

LSL Property Services/Acadametrics
Scotland

House Price Index

OCTOBER 2011

STRICTLY UNDER EMBARGO UNTIL 00.01 WEDNESDAY 14TH DECEMBER 2011



The momentum in the house price gains during the summer months comes to an end

- Prices of flats fall during October
- Year on year house price decline slows to -1.4%; down from -1.5% last month
- October transaction numbers show a small increase

House Price	Index	Monthly Change %	Annual Change %
£147,448	199.9	-0.1	-1.4

Richard Sexton, director of e.surv comments: “Prices haven’t dropped off a cliff and remain relatively stable. With inflation consistently breaching the 5% barrier, property is becoming more affordable, which is encouraging news for buyers. It’s the difficulty in securing a mortgage, not the cost of homes, that’s keeping would-be buyers out in the cold. Despite headline figures showing the banks are lending more, they are still demanding big deposits, which are keeping the lower end of the market in gridlock. Prices for flats fell faster than any other property type - a sure indicator that the first time buyer market is sluggish.

“The market is groggy after taking a series of punches from the Eurozone, but none have been knockout blows, with the stability of property prices and mortgage lending showing lenders and buyers have remained largely unaffected by the single currency crisis. Low mortgage rates have helped stimulate demand further up the housing ladder by tempting more buyers to trade-up, which is compensating for the lack of activity at the bottom of the market. Rising mortgage volumes suggest more buyers who boast large deposits are being seduced by cheap mortgage finance and subdued property prices. The splurge of activity from these buyers is cushioning house prices and preventing them from falling further.

“How prices fare in 2012 depends on whether the UK can continue repelling the economic onslaught from the Eurozone. The Scottish government has flagged possible concerns regarding the local impact of the Westminster’s recent veto of the latest European proposals. If cracks begin to appear in the defences and the contagion spreads, unemployment will rise, confidence will fall, and demand will fall with it. Most analysts are predicting flat growth, with increasing activity from buy-to-let investors and wealthier buyers offsetting the struggles of first-time buyers.”

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 November 2010 - October 2011

		House Price	Index	Monthly Change %	Annual Change %
November	2010	£148,339	201.1	-0.8	2.8
December	2010	£148,382	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	£148,413	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	£145,903	197.8	0.2	-1.7
August	2011	£146,410	198.5	0.3	-1.9
September	2011	£147,534	200.0	0.8	-1.5
October	2011	£147,448	199.9	-0.1	-1.4

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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 -0.1% in October, bringing to an end the summer ‘bounce’, during which prices rose by a total of 1.5% over three successive months. Over the last twelve months, there have been four months in which average prices have risen, six months in which prices have fallen and 2 months in which prices didn’t change. Not all local authority areas have witnessed price falls over the last month; indeed 19 out of the 32 local authorities saw price increases. However, the areas with the highest volume of sales, being Glasgow, Edinburgh and Fife, all saw prices decrease, resulting in a fall in prices for Scotland as a whole.

“During October, the property type experiencing the largest fall in price was ‘flats’, down by -1.2%, with semi-detached prices remaining static, detached prices increasing by 0.6% and terraced property prices increasing by 1.2%. The fall in the price of ‘flats’ is a reflection of the difficulties which first time buyers are experiencing in obtaining a mortgage, with a subsequent reduction in the number of such properties being sold.

“On an annual basis, the average house price in Scotland has fallen by -1.4%, to £147,448, which is £10,201, or 6.5%, below the peak price of £157,649 experienced in May 2008. That said, there are three local authority areas, Clackmannanshire, the Shetland Islands and Eilean Siar, where the average prices are currently at or close to their all-time peak. These three areas are ranked 29th, 31st and 32nd out of the 32 local authority areas in Scotland in terms of the number of properties sold each month - small volumes tend to result in more volatile ‘average’ prices - but is it more than coincidence that average house prices in these three areas have all peaked at the same time?

“Looking at the next six months, most housing analysts are predicting little movement in house prices. Despite the current economic gloom caused by the Eurozone crisis and the threat of increasing unemployment, which, ordinarily, would result in falling prices, these factors are being counter-balanced by record low interest rates, which makes the possibility of trading-up the housing ladder, for those that can provide the required level of deposits, both affordable and attractive. We, therefore, anticipate increasing activity at the top-end of the market, with reduced demand for flats and similar properties in the first-time buyer market sectors. These two factors will tend to cancel each other out, leaving little change in average prices overall, but with increasing frustration for those that remain unable to get a foothold on the property ladder.”

