

LSL Property Services/Acadametrics
Scotland

House Price Index

DECEMBER 2012

STRICTLY UNDER EMBARGO UNTIL 00.01 WEDNESDAY 13TH FEBRUARY 2013



Scottish house prices fall £6,224 annually

- 4% wiped off prices since December last year thanks to a lack of mortgages
- Values in Edinburgh down over £16,000 annually

House Price	Index	Monthly Change %	Annual Change %
£140,846	191.0	-0.8	-4.2

Richard Sexton, director of e.surv chartered surveyors, part of LSL, comments: “Tough mortgage lending criteria and public sector austerity bit the Scottish housing market hard last year, chewing £6,000 off the average house price. Values have now fallen for six months on the trot, and December alone saw over £1,000 knocked clean off the average house price.

“A lack of first-time buyer loans is the root cause of the Scottish market’s ills. Mortgage lenders have married high deposit requirements with strict credit scoring criteria, which are keeping would-be first-time buyers in rented accommodation.

“The comparison with England and Wales doesn’t make pretty reading: house prices in Scotland over the year have fallen by more than four times that of any region in England and Wales. Scotland’s greater exposure to public sector cuts is one reason. The other is the Bank of England’s Funding for Lending scheme and its lack of impact north of the border. The scheme has been far less effective in Scotland, which is making mortgages scarcer and more expensive than in England and Wales.

“There is plenty of regional variation. Despite the sharp fall in the national average house price in 2012, prices have risen in almost one in four local authority areas. Prices in Edinburgh plummeted £16,658 annually, but rose £2,831 in Aberdeen City, highlighting the importance of wealthy local economies to house prices.

“Better days should lie ahead in 2013. Lower house prices mean smaller deposits, which will inch some buyers closer to owning their first home. South of the border, mortgage rates for new buyers have fallen to historic lows, and there is a much wider range of mortgages to choose from, which gave the market a leg-up on the way to a bumper January. Scottish buyers will be hoping for something similar in the 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 December 2011 - December 2012

[link to source Excel](#)

		House Price	Index	Monthly Change %	Annual Change %
December	2011	£147,070	199.4	-0.3	-0.9
January	2012	£145,857	197.8	-0.8	-1.9
February	2012	£145,693	197.5	-0.1	-1.7
March	2012	£145,849	197.7	0.1	-1.4
April	2012	£146,262	198.3	0.3	-0.6
May	2012	£146,024	198.0	-0.2	-0.7
June	2012	£146,041	198.0	0.0	-0.1
July	2012	£145,590	197.4	-0.3	-0.6
August	2012	£143,898	195.1	-1.2	-2.1
September	2012	£143,439	194.5	-0.3	-2.9
October	2012	£142,272	192.9	-0.8	-3.7
November	2012	£141,942	192.5	-0.2	-3.8
December	2012	£140,846	191.0	-0.8	-4.2

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

The average price paid for a house in Scotland fell again in December by £1,100. This is the sixth month in succession in which house prices have fallen. Prices are now down £5,200 on a seasonally adjusted basis compared to their level in June 2012, or £6,200 from the level at the start of the year: welcome news to those aspiring to own a house, but less welcome to property owners.

Figure 1 below shows the seasonally adjusted average house price in Scotland for the period December 2011 to December 2012, together with a trend line over the twelve months. We see that the year can be split into two halves. Over the first seven months, following an initial fall in January, there was a period of relative stability in prices to June 2012; this was followed by an almost constant decline in prices from July 2012 onwards. The factual average price (the red line) has been oscillating around the trend line (in black) over the twelve months, ending the year £1,150 below trend.

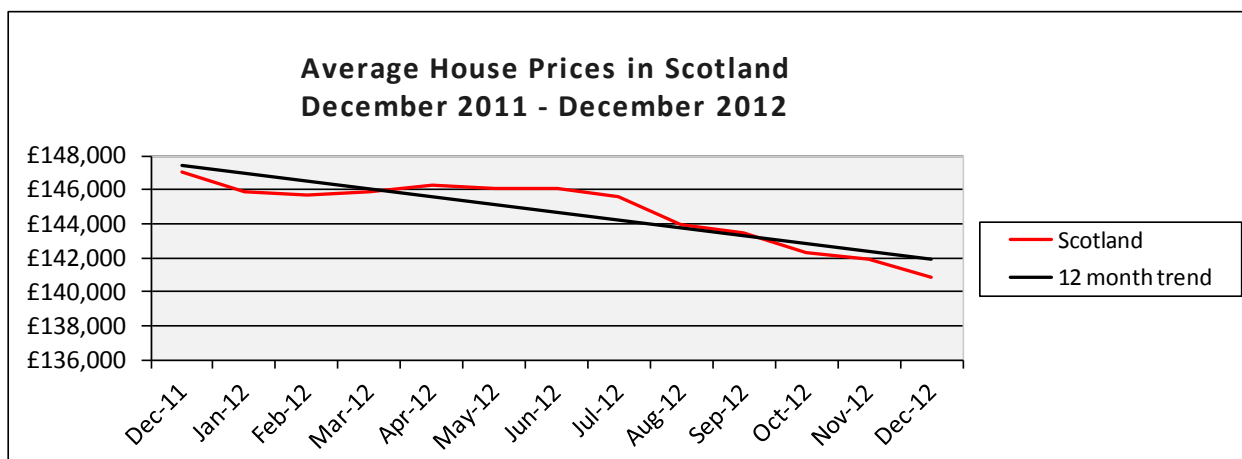


Figure 1. Average house prices in Scotland, December 2011 – December 2012

[link to source Excel](#)

