

LSL Property Services/Acadametrics
Scotland

House Price Index

NOVEMBER 2011

STRICTLY UNDER EMBARGO UNTIL 00.01 WEDNESDAY 18TH JANUARY 2012



House prices fall in Scotland as summer momentum fizzles out

- Year on year average house price decline slows to -0.8% (from -1.4% last month)
- Prices fall for the second successive month in November
- Price of flats fall by 2.2% - reflecting struggles faced by first time buyers
- November transaction numbers show a small increase

House Price	Index	Monthly Change %	Annual Change %
£147,202	199.6	-0.2	-0.8

Richard Sexton, director of e.surv chartered surveyors, part of LSL, comments: "Although prices are pretty much flat in 2011, they've shown tremendous resilience given the bleak economic backdrop. The upshot of flat prices is that high inflation is slowly making property more affordable.

"Mortgage finance – for those who can access it – is at its cheapest for some time. This is sustaining activity in some sections of the market, specifically buy-to-let investors and existing homeowners who are looking to upgrade. It's a different story for first time buyers, who are being required to build up large deposits to secure a mortgage. The majority of them are stuck in the rental sector because banks are focusing on lending to wealthier buyers, particularly since the situation in the eurozone has taken a turn for the worse.

"Things will be just as tough for Scottish first time buyers in 2012. The Council of Mortgage Lenders has done its best to map out a positive year for the mortgage market, but the terrain looks fraught with danger. The economic downturn in Europe will push down the amount banks can lend and businesses in the property sector can expect challenging conditions. Rates are slowly beginning to creep up as banks look to pass the increasing cost of funding themselves onto the consumer. They will focus mainly on storing capital - new lending to first time buyers will be low on their list of priorities. First time buyers will still enjoy a stamp duty holiday until April, but after that their numbers could decline sharply. The government's mortgage insurance scheme to help first time buyers, which is supposed to be a replacement for the stamp duty holiday, will have a negligible effect. It is not on a large enough scale to help push up first time buyer numbers, or even sustain them at their already suppressed level. It will also be interesting to see if the anticipated Referendum on Independence has any effect on prices in 2012."

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 December 2010 - November 2011

		House Price	Index	Monthly Change %	Annual Change %
December	2010	£148,381	201.2	0.0	1.8
January	2011	£148,417	201.2	0.0	1.0
February	2011	£148,292	201.1	-0.1	-0.1
March	2011	£148,418	201.2	0.1	-0.7
April	2011	£147,855	200.5	-0.4	-1.3
May	2011	£147,487	200.0	-0.2	-1.2
June	2011	£145,671	197.5	-1.2	-1.8
July	2011	£145,899	197.8	0.2	-1.7
August	2011	£146,410	198.5	0.4	-1.9
September	2011	£147,536	200.0	0.8	-1.5
October	2011	£147,445	199.9	-0.1	-1.4
November	2011	£147,202	199.6	-0.2	-0.8

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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 by -0.2% in November, following a -0.1% reduction in prices in October. However the fall in money terms over these two months is relatively small, being just £335, which indicates that the housing market is in near balance, as opposed to in freefall. Our Scotland House Price Index now stands at 199.6, a figure similar to that seen in Jan 2010 (199.2), suggesting that house prices have been relatively stable over the last two years, despite the turmoil seen in the financial markets over this same period.

“On an annual basis prices in November have fallen by -0.8%, which is less than the (-1.4%) fall seen in October. This slowing in the rate of price falls is largely a consequence of the -0.8% monthly decline in prices in November 2010 dropping out of the annual statistics. There will be no similar assistance for next month’s figures, so we can anticipate a negative outturn for Scotland’s average house price in 2011 of approximately -1.0%. This anticipated fall compares with a +1.0% rise in prices during the last eleven months of 2010. Hence, it seems that the average house price in Scotland, at the end of the year, is likely to be back to its January 2010 level.

“Individual local authority areas will have fared differently during this period and, in next month’s News Release, we will list the winners and losers in terms of house prices during 2011. As a taste of next month’s report, we can say that, in 12 of the 32 local authority areas in Scotland, there have been price rises over the last twelve months, with the remaining 20 areas witnessing price falls. This month, two areas, the Shetland Islands and Eilean Siar, continue to see house prices at their peak, although sales in both of these groups of Islands over the last few months have largely been of detached properties, which are at the higher end of the house price spectrum.

