

LSL Property Services/Acadata
Scotland

House Price Index

SEPTEMBER 2014

STRICTLY UNDER EMBARGO UNTIL 00.01 WEDNESDAY 19TH NOVEMBER 2014



Home sales recover in September, but prices slip

- Annual sales growth jumps to 15% in September as vote ends independence uncertainty
- Average Scottish house prices fell 0.4% or £587 over the month, slowing annual change to just 5.1%
- Prices drop at the top end of the market in Edinburgh and Aberdeenshire

House Price	Index	Monthly Change %	Annual Change %
£163,630	214.3	-0.4	5.1

Christine Campbell, regional managing director of Your Move, comments: “Following almost a year of fair winds and steadfast price rises, this is the second month in succession to muddy the waters, with average property values in Scotland falling a further 0.4% in September. Two of the most expensive areas of the country saw the tide turn, with prices in Edinburgh dropping 1.3% during September, and Aberdeenshire seeing a slump of 1.2% over the month – reflecting the ripples in evidence in prime central areas of London, as the top tier of the housing market experiences the keenest downturn.

“While Scottish house prices have sailed up nearly £8,000 in the last twelve months overall, the rate of annual growth appears to have changed tack, easing back to 5.1% in September from 5.8% in August. Since June, the monthly pace of house price growth has ebbed away, as doubt raged over the future of Scotland within the United Kingdom, and touched the brakes on activity in the housing market.

“However, these shifts we’re seeing on the surface haven’t uprooted the solid foundations of the recovery, with average house prices across 81% of Scotland standing taller than a year previously. East Renfrewshire towers ahead in terms of annual price growth, with property values soaring 13.4% in the year to September 2014, and new price peaks were reached in East Lothian and Aberdeen City, as activity continues to build. The price of a detached home in Aberdeen City has risen by an average £15,000 over the last three months, to total £410,000.

“September also saw sales snap back after the vote put the lid on uncertainty, and transactions were up 15% year-on-year, compared to only 7% growth over the twelve months to August. After the ground that was lost in August, renewed demand saw more vigorous activity buck the usual seasonal pattern, and this was the strongest September for house sales in seven years.”

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 September 2013 – September 2014

[link to source Excel](#)

		House Price	Index	Monthly Change %	Annual Change %
September	2013	£155,671	203.9	0.2	0.3
October	2013	£155,946	204.2	0.2	0.8
November	2013	£157,861	206.7	1.2	2.3
December	2013	£158,388	207.4	0.3	3.1
January	2014	£159,634	209.1	0.8	3.9
February	2014	£160,073	209.6	0.3	3.5
March	2014	£160,920	210.8	0.5	3.9
April	2014	£161,419	211.4	0.3	4.1
May	2014	£162,314	212.6	0.6	4.4
June	2014	£164,125	215.0	1.1	5.8
July	2014	£164,507	215.5	0.2	5.7
August	2014	£164,217	215.1	-0.2	5.8
September	2014	£163,630	214.3	-0.4	5.1

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

In September, house prices in Scotland fell on a seasonally adjusted basis by £587, or 0.4%, to £163,630. This is the second month in succession that we have seen prices fall, after a run of eleven months of price rises. The fall in prices goes against the trend seen in England & Wales, where all regions saw prices increase in September, except for the North and East Anglia, where prices fell by 0.2% and 0.1% respectively. However, we can note that all regions in England & Wales saw a decline in the rate of growth of house prices during the month, with the exception of the North West,.

In Greater London in September there was a noticeable trend that prices in the most expensive parts of the capital, the prime central locations, were starting to decline, with five of the top six most expensive boroughs seeing price falls in the month. In Scotland, only two of the top six local authority areas saw a decline in prices in the month, although this did include Edinburgh where prices fell by 1.3%, perhaps mirroring the sentiment currently being experienced in central London.

On an annual basis, house prices have increased by £7,960 or 5.1%, which is 0.7% lower than last month. However, as we show on page 4, positive annual house price movements are currently being witnessed in 26 of the 32 local authority areas. Although this is one less area than last month, it still gives an indication of the extent to which house price increases have been experienced over the year in nearly all parts of Scotland.

On an annual basis, prices have risen by an average 8.7% in the top quartile of local authority areas ranked by price. This contrasts with an average 1.4% price increase for the lowest quartile of local authority areas ranked by price. It therefore suggests that rising house prices are associated with higher priced properties – a trend that is also observable in England & Wales, except in Greater London. Here, the lower priced boroughs are seeing strong price growth, but in the higher priced boroughs, prices are starting to wane.

