

LSL Property Services/Acadata

Scotland

House Price Index

OCTOBER 2013

STRICTLY UNDER EMBARGO UNTIL 00.01 WEDNESDAY 18TH DECEMBER 2013

Scottish house prices up £1,368 in the last 12 months

- On a monthly basis prices fall marginally by £206
- Prices in Aberdeen City set another record high
- Sales over the last three months are 23% higher than last year

House Price	Index	Monthly Change %	Annual Change %
£144,084	195.4	-0.1	1.0

Richard Sexton, director of e.surv chartered surveyors, part of LSL Property Services, comments: “It’s clear the Scottish housing market is being restored to health. Sales are substantially better and prices are entering a period of prosperity, fuelled by rising consumer confidence and demand. October is the second consecutive month in which the annual change in prices has been positive, a trend that has not been visible since early 2011. Average prices have risen £1,368 over the past year in Scotland, while lending levels are improving rapidly as economic conditions perk up, as is being seen across the UK.

“With the easing of mortgage lending conditions, first-time buyers are having a much easier ride. There is now a better range of competitively priced products with lower deposit requirements, thanks in part to the backing from the government’s schemes. So far 2013 is seeing the greatest number of sales recorded over the last five years. Record low interest rates have sent the market into another realm. Sales have shot up by 23% for the three months of August, September and October 2013 compared to the same period last year. At the bottom end, shoots of first-time buyer activity mean the market is blossoming, a factor that’s giving the whole market a lift.

“After a period of slow movement, it is reassuring to see that home mover and remortgage lending is also improving. People are now more confident in their plans to sell their current homes and buy somewhere else, as signs show the path ahead in 2014 looking stable. The Help to Buy scheme will take on more prominence early next year, and will be the main driving force pushing up house price growth and buyer activity.

“The recent news that the Funding for Lending scheme will be axed has created an element of uncertainty. But the underlying fact is that the recovery has only just begun. Lending is still only slightly above half the levels seen at the peak of the market, so there is a lot of room for growth. The referendum next year on independence from the UK could have an impact on Scotland’s housing market. But if investors hold on to see what the effect will be, it may unsettle the market and hamper its ability to create the much needed new housing supply in the meantime.”

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 October 2012 – October 2013

[link to source Excel](#)

		House Price	Index	Monthly Change %	Annual Change %
October	2012	£142,716	193.5	-0.6	-3.6
November	2012	£142,529	193.2	-0.1	-3.7
December	2012	£141,557	191.9	-0.7	-4.2
January	2013	£142,234	192.8	0.5	-2.7
February	2013	£143,357	194.4	0.8	-1.6
March	2013	£144,029	195.3	0.5	-1.0
April	2013	£143,878	195.1	-0.1	-1.4
May	2013	£143,869	195.1	0.0	-1.2
June	2013	£143,238	194.2	-0.4	-1.6
July	2013	£143,654	194.8	0.3	-1.0
August	2013	£143,304	194.3	-0.2	-0.3
September	2013	£144,290	195.6	0.7	0.5
October	2013	£144,084	195.4	-0.1	1.0

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

The average house price in Scotland fell by £206, or 0.1%, in October on a seasonally adjusted basis, and now stands at £144,084. Over the last year, monthly house prices have increased on 5 occasions, fallen 6 times and remained static once. Despite the small decline in prices in the month, average house prices have risen by £1,368, or 1.0%, over the last 12 months. This is the second consecutive month in which the annual rate of change in house prices has been positive, a pattern not seen since January 2011 some 33 months ago.

Scotland is not alone in seeing higher average house prices over the year. In fact all other regions in Great Britain are also recording a positive movement in house prices, with Greater London seeing the highest rise at +9.2%, while outside of Scotland, the lowest annual increase in prices is in the North, at 1.3%. Scotland is the only country or region in Great Britain recording a fall in prices for the month of October, albeit a very minor fall in statistical terms.

The main reason for the return to positive annual price movements in the housing market is the increase in activity during the year. As we discuss on page 5, the main driver of this increase has been the first time buyer. The mortgage companies eased their constraints on lending to this sector of the market, offering more competitively priced products with lower deposit requirements, assisted by the Bank of England's Funding for Lending Scheme (FLS). The increase in the number of first time buyers has had a knock-on effect throughout the rest of the market. With interest rates at an all-time low, this has produced an increase in housing transactions across all sectors, with sales volumes for the three months of August, September and October 2013 up 23% on the same period in 2012.