“Over the last twelve months, all property types in Scotland have seen an equal percentage fall in price. However, during November, the average price of terraced homes fell by -4.6%, whilst that of flats fell -2.2%. It was a one-off increase in the number of terraced properties sold in Inverclyde (where prices are about 40% lower than the average for Scotland) that caused the overall fall of terrace prices. It was because fewer first-time buyers bought flats that caused the average price to drop for this type of property. During this last month, the Council of Mortgage Lenders (CML) produced a report stating that the number of first-time buyers (FTB) in the UK housing market had fallen from an average 500,000 p.a. to just 200,000 p.a.. The driver for this decline, according to the CML, is the fact that FTBs cannot raise the deposits now required to obtain a mortgage loan or are otherwise now deemed unsuitable because of tighter credit standards. As we show in Figure 1 over the page, transactions in Scotland are currently 56% below the long term average, which is mainly due to the dearth of FTBs and which resulted in the fall in prices for flats in November.”

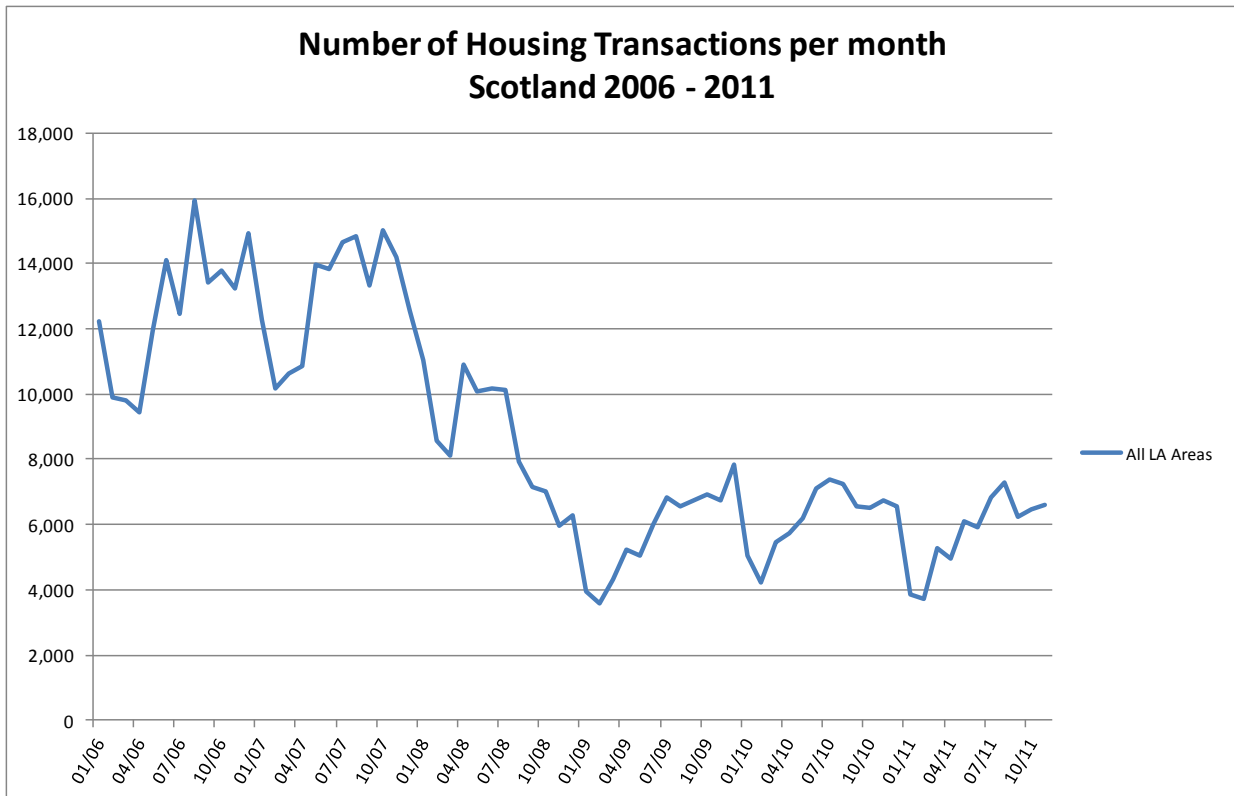


Figure 1. The number of housing transactions by month in Scotland, 2006 - 2011 (not seasonally adjusted)

The above graph shows the number of monthly transactions recorded by the Registers of Scotland (RoS) for the period January 2006 to November 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 eleven 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 RoS began recording data for Scotland as a whole). The number of properties sold in November 2011, at 6,616, is up 170 on October 2011 but down 140 on the number of properties sold in November 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

