

LSL Property Services/Acadametrics
Scotland

House Price Index

AUGUST 2011

STRICTLY UNDER EMBARGO UNTIL 00.01 WEDNESDAY 19TH OCTOBER 2011



Monthly house prices in Scotland increase for second month in succession

- August prices up by 0.4%
- Year on year house price growth slowed to -1.7%, and is expected to slow further as 2011 increases fail to match those of a year ago
- August transaction numbers are up on July but still well below trend

Richard Sexton, business development director of e.surv comments:

“The traditional increase in activity over the summer has pushed up prices, but they remain low compared to last year. House sales have picked up over the summer as buyers have taken advantage of mortgage lenders offering better loan-to-value products and loosening lending criteria to lower income buyers. But mortgage lending remains painfully depressed, which is hampering the long term rehabilitation of prices. Lack of mortgage finance is stifling demand at the bottom of the market and pushing down annual prices. Let’s not forget mortgage lending was at its lowest level for two years back in the early part of the spring, and although the market has seen the traditional summer improvement, it is depressed compared to 2010, when the economy was growing faster and consumer confidence was higher.

“The increase in mortgage lending over the summer was a flash in the pan, and won’t be sustainable in the current climate of stagnant economic growth and restricted credit conditions. Banks will be focusing on targeting wealthier borrowers at the expense of first time buyers, who are traditionally the lifeblood of the property market. This will choke off demand at the bottom of the ladder and reverberate all the way up the chain, slowing house price growth. On top of that, once public sector cuts begin to bite unemployment will rise and transactions will fall. We expect lending and house prices to be subdued over the coming months, particularly on an annual basis, and will only be resuscitated by an improvement in the economy, and in particular the turbulence in the Eurozone.”

For comment by Dr Peter Williams, housing market specialist and Chairman of Acadametrics, see page 2.

House price index: historical data



Table 1. Average House Prices in Scotland for the period September 2010 - August 2011

		House Price	Index	Monthly Change %	Annual Change %
September	2010	£151,574	205.5	0.6	5.7
October	2010	£151,235	205.1	-0.2	4.5
November	2010	£150,023	203.4	-0.8	2.8
December	2010	£149,734	203.0	-0.2	1.7
January	2011	£149,341	202.5	-0.3	0.7
February	2011	£149,004	202.0	-0.2	-0.5
March	2011	£148,822	201.8	-0.1	-1.2
April	2011	£148,540	201.4	-0.2	-1.6
May	2011	£148,487	201.3	0.0	-1.3
June	2011	£146,931	199.2	-1.0	-1.8
July	2011	£147,415	199.9	0.3	-1.5
August	2011	£148,075	200.8	0.4	-1.7

Press Contacts:

Monica Daniel, LSL Property Services
David Pickles, Acadametrics
Adam Jones, Wriglesworth PR

01392 355090
020 8392 9082
020 7427 1403

monica.daniel@slps.co.uk
david.pickles@acadametrics.co.uk
a.jones@wriglesworth.com



Further commentary by Dr Peter Williams

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

“On a monthly basis the average house price in Scotland has risen for the second month in succession, although the quantum of the increase for the month, at 0.4%, is relatively small. The increases in average house prices in both July and August come after a period of nine months in which prices have either fallen or remained flat.

“On an annual basis house prices have fallen by -1.7%, compared with the July figure of -1.5%. This further decline in annual house prices is attributable to the increase in the average house price in August 2010 - this having been at a somewhat higher rate than was experienced in August 2011.

“In August 2011, the lenders were beginning to offer more competitive products, particularly in the buy to let market, which has stimulated some activity in the major cities. However there is currently a fear, brought about by the latest Eurozone crisis, that lenders may need to retrench on some of these products as the banks and mortgage companies find it more difficult to raise finance in the open markets.

