

LSL Property Services/Acadametrics
Scotland

House Price Index

MAY 2012

STRICTLY UNDER EMBARGO UNTIL 00.01 WEDNESDAY 18TH JULY 2012



Scottish house sales 11% higher as housing market shows signs of recovery

- House sales 11% higher in first five months of 2012 compared to 2011
- House prices rise in Edinburgh and Dundee

| House Price | Index | Monthly Change % | Annual Change % |
|-------------|-------|------------------|-----------------|
| £146,073 | 198.1 | -0.1 | -0.6 |

Gordon Fowlis, regional managing director of Your Move, an estate agency chain that is part of LSL, comments: “The housing market is bearing up well under the oppressive burden of fewer mortgages and a stuttering economy. House sales so far this year are 11% higher than the equivalent period last year, which shows the market is inching its way towards a more sustained recovery despite the fragility of the economic recovery.

“Prices are flat, but are higher than they were at the beginning of the year. Homeowners and prospective buyers have every reason to be cautiously optimistic now that we’re beginning to see some green shoots of recovery. More first time buyers accessed mortgages in May, although there is still an unhealthy reliance on wealthier borrowers and landlords when it comes to sales levels. Despite the high cost of rented accommodation, which pillages personal finances, plenty of first time buyers have said enough is enough and have rolled up their sleeves to piece together the big deposit required for a mortgage.

“The only note of caution is with regard to the future availability of mortgages. The biggest hurdle to a full recovery in the housing market is mortgage lending. The banking sector is in a sorry state, and lending, particularly to buyers with small deposits, has been suppressed over the last couple of months. On average, banks are demanding deposits to be twice as big as they were before the 2008 downturn. Tough deposit requirements are the major roadblock for first time buyers and the long-term recovery of house prices. Banks are terrified the ongoing rumblings in the eurozone could become louder over the course of the year, so are busy shoring up their balance sheets rather than trying to lend more to first time buyers.

“Prices on a local level are volatile, so would-be buyers and sellers would be wise to check on average prices in their area. Aberdeen and Glasgow saw prices fall in May, while Edinburgh and Dundee saw prices rise significantly. Prices at a local level will be dependent on how well their immediate economy copes with weak growth and public sector austerity.”

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 June 2011 - May 2012

[link to source Excel](#)

| | | House Price | Index | Monthly Change % | Annual Change % |
|-----------|------|-------------|-------|------------------|-----------------|
| June | 2011 | £146,174 | 198.2 | -0.6 | -1.7 |
| July | 2011 | £146,396 | 198.5 | 0.2 | -1.6 |
| August | 2011 | £146,914 | 199.2 | 0.4 | -1.8 |
| September | 2011 | £147,727 | 200.3 | 0.6 | -1.4 |
| October | 2011 | £147,706 | 200.3 | 0.0 | -1.3 |
| November | 2011 | £147,476 | 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 | £145,682 | 197.5 | -0.1 | -1.7 |
| March | 2012 | £145,837 | 197.7 | 0.1 | -1.3 |
| April | 2012 | £146,268 | 198.3 | 0.3 | -0.6 |
| May | 2012 | £146,073 | 198.1 | -0.1 | -0.6 |

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

In May, the average price paid for a house in Scotland fell by a minor £195, or 0.1%. Over the last year we have seen six months in which prices have fallen, five months in which they have risen and one month when prices remained static. On an annual basis prices are 0.6% lower than May 2011.

Figure 1 below illustrates the movement in average house prices over the year. Overall there has been a fall in prices of 0.6%, depicted by the gentle downward slope of the trend line, with periods when the market has been marginally above or below this trend. The figures are seasonally adjusted to allow for direct comparison from one month to another.

