

LSL Property Services/Acadameetrics
Scotland

House Price Index

SEPTEMBER 2011

STRICTLY UNDER EMBARGO UNTIL 00.01 WEDNESDAY 16TH NOVEMBER 2011



Monthly house prices in Scotland increase for third month in succession

- September prices up by 0.8%, in an 'end of summer bounce'
- Year on year house price decline slowed to -1.5%; down from -1.9% last month
- September transaction numbers decline as autumn sets in

Richard Sexton, director of e.surv comments:

"Historically more people move home over the summer, and that pushes up prices. This year, that trend has lasted longer than normal, with the market making up for lost time after a turgid spring, and more buyers looking to take advantage of cheap mortgage rates introduced over the summer. But, to a very significant extent, the market is still being propped up by wealthier buyers who are being able to take advantage of exceptionally low mortgage rates. Sadly for lower income buyers, lenders have very strict criteria attached to these mortgages which means they can't hope to get approval for them.

"This suppressed level of activity at the lowest end of the property ladder means we expect prices at the end of the year to be lower than in 2010. Credit conditions are constricted, and the malaise in the Eurozone is threatening economies in the UK. Against this backdrop, banks are still focusing on targeting wealthier buyers with bigger deposits, which will leave lower income buyers out in the cold as winter sets in. For every first time buyer, three buyers are created further up the market. Gridlock at the lowest end of the market resonates all the way up the chain, and prices won't resuscitate to their pre-2008 levels until more first time buyers can access mortgage finance.

"The market is showing commendable resilience to the economic turmoil surrounding it. The desire to own a home is still ingrained into the national psyche, but the lack of availability of mortgage finance is bottling up demand. If mortgages were more widely available, we would be seeing no shortage of buyers."

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

House price index: historical data



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

		House Price	Index	Monthly Change %	Annual Change %
October	2010	£149,518	202.7	-0.2	4.6
November	2010	£148,339	201.1	-0.8	2.8
December	2010	£148,382	201.2	0.0	1.8
January	2011	£148,416	201.2	0.0	1.0
February	2011	£148,292	201.1	-0.1	-0.1
March	2011	£148,413	201.2	0.1	-0.7
April	2011	£147,851	200.5	-0.4	-1.3
May	2011	£147,487	200.0	-0.2	-1.3
June	2011	£145,675	197.5	-1.2	-1.8
July	2011	£145,906	197.8	0.2	-1.7
August	2011	£146,418	198.5	0.4	-1.9
September	2011	£147,546	200.1	0.8	-1.5

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Further commentary by Dr Peter Williams

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

“The average house price in Scotland has risen by 0.8% on a monthly basis. This is the third month in succession in which we have seen a rise in prices and reflects a summer bounce which has also been experienced in the more affluent regions of England and Wales.

“On an annual basis house prices are down by -1.5%, although the rate of decline has slowed in comparison with last month’s -1.9%. We anticipate that the housing market in Scotland will finish the year around this same figure, at -1.5%, which allows for some minor falls in prices over the next three months.

“How can our index show an improvement in house prices in September, whilst statistics produced by the Registers of Scotland show a decline, given that we use the same base data? As we explained in our News Release last month, for our index, we both mix adjust and seasonally adjust the prices. Traditionally, prices in Scotland fall by some -1.3% from August to September, due to seasonal factors. We take this reduction into account when calculating our index, to allow us to report on the underlying trend, which is that prices have fallen by less than would, otherwise, have been anticipated for this time of the year, indicating a late summer bounce in prices above the norm.

“Why might prices be rising at this time of year? Firstly, interest rates continue to remain at historically low levels, with a number of the lenders introducing competitively priced products, making homes more affordable now than has been the case for a number of years. Secondly, there has been an increase in activity in the buy to let market, with lenders returning to this sector, having been absent since 2008 when the Northern Rock and Bradford & Bingley crisis came to the fore. Countering these positive effects is continued uncertainty in the financial markets, and the high deposit levels required by the lenders, making mortgages difficult to obtain. The observed result of these different factors is that of a subdued market, with transactions, as we report on page 4, at only 44% of their long term levels and house prices, although up this month, remaining relatively static over the year.”

