

LSL Property Services/Acadametrics
Scotland
House Price Index

AUGUST 2013

STRICTLY UNDER EMBARGO UNTIL 00.01 WEDNESDAY 16TH OCTOBER 2013



Return of first-time buyers drives up Scottish house sales

- Sales in 2013 are 17% higher than 2012
- First-time buyers account for the majority of increase in sales
- Prices down by 0.3% on an annual basis

House Price	Index	Monthly Change %	Annual Change %
£143,278	194.3	-0.2	-0.3

Gordon Fowlis, regional managing director of Your Move, an estate agency chain that is part of LSL, comments: “First-time buyers are making a comeback in Scotland. But it is a much more muted recovery compared to south of the border. Falling housing prices have put a dampener on the Scottish housing market. The sluggish rate of growth, shown by the drop in prices of £303 monthly and £430 compared to a year ago, adds to the many uncertainties facing the Scottish housing market. Yet there are several signs that things are changing. The mortgage market is perking up now that the economy is on the mend, with figures showing that sales are up by 10% in January to August this year, compared to 2012. This is due to the bounce back in first-time buyer numbers which has kick-started the market.

“Momentum is building in the housing market as the Government extends a helping hand to first-time buyers. Rising first-time buyer lending has boosted sales activity significantly, as this sector of the market can now take advantage of the many attractive mortgage deals on offer from banks and building societies. There has been a swift improvement in the availability of high loan-to-value mortgages which has sent waves of confidence across the board. Banks are being proactive in their approach and are happier to lend to borrowers without big deposits. Buyers are open to an improved range of mortgage deals, better pricing and more enhanced product choice due to the rise in competition.

“In fact, the Scottish Government has unveiled its own version of the Help to Buy equity loan scheme, and around £220m has been set aside to help borrowers onto the housing ladder. First-time buyers are crucial to the housing market’s health, but it is activity from second-time buyers and other movers which will put upward pressure on prices and hence boost the rate of recovery all round. The Scottish Government’s commitment to investment in affordable housing across Scotland will provide a firm foundation for the market’s growth in coming months.”

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 August 2012 – August 2013

[link to source Excel](#)

		House Price	Index	Monthly Change %	Annual Change %
August	2012	£143,708	194.8	-1.0	-2.1
September	2012	£143,602	194.7	-0.1	-2.9
October	2012	£142,703	193.5	-0.6	-3.7
November	2012	£142,521	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	£144,014	195.3	0.5	-1.0
April	2013	£143,873	195.1	-0.1	-1.4
May	2013	£143,819	195.0	0.0	-1.3
June	2013	£143,176	194.1	-0.4	-1.6
July	2013	£143,581	194.7	0.3	-1.1
August	2013	£143,278	194.3	-0.2	-0.3

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

Two steps forward, one step back might be the best way of describing Scotland's housing market in August. In July 2013 we saw a 27% increase in the number of housing transactions compared to June, against an expected increase of 7% for the time of year. In August, transactions fell back by 10%, against a seasonal expectation that the number of sales would remain at the same level as in July. However, at 51,000 transactions, sales from January - August 2013 are up by 10% on the same eight months in 2012. So the bounce in July sales has been only partly moderated by the fall in August.

Looking at house prices for the month of August, there is a similar pattern. The rise of 0.3% in prices in July 2013 has been moderated by a fall of 0.2% in August. However, on an annual basis, the rate of change in house prices has risen from -1.1% in July to -0.3% in August. This is a consequence of the -1.0% fall in prices in the month of August last year dropping out of the statistics.

Although the August 2013 statistics show a decrease of -0.3% in Scotland's house prices on an annual basis, our trend line is showing a small increase in prices on the year, as illustrated in Figure 1 below. This is explained by the upward movement of £1,721 in average prices since December 2012.