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 a gentle rise in prices, but in November 2013 the market appears to have shifted up a gear with a rise of 1.2% in the month. Subsequently, prices have tracked the trend line on a near straight-line basis until June 2014, when there was another significant climb in prices, by 1.1%. Since June, the rate of growth in prices has reduced each month, possibly being due to uncertainties associated with the referendum, taking current prices below the trend line, at least for the time being.

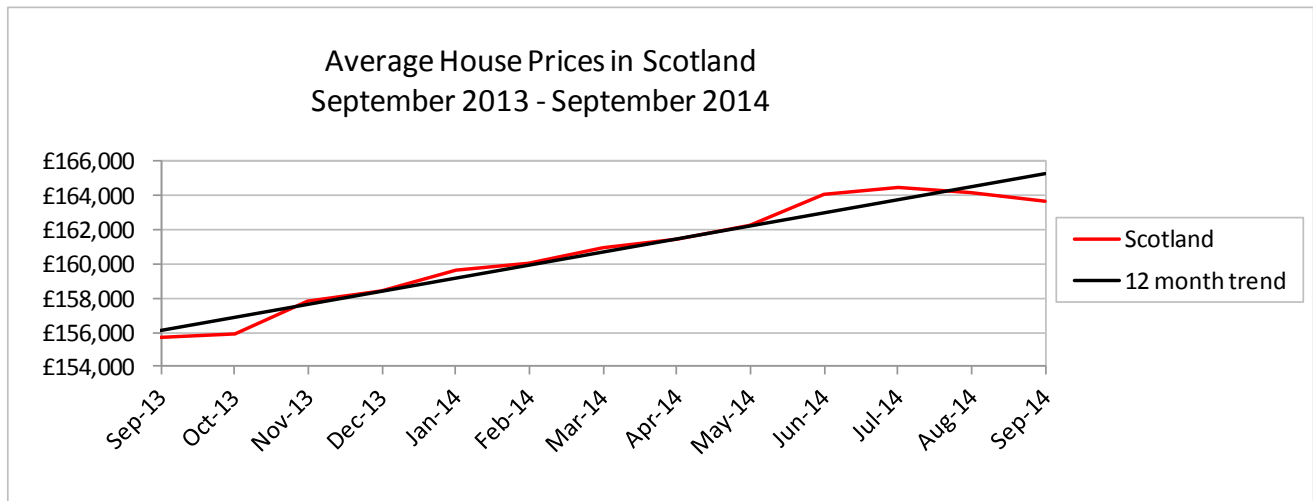


Figure 1. The average house price in Scotland, September 2013 – September 2014.

[link to source Excel](#)

During September, the number of housing transactions was higher than anticipated, making up for the lower than expected figures in August, which were a consequence of uncertainties in the market arising from the independence referendum. Overall, Q3 2014 saw a 9% increase in sales compared to Q3 2013. The Q3 figure does however show a slowing in the expansion of sales from earlier in the year, when during both Q1 and Q2 2014, sales were running 22% above the equivalent quarter in 2013.

Following the announcements in October by the Cabinet Secretary for Finance, Employment and Sustainable Growth on the new Land and Buildings Transaction Tax, we anticipate that over the next six months there will be an increase in the number of transactions involving properties valued above £325k. It is here that tax savings can be made by ensuring that completion of the purchase takes place before 01/04/2015. However, there is also likely to be a postponement in the purchase of properties in the price band £250k - £300k, where tax can be saved by delaying the purchase until April 2015.