Perhaps unfortunately for Scotland, the high price rises and recovery of the housing market in Greater London and the south of England have had an influence on the Bank of England's policy towards lending to the housing sector, with the announcement of the withdrawal of the FLS from the market. Such action makes sense where the recovery in house prices is firmly established, but less so where the recovery is still weak. It remains to be seen whether this withdrawal of funding will subdue the expansion in transactions that is currently taking place in Scotland.

Figure 1 below shows the movement in Scotland's average house prices over the last twelve months. As can be seen, the period started with two months of falling prices during Q4 2012, followed by a period of recovery up to May 2013. The market has then fluctuated around the trend line for the last five months, with prices marginally increasing over time. The decline in prices after May 2013 coincided with the expansion of sales to first time buyers. This is no coincidence, as the average price of £97,000 paid by first time buyers was lower than the average price for the market as a whole. The increase in sales to this sector thus caused the overall average price to fall.

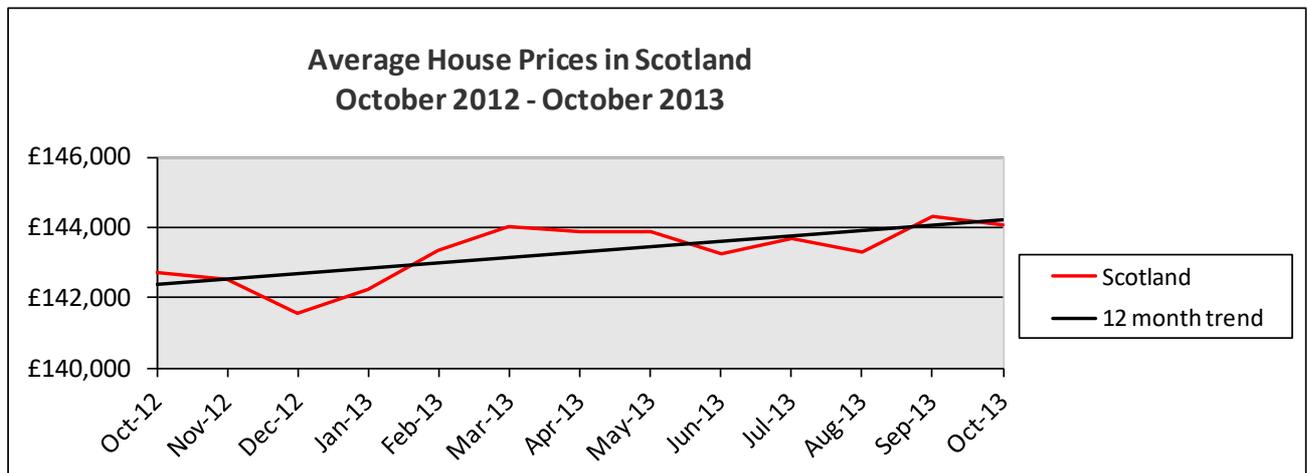


Figure 1. Average house prices in Scotland, October 2012 – October 2013

[link to source Excel](#)

What next for Scotland's housing market? There are a number of unknowns relating to the market which make any predictions fraught with difficulty. The first issue relates to the withdrawal of the Bank of England's Funding for Lending Scheme. We show in this report that the scheme has had a positive influence in lowering interest rates to the housing sector, enabling first time buyers to secure loans, which for a number of years had proved elusive. As yet it is too early to tell whether there is enough momentum in the market to make the withdrawal of the FLS an irrelevance, or whether its removal will again put the brakes on lending to those who have not managed to save a sufficiently large deposit. There is also likely to be a period of uncertainty arising from the referendum on independence from the United Kingdom, which takes place in September 2014. One factor that tends to unsettle the housing market is such a period of uncertainty, as buyers defer making long term decisions on property purchase until the perceived uncertainty diminishes. We therefore anticipate that the current expansion of sales in the market will begin to slow in 2014. We will watch and report on the developments in these matters with keen interest.

