

LSL Property Services/Acadametrics
Scotland

House Price Index

JANUARY 2012

STRICTLY UNDER EMBARGO UNTIL 00.01 WEDNESDAY 14TH MARCH 2012



House prices fall in Scotland for the fourth successive month

- Average house price £2,816 lower than a year ago
- 8% drop in flat prices reflects slow first time buyer market

House Price	Index	Monthly Change %	Annual Change %
£145,607	197.4	-0.9	-1.9

Richard Sexton, director of e.surv chartered surveyors, part of LSL, comments: “Prices spiraled downward in January. House prices usually fall over the winter months as would-be buyers nurse their finances back to health after Christmas. But this is bad news even compared to this time last year - the average house is now worth almost £3,000 less than in January 2011.

“That’s not to say people aren’t still keen to move home. The root of the problem is how hard it is to get a mortgage. Banks just aren’t lending, and that is acting as a foot on the windpipe of the housing market. Indeed, loans for home movers crumbled by 10% in the last quarter, with first time buyers hit particularly hard by the mortgage drought. The 8% drop in flat prices, typically bought by first time buyers, is a tell-tale sign of a struggling market. The dwindling number of new buyers at the bottom of the market has choked off activity in the higher echelons of the property ladder. This is forcing sellers to slash their asking prices and is stymieing any chance of prices rehabilitating to their previous highs.

“A drop-off in the economy will exacerbate these underlying weaknesses. With the public sector accounting for 55% of Scotland’s GDP, the housing market is likely to be wounded more by the bite of public sector austerity than its English counterpart. In the longer-term, any concerted rise in transactions will be inexorably tied to the outcome of the European financial crisis, because it will affect banks’ and building societies’ ability to inject more funds into mortgage lending. There also must be concern that the ‘will they/won’t they’ Independence issue will cause inwards investors to pause, whilst uncertainty exists, with a possible knock on effect for the economy and housing market as a result.”

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 February 2011 – January 2012

		House Price	Index	Monthly Change %	Annual Change %
February	2011	£148,292	201.1	-0.1	-0.1
March	2011	£148,426	201.2	0.1	-0.7
April	2011	£147,863	200.5	-0.4	-1.3
May	2011	£147,493	200.0	-0.3	-1.2
June	2011	£145,669	197.5	-1.2	-1.8
July	2011	£145,896	197.8	0.2	-1.7
August	2011	£146,441	198.6	0.4	-1.9
September	2011	£147,602	200.1	0.8	-1.5
October	2011	£147,507	200.0	-0.1	-1.3
November	2011	£147,227	199.6	-0.2	-0.8
December	2011	£146,908	199.2	-0.2	-1.0
January	2012	£145,607	197.4	-0.9	-1.9

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Further commentary by Dr Peter Williams

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

The average price of a house in Scotland fell, on a seasonally adjusted basis, by -0.9% in January. With the exception of June 2011, this is the largest monthly fall we have seen since March 2009. On an annual basis prices have declined by -1.9%, leaving the average price of a property at £145,607, a level last seen in December 2009.

Upon closer examination, it becomes clear that the monthly fall has been mainly a result of a reduction in the average value of flats. All three other property types saw price rises in January. Flats made up approximately one-third of all property sales in the month, with Edinburgh and Glasgow accounting for 40% of the market for flats. Agents have been reporting an increase in the number of properties of all types coming to the market. With buyers less in evidence, sellers have been reducing their asking prices in order to secure sales. The result was that January 2012 total sales were up 7% on January 2011. Although the average price of a flat fell by -8% from the December level, flats comprised one of the strongest sectors of the January property market.

As noted, the average house price in Scotland fell -1.9% compared with a year ago. It is interesting to compare this outcome with the outcomes in England and Wales.

