

LSL Property Services/Acadametrics
Scotland
House Price Index

SEPTEMBER 2012

STRICTLY UNDER EMBARGO UNTIL 00.01 WEDNESDAY 14TH NOVEMBER 2012



Scottish house prices fall in September as market feels Olympic jetlag

- Prices fall by 2.9% annually, largest decline since November 2009
- House prices fell 0.3% in the month
- Housing transactions drop 17% in September compared to August

House Price	Index	Monthly Change %	Annual Change %
£143,406	194.4	-0.3	-2.9

Gordon Fowlis, regional managing director of Your Move, an estate agency chain that is part of LSL, comments: “House prices lost some of their altitude in September, but this wasn’t a simple case of the market losing thrust. The Scottish housing market was still jetlagged following the distraction of the Olympics, with the absence of buyers hitting the streets in August feeding through into a reduced number of sales in September. As fewer buyers competed for homes, reduced competition sent prices gliding down. Prices aren’t heading for a crash-landing however - we’ve already seen sales figures rebound in England & Wales, and Scotland’s likely to show a similar improvement in the last quarter of the year as buyers make up for lost ground over the summer.

“One-off factors aside, it’s clear that the housing market is still facing severe structural challenges. While the affordability of house prices has improved for the average Scottish buyer, the limited availability of mortgage finance is still a significant drag on activity, and the number of new buyers entering the market is still historically low.

“But there are reasons for optimism. The economy is growing once again, while inflation is slowing, which should help buyers’ spending power take off. On top of this, the government’s Funding for Lending is showing signs of helping the mortgage market start climbing again. While lenders’ ability to boost the number of first-time buyers to anything like pre-crunch levels is being hampered by capital adequacy requirements, any improvement in the lower tier will be felt throughout the wider housing market as chains are unlocked.

“That said, the national headline figure masks growing regional differences. While 22 regions have seen prices fall over the last year, 10 have bucked the trend, with Inverclyde and the Orkney Islands seeing annual rises of 5.5% and 5.4% respectively. The future performance of local markets in the long-term will be closely tied to the performance of their immediate economies and labour markets. A key factor in whether these micro-markets see prices rise or fall in 2013 will be how hard they are hit by new public sector austerity measures in the New Year. There are also clear signals from the Scottish Government that they wish to ‘travel their own road’ in respect of housing policy, and we are about to see an interesting ‘experiment’ as policy North of the border increasingly deviates from that in England & Wales. Time will tell which approach bears the most fruit.”

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 October 2011 - September 2012

[link to source Excel](#)

		House Price	Index	Monthly Change %	Annual Change %
October	2011	£147,710	200.3	0.0	-1.3
November	2011	£147,502	200.0	-0.1	-0.7
December	2011	£147,073	199.4	-0.3	-0.9
January	2012	£145,856	197.8	-0.8	-1.9
February	2012	£145,699	197.5	-0.1	-1.7
March	2012	£145,852	197.8	0.1	-1.3
April	2012	£146,272	198.3	0.3	-0.6
May	2012	£146,039	198.0	-0.2	-0.7
June	2012	£146,055	198.0	0.0	-0.1
July	2012	£145,596	197.4	-0.3	-0.5
August	2012	£143,869	195.1	-1.2	-2.1
September	2012	£143,406	194.4	-0.3	-2.9

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

The average price paid for a house in Scotland in September 2012 fell £463, or down 0.3% compared with August. Over the last twelve months, prices for the month have climbed on two occasions, have remained the same twice and have fallen eight times. The average house price of £143,406 has now returned to its October 2009 figure, at the time when prices were recovering from the housing crisis of 2008.

On an annual basis, average house prices in Scotland have fallen by 2.9%, which is the largest fall seen on an annual basis since November 2009. The annual rate of change in house prices has been negative for the last twenty months, a statistic only shared by the North West among the regions of England & Wales, all the other regions having seen a degree of positive movement in annual prices at some point over the last twelve months. The largest fall in regional house prices in England & Wales currently stands at -1.5%, again in the North West.