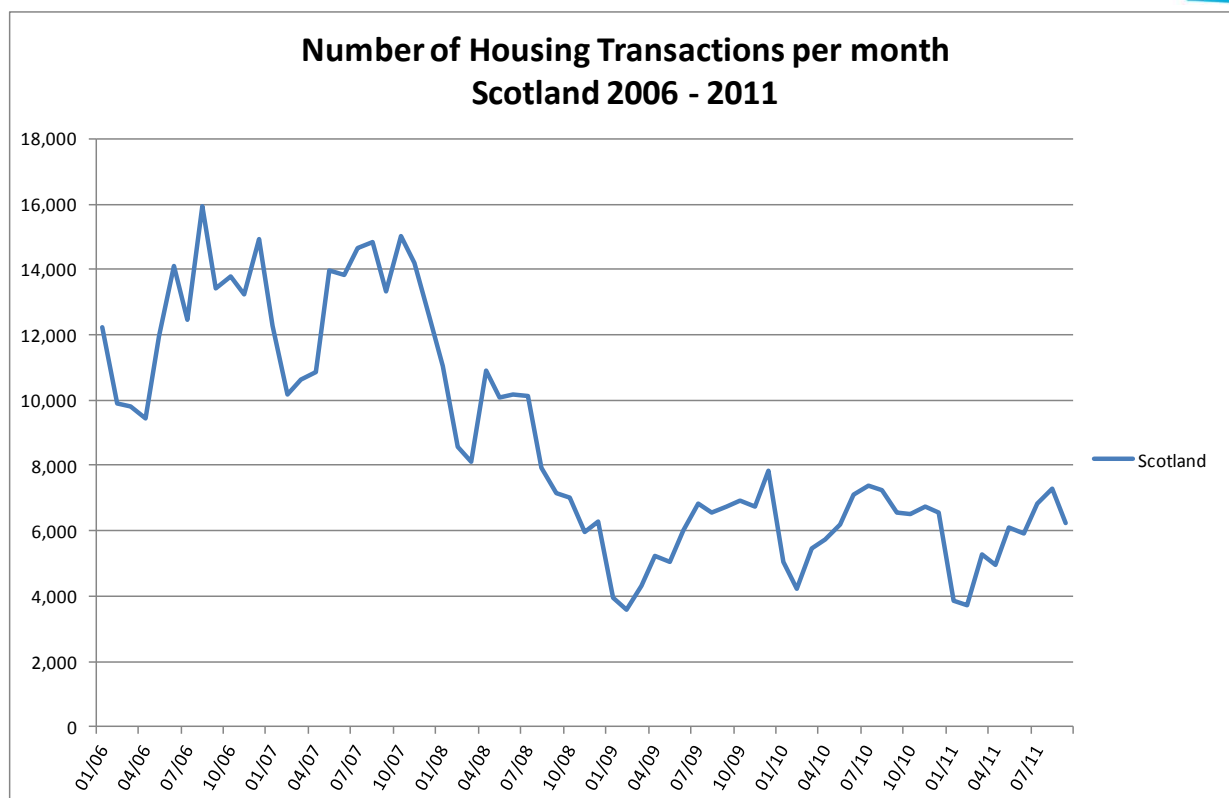


Figure 1. The number of housing transactions by month in Scotland, 2006 - 2011 (not seasonally adjusted)

The above graph shows the number of monthly transactions recorded by the Registers of Scotland (RoS) for the period January 2006 to September 2011, without seasonal adjustment. Traditionally, transactions dip over the period January-March, the market being strongest in the summer months June-August. The graph shows how the market has fallen since 2006/2007, with 56% fewer sales in the first nine 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 September 2011, at 6,200, is down some 1,100 on August 2011 and down 300 on the number of properties sold in September 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