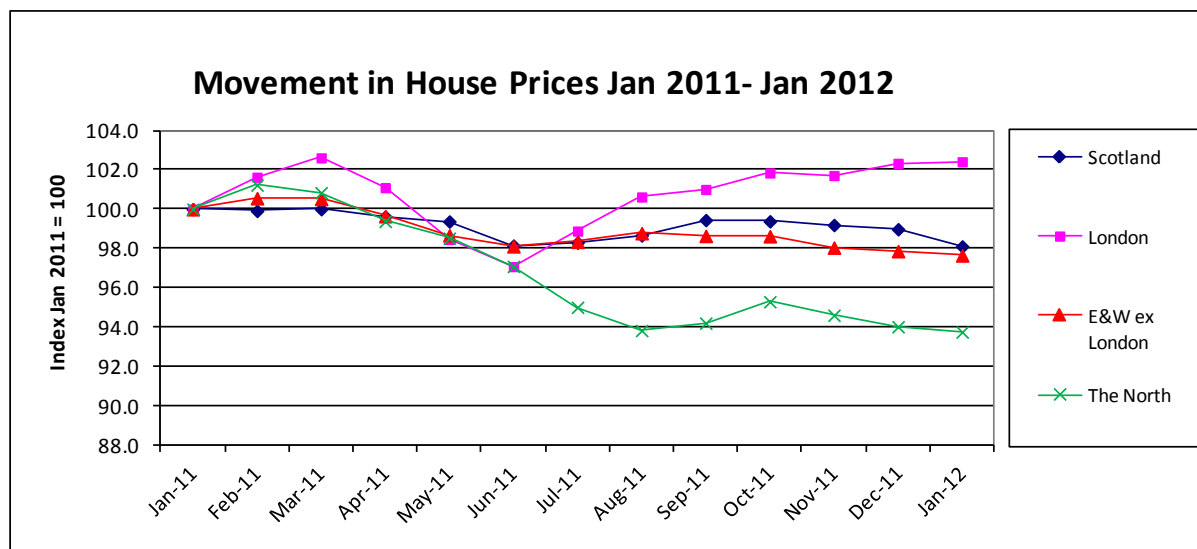


Figure 1. Comparison of house price movements in Great Britain, Jan 2011 – Jan 2012

Figure 1 shows the movement of house prices for the year from January 2011 (Index = 100.0) to January 2012, and compares Scotland with Greater London, England & Wales, excluding Greater London, and the North of England. The graph shows that, from June 2011 onwards, house prices in Scotland have shown similar resilience to those in England & Wales (excluding London) in contrast to the fall in the North of England and to the rise in Greater London. It has been widely reported that London prices, especially those in prime areas, have been, to a considerable extent, driven upwards by an influx of foreign investors seeking what is seen to be a safe haven for their surplus funds. Although table 2 shows that, in January, the average price of a property in Edinburgh fell by -3.4% on an annual basis, it could be argued that the Edinburgh market has a potential similar to that in London to attract foreign investors. At the end of the year, London's prices have increased by 2.4%, prices in Scotland have fallen by -1.9%, those in England & Wales (excluding London) were down -2.4%, whilst those in the North dropped by -6.3%.

When it comes to the February index, we anticipate seeing an increase in demand for homes with a value between £125,000 and £250,000, as those first time buyers who can raise the necessary finance take advantage of the stamp duty holiday on such properties, prior to its cessation on 24th March.



Table 2. Average House Prices in Scotland, by local authority area, comparing December 2010 with December 2011