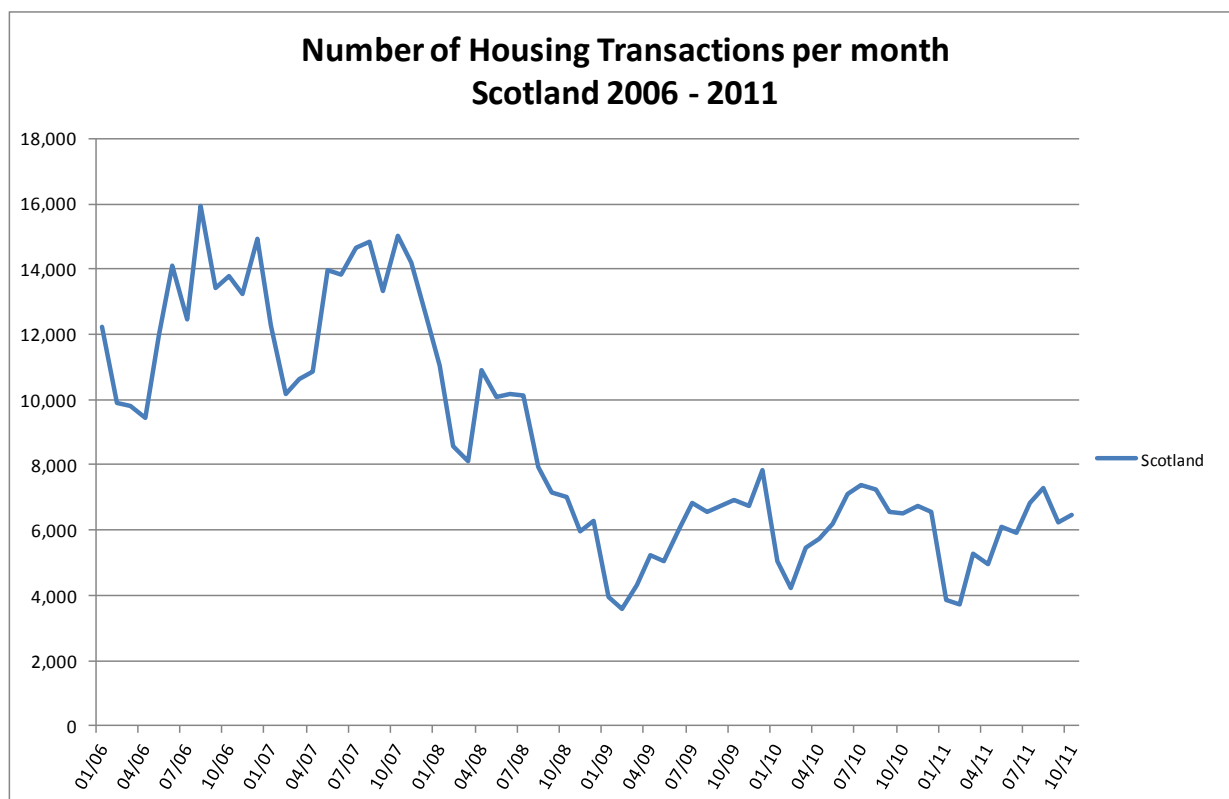


Figure 1. The number of housing transactions by month in Scotland, 2006 - 2011 (not seasonally adjusted)

The above graph shows the number of monthly transactions recorded by the Registers of Scotland (RoS) for the period January 2006 to October 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 RoS began recording data for Scotland as a whole). The number of properties sold in October 2011, at 6,440, is up 240 on September 2011 but down 60 on the number of properties sold in October 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

