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April 2016

Property tax change boosts Scottish home sales

- Home sales jump 11% annually in the first year of LBTT, compared to the twelve months before the tax
- However, average house prices are down 7.8% year-on-year, due to a lack of higher value home sales
- House prices hold in April, despite the new LBTT surcharge on buy-to-let properties and second homes
- Uplift in Edinburgh and Clackmannanshire home values, but house prices dip in majority of local areas

House Price	Index	Monthly Change %	Annual Change %
£170,667	223.5	0.0	-7.8

Christine Campbell, Your Move managing director in Scotland, comments: “After a year of the Land and Buildings Transaction Tax (LBTT), it’s now possible to see its impact across the Scottish housing market. By cutting the cost of purchasing cheaper homes, LBTT has led to an 11% increase in sales over the last year. With 104,344 home sales in the last twelve months, the market has outdone the previous year’s 93,601 sales. These figures confirm that lower purchase taxes for property can significantly boost activity in the housing market, while also making it more affordable for first-time buyers to get a foot on the ladder. The Scottish Government should consider lifting the LBTT bands higher, if they want to build on the foundations of this policy, in order to support Scotland’s fragile property and construction sector.

“However, house prices are still down 7.8% year-on-year in April, with a typical home in Scotland now worth £170,667. In part, this drop in property values was caused by a spike in high value home sales last year, before the LBTT was introduced, but today’s market hasn’t regained those losses yet. The facts show that since the introduction of LBTT, growth in house prices has been subdued. The average property value in Scotland has only grown 1.74% in the last six months, compared to 3.19% for England and Wales over the same period. The tax has particularly hit homes at the top of the market, as these properties have become more expensive to buy after the introduction of LBTT. So while there has been an upswing in sales, it has come at a cost for some.

“Most recently, despite the new LBTT surcharge adding an extra 3% to the cost of second-homes and buy-to-let properties, house prices have remained stable from last month. But for the number of home sales, the impact of the latest tax is clearer. While sales in March were almost double those in February, sales in April are 66% down on the previous month. However, home sales for the first four months of the year are still well ahead of the same point in 2015, with 4,751 additional property purchases so far in 2016.

“When you look at the local picture, the negative effects of the new surcharge are more obvious, as average house prices have dropped in 20 of Scotland’s 32 local authority areas from the previous month. Moray has felt the worst of the tax hike in April, with property values in the area declining by 4.6% month-on-month. But the picture isn’t so bleak in other parts of Scotland. Edinburgh has seen house prices rise by 3.7% from March, while Clackmannanshire has had the highest month-on-month growth in Scotland, with local property values increasing 5.9%. House prices here have been boosted by more high value home sales near Dollar.

“A potential drop in demand from second-home and buy-to-let buyers after the surcharge and the uncertainty surrounding the EU referendum may continue to hinder the Scottish market, as they have done south of the border. But in Scotland these challenges add a new storm to an already rough sea.”

For commentary by John Tindale, Acadata’s senior housing analyst, see page 3.

House price index: historical data

Table 1. Average House Prices in Scotland for the period April 2015 – April 2016
(The prices are end-month smoothed over a 3 month period)

[link to source Excel](#)

		House Price	Index	Monthly Change %	Annual Change %
April	2015	£185,080	242.4	-1.7	14.2
May	2015	£180,525	236.4	-2.5	10.0
June	2015	£163,803	214.5	-9.3	-0.8
July	2015	£164,961	216.0	0.7	-0.3
August	2015	£165,906	217.3	0.6	0.3
September	2015	£166,734	218.4	0.5	0.9
October	2015	£167,747	219.7	0.6	1.0
November	2015	£168,307	220.4	0.3	1.8
December	2015	£168,547	220.7	0.1	1.6
January	2016	£168,873	221.2	0.2	1.0
February	2016	£168,471	220.6	-0.2	-2.2
March	2016	£170,746	223.6	1.4	-9.3
April	2016	£170,667	223.5	0.0	-7.8

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Further commentary by John Tindale

John Tindale, senior housing analyst for Acadata, comments:

This month we start with the same warning as last – that for the three-month period February – April 2016, property statistics relating to annual rates of house price growth should be ignored. The reason for this is that the housing market for the period February 2015 to April 2015 was ‘distorted’ by the introduction of the Land and Buildings Transaction Tax on 1st April 2015. This resulted in high-value transactions being brought forward by purchasers into February and March 2015, so ensuring that stamp duty was payable at the lower SDLT rates which existed on high-value properties prior to the introduction of the LBTT. Thus the market in February and March 2015 had more high value sales than one would normally anticipate, which increased the average price paid for properties at that time. For the same reason, sales in April 2015 were at a lower value than usual, as buyers had brought forward their purchase of high-value properties into the earlier months, leaving a dearth of such properties in April 2015. As one can observe in Figure 1 below, the average price for April 2015 was some £10,000 lower than that of January 2015, due to the lack of these high-value sales.

