

LSL Property Services/Acadametrics
Scotland

House Price Index

JUNE 2012

STRICTLY UNDER EMBARGO UNTIL 00.01 WEDNESDAY 15TH AUGUST 2012



Scottish house sales 9% higher than 2011 as market takes first steps towards recovery

- 2,674 more house sales in first half of 2012 compared to equivalent period last year
- Prices in Midlothian rise £20,000 in last year
- Prices in Edinburgh up almost £13,000 over last 12 months

| House Price | Index | Monthly Change % | Annual Change % |
|-------------|-------|------------------|-----------------|
| £146,093 | 198.1 | 0.0 | -0.1 |

Richard Sexton, director of e.surv chartered surveyors, part of LSL, comments: “The Scottish housing market is climbing the ladder to recovery rung by rung. Despite the impact of the Jubilee bank holidays, house sales so far this year are 9% higher than in the equivalent period last year. The fact that activity has increased during a year when the economy has been weak bodes well for the future, and is testament to the underlying strength of the housing market and pent up demand.

“Although bank lending is still in the doldrums, evidently more buyers have been able to access mortgages than in 2011. More buyers have rolled up their sleeves and built the big deposits banks require to access affordable loans, which has eased the gridlock in the market and jump-started activity. An air of cautious optimism surrounds the Scottish housing market at the moment. Slowly but surely the building blocks of recovery are being put in place.

“But there is still a long way to go before the market drags itself out the hole dug for it by the financial crisis. Sales are still at half the level they were before 2008. Recoveries from recessions caused by debt are always fragile, and a severe downturn in the eurozone or a sharp squeeze on the credit available to banks could still shatter much of the progress the market has made. Despite the deposits being saved, the lack of loans to first time buyers is a huge roadblock to a complete recovery.

“Prices are erratic on a regional basis. Areas like Edinburgh and other parts of Midlothian, which have pockets of wealthier buyers, have seen prices rise considerably over the past year. These areas are full of buyers with more equity, so more people are finding it easier to get a mortgage. This is pushing demand above supply and causing prices to rise. On the flip side, less affluent areas with high unemployment have seen activity drop away, which has dragged down prices.”

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 July 2011 - June 2012

[link to source Excel](#)

| | | House Price | Index | Monthly Change % | Annual Change % |
|------------------|-------------|-------------|-------|------------------|-----------------|
| July | 2011 | £146,396 | 198.5 | 0.2 | -1.6 |
| August | 2011 | £146,914 | 199.2 | 0.4 | -1.8 |
| September | 2011 | £147,731 | 200.3 | 0.6 | -1.4 |
| October | 2011 | £147,710 | 200.3 | 0.0 | -1.3 |
| November | 2011 | £147,480 | 200.0 | -0.2 | -0.7 |
| December | 2011 | £147,051 | 199.4 | -0.3 | -1.0 |
| January | 2012 | £145,823 | 197.7 | -0.8 | -1.9 |
| February | 2012 | £145,688 | 197.5 | -0.1 | -1.7 |
| March | 2012 | £145,842 | 197.7 | 0.1 | -1.3 |
| April | 2012 | £146,274 | 198.3 | 0.3 | -0.6 |
| May | 2012 | £146,072 | 198.1 | -0.1 | -0.6 |
| June | 2012 | £146,093 | 198.1 | 0.0 | -0.1 |

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

In June 2012, the average price paid for a house in Scotland rose by a nominal £21 to £146,093; a level £81 below the average price seen in June 2011. So one could, perhaps, say that not a lot has happened in the housing market over the year. Certainly the market has been fluctuating. But, as Figure 1 below illustrates, fluctuation over the year has been around a marginally falling house price trend. The prices, to which a link is given, have been seasonally adjusted to allow direct comparison from one month to another.