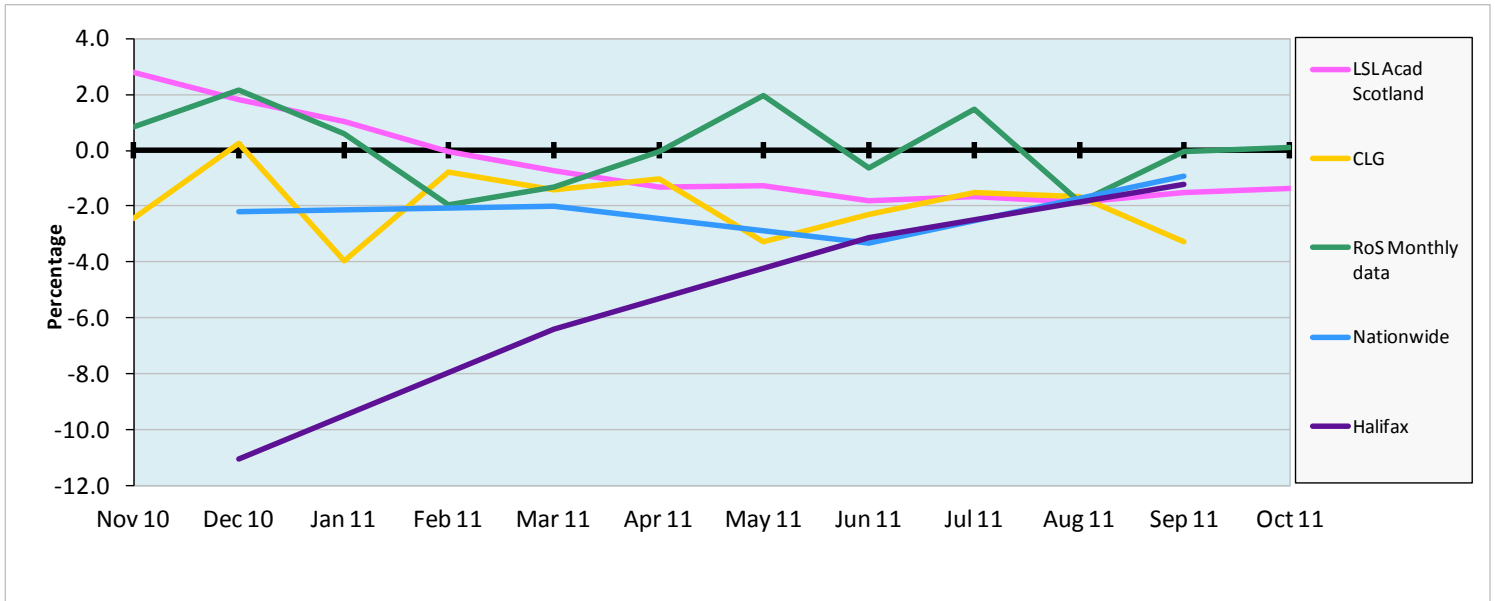


Figure 2. ANNUAL CHANGE IN HOUSE PRICES - COMPARISON OF INDICES AND RoS CHART

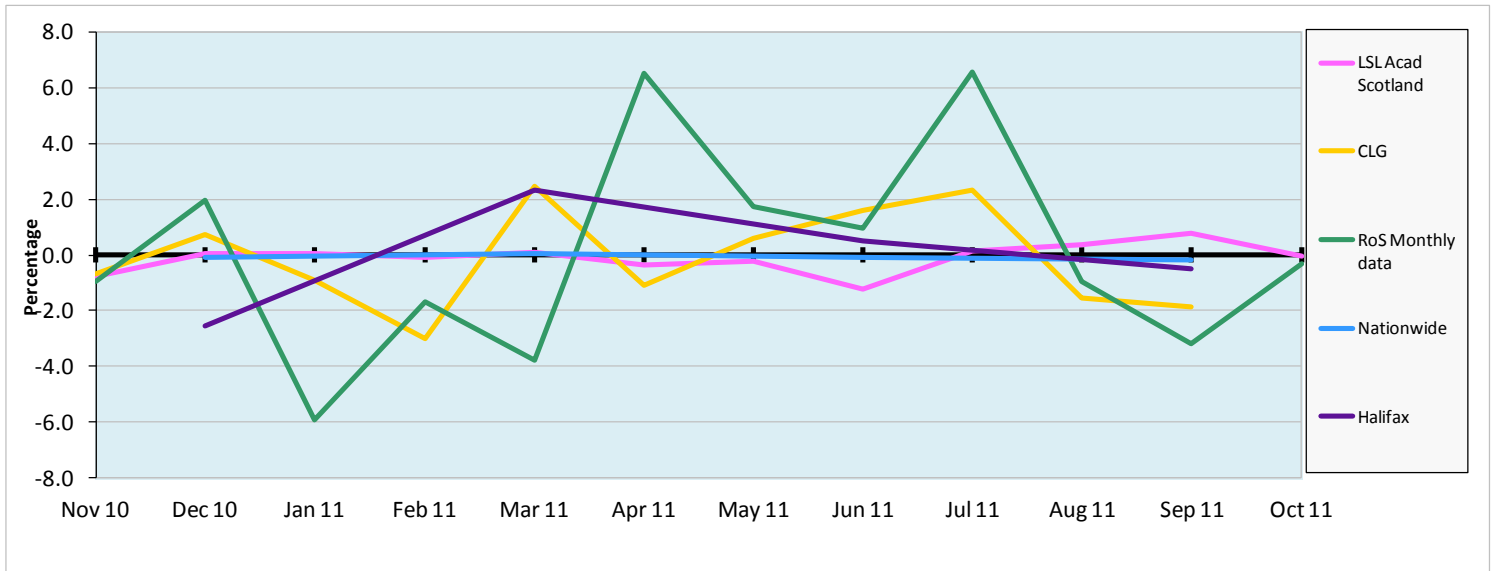


Figure 3. MONTHLY CHANGE IN HOUSE PRICES - COMPARISON OF INDICES AND RoS CHART