“The LSL Acad Scotland HPI now stands at 200.8, having been based at 100.0 in January 2000. This means that in August 2011 prices have doubled from those observed in January 2000. As Figure 5 below illustrates, the majority of this gain in house prices took place over the five year period January 2003 to December 2007 and prices reached their peak in April 2008 when the Index stood at 213.3. Over the following twelve months, the HPI dipped back to 192.1 in April 2009 and has subsequently shown sporadic increases since then. We anticipate that the HPI will fall back in September and October as prices in 2011 fail to rise at the same rate as 2010, but much will depend on how the current upsets in the Eurozone market feed through to consumer confidence at home.”

Introductory note by Acadametrics concerning the LSL Acad Scotland HPI

We are very pleased to be able to add an LSL Acad Scotland HPI to our long-standing LSL Acad E&W HPI, with the support of LSL Property Services plc. The new index provides our readers with an insight into the Scottish housing market and extends the scope of the available property type data. In this first release of our Scotland HPI, we feel it appropriate to provide a brief discourse on how our results are prepared and why these differ from those of other providers.

Our figures are based on the Registers of Scotland (RoS) price paid dataset. Like the Land Registry (LR) data for England & Wales, this dataset comprises all open market property transactions that take place between domestic, as opposed to commercial, buyers and sellers. The prices recorded are those between a willing buyer and seller and include both cash and mortgage financed sales.

RoS itself provides arithmetic average house prices for Scotland and for Scottish local authorities on its website. The essential difference between the RoS averages and our indexed averages is that we adjust the prices to account for both seasonality and the monthly mix of property types, as explained below. In addition, we smooth our LSL Acad Scotland HPI prices, as we do in providing our LSL Acad E&W HPI prices, in order to minimise volatility and reveal trends.

seasonal adjustment house prices in the Scottish market traditionally increase during the summer and fall back in the winter, as they do in England & Wales. As a seller, July would be the best month in which to sell a property since the average price for the month lies some £5,900 above what would be the average were no seasonal effect to exist. Conversely, as a buyer, the best month for any purchase would be March, when prices are some £8,100 below the norm. In practice, negotiations for buying or selling a



house during these optimal months should begin a month or two beforehand, given the timeline involved in residential property transactions. Since these summer and winter price rises and falls reflect seasonal factors, rather than house price inflation, for index purposes, we adjust the average price to take seasonal changes into account. By doing so, we identify the underlying house price inflation trends that are emerging. Direct comparisons of one month with another can then be made since the prices for all months are calculated on a common footing.

Mix adjustment sales of flats and terraces in Scotland fell, over the period 2007 - 2011, by comparison with sales of detached and, to a lesser extent, semi-detached properties. This fall largely reflects the difficulties, experienced by first time buyers, in raising the higher deposits now required by the lenders.

Since flats and terraces, in general, are at the lower end of house price bands, a reduction in the numbers sold will result in detached and semi-detached houses having a greater influence on 'average' prices. Without mix adjustment, this would result in a gradual increase in the average house price, recorded over time, even though there may be no underlying inflation in the prices of each type of property. The purpose of the LSL Acadametrics Scotland HPI is to record the underlying movement in prices over time. We, therefore, hold the mix of property types and property locations as a constant and calculate price movements against these constant weightings. For the statistically minded, our weights are based on the number of transactions that took place during the period April 2003 - March 2007; some 574,000 in number. We calculate that the effect of the change in the mix of properties being sold in 2011, when compared to the mix of properties being sold in 2007, has increased the average house price by some £11,700.

By using our mix adjustment methodology, we can directly compare an average price for Scotland in August 2006 (£134,147) with that in August 2011 (£148,075) in the knowledge that this change in average price, amounting to +10.4%, has not been caused by a change in the type or location of properties sold in 2011, in comparison with 2006.

In our LSL Acad Scotland HPI Index Table and in our Figures 2 and 3 charts herein, we compare our results with those of CLG, RoS, Nationwide and Halifax. Please note that the CLGHPI, Nationwide HPI and Halifax HPI exclude data on properties bought with cash. Both Nationwide and Halifax report prices for Scotland on a quarterly basis and, in our charts, we draw straight lines between the quarters. Furthermore, the RoS prices and price changes are arithmetic averages and are not indexed. Despite these and other differences, our comparisons are shown for interest.

This first release is a prototype and we will very much welcome any comments and suggestions.