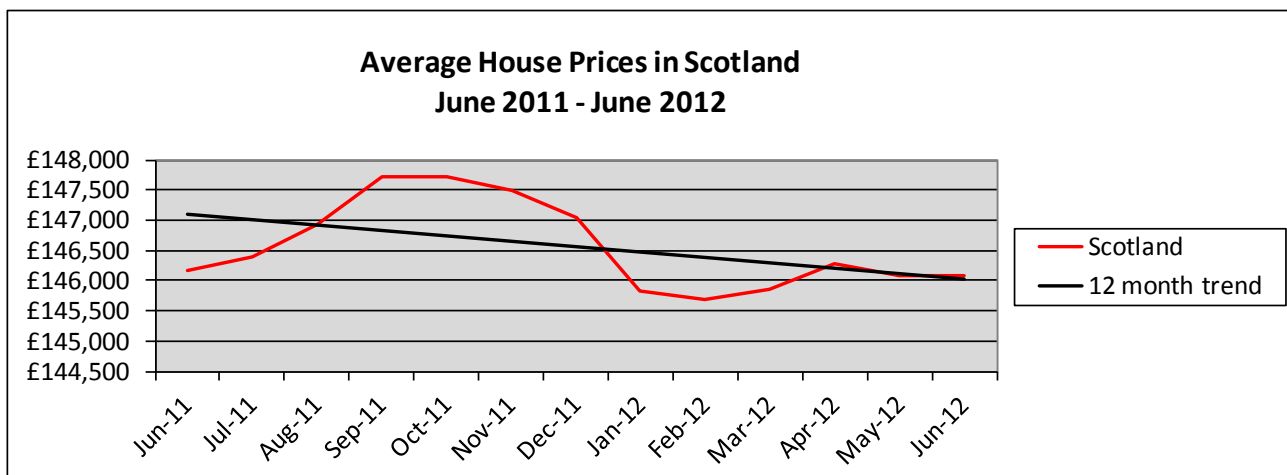


Figure 1. Average house prices in Scotland, June 2011 – June 2012

[link to source Excel](#)

How does the housing market remain relatively stable during a period when the financial markets are in turmoil? On a national basis, the supply and demand for housing has been in a general balance and it is this balance which has been keeping prices steady. A number of caveats should be added to this statement. Firstly, as Figure 2 on page 5 illustrates, the number of properties being bought and sold in 2011/12 is running at only 45% of the levels seen before the housing slump of 2008/09. There are therefore a number of potential house purchasers and, in particular, of First Time Buyers, who are not entering the market, mainly due to difficulties in obtaining credit finance. The demand side of the housing equation is therefore relatively subdued.

Secondly, there is a natural and understandable reluctance on the part of owners to sell what is probably their prime asset at a loss. This is especially the case if their mortgage is in negative equity; if so, the seller would have to pay the mortgage company more than can be raised from the sale. For many, while interest rates are relatively low, it is perhaps easier to keep up with the mortgage payments than to accept a capital loss on the home. Some property owners have, therefore, become reluctant landlords and are renting their homes rather than selling them. Hence, the supply side of the equation is also therefore relatively subdued.

As said, there is a balance between buyers and sellers in the market, resulting in stability in prices, albeit at much reduced transaction volumes. Will the latest Bank of England 'Funding for Lending' initiative, making cheap loans available to banks with the proviso that the money must in turn be lent to house purchasers or small businesses, make a difference? We suspect not. Although the Bank of England loans will ensure that the lenders have access to capital, which will keep their wheels oiled, there is no stipulation that the banks must lend the money to First Time Buyers, or to those who cannot raise substantial deposits. So it is likely that the banks will keep to their current strategies and lend only to those with high credit ratings and the required deposits, in areas not plagued by the prospect of high unemployment. Plus ça change.

Although house prices in Scotland as a whole show relatively little movement, we continue to see changes in price at the more local level which can be dramatic, where localised imbalances between supply and demand exist. Our analysis below of the movement in prices at the local authority level shows a range of price changes over the year from +19.9% in the Shetland Islands, to -9.2% in the Scottish Borders. Apparently, for those with a sufficient deposit, what is historically a low cost of borrowing is making the dream of buying a home in the Shetlands attainable, such that demand is outstripping supply, causing prices to rise.