House prices analysis



Table 2. Average House Prices in Scotland, by local authority area, comparing October 2012 and September 2013 with October 2013 [link to source Excel](#)

AVERAGE HOUSE PRICES IN SCOTLAND BY LOCAL AUTHORITY AREAS (Mix adjusted)

RANK BY PRICE	PRIOR YR RANK	LOCAL AUTHORITY AREA	Oct-12	Sep-13	Oct-13	% Monthly Change	% Annual Change
1	1	Edinburgh, City of	211,402	214,164	209,990	-1.9%	-0.7%
2	3	Aberdeenshire	198,042	200,702	204,134	1.7%	3.1%
3	2	East Lothian	205,989	196,155	199,580	1.7%	-3.1%
4	5	East Renfrewshire	187,795	193,929	195,372	0.7%	4.0%
5	6	Aberdeen City	177,527	194,932	195,052	0.1%	9.9%
6	4	East Dunbartonshire	193,248	183,238	182,720	-0.3%	-5.4%
7	9	Scottish Borders	152,768	158,431	166,497	5.1%	9.0%
8	8	Stirling	168,576	162,202	164,439	1.4%	-2.5%
9	7	Perth & Kinross	168,608	161,922	162,851	0.6%	-3.4%
10	12	Midlothian	141,675	151,469	148,019	-2.3%	4.5%
11	10	Highland	147,914	143,873	144,189	0.2%	-2.5%
12	14	South Ayrshire	132,255	132,616	136,065	2.6%	2.9%
13	11	Argyll & Bute	146,255	135,642	135,314	-0.2%	-7.5%
14	25	Shetland Islands	108,390	136,170	134,668	-1.1%	24.2%
15	16	West Lothian	130,254	132,497	133,102	0.5%	2.2%
16	20	Clackmannanshire	122,006	128,197	129,630	1.1%	6.2%
17	15	Angus	130,410	130,316	129,130	-0.9%	-1.0%
18	13	Moray	133,117	129,729	128,812	-0.7%	-3.2%
19	17	Glasgow City	125,942	130,059	128,330	-1.3%	1.9%
20	18	Dumfries & Galloway	125,282	125,950	126,589	0.5%	1.0%
21	19	Fife	124,445	127,748	125,985	-1.4%	1.2%
22	22	Orkney Islands	119,553	121,044	124,755	3.1%	4.4%
23	24	Dundee City	116,754	121,736	121,116	-0.5%	3.7%
24	23	South Lanarkshire	117,693	116,748	116,512	-0.2%	-1.0%
25	26	Falkirk	105,651	109,305	109,635	0.3%	3.8%
26	21	Inverclyde	121,664	104,482	107,895	3.3%	-11.3%
27	31	West Dunbartonshire	98,129	102,206	103,772	1.5%	5.8%
28	27	Renfrewshire	100,486	102,477	103,412	0.9%	2.9%
29	30	North Ayrshire	99,729	99,828	101,450	1.6%	1.7%
30	28	East Ayrshire	99,975	101,772	98,865	-2.9%	-1.1%
31	29	North Lanarkshire	99,902	97,564	97,824	0.3%	-2.1%
32	32	Eilean Siar	95,726	91,815	97,362	6.0%	1.7%
		All Scotland	142,716	144,290	144,084	-0.1%	1.0%

Table 2 above shows the average house price in each of the 32 Local Authority Areas in Scotland for October 2012, September 2013 and October 2013, together with the rates of change over the last month and year. In October, monthly prices fell in 12 of the 32 Local Authority Areas, on a seasonally adjusted basis. This is two more than last month, indicating a slight fall in prices during the month. On an annual basis, prices have risen above last year's levels in 19 local authority areas, which is five more than last month. Many agents are reporting a lack of new instructions to sell properties, which, along with an increase in demand arising from first time buyers, is beginning to raise the prices of those properties which are put up for sale.

Looking first at the monthly rate of change from September 2013 to October 2013, the biggest increase in prices among the Local Authority Areas was in Eilean Siar, up 6.0%, but here the low volume of housing sales can result in average prices being distorted by the skewing effect of one or two expensive homes being sold in a particular month. The second largest increase in prices over the month was in the Scottish Borders, up by 5.1%, where the average price of a flat has risen by £25k over the last few months.

Turning to the annual change in house prices, the highest movement on the mainland was in Aberdeen City, up 9.9% on the year. Here, the sale of semi-detached properties has seen a 33% growth over the last three months compared to twelve months earlier, resulting in prices for such properties rising by an average £35k. For the second successive month average house prices in Aberdeen City have set a new record level at £195,052. However, this is the only Local Authority Area with record prices, with most other areas seeing discounts of between 3% and 23% from their previous peaks. The largest fall in prices over the year has been in Inverclyde, down by 11.3%. Despite a 32% increase in housing activity in Inverclyde over the last three months compared to the same three months in 2012, average prices have fallen, mainly due to the sale of some prestigious homes in 2012 not being repeated in 2013.

