

LSL Property Services/Acadametrics
Scotland

House Price Index

DECEMBER 2011

STRICTLY UNDER EMBARGO UNTIL 00.01 WEDNESDAY 15TH FEBRUARY 2012



House prices fall in Scotland for the third month in succession

- Year on year average house price decline now stands at -1.0%
- House prices have declined steadily (down 2.0%) since April 2010
- December transactions up 2.5% compared to November

House Price	Index	Monthly Change %	Annual Change %
£146,913	199.2	-0.2	-1.0

Gordon Fowlis, Regional Managing Director, Your Move, comments: “Prices fell marginally in December, but no further than you’d expect in the normal seasonal downturn. Although, given the wider economic backdrop, the market has done well not to contract a more serious bout of contagion.

“Credit should go to mortgage lenders who have done their best to sustain lending. They have operated astutely and picked their battles carefully, pushing out a raft of higher loan-to-value mortgages last summer, which has increased the trickle of first time buyers to a more steady flow. Although first time buyer numbers are still depressed by historic standards, this has prevented prices from falling more sharply, and has had a knock on effect of galvanizing the higher echelons of the Scottish market.

“But it won’t last forever. Prices have already fallen 2% since April 2010 and, if the economy slips into recession, the pace of decline will increase. The CIPD has warned that government cuts will cripple the economy. Buyers are understandably unsure which direction the economy will take, which will encourage more of them to sit tight during 2012. And the banks are terrified by the prospect of a further downturn in the eurozone, which will feed through into the mortgage market. This fear has already begun to manifest itself in the form of higher rates and is sure to mean a drop in net lending over the coming months. Finally, repossession numbers are predicted to grow and this will be magnified in Scotland, where a backlog exists, due to legal rulings that temporarily suspended Scottish repossessions last year. This will depress prices further. The spring market will be punctuated by more lending to wealthier buyers and buy-to-let investors - groups that lenders see as lower risk - at the expense 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 January 2011 – December 2011

		House Price	Index	Monthly Change %	Annual Change %
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	£147,485	200.0	-0.3	-1.3
June	2011	£145,669	197.5	-1.2	-1.8
July	2011	£145,896	197.8	0.2	-1.7
August	2011	£146,409	198.5	0.4	-1.9
September	2011	£147,536	200.0	0.8	-1.5
October	2011	£147,441	199.9	-0.1	-1.4
November	2011	£147,196	199.6	-0.2	-0.8
December	2011	£146,913	199.2	-0.2	-1.0

Press Contacts:

Melanie Cowell, LSL Property Services
David Pickles, Acadametrics
Adam Jones, Wriglesworth PR

01904 715 326
020 8392 9082
020 7427 1403

melanie.cowell@lsps.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:

The average price of a house in Scotland fell by -0.2% in December, following a similar reduction in prices in November. This is the third month in succession that prices have fallen and the seventh month in 2011 in which price movements have been negative. Looking at the graph below one can see that there has been a gradual decline in average house prices over the last two years, from the minor peak seen in April 2010 when the average house price was just shy of £150,000, to a level of £146,913 at the end of December 2011, which equates to a fall of -2.0%. However the other notable feature of the graph is the relative stability of house prices over the last two years, when compared with the dramatic movements in prices seen over the period 2006 - 2009. Thus, the graph helps place the current gentle fall in house prices in the context of the far larger movements, seen in what is still recent history.

