

LSL Property Services/Acadata Scotland House Price Index

SEPTEMBER 2013

STRICTLY UNDER EMBARGO UNTIL 00.01 WEDNESDAY 13TH NOVEMBER 2013


Scottish house prices up £647 since September 2012

- **Prices rise by £952 on a monthly basis**
- **House prices in Aberdeen City hit record high**
- **Sales in Q3 2013 22% higher than last year**

House Price	Index	Monthly Change %	Annual Change %
£144,253	195.6	0.7	0.5

Richard Sexton, director of e.surv chartered surveyors, part of LSL Property Services, comments: "The Scottish housing market is being revitalised: for the first time since January 2011 the annual change in prices has been positive, marking a significant step change. Stable price levels are helping the market recover; prices have risen by £952 in the past month and are £647 higher than a year ago. Sales levels are also following suit, now at their highest level for five years - a dramatic boost that is helping propel the property market upwards.

"The main driver of this increase is down to the phenomenal rise in first-time buyer activity at the lower end of the market. Lenders have eased conditions, banks are more confident and generally the mortgage market is buzzing. First-time buyers have witnessed a plethora of top mortgage deals and greater product choice, and low interest rates are giving people more confidence to buy. The Government's launch of its own version of the Help to Buy equity loan scheme has given the market a real helping hand.

"The general economic recovery has restored and renewed consumer confidence, and many would-be movers in Scotland are now more optimistic in their ability to sell their existing home and buy elsewhere. As a result, the whole market has become far more fluid. Before, the average house price of £97,000 paid by first-time buyers was lower than the average price for the market as a whole and movement at the bottom end caused prices to fall. Now it's activity from second-time buyers and other movers that is placing upward pressure on prices and this will drive the recovery forward. With sales up by 22% over the last three months compared to last year, green shoots are emerging in the property market left, right and centre.

"Before we get swept away with the positive news, it is important to stress that the Scottish property market has a long way to go. For instance, there's the possibility that interest rates will rise and a concern that higher stamp duty on the most expensive properties could put a brake on activity. All eyes will be on the Scottish Government's plans to focus on affordable housing across Scotland which is vital if the market is to progress further."

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 September 2012 – September 2013

[link to source Excel](#)

		House Price	Index	Monthly Change %	Annual Change %
September	2012	£143,606	194.7	-0.1	-2.9
October	2012	£142,707	193.5	-0.6	-3.7
November	2012	£142,523	193.2	-0.1	-3.7
December	2012	£141,557	191.9	-0.7	-4.2
January	2013	£142,238	192.9	0.5	-2.7
February	2013	£143,359	194.4	0.8	-1.6
March	2013	£144,034	195.3	0.5	-1.0
April	2013	£143,893	195.1	-0.1	-1.4
May	2013	£143,869	195.1	0.0	-1.2
June	2013	£143,234	194.2	-0.4	-1.6
July	2013	£143,635	194.7	0.3	-1.0
August	2013	£143,301	194.3	-0.2	-0.3
September	2013	£144,253	195.6	0.7	0.5

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Further commentary by Dr Peter Williams

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

The average house price in Scotland rose by £952, or 0.7%, in September on a seasonally adjusted basis, and now stands at £144,253. Over the last year, monthly house prices have increased on 5 occasions, fallen 6 times and remained static once. On an annual basis, average prices are now up £647, or 0.5%, over the year. This is the first time that the annual rate of change in house prices has been positive since January 2011, some 32 months ago.

Without wishing to detract from Scotland's achievement in stemming the decline in house prices, we should perhaps also mention that in September all regions in England & Wales were also seeing a rise in house prices, the first time that all ten regions together have had positive growth since October 2010.

The main reason for the return to positive price movements in the housing market is the increase in activity seen 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. This, together with renewed consumer confidence, and alongside a general economic recovery, has supported the improvement: this is reflected too in the transaction figures. The increase in numbers of first time buyers has had a knock-on effect throughout the rest of the market. This in turn has enabled many would-be movers to have more confidence in their ability to sell their existing home and to purchase elsewhere. Interest rates are at an all-time low, making affordability issues less critical: this - along with house prices looking as though they are beginning to move upwards - has produced an increase in housing transactions across all sectors of the market, with sales volumes in Q3 2013 up 22% on the same three months in 2012.