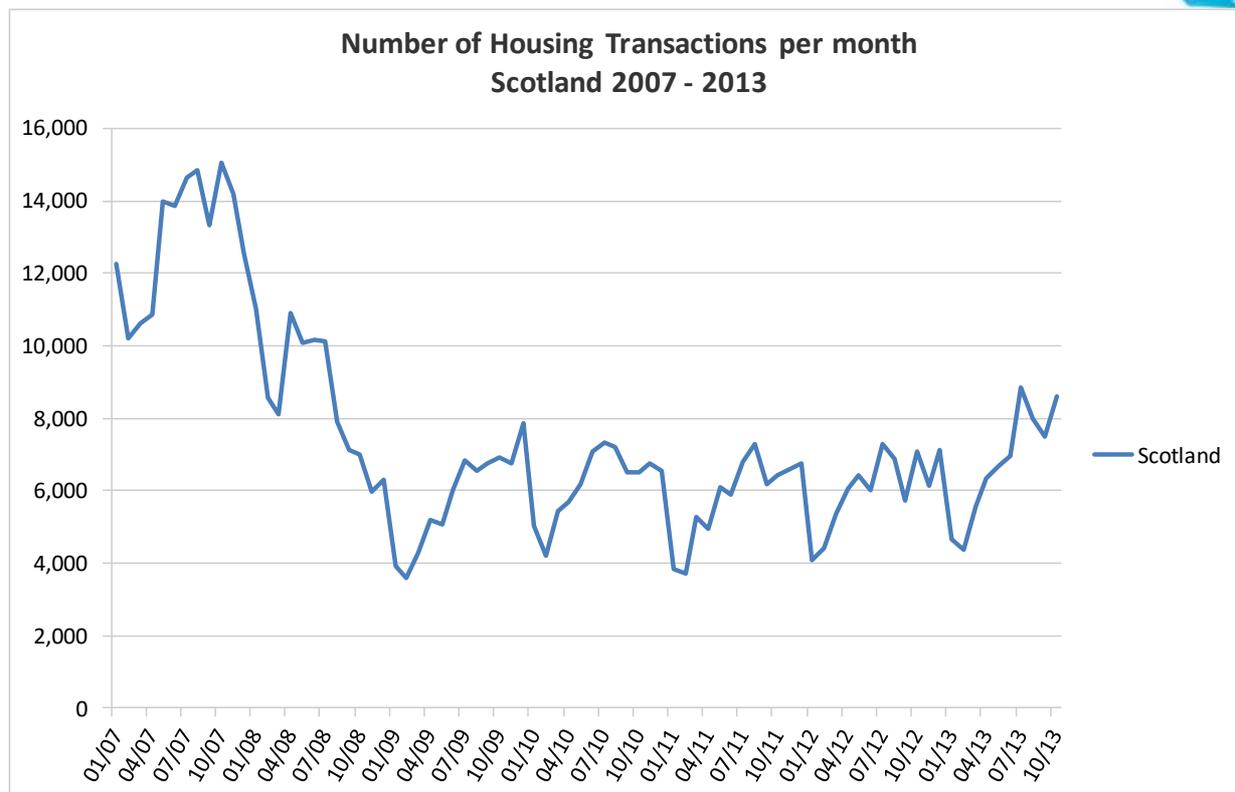


Figure 2. The number of housing transactions by month in Scotland, 2007 - 2013 (not seasonally adjusted)

[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 October 2013, 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 exceeding that of the equivalent period in the preceding four years. Transactions in October 2013 increased by 15% compared to September 2013. However, based on average figures calculated over the last eleven years, sales typically rise by 5% between September and October, so we can infer that sales activity in October 2013 was 10% higher than the seasonal norm. Figures for the year to date, i.e. January to October 2013, compared to the same ten months in 2012, show a similar pattern, with sales up 13.6% over the period.

Much of the increase in transactions during the second half of 2013 has arisen as first time buyers become more active in the housing market. The CML (Council of Mortgage Lenders) reports that the number of loans taken out by first time buyers during the third quarter of 2013 was up 32% compared to the third quarter of 2012, being some 1,600 properties. Activity by first time buyers is also having an influence further up the property chains, such that the CML reports that the number of loans taken up by home movers in the third quarter of 2013 increased by 16% compared to the third quarter in 2012.