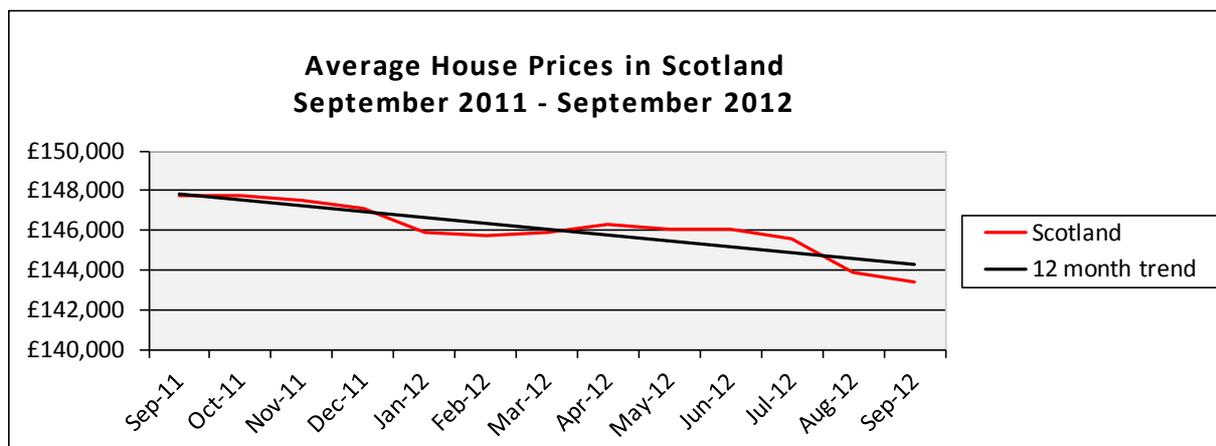


Figure 1. Average house prices in Scotland, September 2012 – September 2012

[link to source Excel](#)

The above graph shows the seasonally adjusted average house price in Scotland for the period September 2011 to September 2012, together with a trend line over the twelve months. As can be seen, the trend shows a fall in prices from £148K at the start of the period down to £144K at the end, a decline of 2.7%. Currently, house prices are below the trend, but there have been a number of minor oscillations around the trend over the last twelve months, so an upward movement in prices over the next few months is a distinct possibility.

One of the features of the market in September was the reduction in the number of properties sold in the month. In its press release the Registers of Scotland stated “The national picture for July to September 2012 shows 19,868 properties were sold. This is the lowest volume of sales in this quarter since records began in 2003 and is less than half the number of properties sold in Scotland when the market was at its peak in 2007/8”. Whilst we don’t disagree with the statistics quoted, we think it might have been helpful to add that a major reason for the decline in sales over this period was the Olympics. The games had the effect of slowing down housing sales, since prospective purchasers tended to stay at home watching the games rather than viewing properties. Similar behaviour in the housing markets was observed in England & Wales, where housing transactions fell by 17% between August & September, a figure exactly matching that of Scotland. As a matter of interest, property sales rebounded in England & Wales in October, as a ‘catch-up’ took place on September’s ‘missing’ sales.

So where next for the housing market? Following the decline in the UK’s GDP in the second quarter, there was a sharp 1% increase in the third quarter, though partly accounted for by that single event, the Olympics. With recent increases in employment and real incomes there may be some grounds for optimism, but sentiment generally remains stubbornly downbeat. The Bank of England MPC has suggested inflationary pressures might pick up again later this year on the back of anticipated rises in food and fuel bills, and we know that wide-ranging welfare cuts will start to work their way through the system over the next 12 months. All this uncertainty and the accompanying constraints act to hold back consumers, and there now seems little likelihood of any sustained recovery in housing market sentiment until late 2013 or 2014 at the earliest.