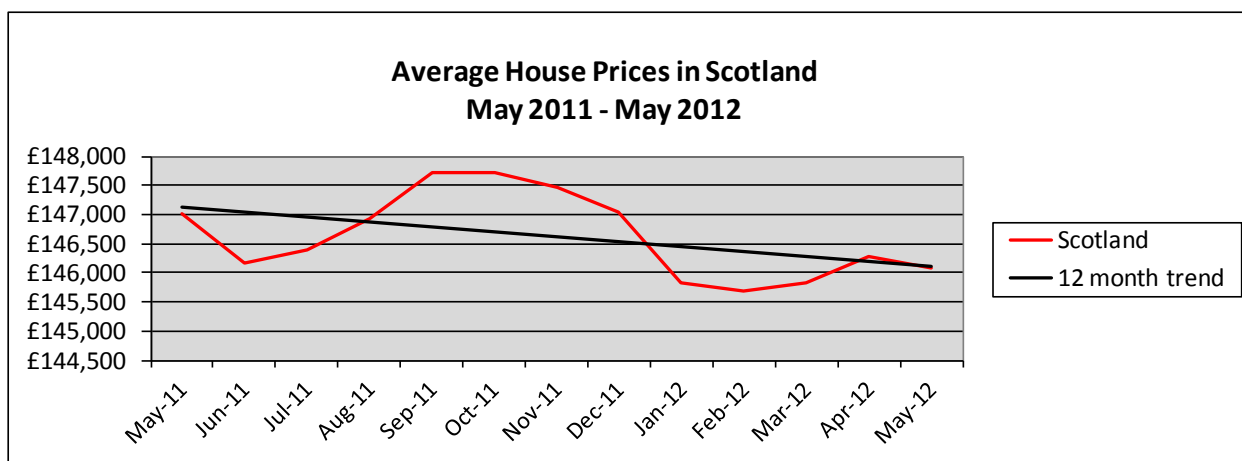


Figure 1. Average house prices in Scotland, May 2011 – May 2012

[link to source Excel](#)

Although house prices in Scotland as a whole show relatively little movement, we find that the change in price at the more local level can be far more dramatic. Our analysis of the local authority areas on page 4 shows a range of price changes over the year from +17.5% in the Orkneys, to -14.6% in Perth & Kinross. With 16 local authority areas showing increasing house prices over the year and 16 showing price falls, it is perhaps something of an accident that prices in Scotland as a whole appear to be relatively stable.

So what are some of the fundamentals of the current housing market? Our graph on Page 5 shows that housing transactions over the last twelve months, from June 2011 to May 2012, are less than half of the level seen in June 2006 - May 2007, with a fall from 156,000 properties sold in 2006/07 to 72,000 sold in 2011/12. One of the main causes of the reduction in house purchases has been the difficulties faced by aspiring purchasers in obtaining mortgage finance, with a tightening of the deposit levels and credit ratings required by the lenders. For example, CML Scotland report that the median deposit of first-time buyers in Scotland is currently 20%, which is some 10% higher than five years previous. A recent survey of those in rented accommodation wishing to become homeowners found that 75% of those considering applying for a mortgage had not done so. The main reason given for not applying for a mortgage was the belief among potential borrowers that they did not have a large enough deposit. Although the survey was carried out by the DCLG in England, we believe that similar results would apply to Scotland. It will be interesting to see whether the MI New Home scheme, which aims to drive 95% loan to value mortgages back into the lending mainstream, will help to alleviate this position.

The other main factor which is currently having a negative impact on the housing market is consumer confidence. Whilst the economy continues to be unsettled and job losses threaten, it is mainly those already holding considerable equity in property who feel sufficiently comfortable to commit to purchasing a new home. The recent report by the Centre for Economics and Business Research (CEBR) suggesting that unemployment would continue to rise in most parts of the UK over the next five years, with areas most dependant on the public sector being the worst hit, will not have helped to increase demand for properties. Our prognosis for the housing market is, therefore, one of continued subdued activity, with buyers and sellers being mainly limited to those already owning properties, who can take advantage of the historically low interest rates currently on offer.