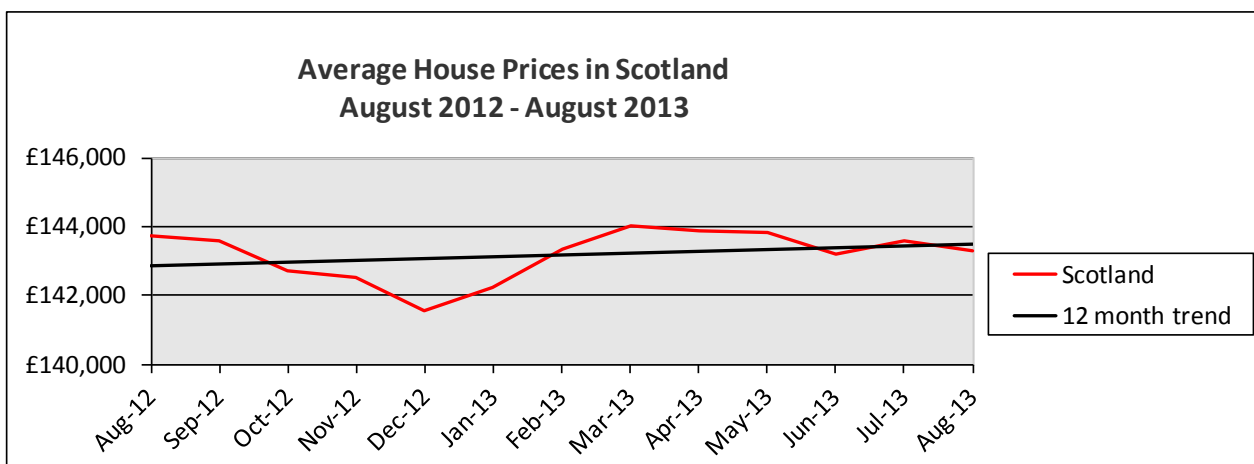


Figure 1. Average house prices in Scotland, August 2012 – August 2013

[link to source Excel](#)

The increase in sales activity in July was fuelled by first time buyers taking advantage of the more attractive terms on offer from the building societies. This relates particularly to the LTV% requirements which were eased considerably, enabling purchasers to reduce the level of cash required for a deposit. The intention of the Scottish Government's Help to Buy scheme is similarly to lower the level of deposits required for the purchase of a property. Most estate agents are currently reporting an increase in buyer enquiries in Scotland, which in part is due to the more competitive mortgage products and deposit requirements now on offer.

As we indicated last month, an increase in activity by first time buyers is on its own unlikely to increase the headline average house price, and may even lower it. This is because the average price paid by a first time buyer in Scotland is around the £97,000 mark, which is two-thirds of the current LSL/Acad average house price of £143,278. It is therefore only when second time buyers and subsequent movers enter the market that we are likely to see upward pressure on the average price. However, given the increased activity at the bottom of the housing ladder, it is only a matter of time before we begin to see movement in the number of transactions, as well as possibly price increases further up the property chain.

One potential dampener to the mild optimism we currently see in the housing market is that of interest rate rises, which are for the moment on a distant horizon. Indeed, Mark Carney, the newly appointed Governor of the Bank of England, recently delivered a warning to home owners about the risks of rising interest rates: that people should check to see if they can still afford the repayments on their home loans, when "rates rise, as they will, when the recovery takes hold". Few would disagree with that but it does sit slightly uncomfortably with the push for higher LTV loans under Help to Buy (Scotland).

So although the market outlook is for more transactions and continued price rises spreading slowly across Scotland, there are also considerable uncertainties regarding the different interventions in the market, their role, and the consequences of changes and termination. Some may feel a little daunted by the medium term prospect of rate rises. However, looked at another way, we see the market moving forward, access to finance increasing and borrowing costs relatively low – it does suggest that those who can buy should, if they so wish, with the added comfort that the government will need to make a success of their engagement with the market.