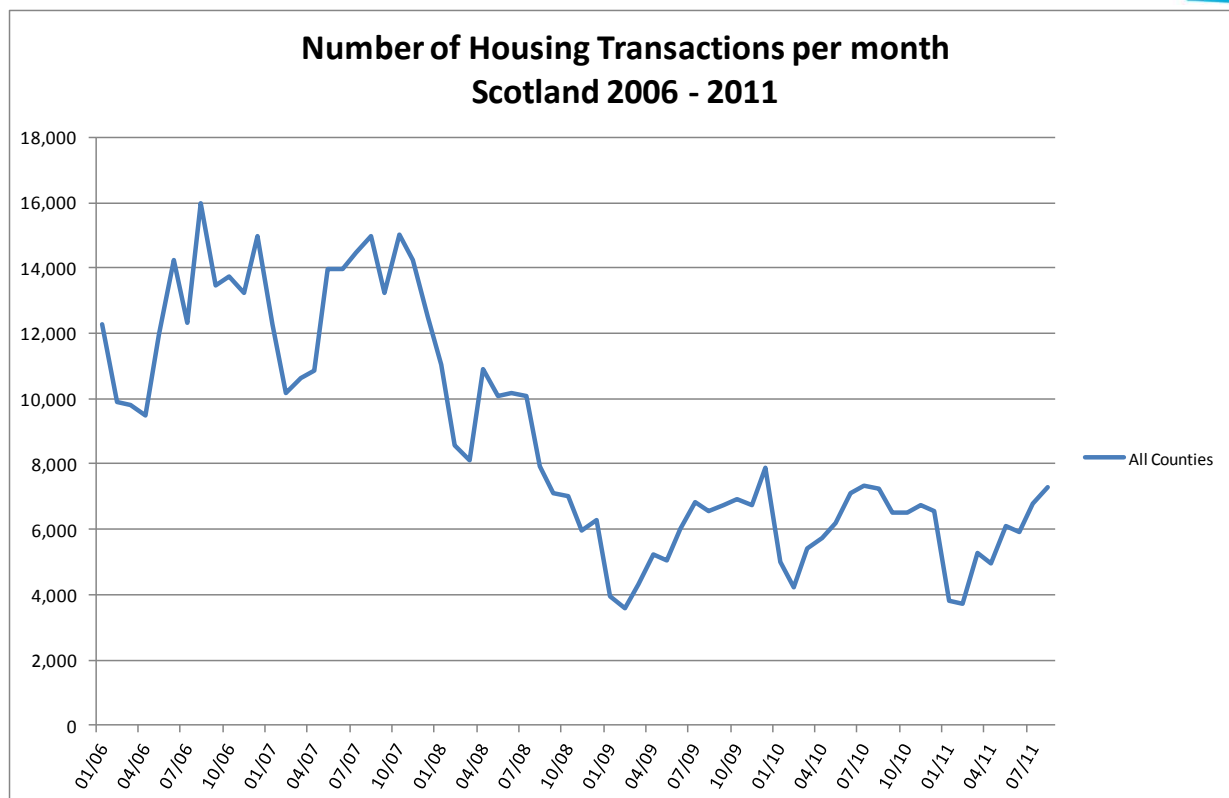


Figure 1. The number of housing transactions by month in Scotland, 2006 - 2011 (not seasonally adjusted)

The above graph shows the number of monthly transactions recorded by the Registers of Scotland (RoS) for the period January 2006 to August 2011, without seasonal adjustment. Traditionally, transactions dip over the period January-March, the market being strongest in the summer months July-September. The graph shows how the market has fallen since 2006/2007, with 57% fewer sales in the first eight months of this year compared with 2007. It should perhaps be noted that 2007 was not an exceptional year in historic terms, with similar transaction levels being seen for at least the previous four years (2003 being the first year in which Registers of Scotland began recording data for Scotland as a whole). The number of properties sold in August 2011, at 7,300, is up some 500 on July 2011 and almost exactly matches the number of properties sold in August 2010.