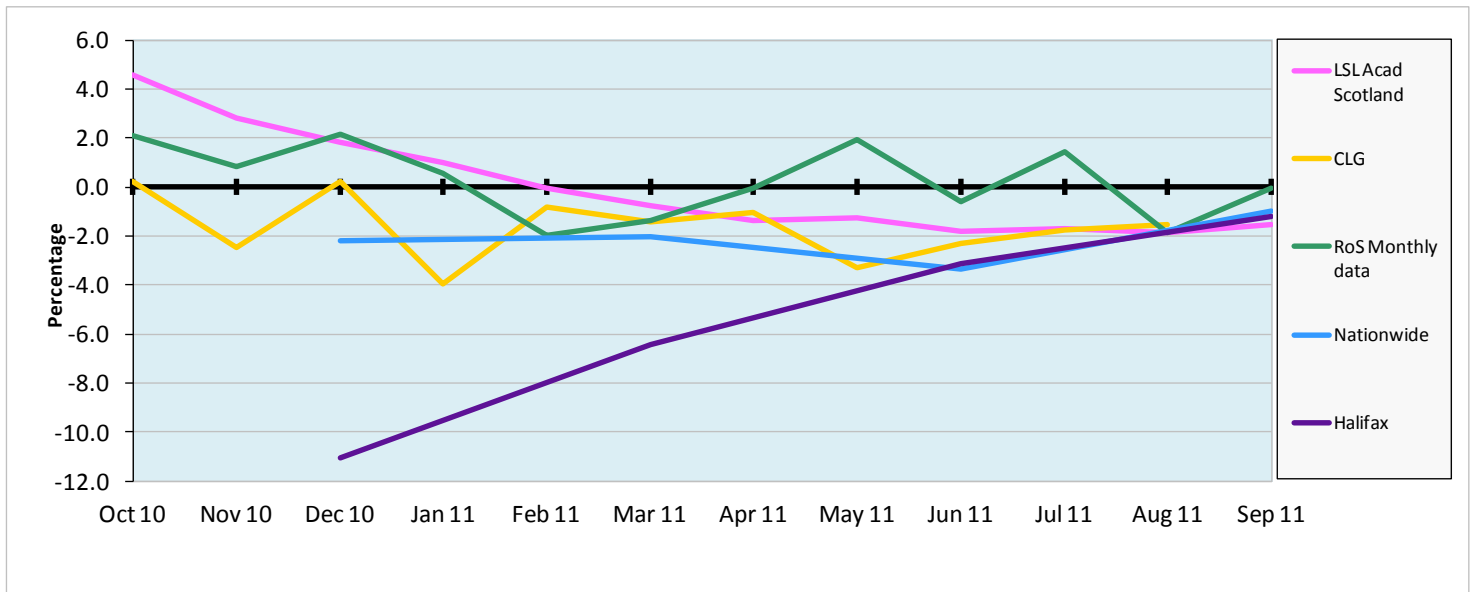


Figure 2. ANNUAL CHANGE IN HOUSE PRICES - COMPARISON OF INDICES AND RoS CHART

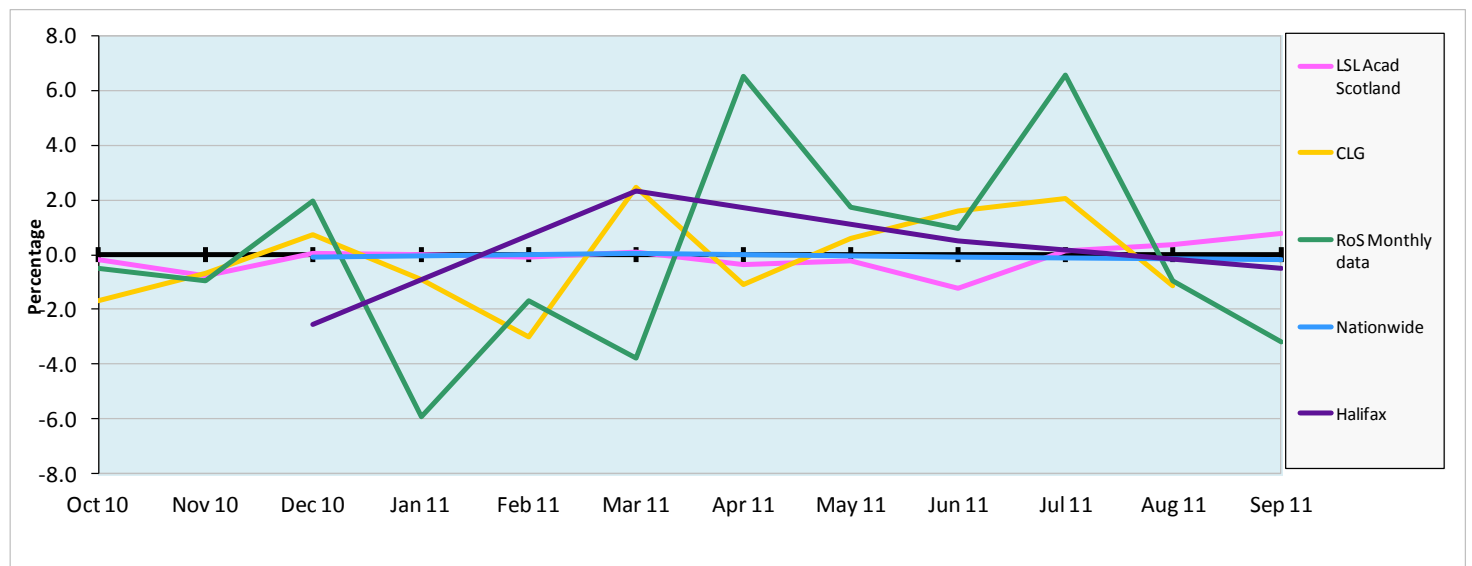


Figure 3. MONTHLY CHANGE IN HOUSE PRICES - COMPARISON OF INDICES AND RoS CHART

