

LSL Property Services/Acadata

Scotland

House Price Index

MAY 2014

STRICTLY UNDER EMBARGO UNTIL 00.01 WEDNESDAY 16TH JULY 2014



Scottish house prices climb £6,750 in the last year

- May marks longest period of sustained monthly price growth since before the crisis
- Recovery strengthens across the country, with new price record set in Aberdeenshire
- But sales fall 3% in May, as the market adjusts to MMR and stricter borrowing criteria

House Price	Index	Monthly Change %	Annual Change %
£162,302	212.6	0.5	4.3

Donald MacLellan, Chairman of Walker Fraser Steele Chartered Surveyors, part of LSL Property Services, comments:

“The view of the housing market recovery in Scotland is dependent on whether it is looked at through average prices or current volumes. We are now seeing the longest sustained period of price growth in seven years. Prices have not climbed as steadily every month since December 2007. Not only this, but growth has been established across the country, with 87% of the local authority areas in Scotland enjoying annual average house price rises. Overall, house prices in Scotland have risen 4.3% (equal to £6,750) in the past year. In May, a new record house price was reached in Aberdeenshire, taking the cost of an average home to £224,803.

“First-time buyers provide a solid foundation for the recovery to continue building on. In the three months to May 2014, the number of flats sold rose 26% on the same period last year, followed by terraced houses with a 22% annual increase in sales. As the typical property choices for first-time buyers, this illustrates the stream of activity at the entry level of the market powering growth and consumer confidence.

“The only fly in the ointment is a decline in total house sales, dropping 3% from April to May 2014. This goes against the historic seasonal trend for this time of year, suggesting that tighter regulations under the Mortgage Market Review have temporarily slowed housing transactions. But with recurrent indications that interest rates will rise before the year is out, new record property prices being set, and with only three months to go before the Independence referendum, potential buyers may also be taking heed of caution and delaying purchase decisions until they can be clear what the future holds.

“Whether this monthly blip is symptomatic of a broader turning of the tide in the housing market remains to be seen, as it is still too early to see the wood for the trees. More changes are afoot, with greater stress-testing and loan-to-income caps coming into play to ensure the long-term health of the property market. While it may be tempting for the UK government and Bank of England to intervene and rein in housing demand, it is not necessary in many parts of the UK, and could pull the rug out from under the feet of recovery in areas where growth is still bedding down. In the city of Glasgow, house prices dropped 3.1% in the month to May 2014. The Help to Buy scheme and further investment in new housing developments are a lifeline in areas such as this to consolidate growth.”

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 May 2013 – May 2014

[link to source Excel](#)

		House Price	Index	Monthly Change %	Annual Change %
May	2013	£155,552	203.7	0.3	-0.7
June	2013	£155,375	203.5	-0.1	-1.3
July	2013	£155,620	203.8	0.2	-1.0
August	2013	£155,296	203.4	-0.2	-0.4
September	2013	£155,648	203.9	0.2	0.2
October	2013	£155,930	204.2	0.2	0.7
November	2013	£157,834	206.7	1.2	2.3
December	2013	£158,417	207.5	0.4	3.1
January	2014	£159,679	209.1	0.8	4.0
February	2014	£160,123	209.7	0.3	3.5
March	2014	£160,938	210.8	0.5	3.9
April	2014	£161,418	211.4	0.3	4.0
May	2014	£162,302	212.6	0.5	4.3

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

Average house prices in Scotland rose on a seasonally adjusted basis by £884 in May, or 0.5%. This is the ninth successive month that house prices have risen in Scotland, and is the longest run of positive monthly gains since April 2007 – Dec 2007, the time when prices were climbing towards the last housing peak, in May 2008.

On an annual basis, house prices have increased by £6,750 or 4.3%. This percentage increase is 2.9% above May’s annual consumer price inflation rate, using the CPIH index of 1.4%, which includes housing costs. As we show on page 4, positive annual house price movements are currently being experienced in 28 of the 32 local authority areas, giving an indication of the extent to which the recovery in the housing market now encompasses all of Scotland.

Figure 1 gives a quick sense of how prices have evolved over the last twelve months. The black line shows the trend in average house prices over the period, with the red line indicating the actual movement in prices on a monthly basis. The year started with gentle fluctuations in price movements to October 2013, when the market appears to have shifted up a gear with a rise of 1.2% in November 2013; prices have subsequently tracked the trend line, showing an average increase of 0.4% per month.