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 three months of falling prices during Q4 2012, followed by a period of recovery up to May 2013. The market then fell to a level below trend until September 2013 when prices climbed once more. 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. With the remainder of the market becoming more active in September 2013, prices have again started to rise.

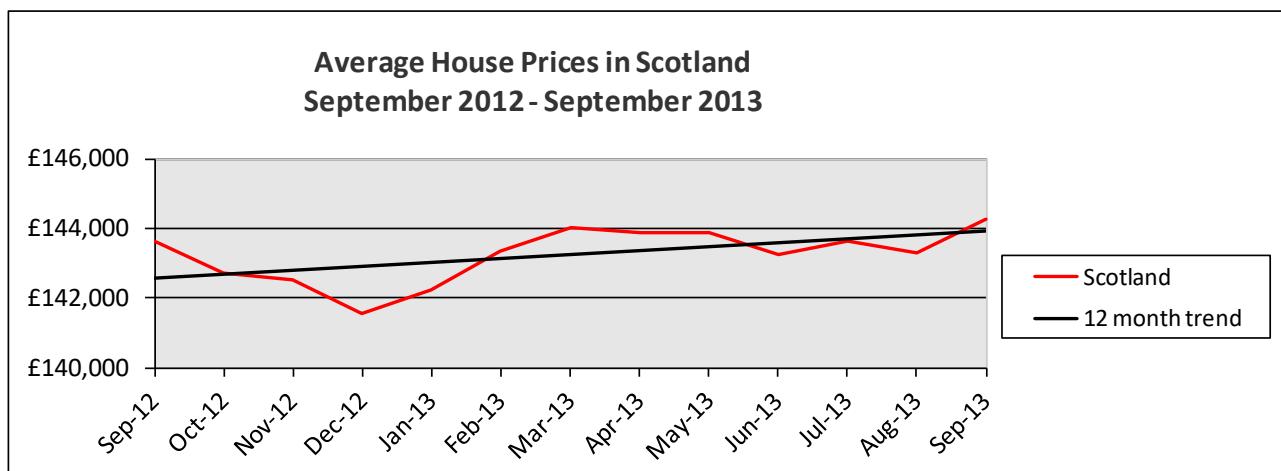


Figure 1. Average house prices in Scotland, September 2012 – September 2013

[link to source Excel](#)

Earlier in the year we suggested that we would have to wait a few months before we could see whether the nascent recovery would be sustained. All the evidence shows it has been, and that it will continue. The market has clear evidence of forward momentum which is easing some of the difficulties that had built up for homeowners needing to move, but where prices had settled too low to make that an easy choice. Our expectation is that transaction numbers for the remainder of the year and beyond will continue to be above the levels set in 2012. This in turn will lead to further rises in house prices as a shortage of properties coming to the market will be apparent in several locations. Thus a more buoyant market is likely to lead to an annual rate of price change around the 2.5% mark by December.

This commentary has shown widespread but not universal recovery, and all the indicators point to this continuing. Some may deduce from this that a general housing market bubble is around the corner. However, we have to remember that this recovery is from a low base of activity, where prices at least in some localities are down by 25% from 2007 levels. The headlines may thus give a misleading picture of where the market is, and of the pressures building up. We must also remember that interest rate rises and any possible higher stamp duty on the most expensive properties will put a brake on activity. Thus while we can be optimistic for 2014, we should not imagine the market recovery is going to look like a runaway train – it won't.