House prices analysis



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

RANK BY PRICE	PRIOR YR RANK	LOCAL AUTHORITY AREA	Sep-13	Aug-14	Sep-14	% Monthly Change	% Annual Change
1	1	Edinburgh, City of	224,600	241,923	238,747	-1.3%	6.3%
2	4	East Renfrewshire	204,336	230,355	231,754	0.6%	13.4%
3	3	Aberdeen City	206,856	222,204	225,446	1.5%	9.0%
4	2	Aberdeenshire	212,648	225,470	222,727	-1.2%	4.7%
5	6	East Lothian	198,712	220,449	221,282	0.4%	11.4%
6	5	East Dunbartonshire	201,759	208,961	210,821	0.9%	4.5%
7	8	Perth & Kinross	172,468	187,477	191,870	2.3%	11.3%
8	7	Stirling	173,598	191,062	189,617	-0.8%	9.2%
9	10	Midlothian	167,748	168,844	172,691	2.3%	2.9%
10	9	Scottish Borders	169,638	167,051	163,467	-2.1%	-3.6%
11	11	Highland	148,911	158,059	160,774	1.7%	8.0%
12	14	Moray	137,752	148,261	148,540	0.2%	7.8%
13	15	West Lothian	136,931	144,676	146,716	1.4%	7.1%
14	16	Angus	135,063	145,246	143,447	-1.2%	6.2%
15	12	South Ayrshire	144,364	144,868	139,679	-3.6%	-3.2%
16	17	Fife	134,270	135,000	136,979	1.5%	2.0%
17	18	Glasgow City	132,868	135,112	134,216	-0.7%	1.0%
18	13	Argyll & Bute	141,515	136,854	133,998	-2.1%	-5.3%
19	22	South Lanarkshire	124,675	134,351	131,403	-2.2%	5.4%
20	20	Dumfries & Galloway	129,891	130,611	130,277	-0.3%	0.3%
21	24	Orkney Islands	119,689	138,146	129,498	-6.3%	8.2%
22	21	Clackmannanshire	129,348	124,330	129,382	4.1%	0.0%
23	25	Falkirk	117,141	125,977	127,131	0.9%	8.5%
24	27	Renfrewshire	113,676	130,456	124,760	-4.4%	9.8%
25	23	Dundee City	124,440	125,645	124,202	-1.1%	-0.2%
26	19	Shetland Islands	131,419	117,810	118,257	0.4%	-10.0%
27	29	West Dunbartonshire	110,124	118,564	116,161	-2.0%	5.5%
28	26	Inverclyde	116,905	122,819	115,513	-5.9%	-1.2%
29	30	North Lanarkshire	108,606	112,079	113,624	1.4%	4.6%
30	28	East Ayrshire	112,287	116,667	113,517	-2.7%	1.1%
31	31	North Ayrshire	105,081	113,930	113,413	-0.5%	7.9%
32	32	Eilean Siar	93,946	96,998	97,241	0.3%	3.5%
		All Scotland	155,671	164,217	163,630	-0.4%	5.1%

Table 2 above shows the average house price and percentage change (over the last month and year) by Local Authority Area for September 2013, August 2014 and September 2014. In September 2014, prices fell overall by an average 0.4% in the month, with lower prices in 17 of the 32 Local Authority Areas (last month 17), on a seasonally adjusted basis. Looking at the change in prices in the month, Clackmannanshire saw the highest rise in prices at 4.1%, but low transaction numbers in the area tend to produce large movements in percentage change, which don't necessarily reflect any general trend. The next highest rise in monthly prices was in Midlothian, at 2.3%, where a number of modern terraced properties in Bonnyrigg have been sold: this has raised the average prices in the area.

On an annual basis, prices have risen in 26 of the 32 local authority areas, which is one less than last month. The area with the highest increase in average house prices over the year is East Renfrewshire, where prices have risen by 13.4%. As can be seen from the above league table, East Renfrewshire has moved up the ranks from being the fourth most expensive area for housing in Scotland into second position, with both detached and semi-detached properties seeing a significant rise in average prices over the year.

Last month, East Lothian and Aberdeen City set new peaks in their average house prices, and with both these local authority areas seeing house prices rise further in the month, two new peaks have again been reached. The sale of flats in North Berwick has been strong over the last three months, where average prices for such properties are frequently in excess of £250k: this has helped East Lothian continue to set record average prices. Aberdeen City is frequently ranked first in terms of the monthly average price for detached properties, and with detached prices rising by an average £15k to £410k over the last three months, one can understand why new peak prices are being seen in the city.

In the above table, the top quartile by average house price has seen house price inflation of 8.7%, while the bottom quartile has seen inflation of 1.4%, reflecting the trend that higher priced houses are experiencing higher price rises.

Housing transactions



The number of transactions in September 2014 recorded by the Registers of Scotland was 8,592, up 1% on August 2014 and 15% higher than September 2013. On a seasonal basis, using statistics from the last 11 years, one can anticipate that sales in September will fall by 6% on August levels, so this year the 1% rise reflects an increase in demand above the norm. This is likely to have been a knock-on effect from the unseasonal fall in sales in August, which was a consequence of uncertainties in the market just prior to the referendum on independence. The uptick in sales in September can therefore be considered as compensation for the shortfall in sales in August. The 15% rise on September 2013 indicates the strength of the current housing market compared to last year. Indeed, the September 2014 level is the highest figure for the month of September since 2007, some seven years ago.