Table 2. Average House Prices in Scotland, by local authority area, comparing June 2011 with June 2012

[link to source Excel](#)

AVERAGE HOUSE PRICES IN SCOTLAND BY LOCAL AUTHORITY AREAS (Mix adjusted)

| RANK BY PRICE | PRIOR YR RANK | LOCAL AUTHORITY AREA | Jun-11 | Jun-12 | % Change |
|---------------|---------------|----------------------|----------------|----------------|--------------|
| 1 | 2 | Edinburgh, City of | 208,930 | 221,715 | 6.1% |
| 2 | 1 | East Renfrewshire | 223,089 | 203,026 | -9.0% |
| 3 | 3 | East Lothian | 202,066 | 201,172 | -0.4% |
| 4 | 4 | Aberdeenshire | 201,573 | 195,538 | -3.0% |
| 5 | 5 | East Dunbartonshire | 190,760 | 182,506 | -4.3% |
| 6 | 6 | Aberdeen City | 183,248 | 178,694 | -2.5% |
| 7 | 11 | Midlothian | 151,978 | 172,294 | 13.4% |
| 8 | 8 | Stirling | 168,482 | 171,031 | 1.5% |
| 9 | 7 | Perth & Kinross | 174,271 | 160,053 | -8.2% |
| 10 | 9 | Scottish Borders | 167,925 | 152,502 | -9.2% |
| 11 | 10 | Highland | 152,515 | 152,191 | -0.2% |
| 12 | 14 | Argyll & Bute | 137,550 | 147,380 | 7.1% |
| 13 | 15 | West Lothian | 136,632 | 139,399 | 2.0% |
| 14 | 16 | Dumfries & Galloway | 133,667 | 138,527 | 3.6% |
| 15 | 24 | Shetland Islands | 114,121 | 136,817 | 19.9% |
| 16 | 12 | South Ayrshire | 143,433 | 136,715 | -4.7% |
| 17 | 13 | Moray | 139,236 | 135,782 | -2.5% |
| 18 | 20 | Orkney Islands | 124,498 | 132,480 | 6.4% |
| 19 | 19 | Fife | 125,173 | 131,204 | 4.8% |
| 20 | 21 | Clackmannanshire | 122,273 | 131,015 | 7.1% |
| 21 | 18 | Angus | 128,565 | 130,352 | 1.4% |
| 22 | 17 | Glasgow City | 128,905 | 125,050 | -3.0% |
| 23 | 22 | Dundee City | 121,158 | 120,970 | -0.2% |
| 24 | 23 | South Lanarkshire | 120,745 | 117,035 | -3.1% |
| 25 | 27 | Inverclyde | 110,202 | 115,586 | 4.9% |
| 26 | 25 | Falkirk | 112,768 | 114,418 | 1.5% |
| 27 | 32 | Eilean Siar | 94,533 | 112,256 | 18.7% |
| 28 | 29 | Renfrewshire | 105,752 | 110,395 | 4.4% |
| 29 | 26 | West Dunbartonshire | 110,514 | 103,788 | -6.1% |
| 30 | 30 | North Ayrshire | 104,131 | 101,188 | -2.8% |
| 31 | 28 | East Ayrshire | 106,689 | 101,098 | -5.2% |
| 32 | 31 | North Lanarkshire | 102,407 | 98,021 | -4.3% |
| | | All Scotland | 146,174 | 146,093 | -0.1% |

Table 2 shows the average house price by local authority area in Scotland in June 2011 and June 2012 and the percentage change in these prices over the year. Although, on average, prices have fallen over the year by -0.1% in Scotland as a whole, in individual areas we can see a range of price movements from +19.9% (the Shetland Islands) to -9.2% (the Scottish Borders). In not one local authority has the average price fallen by the national average of -0.1%. This suggests that the average fall, nationally, is not representative of what is happening in housing markets at the more local level, where prices have been more volatile.

Of the 32 local authority areas in Scotland, 15 have seen prices rise and 17 have seen prices fall over the year. Last month the equivalent figures were 16 with rises and 16 with falls, suggesting a minor deterioration in the market this month.

In Scotland as a whole, the prices of flats and semi-detached properties have each risen by +0.1%, while the prices of terraced and detached properties have fallen by -1.1% and -1.8% respectively. In terms of transactions, over the year the sale of flats, semis and terraces have increased by +5.9%, +1.4% and +0.2% respectively, while the number of detached properties sold has decreased by -1.7%.

