

LSL Property Services/Acadametrics
Wales

House Price Index

NOVEMBER 2011

STRICTLY UNDER EMBARGO UNTIL 00.01 WEDNESDAY 25TH JANUARY 2012



Welsh house prices rise for sixth consecutive month

- Wales is the only region in England & Wales where house prices have risen so consistently
- House prices rise by 0.3% in November
- Wales is also the only region, other than Greater London, where prices have gone up (0.7%) over the last year

| House Price | Index | Monthly Change % | Annual Change % |
|-------------|-------|------------------|-----------------|
| £154,206 | 239.2 | 0.3 | 0.7 |

Richard Sexton, director of e.surv comments: "Wales is the only region in England & Wales where house prices have risen for six consecutive months. Even London can't boast such consistent growth. What's more, it's also the only region outside of London where prices are higher than this time last year.

"But beneath the healthy headline figures parts of the market clearly aren't in the pink. It is the fact that wealthier buyers, cash rich investors and retirees are buying up property, which is pushing up prices. They wield bigger deposits and hold more equity so, when needed, can access the cheap mortgage rates that are on offer. But it's a less happy tale for first time buyers. They are stuck out in the winter cold because they don't have the cash or the equity to secure a mortgage. Paltry savings rates make building a deposit a Herculean task for first time buyers. On top of that, banks are now demanding big deposits for affordable mortgages. Weak economic growth is limiting the amount they are willing to lend, particularly to lower income borrowers and first time buyers – who they perceive as higher risk.

"As a result, wealthier buyers and retirees represent a disproportionate share of the market. This is reflected in the disparity between the high prices for detached and semi-detached property, typically bought by wealthier buyers, and the low prices for flats, which are archetypal first time buyers' stock.

"This imbalance will become more pronounced in 2012, with Welsh economic conditions weaker than the national average. For example Peacocks - one of the country's leading businesses, based in Cardiff - has recently gone into administration. The Council of Mortgage Lenders has done its best to paint a bright picture of mortgage lending in the coming year, but the property canvass in the Principality is sure to darken for first time buyers. Spooked investors are less willing to invest in banking stocks, which is frightening the markets and pushing up the cost of funding for banks. They will focus mainly on shrinking their assets and protecting their balance sheets against more potential shockwaves from the Eurozone. New lending to first time buyers will be way down on their list of priorities."

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 Wales for the period December 2010 - November 2011

| | | House Price | Index | Monthly Change % | Annual Change % |
|------------------|-------------|-------------|-------|------------------|-----------------|
| December | 2010 | £151,907 | 235.6 | -0.8 | -3.0 |
| January | 2011 | £152,061 | 235.9 | 0.1 | -2.7 |
| February | 2011 | £152,750 | 236.9 | 0.5 | -2.9 |
| March | 2011 | £152,481 | 236.5 | -0.2 | -2.3 |
| April | 2011 | £150,552 | 233.5 | -1.3 | -3.1 |
| May | 2011 | £148,814 | 230.8 | -1.2 | -4.0 |
| June | 2011 | £149,051 | 231.2 | 0.2 | -4.2 |
| July | 2011 | £149,868 | 232.5 | 0.5 | -3.5 |
| August | 2011 | £151,650 | 235.2 | 1.2 | -2.6 |
| September | 2011 | £151,590 | 235.1 | 0.0 | -2.7 |
| October | 2011 | £153,670 | 238.4 | 1.4 | -0.8 |
| November | 2011 | £154,206 | 239.2 | 0.3 | 0.7 |

Press Contacts:

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

01392 355090
020 8392 9082
020 7427 1403

monica.daniel@lslps.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 Wales rose by 0.3% in November. This is the sixth month in succession in which we have seen average house prices increase in Wales. Wales is the only region in the United Kingdom which has witnessed this phenomenon - Greater London having had only five months of uninterrupted house price growth. The explanation for this increase in price has been the increase in demand for detached and semi-detached properties, with their respective prices up +3% and +1% over the last quarter. By comparison, the price of flats has fallen by -3% over this same period.

