales, at -2.9%.

Table 2 on page 4 highlights the annual price change of all 32 Local Authority Areas in Scotland. The area with the highest fall was again Clackmannanshire, down 26% on the year, and the comment regarding volatility resulting from only a small number of property sales also applies to this annual figure. The area with the highest growth in house prices was East Dunbartonshire, up 9% over the year, largely on the back of an increase of 17% in the average price of semi-detached properties.

So where next for the Scottish housing market? Although at first sight a decline in monthly house prices of 0.8% looks alarming, it must be remembered that the number of house transactions increased in the month by 24%. Economists will be familiar with the concept from supply-and-demand analysis that increased volumes are associated with lower prices. We have also seen increased activity in the buy-to-let sector of the market. This tends to be associated with lower priced flats and terraced properties, as opposed to detached and semi-detached homes, which in turn leads to a reduction in the average price being paid for a property.

So what are the prospects for the Scottish housing market in 2013? As ever much will depend on the economy, both at a local level and also in Scotland as a whole. The housing market is strongly influenced by consumer confidence. This in turn is tied to the economic prospects in the community, with a potential increase in unemployment leading to a reduction in the number of properties being purchased. The availability, or non-availability, of credit finance is also a key factor in the market place. If current restrictions on lending are eased, perhaps via the Bank of England's Funding for Lending scheme, then transaction numbers will increase, and this is likely to lead to a stabilization in house prices.

# House prices analysis



Table 2. Average House Prices in Scotland, by local authority area, comparing October 2011 with October 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				Peak Price	% away from Peak	Peak Date
			Oct-11	Oct-12	% Change			
1	1	Edinburgh, City of	218,718	210,777	-3.6%	230,034	-8%	Sep-07
2	3	East Lothian	190,584	205,408	7.8%	216,740	-5%	Dec-10
3	2	Aberdeenshire	197,103	197,352	0.1%	211,269	-7%	Jul-11
4	7	East Dunbartonshire	176,991	192,615	8.8%	214,354	-10%	Dec-08
5	4	East Renfrewshire	188,935	187,219	-0.9%	223,089	-16%	Jun-11
6	5	Aberdeen City	184,371	176,987	-4.0%	185,643	-5%	May-08
7	8	Perth & Kinross	173,473	168,128	-3.1%	194,351	-13%	Apr-11
8	6	Stirling	177,805	167,310	-5.9%	203,172	-18%	Mar-08
9	10	Scottish Borders	155,586	152,319	-2.1%	172,906	-12%	May-10
10	11	Highland	152,588	147,466	-3.4%	163,905	-10%	Jun-08
11	14	Argyll & Bute	145,203	145,804	0.4%	165,230	-12%	Mar-10
12	12	Midlothian	151,017	141,241	-6.5%	179,732	-21%	May-08
13	17	Moray	132,930	133,196	0.2%	147,716	-10%	May-08
14	13	South Ayrshire	147,708	131,752	-10.8%	161,457	-18%	Nov-07
15	20	Angus	129,262	130,010	0.6%	143,589	-9%	Jun-08
16	15	West Lothian	134,494	129,365	-3.8%	148,565	-13%	Nov-07
17	19	Glasgow City	130,764	125,512	-4.0%	144,160	-13%	Oct-07
18	16	Dumfries & Galloway	133,100	124,754	-6.3%	151,076	-17%	May-08
19	18	Fife	130,839	124,078	-5.2%	142,477	-13%	Jul-08
20	9	Clackmannanshire	163,398	121,646	-25.6%	163,398	-26%	Oct-11
21	23	Inverclyde	117,804	121,300	3.0%	140,149	-13%	Aug-10
22	25	Orkney Islands	115,090	119,200	3.6%	160,053	-26%	Apr-12
23	21	South Lanarkshire	123,580	117,318	-5.1%	141,603	-17%	Jul-08
24	24	Dundee City	116,701	116,409	-0.2%	133,438	-13%	Apr-08
25	22	Shetland Islands	119,550	108,062	-9.6%	136,794	-21%	Jun-12
26	27	Falkirk	113,123	105,329	-6.9%	132,774	-21%	Jun-08
27	29	Renfrewshire	109,290	100,182	-8.3%	128,960	-22%	Jun-07
28	30	East Ayrshire	109,110	99,685	-8.6%	127,488	-22%	Aug-08
29	32	North Lanarkshire	100,314	99,552	-0.8%	118,971	-16%	May-08
30	28	North Ayrshire	110,850	99,431	-10.3%	125,910	-21%	Jun-08
31	26	West Dunbartonshire	113,933	97,825	-14.1%	121,377	-19%	Jun-08
32	31	Eilean Siar	106,783	95,434	-10.6%	113,889	-16%	Dec-11
		<b>All Scotland</b>	<b>147,704</b>	<b>142,246</b>	<b>-3.7%</b>	<b>157,023</b>	<b>-9%</b>	<b>May-08</b>