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

RANK BY PRICE	PRIOR YR RANK	LOCAL AUTHORITY AREA	Jan-11	Jan-12	% Change
1	1	Edinburgh, City of	216,055	208,675	-3.4%
2	3	Aberdeenshire	200,573	197,327	-1.6%
3	5	East Renfrewshire	193,955	194,499	0.3%
4	4	East Dunbartonshire	199,508	186,347	-6.6%
5	2	East Lothian	204,223	183,963	-9.9%
6	7	Aberdeen City	177,859	180,489	1.5%
7	6	Stirling	186,266	172,942	-7.2%
8	8	Perth & Kinross	167,753	167,022	-0.4%
9	10	Scottish Borders	164,664	155,423	-5.6%
10	9	Midlothian	165,614	153,673	-7.2%
11	11	Highland	155,256	149,873	-3.5%
12	12	Argyll & Bute	143,331	138,836	-3.1%
13	13	West Lothian	141,038	135,901	-3.6%
14	25	Orkney Islands	115,034	134,460	16.9%
15	14	South Ayrshire	139,267	133,467	-4.2%
16	15	Dumfries & Galloway	137,251	131,546	-4.2%
17	16	Moray	136,800	130,568	-4.6%
18	17	Angus	134,646	130,268	-3.3%
19	18	Glasgow City	132,297	129,633	-2.0%
20	20	Fife	128,002	127,208	-0.6%
21	21	South Lanarkshire	125,327	125,705	0.3%
22	24	Shetland Islands	115,528	124,584	7.8%
23	19	Clackmannanshire	130,825	120,819	-7.6%
24	23	Falkirk	116,379	119,519	2.7%
25	30	West Dunbartonshire	103,827	117,934	13.6%
26	22	Dundee City	117,725	117,051	-0.6%
27	29	North Ayrshire	108,732	114,996	5.8%
28	28	Renfrewshire	109,406	112,486	2.8%
29	26	East Ayrshire	113,297	108,674	-4.1%
30	27	Inverclyde	110,473	107,759	-2.5%
31	31	North Lanarkshire	103,724	102,990	-0.7%
32	32	Eilean Siar	96,700	95,923	-0.8%
		All Scotland	148,422	145,607	-1.9%