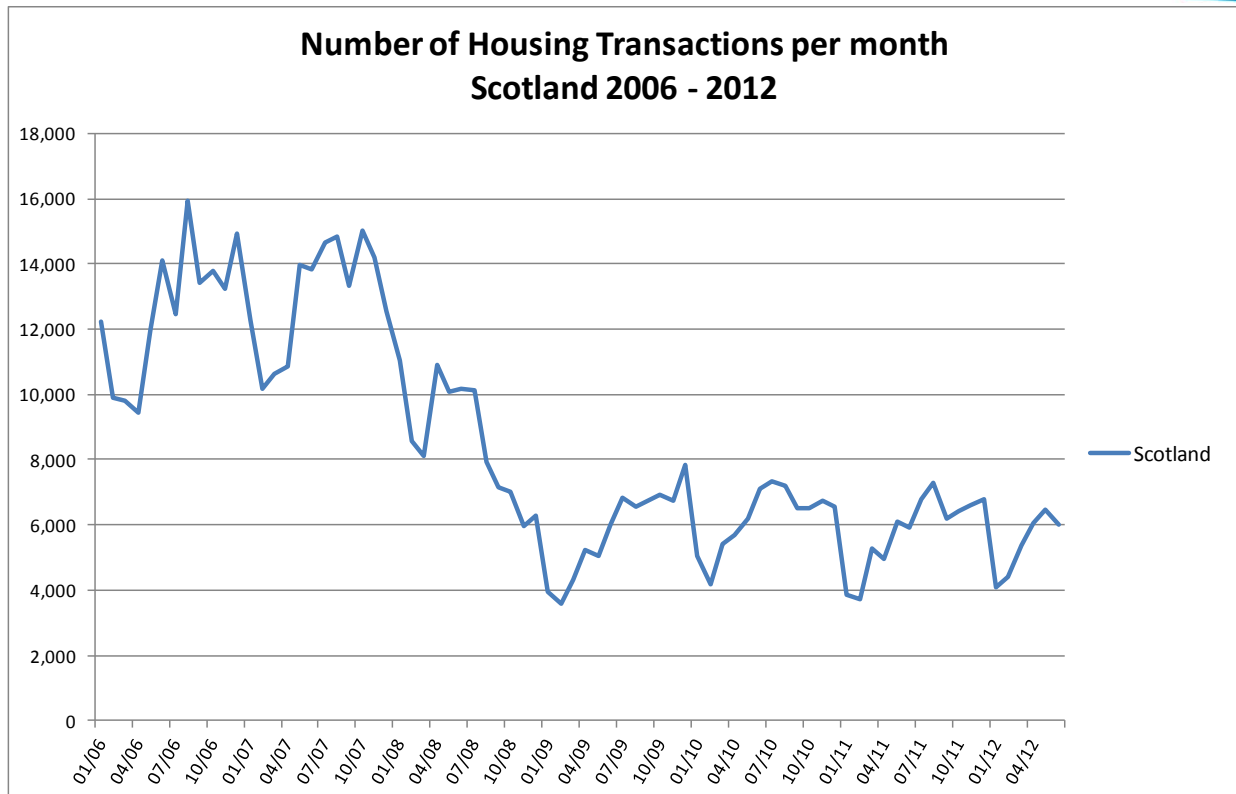


Figure 2. The number of housing transactions by month in Scotland, 2006 - 2012 (not seasonally adjusted)

[link to source Excel](#)

The above graph shows the number of monthly transactions recorded by the Registers of Scotland (RoS) for the period January 2006 to June 2012, without seasonal adjustment. Traditionally, we can expect an increase of 7% in the number of transactions from May to June. However, this year sales fell by 7%. We can ascribe some of this decline to the Queen’s Jubilee. Estate agents say, too, that property viewings on a Bank Holiday are among the lowest of any day in the year. We can also note that the Met Office reports that Scotland had particularly high levels of rainfall in June at 152% of the average, with a corresponding decline in sunshine hours, which were at 77% of the long term average. In weather terms the June ‘feel-good’ factor did not exist. To the combination of these events can be ascribed, therefore, the decline in sales. That said, average activity was high earlier in the year, such that the first six months of 2012 are 9% up on the same period in 2011. Some of this increased activity was down to first time buyers looking to complete their purchases prior to the cessation of the Stamp Duty holiday on 26 March 2012.