For the record, the average price paid for a property in the single month of April 2016 was £168,543. This price is some £7,250 higher than one year earlier, when calculated on a similar basis. This represents an annual increase of 4.5% over the year. However, the size of this increase has more to do with the low prices seen in April 2015, as opposed to an improvement in the market over the subsequent 12 months. For example, the April 2016 average price is still £2,500 lower than that seen in January 2015.

Average House Prices in Scotland
January 2015 - April 2016 (Not smoothed)

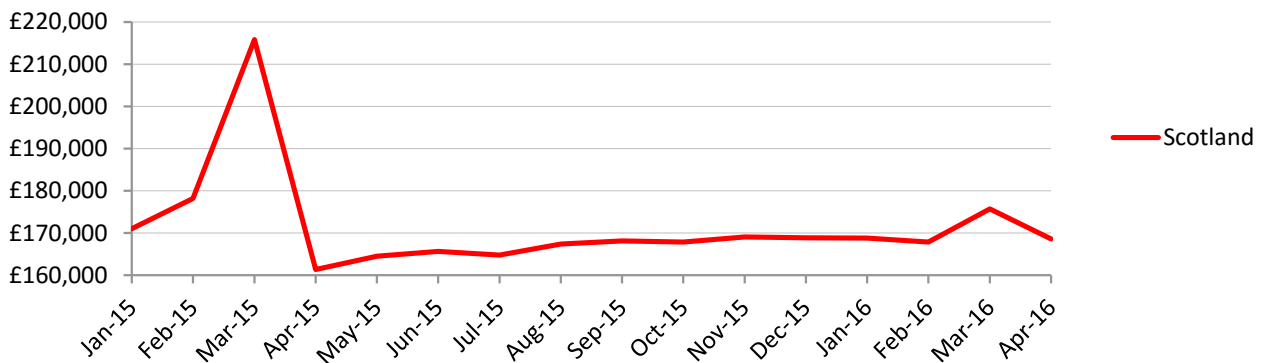


Figure 1. Average House Prices in Scotland, January 2015 – April 2016. Unlike Table 1 on page 2 above the series has not been smoothed, but is seasonally adjusted [link to source Excel](#)

On a smoothed monthly basis, prices in April 2016 were some £79 lower than March. Looking at Figure 1 above, this does not appear immediately obvious, as April 2016 prices seem to be considerably lower than those for March. However, Figure 1 is shown on a single month’s basis, whereas our ‘smoothed’ average house price is calculated over a three month period. We could therefore expand our text to say that the average house price for the period February, March and April 2016 is only £79 lower than the average for January, February and March 2016. Averaging over the three month period is undertaken to remove short-term fluctuations, and to allow the underlying trends to become more readily apparent.

The main feature of the current market has also been tax-related, as potential buyers of second homes and buy-to-let properties brought forward their purchases into March 2016 to avoid paying the 3% LBTT surcharge on such dwellings, which became operational from 1st April 2016 onwards. As we discuss on page 5, this resulted in transactions in the month of March increasing by some 96% over February levels, when we would normally only expect a seasonal uplift of 10% for the time of year. The 86% uplift in March, after seasonal adjustment, is similar to or slightly higher than the increase experienced in England & Wales for the same reasons, i.e. a 3% tax surcharge on second homes and buy-to-let properties introduced in April.

The Council of Mortgage Lenders (CML) has recently produced its report on Scotland’s Housing Market for Q1 2016 under the banner “Scotland house purchase lending up 7% in the first quarter of 2016”, advising in the report that first time buyer house purchases totalled 6,200, up on Q1 2015 by +10.7%. In addition, the report showed that home movers purchased 7,300 properties, up by +4.3% on Q1 2015. However, the CML did not report on buy-to-let landlords, nor was it able to report on cash sales. Using the Registers of Scotland (RoS) price-paid dataset, based on “Entry-Date”, we find that activity in Q1 2016 totalled some 22,700 purchases, which is 9,200 more sales than reported by CML, or 40% of the total market. Clearly, buy-to-let landlords and cash purchasers were extremely active in the March market, but are likely to be less visible in subsequent months.