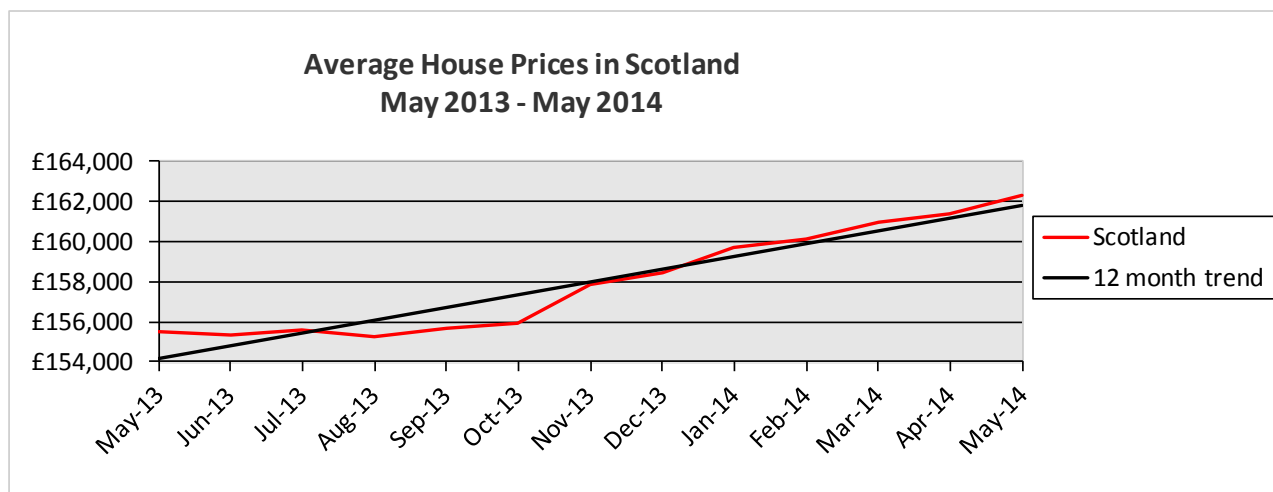


Figure 1. The average house price in Scotland, May 2013 – May 2014.

[link to source Excel](#)

Placing Scotland’s 4.3% annual increase in house prices in a UK context, the rate is higher than the rises seen in the North West (4.1%), Yorkshire and Humberside (3.7%) and Wales (3.6%). However, it is below the West Midlands (6.0%), East Anglia (6.3%), the North (6.4%), the East Midlands (6.5%), the South West (6.3%), the South East (7.5%) and last, but by no means least, Greater London (15.6%). As we stated last month, the problem with having house prices rising at a rate of 15.6% in London is that the UK government, and/or the Bank of England, may feel forced to introduce measures to curb housing demand, even if house price inflation in the other parts of the UK does not warrant such measures.

With house price growth being experienced across Scotland at a sustainable level, without the excesses seen in Greater London, one might conclude that the housing market in Scotland is currently in good shape. The one potential blot on the landscape is that of a decline in transactions. As we report on page 5, sales numbers in May 2014 have fallen by 3% from the April 2014 levels, at a time of the year when ordinarily one would expect to see transactions increase by 12%. One of the possible reasons for the decline in sales numbers is the introduction of the new MMR rules by the Bank of England at the end of April. The new mortgage rules, which involve greater scrutiny of the borrowers’ income and expenditure along with more detailed advice, have also meant that there has been a small increase in the time taken by the interview, and in some cases a longer lag before loan approval. Together with the bedding in of new systems, all of these factors might have contributed to a slow down in housing transactions, but it is too early to say whether this is a turning point in the housing cycle. There is simply too much noise in the system at present to judge.

Little wonder then that the much discussed interventions were announced by the Bank of England’s Financial Policy Committee (FPC) on June 26th. These were a cap on the number of new loans a lender can make above 4.5 times income (15%), along with a requirement to stress-test any new mortgage borrower’s capacity to cope with an additional 3% on their mortgage. The measures were not designed to impact on the market now, but rather to be a braking mechanism if and when the mortgage market continued to expand. We will have to see what impact these measures might have on the sales figures over the summer months.

House prices analysis



Table 2. Average House Prices in Scotland, by local authority area, comparing May 2013 and April 2014 with May 2014 [link to source Excel](#)