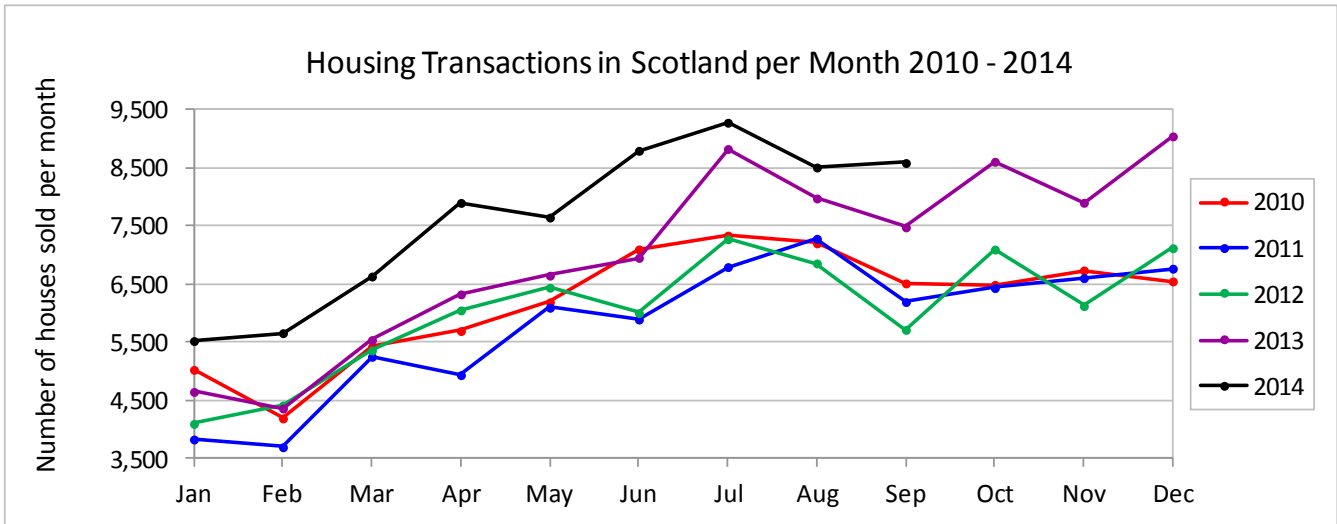


Figure 2. The number of housing transactions by month in Scotland, 2010 - 2014 (not seasonally adjusted)
Source: Registers of Scotland

[link to source Excel](#)

Figure 2 above shows a five year history of the number of housing transactions in Scotland, covering the period January 2010 – September 2014. We can see that the monthly level of transactions in 2014 has been consistently higher than the previous four years. One can also discern that the increase in sales in September 2014 has gone against the trend, with sales in the previous four Septembers, 2010 – 2013, all being lower than the preceding August.

Sales in the period Q1 – Q3 2014 are up 17% on the same period in 2013. Ordinarily we would expect this trend to continue for the remainder of the year. However, we have the complication of the Land and Buildings Transaction Tax (LBTT) which was announced by the Cabinet Secretary for Finance, Employment and Sustainable Growth on 9th October 2014, to consider. This is to replace the existing Stamp Duty Land Tax (SDLT) from 1st April 2015. At the time of the announcement of the new tax, the minister stated that 90% of taxpayers will be no worse off than under the existing SDLT. The break-even position in terms of taxation is on houses costing £325k, with the tax on houses above this level being higher than the previous rate, and houses below this level requiring less tax to be paid. This may therefore lead to a position where buyers looking to purchase a house above £325k will try and accelerate the purchase process, in order to make it happen before the 31/03/2015 deadline. Similarly, those looking to purchase a house below £325k may decide to slow the purchase process down, so delaying it until after the new tax has been introduced on 01/04/2015.

Currently, there is no SDLT payable on transactions of £125k or below, which represented 47.2% of all sales in Scotland from January - August 2014. Over this same time period there were 4,671 transactions, or 7.7% of total sales, above £325k. We can anticipate that the proportion of sales above £325k will increase over the next six months, which will have an influence on the calculation of average house prices. However, this still leaves 45% of the market, on purchases between £125k and £325k, where buyers would be better off waiting until the new tax is introduced. The question is whether a potential tax gain of up to £5,200 will be a sufficient incentive to delay the purchase of a home until after the tax changeover date of 01/04/2015? Presumably, as one gets closer to the changeover date, the answer to this question will for some be “yes”, especially when the house price is just above £250,000.

In Figure 3, on the next page, we show the potential tax gains and losses that will occur for a range of house prices, at the time of the changeover from the existing SDLT (Stamp Duty) to the new LBTT.