If we compare the three month period August – October 2013 with the same three months a year earlier, overall sales have gone up by 23%. This rise is led by an increase in the number of flats sold (up 28%), followed by detached properties (up 23%), terraced properties (up 19%) and finally semi-detached property sales (up 17%). The increase in the sale of flats is indicative of activity by first time buyers, being their main property type of choice, with the increase in the sale of detached homes suggesting that the more mature movers in the property market are also becoming more active.

The highest percentage increase in the sale of properties on the mainland in the three month period August – October 2013 compared to the same three months in 2012 was in Angus, up by an overall 41%. Here the sale of terraces increased by 40 properties (up 50%) and detached properties by an extra 36 homes (up 40%). Angus was closely followed by West Dunbartonshire also up by an overall 41%, where the sale of flats increased by 36 units (up 46%) and the sale of detached properties by 17 homes (up 81% - albeit from a low starting point).

Based on the first ten months of the year, 2013 is experiencing the highest number of properties sold over the last five years, and we expect this volume of sales to continue to the end of the year. However, as we discuss on page 3, there are a number of factors which might cause the rate of increase in transactions to retrench in 2014.



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

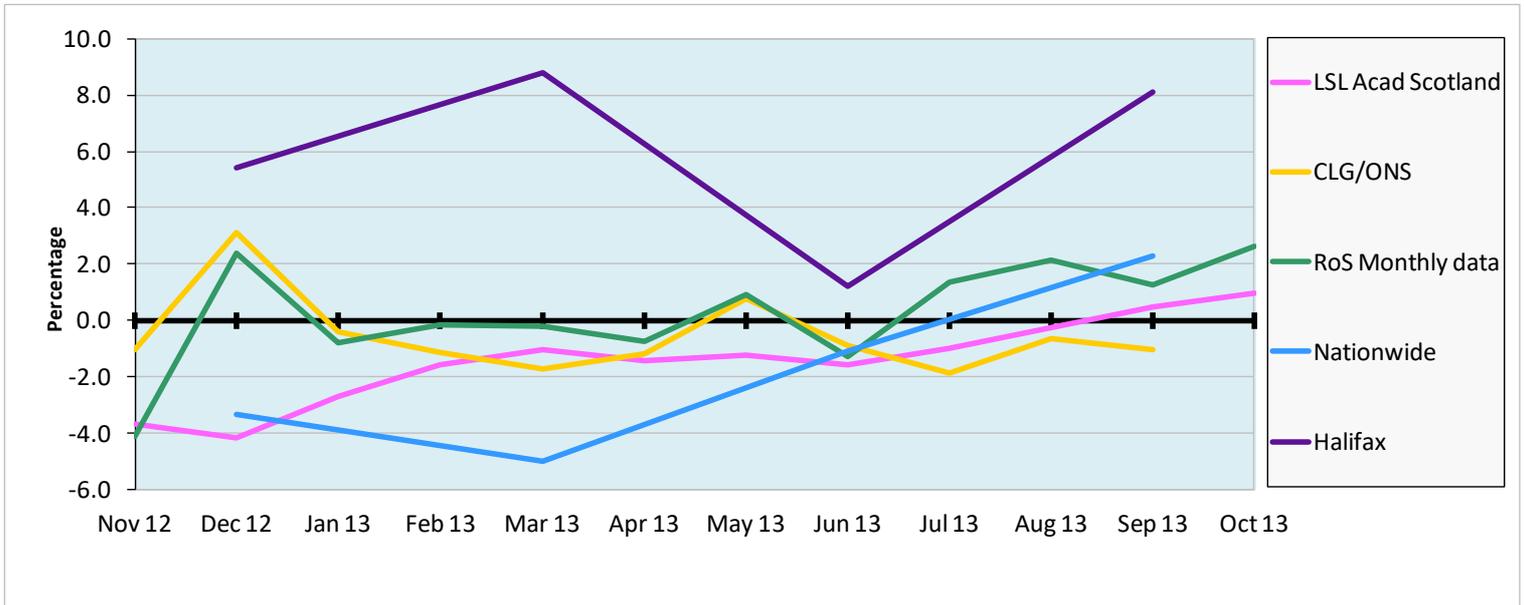


Figure 3. ANNUAL CHANGE IN HOUSE PRICES - COMPARISON OF INDICES AND RoS CHART

[link to source Excel](#)