House prices analysis

Table 2. Average House Prices in Scotland, by local authority area, comparing September 2012 and August 2013 with September 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	Sep-12	Aug-13	Sep-13	% Monthly Change	% Annual Change
1	1	Edinburgh, City of	217,017	211,846	214,106	1.1%	-1.3%
2	3	Aberdeenshire	199,448	197,860	200,588	1.4%	0.6%
3	2	East Lothian	214,694	197,189	196,155	-0.5%	-8.6%
4	6	Aberdeen City	176,200	190,371	194,932	2.4%	10.6%
5	5	East Renfrewshire	184,780	194,168	193,918	-0.1%	4.9%
6	4	East Dunbartonshire	188,314	182,774	183,041	0.1%	-2.8%
7	7	Stirling	173,499	166,596	162,202	-2.6%	-6.5%
8	8	Perth & Kinross	167,012	163,134	161,922	-0.7%	-3.0%
9	9	Scottish Borders	150,003	152,816	158,431	3.7%	5.6%
10	11	Midlothian	140,523	147,029	151,469	3.0%	7.8%
11	10	Highland	145,983	142,750	143,861	0.8%	-1.5%
12	25	Shetland Islands	112,982	120,003	136,170	13.5%	20.5%
13	12	Argyll & Bute	139,470	133,988	135,642	1.2%	-2.7%
14	15	South Ayrshire	134,687	131,852	132,616	0.6%	-1.5%
15	16	West Lothian	130,115	132,138	132,497	0.3%	1.8%
16	17	Angus	129,138	134,042	130,316	-2.8%	0.9%
17	20	Glasgow City	125,071	129,349	129,890	0.4%	3.9%
18	13	Moray	137,903	129,828	129,729	-0.1%	-5.9%
19	14	Clackmannanshire	137,234	125,674	128,197	2.0%	-6.6%
20	18	Fife	128,333	129,104	127,748	-1.1%	-0.5%
21	19	Dumfries & Galloway	127,212	124,701	125,950	1.0%	-1.0%
22	23	Dundee City	118,390	120,833	121,736	0.7%	2.8%
23	21	Orkney Islands	122,030	118,691	121,044	2.0%	-0.8%
24	24	South Lanarkshire	117,383	116,194	116,748	0.5%	-0.5%
25	26	Falkirk	106,119	107,316	109,257	1.8%	3.0%
26	22	Inverclyde	118,495	112,901	104,482	-7.5%	-11.8%
27	29	Renfrewshire	100,395	100,865	102,477	1.6%	2.1%
28	30	West Dunbartonshire	98,047	100,046	102,206	2.2%	4.2%
29	27	East Ayrshire	103,096	98,005	101,772	3.8%	-1.3%
30	28	North Ayrshire	102,054	101,496	99,828	-1.6%	-2.2%
31	31	North Lanarkshire	97,500	96,085	97,564	1.5%	0.1%
32	32	Eilean Siar	93,613	97,736	91,812	-6.1%	-1.9%
		All Scotland	143,606	143,301	144,253	0.7%	0.5%

Table 2 above shows the average house price in each of the 32 Local Authority Areas in Scotland for September 2012, August 2013 and September 2013, together with the rates of change over the last month and year. In September, monthly prices fell in 10 of the 32 Local Authority Areas, on a seasonally adjusted basis. This is six less than last month, indicating a strengthening in prices across two-thirds of the country. On an annual basis, prices are below last year's levels in 18 Local Authority Areas, which is one more than last month. However, the increase in activity by first time buyers is likely to have lowered rather than raised the average house price in many localities over the last year.

Looking first at the monthly rate of change from August 2013 to September 2013, the biggest increase in prices among the Local Authority Areas was in the Shetland Islands, up 13.5%, 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 East Ayrshire, up by a more modest 3.8%, where the average price of a terraced home has risen by £27k.

Turning to the annual change in house prices, the highest movement on the mainland was in Aberdeen City, up 10.6% on the year. Here, the demand for semi-detached properties in particular has seen a 40% growth over the last quarter, resulting in prices for such properties rising by an average £33k. This month average house prices in Aberdeen City have set a new record level at £194,932. However, this is the only Local Authority Area with record prices, with most other areas seeing discounts of between 5% and 25% from their previous peaks. The largest fall in prices over the year has been in Inverclyde, down by 11.8%. Despite a 33% increase in housing activity in Inverclyde in Q3 2013 compared with a year earlier, average prices have fallen, mainly due to the sale of some prestigious homes in 2012 not being repeated in 2013.