On an annual basis, average house prices have fallen by 4.2% and are now back to where they were in May 2009. In England & Wales the largest fall in prices in the regions for the twelve months ending December 2012 was seen in Wales, where prices were down 1.3%. Expressed in percentage terms, house prices in Scotland over the year have fallen by more than four times that of any region in England & Wales.

Why are house prices in Scotland falling at a faster rate than in England & Wales? This is a particularly difficult question to answer definitively. However, one factor is that in Scotland we have seen an increase of 4% in property transactions over the year, whereas in Wales the number of properties sold has reduced by 1.7%. Prices in England & Wales have been maintained by the lack of properties coming to the market, which results in buyers having to compete for the homes that are available for sale. This compares with Scotland, where there are more sellers than buyers, requiring prices to be lowered to achieve the sale.

Will house prices continue to decline in Scotland in 2013? There are some signs to suggest that the opposite may happen, and that demand for properties may increase over the year. The Funding for Lending Scheme introduced by the Bank of England has led to more competitively priced mortgage products becoming available, with restrictions on mortgage requirements being eased. This should result in improved mortgage volumes and hence an increase in demand. Favourable employment statistics and an upturn in first time buyer activity also point to more confidence among both lenders and buyers. This may tempt more buyers back into the market and lift the level of transactions. Only time will tell, but with new housing supply remaining so low, prices will be underpinned by shortages, except in those areas where low demand and over-supply remains.

Table 2 on page 4 shows the average house price by Local Authority Area for December 2011 and December 2012, along with the percentage change over the year. The authority with the highest price rises over the year is East Renfrewshire, up some 7.3%, with an increase in the average price of both detached and semi-detached properties, followed by Angus up 5.6%. The authority with the largest fall in house prices over the year is Clackmannanshire, down some 17.5%. However, we have previously warned that due to the low number of transactions in the area, prices in Clackmannanshire are particularly volatile. The authority with the second largest fall in prices is North Ayrshire, down 13.9%, having seen a reduction in the prices of all property types, except for terraced properties.

House prices analysis



Table 2. Average House Prices in Scotland, by local authority area, comparing December 2011 with December 2012

[link to source Excel](#)

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

RANK BY PRICE	PRIOR YR RANK	LOCAL AUTHORITY AREA	Dec-11	Dec-12	% Change
1	1	Edinburgh, City of	217,639	200,981	-7.7%
2	5	East Renfrewshire	185,984	199,642	7.3%
3	2	Aberdeenshire	192,743	194,697	1.0%
4	6	Aberdeen City	182,895	185,726	1.5%
5	4	East Lothian	186,280	182,618	-2.0%
6	3	East Dunbartonshire	186,669	177,917	-4.7%
7	8	Perth & Kinross	172,219	168,031	-2.4%
8	7	Stirling	175,768	165,528	-5.8%
9	9	Scottish Borders	156,909	148,291	-5.5%
10	10	Highland	150,671	146,762	-2.6%
11	11	Midlothian	145,889	144,225	-1.1%
12	14	Argyll & Bute	135,175	142,375	5.3%
13	18	Angus	130,344	137,638	5.6%
14	16	Moray	131,729	133,202	1.1%
15	15	West Lothian	134,734	130,838	-2.9%
16	19	Dumfries & Galloway	129,889	126,735	-2.4%
17	13	South Ayrshire	141,403	126,494	-10.5%
18	23	Orkney Islands	121,383	125,204	3.1%
19	24	Dundee City	120,605	122,736	1.8%
20	17	Glasgow City	130,736	122,297	-6.5%
21	20	Shetland Islands	129,354	122,271	-5.5%
22	21	Fife	127,307	121,924	-4.2%
23	12	Clackmannanshire	143,584	118,396	-17.5%
24	22	South Lanarkshire	126,617	115,619	-8.7%
25	31	Inverclyde	108,666	113,974	4.9%
26	26	Falkirk	116,279	112,392	-3.3%
27	28	Renfrewshire	112,914	104,392	-7.5%
28	29	West Dunbartonshire	110,731	103,953	-6.1%
29	25	North Ayrshire	116,498	100,350	-13.9%
30	27	Eilean Siar	113,889	99,145	-12.9%
31	30	East Ayrshire	110,129	98,833	-10.3%
32	32	North Lanarkshire	102,358	98,740	-3.5%
		All Scotland	147,070	140,846	-4.2%

This month house prices have fallen in 23 of the 32 Local Authority Areas compared to 25 last month. This suggests a minor increase across the country as a whole, despite the headline figure based on the national statistic, which shows a continuing decline in the average house price.