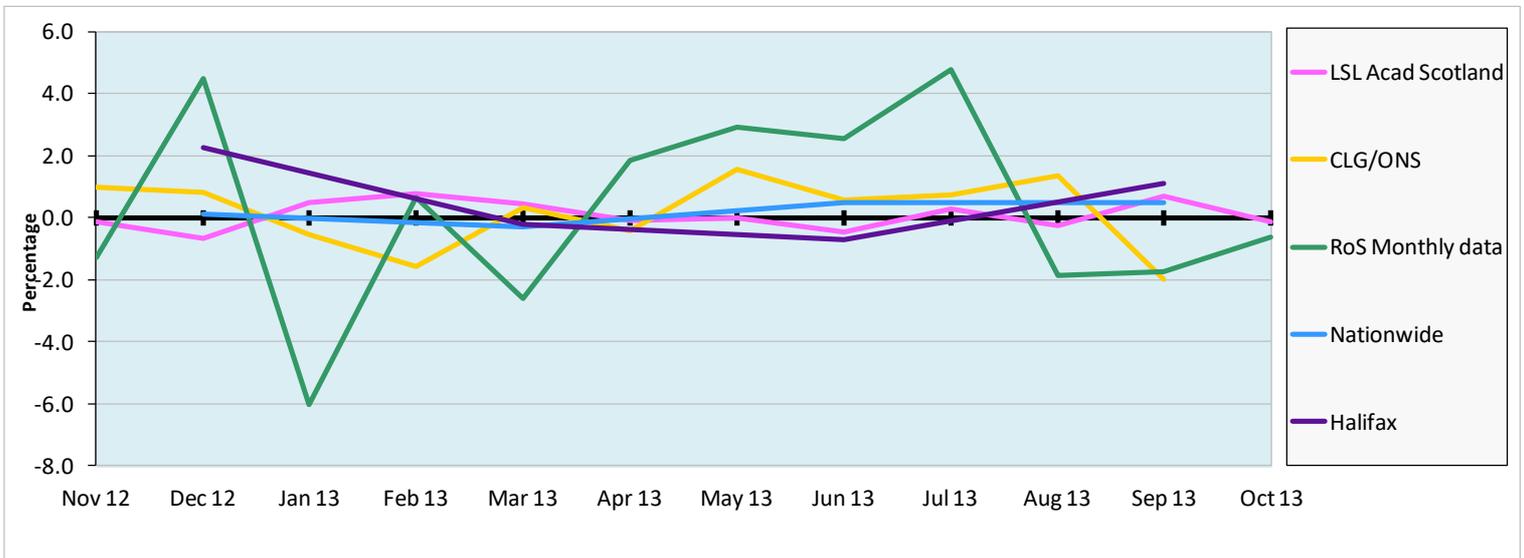


Figure 4. MONTHLY CHANGE IN HOUSE PRICES - COMPARISON OF INDICES AND RoS CHART

[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

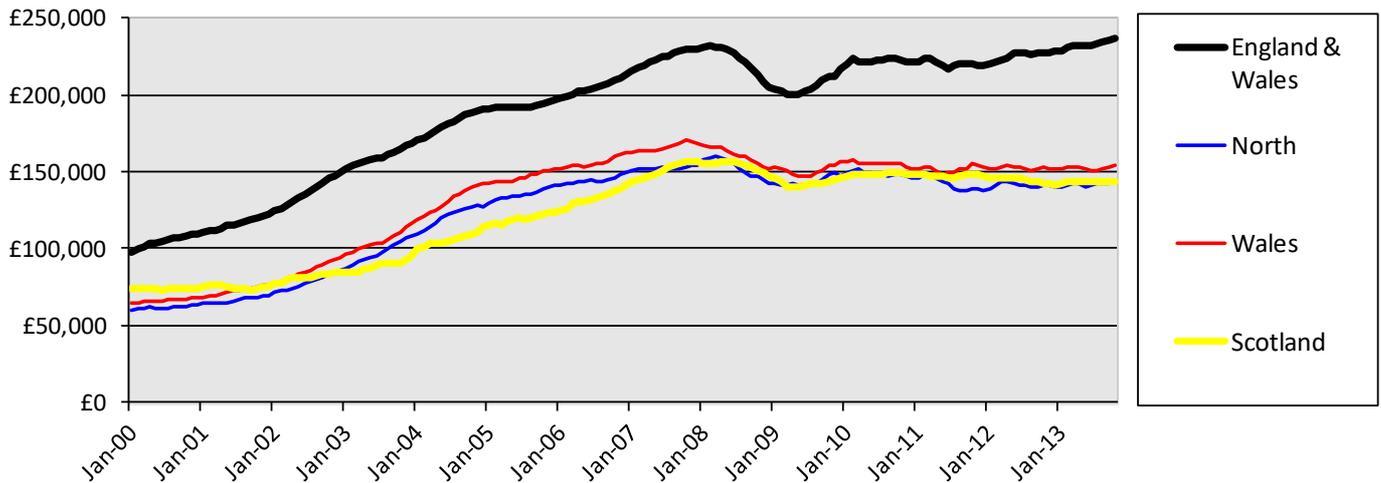


Figure 5. Scotland house prices, compared with England & Wales, Wales and the North for the period