House prices and transactions

Table 2. Average House Prices in Scotland, by local authority area, comparing April 2015 and March 2016 with April 2016. [link to source Excel](#)

RANK BY PRICE	PRIOR YR RANK	LOCAL AUTHORITY AREA	Apr-15	Mar-16	Apr-16	% Monthly Change	% Annual Change
1	4	East Renfrewshire	253,740	243,881	249,238	2.2%	-1.8%
2	1	Edinburgh, City of	280,958	239,090	247,922	3.7%	-11.8%
3	6	East Dunbartonshire	246,177	230,807	225,119	-2.5%	-8.6%
4	3	Aberdeenshire	254,254	221,458	224,934	1.6%	-11.5%
5	2	East Lothian	259,194	228,390	219,320	-4.0%	-15.4%
6	8	Stirling	198,789	198,266	203,428	2.6%	2.3%
7	10	Midlothian	191,191	202,692	199,492	-1.6%	4.3%
8	5	Aberdeen City	248,707	203,249	199,133	-2.0%	-19.9%
9	7	Perth & Kinross	206,959	191,469	188,734	-1.4%	-8.8%
10	9	Scottish Borders	192,117	179,999	176,481	-2.0%	-8.1%
11	11	Highland	176,912	174,175	173,850	-0.2%	-1.7%
12	15	West Lothian	161,454	166,838	167,391	0.3%	3.7%
13	12	South Ayrshire	172,467	152,433	156,044	2.4%	-9.5%
14	23	Shetland Islands	142,145	151,126	153,326	1.5%	7.9%
15	16	Fife	158,021	156,956	153,084	-2.5%	-3.1%
16	18	Angus	153,232	153,910	152,741	-0.8%	-0.3%
17	17	Moray	155,455	157,601	150,403	-4.6%	-3.3%
18	13	Argyll & Bute	164,839	148,895	144,262	-3.1%	-12.5%
19	14	Clackmannanshire	163,460	133,931	141,766	5.9%	-13.3%
20	21	South Lanarkshire	145,591	142,426	139,178	-2.3%	-4.4%
21	19	Dumfries & Galloway	149,547	140,393	137,194	-2.3%	-8.3%
22	27	Falkirk	131,912	131,432	136,989	4.2%	3.8%
23	26	Renfrewshire	137,165	137,435	136,668	-0.6%	-0.4%
24	24	Orkney Islands	141,907	136,283	135,659	-0.5%	-4.4%
25	22	Glasgow City	144,627	135,194	132,696	-1.8%	-8.2%
26	25	Dundee City	137,398	129,222	132,646	2.6%	-3.5%
27	20	Inverclyde	146,681	134,930	131,925	-2.2%	-10.1%
28	31	North Lanarkshire	118,924	120,100	122,307	1.8%	2.8%
29	30	North Ayrshire	121,892	117,291	114,385	-2.5%	-6.2%
30	29	East Ayrshire	125,410	118,276	114,258	-3.4%	-8.9%
31	28	West Dunbartonshire	131,279	113,703	111,331	-2.1%	-15.2%
32	32	Eilean Siar	109,267	103,151	108,153	4.8%	-1.0%
		All Scotland	185,080	170,746	170,667	0.0%	-7.8%

Table 2 above shows the average house price and percentage change (over the last month and year) by Local Authority Area for April 2015, March 2016 and April 2016, calculated on a seasonal- and mix-adjusted basis. As we discussed in our opening paragraph on page 3, we recommend that the reader largely ignore the annual changes which appear in the above Table - these are averaged over three months, and reflect the one-off rise in prices that took place in March 2015, prior to the introduction of the LBTT in April 2015, rather than the market conditions in 2016.

On a monthly basis (averaged over three months), prices overall fell by just £79, or 0.0% in April, leaving the market little changed from March. There were price increases in 12 local authority areas in April, with 20 areas seeing prices fall. However, those areas that did see prices rise, which include Edinburgh, compensated for the authorities that witnessed a fall in prices over the month. The area on the mainland with the largest rise in prices in April was Clackmannanshire at +5.9%, including four recently developed detached dwellings with upmarket prices (£600k) having been sold in Dollar in March and April.

The area on the mainland that saw the largest fall in prices in the month was Moray at -4.6%. Moray had seen the purchase of a £1 million plus home in Elgin at the start of the year, but with no similar sales in more recent months, the average price of properties in the area has fallen.

Lastly, we should advise that in the above Table we highlight in blue those local authority areas that have set a new peak average price in the month - in April 2016, West Lothian is the only such example, with a peak average price of £167,391. West Lothian's previous average peak of £164,539 was achieved in March 2015, one month prior to the introduction of the LBTT in April 2015. Our records show that the highest-priced home sold in West Lothian in March 2015 was valued at £787k, with only a further 3 properties having achieved a higher price in the area since then.