House prices analysis



Table 2. Average House Prices in Scotland, by local authority area, comparing September 2011 with September 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	Sep-11	Sep-12	% Change
1	1	Edinburgh, City of	218,535	216,792	-0.8%
2	3	East Lothian	205,296	214,461	4.5%
3	2	Aberdeenshire	206,725	199,183	-3.6%
4	6	East Dunbartonshire	182,549	187,711	2.8%
5	4	East Renfrewshire	194,834	184,573	-5.3%
6	5	Aberdeen City	183,501	176,001	-4.1%
7	7	Stirling	170,245	172,889	1.6%
8	8	Perth & Kinross	169,239	166,823	-1.4%
9	10	Scottish Borders	153,998	149,838	-2.7%
10	12	Highland	149,805	145,806	-2.7%
11	9	Midlothian	156,766	140,373	-10.5%
12	11	Argyll & Bute	152,761	139,603	-8.6%
13	18	Moray	131,122	137,599	4.9%
14	15	Clackmannanshire	136,303	137,090	0.6%
15	13	South Ayrshire	141,419	134,544	-4.9%
16	14	West Lothian	136,733	129,476	-5.3%
17	20	Angus	128,944	128,993	0.0%
18	16	Fife	133,606	128,191	-4.1%
19	19	Dumfries & Galloway	129,707	126,914	-2.2%
20	17	Glasgow City	132,141	124,916	-5.5%
21	24	Orkney Islands	115,608	121,899	5.4%
22	26	Inverclyde	112,246	118,367	5.5%
23	23	Dundee City	116,255	118,257	1.7%
24	21	South Lanarkshire	121,746	117,230	-3.7%
25	25	Shetland Islands	112,796	111,899	-0.8%
26	27	Falkirk	110,641	106,002	-4.2%
27	28	East Ayrshire	109,195	102,986	-5.7%
28	29	North Ayrshire	107,999	101,939	-5.6%
29	30	Renfrewshire	107,784	100,284	-7.0%
30	22	West Dunbartonshire	117,608	97,768	-16.9%
31	31	North Lanarkshire	99,023	97,387	-1.7%
32	32	Eilean Siar	91,563	93,499	2.1%
		All Scotland	147,731	143,406	-2.9%

Table 2 shows the average house price by local authority area in Scotland in September 2011 and September 2012, along with the percentage change in these prices for the year. Although average prices have fallen over the year by 2.9% in Scotland as a whole, we see a range of price movements from +5.5% (Inverclyde) to -16.9% (West Dunbartonshire) in individual areas. Of the 32 local authority areas in Scotland, 10 have seen prices rise and 22 have seen falls over the year, a statistic similar to that of last month.

The local authority area with the highest gain in house prices over the year to September was Inverclyde, with three detached properties in Kilmacolm being sold in the month, helping to raise the average price recorded in the area. This month, as last month, the area with the largest decline in property prices was West Dunbartonshire, down 16.9%. However, on investigation it is clear that this fall in prices has more to do with an exceptional August last year, when two properties in the area were sold for prices at the top end of the Scottish market, rather than a serious decline in the prices currently being achieved. To help smooth the variation in prices that occur each month, we use an average of three months data to calculate our figures, which explains why August prices can still affect our September calculations.