January 2000 - October 2013 [link to source Excel](#)

Annual % change in Average House Prices

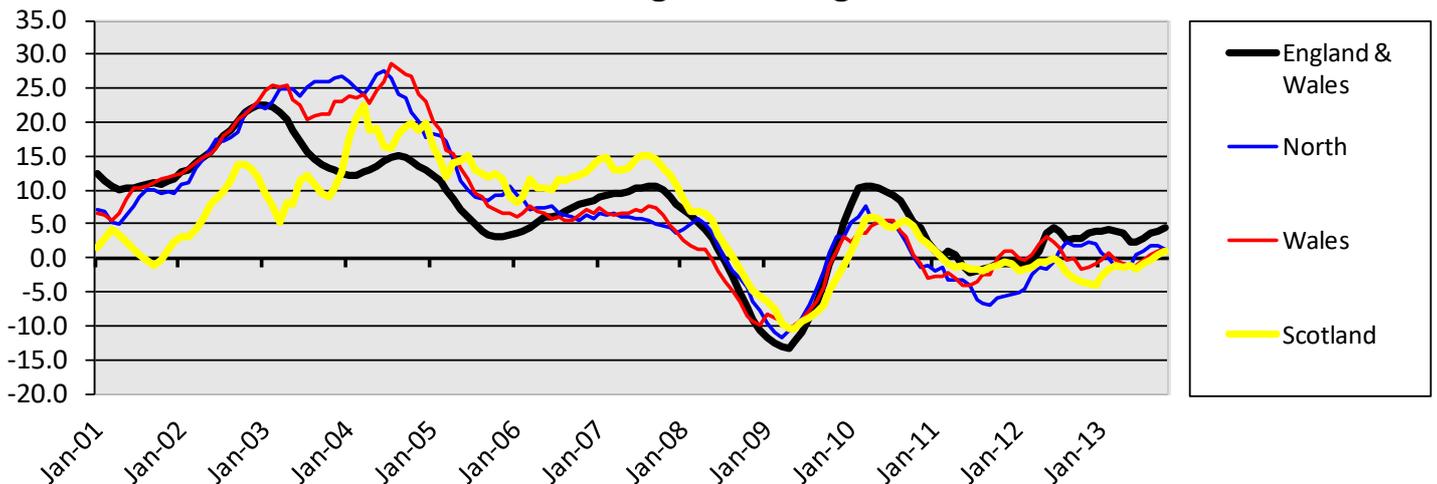


Figure 6. A comparison of the annual change in house prices in Scotland, England & Wales, Wales and the North for the period January 2001 - October 2013 [link to source Excel](#)