Although the number of properties sold in the first six months of 2012 is up 9% on 2011, it is down 55% on the number of properties sold over the similar time period in 2007.

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. Acadometrics 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

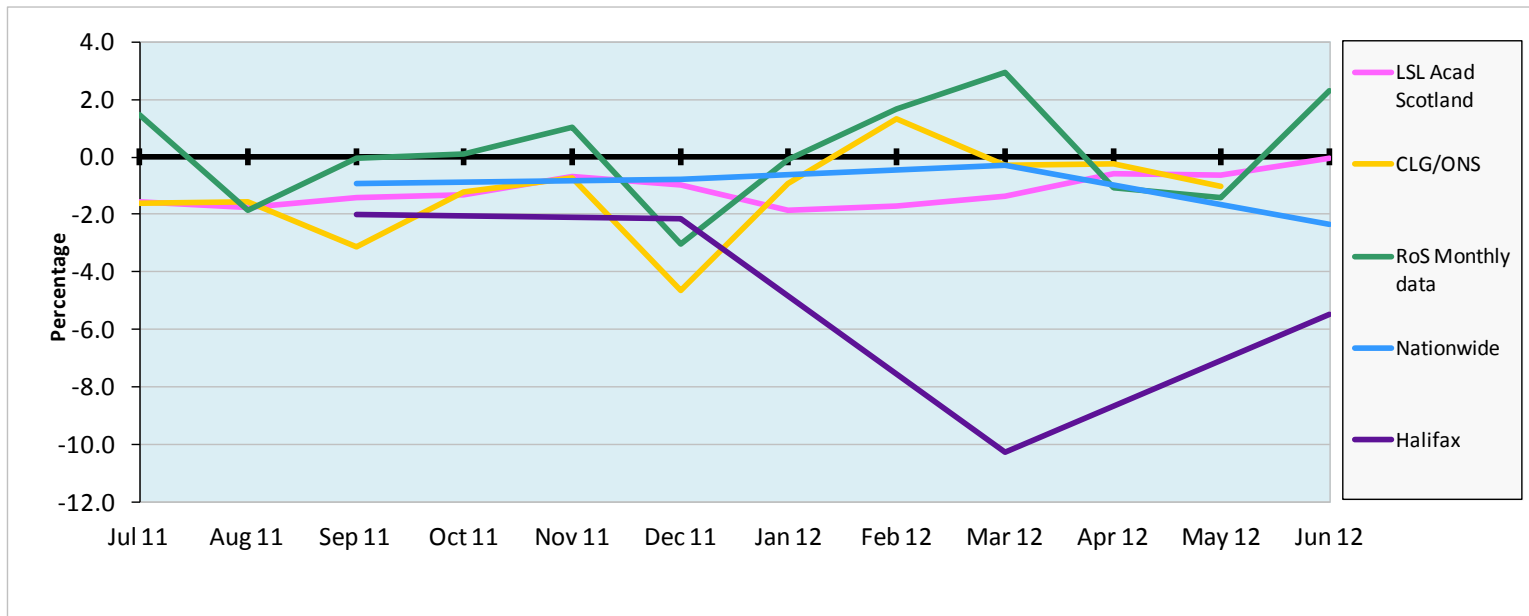


Figure 3. ANNUAL CHANGE IN HOUSE PRICES - COMPARISON OF INDICES AND RoS CHART

[link to source Excel](#)