House prices analysis



Table 2. Average House Prices in Scotland, by local authority area, comparing August 2012 and July 2013 with August 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	Aug-12	Jul-13	Aug-13	% Monthly Change	% Annual Change
1	1	Edinburgh, City of	219,597	215,643	211,597	-1.9%	-3.6%
2	4	Aberdeenshire	192,875	199,888	197,882	-1.0%	2.6%
3	2	East Lothian	207,382	198,697	197,189	-0.8%	-4.9%
4	3	East Renfrewshire	200,124	199,453	194,168	-2.6%	-3.0%
5	6	Aberdeen City	178,662	188,412	190,371	1.0%	6.6%
6	5	East Dunbartonshire	181,831	188,128	182,755	-2.9%	0.5%
7	7	Stirling	165,976	167,825	166,596	-0.7%	0.4%
8	8	Perth & Kinross	165,558	164,157	163,134	-0.6%	-1.5%
9	9	Scottish Borders	150,419	146,835	152,816	4.1%	1.6%
10	11	Midlothian	145,193	149,122	147,029	-1.4%	1.3%
11	10	Highland	147,813	145,968	142,750	-2.2%	-3.4%
12	16	Angus	131,164	132,235	134,042	1.4%	2.2%
13	12	Argyll & Bute	143,889	138,374	133,988	-3.2%	-6.9%
14	15	West Lothian	134,588	131,896	132,138	0.2%	-1.8%
15	19	South Ayrshire	126,632	128,145	131,852	2.9%	4.1%
16	13	Moray	140,512	137,759	129,828	-5.8%	-7.6%
17	20	Glasgow City	124,412	127,394	129,349	1.5%	4.0%
18	18	Fife	128,922	127,409	129,154	1.4%	0.2%
19	14	Clackmannanshire	138,394	116,931	125,674	7.5%	-9.2%
20	17	Dumfries & Galloway	130,859	128,183	124,701	-2.7%	-4.7%
21	22	Dundee City	118,771	120,697	120,833	0.1%	1.7%
22	21	Shetland Islands	121,345	116,346	120,003	3.1%	-1.1%
23	25	Orkney Islands	115,585	123,212	118,691	-3.7%	2.7%
24	24	South Lanarkshire	116,705	115,071	116,194	1.0%	-0.4%
25	23	Inverclyde	116,765	112,710	112,901	0.2%	-3.3%
26	27	Falkirk	105,075	107,039	107,316	0.3%	2.1%
27	28	North Ayrshire	102,180	102,952	101,496	-1.4%	-0.7%
28	29	Renfrewshire	101,545	99,720	100,865	1.1%	-0.7%
29	30	West Dunbartonshire	99,739	100,288	100,046	-0.2%	0.3%
30	31	East Ayrshire	97,430	95,373	98,005	2.8%	0.6%
31	26	Eilean Siar	105,635	92,503	97,736	5.7%	-7.5%
32	32	North Lanarkshire	96,761	97,155	96,085	-1.1%	-0.7%
		All Scotland	143,708	143,581	143,278	-0.2%	-0.3%

Table 2 above shows the average house price in each of the 32 Local Authority Areas in Scotland for August 2012, July 2013 and August 2013, together with the rates of change over the last month and year. In August, monthly prices fell in 16 of the 32 Local Authority Areas, on a seasonally adjusted basis, one less than last month. On an annual basis, prices are below last year's levels in 17 Local Authority Areas, which is four fewer areas than last month. However, as we pointed out in our analysis on page 3, the increase in activity by first time buyers is likely to lower rather than raise the average house price.

Looking first at the monthly rate of change from July 2013 to August 2013, the biggest increase in prices among the Local Authority Areas was in Clackmannanshire, up 7.5%. However, transaction numbers in 'The Wee County' are the lowest of all Local Authority areas on the mainland, resulting in volatile average prices when expressed in percentage terms. After Clackmannanshire, the highest increase on the mainland was in the Scottish Borders, up 4.1% over the month. Here there was a significant increase in August in the price of detached properties, up by an average £70k.

Turning to the annual change in house prices, the highest movement on the mainland was in Aberdeen City, up 6.6% on the year. In fact Aberdeen City house prices made the headlines this week following a report on the BBC News website, showing prices in the city more than doubling over the last ten years – the only area outside of the London boroughs of Islington and Westminster to have done so. Clearly, prices in Aberdeen City are strongly influenced by activity associated with North Sea Oil, with a number of the large oil companies making long term investment plans for the area. This in turn bolsters both the demand for and confidence in the purchase of properties in and around the City.