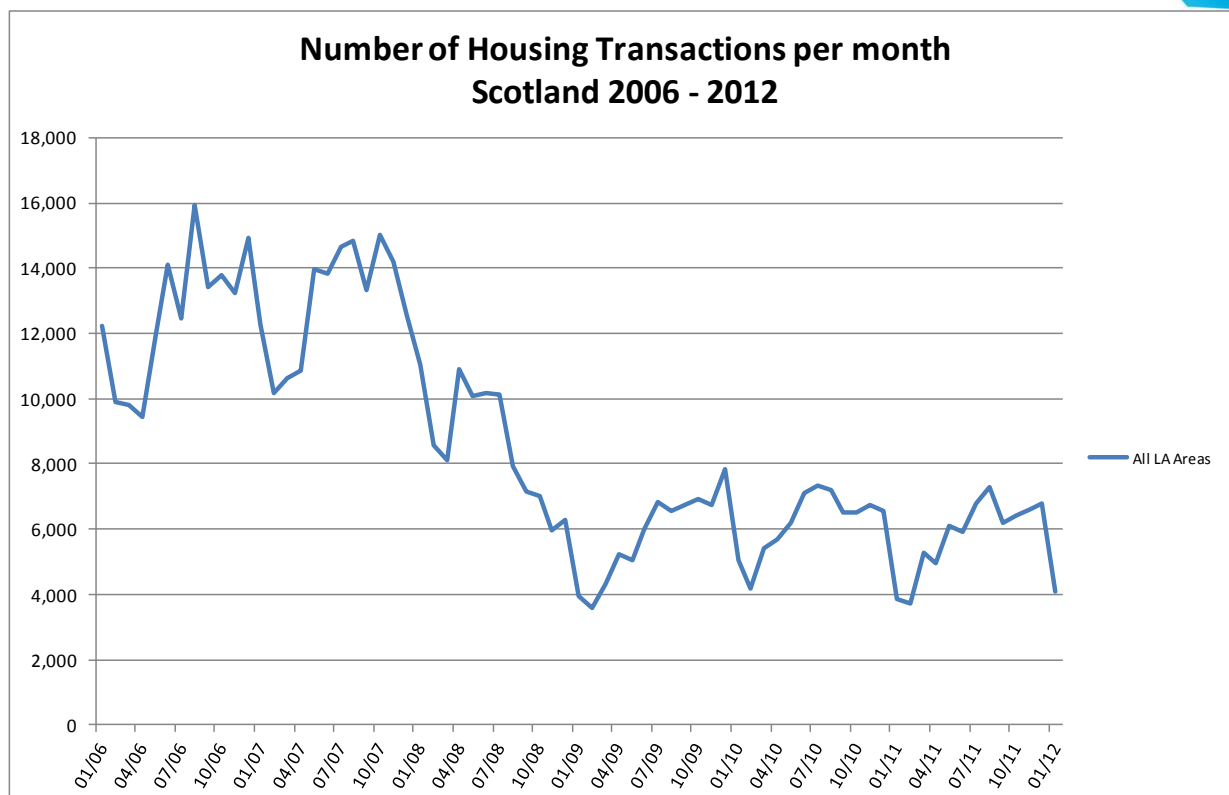


Figure 2. The number of housing transactions by month in Scotland, 2006 - 2012 (not seasonally adjusted)

The above graph shows the number of monthly transactions recorded by the Registers of Scotland (RoS) for the period January 2006 to January 2012, without seasonal adjustment. Traditionally, there is a sharp decline in sales in January compared to December, reflecting the lack of buyer activity over the Christmas period. For the last three years this reduction in sales has averaged 38%, with this year following suit at 39%. The above graph shows how the market has fallen since 2006/2007, with 55% fewer sales in 2011 compared with 2007. The main cause of this decline is the dearth of first time buyers, who continue to experience difficulties in raising the increased level of deposits now required by the lenders. From January 2009 onwards one can see that a new quantum of housing transactions has been maintained, with approximately 4,000 properties sold in January and February over this period. This year we saw 4,100 properties sold in January 2012, but are expecting an increase on this figure in February as those first time buyers that can afford to do so take advantage of the stamp duty tax holiday, which closes on 24 March 2012.