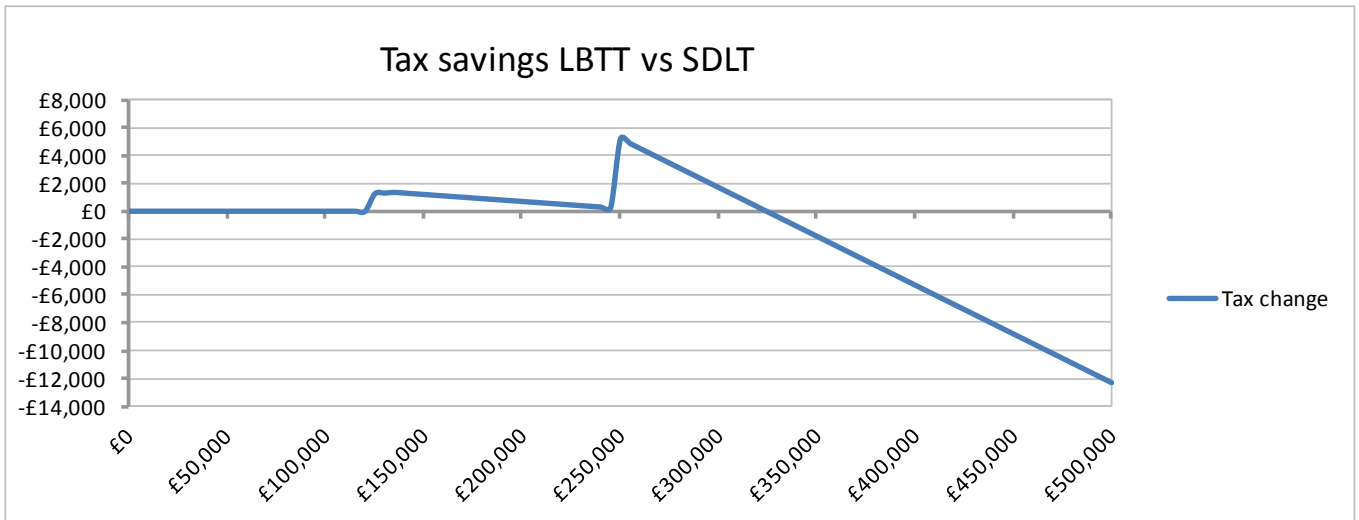


Figure 3. The tax gains (positive) and tax losses (negative) that will occur on the purchase of a property, by delaying the purchase until after the new LBTT is introduced on 01/04/2015. [link to source Excel](#)

Figure 3 highlights the tax savings and tax losses that will occur on the purchase of a property, when comparing the existing SDLT rates to the new LBTT. The peaks in the positive savings are aligned with the current thresholds in the SDLT rates: these commence at £125,001 (1%), with the next stamp duty thresholds at £250,001 (3%) and £500,001 (4%). There are further duty thresholds at £1m and £2m, but as sales of properties above £1 million are relatively rare in Scotland, we have not extended the graph to include these bands.

As can be seen, the largest savings of tax occur in the banding £250k - £300k. It is suggested that buyers may delay the purchase of such properties until after 01/04/2015. Conversely, those purchasers wishing to buy a property in excess of £325k (7.7% of the market) will pay less tax if they achieve their purchase prior to the introduction of the new rates.