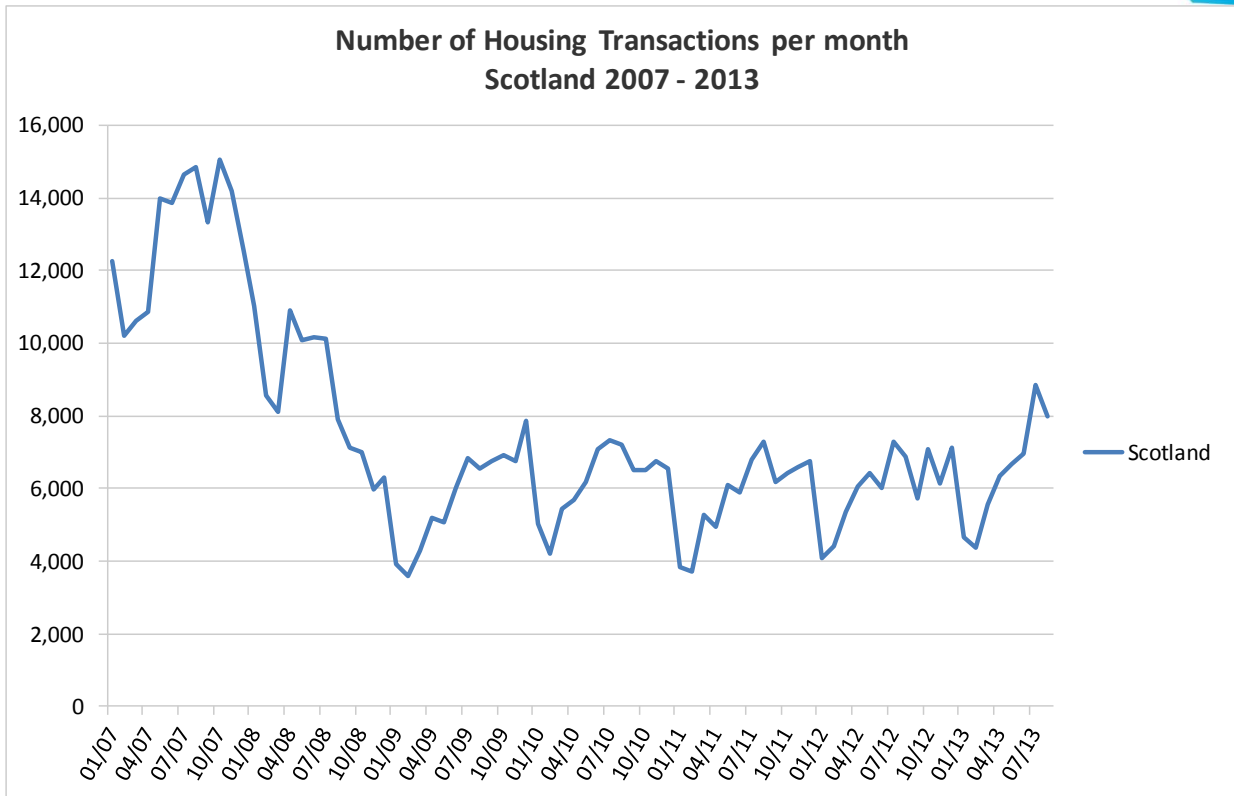


Figure 2. The number of housing transactions by month in Scotland, 2007 - 2013 (not seasonally adjusted) [link to source Excel](#)

The graph above shows the number of monthly transactions recorded by the Registers of Scotland (RoS) for the period January 2007 to August 2013, without seasonal adjustment. Over the last eleven years, average sales in August have been at the same level as in July: it is perhaps therefore disappointing to see that sales in August 2013 have fallen by 10% compared to July 2013 (but July this year was ‘exceptional’). We can still take comfort from the statistics which show that at 7,982, transaction levels in August 2013 were higher than the previous five Augusts, and were 17% higher than August 2012.

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. In the second quarter of 2013 first time buyers took out 6,500 loans, which was up 33% over the same period last year. 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.

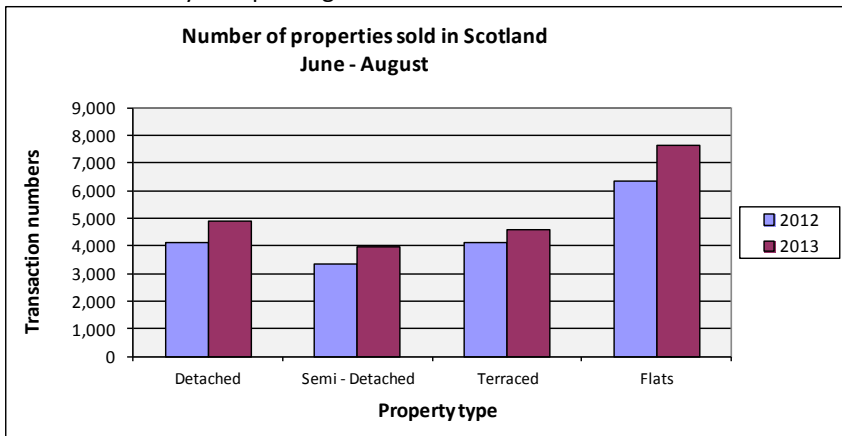


Figure 3. Sales by property type, Jun – Aug 2012 & 2013 [link to source Excel](#)