Housing transactions

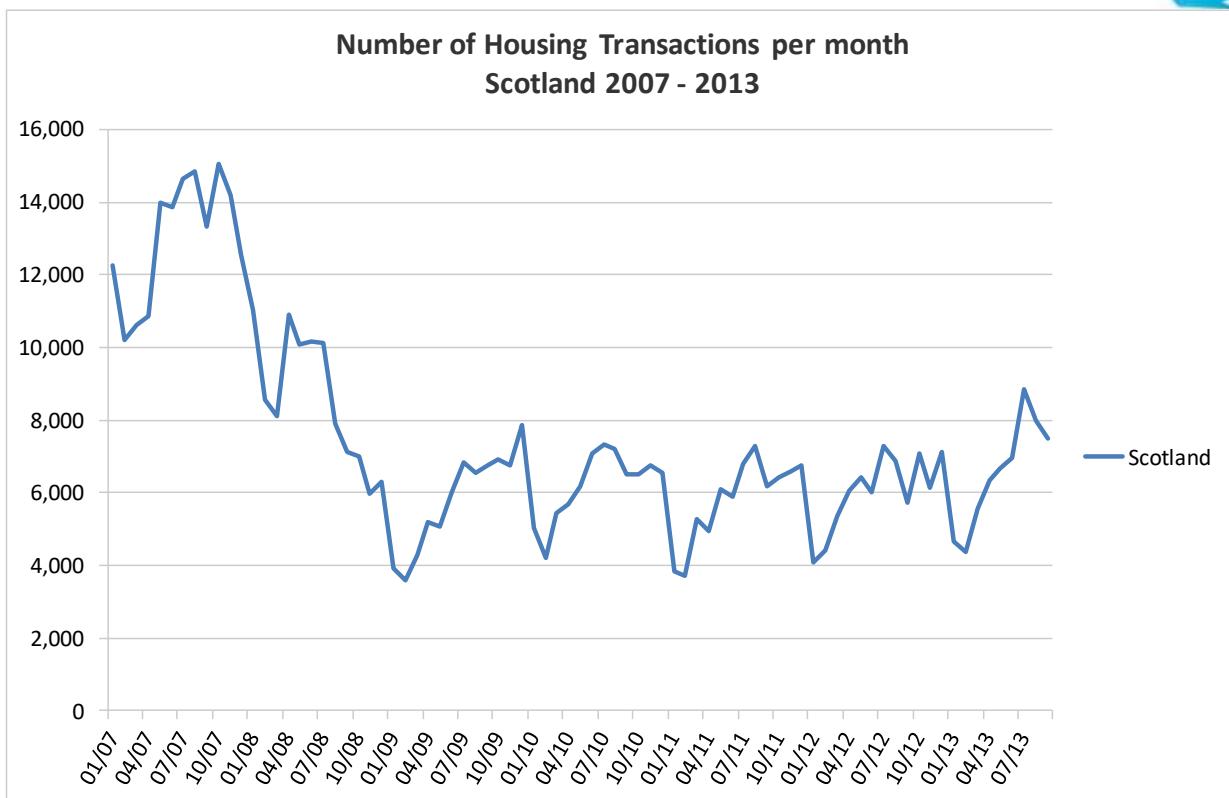


Figure 2. The number of housing transactions by month in Scotland, 2007 - 2013 (not seasonally adjusted)

[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 September 2013, without seasonal adjustment. Transactions In September 2013 fell by 6% compared to August 2013. However, based on average figures calculated over the last eleven years, sales typically fall by 7% between August and September. On this basis there has been a slight increase in activity this year compared to the seasonal trend.

If we compare September 2013 with the same month in 2012, transactions have increased by 31%, but September 2012 was particularly weak, with buyers being distracted by the Olympic Games. A better measure is that of comparing Q3 2013 with the same three months in 2012, which shows an increase in sales of 22% in 2013 - this is broadly in line with the 24% expansion in housing sales seen over the same period across the rest of the UK. As we noted last month, and based on the data provided by the CML (Council of Mortgage Lenders), the main driving force in this year's increase in sales activity has been purchases by first time buyers. This group appears to have been tempted by the current low interest rates and easing of LTV restrictions imposed by the lending institutions, plus general optimism that the economy is improving.

However, there is some evidence to suggest that the increase in housing transactions is expanding beyond first time buyers to second time buyers and other movers. As we stated earlier, sales have increased by 22% in Q3 2013 when compared with the same three months in 2012. Looking at transactions for the individual property types across this same time period we find that the sale of flats has increased by 27%, detached properties by 23%, semi-detached properties by 20% and finally terraces by 16%. Flats are usually the choice of first time buyers and show the largest increase in sales. However, this has been followed by the increase in purchases of detached properties, usually the preserve of the more mature buyer in terms of home ownership, and certainly not the usual province of the first time buyer.