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.

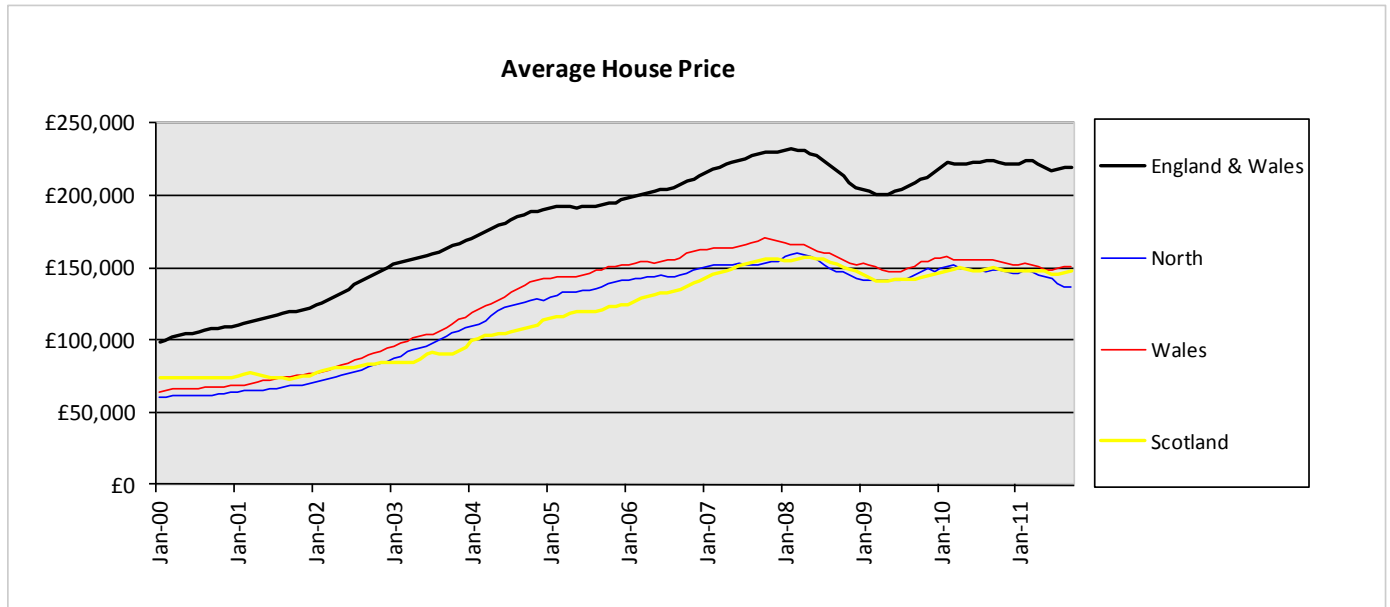


Figure 4. Scotland house prices, compared with England & Wales, Wales and the North for the period Jan 2000 - Sep 2011