Figure 3 shows the number of sales by property type in Scotland for the periods June to August 2012 and 2013. As can be seen, flats are the most popular property type, representing 35% of all properties sold, followed by detached properties at 23%, terraces at 22%, and lastly semi-detached at 20%.

Sales have increased by 17% over the year, with flats having increased by 1-2% more than detached and semi-detached properties, whilst terraced sales have only increased by 11%.



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

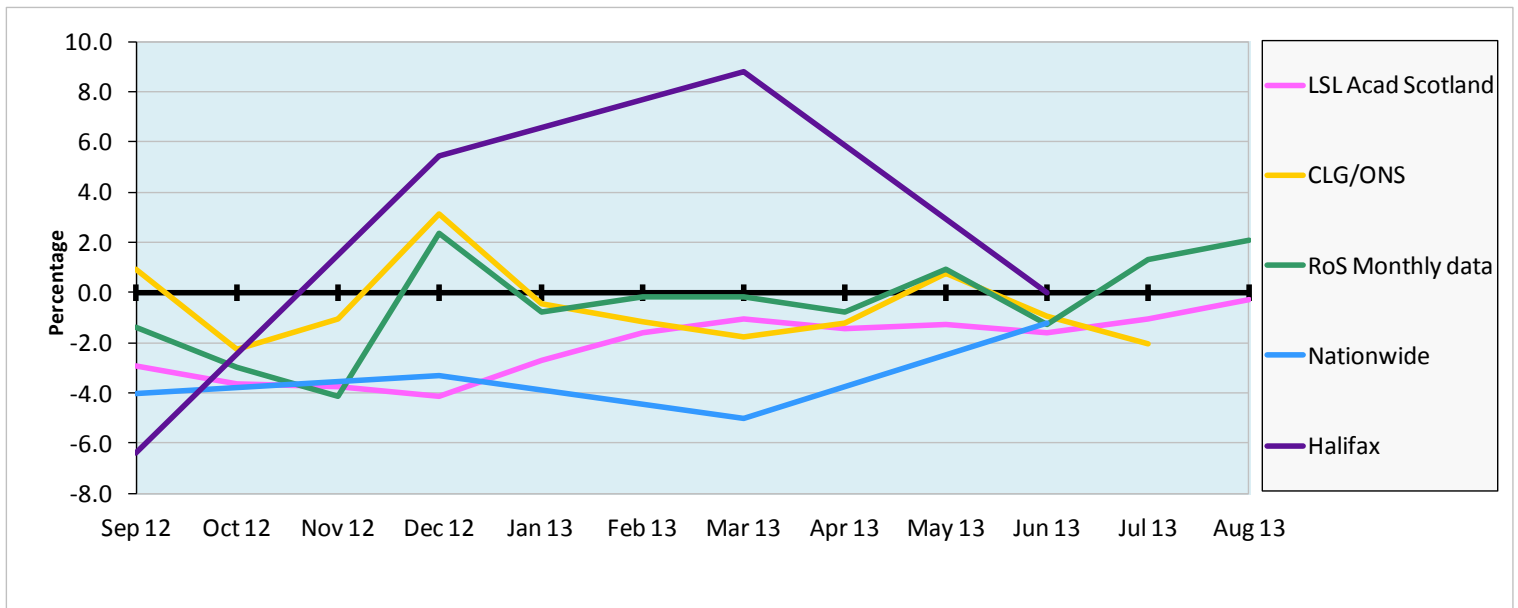


Figure 4. ANNUAL CHANGE IN HOUSE PRICES - COMPARISON OF INDICES AND RoS CHART

[link to source Excel](#)