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.

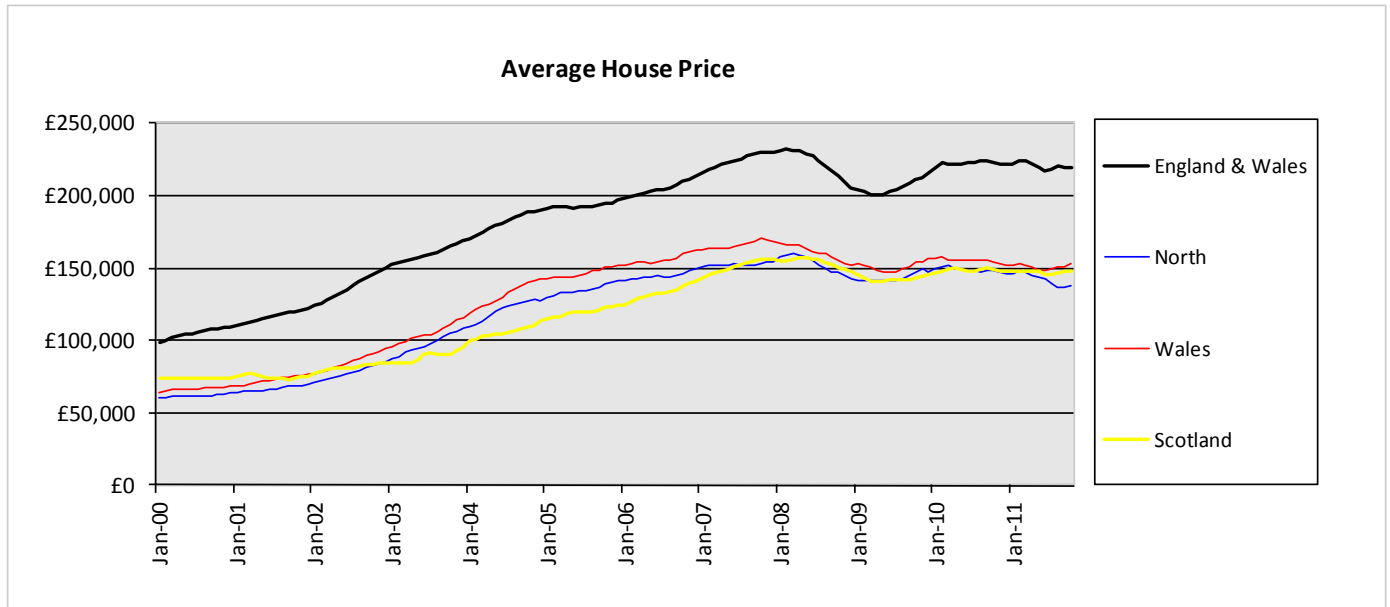


Figure 4. Scotland house prices, compared with England & Wales, Wales and the North for the period Jan 2000 - Oct 2011