“So why should demand for detached properties be rising, against a background of economic gloom? We believe the answer to be that, for those who have reasonable security of employment, or are retired, interest rates are at a record low. Hence, provided that the purchaser has sufficient savings or equity in an existing property to meet the deposit requirements, houses are now more affordable than they have been for a number of years. Many purchasers are, therefore, using the opportunity to trade up their homes and retirees are similarly investing in properties which are more affordable than before. The number of detached and semi-detached properties sold in Wales has increased by +9% and +7% over the year, whilst the sale of flats has decreased by -2%. The increase in detached property prices has been widespread across Wales, with 18 of the 22 local authority areas in the region witnessing price increases. The two areas with the highest price increases of detached properties over the year are the Vale of Glamorgan, + 10%, and Cardiff +9%.

“Looking at all property types, on an annual basis, house prices in Wales have increased by an average +0.7%. Again, Wales is almost unique in this statistic as all other regions in the United Kingdom, with the exception of Greater London, are showing house price falls of more than -1.0% over the year. On a local authority basis within Wales, we find that the positive price movement is not universal, with only ten of the twenty two areas experiencing price increases. In general, over the last twelve months, we have observed that areas with high priced homes have tended to see prices increase, whilst those areas with low priced properties have tended to see prices fall. In part, this observation reflects the lack of ability on the part of first-time buyers to get onto the first rung of the housing ladder, as they find it difficult to raise the required level of deposit for a loan. Analysing the ten areas that have experienced house price growth over the year, we find that only three areas are ranked in the lower half of average house prices, with the remaining seven areas all having above average prices. This, thus, largely confirms our generalisation, although somewhat perversely and against trend, Monmouthshire, which has the highest average property price in Wales, at £220,901, has seen an annual decline in prices of -1.8%, whilst Blaenau Gwent, which has the lowest average property price in Wales of £85,862, has seen prices rise by +5.3%.

“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 Wales are currently only half of the long term average, which is mainly due to the lack of FTBs and which resulted in the fall in prices for flats in November.”