House prices and transactions

Transactions

According to the Registers of Scotland Monthly Report, the number of housing transactions in April 2016 was 10,022, an increase of 29%, or 2,250 properties over March 2016. It is normal for transactions to increase in April from March levels, but usually this seasonal increase is of the order of 12%, so the 29% rise is more than double our expectations. The main cause of the additional sales was the introduction of the 3% surcharge on LBTT from April for the purchase of second homes, including buy-to-let properties. This encouraged those looking to buy such properties to bring forward their purchases into March (but see below) to avoid paying the additional tax. Figure 2 below illustrates the numbers provided by RoS.

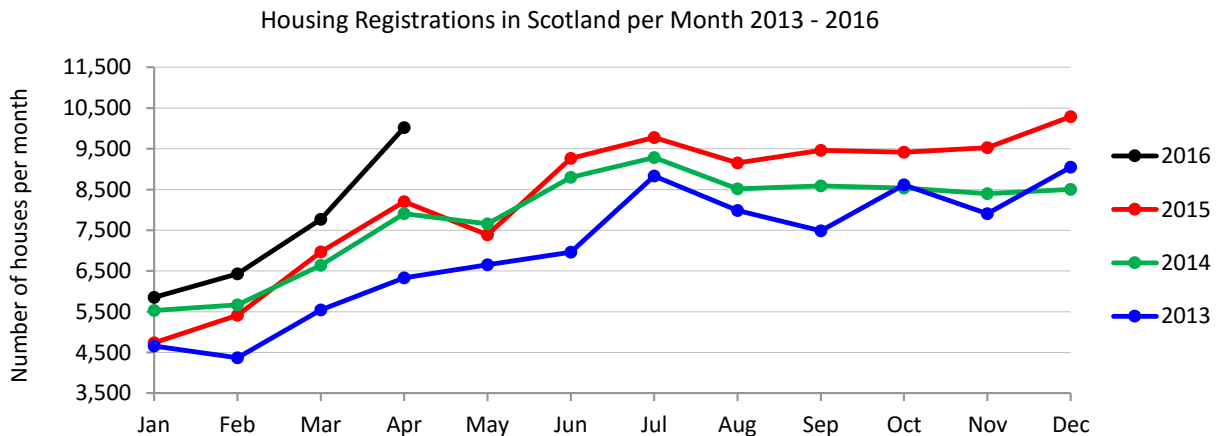
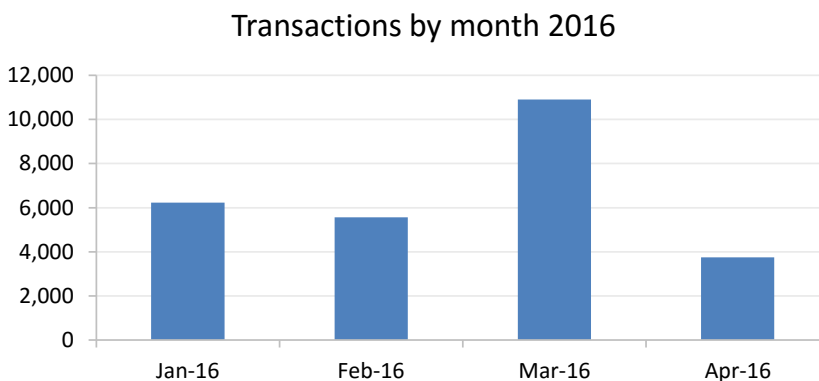


Figure 2. The number of applications received by Registers of Scotland for registration per month, for the period January 2013 – April 2016. (Not seasonally adjusted). Source: Registers of Scotland. [link to source Excel](#)

However, there appears to be a fundamental flaw in the logic of the above paragraph, since it was March sales which caused the surge in transaction numbers, but RoS appears to have credited these to April. The conundrum is resolved when one reads the small print relating to the RoS Monthly Report which states “The information for each stated time period [in this case April] aims to cover all sales of residential properties, where applications are received for registration with Registers of Scotland in the period”. In other words, the time period used by RoS in the transaction count is the month when an application for registration is received, and crucially not the time period relating to the transfer of the legal title to the property. Thus there will have been many applications received at the start of April which related to a sale which legally took place in March, with RoS describing these as being April applications.

In its Price Paid Dataset RoS also includes data on the “Entry Date” of a property, which is in effect the date of legal transfer. Looking at this dataset, which is still not yet fully complete for the months in question, the number of sales that have taken place in 2016 is as shown in Figure 3 below:



Sales in March 2016 were nearly double those of February (96% higher), and 75% higher than January. This increase in sales is similar to that seen in England & Wales over the same time period.

Sales in April 2016 are currently shown as being 66% lower than March, although we anticipate that further data will emerge over time, which is likely to increase the quantum of April transactions.