There have been some interesting changes in the ranking of local authorities by average house price over the year. At the top of the table, East Renfrewshire has moved up three into second place, having overtaken both Aberdeen City and Aberdeenshire. The area with the highest movement up the league is Inverclyde, having moved up 6 places from the next to bottom position, followed by Dundee City and Angus, both up 5 positions. The largest faller is Clackmannanshire, down 11 places, but as we indicated earlier the prices in this area are particularly volatile, due to low transaction numbers. The second largest fallers in the price league are North and South Ayrshire, both down 4 places.

Finally we can note that the higher priced authorities have had lower average house price falls than the lower priced areas. The top 16 authorities by price have seen prices fall by an average -0.9% over the year, while the lowest 16 areas by price have seen prices fall by -6.3%.

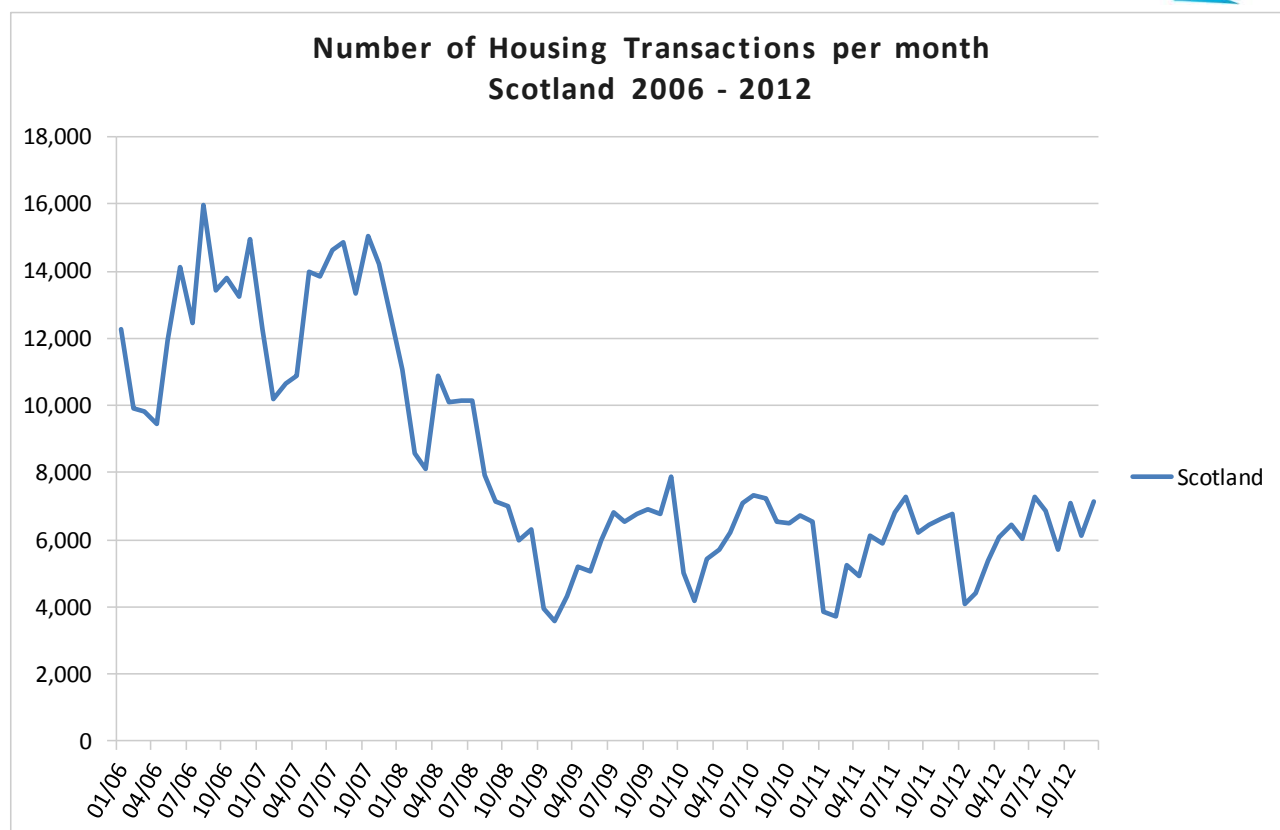


Figure 2. The number of housing transactions by month in Scotland, 2006 - 2012 (not seasonally adjusted)

[link to source Excel](#)

The graph above shows the number of monthly transactions recorded by the Registers of Scotland (RoS) for the period January 2006 to December 2012, without seasonal adjustment. The number of housing transactions in 2012 was 72,640, an increase of 4.0% over the previous year. The highest number of transactions for a single month in 2012 was in July. This is slightly against trend, with peak sales in the year usually being in August. However, the distraction of the Olympics in 2012 took its toll on the number of houses changing hands, resulting in fewer sales than might otherwise have been predicted in both August and September. The absence of sales in September 2012 was made up for by activity in October, which was much higher normal. This was followed by a final rebound in sales in December, making that month the second busiest of the year.