This month we have added three extra columns to the standard table. These show the peak average house price for each of the 32 Local Authority Areas in Scotland, the percentage by which current prices diverge from this peak, and the month in which the peak price occurred. As can be seen for Scotland as a whole the peak price was reached in May 2008, with current prices some 9% lower than this peak. Two areas, the Shetland Islands and the Orkneys, reached a peak in 2012, but one suspects that the purchase of second homes by those living outside the area has influenced this figure.

Of the remaining 30 Local Authority areas, 16 reached a peak average house price in 2008, five in 2007 including both Edinburgh and Glasgow, five in 2011 and four in 2010. Unsurprisingly, no area reached a peak in 2009, which was the year when house prices were at their lowest point in the recent housing crisis. The two areas furthest off their peak price by 26% are the Orkneys and Clackmannanshire. However, these locations are ranked in the lowest four of all Scottish Local Authority areas in terms of the number of housing transactions, hence their average prices are among the most volatile. The areas closest to their peaks are Aberdeen City and East Lothian, with current prices off by only 5%. There is a discernible trend that the highest priced areas in Scotland are closer to their peak price than the areas with lower house values.

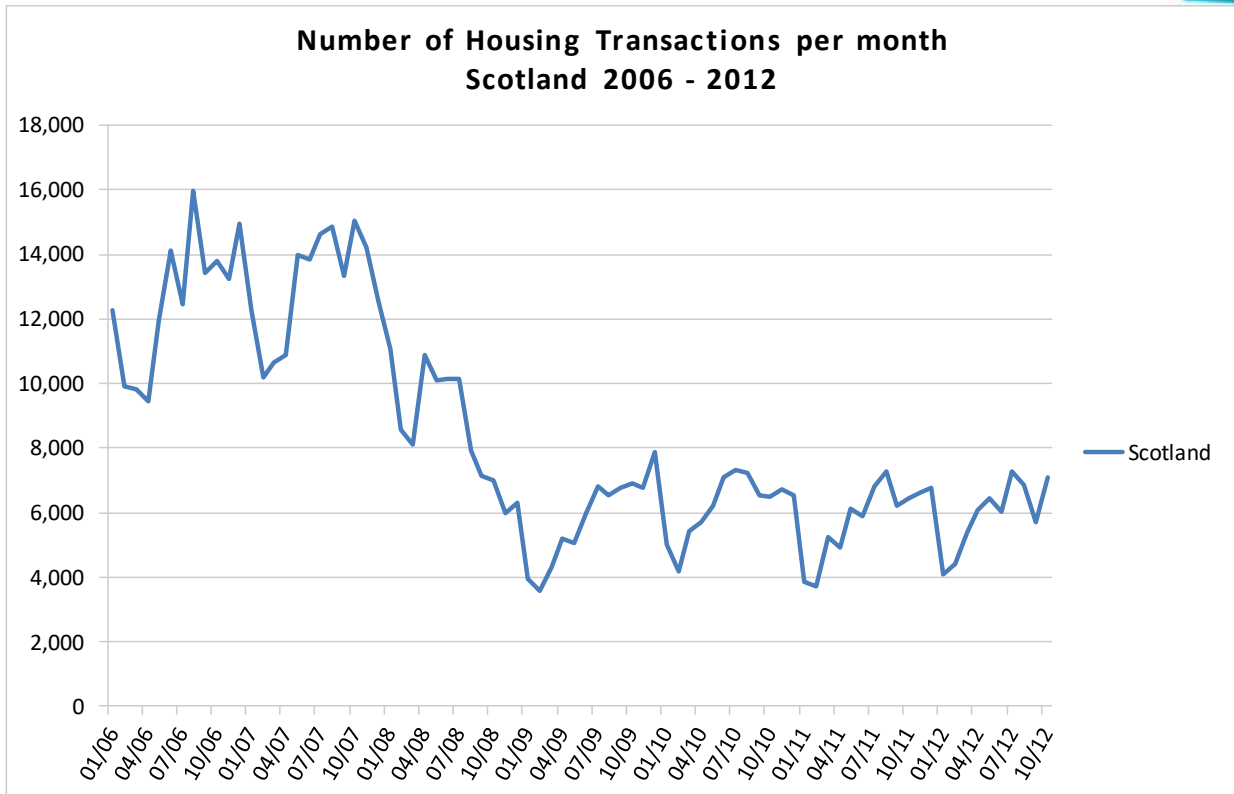


Figure 2. The number of housing transactions by month in Scotland, 2006 - 2012 (not seasonally adjusted)