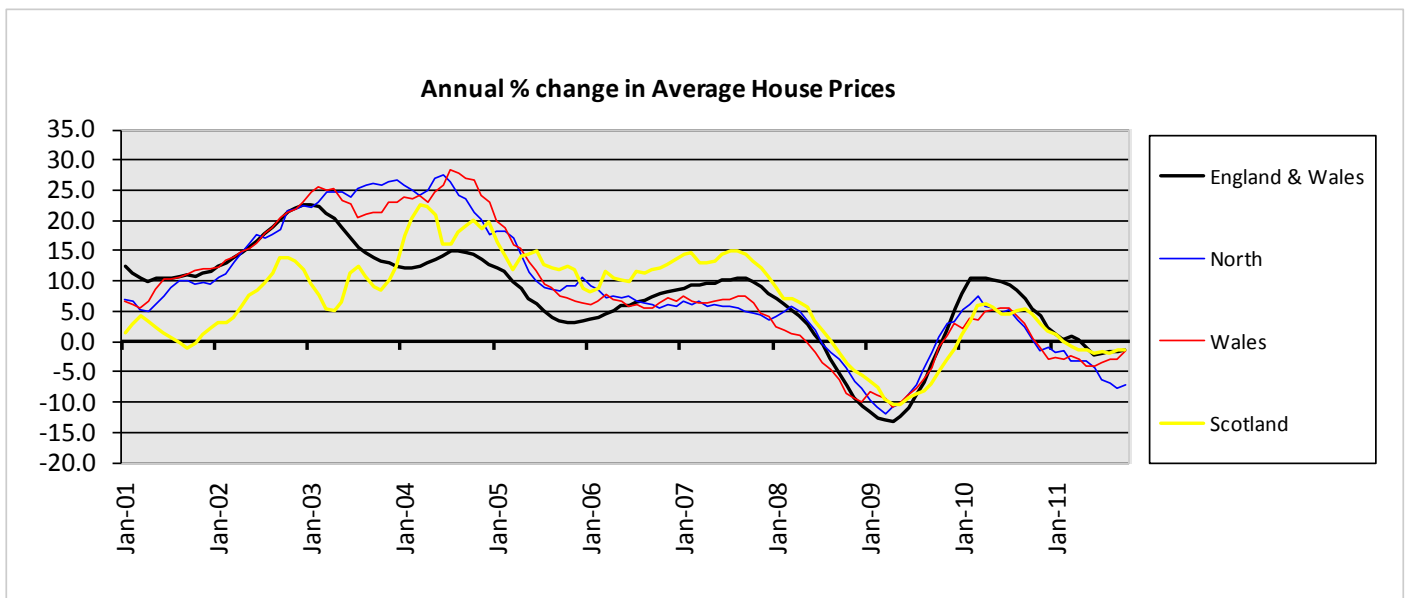


Figure 5. A comparison of the annual change in house prices in Scotland, England & Wales, Wales and the North for the period Jan 2001 - Oct 2011