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

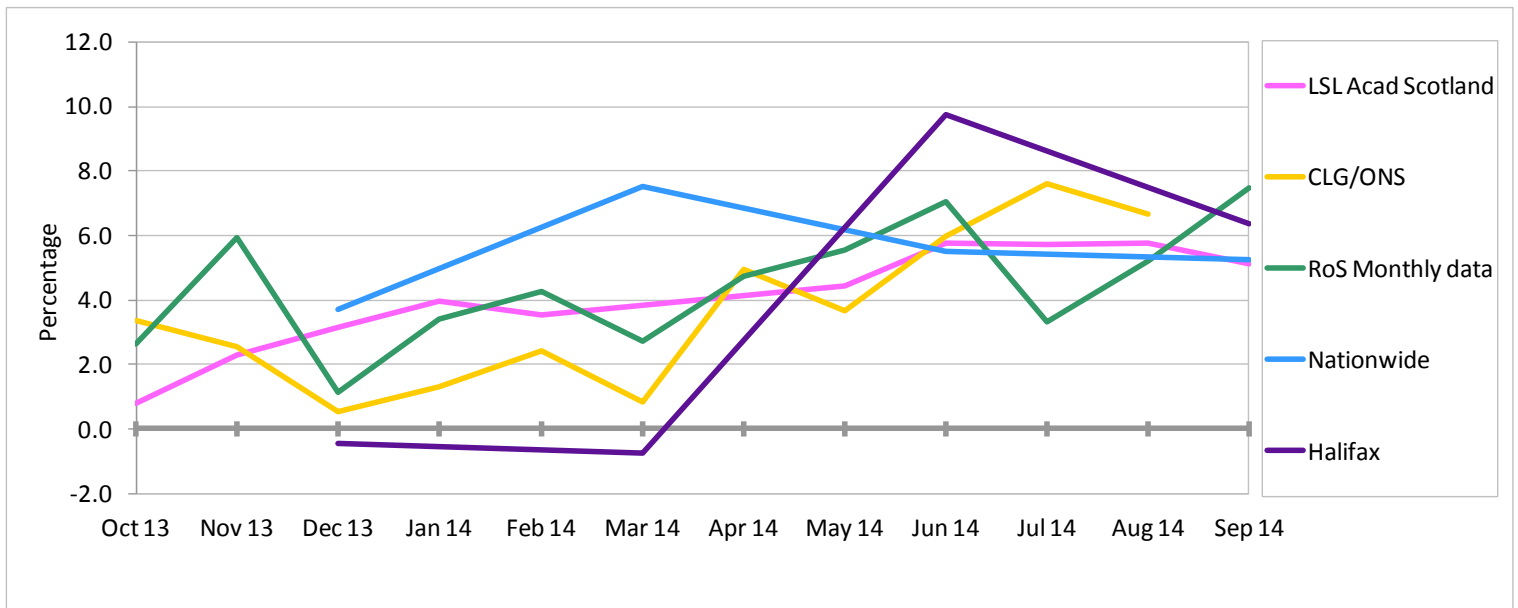


Figure 4. ANNUAL CHANGE IN HOUSE PRICES - COMPARISON OF INDICES AND RoS CHART

[link to source Excel](#)

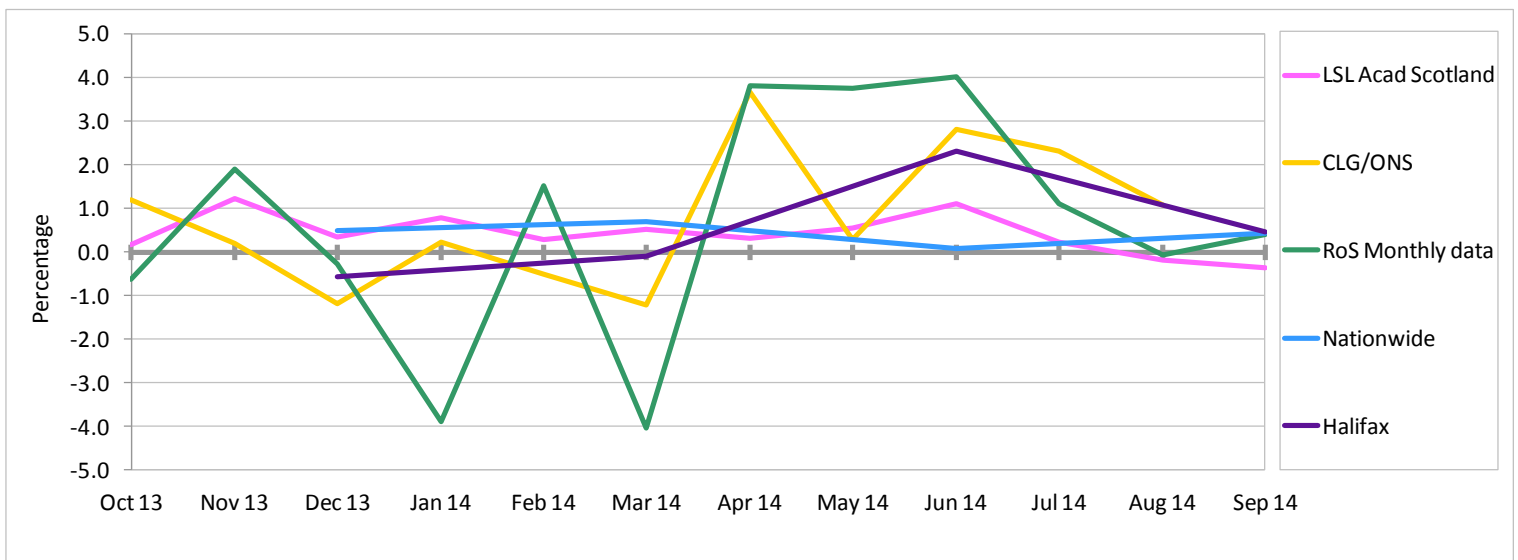


Figure 5. MONTHLY CHANGE IN HOUSE PRICES - COMPARISON OF INDICES AND RoS CHART

[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.