RANK BY PRICE	PRIOR YR RANK	LOCAL AUTHORITY AREA	May-13	Apr-14	May-14	% Monthly Change	% Annual Change
1	4	East Renfrewshire	206,554	236,463	232,255	-1.8%	12.4%
2	1	Edinburgh, City of	221,611	225,269	230,044	2.1%	3.8%
3	3	East Dunbartonshire	208,616	220,985	226,510	2.5%	8.6%
4	2	Aberdeenshire	215,575	219,075	224,803	2.6%	4.3%
5	6	East Lothian	195,067	212,133	215,783	1.7%	10.6%
6	5	Aberdeen City	201,301	215,195	209,898	-2.5%	4.3%
7	8	Perth & Kinross	174,301	187,750	183,777	-2.1%	5.4%
8	9	Stirling	168,293	185,286	183,611	-0.9%	9.1%
9	11	Scottish Borders	157,310	167,509	175,035	4.5%	11.3%
10	7	Midlothian	181,568	165,850	164,563	-0.8%	-9.4%
11	10	Highland	159,131	164,028	163,530	-0.3%	2.8%
12	12	Argyll & Bute	153,037	149,561	160,393	7.2%	4.8%
13	15	South Ayrshire	139,801	144,440	148,315	2.7%	6.1%
14	28	Shetland Islands	112,840	141,964	147,940	4.2%	31.1%
15	14	Angus	144,586	143,196	146,562	2.4%	1.4%
16	16	West Lothian	136,028	141,570	146,321	3.4%	7.6%
17	13	Moray	149,479	149,233	145,324	-2.6%	-2.8%
18	19	Fife	130,876	142,779	141,594	-0.8%	8.2%
19	18	Dumfries & Galloway	131,449	126,262	131,528	4.2%	0.1%
20	17	Orkney Islands	131,661	127,980	130,953	2.3%	-0.5%
21	20	South Lanarkshire	130,815	133,439	130,263	-2.4%	-0.4%
22	25	Inverclyde	116,337	129,551	130,047	0.4%	11.8%
23	21	Dundee City	127,706	128,769	129,940	0.9%	1.7%
24	24	Clackmannanshire	119,566	124,832	129,232	3.5%	8.1%
25	23	Falkirk	120,712	121,793	127,484	4.7%	5.6%
26	22	Glasgow City	124,479	129,247	125,270	-3.1%	0.6%
27	26	Renfrewshire	115,176	122,455	123,294	0.7%	7.0%
28	27	West Dunbartonshire	113,112	115,978	118,464	2.1%	4.7%
29	30	North Lanarkshire	108,444	113,612	114,862	1.1%	5.9%
30	29	North Ayrshire	111,910	115,468	114,020	-1.3%	1.9%
31	31	Eilean Siar	104,562	100,328	105,941	5.6%	1.3%
32	32	East Ayrshire	103,748	100,537	105,898	5.3%	2.1%
		All Scotland	155,552	161,418	162,302	0.5%	4.3%

Table 2 above shows the average house price and percentage change (over the last month and year) by Local Authority Area for May 2013, April 2014 and May 2014. Overall in May 2014, prices continued to rise by 0.5% in the month, although prices fell in 11 of the 32 Local Authority Areas (last month 12), on a seasonally adjusted basis. Looking at the change in prices in the month, the local authority area on the Scottish mainland with the highest increase in prices in May 2014 was, for the second month in succession, Argyll & Bute, up 7.2%. Here the most popular property type is the detached house, with detached properties in May selling for an average £206k, up £31k on three months earlier.

On an annual basis, prices have risen in 28 of the 32 local authority areas, which is six more areas than last month and represents 87% of all local authority areas in Scotland. Thus house prices are moving upwards across most of Scotland, suggesting that the recovery in the housing market is well entrenched, with only Midlothian, Moray, South Lanarkshire and the Orkney Islands seeing average prices fall over the year. The area on the mainland with the highest increase in average house prices is East Renfrewshire, where prices have risen by 12.4% during the year. East Renfrewshire is also the local authority area with the highest average house price in Scotland, having moved up the rankings from 4th position last year. As we mentioned last month, the sale of a number of high priced flats in a new development in Newton Mearns has done much to boost East Renfrewshire's current standing in the league table.

This month there are two local authority areas where average house prices are at their peak, Aberdeenshire and the Shetland Islands. In Aberdeenshire, semi-detached and flatted properties have increased in price over the last year by 9% and 11% respectively, with semi-detacheds in particular helping to secure the new average peak price for the area. In the Shetland Islands the average house price now stands at £148k – although with only a small number of sales each month (18 in May), the average house price in the Shetland Islands tends to be somewhat volatile by nature.