[link to source Excel](#)

Last month we reported that the level of housing transactions in September had fallen by 17% from August levels. We ascribed this fall in sales to the Olympics, which proved to be an engaging distraction from the purchase of properties in August, so causing a reduction in housing completions in September. We also suggested that there was likely to be a ‘catch-up’ effect in October, to make up for the missing sales of the previous month. This has proved to be the case, with housing transactions in October up by 24% compared to September. In an average year, based on the last ten years, property transactions have increased by 4% in October over September levels. The 24% this year therefore represents an increase in sales of approximately 20%, or 1,100 properties above the norm. This figure of 1,100 properties matches the reduction in houses sold between August and September, so the term ‘catch-up on missing sales’ was particularly apt.

The above graph shows the number of monthly transactions recorded by the Registers of Scotland (RoS) for the period January 2006 to October 2012, without seasonal adjustment. Although perhaps not obvious from the graph, sales for the first ten months of 2012 are 5% ahead of a similar period in 2011. Nevertheless, they are 54% lower than the sales levels achieved in 2007, prior to the detrimental effect of the current credit restrictions. It will be interesting to observe the extent to which the Bank of England “Funding for Lending Scheme” eases the current credit restrictions, which should then result in an increase in monthly transaction numbers.

#### 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

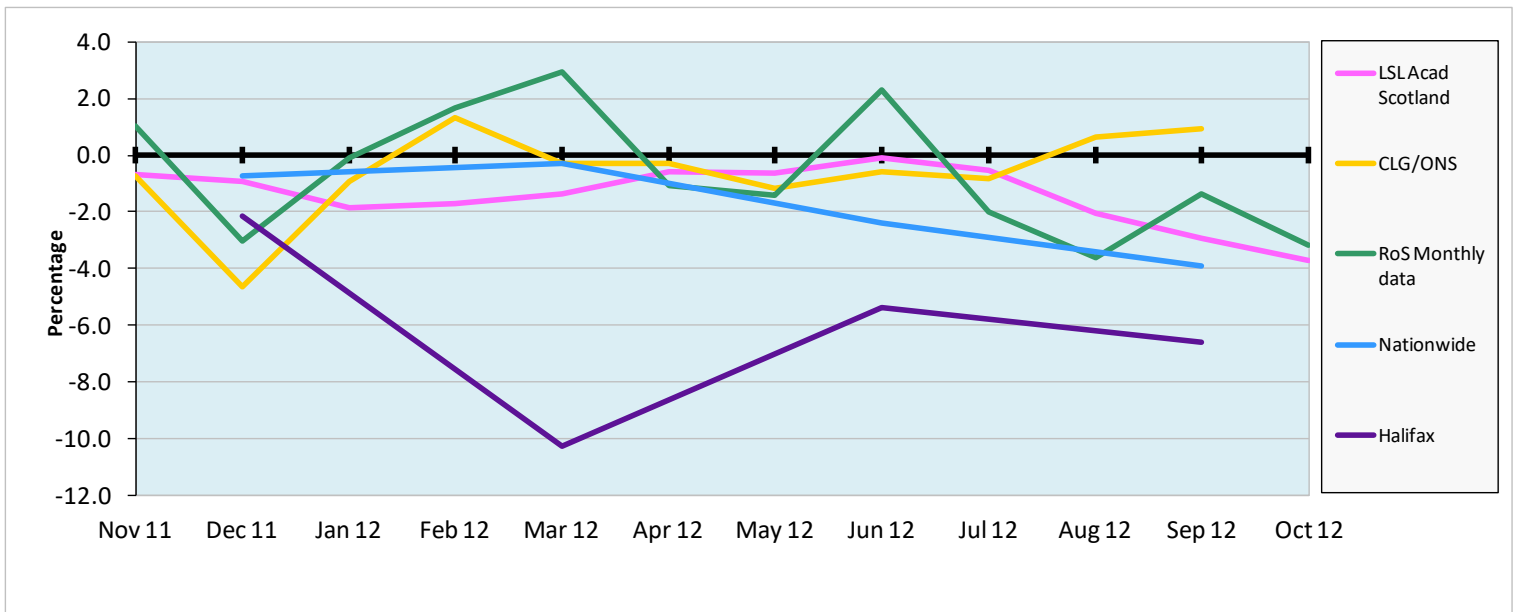


Figure 3. ANNUAL CHANGE IN HOUSE PRICES - COMPARISON OF INDICES AND RoS CHART

[link to source Excel](#)