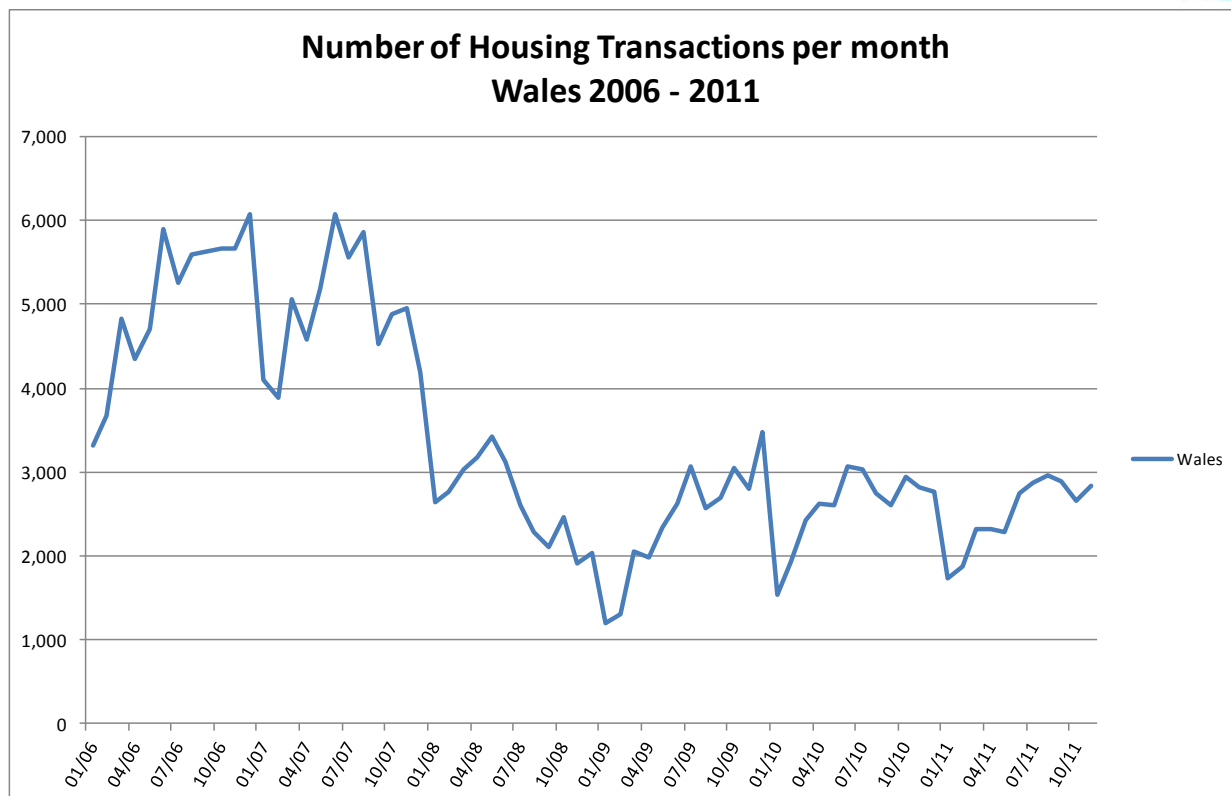


Figure 1. The number of housing transactions by month in Wales, 2006 - 2011 (not seasonally adjusted)

The above graph shows the number of monthly transactions recorded by the Land Registry (LR) for the period January 2006 to November 2011, without seasonal adjustment. Traditionally, transactions dip over the period January-March, with the market being strongest in the summer months July-September. The graph shows how the market has fallen since 2006/2007, with 50% 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. We estimate that the number of properties sold during the three months September - November 2011 is almost at exactly the same level as 2010, which suggests a slight slowing down in the market from last month. Until first time buyers return to the market in significant numbers transactions will continue to be below the levels seen in 2006/2007.

NOTES

1. LSL Acad Wales HPI is a price series as opposed to a value series and is the only house price index for Wales to use:
 - the actual prices at which every residential property in Wales was transacted, including prices for properties bought with cash, using the data provided by the Land Registry 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 Wales HPI is not forecast, unlike the LSL Acad E&W HPI, and the first release of the Wales results lag the first release of those for England & Wales by one month
3. whilst the LSL Acad Wales HPI, like the LSL Acad E&W HPI, comprises a smoothed average of three months' prices, the LSL Acad Wales 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 Wales HPI prices are contemporaneous with the prices published for the equivalent month for England & Wales, Wales and the regions.
4. all LSL Acad Wales HPI results are subject to change following receipt of updated data from Registers of Wales
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