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

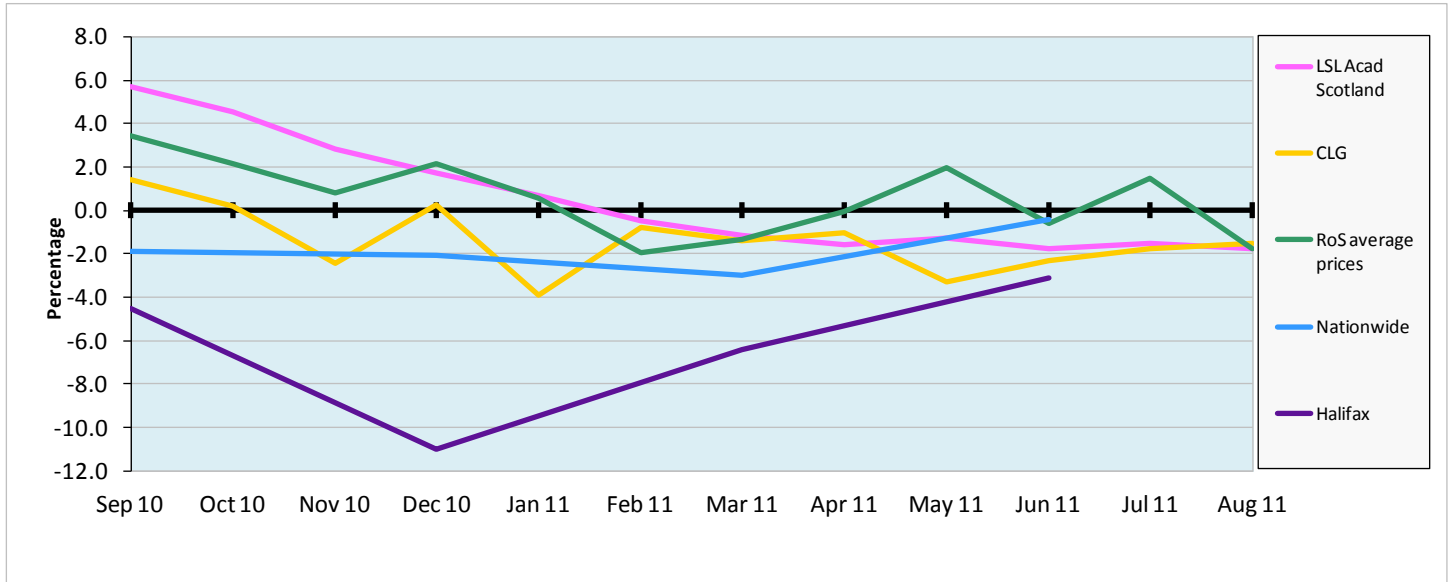


Figure 2. ANNUAL CHANGE IN HOUSE PRICES - COMPARISON OF INDICES AND RoS CHART

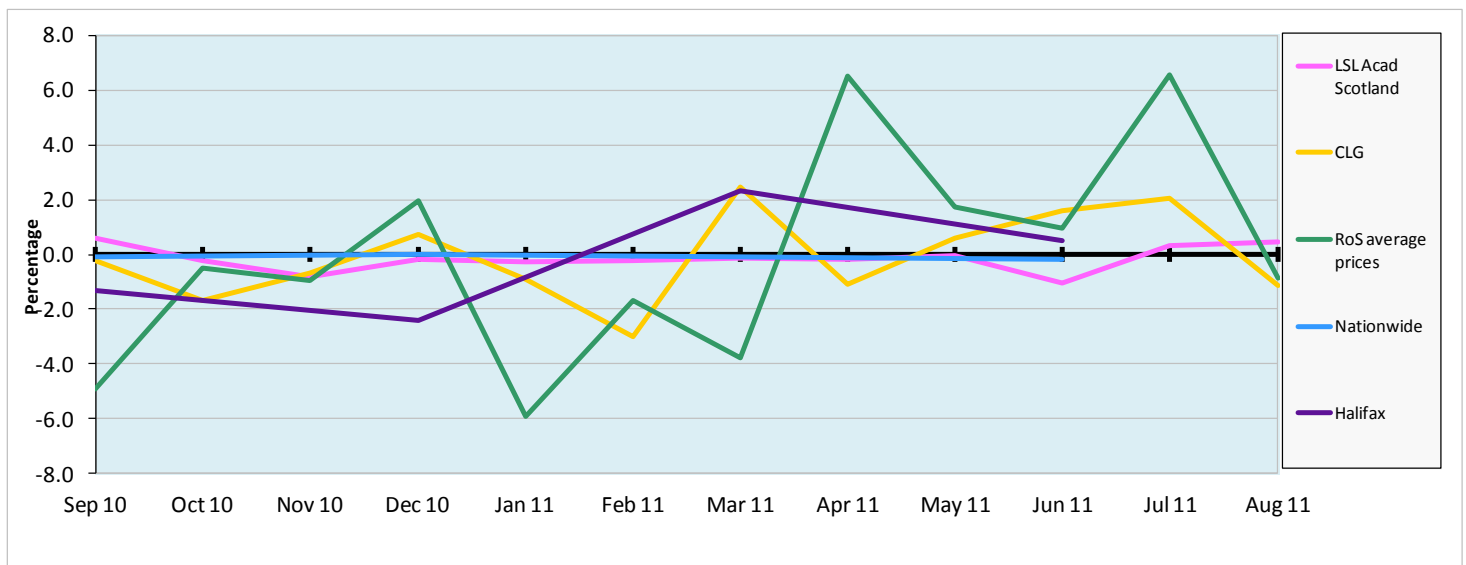


Figure 3. MONTHLY CHANGE IN HOUSE PRICES - COMPARISON OF INDICES AND RoS CHART