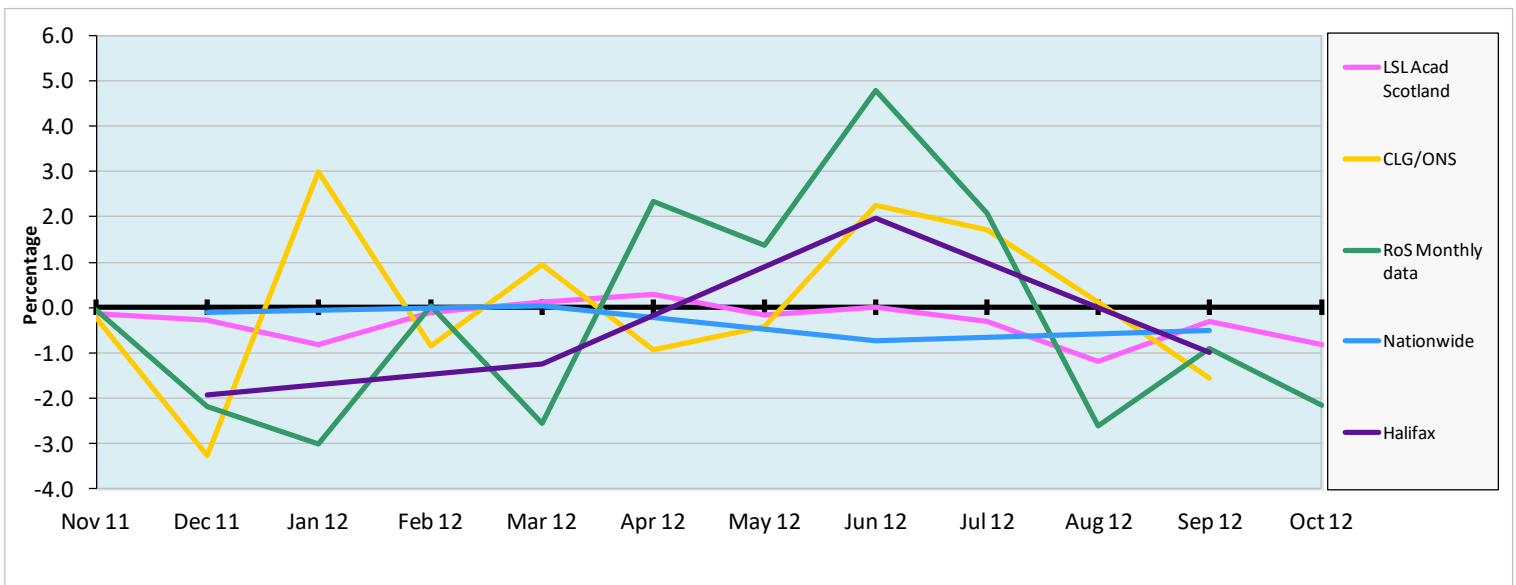


Figure 4. MONTHLY CHANGE IN HOUSE PRICES - COMPARISON OF INDICES AND RoS CHART

[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**

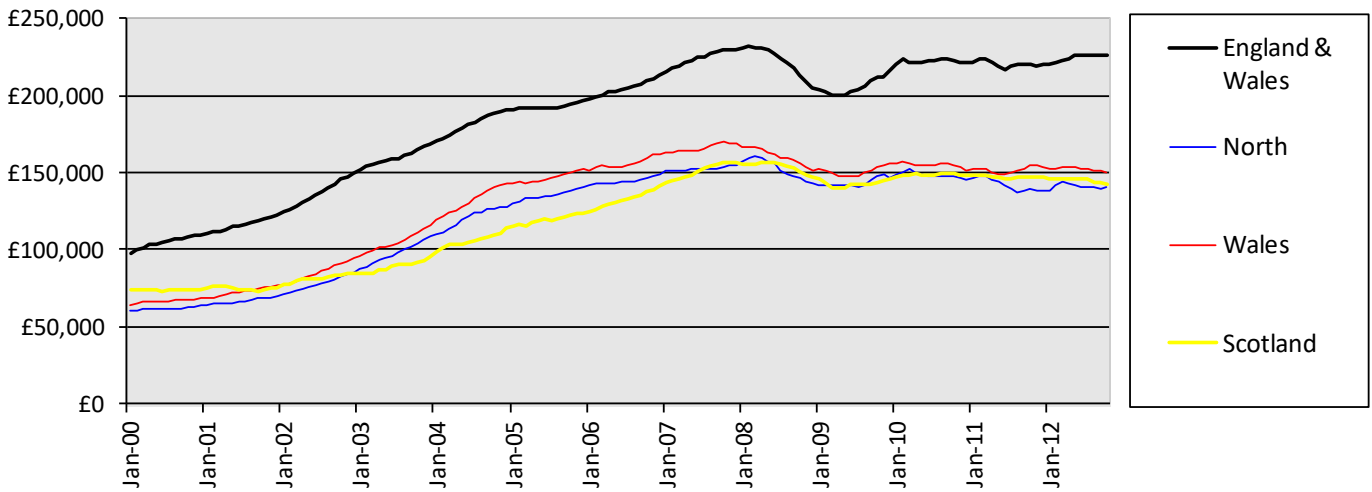


Figure 5. Scotland house prices, compared with England & Wales, Wales and the North for the period