Table 2. Average House Prices in Scotland, by local authority area, comparing May 2011 with May 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 | May-11 | May-12 | % Change |
|---------------|---------------|----------------------|----------------|----------------|--------------|
| 1 | 2 | Edinburgh, City of | 209,529 | 217,803 | 3.9% |
| 2 | 3 | Aberdeenshire | 197,631 | 199,433 | 0.9% |
| 3 | 4 | East Lothian | 197,201 | 199,277 | 1.1% |
| 4 | 1 | East Renfrewshire | 222,119 | 194,057 | -12.6% |
| 5 | 5 | East Dunbartonshire | 194,988 | 180,524 | -7.4% |
| 6 | 7 | Aberdeen City | 182,300 | 178,125 | -2.3% |
| 7 | 10 | Midlothian | 160,847 | 171,496 | 6.6% |
| 8 | 8 | Stirling | 166,925 | 168,926 | 1.2% |
| 9 | 6 | Perth & Kinross | 189,822 | 162,056 | -14.6% |
| 10 | 9 | Scottish Borders | 163,658 | 153,286 | -6.3% |
| 11 | 11 | Highland | 153,876 | 149,451 | -2.9% |
| 12 | 12 | Argyll & Bute | 142,527 | 146,124 | 2.5% |
| 13 | 23 | Orkney Islands | 120,011 | 140,967 | 17.5% |
| 14 | 17 | Dumfries & Galloway | 129,411 | 139,412 | 7.7% |
| 15 | 15 | West Lothian | 132,196 | 138,164 | 4.5% |
| 16 | 14 | South Ayrshire | 138,034 | 137,910 | -0.1% |
| 17 | 13 | Moray | 141,249 | 136,019 | -3.7% |
| 18 | 25 | Shetland Islands | 116,187 | 132,120 | 13.7% |
| 19 | 20 | Clackmannanshire | 123,346 | 129,457 | 5.0% |
| 20 | 19 | Fife | 127,491 | 129,452 | 1.5% |
| 21 | 22 | Dundee City | 120,078 | 128,375 | 6.9% |
| 22 | 18 | Glasgow City | 128,602 | 125,814 | -2.2% |
| 23 | 16 | Angus | 130,579 | 125,219 | -4.1% |
| 24 | 21 | South Lanarkshire | 121,568 | 118,049 | -2.9% |
| 25 | 24 | Inverclyde | 118,363 | 117,427 | -0.8% |
| 26 | 26 | Falkirk | 114,934 | 116,760 | 1.6% |
| 27 | 28 | Renfrewshire | 110,446 | 114,686 | 3.8% |
| 28 | 27 | West Dunbartonshire | 111,331 | 109,058 | -2.0% |
| 29 | 29 | East Ayrshire | 109,610 | 105,131 | -4.1% |
| 30 | 32 | Eilean Siar | 95,660 | 105,083 | 9.9% |
| 31 | 30 | North Ayrshire | 105,860 | 101,946 | -3.7% |
| 32 | 31 | North Lanarkshire | 104,279 | 97,950 | -6.1% |
| | | All Scotland | 147,007 | 146,073 | -0.6% |

Table 2 shows the average house price by local authority area in Scotland in May 2011 and May 2012 and the percentage change in these prices over the year. Although, on average, prices have fallen over the year by -0.6% in Scotland as a whole, in individual areas we can see a range of price movements from +17.5% in the Orkney Islands to -14.6% in Perth & Kinross. There is only one area, South Ayrshire, which has an absolute value smaller than the national average of -0.6% change, suggesting that this average value does not give a representative indication of what is happening in the housing markets at the more local level, where prices have been far more volatile.

We should, perhaps, mention that the apparent fall from grace of Perth & Kinross, down -14.6% on the year, is an anomaly. The 'monthly' figures presented above are, in fact, three month averages, to help smooth the figures when comparing one month with another. Back in March 2011, just prior to the increase in Stamp Duty on properties costing £1 million or over, Kinross House, a terraced building was, reportedly, sold for more than £3.8 million. With no similar valued sale taking place in 2012, the average price for the area has taken a tumble. This 'one-off' sale will drop out of our figures next month when we anticipate that average house prices in Perth & Kinross will return to 'normality'. Such is the perilous nature and detail required of housing statistics!