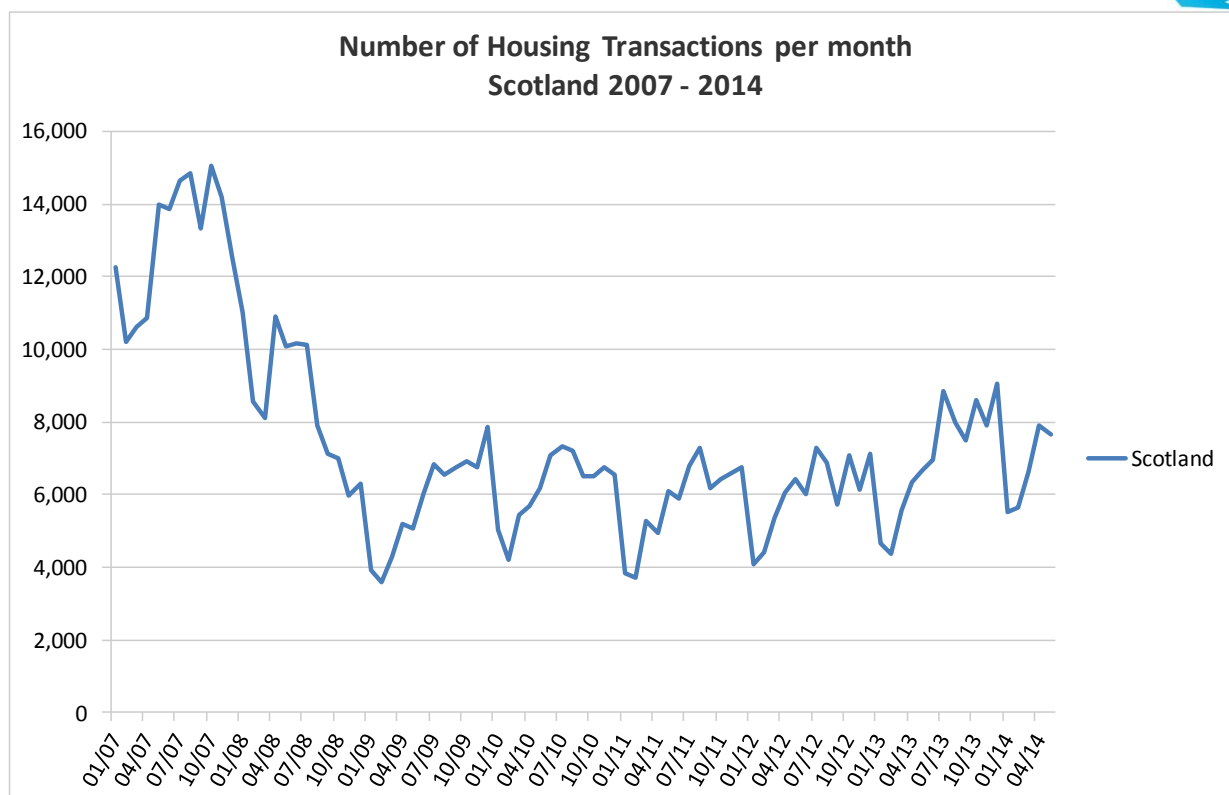


Figure 2. The number of housing transactions by month in Scotland, 2007 - 2014 (not seasonally adjusted)

[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 May 2014, without seasonal adjustment. The graph demonstrates the strong growth that occurred in the number of properties sold in both March and April 2014, but also shows the 3% downturn in sales that occurred in May 2014, compared to the previous month. On average, over the last twelve years, the volume of sales has picked up by 12% in May compared to the preceding April, so the reduction in sales of 3% in May 2014 was 15% lower than the seasonal trend.

Over the last 12 months, the number of transactions has been running at 22% above the level of sales recorded in the previous 12 months. However, this margin above the previous year's volume of sales has fallen to 15% in May 2014, the lowest level of any month over the last year. We have seen a similar dip in transaction numbers across England & Wales, albeit one month later than Scotland, with sales volumes down some 6% in June 2014 compared to the preceding May. Housing analysts are divided as to the cause of this volume downturn, with possible reasons being the introduction of the new MMR rules on the lenders at the end of April, making obtaining a mortgage more difficult. An alternative suggestion for the slow down in transactions is that potential property buyers are beginning to believe that property prices are nearing a peak. This could be due perhaps to the ever-present indications that interest rates will begin to rise soon, which is resulting in a delay in the purchase decision, waiting to see what will happen next in the property markets.

Comparing the three month period March 2014 - May 2014 with the same three months in 2013, transactions have increased by an average 23%, with a particularly strong set of figures for April 2014, up by 29% over the previous year. Over this period transactions were higher in 29 of the 32 local authority areas in Scotland, with only 3 areas, Aberdeen City, Inverclyde and the Shetland Islands, seeing the number of property sales fall. The local authority area with the highest increase in sales was West Lothian, up 45% over the previous year, with the sale of semi-detached, terraced and flatted properties all seeing increases of 45% or more in the numbers sold. Only detached properties were showing a smaller uplift of 34% in sales, possibly due to limited supply. West Lothian was followed by Stirling, which showed an increase of 44% in the number of properties sold during the period, with a particularly high number of detached properties changing hands, up by 68% on the same three months in 2013.

Looking at the sale of the different property types in Scotland during March 2014 - May 2014, compared to the same three months in the previous year, flats have seen an increase of 26% in the numbers sold, followed by terraces up 22%, detached up 21%, and finally semi-detached up by 18%. These figures suggest that first time buyers are still very much in evidence in the housing market, as flats and terraces are the property type of choice for this important market sector.