The above charts 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.

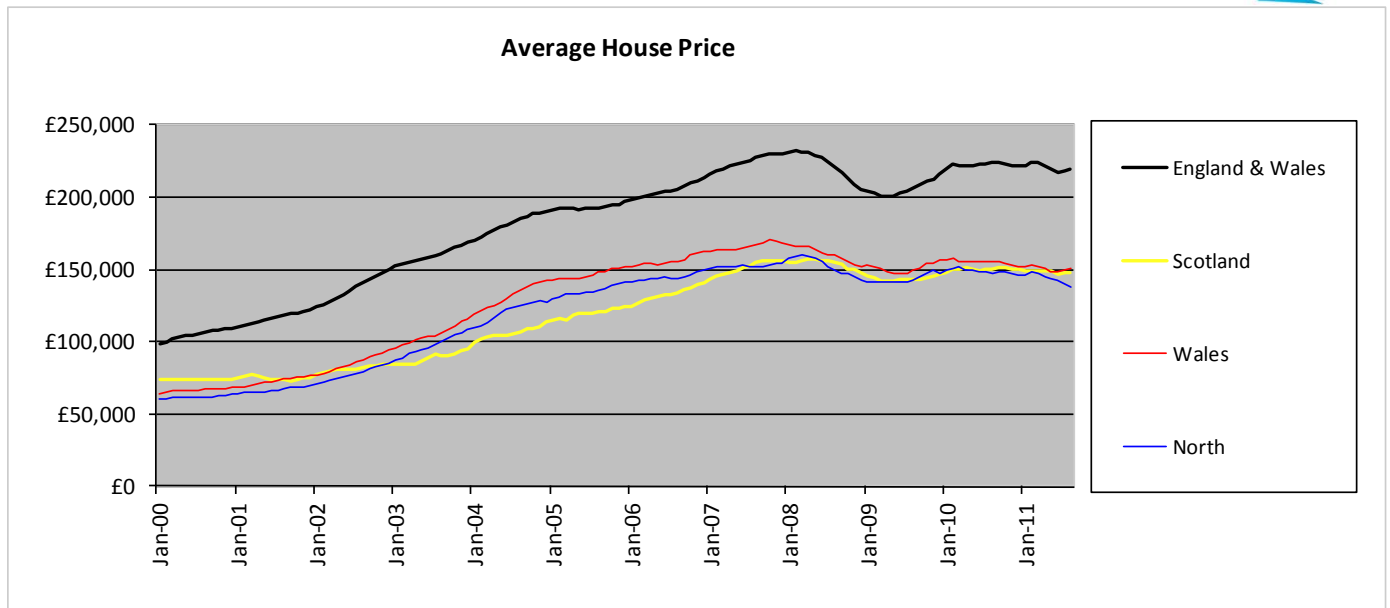


Figure 4. Scotland house prices, compared with England & Wales, Wales and the North for the period Jan 2000 - August 2011