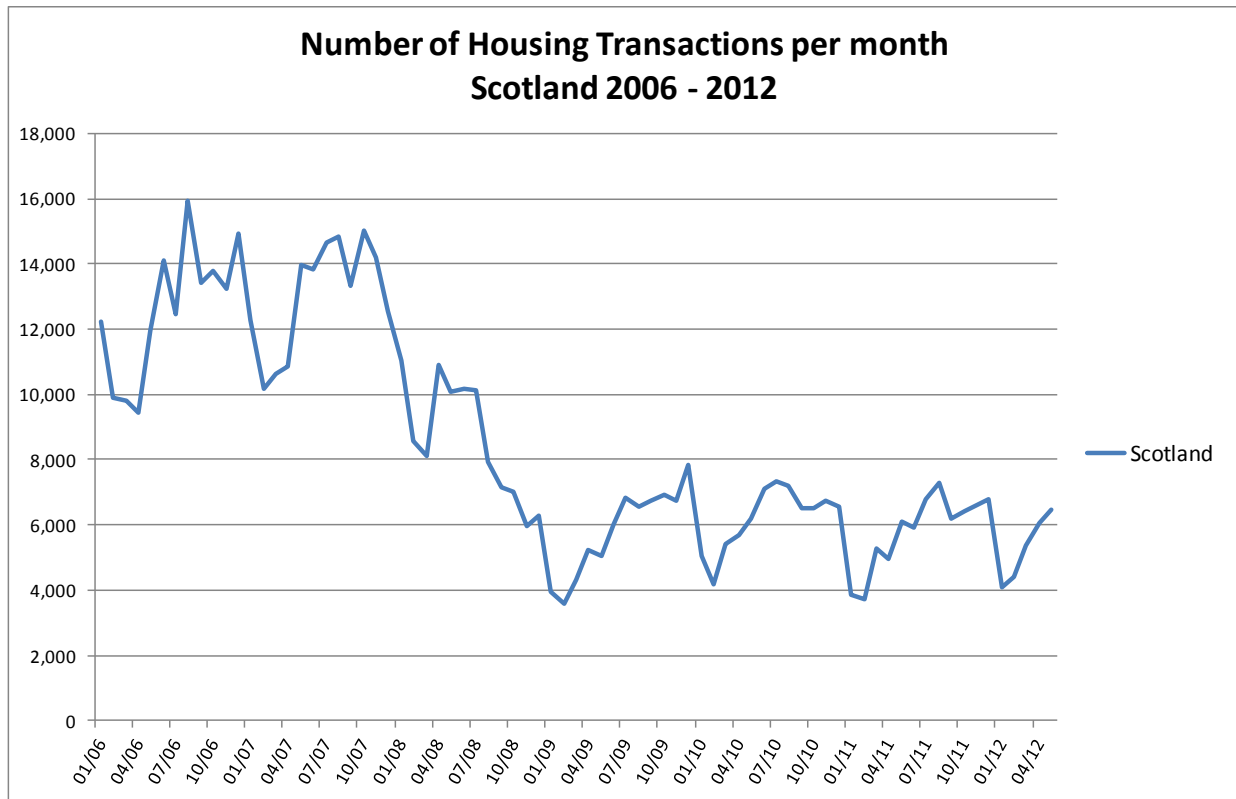


Figure 2. The number of housing transactions by month in Scotland, 2006 - 2012 (not seasonally adjusted)

[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 May 2012, without seasonal adjustment. Traditionally, we can expect an increase of 14% in the number of transactions from April to May. This year the increase has been only 7%. That said, average activity was high earlier in the year, such that the first five months of 2012 are 11% 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. In March we saw an increase in the number of flats and terraces being sold - the favoured property type for this sector of the market. In May, the main increase by property type has been seen in the semi-detached, up 12%, and terraced property sectors, up 11%, with detached and flat sales increasing only by 5% and 4% respectively. Semi-detached sales, in the month, grew most in West Dunbartonshire, up 93%, the city of Aberdeen, up 73%, and South Ayrshire, up 64%.