NOTES

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

Comparison of indices and RoS average prices

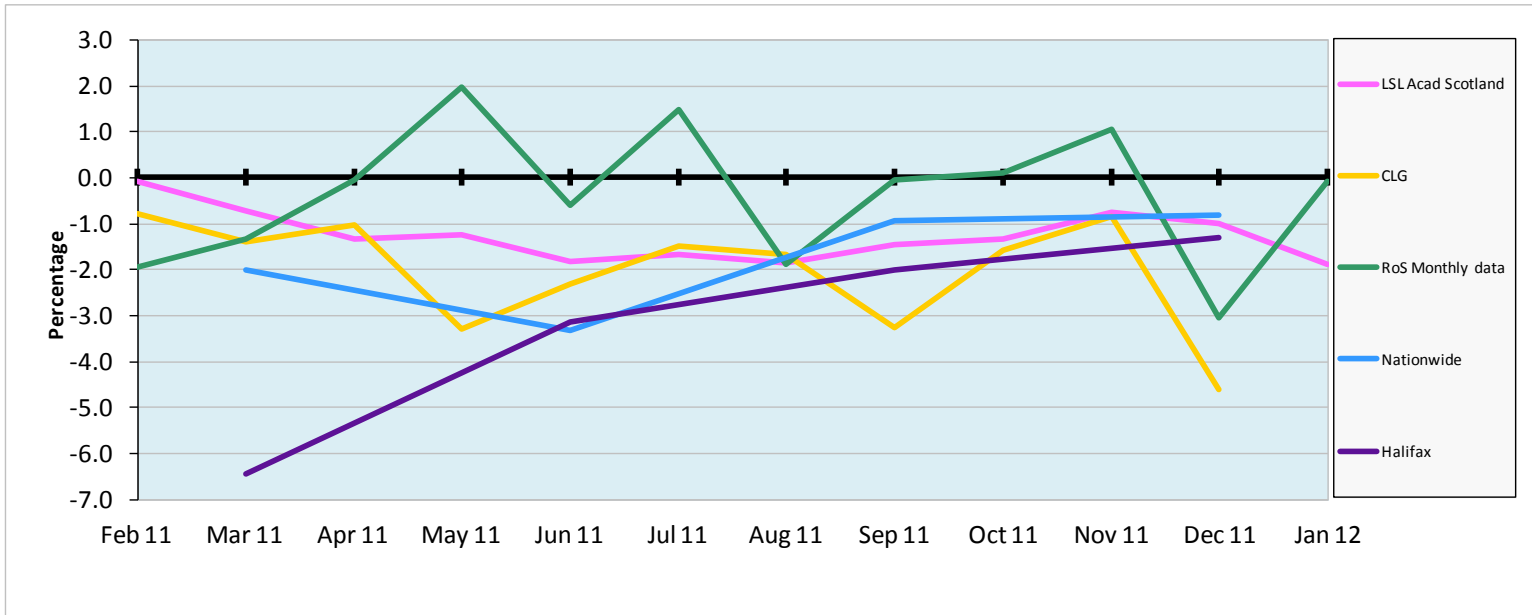


Figure 3. ANNUAL CHANGE IN HOUSE PRICES - COMPARISON OF INDICES AND RoS CHART

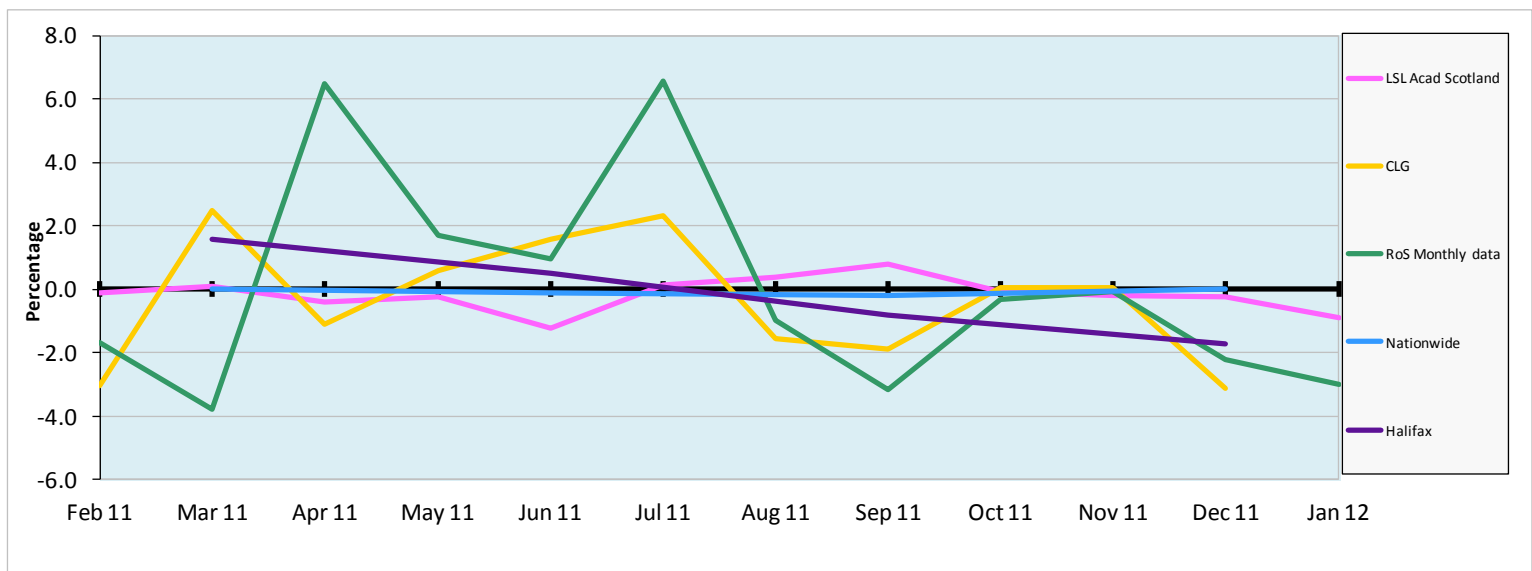


Figure 4. MONTHLY CHANGE IN HOUSE PRICES - COMPARISON OF INDICES AND RoS CHART

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.