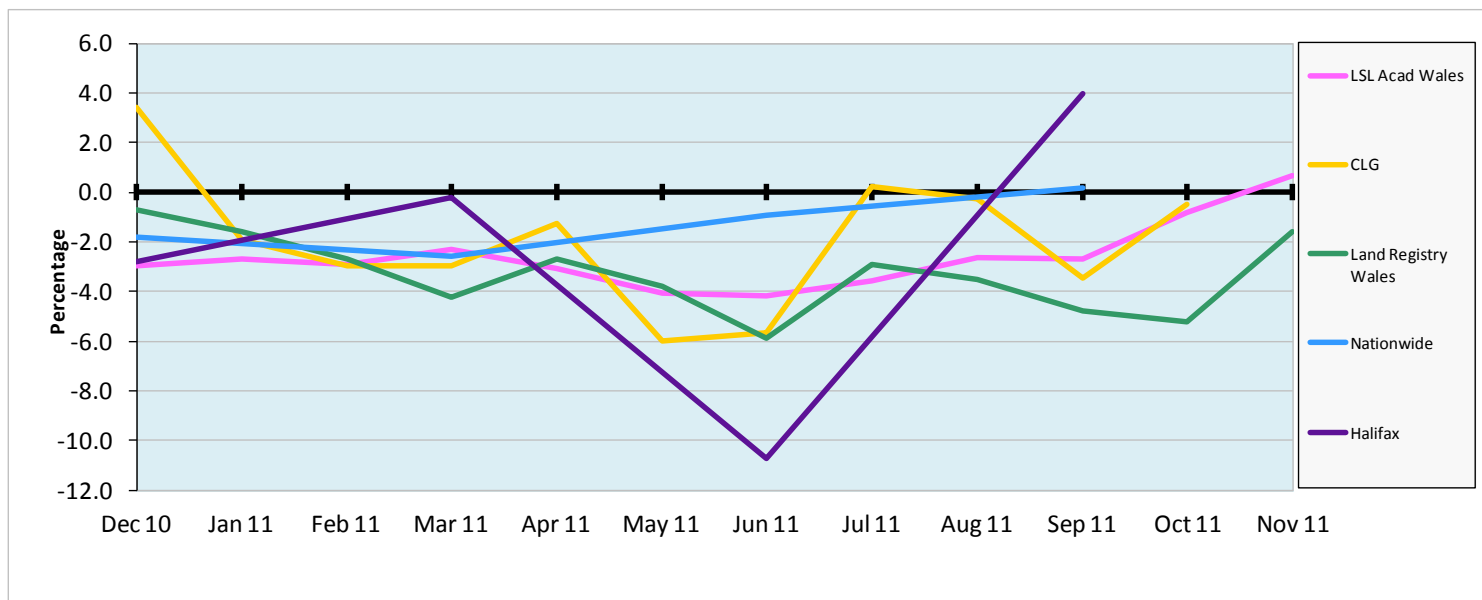


Figure 2. ANNUAL CHANGE IN HOUSE PRICES - COMPARISON OF INDICES

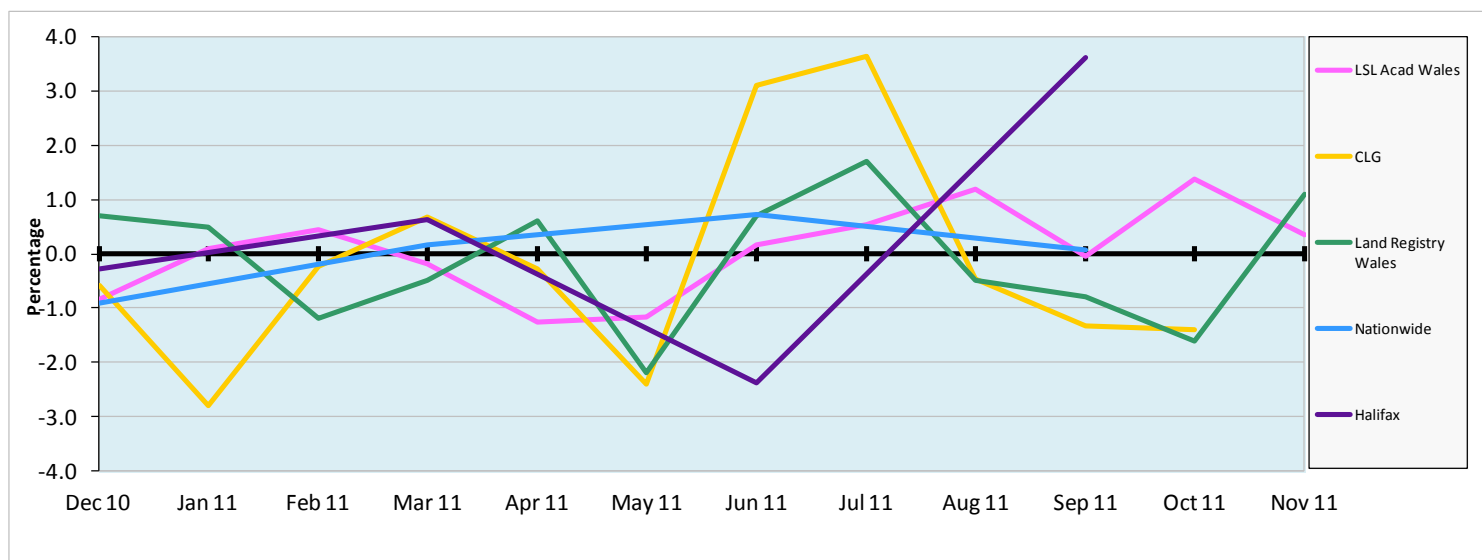


Figure 3. MONTHLY CHANGE IN HOUSE PRICES - COMPARISON OF INDICES

The above charts compare the main indices provided for Wales. It should be noted that Halifax and Nationwide provide prices for the Welsh market only on a quarterly basis and we have charted these by interpolating on a straight line basis.