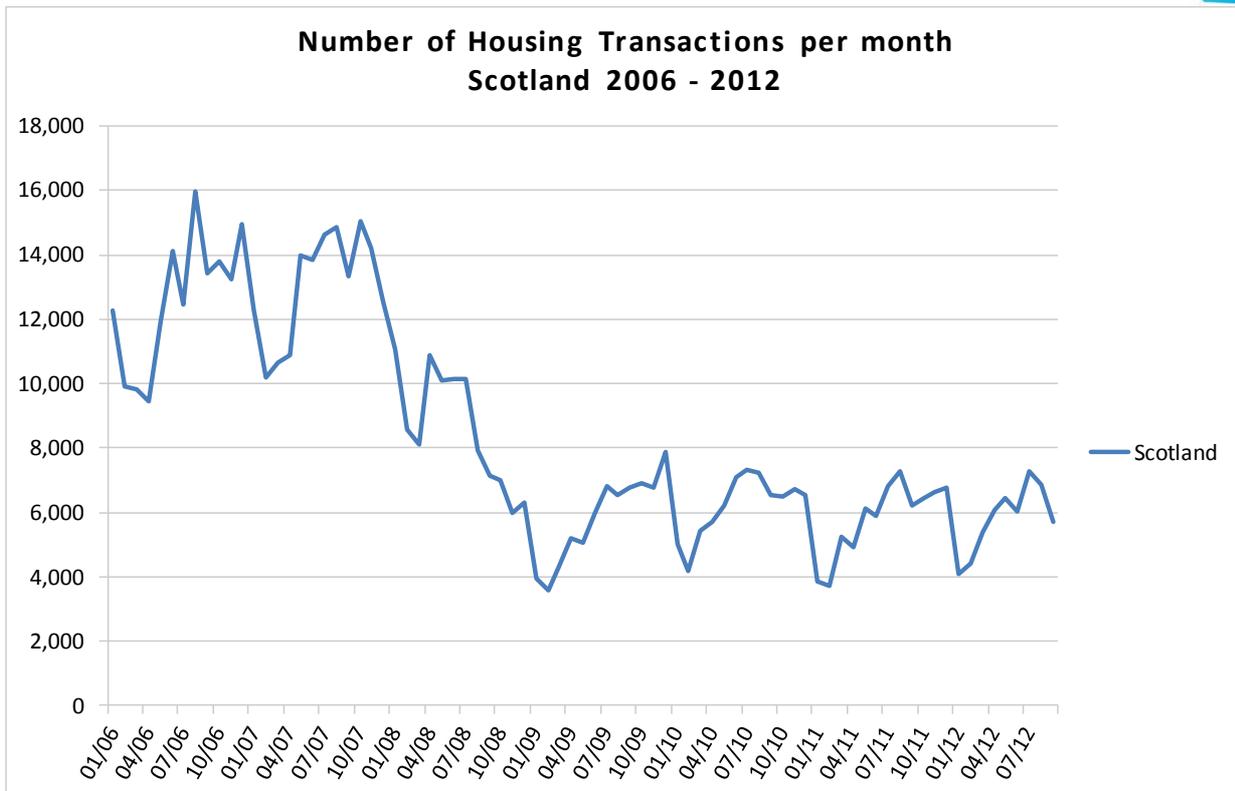


Figure 2. The number of housing transactions by month in Scotland, 2006 - 2012 (not seasonally adjusted)

[link to source Excel](#)

The above graph shows the number of monthly transactions recorded by the Registers of Scotland (RoS) for the period January 2006 to September 2012, without seasonal adjustment. Over the last ten years, there have been on average 700 fewer property sales, or -7%, in September than in August. This is largely a factor of families taking their holidays in August, which results in fewer sales completions being recorded in September. However, this year 1,143 fewer homes were sold in September than in August, which equates to a 17% reduction over the month. A similar reduction of 17% in the number of homes sold in September was also experienced in England & Wales, which was due to the Olympics in August, with viewers watching the games rather than viewing properties; this had a knock-on effect on housing completions in September. If Scotland follows the pattern observed in England & Wales, house sales will rebound in October, as a 'catch-up' for September's lost activity. Despite a weak third quarter, sales for the first nine months of this year are up 4% on last year.

Activity in September 2012 was 8% down on September 2011, largely due to the effect of the Olympic Games. Interestingly the Olympics appear to have had varying effects on the purchases of the different property types. The number of detached properties sold in the month was down 8% on the previous year, which matched the overall average decline in properties sold in the month. The number of terraced properties sold fell by 12%, an above-average decline, while the number of semi-detached properties and flats only fell by 4% and 3% respectively. We leave the possible causes for the differences in the purchasing habits of the Scottish populace by property type to the sociologists.

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. Acadometrics is an independent privately owned consultancy working with Dr Stephen Satchell, Economics Fellow Trinity College Cambridge, and specialises in the assessment of risk in property and mortgage portfolios.