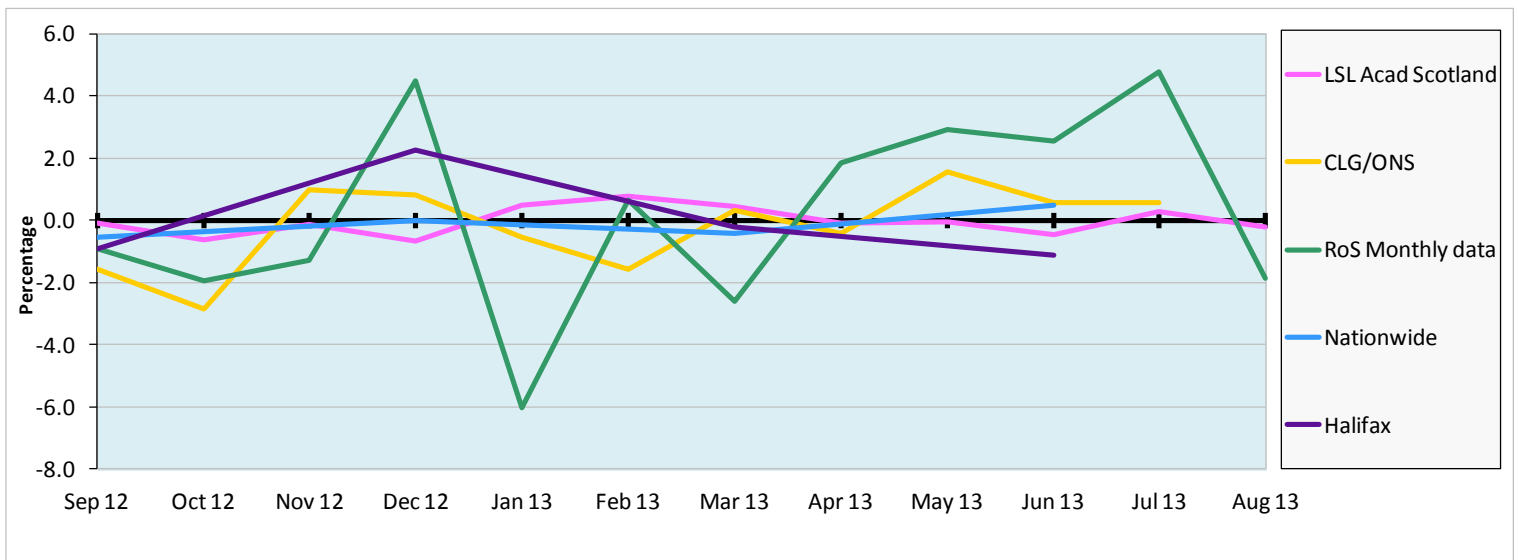


Figure 5. MONTHLY CHANGE IN HOUSE PRICES - COMPARISON OF INDICES AND RoS CHART

[link to source Excel](#)