January 2000 – October 2012 [link to source Excel](#)

**Annual % change in Average House Prices**

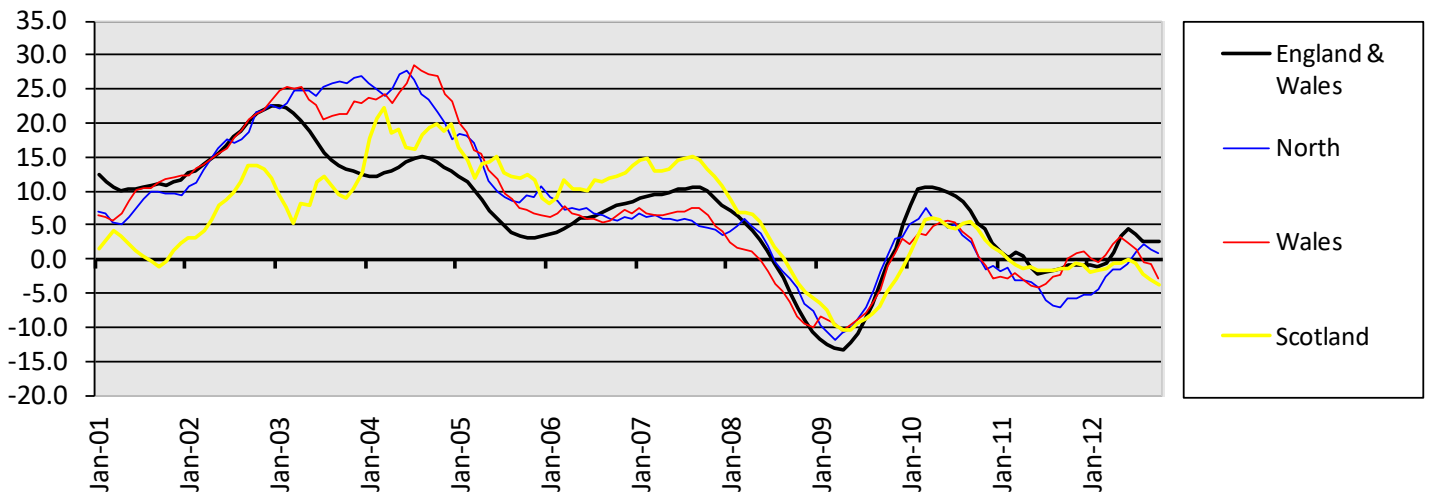


Figure 6. A comparison of the annual change in house prices in Scotland, England & Wales, Wales and the North for the period January 2001 – October 2012 [link to source Excel](#)