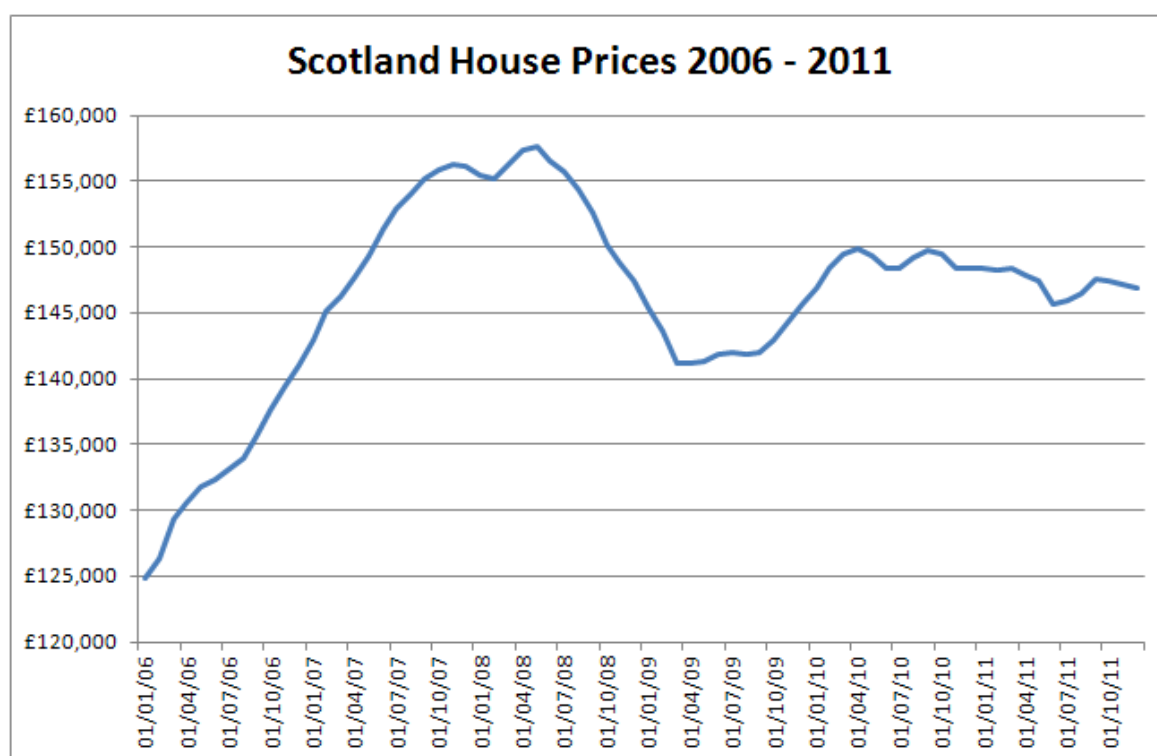


Figure 1. Average House Prices in Scotland for the period January 2006 - December 2011 (Mix and seasonally adjusted).

Although we argue that, at a national level, Scotland's house prices have seen only small changes over the last year, we show overleaf, in Table 2, that price movements at a local level have been far more striking, ranging from an increase in prices of +22% (Eilean Siar) to a fall in prices of -14% (East Lothian). As the table demonstrates, the pattern of movements in prices over the last year has been complicated with different areas recording different trends. There is simply no universal pattern behind the movements and it highlights the important differences experienced by the local economies in Scotland and the ways these find expression in the individual housing markets.

The question then is what next? Our expectation is more of the same, with the policy induced changes around stamp duty and then first time buyers balancing out through the year. Much now turns on the efforts to re-stimulate the economy, whether through more quantitative easing by the Bank of England or by the government in the March Budget. Without doubt both would like to see a more active housing market, not least because of how it might contribute to the economy as a whole.



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 AREA

(Mix adjusted)