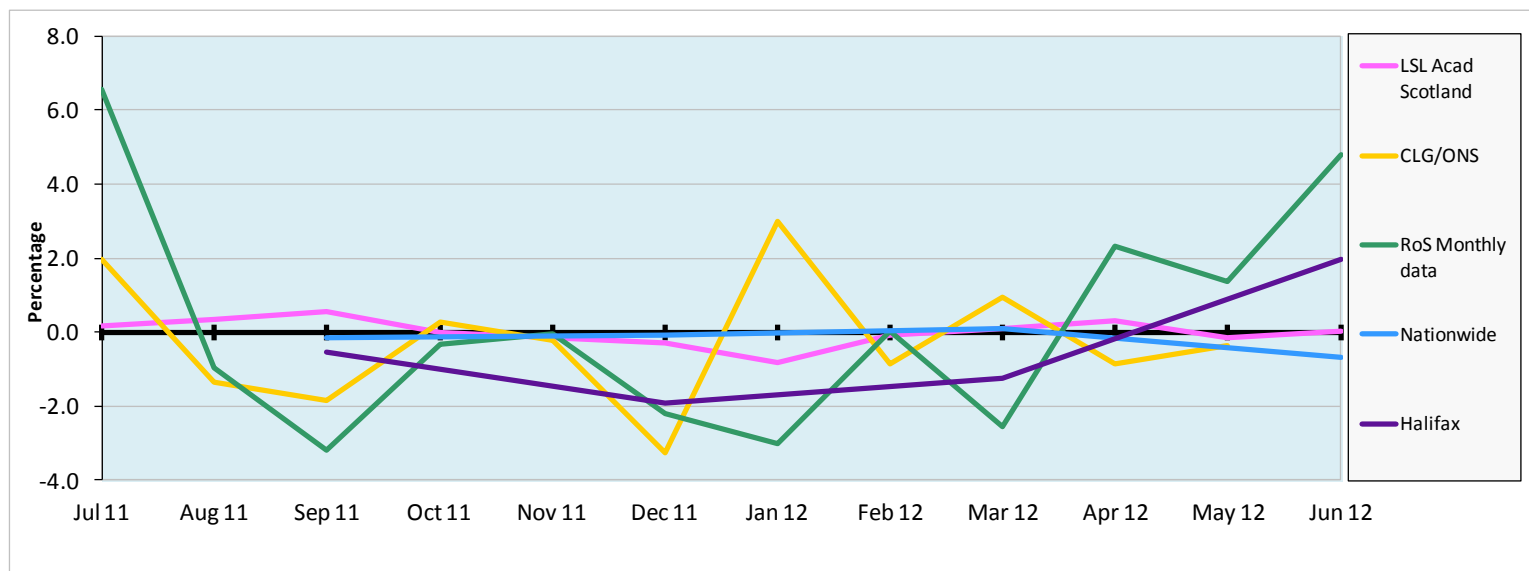


Figure 4. MONTHLY CHANGE IN HOUSE PRICES - COMPARISON OF INDICES AND RoS CHART

[link to source Excel](#)

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.