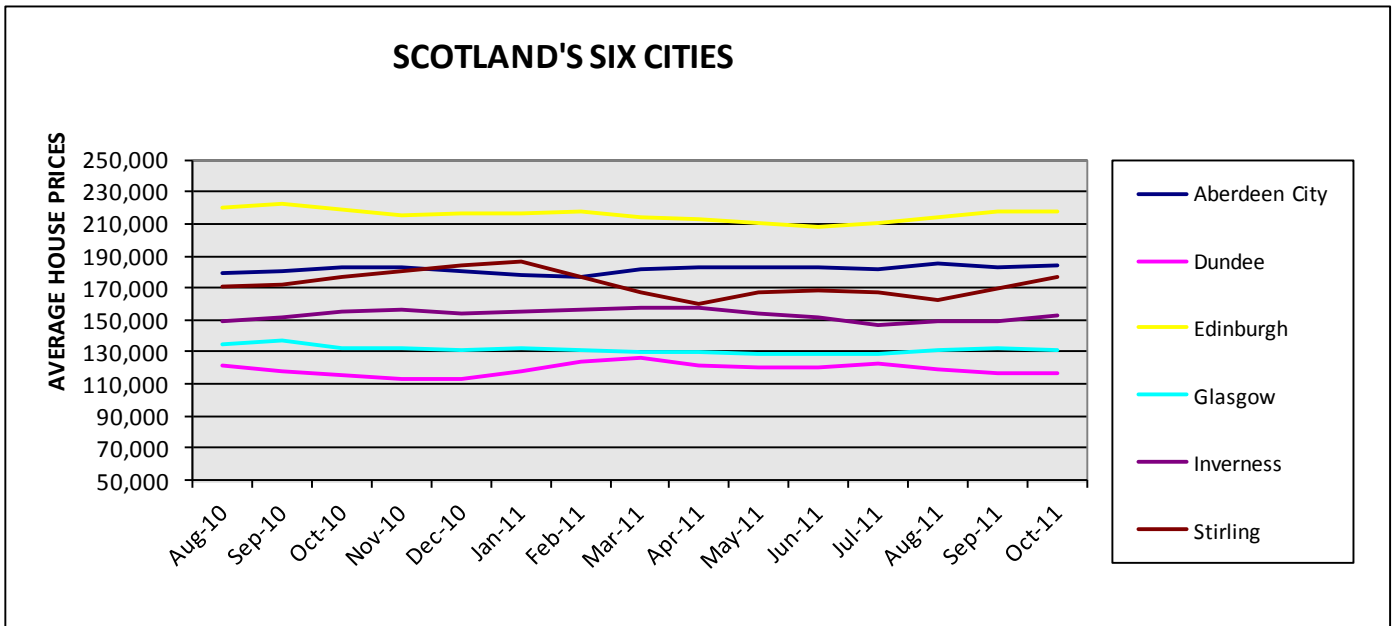


Figure 6. Average house prices for Scotland's six cities from November 2010 - October 2011

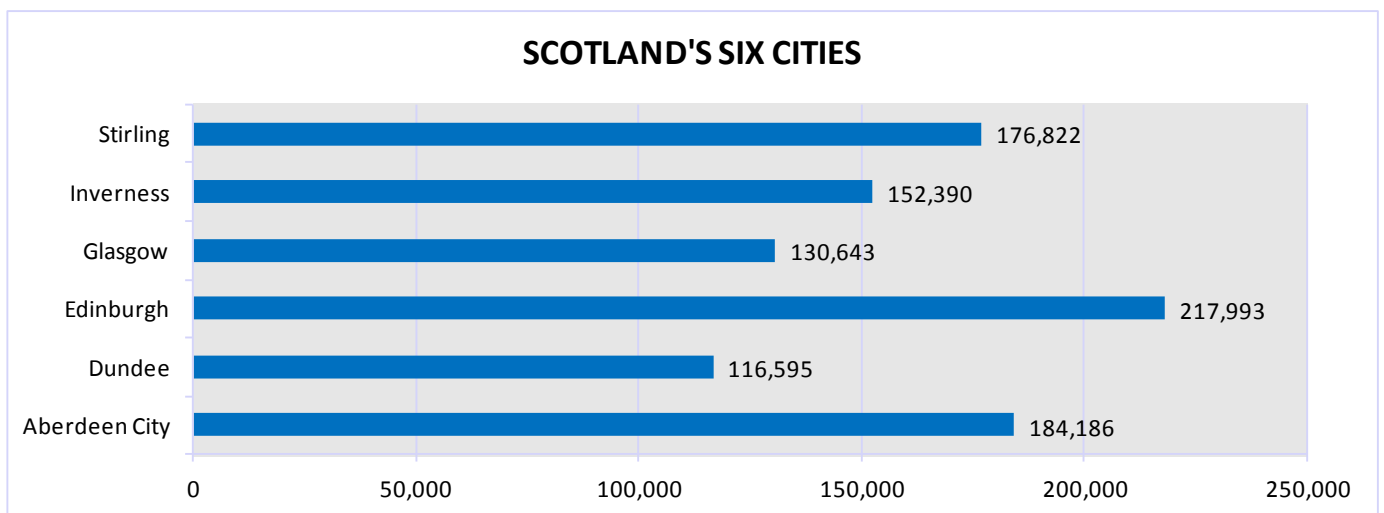


Figure 7. Average house prices for Scotland's six cities October 2011



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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