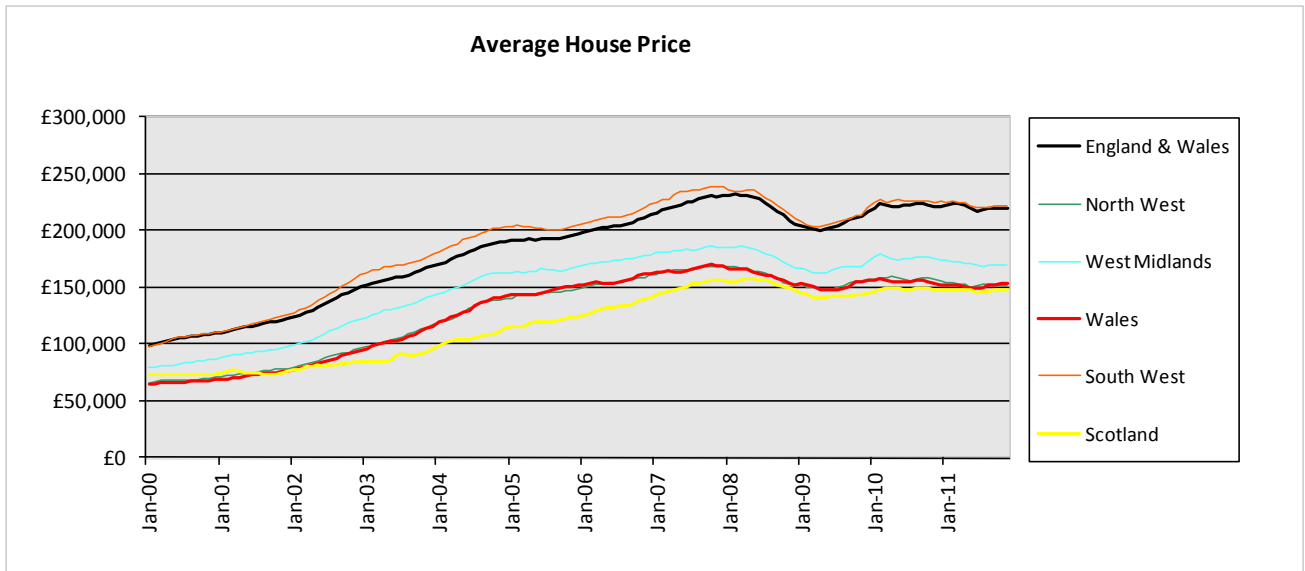


Figure 4. Wales house prices, compared with England & Wales, Scotland and regions bordering Wales for the period Jan 2000 - Nov 2011