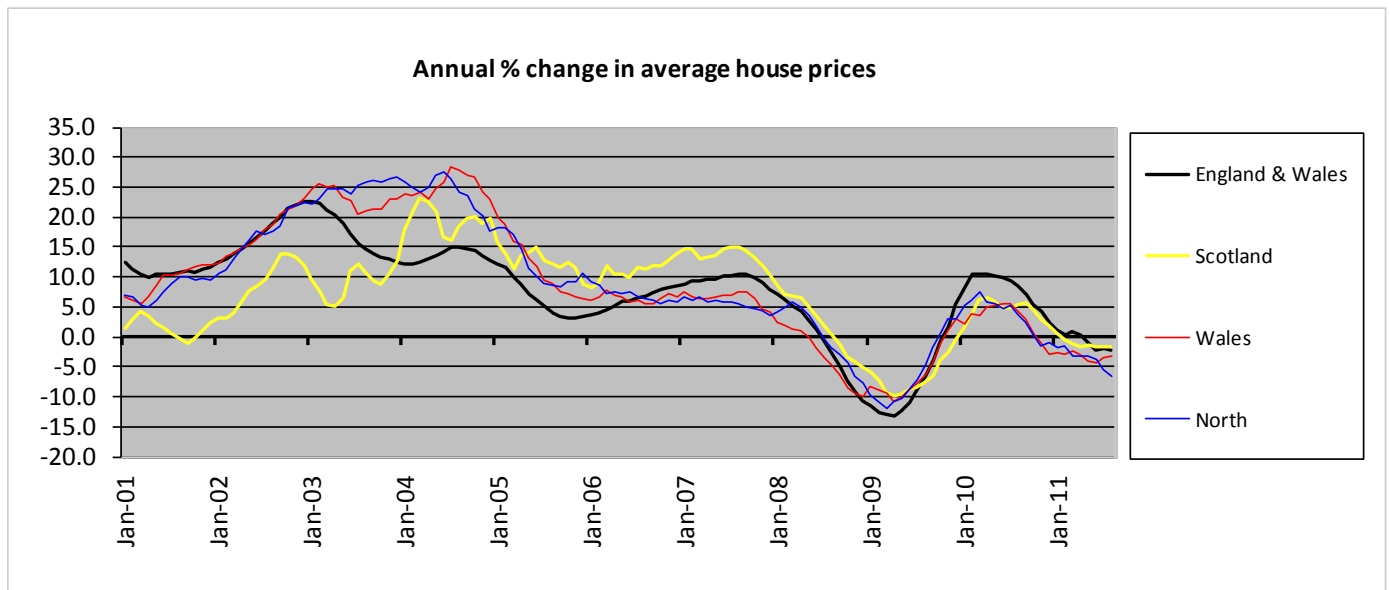


Figure 5. A comparison of the annual change in house prices in Scotland, England & Wales and the North for the period Jan 2001 - Aug 2011