Comparison of indices and RoS average prices

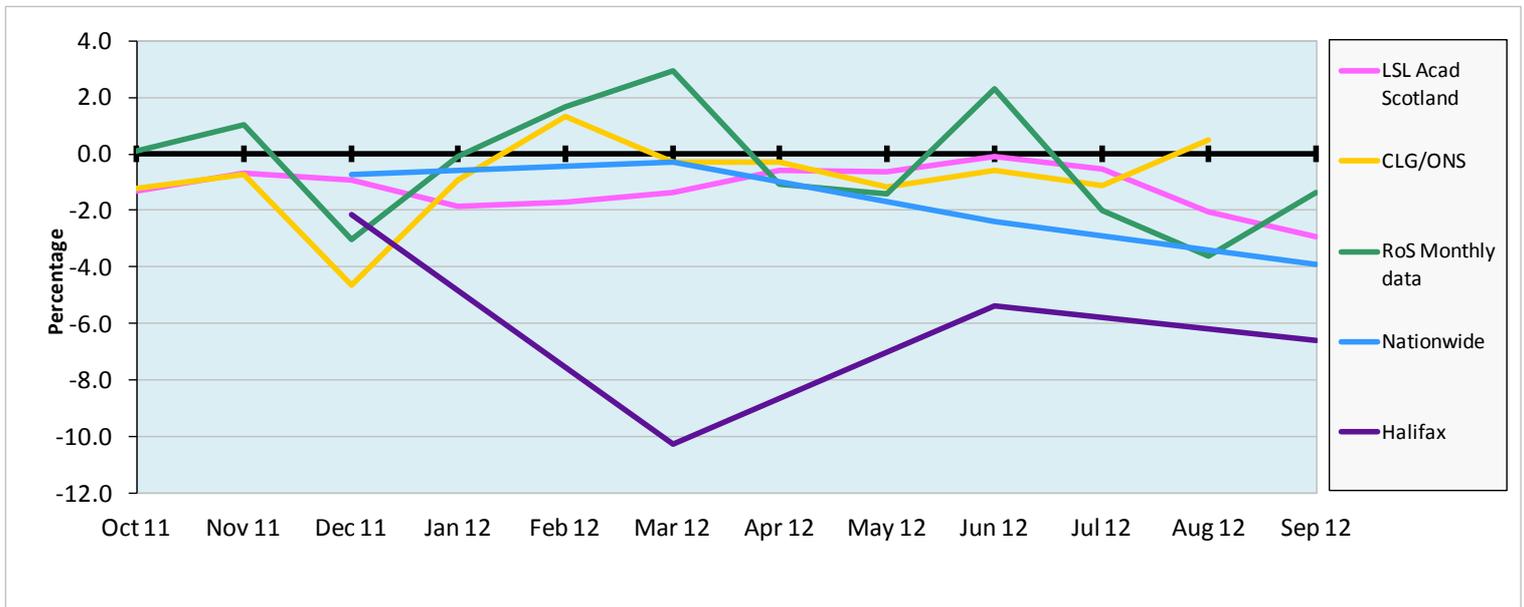


Figure 3. ANNUAL CHANGE IN HOUSE PRICES - COMPARISON OF INDICES AND RoS CHART

[link to source Excel](#)