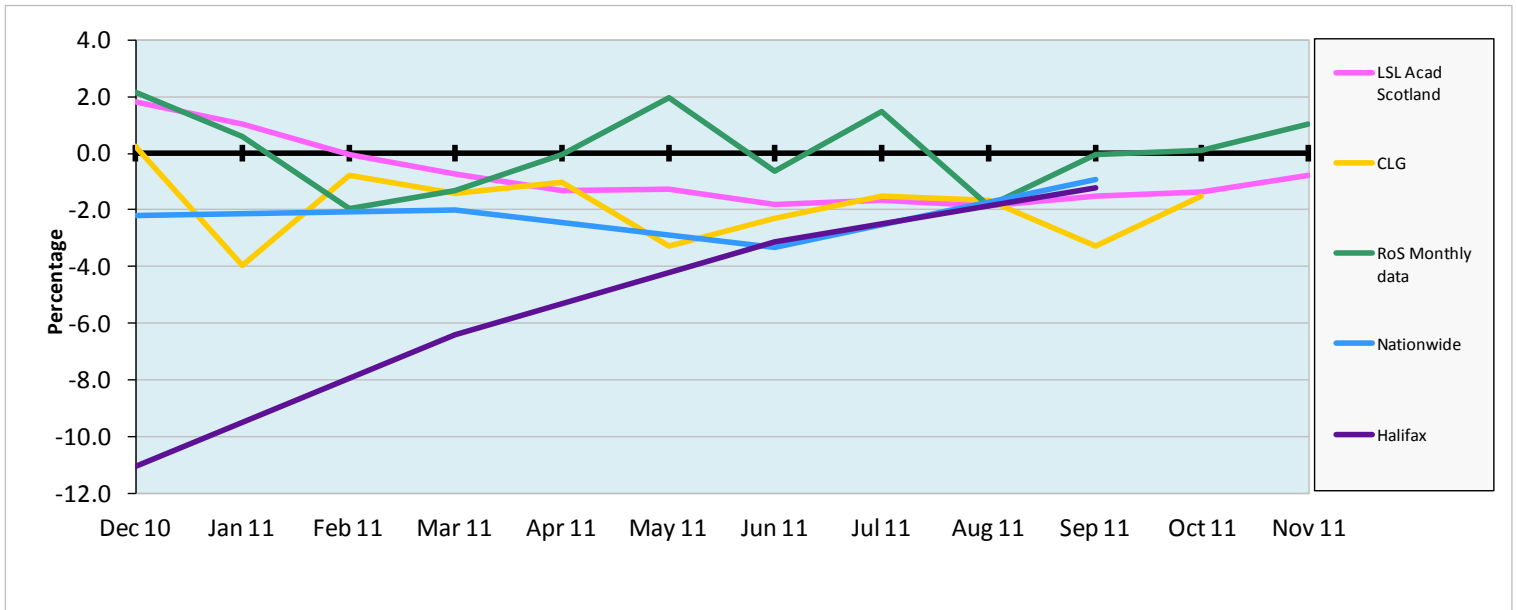


Figure 2. ANNUAL CHANGE IN HOUSE PRICES - COMPARISON OF INDICES AND RoS CHART

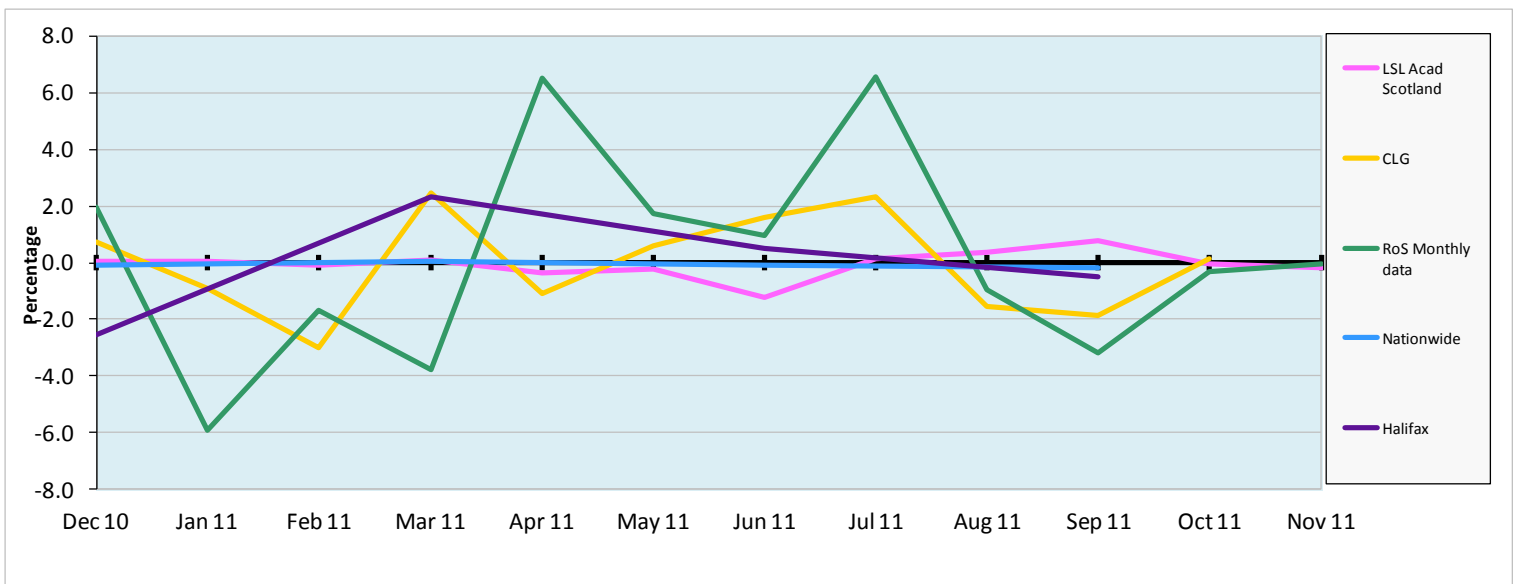


Figure 3. MONTHLY CHANGE IN HOUSE PRICES - COMPARISON OF INDICES AND RoS CHART