Although the number of properties sold in the first five months of 2012 is up 11% on 2011, it is down 54% 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. 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

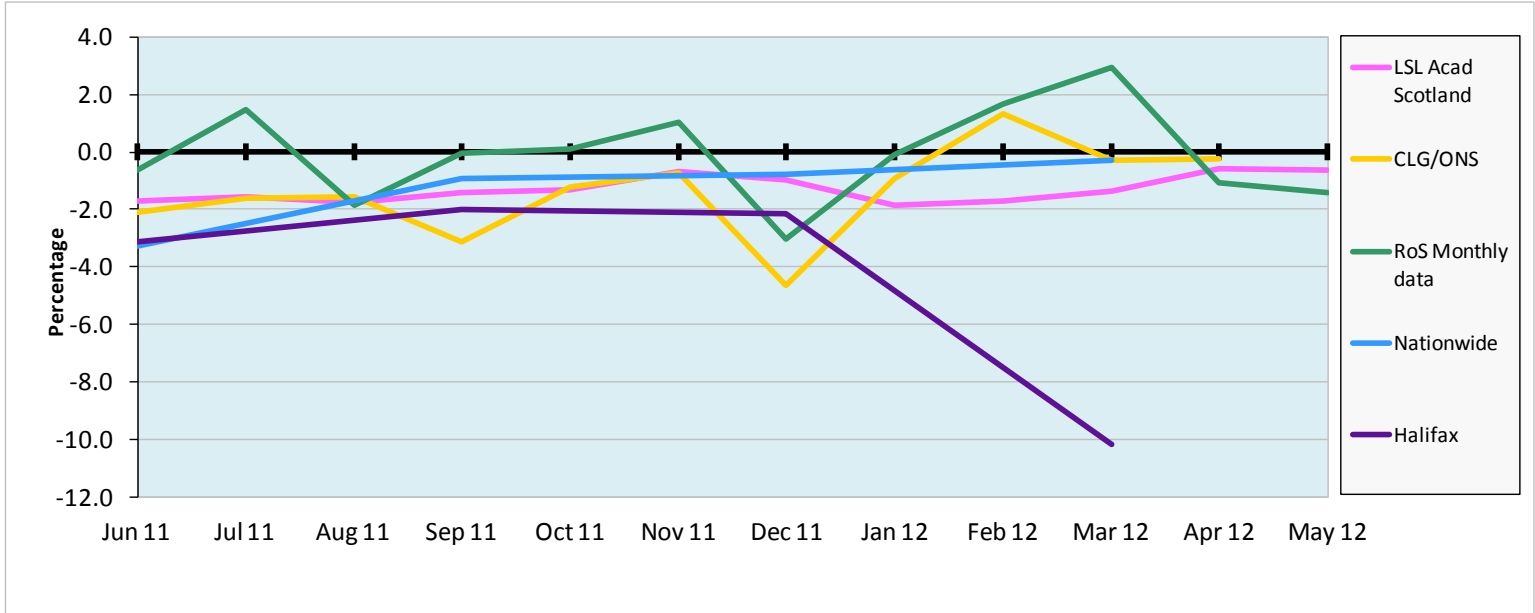


Figure 3. ANNUAL CHANGE IN HOUSE PRICES - COMPARISON OF INDICES AND RoS CHART

[link to source Excel](#)