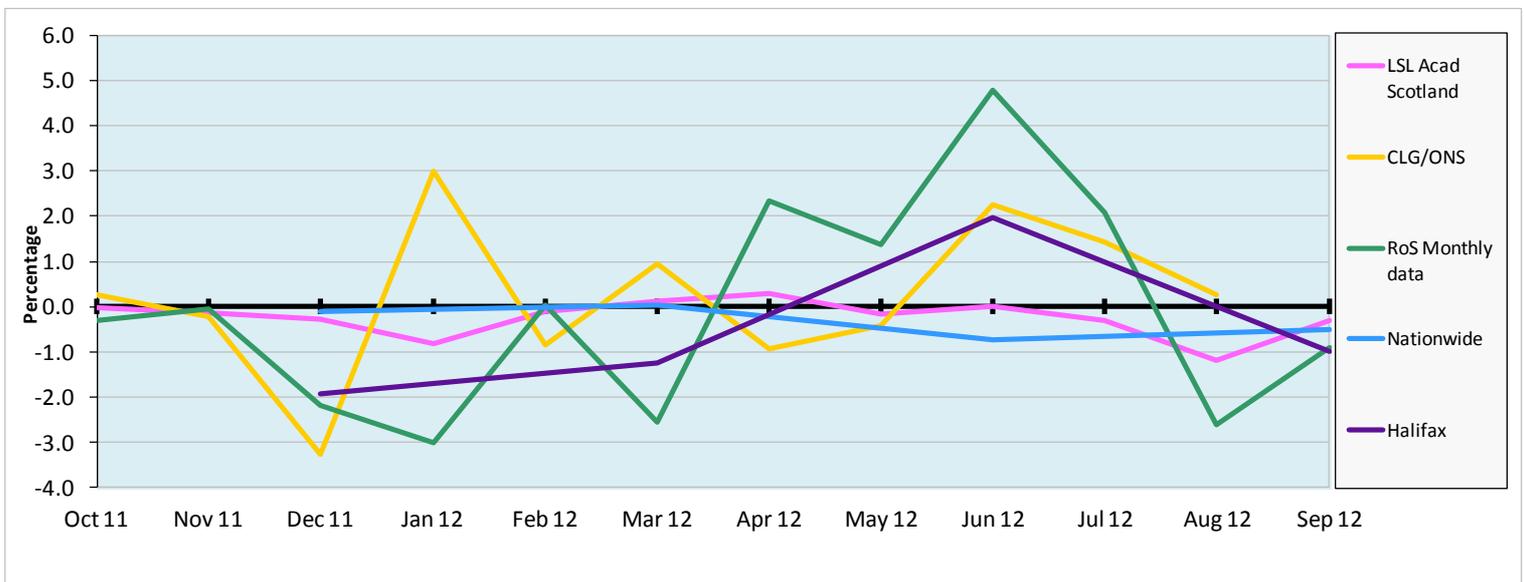


Figure 4. MONTHLY CHANGE IN HOUSE PRICES - COMPARISON OF INDICES AND RoS CHART

[link to source Excel](#)

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

Comparisons with Scotland



Average House Price

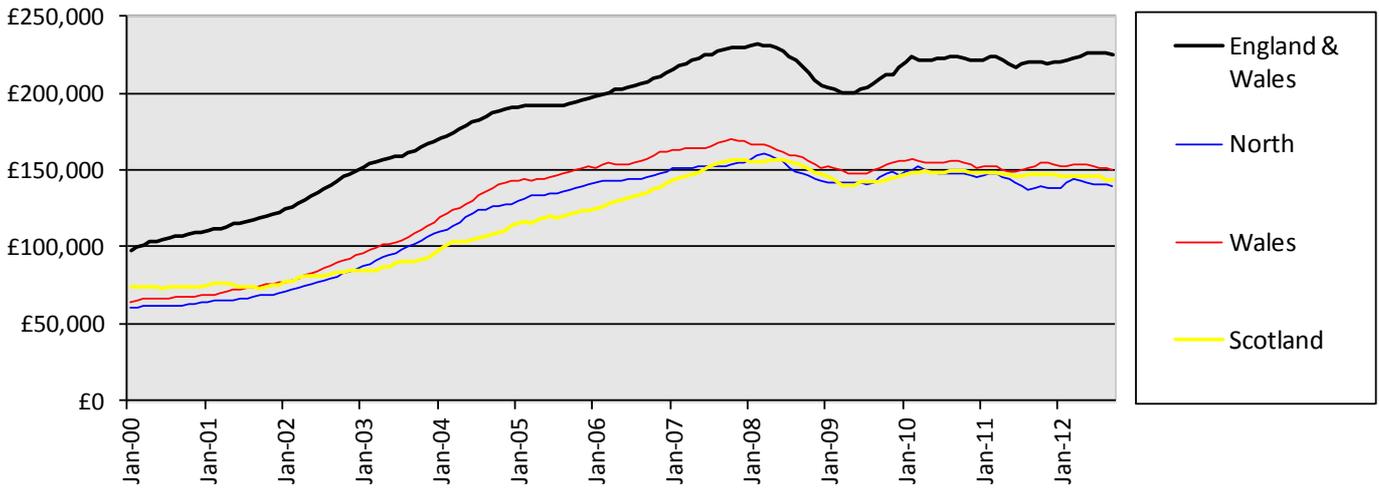


Figure 5. Scotland house prices, compared with England & Wales, Wales and the North for the period January 2000 – September 2012 [link to source Excel](#)