Figure 3. The number of sales that took place in each month, based on Entry Date in the RoS database, as at 1st June 2016, for the period January 2016 – April 2016. (Not seasonally adjusted). Source: Registers of Scotland. [link to source Excel](#)

We anticipate that transaction numbers will remain relatively subdued for both May and June, the result of reluctance to purchase a property before the Brexit referendum takes place on June 23rd. The market is therefore set for a bumpy ride over the next few months, only returning to the new ‘norm’ for 2016 from July onward, with the level of the new ‘norm’ being largely dependent on the referendum outcome.

Notes

NOTES

1. Your Move 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 Your Move Acad Scotland HPI is not forecast, unlike the LSL Acad E&W HPI, but is based on achieved prices. The first release of the Scotland results lag the first release of those for England & Wales by one month, as the former index does not use estimates of market prices.
3. whilst the Your Move Acad Scotland HPI, like the LSL Acad E&W HPI, comprises a smoothed average of three months' prices, the Your Move 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 Your Move Acad Scotland HPI prices are contemporaneous with the prices published for the equivalent month for England & Wales, Wales and the regions.
4. all Your Move 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 production of house price indices and data for the assessment of risk in property and mortgage portfolios.

Comparison of indices and RoS average prices

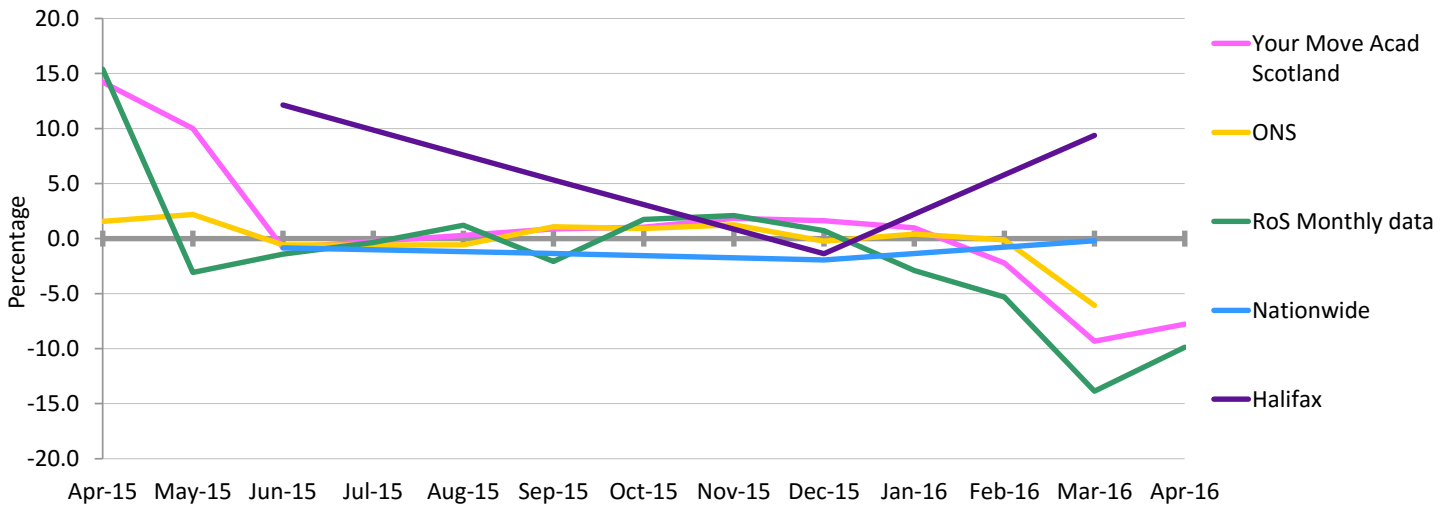


Figure 4. ANNUAL CHANGE IN HOUSE PRICES - COMPARISON OF INDICES AND RoS CHART

[link to source Excel](#)