Scotland's seven cities

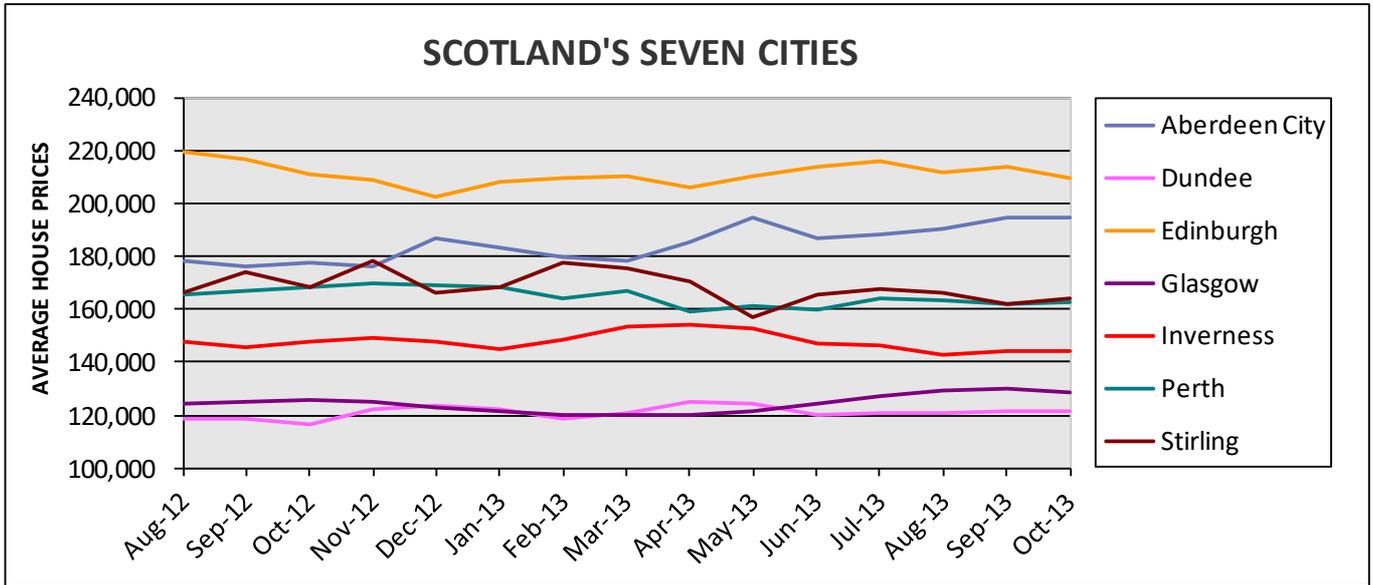


Figure 7. Average house prices for Scotland's seven cities from August 2012 – October 2013

[link to source Excel](#)

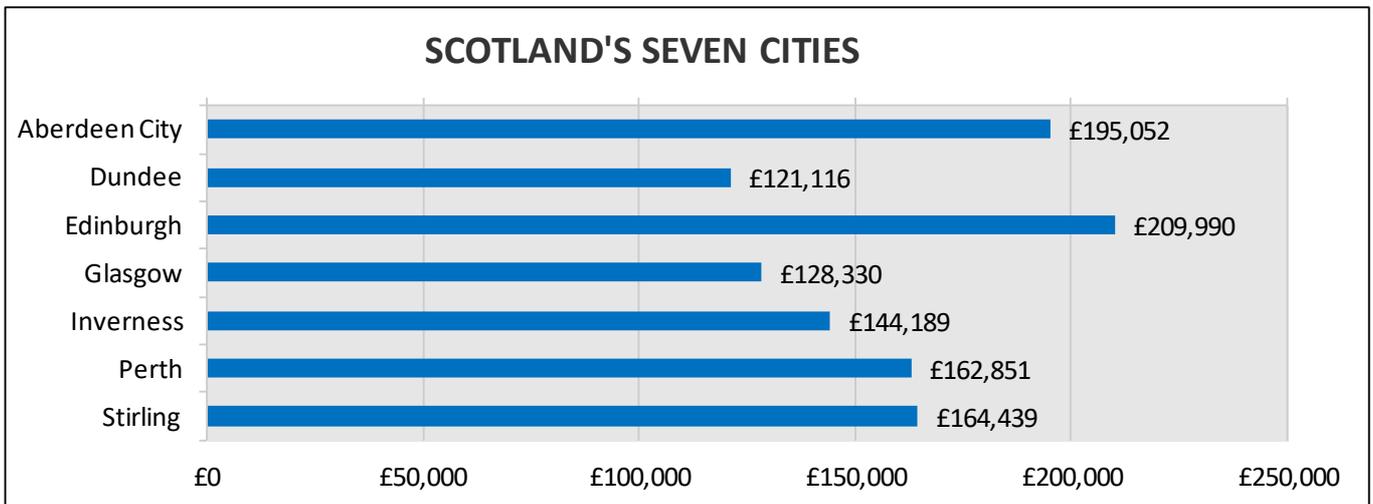


Figure 8. Average house prices for Scotland's seven cities October 2013

[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.