Average House Price

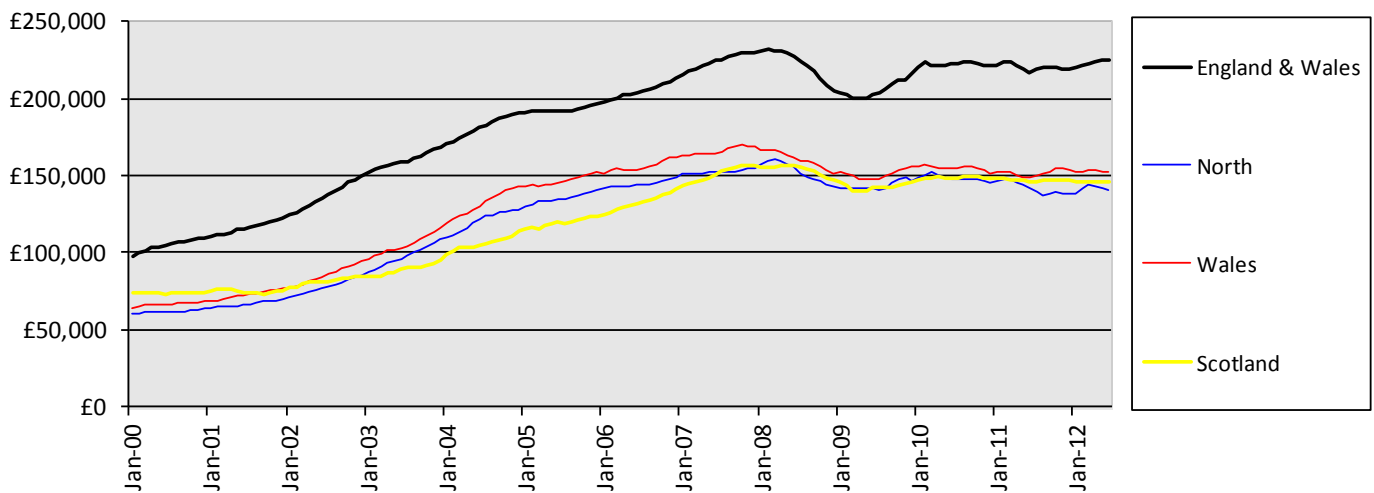


Figure 5. Scotland house prices, compared with England & Wales, Wales and the North for the period Jan 2000 - June 2012 [link to source Excel](#)

Annual % change in Average House Prices

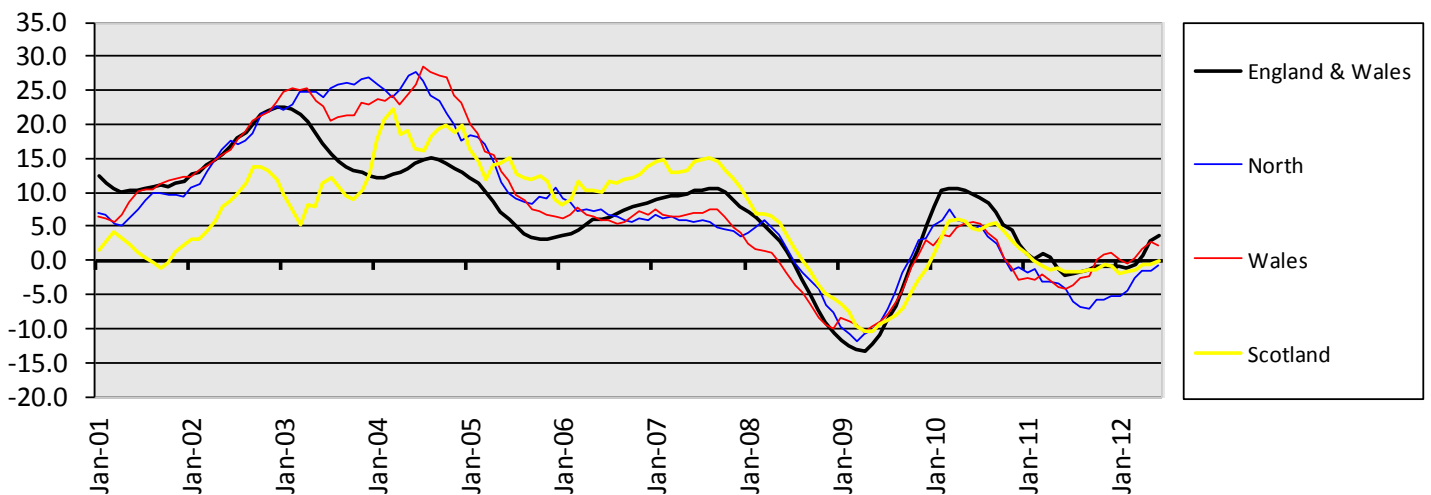


Figure 6. A comparison of the annual change in house prices in Scotland, England & Wales, Wales and the North for the period Jan 2001 - June 2012 [link to source Excel](#)