NOTES

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

Comparison of indices and RoS average prices

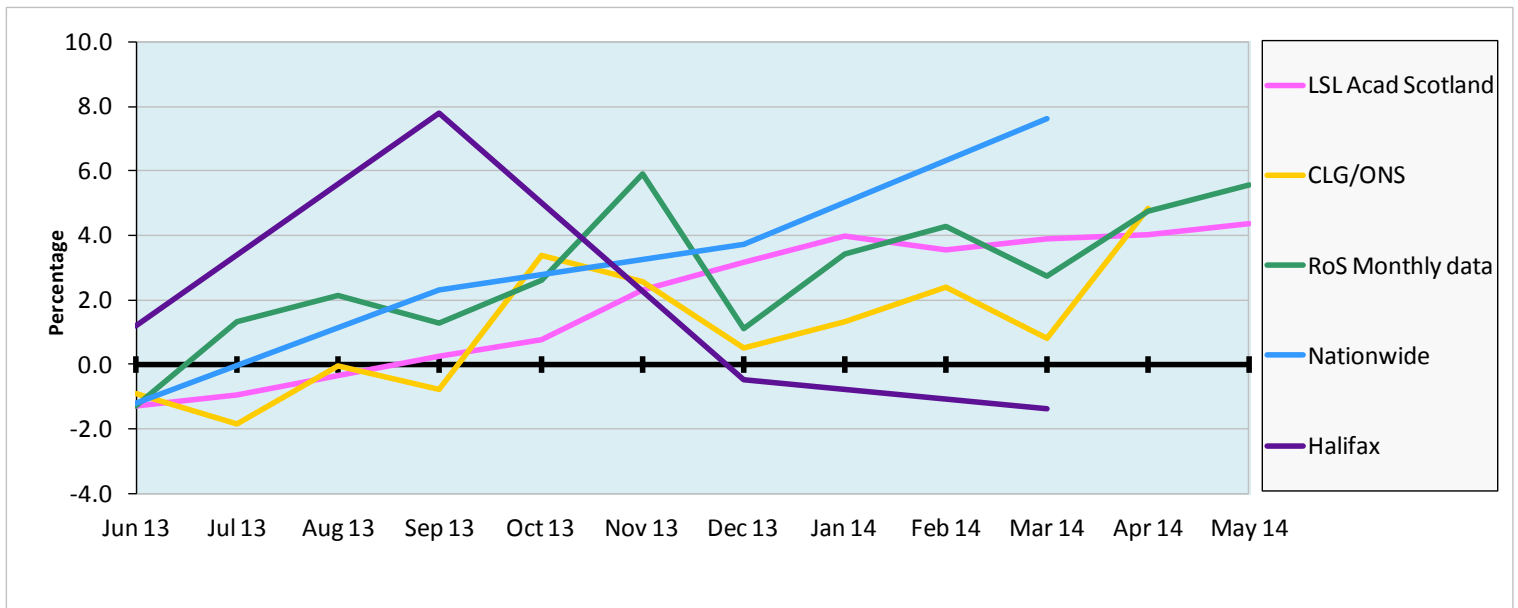


Figure 3. ANNUAL CHANGE IN HOUSE PRICES - COMPARISON OF INDICES AND RoS CHART

[link to source Excel](#)

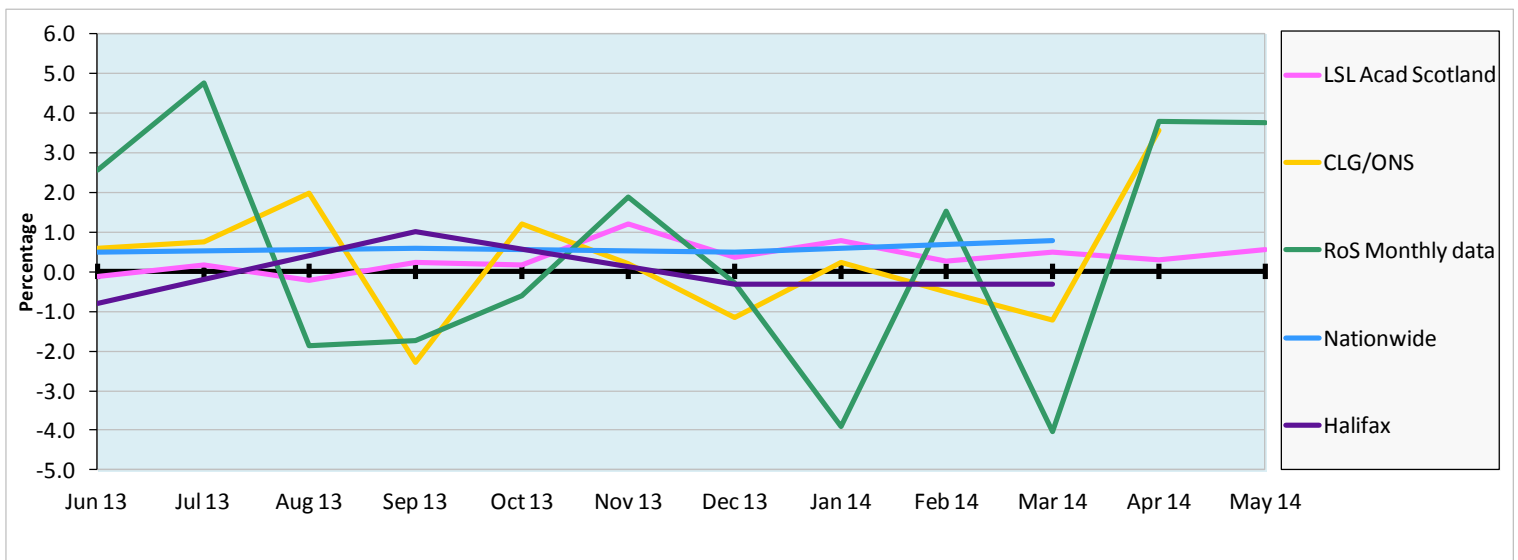


Figure 4. MONTHLY CHANGE IN HOUSE PRICES - COMPARISON OF INDICES AND RoS CHART

[link to source Excel](#)