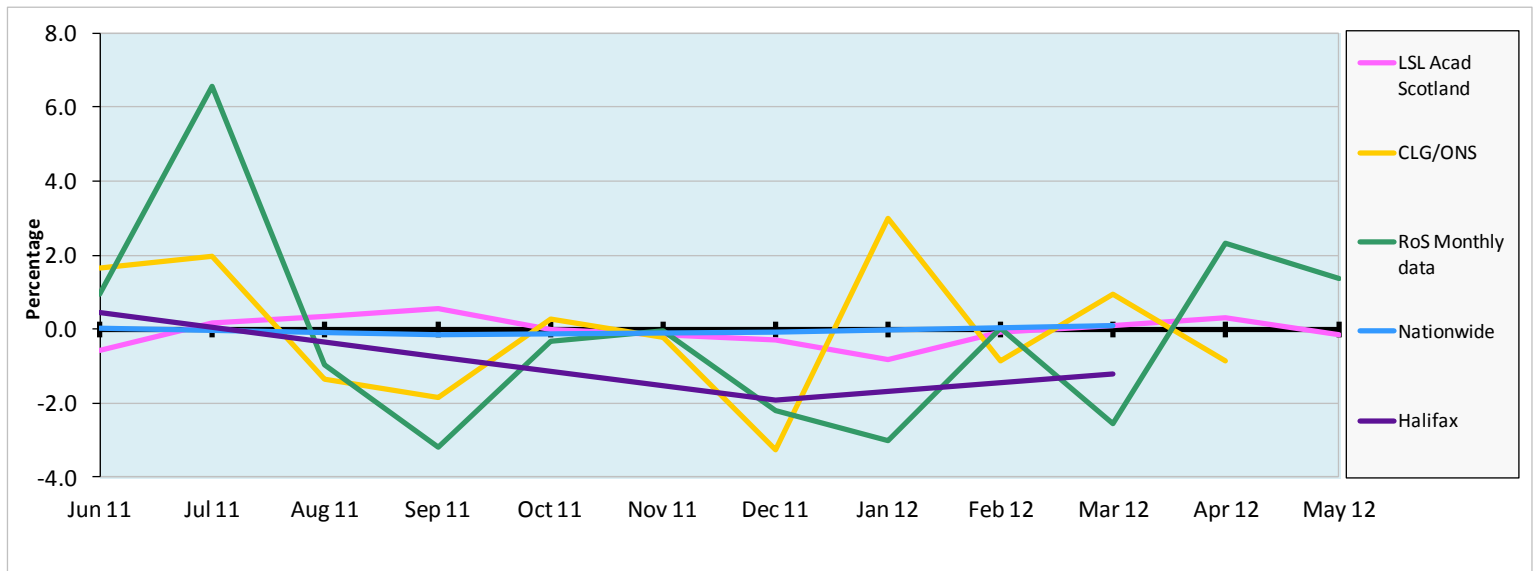


Figure 4. MONTHLY CHANGE IN HOUSE PRICES - COMPARISON OF INDICES AND RoS CHART

[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

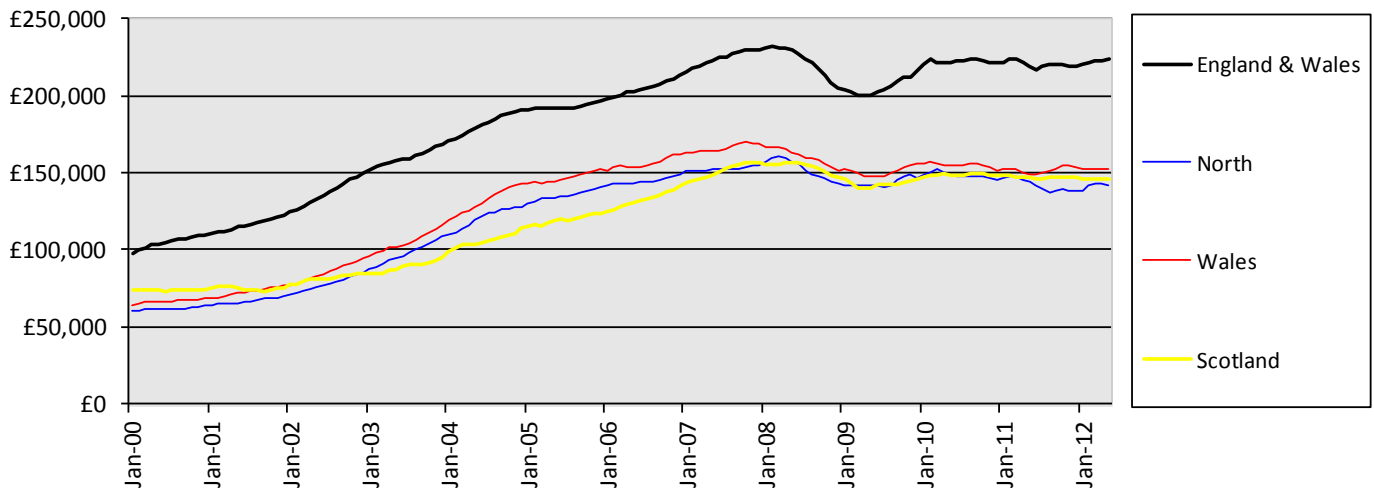


Figure 5. Scotland house prices, compared with England & Wales, Wales and the North for the period Jan 2000 - May 2012 [link to source Excel](#)