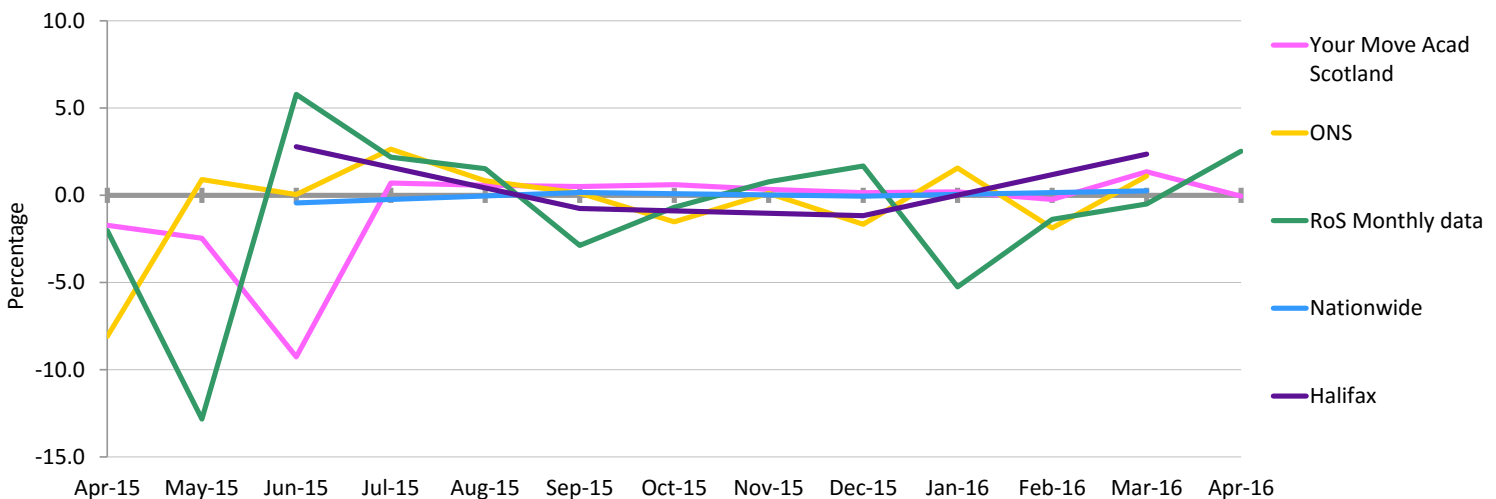


Figure 5. MONTHLY CHANGE IN HOUSE PRICES - COMPARISON OF INDICES AND RoS CHART

[link to source Excel](#)

The charts above show the main indices provided for Scotland together with 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.

The RoS Monthly data are based on application date as opposed to the date of the legal transfer of title. As such, RoS received a number of applications in April relating to sales that took place in March, with these sales influencing the RoS average prices for April, but not March.

Nationwide and Halifax both estimate the 'price of the average house' as opposed to the 'average price paid' for houses. As such their indices should be less affected by the influences of the LBTT than our own and those provided by the ONS and RoS.

Comparisons with Scotland

Average House Price

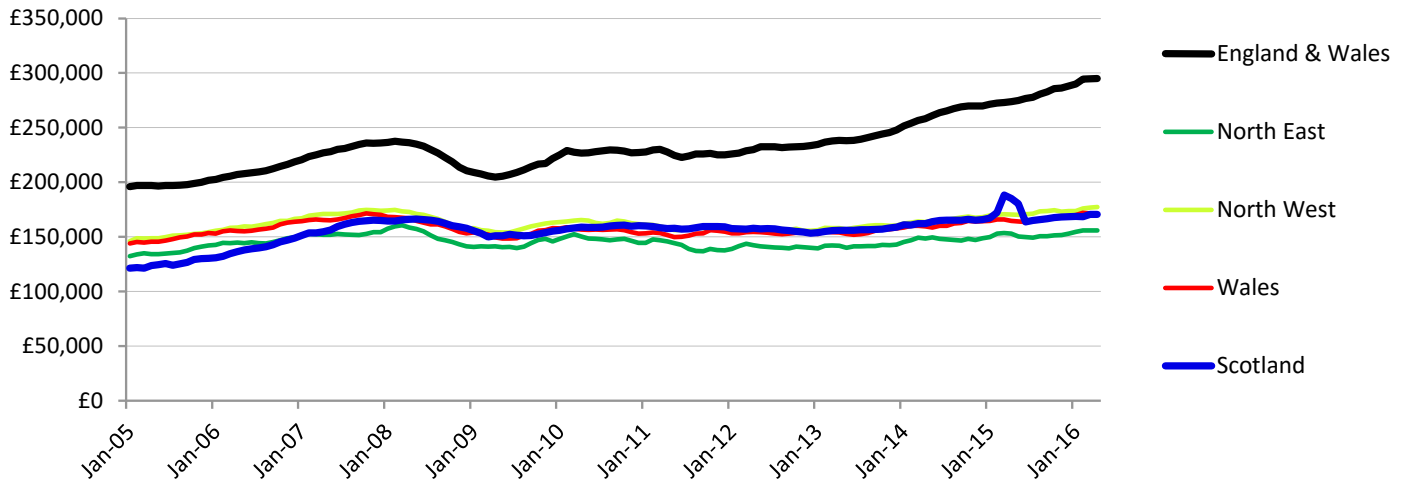


Figure 6. Scotland house prices, compared with England & Wales, Wales, North East and North West for the period January 2005 - April 2016 [link to source Excel](#)