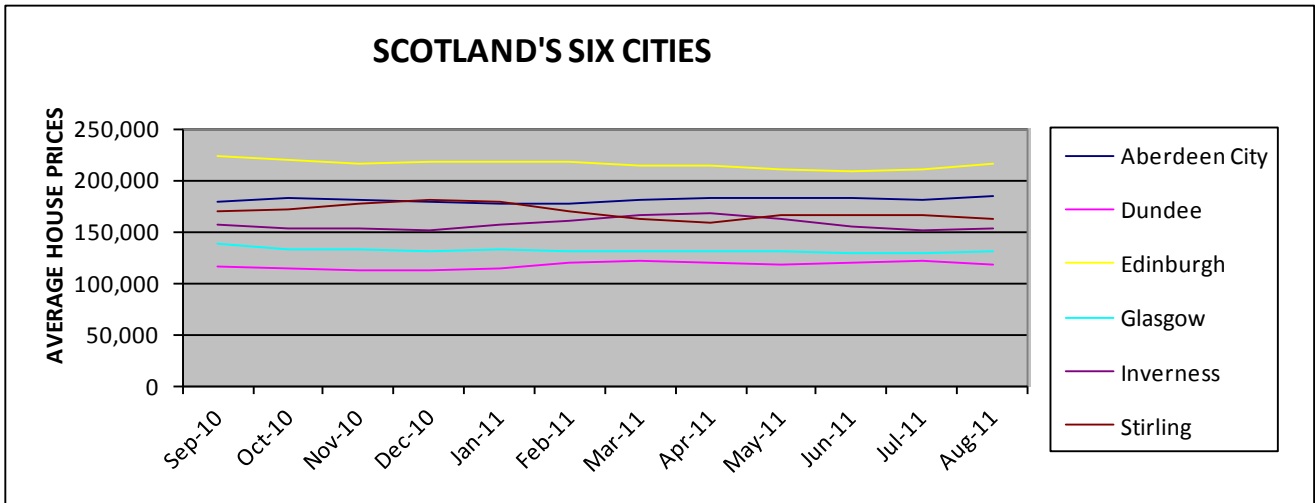


Figure 6. Average house prices for Scotland's six cities from September 2010 - August 2011

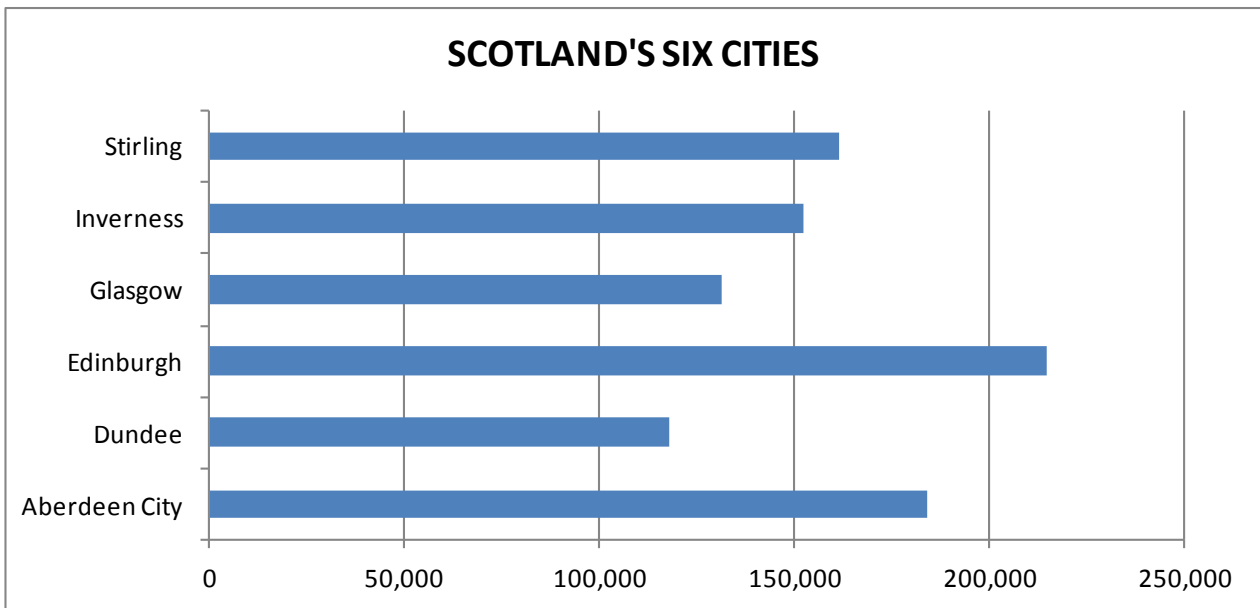


Figure 7. Average house prices for Scotland's six cities August 2011



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 CLGHPI, 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 (CLGHPI); 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 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 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.