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.

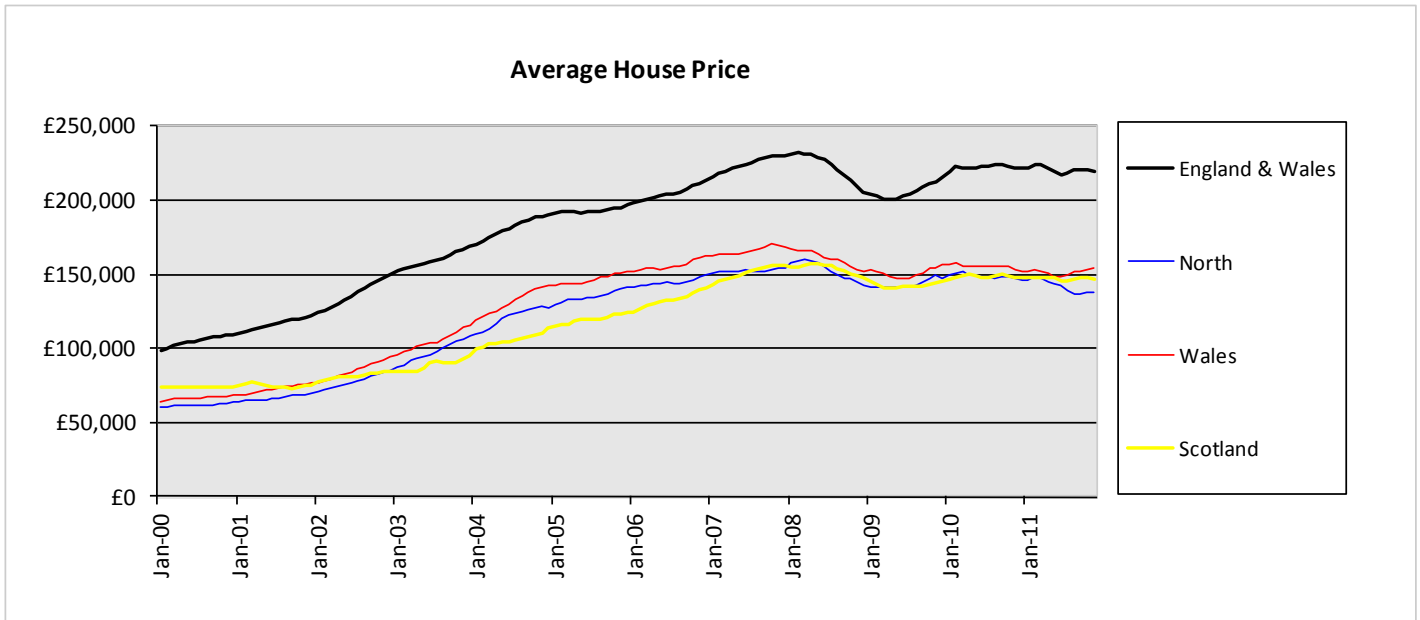


Figure 4. Scotland house prices, compared with England & Wales, Wales and the North for the period Jan 2000 - Nov 2011