Annual % change in Average House Prices

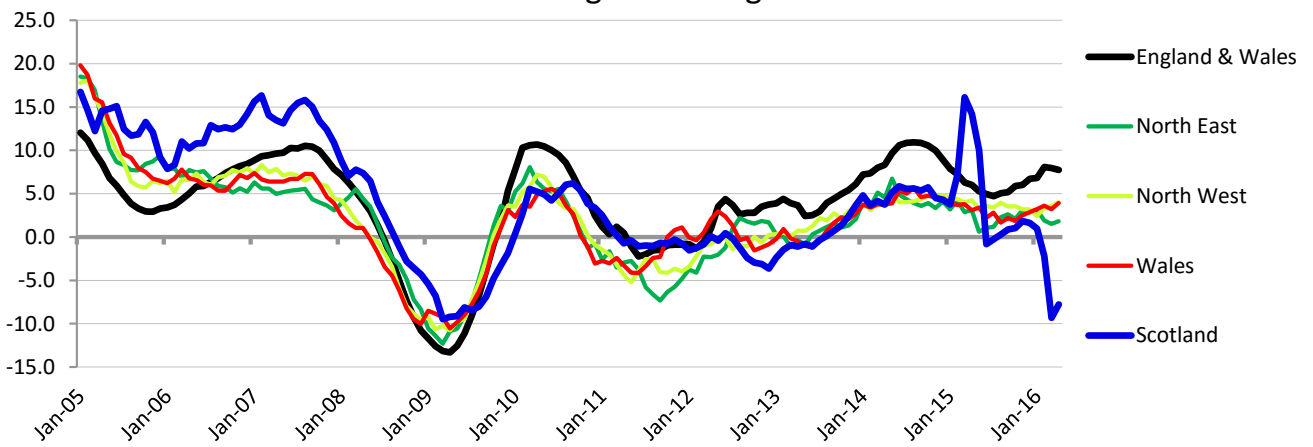


Figure 7. A comparison of the annual change in house prices in Scotland, England & Wales, Wales, North East and North West for the period January 2005 – April 2016 [link to source Excel](#)

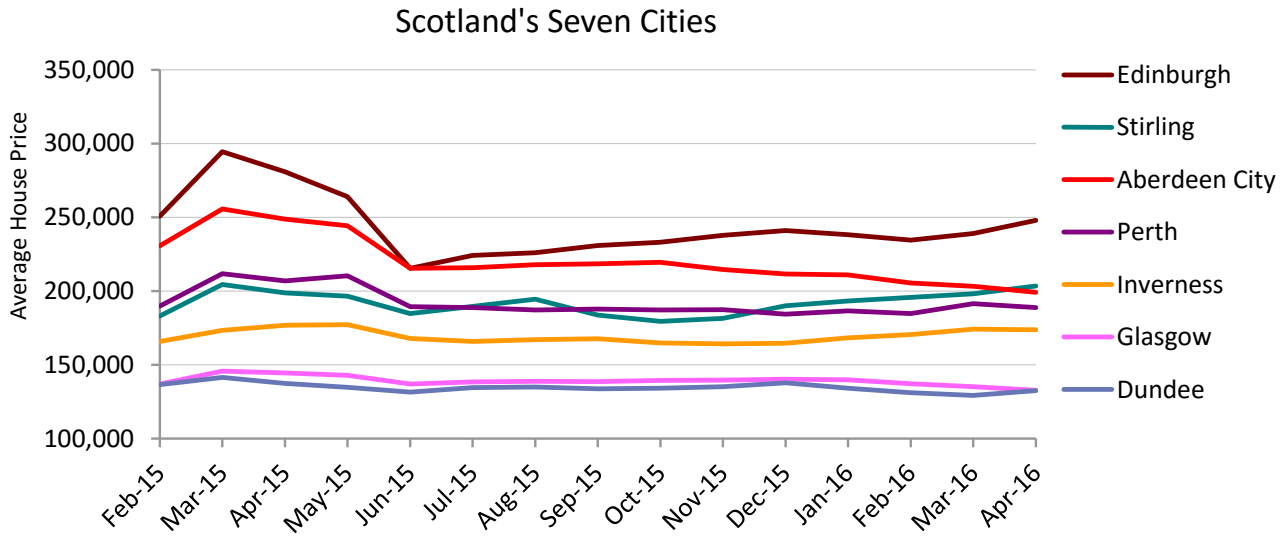


Figure 8. Average house prices for Scotland's seven cities from February 2015 – April 2016

[link to source Excel](#)