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



Average House Price

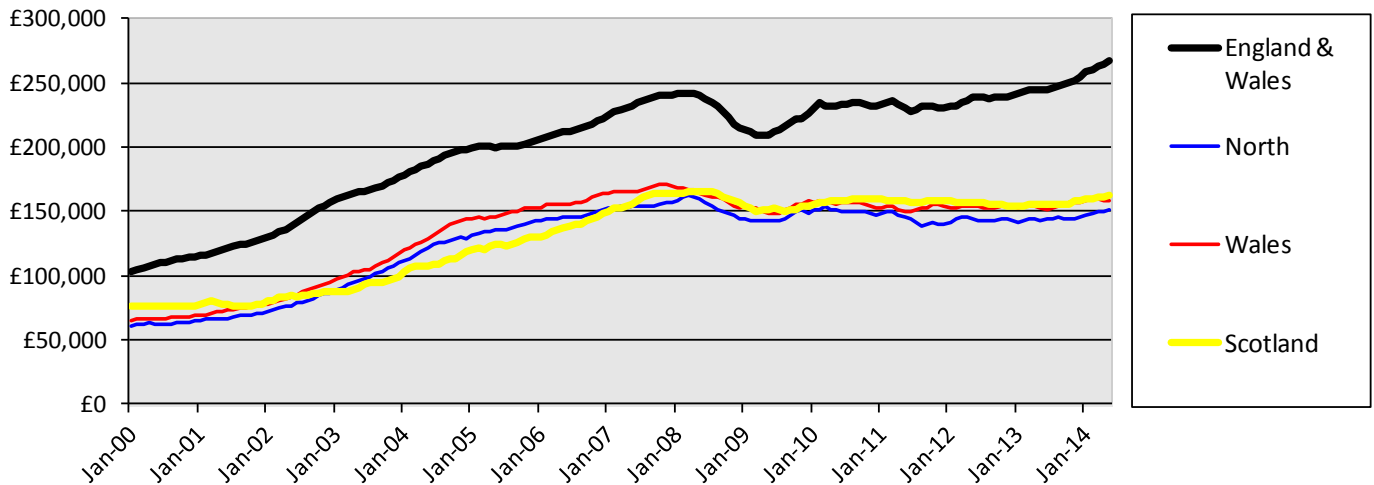


Figure 5. Scotland house prices, compared with England & Wales, Wales and the North for the period January 2000 - May 2014 [link to source Excel](#)

Annual % change in Average House Prices

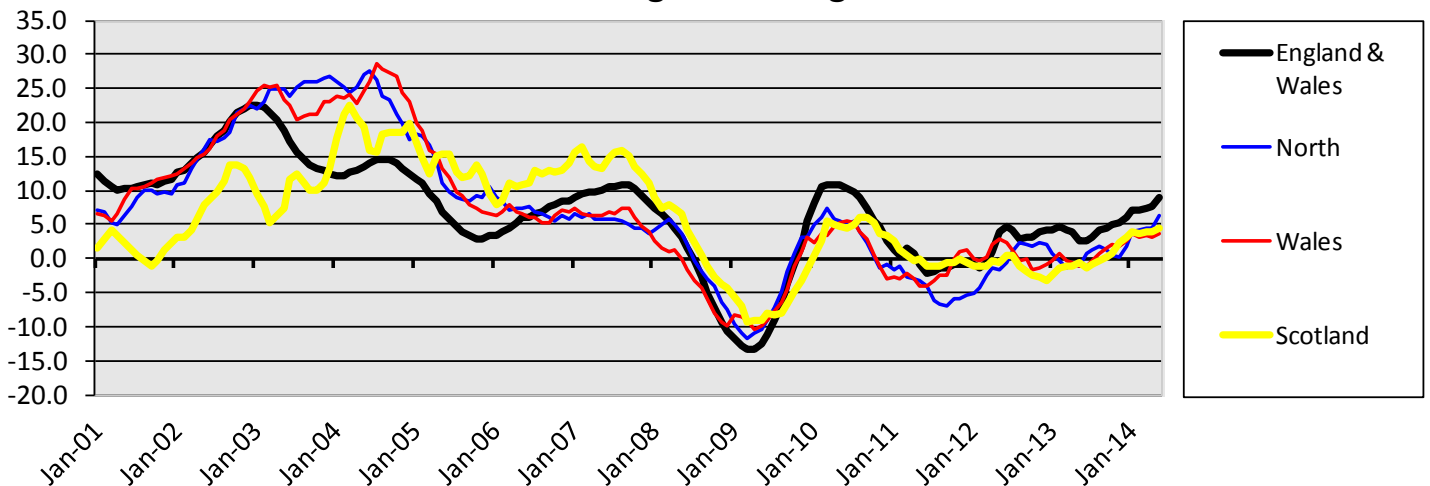


Figure 6. A comparison of the annual change in house prices in Scotland, England & Wales, Wales and the North for the period January 2001 – May 2014 [link to source Excel](#)