RANK BY PRICE	PRIOR YR RANK	LOCAL AUTHORITY AREA	Dec-10	Dec-11	% Change
1	2	Edinburgh, City of	216,408	217,325	0.4%
2	4	Aberdeenshire	204,194	192,041	-6.0%
3	3	East Dunbartonshire	204,578	187,155	-8.5%
4	1	East Lothian	216,625	186,171	-14.1%
5	5	East Renfrewshire	189,461	185,847	-1.9%
6	7	Aberdeen City	180,614	182,778	1.2%
7	6	Stirling	184,636	175,646	-4.9%
8	8	Perth & Kinross	173,573	172,105	-0.8%
9	9	Scottish Borders	161,076	156,799	-2.7%
10	11	Highland	153,869	150,678	-2.1%
11	10	Midlothian	159,196	145,771	-8.4%
12	21	Clackmannanshire	121,581	143,532	18.1%
13	13	South Ayrshire	145,512	140,761	-3.3%
14	12	Argyll & Bute	145,957	135,068	-7.5%
15	14	West Lothian	139,342	134,599	-3.4%
16	15	Moray	138,690	131,557	-5.1%
17	18	Glasgow City	130,774	130,629	-0.1%
18	16	Angus	137,576	130,246	-5.3%
19	17	Dumfries & Galloway	133,540	129,798	-2.8%
20	22	Shetland Islands	118,842	129,257	8.8%
21	19	Fife	128,609	127,185	-1.1%
22	20	South Lanarkshire	121,960	126,562	3.8%
23	23	Orkney Islands	118,830	121,293	2.1%
24	25	Dundee City	113,175	120,512	6.5%
25	28	North Ayrshire	109,251	116,444	6.6%
26	24	Falkirk	115,775	116,134	0.3%
27	32	Eilean Siar	93,057	113,836	22.3%
28	26	Renfrewshire	112,306	112,832	0.5%
29	29	West Dunbartonshire	108,326	110,648	2.1%
30	27	East Ayrshire	110,124	110,056	-0.1%
31	30	Inverclyde	106,479	108,594	2.0%
32	31	North Lanarkshire	101,156	102,101	0.9%
		ALL SCOTLAND	148,381	146,913	-1.0%

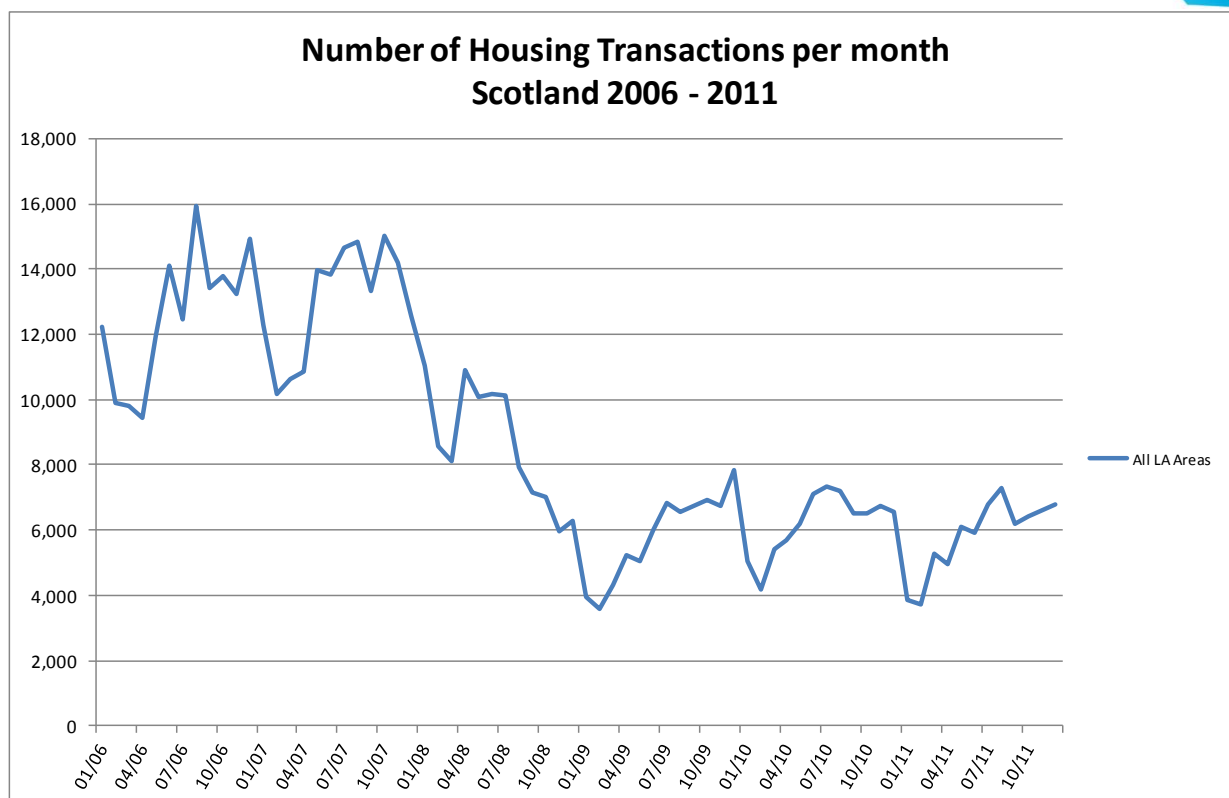


Figure 2. The number of housing transactions by month in Scotland, 2006 - 2011 (not seasonally adjusted)