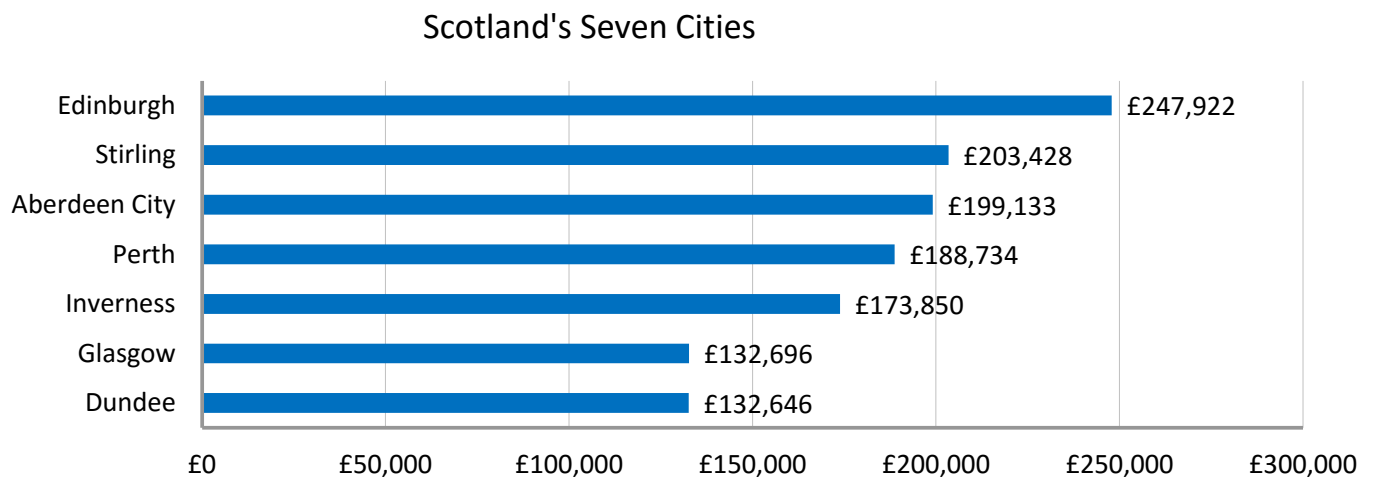


Figure 8. Average house prices for Scotland's seven cities April 2016

[link to source Excel](#)

Footnotes on data and methodology

1. Your Move 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. Your Move 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 Your Move Acad Scotland HPI or ONS HPI, can be prepared only when the prices at which properties have been transacted have been recorded at RoS (Your Move 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 Your Move Acad Scotland HPI incorporates no forecasting procedure. Whilst the Your Move Acad Scotland HPI, like the LSL Acad E&W HPI, comprises a smoothed average of three months’ prices, the Your Move 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 Your Move 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 Your Move 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 Your Move 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 Your Move 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. Your Move 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 Your Move 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; Your Move 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 Your Move 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 Your Move 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.

LSL PROPERTY SERVICES PLC

LSL is one of the leading residential property services companies in the UK and provides a broad range of services to a wide range of customers including mortgage lenders together with buyers and sellers of residential properties.

LSL's operations cover four key areas; surveying; estate agency; corporate services; financial services.

Surveying

LSL's [surveying](#) business operates under the e.surv Chartered Surveyors brand, and the Walker Fraser Steele brand in Scotland. e.surv is one of the largest employers of residential Chartered Surveyors in the UK and is the largest distributor and manager of mortgage valuations and private surveys.

Estate Agency

LSL's [estate agency](#) business operates under the Your Move, Reeds Rains, Intercounty and several independent brands. Your Move is the single largest estate agency brand in the UK.

In January 2010 the acquisition of the Halifax Estate Agency (HEA) business from Lloyd Banking Group saw LSL increase in size to become the second largest UK estate agency network - with around 570 branches. It is also the largest letting agency in the UK.

Corporate Services

LSL Corporate Client Services was launched in 2008 to provide asset management and lettings property portfolio management services to corporate clients. This business has grown through the addition of St Trinity Asset Management - which previously operated as HEA Corporate Services - and Templeton LPA, which LSL acquired in February 2010.

Financial Services

LSL offers financial services across its entire branch network. In May 2010 LSL acquired over 450 advisers from leading financial services network Home of Choice - these advisers now operate under the brand of First Complete.

In October 2010 LSL also announced the acquisition of mortgage distribution company, Advance Mortgage Funding Limited (trading as Pink Home Loans) and its subsidiary business BDS Mortgage Group Limited, (together known as Pink), from Skipton Building Society. It further confirmed LSL's position as one of the largest mortgage advisory businesses in the UK today.

For further information see www.lslps.co.uk