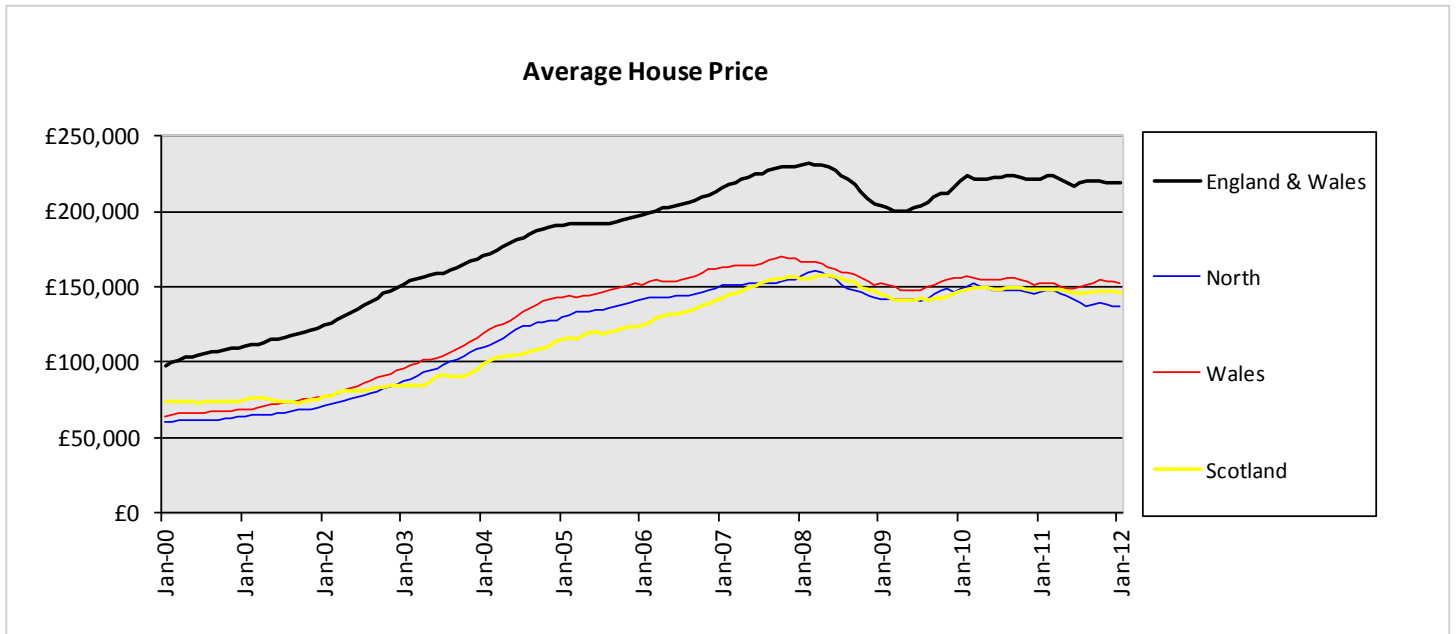


Figure 5. Scotland house prices, compared with England & Wales, Wales and the North for the period Jan 2000 - Jan 2012