Comparisons with Scotland



Average House Price

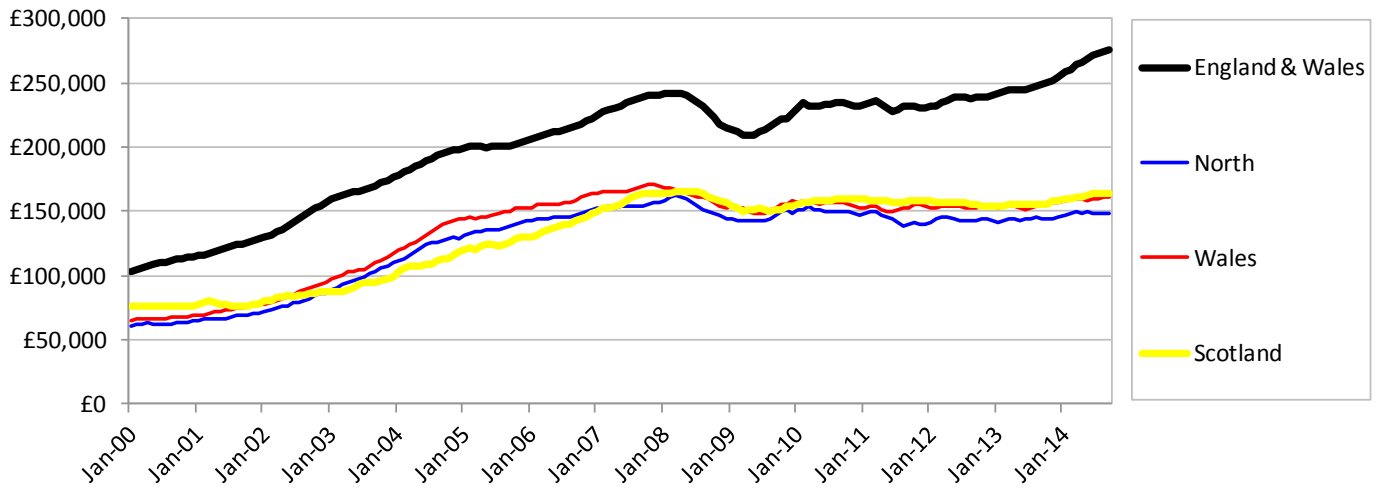


Figure 6. Scotland house prices, compared with England & Wales, Wales and the North for the period January 2000 - September 2014 [link to source Excel](#)

Annual % change in Average House Prices

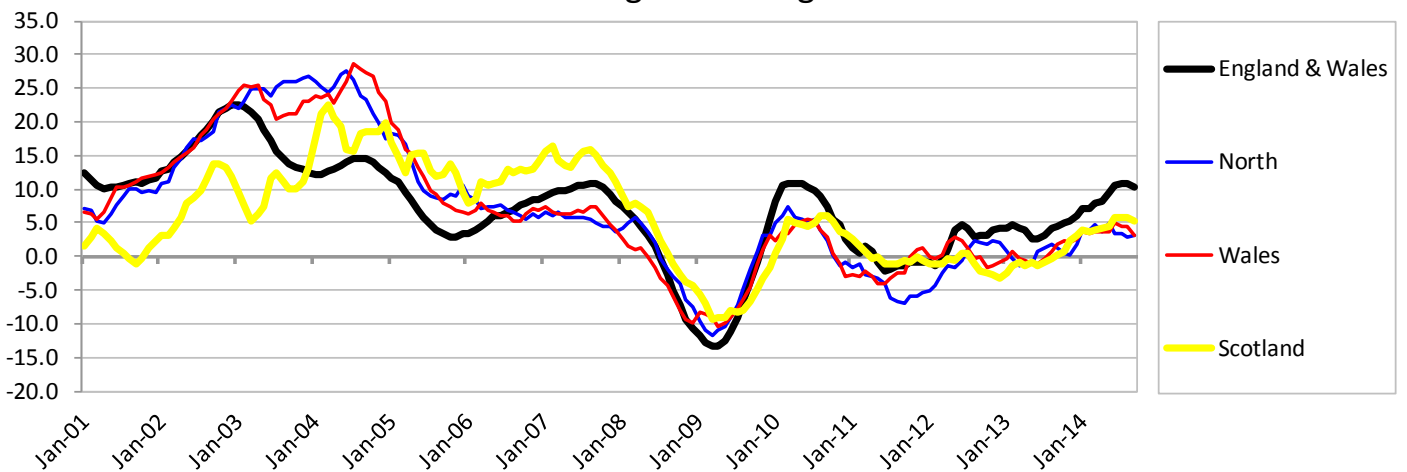


Figure 7. A comparison of the annual change in house prices in Scotland, England & Wales, Wales and the North for the period January 2001 – September 2014 [link to source Excel](#)