The highest percentage increase in the sale of properties on the mainland in Q3 2013 compared with the same three months a year earlier was seen in the Scottish Borders, up overall by 36.6%. Here the sale of flats increased by 43 units (up 67%) and semi-detached properties by an extra 22 homes (up 49%). The Scottish Borders were closely followed by East Renfrewshire, up overall by 36.5%, where the sale of flats increased by 34 units (up 59%) and the sale of detached properties by 33 homes (up 36%).

Based on the first nine 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 and beyond. However, we should reflect on the fact that the current level of sales in 2013 is still only half of that seen in 2007, prior to the mortgage credit crunch.



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

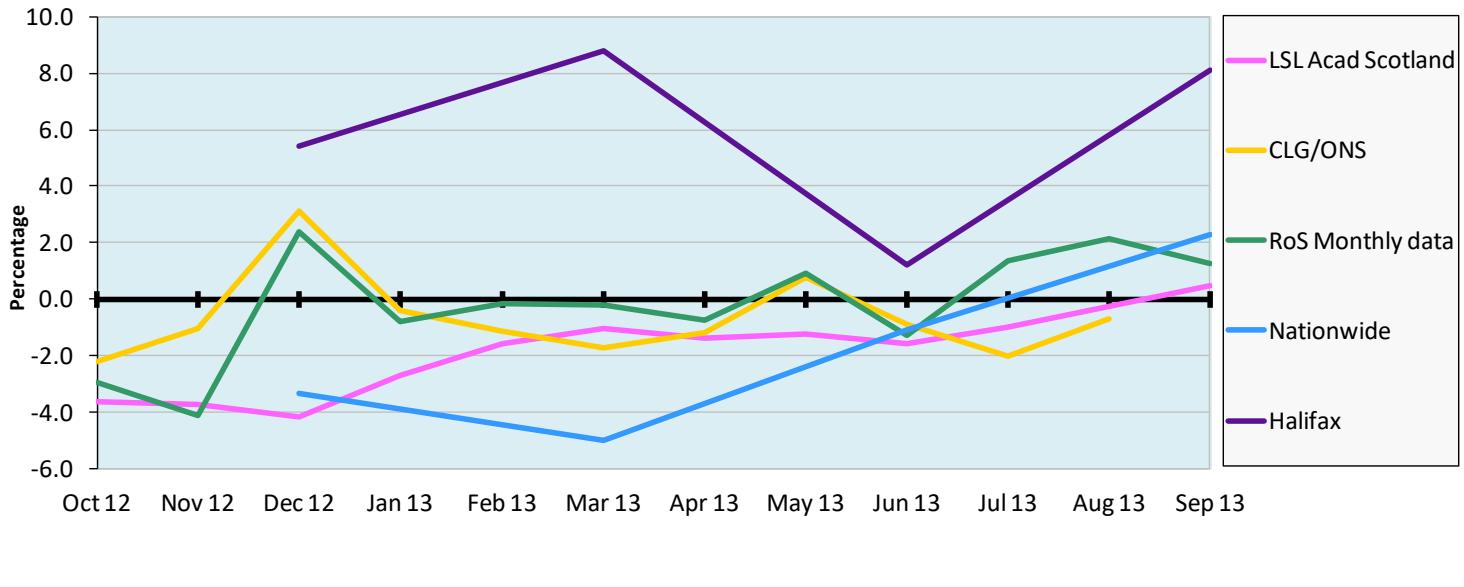


Figure 3. ANNUAL CHANGE IN HOUSE PRICES - COMPARISON OF INDICES AND RoS CHART

[link to source Excel](#)