The charts above 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

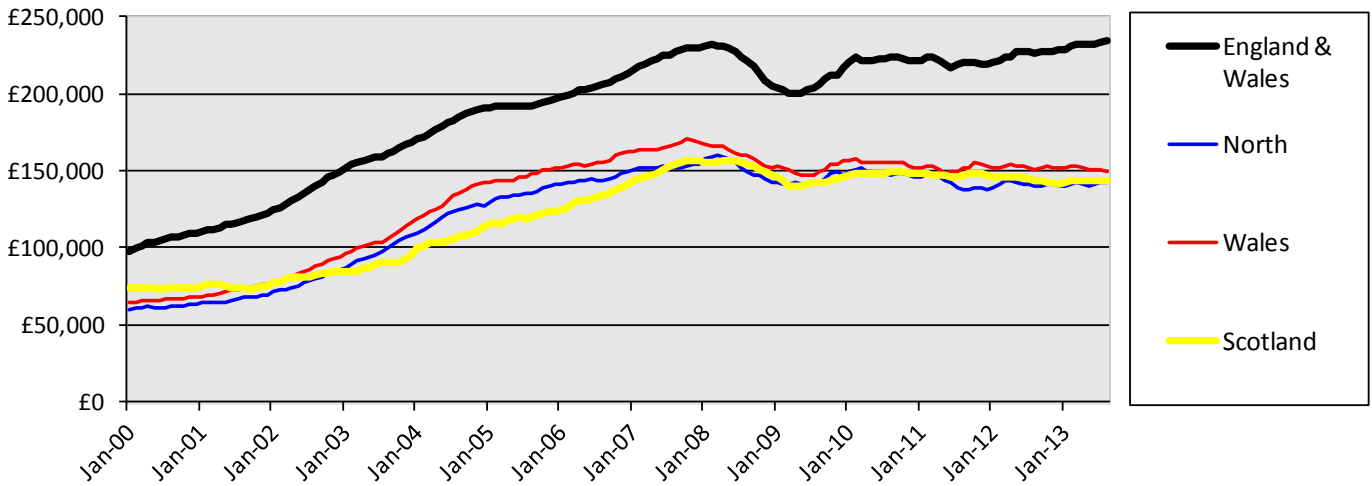


Figure 6. Scotland house prices, compared with England & Wales, Wales and the North for the period January 2000 - August 2013 [link to source Excel](#)

Annual % change in Average House Prices

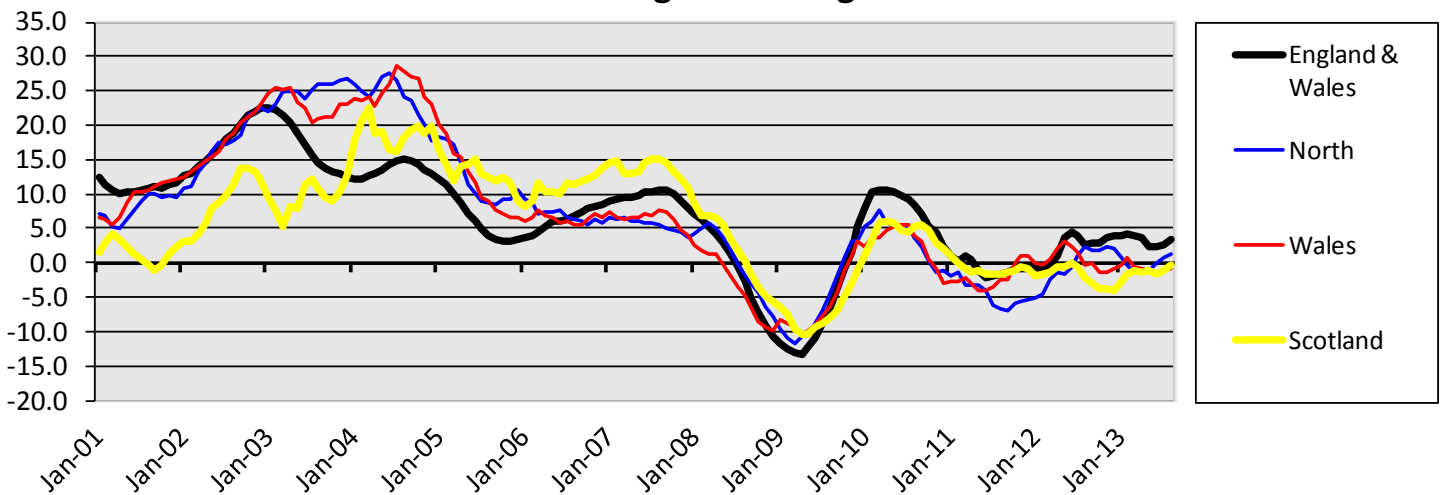


Figure 7. A comparison of the annual change in house prices in Scotland, England & Wales, Wales and the North for the period January 2001 – August 2013 [link to source Excel](#)