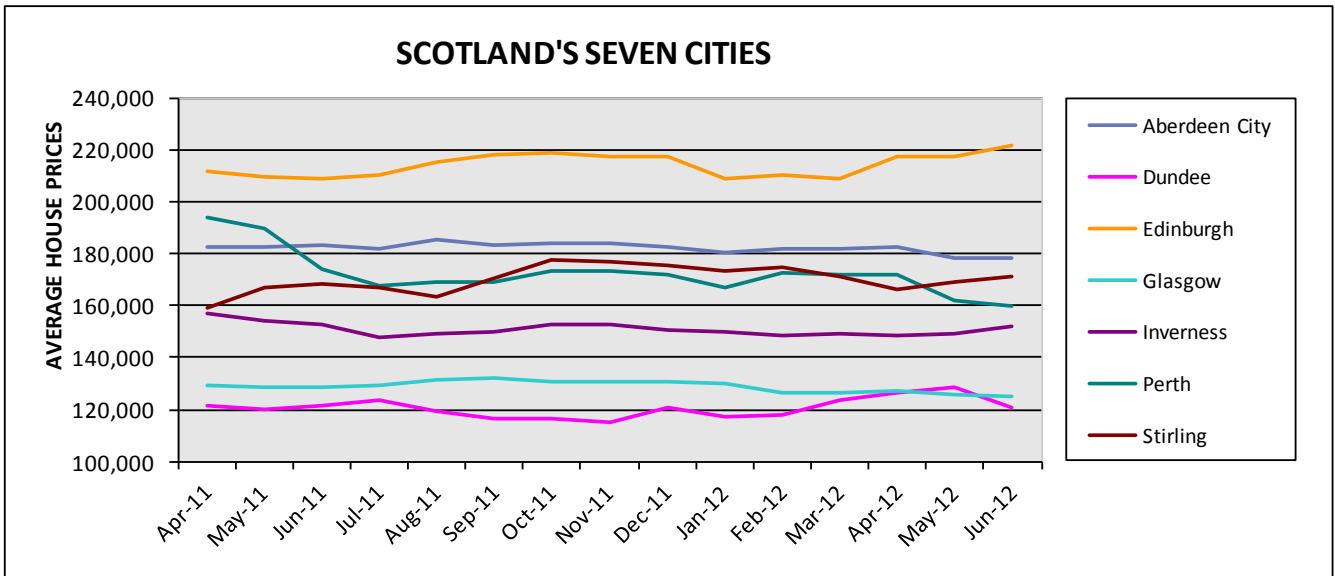


Figure 7. Average house prices for Scotland's seven cities from April 2011 – June 2012

[link to source Excel](#)

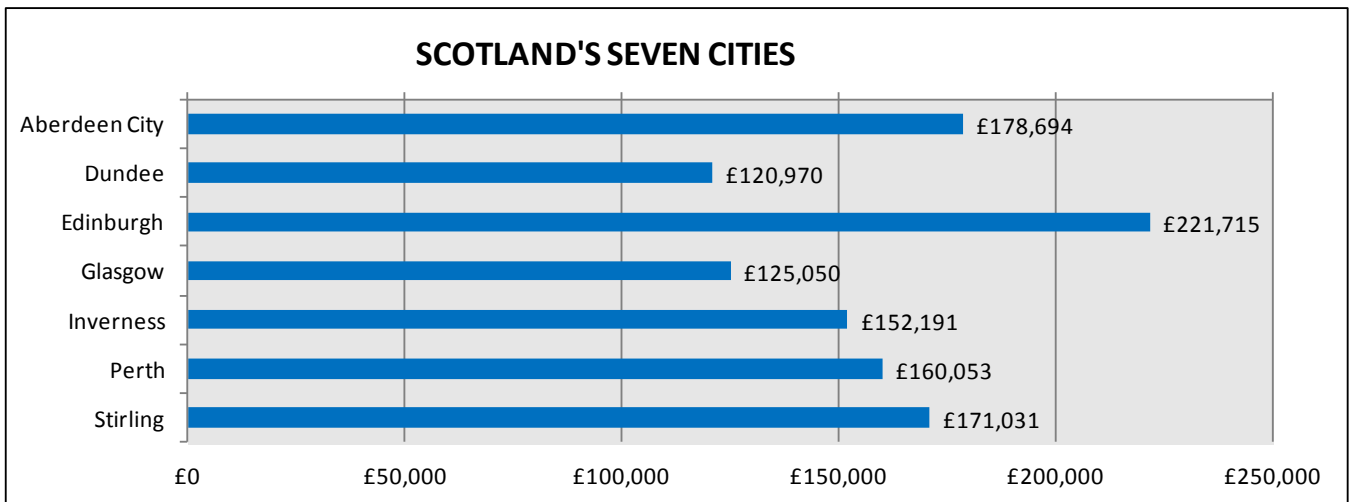


Figure 8. Average house prices for Scotland's seven cities June 2012

[link to source Excel](#)



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 CLG/ONS HPI, 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 (CLG/ONS HPI); 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/ONS 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/ONS 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