The increase in sales volumes in 2012 over 2011 was seen in both detached properties and flats, with transaction levels for these two property types up 6.7% and 6.2% respectively. Sales of semis increased by 4.1%, whilst terraced properties were the least popular, with sales increasing only 3.1% - half the figure for detached properties and flats.

The local authority area with the highest increase in sales during 2012 was Midlothian, up 19.1%, mainly in the detached sector of the market, followed by East Lothian, up 18.5%. The Shetland Islands and Eilean Siar saw the largest reduction in sales over the year, down 9.3% and 12.1% respectively. On the mainland the largest fall in sales was experienced in Inverclyde, with those of terraced properties being particularly low. Of the large cities, Edinburgh saw an increase in property transactions of 9.1%, Aberdeen increased by 5.4%, whilst Glasgow saw transactions rise by only 2.9%. During the year Edinburgh overtook Glasgow as being the most popular area in Scotland in which to buy a property, with annual sales of 7,322 properties against 7,143 in Glasgow.

Finally we should point out that transaction levels in Scotland in 2012 were only 46% of the levels seen in 2007, giving an indication of how the credit-crunch is still restricting the current housing market. One of the questions to which we will return in 2013 is if this reduction in sales volumes has become a permanent feature of today's market, i.e. the new 'normal'. Or is this current period of low activity a short-term phenomenon brought about by the banking crisis, and will the market then return to previous transaction levels once credit finance becomes more readily available?



NOTES

1. LSL Acad Scotland HPI is a price series as opposed to a value series and is the only house price index for Scotland to use:
 - the actual prices at which every residential property in Scotland was transacted, including prices for properties bought with cash, using the data provided by Registers of Scotland as opposed to valuation estimates or asking prices
 - the price of every single relevant transaction, as opposed to prices based upon samples
2. the current month LSL Acad Scotland HPI is not forecast, unlike the LSL Acad E&W HPI, and the first release of the Scotland results lag the first release of those for England & Wales by one month
3. whilst the LSL Acad Scotland HPI, like the LSL Acad E&W HPI, comprises a smoothed average of three months' prices, the LSL Acad Scotland HPI average reflects the average price at the month of the index and the prior two months' prices and is ascribed to the month of the index i.e. it is "end month smoothed" (ems) and not "centre month smoothed" (cms) as applied to the LSL Acad E&W HPI. Since we provide only a national England & Wales average price in our current month LSL Acad E&W HPI and prices at region and lower levels are lagged one month, this procedure means that the LSL Acad Scotland HPI prices are contemporaneous with the prices published for the equivalent month for England & Wales, Wales and the regions.
4. all LSL Acad Scotland HPI results are subject to change following receipt of updated data from Registers of Scotland
5. Acadametrics is an independent privately owned consultancy working with Dr Stephen Satchell, Economics Fellow Trinity College Cambridge, and specialises in the assessment of risk in property and mortgage portfolios.