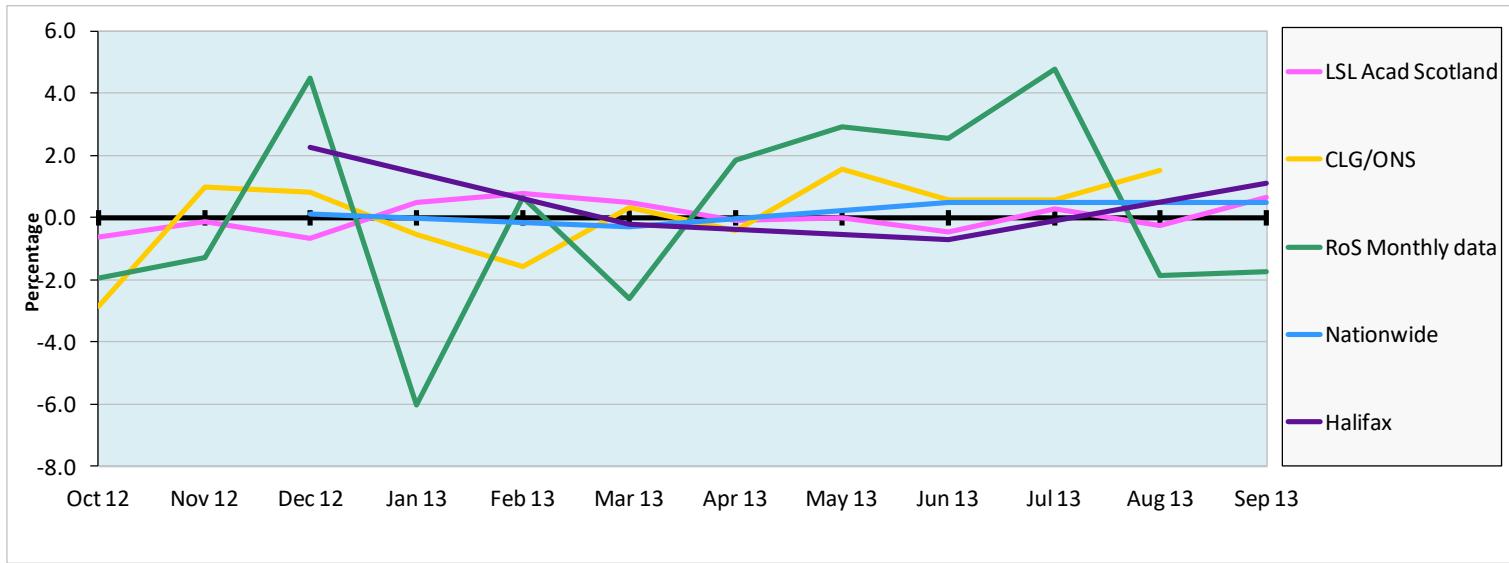


Figure 4. MONTHLY CHANGE IN HOUSE PRICES - COMPARISON OF INDICES AND RoS CHART

[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.