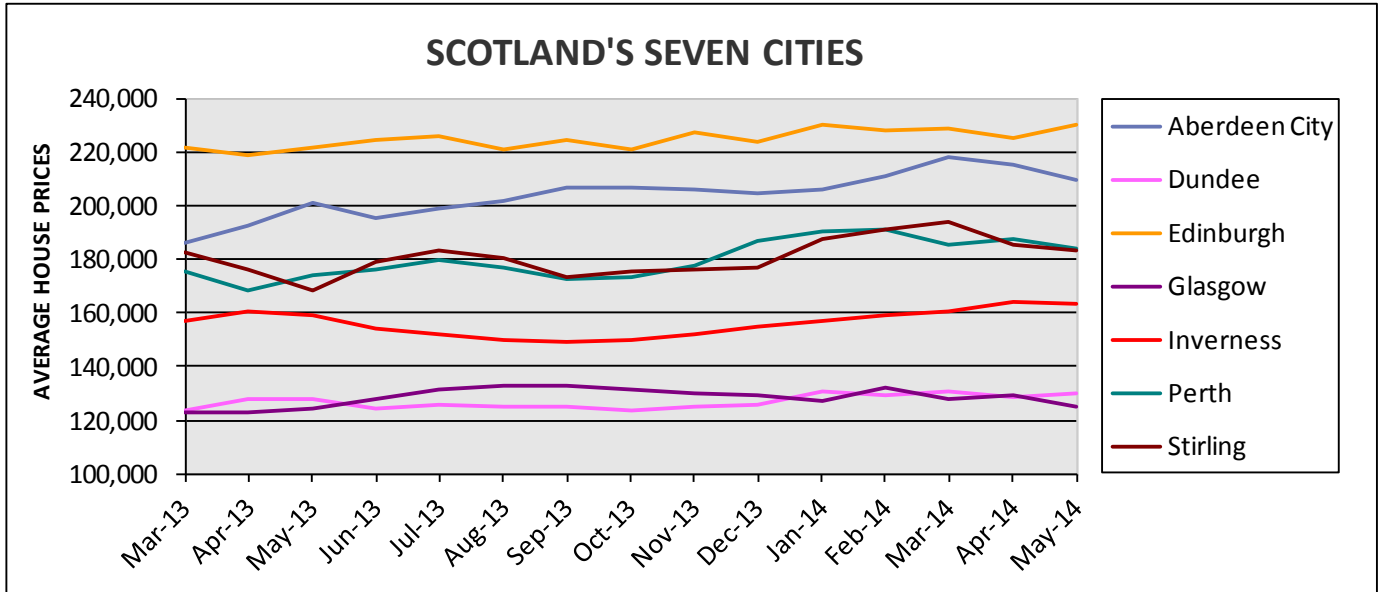


Figure 7. Average house prices for Scotland's seven cities from March 2013 – May 2014

[link to source Excel](#)

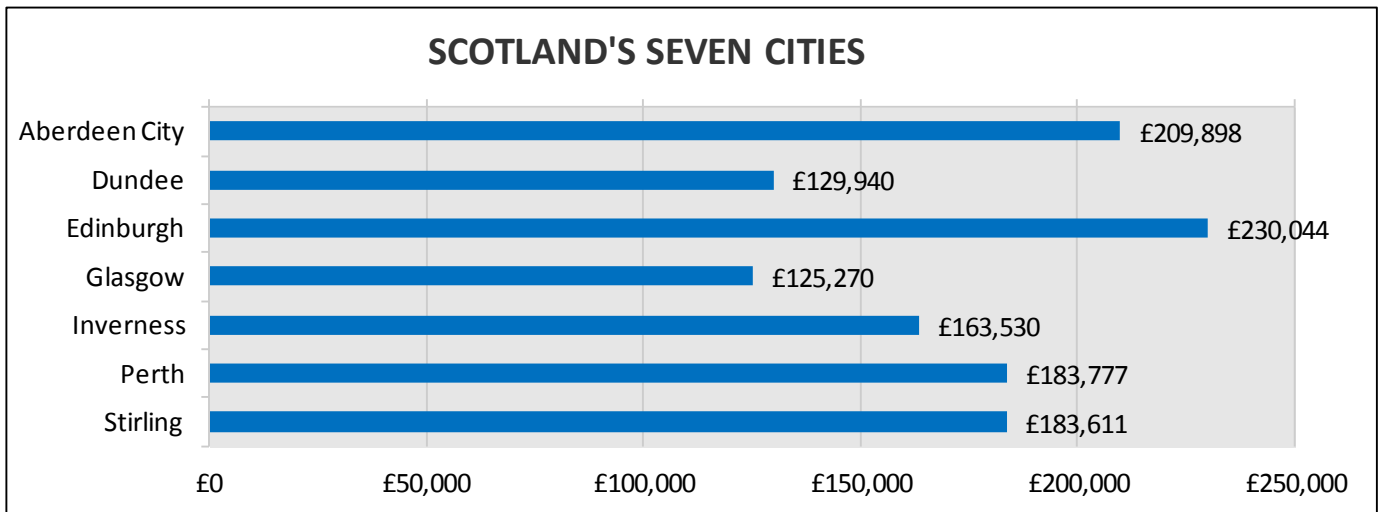


Figure 8. Average house prices for Scotland's seven cities May 2014

[link to source Excel](#)