Comparison of indices and RoS average prices

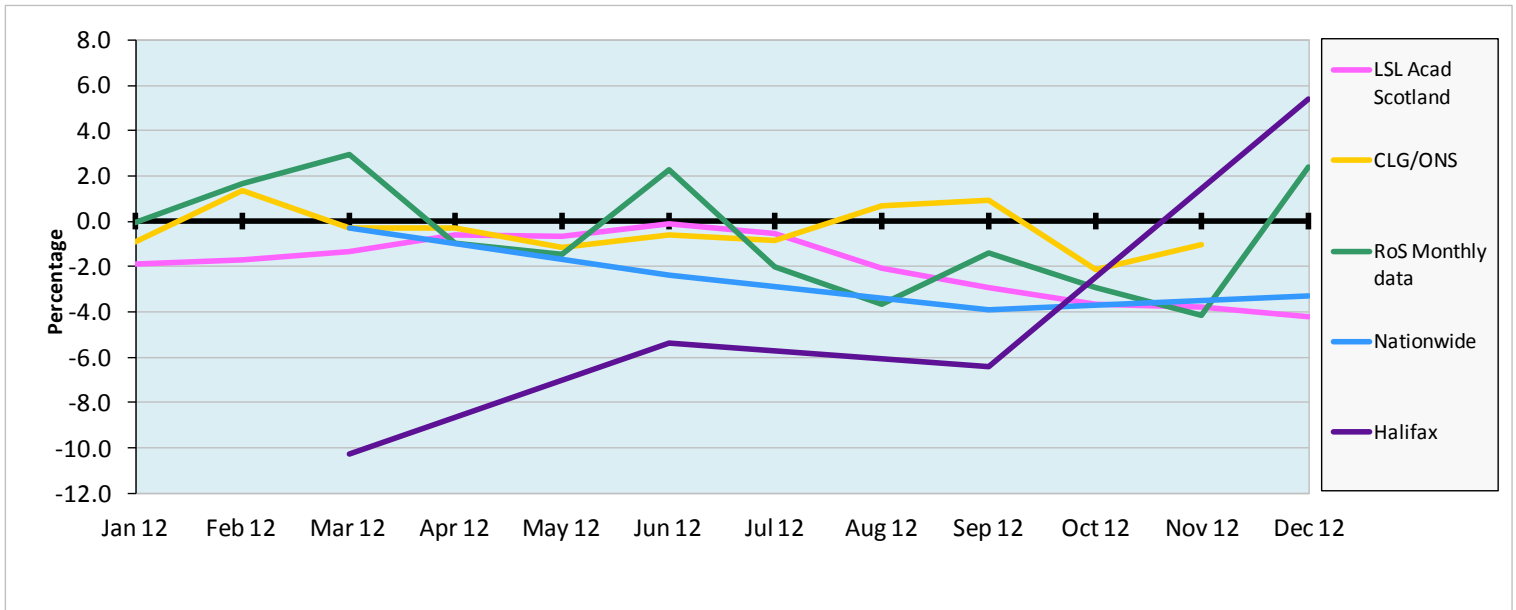


Figure 3. ANNUAL CHANGE IN HOUSE PRICES - COMPARISON OF INDICES AND RoS CHART

[link to source Excel](#)

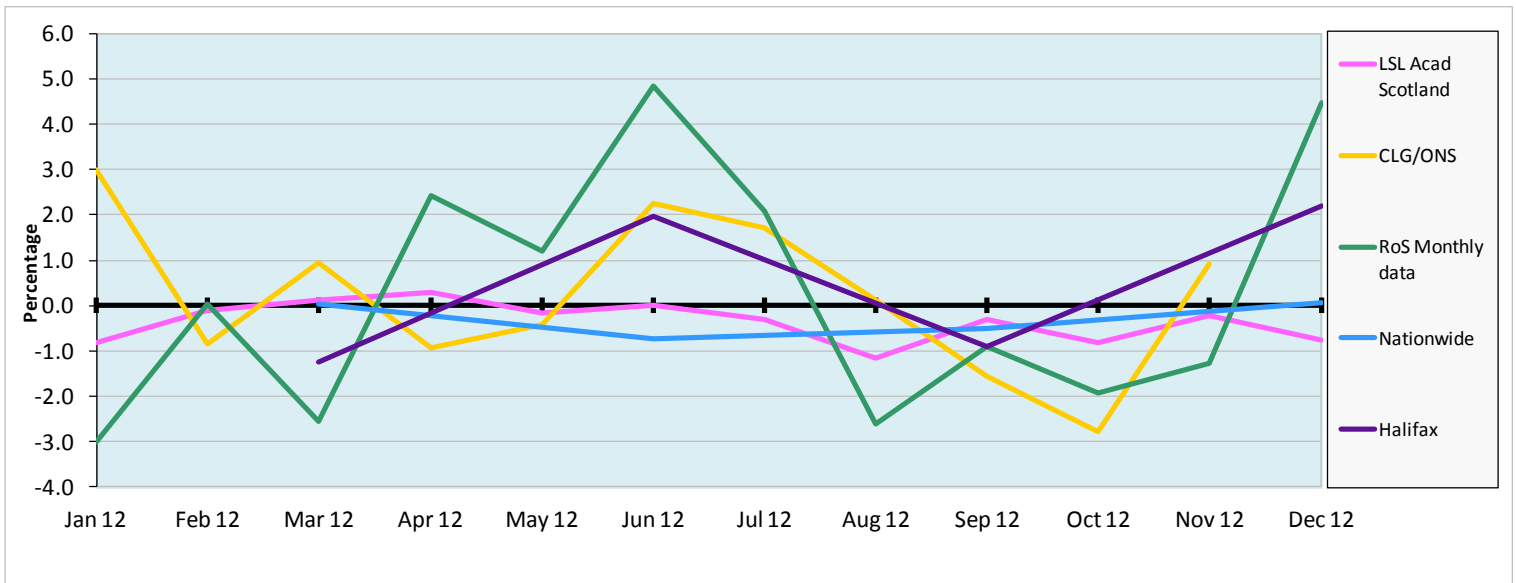


Figure 4. MONTHLY CHANGE IN HOUSE PRICES - COMPARISON OF INDICES AND RoS CHART

[link to source Excel](#)

The charts above compare the main indices provided for Scotland and the RoS arithmetic average prices. It should be noted that Halifax and Nationwide provide prices for the Scottish market only on a quarterly basis and we have charted these by interpolating on a straight line basis.