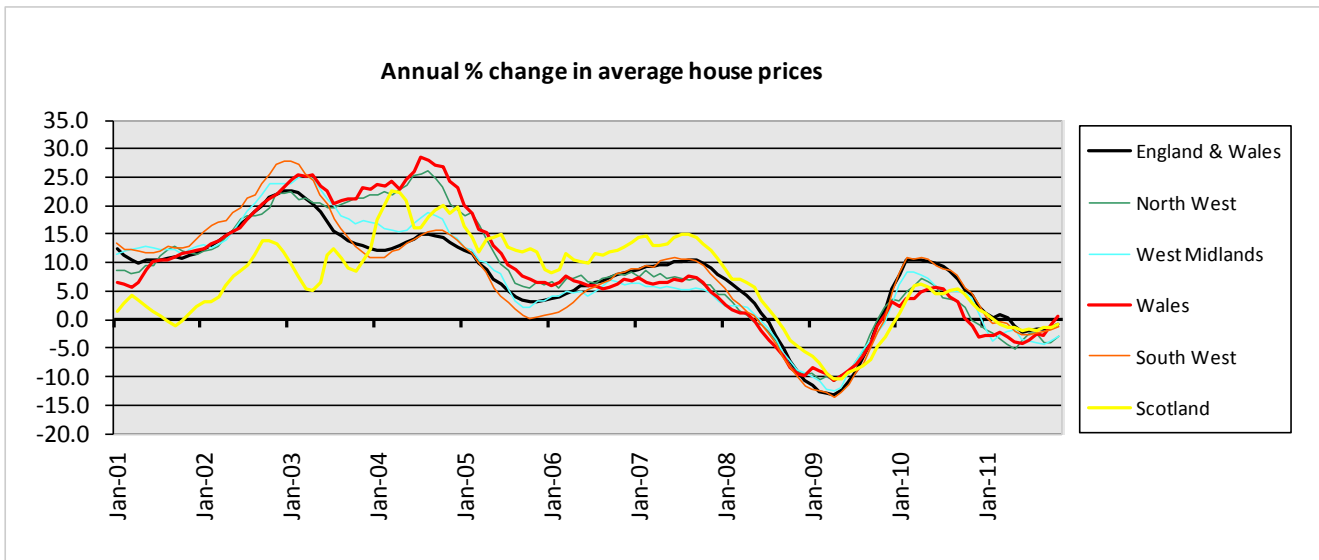


Figure 5. A comparison of the annual change in house prices in Wales, England & Wales, Scotland and regions bordering Wales for the period Jan 2001 – Nov 2011

Nine unitary authorities in Wales

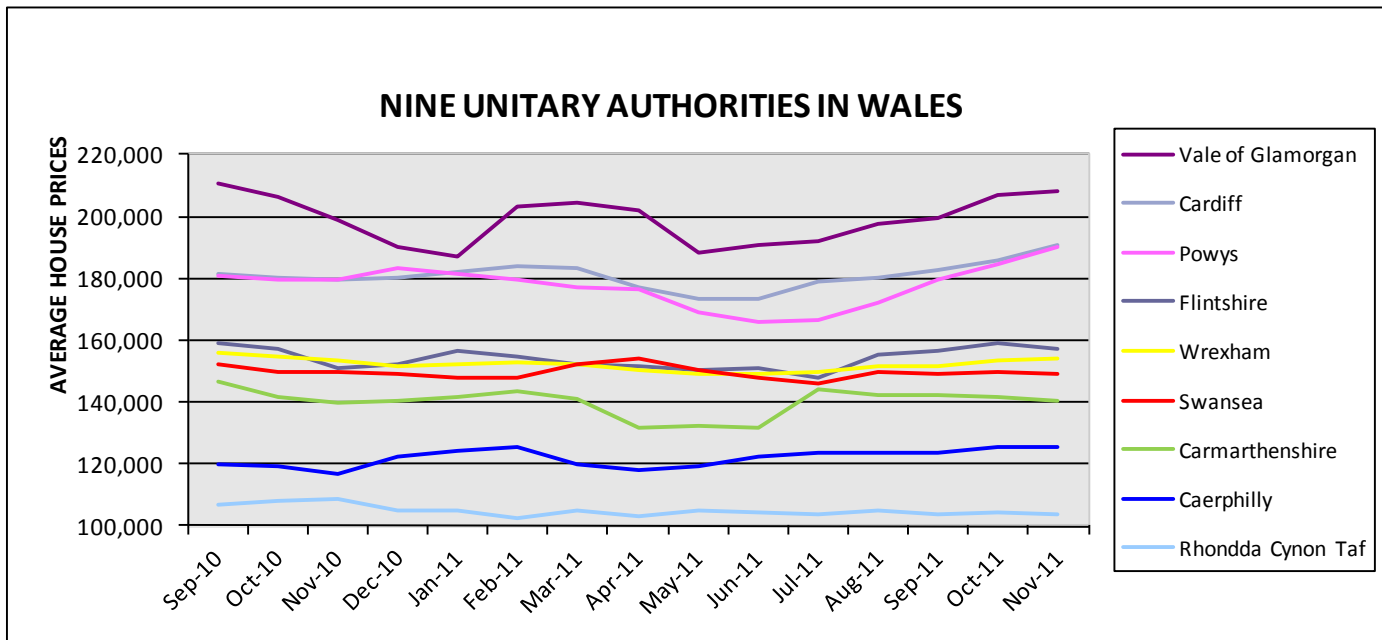


Figure 6. Average house prices for nine unitary authorities in Wales from September 2010 - November 2011