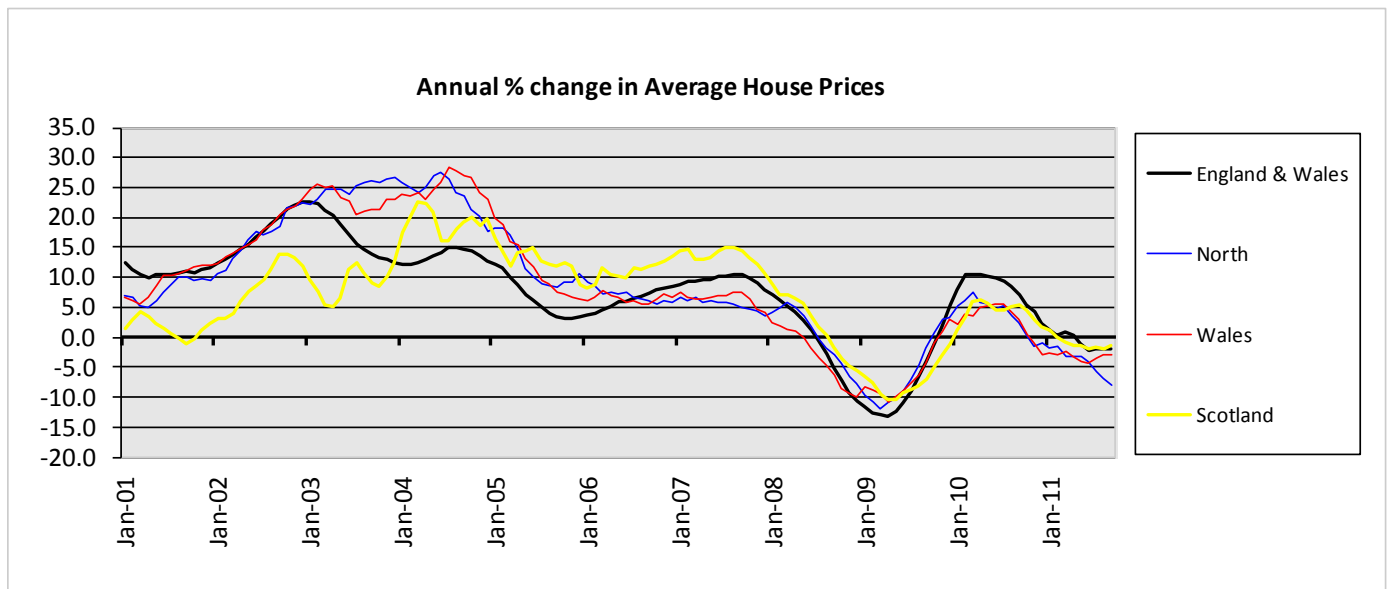


Figure 5. A comparison of the annual change in house prices in Scotland, England & Wales, Wales and the North for the period Jan 2001 - Sep 2011