Comparisons with Scotland



Average House Price

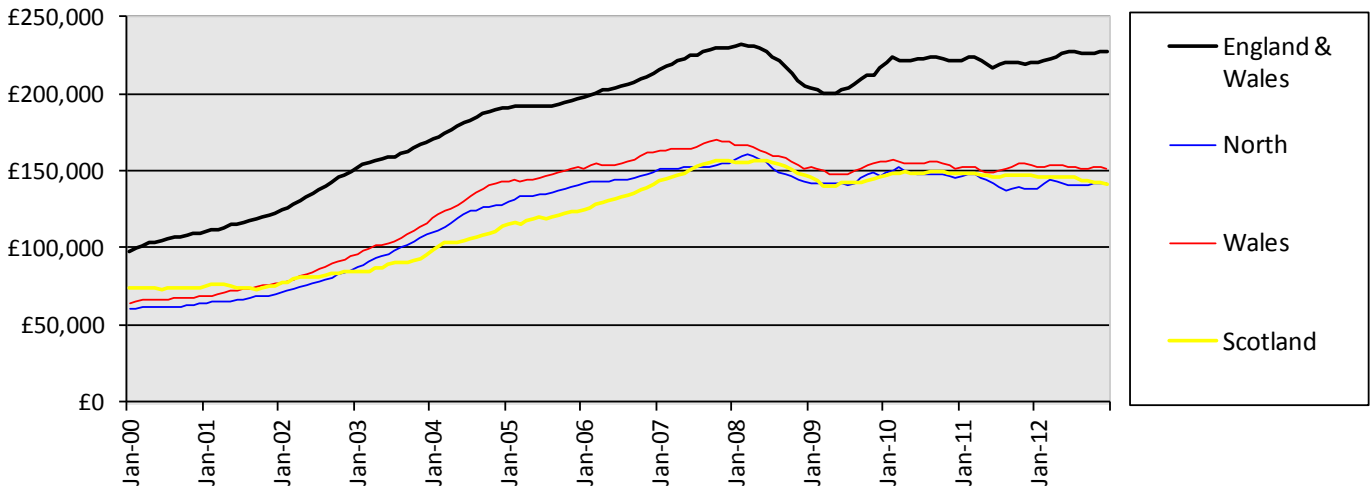


Figure 5. Scotland house prices, compared with England & Wales, Wales and the North for the period January 2000 - December 2012 [link to source Excel](#)

Annual % change in Average House Prices

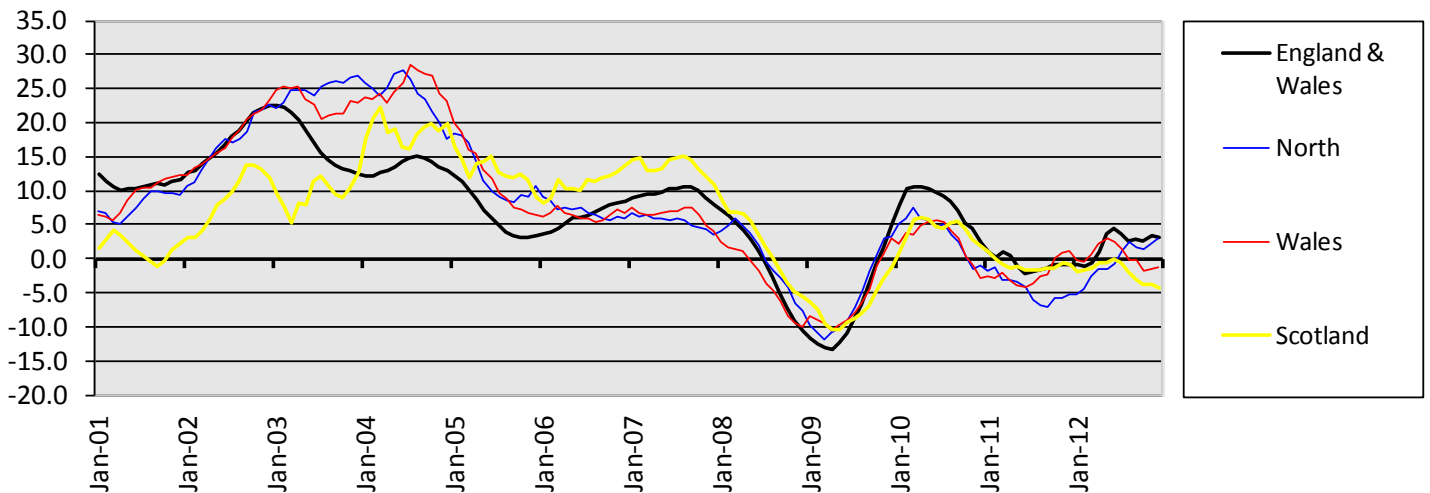


Figure 6. A comparison of the annual change in house prices in Scotland, England & Wales, Wales and the North for the period January 2001 - December 2012 [link to source Excel](#)