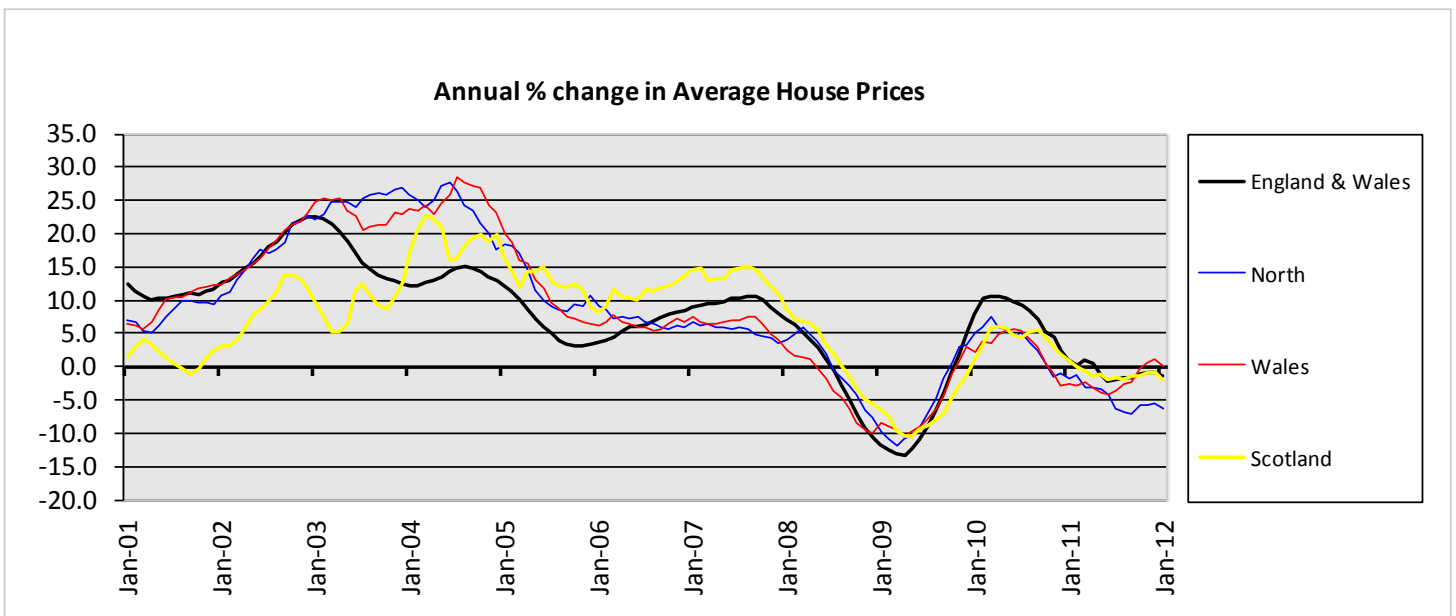


Figure 6. A comparison of the annual change in house prices in Scotland, England & Wales, Wales and the North for the period Jan 2001 - Jan 2012