Annual % change in Average House Prices

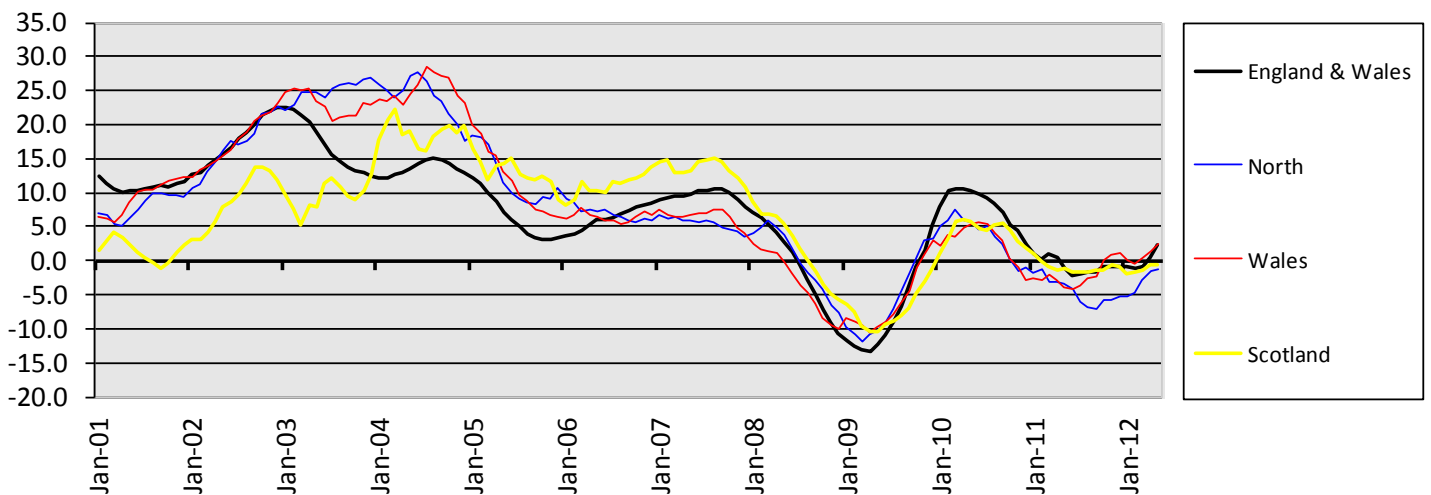


Figure 6. A comparison of the annual change in house prices in Scotland, England & Wales, Wales and the North for the period Jan 2001 - May 2012 [link to source Excel](#)