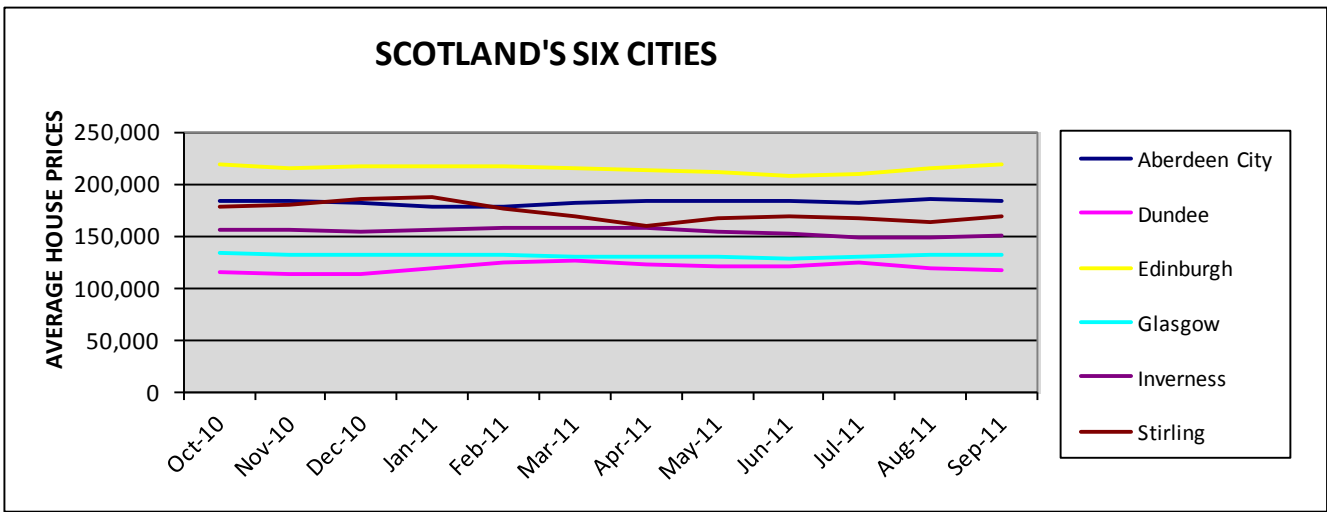


Figure 6. Average house prices for Scotland's six cities from October 2010 - September 2011

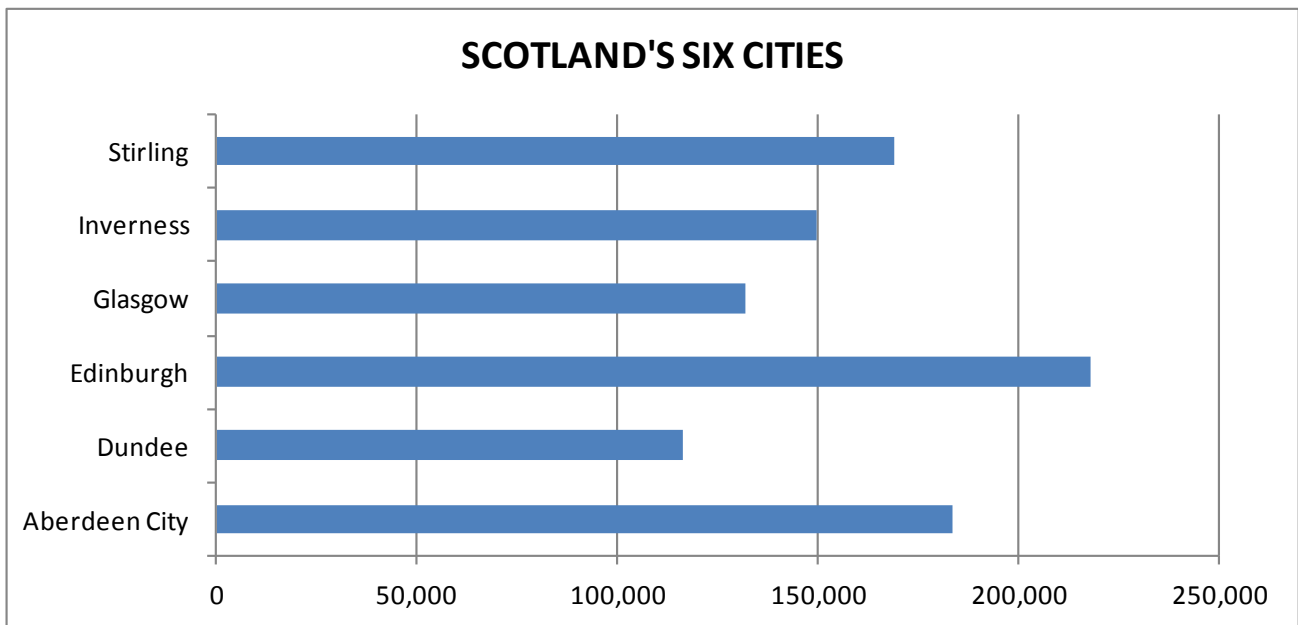


Figure 7. Average house prices for Scotland's six cities September 2011



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.

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