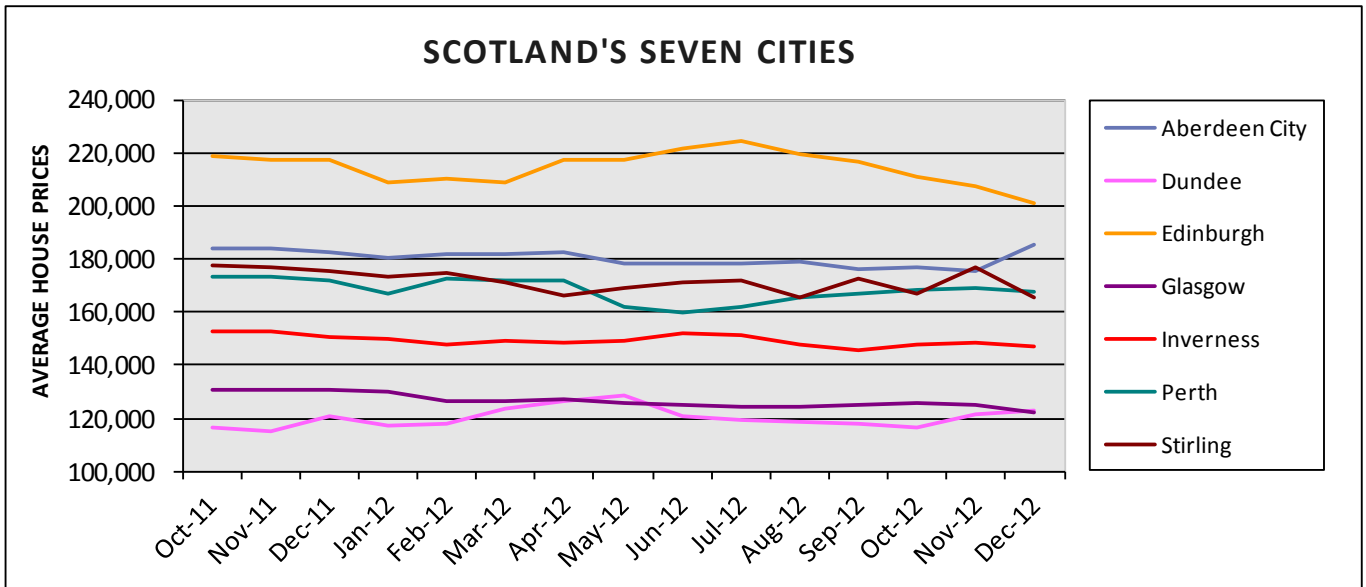


Figure 7. Average house prices for Scotland's seven cities from October 2011 - December 2012 [link to source Excel](#)

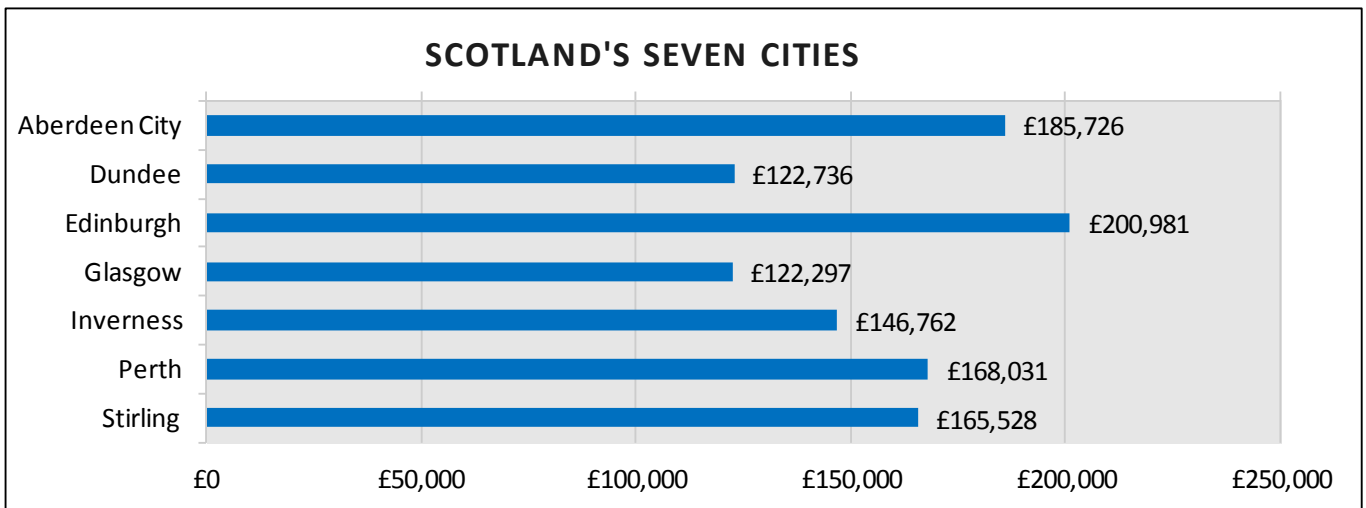


Figure 8. Average house prices for Scotland's seven cities December 2012 [link to source Excel](#)



1. LSL Acad Scotland HPI is derived from Registers of Scotland (RoS) house price data, seasonally and mix adjusted by property type. © Crown copyright material reproduced with the permission of Registers of Scotland. The prices are smoothed to show underlying trends. LSL Acad Scotland HPI includes cash purchase prices and is the only index based upon the complete, factual, house price data for Scotland, as opposed to a sample.