The above graph shows the number of monthly transactions recorded by the Registers of Scotland (RoS) for the period January 2006 to December 2011, without seasonal adjustment. Traditionally, there is a slight increase in sales in December, as buyers seek to complete transactions prior to the year end, and 2011 proved no exception, with volumes up 2.5% over November. The above graph shows how the market has fallen since 2006/2007, with 55% fewer sales in 2011 compared with 2007. It should 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 main reason why sales are now at these lower levels is due to the dearth of first time buyers, who continue to experience difficulties in raising the increased level of deposits now required by the lenders.

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

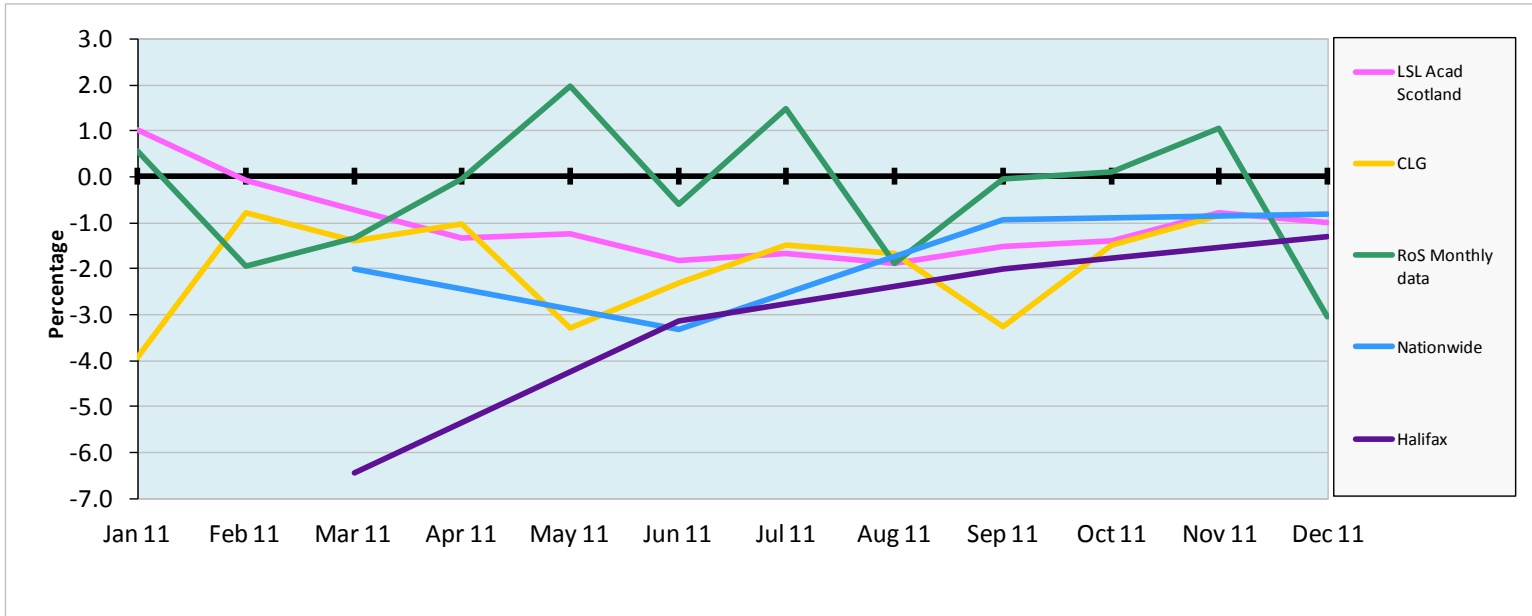


Figure 3. ANNUAL CHANGE IN HOUSE PRICES - COMPARISON OF INDICES AND RoS CHART

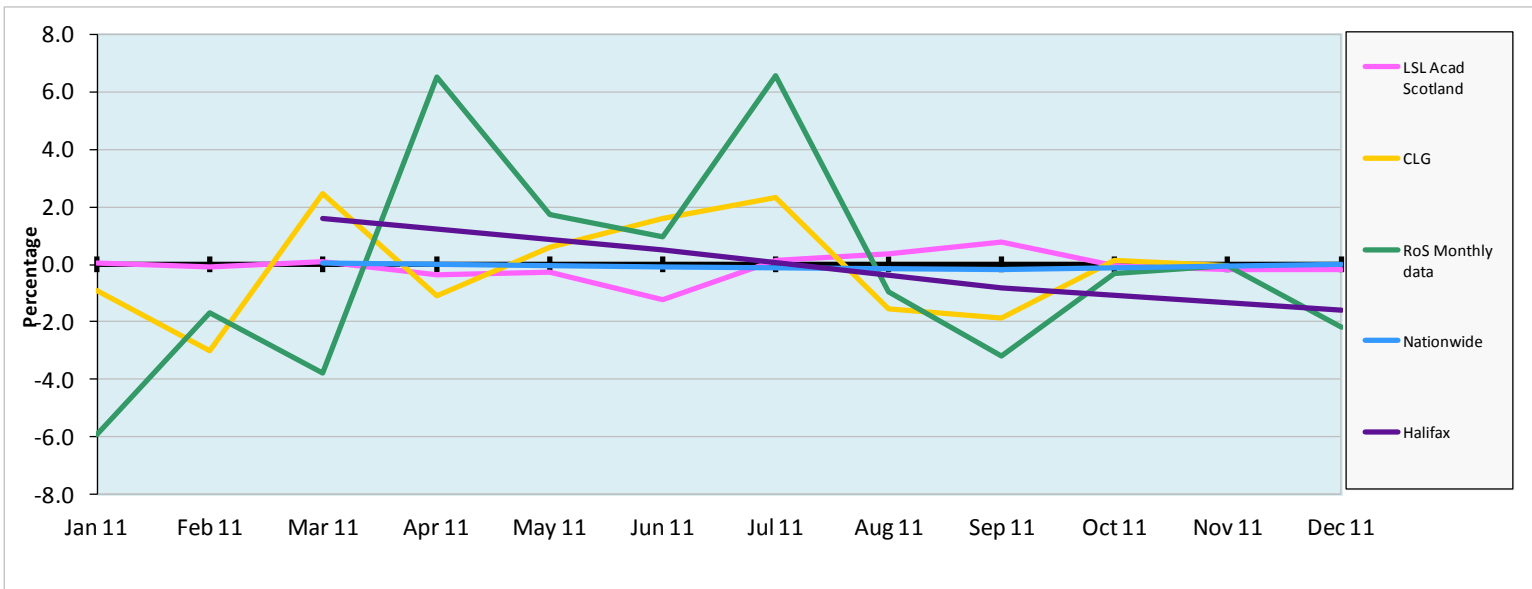


Figure 4. MONTHLY CHANGE IN HOUSE PRICES - COMPARISON OF INDICES AND RoS CHART

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.