Comparisons with Scotland



Average House Price

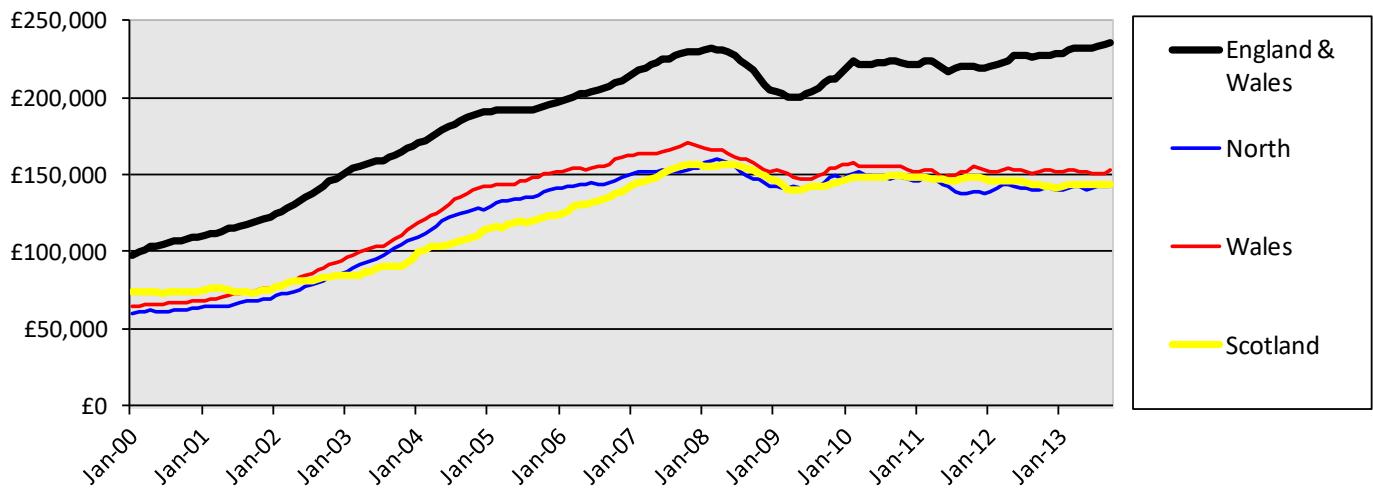


Figure 5. Scotland house prices, compared with England & Wales, Wales and the North for the period January 2000 - September 2013 [link to source Excel](#)

Annual % change in Average House Prices

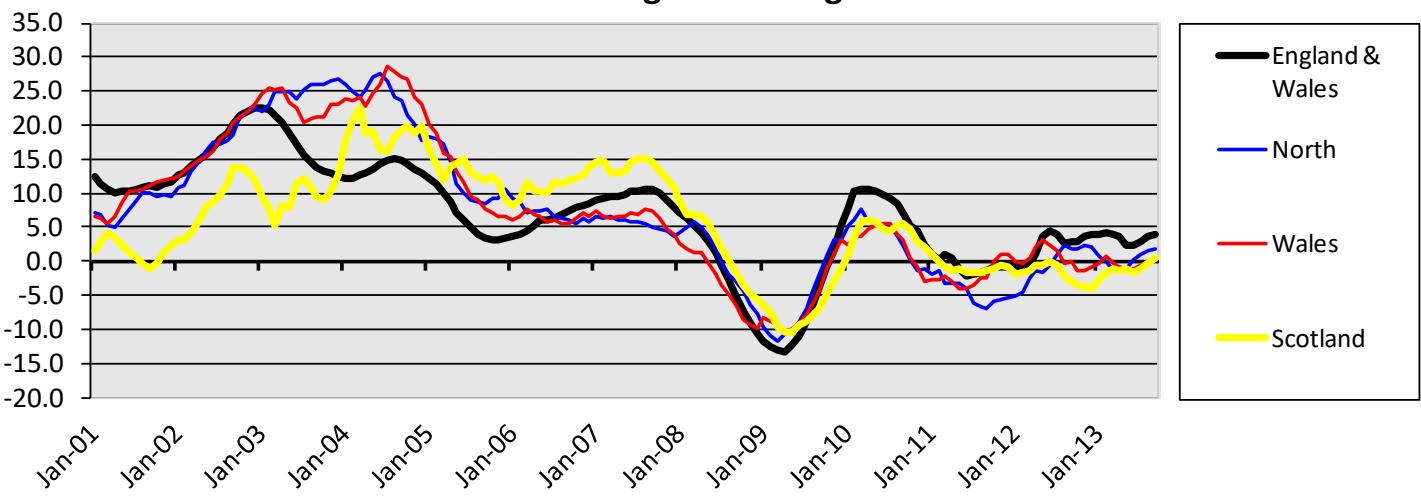


Figure 6. A comparison of the annual change in house prices in Scotland, England & Wales, Wales and the North for the period January 2001 – September 2013 [link to source Excel](#)