Annual % change in Average House Prices

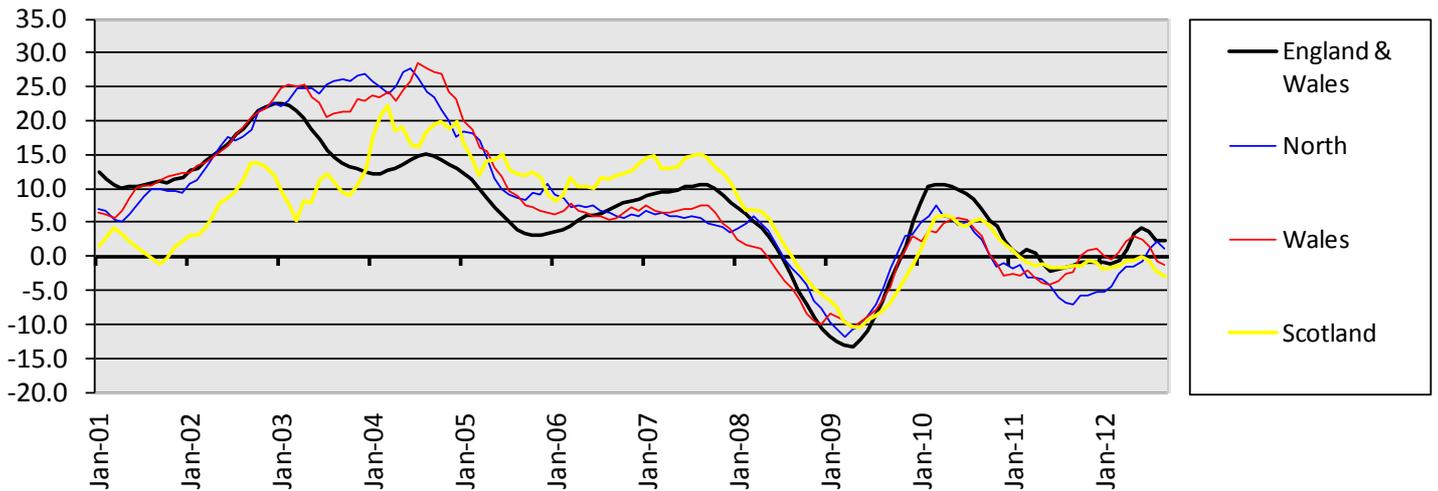


Figure 6. A comparison of the annual change in house prices in Scotland, England & Wales, Wales and the North for the period January 2001 – September 2012 [link to source Excel](#)