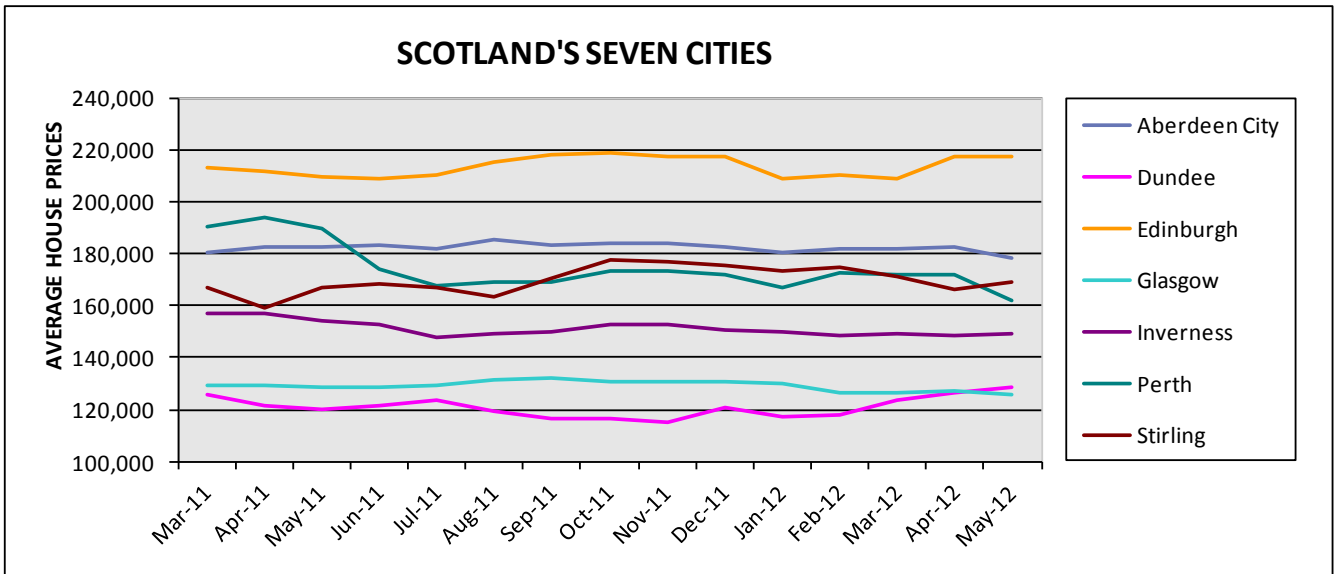


Figure 7. Average house prices for Scotland's seven cities from March 2011 – May 2012 [link to source Excel](#)

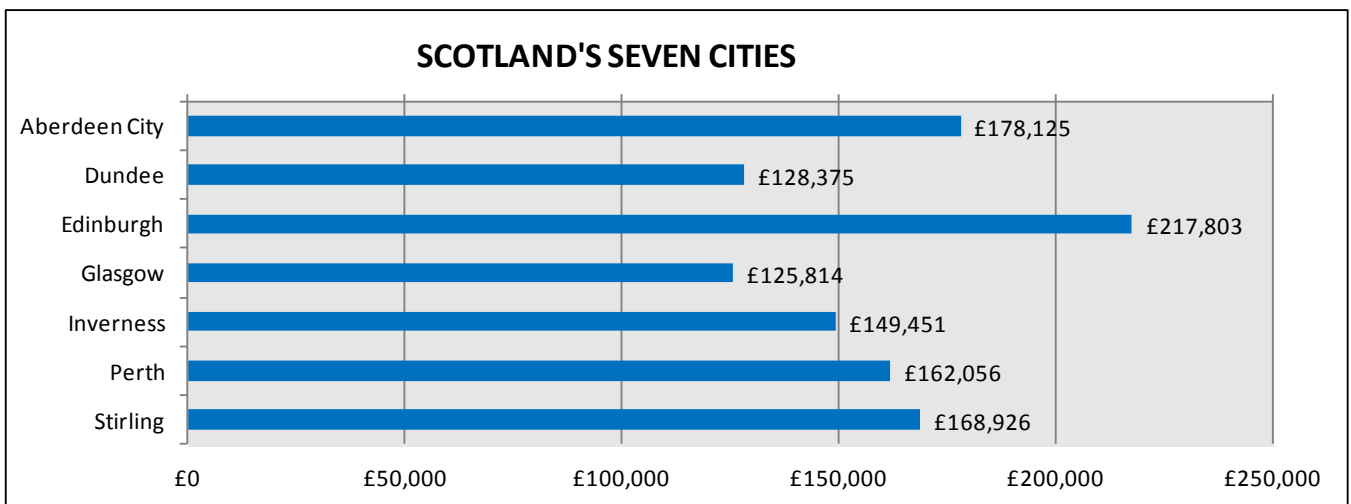


Figure 8. Average house prices for Scotland's seven cities May 2012 [link to source Excel](#)



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