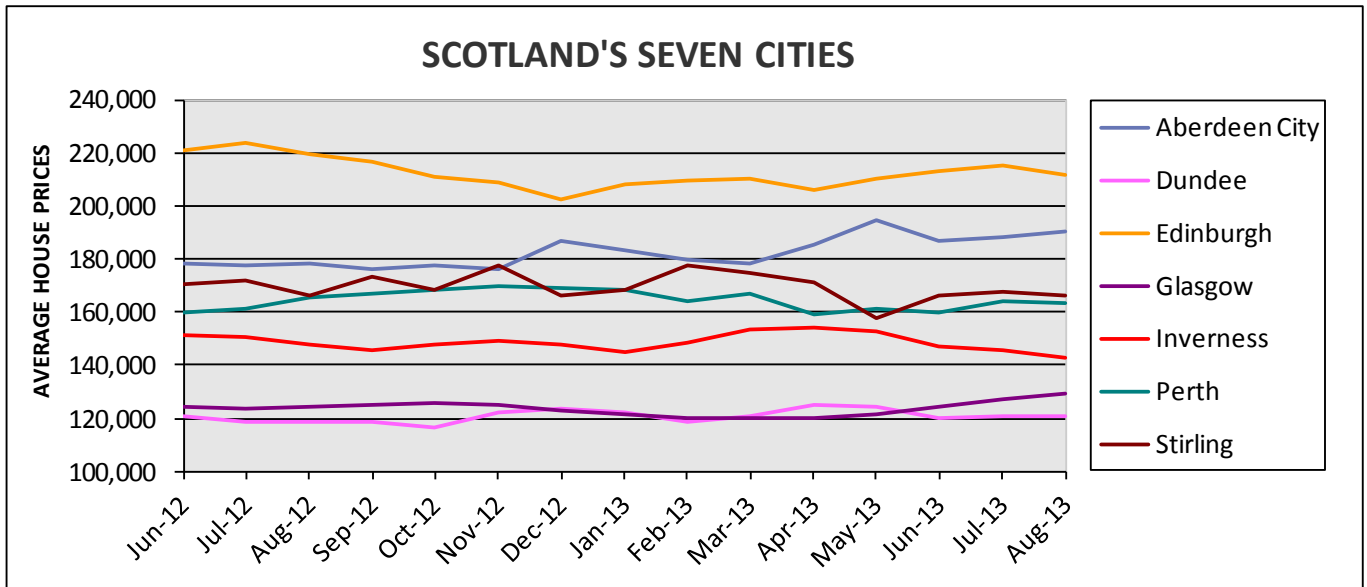


Figure 8. Average house prices for Scotland's seven cities from June 2012 – August 2013

[link to source Excel](#)

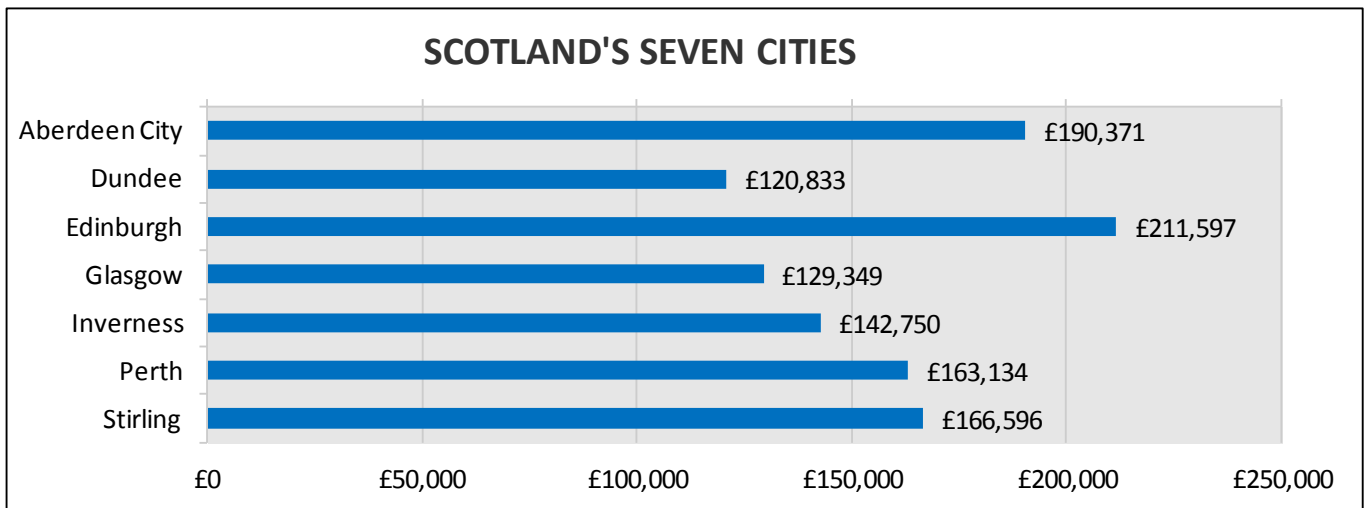


Figure 9. Average house prices for Scotland's seven cities August 2013

[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 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 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 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.



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 e.surv Chartered Surveyors, Chancellors Associates and Barnwoods brands. 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