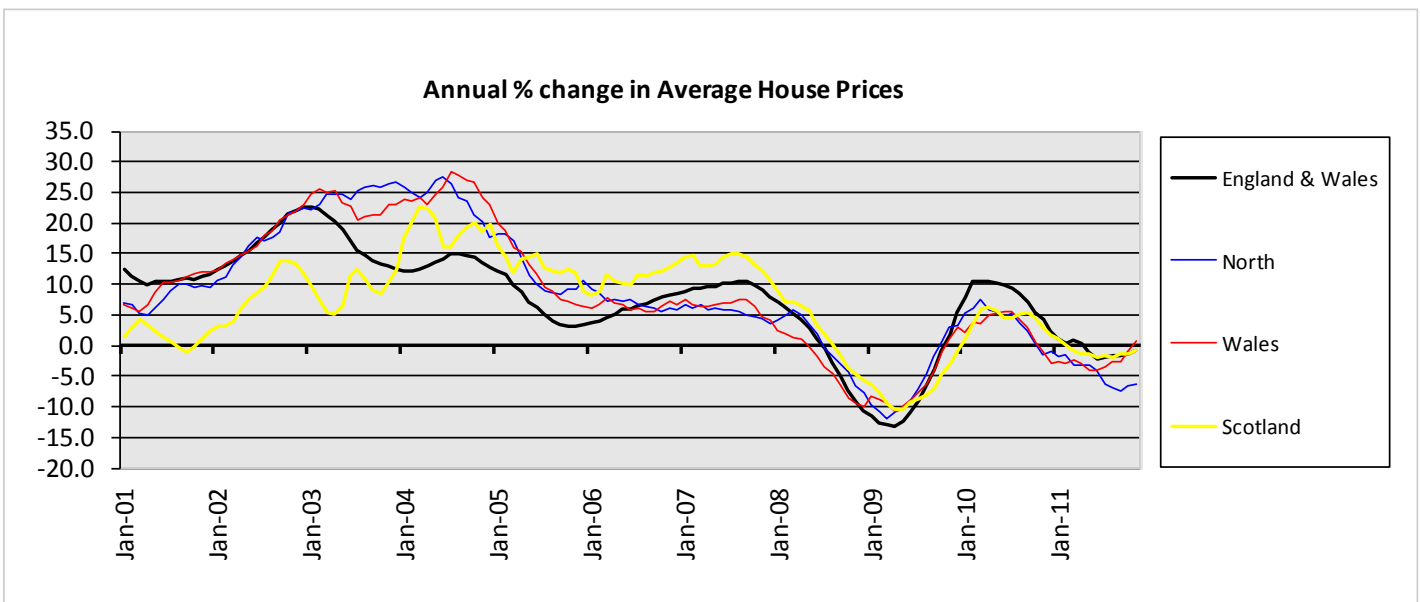


Figure 5. A comparison of the annual change in house prices in Scotland, England & Wales, Wales and the North for the period Jan 2001 - Nov 2011