1. LSL Acad Scotland HPI is derived from Registers of Scotland (RoS) house price data, seasonally and mix adjusted by property type. © Crown copyright material reproduced with the permission of Registers of Scotland. The prices are smoothed to show underlying trends. LSL Acad Scotland HPI includes cash purchase prices and is the only index based upon the complete, factual house price data for Scotland, as opposed to a sample.
2. Most indices employ data available to the provider as a result of its business; index methodologies are designed to exploit the advantages and overcome the disadvantages of each particular dataset; a valuation series (whether the values are professionally estimated at e.g. time of mortgage offer or by an estate agent) is not the same as a price series; a price series, such as LSL Acad Scotland HPI or ONS HPI, can be prepared only when the prices at which properties have been transacted have been recorded at RoS (LSL Acad Scotland HPI) or when firm prices at mortgage completion have been made available by lenders (ONS HPI); valuation series can be prepared whenever the data e.g. asking or mortgage offer prices are available to the provider; publicity accrues to those indices which are released first; indices published at or before month end are likely to employ data for the current and prior months. LSL Acad E&W HPI overcomes delay in the availability of all transactions for any given month from LR with an “index of indices” forecasting model, purpose developed by Dr Stephen Satchell Economics Fellow Trinity College Cambridge and Dr George Christodoulakis, then at the Sir John Cass Business School. Forecasting is assisted by the provision by LR of “emergent data”, being those current month transactions for which LR have received prompt notification.
3. The “emergent” data for Scotland necessary to repeat the E&W forecasting methodology are as yet unavailable from RoS, such that LSL Acad Scotland HPI incorporates no forecasting procedure. Whilst the LSL Acad Scotland HPI, like the LSL Acad E&W HPI, comprises a smoothed average of three months’ prices, the LSL Acad Scotland HPI average reflects prices at the month of the index and those for the prior two months and is ascribed to the month of the index i.e. the prices are “end month smoothed” (ems) and not “centre month smoothed” (cms) as applicable to the LSL Acad E&W HPI. Please note that:
 - we provide only a current month average price for England & Wales as a whole in our LSL Acad E&W HPI, and that prices at region and lower levels are lagged one month
 - RoS monthly data comprises some 98% of the transaction for the current month and c.99% for the prior monthHence, a smoothed average price using three months data ascribed to the index month (ems) for LSL Acad Scotland HPI provides the equivalent price, to all intents and purposes, to the centre month smoothed (cms) price at region/county level, lagged by one month, as provided by the LSL Acad E&W HPI. Our intention is to align the procedure for LSL Scotland HPI with that used for LSL Acad E&W HPI, as soon as the necessary data may be available. Meanwhile, an ems procedure allows the Scotland prices to be placed alongside the contemporaneous prices for E&W as a whole and for Wales as a whole, and those for the E & W regions for comparison purposes.
4. LSL Acad E&W HPI provides prices from January 2000. RoS national data were available only from January 2001 and the constituents of RoS data changed between then and April 2003, showing a significant step change in prices between March and April. ONS HPI quarterly data were used to construct LSL Acad Scotland HPI from January 2000 to April 2001 with straight line interpolations used to construct prices by month. Data for 11 local authorities were unavailable for the period January 2001 to April 2003 and were constructed by back-casting. The underlying data by property type, for months when no sales of a particular property type in a particular area were reported, were in-filled using the same procedure used in LSL Acad E&W and, by Eurostat, in preparing seasonal data.
5. Note that LSL Acad Scotland HPI is unable to identify different prices according to e.g. numbers of bedrooms; the lender hedonic indices and the ONS mix adjusted HPI do so. RoS data, and hence LSL Acad Scotland HPI, exclude commercial and thus auction sales, and do not reflect repossession prices on the grounds that such prices do not reflect those between a willing buyer and a willing seller.
6. LSL Acad Scotland HPI is prepared from RoS data using a methodology designed to provide a “true measure of house price inflation”; Acadata does not guarantee the accuracy of the LSL Acad Scotland HPI results and neither LSL nor Acadata shall be liable for any loss or damage, whatsoever, consequential upon any error, incorrect description of or inadequacy in the data; persons using the data do so entirely at their own risk; LSL Acad Scotland HPI is freely provided for publication with due attribution to Acadata. Permission is required for any commercial use of the data.
7. The monthly, smoothed, average RoS prices at local authority level provided at property type, which underlie LSL Acad Scotland HPI, together with historic data, can be purchased from Acadata.
8. LSL Acad E&W HPI was published under the name FTHPI from September 2003 until December 2009. Until the October 2013 LSL Acad E&W HPI was published, it was prepared by Acadametrics as was the LSL Acad Scotland HPI. Acadametrics then changed its name to Acadata to reflect its new focus entirely upon house price indices and data following its agreement to sell its 50% holding in MIAC Acadametrics to MIAC Analytics over a 4 year period.



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