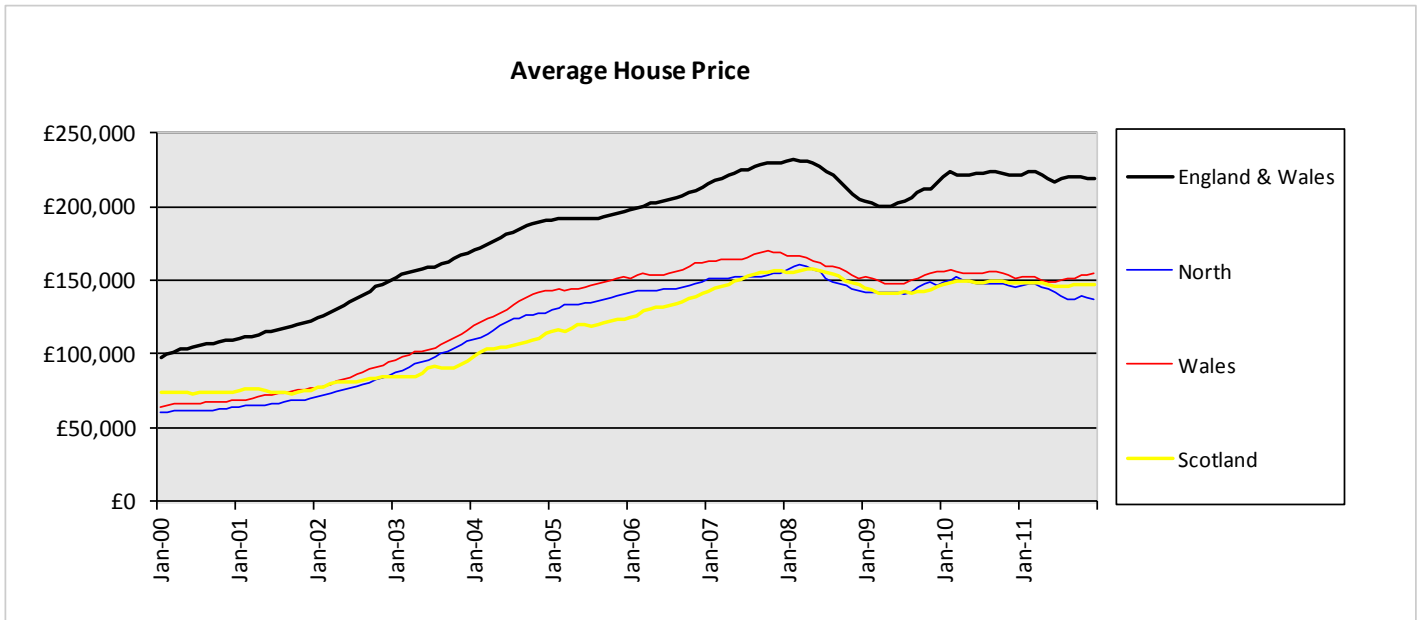


Figure 5. Scotland house prices, compared with England & Wales, Wales and the North for the period Jan 2000 - Dec 2011