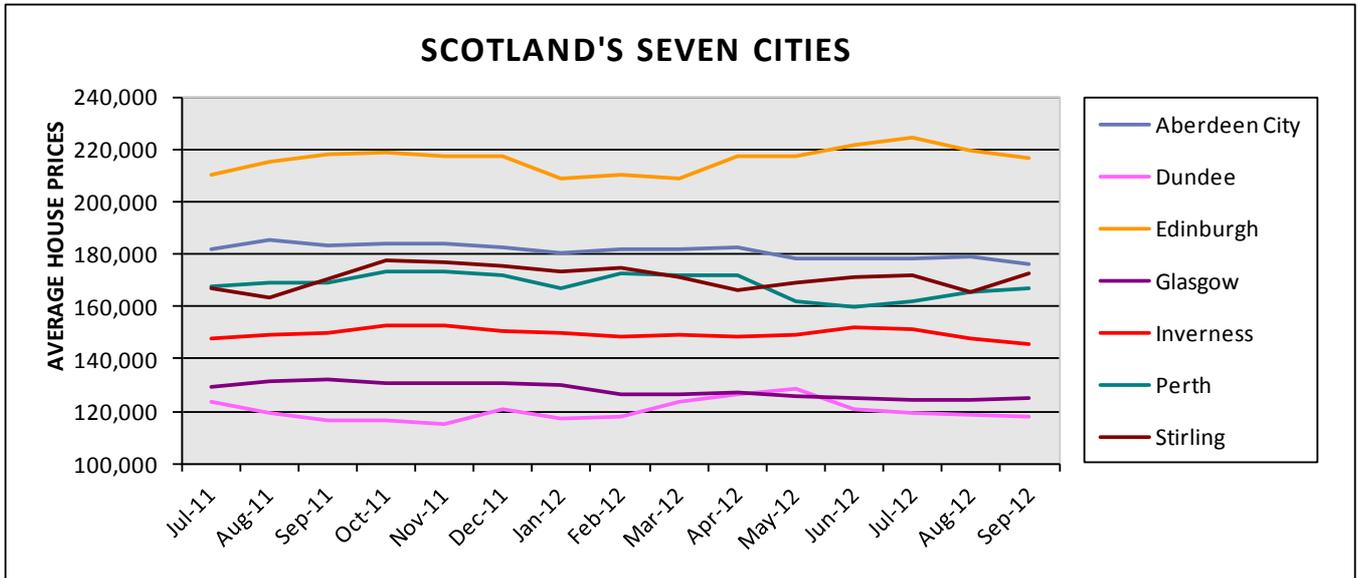


Figure 7. Average house prices for Scotland's seven cities from July 2011 – September 2012

[link to source Excel](#)

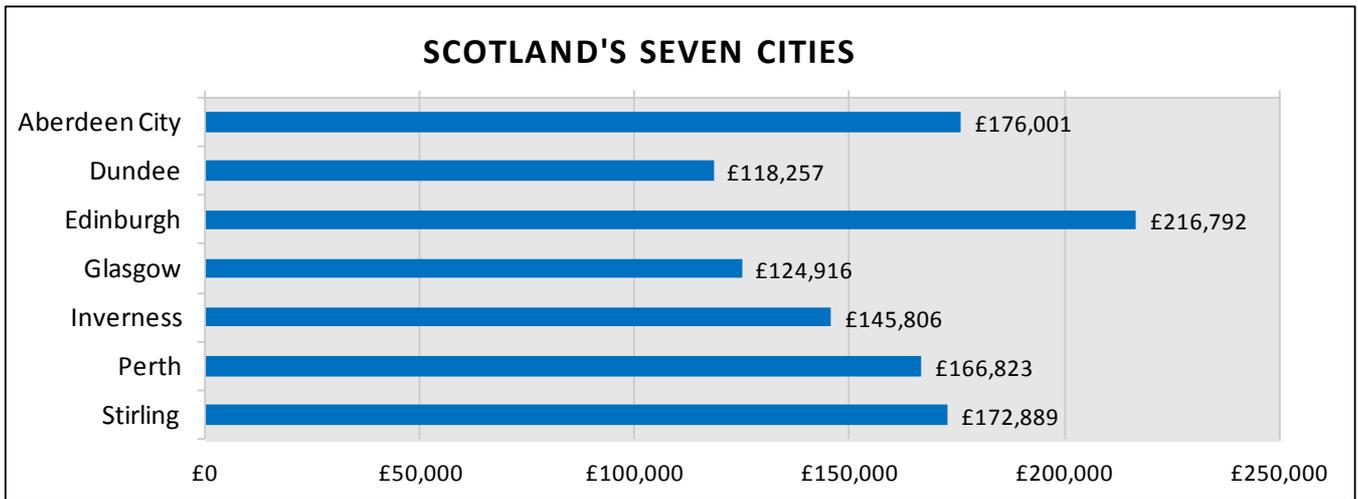


Figure 8. Average house prices for Scotland's seven cities September 2012

[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