2. most indices employ data available to the provider as a result of its business; index methodologies are designed to exploit the advantages and overcome the disadvantages of each particular dataset; a valuation series (whether the values are professionally estimated at e.g. time of mortgage offer or by an estate agent) is not the same as a price series; a price series, such as LSL Acad Scotland HPI or CLG/ONS HPI, can be prepared only when the prices at which properties have been transacted have been recorded at RoS (LSL Acad Scotland HPI) or when firm prices at mortgage completion have been made available by lenders (CLG/ONS HPI); valuation series can be prepared whenever the data e.g. asking or mortgage offer prices are available to the provider; publicity accrues to those indices which are released first; indices published at or before month end are likely to employ data for the current and prior months. LSL Acad E&W HPI overcomes delay in the availability of all transactions for any given month from LR with an “index of indices” forecasting model, purpose developed by Dr Stephen Satchell Economics Fellow Trinity College Cambridge and Dr George Christodoulakis, then at the Sir John Cass Business School. Forecasting is assisted by the provision by LR of “emergent data”, being those current month transactions for which LR have received prompt notification.

3. the “emergent” data for Scotland necessary to repeat the E&W forecasting methodology are, as yet, unavailable from RoS such that LSL Acad Scotland HPI incorporates no forecasting procedure. Whilst the LSL Acad Scotland HPI, like the LSL Acad E&W HPI, comprises a smoothed average of three months’ prices, the LSL Acad Scotland HPI average reflects prices at the month of the index and those for the prior two months and is ascribed to the month of the index i.e. the prices are “end month smoothed” (ems) and not “centre month smoothed” (cms) as applicable to the LSL Acad E&W HPI. Please note that:

- we provide only a current month average price for England & Wales as a whole, in our LSL Acad E&W HPI, and that prices at region and lower levels are lagged one month
- RoS monthly data comprises some 95% of the transaction for the current month and c.99% for the prior two months

Hence, a smoothed average price using three months data ascribed to the index month (ems) for LSL Acad Scotland HPI provides the equivalent price, to all intents and purposes, to the price at region/county level, lagged by one month, provided by a centre month smoothing (cms) process, as used for LSL Acad E&W HPI. Our intention is to align the procedure for LSL Acad Scotland HPI with that used for LSL Acad E&W HPI, as soon as the necessary data may be available. Meanwhile, an ems procedure allows the Scotland prices to be placed alongside the contemporaneous prices for E&W as a whole and for Wales, as a whole, and those for the E & W regions for comparison purposes.

4. LSL Acad E&W HPI provides prices from January 2000. RoS national data were available only from January 2001 and the constituents of RoS data changed between then and April 2003, showing a significant step change in prices between March and April. CLG/ONS quarterly data were used to construct LSL Acad Scotland HPI from January 2000 to April 2001 with straight line interpolations used to construct prices by month. Data for 11 local authorities were unavailable for the period January 2001 to April 2003 and were constructed by back-casting. The underlying data by property type, for months when no sales of a particular property type, in a particular area, were reported were in-filled using the same procedure used in LSL Acad E&W and, by Eurostat, in preparing seasonal data.

5. note that LSL Acad Scotland HPI is unable to distinguish between 3, 4 or 5 bedroom houses or between those with 2, 1 or even no bathroom; the lender hedonic indices and the CLG/ONS mix adjusted index do so. RoS data and, hence, LSL Acad Scotland HPI exclude commercial and, thus, auction sales and do not reflect repossession prices on the grounds that such prices do not reflect those between a willing buyer and a willing seller.

6. LSL Acad Scotland HPI is prepared from RoS data using a methodology designed to provide a “true measure of house price inflation”; Acadametrics does not guarantee the accuracy of the LSL Acad Scotland HPI results and neither LSL nor Acadametrics shall be liable for any loss or damage, whatsoever, consequential upon any error, incorrect description of or inadequacy in the data; persons using the data do so entirely at their own risk; LSL Acad Scotland HPI is freely provided for publication with due attribution to Acadametrics. Permission is required for any commercial use of the data.

7. the monthly, smoothed, average RoS prices at local authority level provided at property type, which underlie LSL Acad Scotland HPI, together with historic data can be purchased from Acadametrics.



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