# Scotland's seven cities

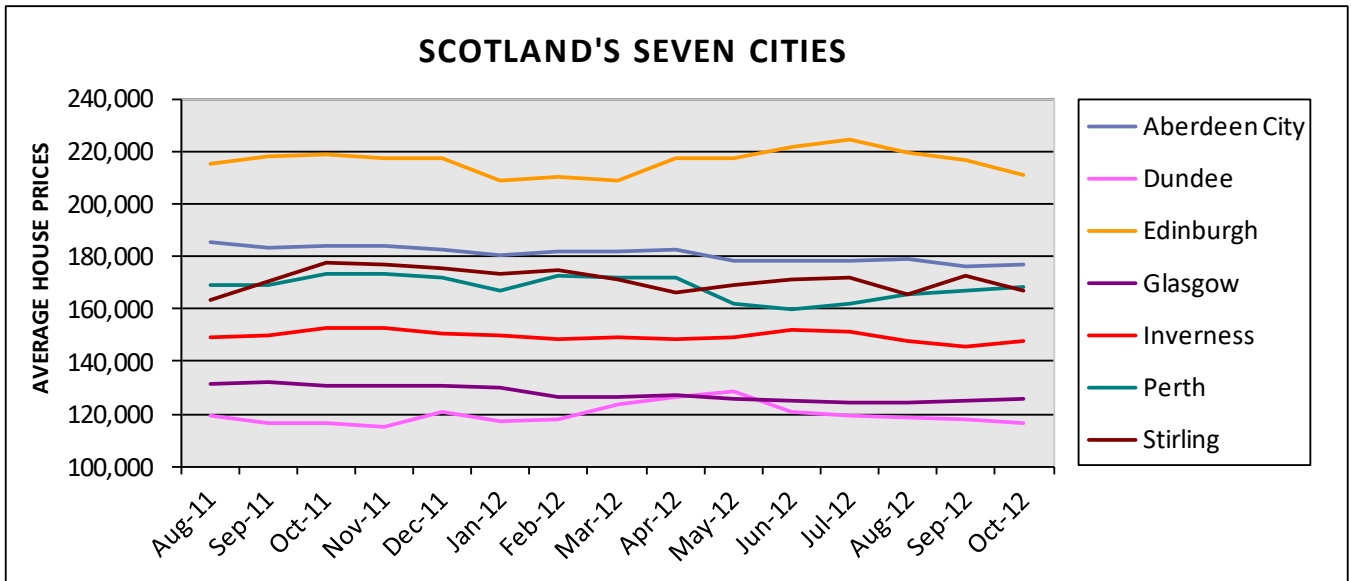


Figure 7. Average house prices for Scotland's seven cities from August 2011 – October 2012 [link to source Excel](#)

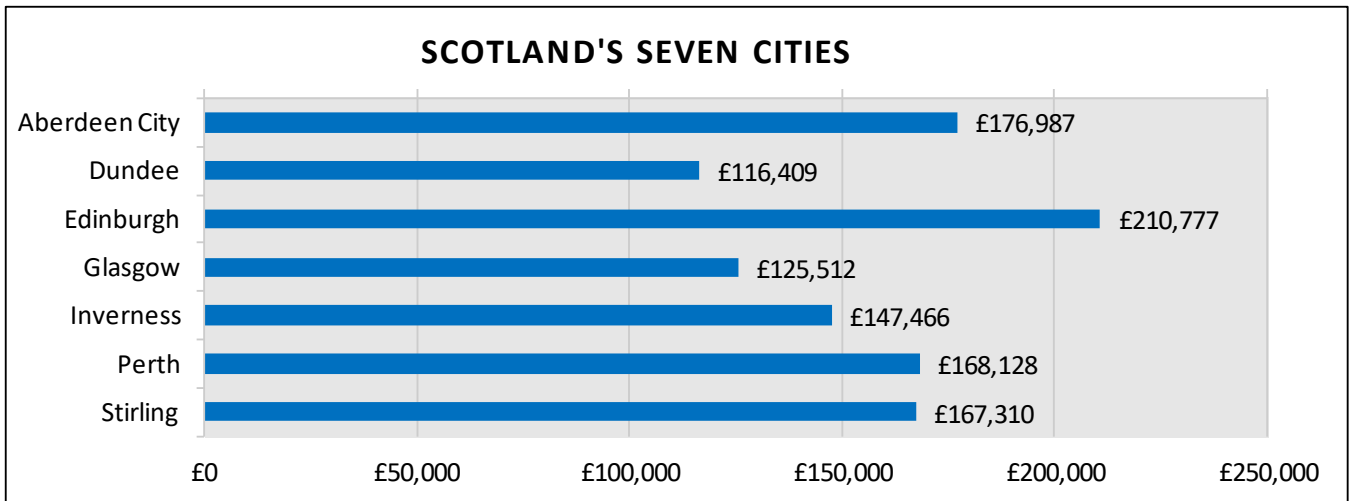


Figure 8. Average house prices for Scotland's seven cities October 2012 [link to source Excel](#)





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.