Scotland's seven cities

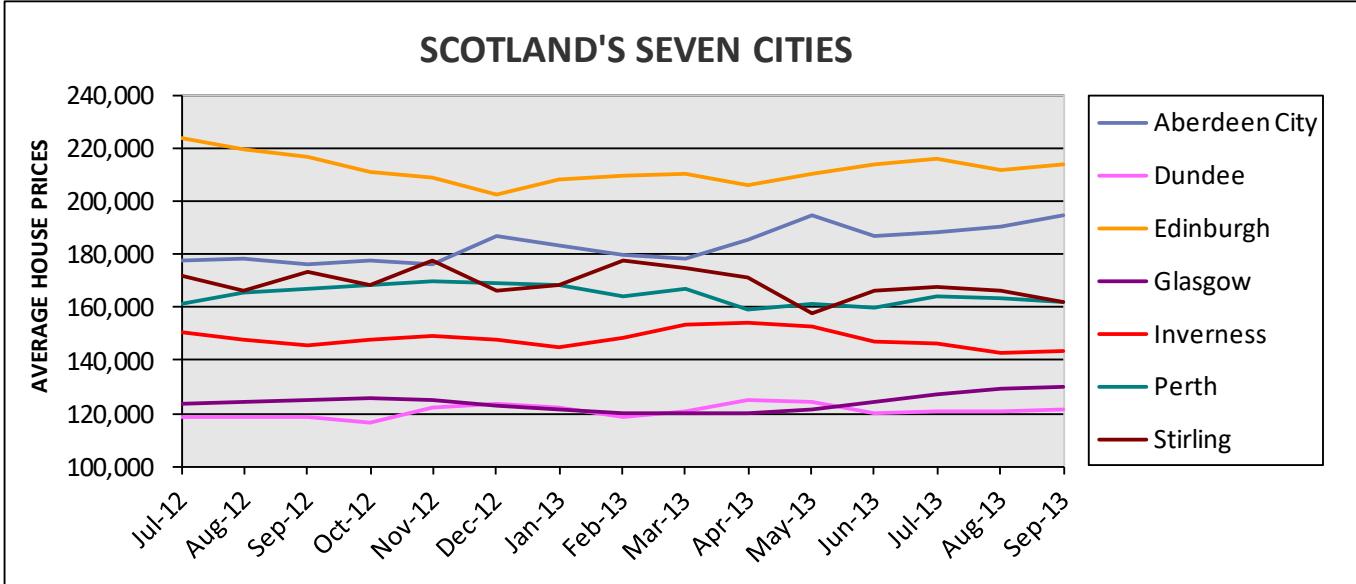


Figure 7. Average house prices for Scotland's seven cities from July 2012 – September 2013

[link to source Excel](#)

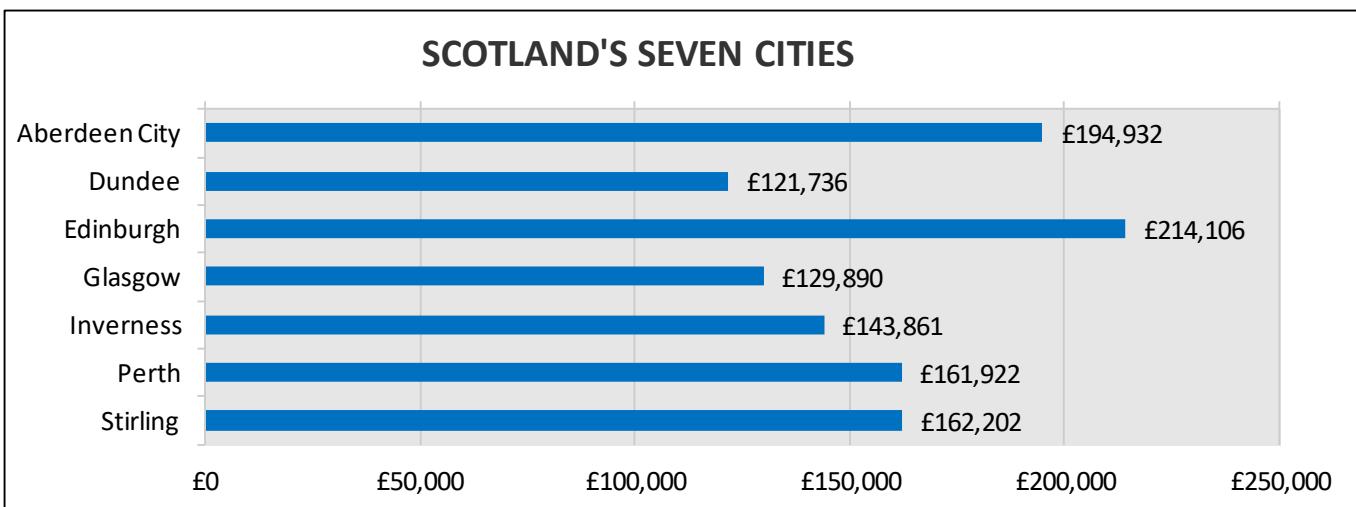


Figure 8. Average house prices for Scotland's seven cities September 2013

[link to source Excel](#)

Footnotes on data and methodology



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 infilled 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.