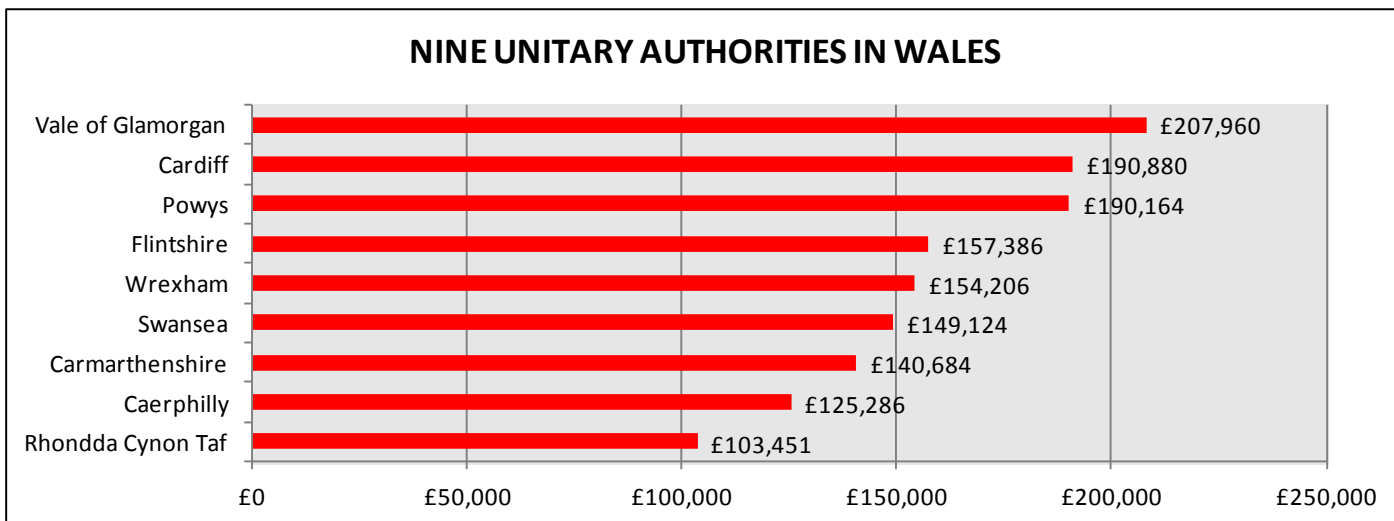


Figure 7. Average house prices for nine unitary authorities in Wales November 2011



1. LSL Acad Wales HPI is derived from Land Registry (LR) house price data, seasonally and mix adjusted by property type. © Crown copyright material reproduced with the permission of the Land Registry. The prices are smoothed to show underlying trends. LSL Acad Wales HPI includes cash purchase prices and is the only index based upon the complete, factual, house price data for Wales, 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 Wales HPI or CLGHPI, can be prepared only when the prices at which properties have been transacted have been recorded at RoS (LSL Acad Wales 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 Wales necessary to repeat the E&W forecasting methodology have not been employed, such that LSL Acad Wales HPI incorporates no forecasting procedure. Whilst the LSL Acad Wales HPI, like the LSL Acad E&W HPI, comprises a smoothed average of three months’ prices, the LSL Acad Wales 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 Wales 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 Wales 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 Wales 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. Like LSL Acad E&W HPI, LSL Acad E&W HPI provides prices from January 2000. 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 Wales 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 Wales 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 Wales HPI is prepared from LR data using a methodology designed to provide a “true measure of house price inflation”; Acadametrics does not guarantee the accuracy of the LSL Acad Wales 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 Wales 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 LR prices at county and unitary authority level provided at property type, which underlie LSL Acad Wales HPI, together with historic data can be purchased from Acadametrics.