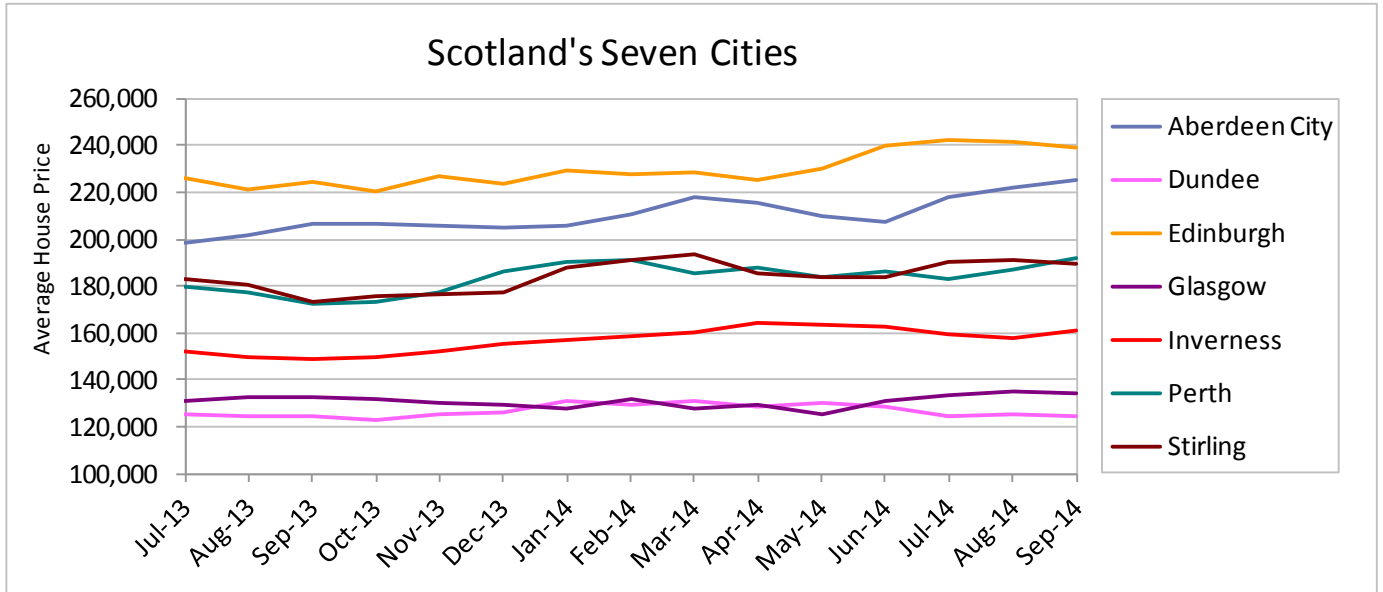


Figure 8. Average house prices for Scotland's seven cities from July 2013 – September 2014 [link to source Excel](#)

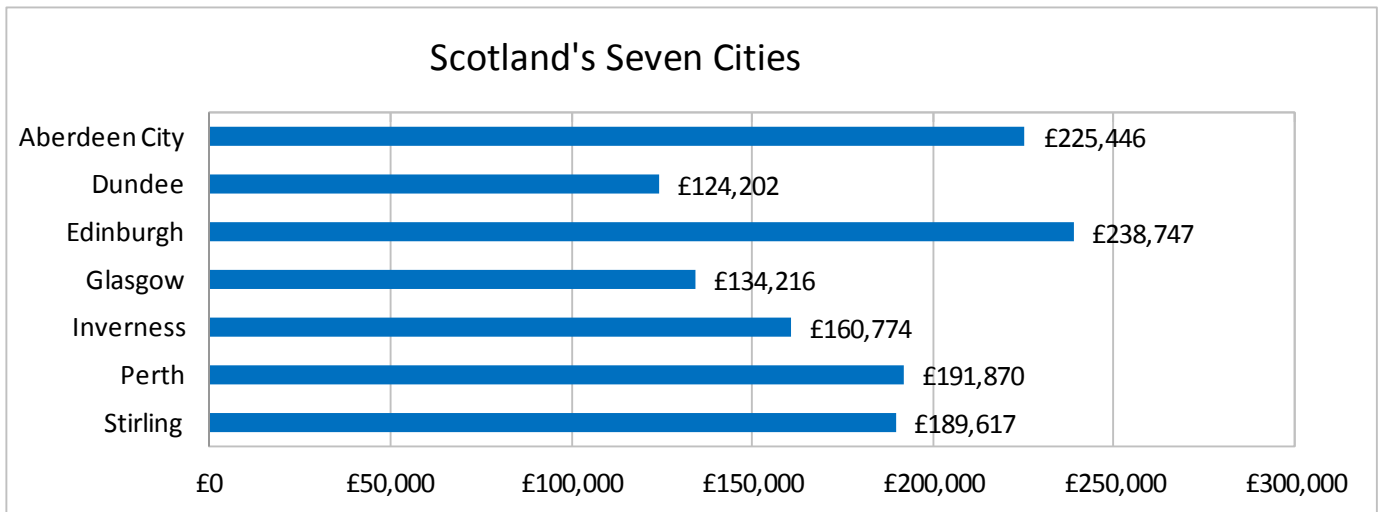


Figure 9. Average house prices for Scotland's seven cities September 2014 [link to source Excel](#)



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