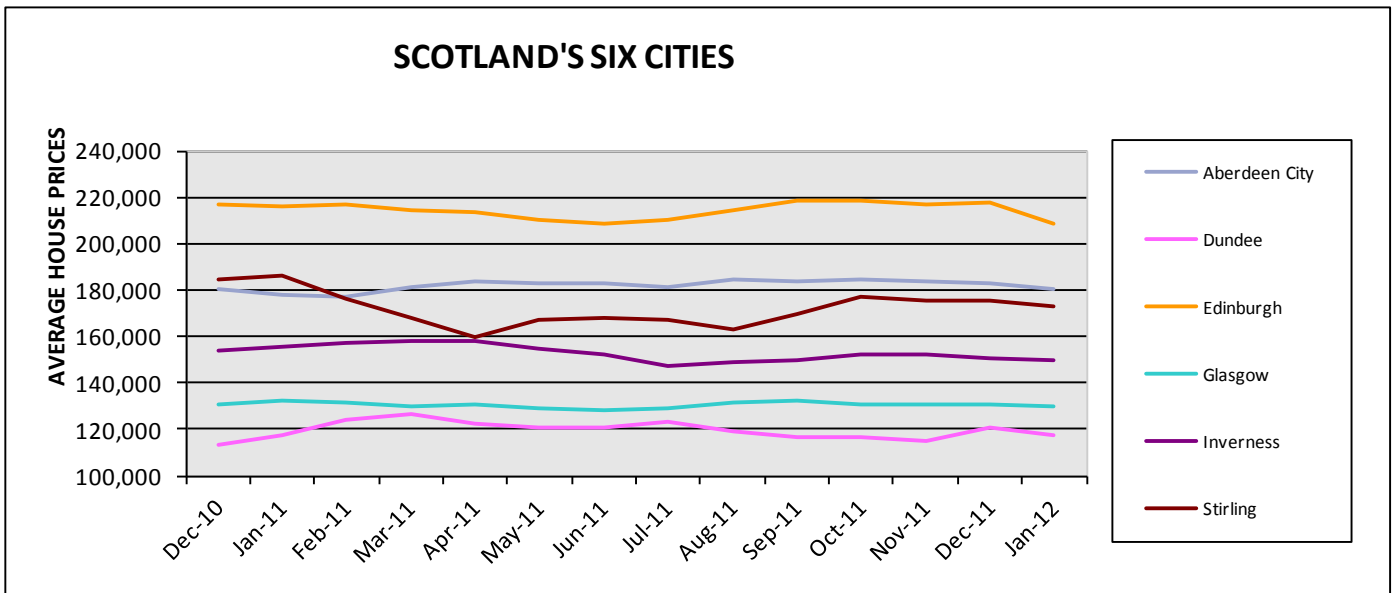


Figure 7. Average house prices for Scotland's six cities from November 2010 – January 2012

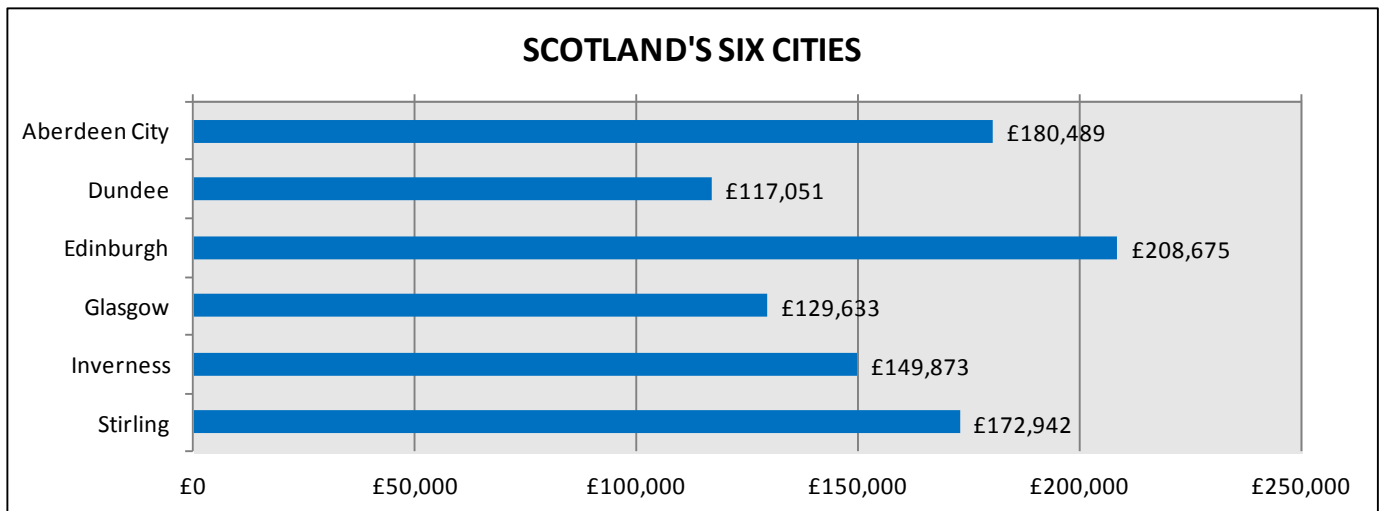


Figure 8. Average house prices for Scotland's six cities January 2012



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.

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