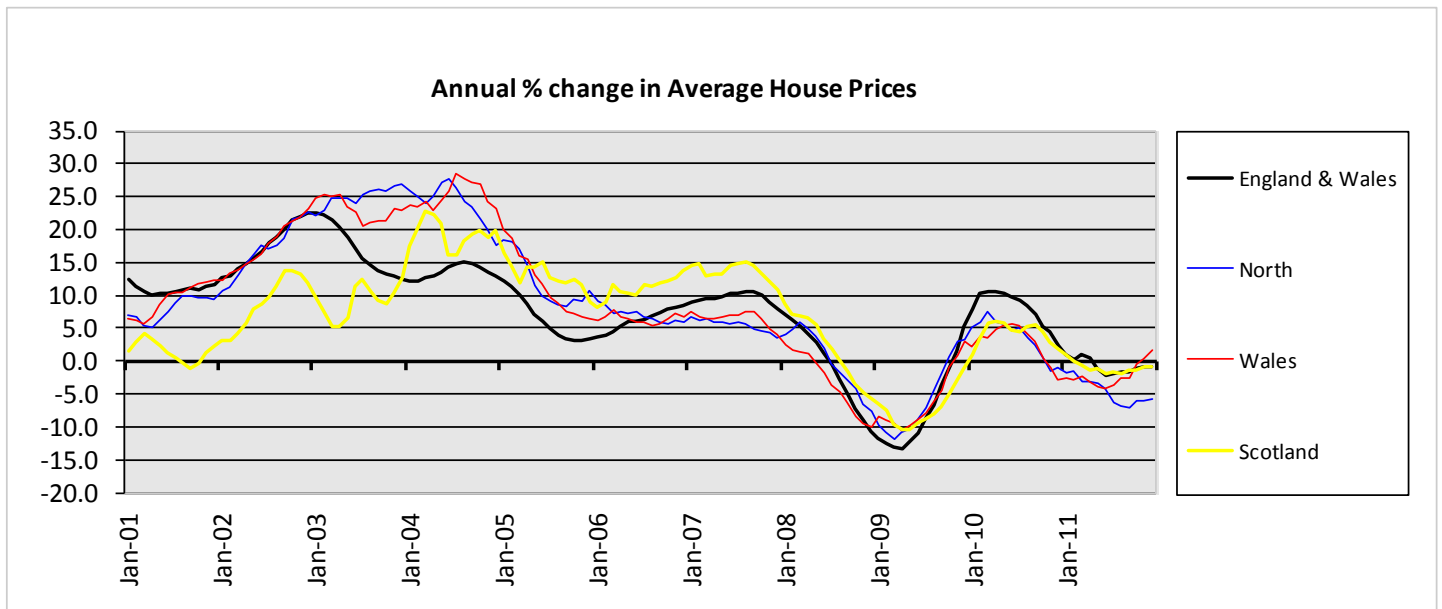


Figure 6. A comparison of the annual change in house prices in Scotland, England & Wales, Wales and the North for the period Jan 2001 - Dec 2011

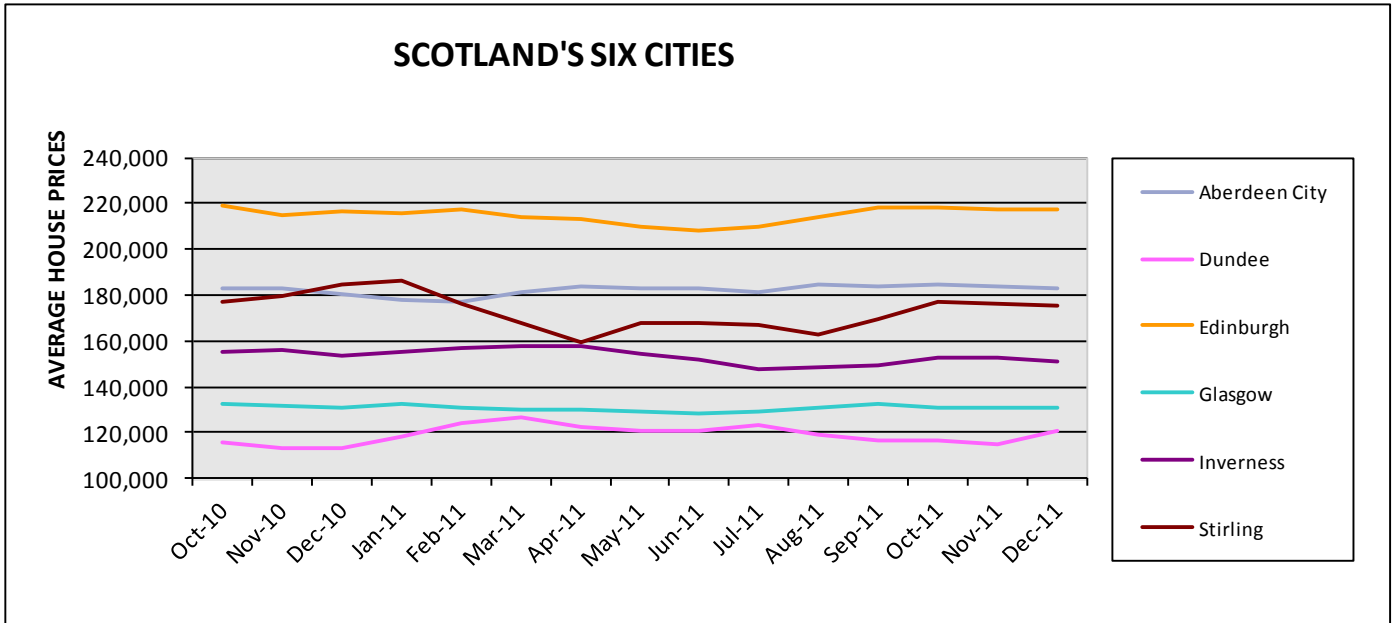


Figure 7. Average house prices for Scotland's six cities from October 2010 - December 2011