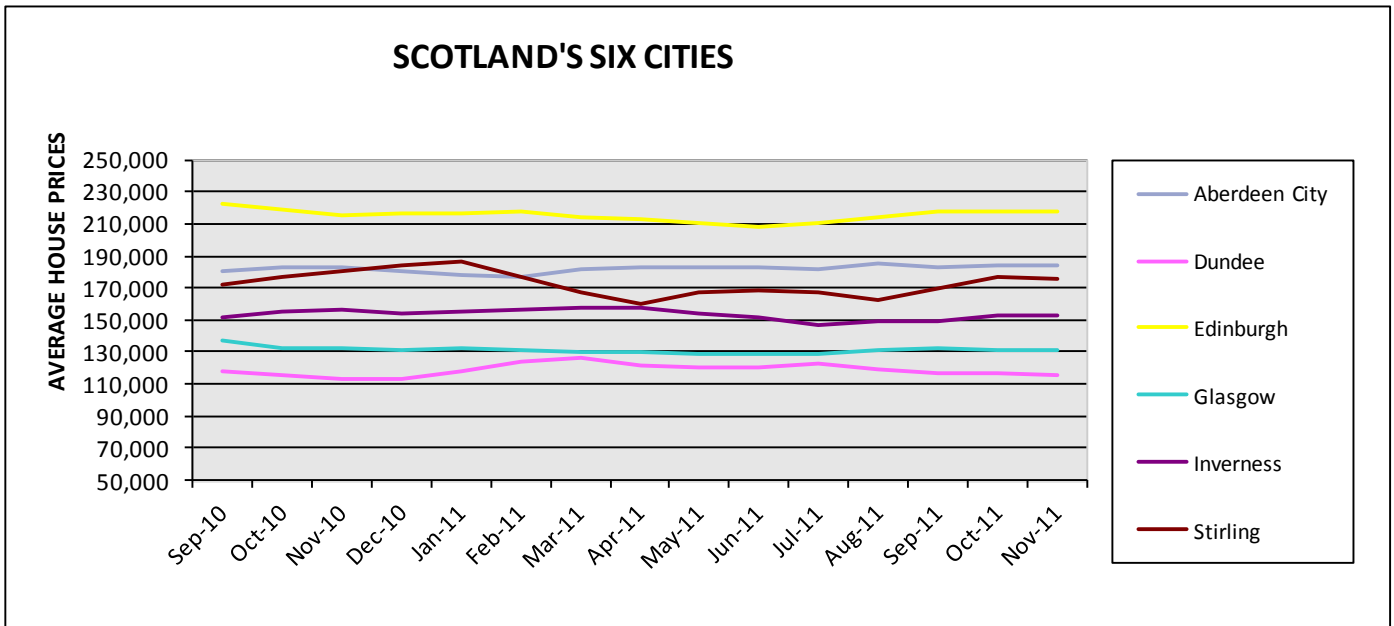


Figure 6. Average house prices for Scotland's six cities from September 2010 - November 2011

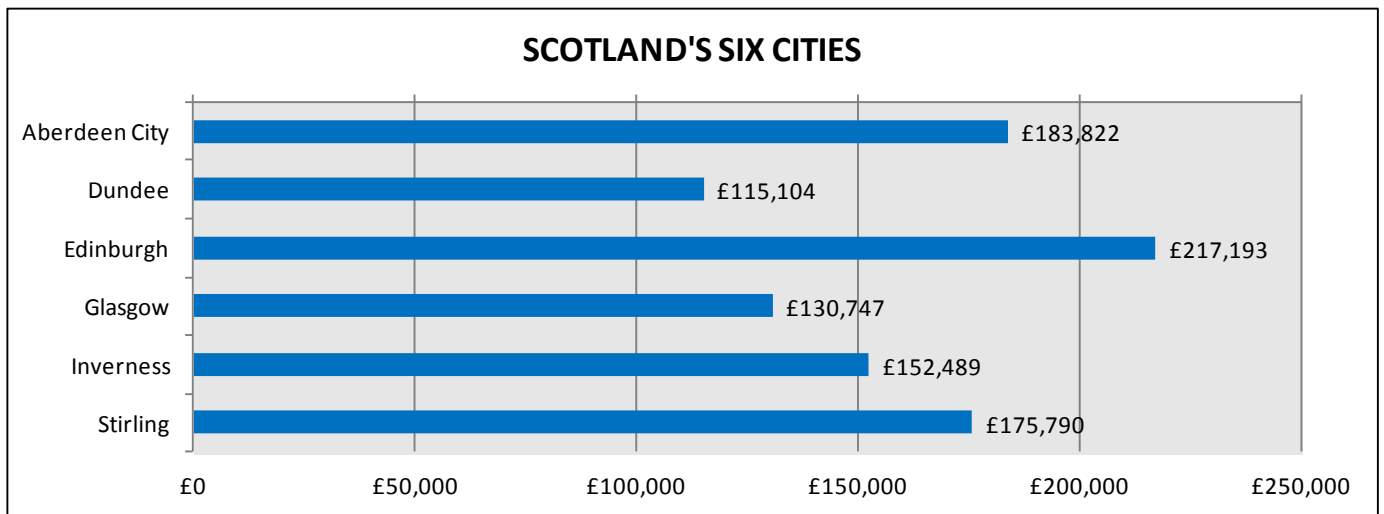


Figure 7. Average house prices for Scotland's six cities November 2011



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.