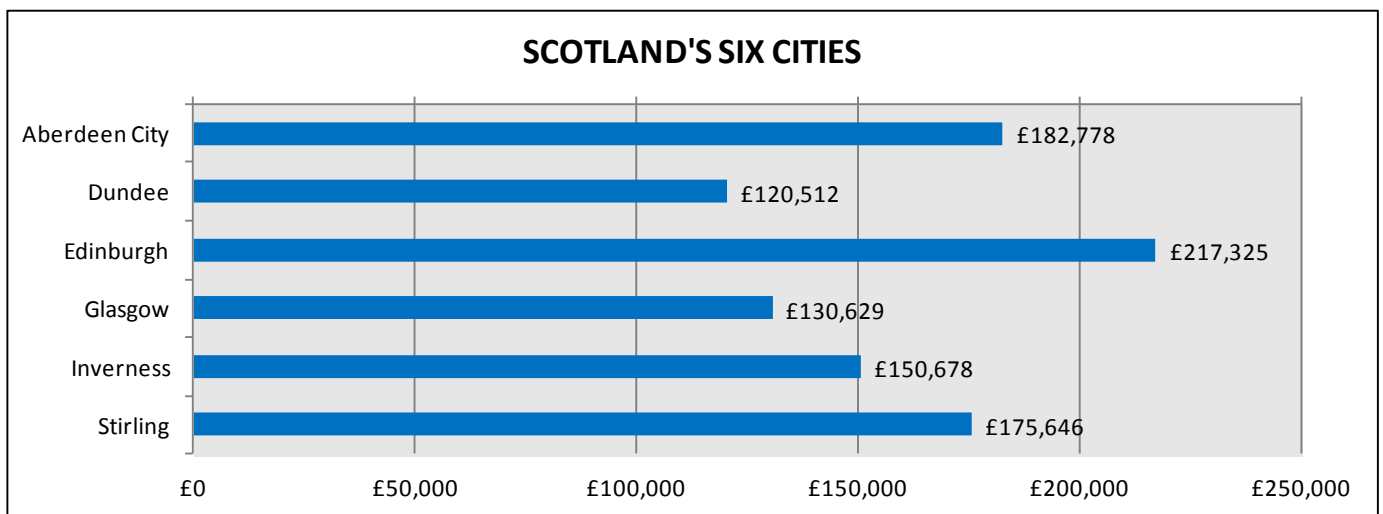


Figure 8. Average house prices for Scotland's six cities December 2011



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.



LSL PROPERTY SERVICES PLC

LSL is one of the leading residential property services companies in the UK and provides a broad range of services to a wide range of customers including mortgage lenders together with buyers and sellers of residential properties.

LSL's operations cover four key areas; surveying; estate agency; corporate services; financial services.

Surveying

LSL's [surveying](#) business operates under e.surv Chartered Surveyors, Chancellors Associates and Barnwoods brands. e.surv is one of the largest employers of residential Chartered Surveyors in the UK and is the largest distributor and manager of mortgage valuations and private surveys.

Estate Agency

LSL's [estate agency](#) business operates under the Your Move, Reeds Rains, Intercounty and several independent brands. Your Move is the single largest estate agency brand in the UK.

In January 2010 the acquisition of the Halifax Estate Agency (HEA) business from Lloyd Banking Group saw LSL increase in size to become the second largest UK estate agency network - with around 570 branches. It is also the largest letting agency in the UK.

Corporate Services

LSL Corporate Client Services was launched in 2008 to provide asset management and lettings property portfolio management services to corporate clients. This business has grown through the addition of St Trinity Asset Management - which previously operated as HEA Corporate Services - and Templeton LPA, which LSL acquired in February 2010.

Financial Services

LSL offers financial services across its entire branch network. In May 2010 LSL acquired over 450 advisers from leading financial services network Home of Choice - these advisers now operate under the brand of First Complete.

In October 2010 LSL also announced the acquisition of mortgage distribution company, Advance Mortgage Funding Limited (trading as Pink Home Loans) and its subsidiary business BDS Mortgage Group Limited, (together known as Pink), from Skipton Building Society. It further confirmed LSL's position as one of the largest mortgage advisory businesses in the UK today.

For further information see www.lslps.co.uk